LBBW Bereit für Neues

To the point!

Cross-Asset- and Strategy-Research

"Mar-a-Lago Accord": A phantom menace

Moritz Kraemer -- Chief Economist
LBBWResearch@LBBW.de

March 21, 2025

Unorthodox and highly dangerous ideas to weaken the dollar

For Trump, trade is a zero-sum game

Anyone who even sporadically consumes the news knows that U.S. President Donald Trump views the U.S. trade deficits as unmistakable signs that "foreign nations" are exploiting hard-working American families. Instead, foreign companies should produce directly within the States, creating prosperity and jobs locally. However, with the U.S. unemployment rate at a low of around 4%, it is unclear where the workforce will come from to produce an additional $1.2 trillion worth of goods. That's what the U.S. trade deficit was in 2024.

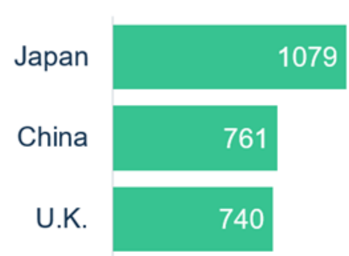
The political pitfall of tariffs: Rising prices

Troublesome inflation

Thus far, Trump's tariff policy has been his weapon of choice to combat trade deficits. Unfortunately, tariffs fuel domestic inflation. U.S. consumer inflation expectations one year ahead rose to 4.9% in March. When Trump was elected in November 2024, they were at 2.6%. Long-term inflation expectations are at their highest in 30 years. Trump's electoral victory was to a large degree due to voter dissatisfaction with rising living costs, for which they blamed the Biden administration. Sooner or later, rising prices would be reflected in the polls. Therefore, tariffs can come with a high political and psychological cost for the poll-obsessed president.

A dubious plan to weaken the dollar

Top 3 Foreign holders of US Treasuries (billion USD, January 2025)



Source: US Treasury

In Washington, and also on Wall Street, the idea is circulating that the U.S. could orchestrate a concerted effort to weaken the dollar. This would make imports less attractive while making U.S. exports more competitive. This plan is being dubbed the "Mar-a-Lago Accord", in reference to the Plaza Accord of 1985: back then, following a rapid appreciation of the US currency, several international central banks, at the initiative of the Reagan administration, weakened the dollar by selling US Treasury bonds from their reserves. Such an approach today would have unpleasant consequences: The inevitably rising interest rates on Treasuries would be extremely inconvenient given Washington's gigantic debt burden and a budget deficit of around 7% of GDP.

Therefore, economists close to Trump, like Stephen Miran, the Chairman of Trumps Council of Economic Advisers, propose a more drastic model: Foreign creditors should convert their existing U.S. Treasury bonds into new bonds with long maturities (up to 100 years!) and low or no interest rates. Washington could more cheaply fund its public debt. This plan would also result in fewer bonds maturing annually, and creditors would not demand dollars for reinvestment. The dollar would lose strength. Of course, no creditor would voluntarily agree to such an unfavorable exchange. Unless threatened with tariffs or the withdrawal of military protection. Such coercion is part and parcel of the plan.

Mar-a-Lago Accord as an extortion racket

Enacting such a plan would be a surefire way to undermine confidence in the dollar. In all former financial crises, U.S. Treasury bonds have been the safe haven. This Mar-a-Lago Accord would mine the harbour. A global-scale financial crisis would ensue.

A financial crisis could be the result.

What really helps to weaken the dollar

There are two proven methods to weaken a currency. First, you can lower interest rates, but given inflation is perking up, this resembles Erdogan-style monetary policy. Not recommended for imitation. Or you can consolidate the budget, as this reduces overall economic demand and with it the import pull. But that would be politically unpopular and thus also falls by the wayside. Therefore, it is unlikely but not impossible that Trump might consider the highly dangerous idea of forced currency manipulation.

To get connected on LinkedIn, scan QR-Code