A Strong Dollar?

- Strong USD policy a shadow of its former self
- Support for a strong currency looks incongruous
- Is a more forthright policy brewing?

In early 1995, newly appointed Treasury Secretary Robert Rubin reset USD policy by noting “A strong dollar is in our national interest”. However, it is fair to say that the implication and interpretation of this pithy phrase has become decidedly fluid over the years.

Speaking at a news conference at a meeting of G7 finance officials on Thursday, current Treasury Secretary Steven Mnuchin was asked whether or not he believed a strong USD was in the nation’s interest: Mnuchin replied “I’m not going to make any specific comments on the dollar policy … this is something we could consider in the future but as of now there’s no change to the dollar policy.”

If readers were to infer a modicum of leeway in discerning Mr Mnuchin’s lasting faith in the policy they could certainly be forgiven. Certainly, in a low growth, disinflationary world beset with trade turbulence, any policy notionally supportive of a ‘strong’ currency looks increasingly incongruous.

Mnuchin affirmed his adherence to the ‘strong USD’ policy at his Senate confirmation hearing in January 2017: Mnuchin said that "the long-term strength over long periods of time is important. And again, I believe that's a reflection
of …. The most attractive investment environment in the world.

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Nevertheless, the reference to ‘long term’ has since become profoundly significant. Indeed, in what could be termed a ‘cake and eat it’ strategy, Mr Mnuchin’s allusions to ‘longer term’ strength clearly look to underpin confidence in US asset prices but without precluding competitive boosts in the interim. And Mr Mnuchin has been quite transparent on this point.

Repeating verbatim comments he made to CNBC in August 2017, Mnuchin told reporters in Davos early last year, “Obviously a weaker USD is good for us as it relates to trade and opportunities … Longer term, the strength of the USD is a reflection of the strength of the US economy”. When pressed on this point, Mnuchin said that the USD’s short term value was “not a concern of ours at all.”

Flexible though this interpretation of the strong USD policy may be, in truth, US currency policy has been characterised by a similarly superficial conviction for the past two decades.

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When asked by reporters in 2003 to define what “strong” meant to him, former Treasury Secretary John Snow replied, “You want people to have confidence in your currency. You want them to see the currency as a good medium of exchange … Those are the qualities.”

Indeed, each and every US Treasury Secretary between
2002 and 2011 similarly pledged support for a strong USD. However, simply put, in each instance, the policy singularly failed to avert any weakening in the USD. Indeed, over this period, the USD index declined by 39%.

It seems safe to assume, therefore, that the ‘strong USD’ policy from the era of Rubin is long gone. And in view of Mr Mnuchin’s comments that there is no change to the policy “as of now”, could it be that we are building towards a more forthright assessment of the Treasury’s designs on the USD in 2019 and beyond?

Only time will tell.

Please direct questions or comments to:

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