

## “Dollar Trump” - Why the USD May Trump with Donald Trump

As the US elections comes into view, the **possibility of a second Trump Presidency (Trump 2.0) is an undeniable force**. In fact, the **ground swell warns that only the legal system, not political opposition** (be it Republican nominations or Democrat challenge), **that stands in the way of Trump 2.0**; and all the heightened uncertainty that comes with a Trump Presidency.

Trump is many things. But above all, he *is highly unpredictable* and *inconsistent*. So attempting to predict Trump 2.0 impact risks being an exercise in futility. Nevertheless, it appears that **Trump 2.0 will likely**;

- i) be **USD positive**, albeit *mainly from the deleterious impact on EUR, CNH* (and along with that wider AXJ) alongside the likes of MXN amid an escalation in **trade conflict with China** (**weakening CNH** and other **trade-driven currencies**, including most AXJ) and **pullout from Ukraine funding** that **accentuates European vulnerabilities**, thereby **weakening EUR**;
- ii) pose **impediments to bond market rallies** *despite the case for falling yields* amid Fed rate cuts coming into view, as the drop in yields may be impeded/checked by tax cut extension and/or MAGA-driven infrastructure boost, and;
- iii) catalyze **more emphatic term premium sooner** as issuances a conspiracy of **widening deficit/debt funded by longer-term issuances**, *desire for policy easing (once he is President)*, and **longer-term structural inflation** impact from global trade assaults inflict higher term premium.

**Although**, to be clear, a **strong USD is unlikely to be a deliberate plan**. In fact, it is *not inconceivable that the Treasury's "Currency Manipulator"/Watch List is employed to go after trade counterparts with weaker currencies and running large surpluses* against the US.

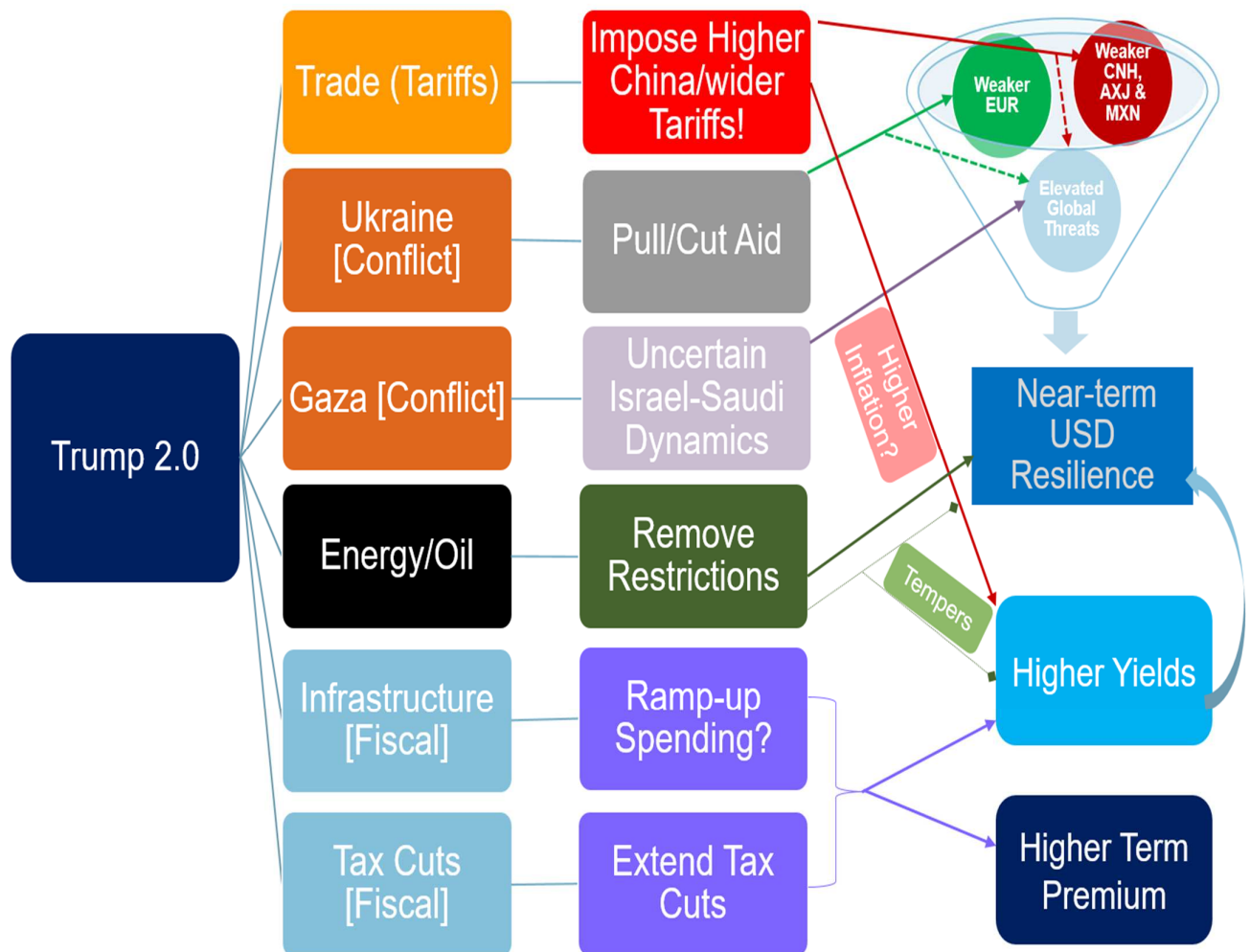
This **desire for cherry-picking on global commerce/economic/markets** outcomes may **lead to far more fluctuations** and **woefully diminished clarity/predictability**.

All said, the **“Trump Effect”** may be one of **inadvertently stronger USD** *especially against EM Asia FX via CNH pressure points*, **upside risks to yields** (amid Fed cuts) that are tilted to the longer end, and therefore **more pronounced term premium** despite Fed rate cuts.

Above all, it will entail the imposition of **heightened unpredictability**, which may compound USD dominance, from a *“our President, your problem”* type of **economic and diplomatic conundrum imposed by the US**.

The resultant conspiracy of **uncertainty** and **USD strength**, flanked by higher yields and wider term premium, tends to be **deleterious for EM Asia FX/assets**. More so, if *exacerbated by China supply-chain risks, “twin deficit”, external debt exposures* and/or *high inflation*.

## US Elections: Bracing for Trump 2.0?



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