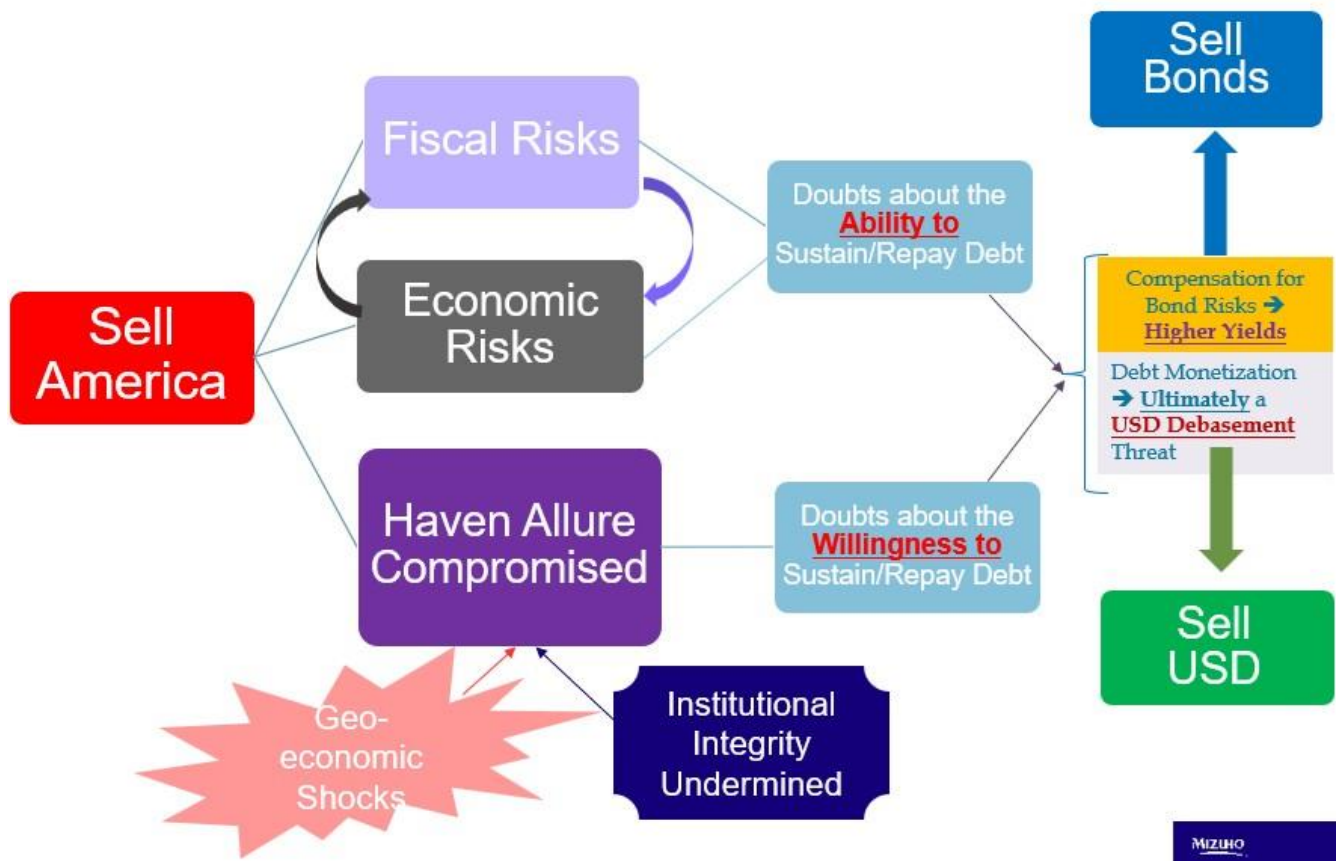


## USD: Bruised, But Not Buried

*"I felt like destroying something beautiful." – Fight Club*

### In a Nutshell:

- Unwelcome *assaults on Fed independence*, Trump's *politicization of non-partisan data agencies* (firing the BLS chief) is **playing with fire**.
- Consequently, **USD risks are undeniably accentuated by** amid coincident **self-harm from** misguided Presidential power grab **compromising institutional integrity and policy credibility**.
- But **USD decline**, while ostensibly **inevitable**, is **far from imminent**.
- Accordingly, the evidence is **consistent with risk-re-pricing for** (and *not wholesale retrenchment of*) **USD/USD reserve assets**.
- Partly, *perverse "Pay America"* boost to the USD from trade extortion *offset "Sell America" strains on the USD* from misguided US geoeconomic antagonism.
- What's more, **US institutional integrity** (and attendant data/policy credibility) is **not irredeemably damaged** amid *entrenched safeguards, political self-interest* and wider *socio-political checks*.
- Crucially, **USD hard to imminently supplant given** *"network effects", absence of viable alternatives* ("TINA") and *USD-backing stipulated for Stable Coins*. All of which provide **critical USD backstop**.
- All said, insofar that **fundamental USD decline may only be slowed, not indefinitely stalled**; there ought to be:
  - Structurally higher term premium to be baked into the UST yield curve
  - Sustained, marginal hedge against the USD to advantage of real assets (led by Gold), other 'AAA' currency assets.
- Inadvertently, though the *tyranny of "Our Dollar, your problem"* is likely to persist. In that context, **underwriting the USD/USD asset risks** means;
  - the global economy will also inherit a steeper curve (higher term premium), "crowding out" risks and FX volatility.
  - **AXJ will be rendered far more divergent, (rather than ubiquitously stronger)** depending on specific geo-economic fallout and pre-existing vulnerabilities.



### Antagonism, Exploitation & Self-Harm

- “Sell America” purportedly warns that **firing from the hip** with *aggressively antagonistic* and *extractive trade policies* (that border on extortion) **risk eroding trust in the USD-based global system**.
- **But** the USD is **not always unequivocally compromised** by international policy adventurism. In fact, there appears to be a *perverse dimension of “Pay America” lift for the Greenback*.
- Instead, it is the **self-harm inflicted by** the **Presidential power grab at the expense of institutional integrity and safeguards undermined** that **threaten to be most fundamentally debilitating for the USD**.
- Crucially, **to the longer-term detriment of** the Greenback’s *continued, unfettered, role as the global reserve currency*.

### Firing & Playing with Fire

- To that end, the **ill-conceived firing of the BLS\* chief** (post-NFP), *presumably in response to a disappointingly soft jobs report*, **reverberates menacing**.
- And *even it hasn’t completely unnerved*, the *assaults on Fed independence*, Trump’s *politicization of non-partisan data agencies* are tantamount to **playing with fire**.

- **At stake** are the **objectivity/quality of economic data**, the **integrity of institutions** and the attendant **credibility of policymaking**.

### Risks “Full Faith” in the USD System

- The **greatest danger** is the **creeping threat to the legitimacy of the “full faith” that backs government credit**, and *by extension* the USD-**based order**.
- Specifically, the Administration is *gambling with “full faith” underpinning USTs* (bills as well) and the **USD**.
- Ordinarily, such **contempt for institutional integrity** would pose an **existential threat to the USD’s hegemony as the global reserve currency**.

\* The Bureau of Labour Statistics (BLS) is responsible for the NFP jobs report that markets follow closely.

### But Merely Recalibrating Risk, Not Wholesale Retrenching USD Complex

- But despite *bouts of “Sell America”*, the **USD complex is merely incorporating incrementally larger risk premium**.
- Whereas it is **far from a wholesale rejection of USD reserve assets** corresponding to wholesale *retrenchment of USD holdings*.
- In fact, **US reserve assets** remain effectively irreplaceable, **merely being supplemented, not supplanted**.
- This suggests that, *while Trump is unequivocally playing with fire*, he has **not irredeemably burnt down the trust in US institutions**. At least not just yet.

### Worst-Case Institutional Collapse Averted

- Partly, the **hope** is that **technocrats true to their purpose, guided by *entrenched institutional processes*<sup>^</sup> and *remnant legal safeguards***, will overcome **political harassment/politicization**.
- More importantly, there is a case to be made about **self-interest averting the worst-case of self-harm**. That is, political actors **recognizing the policy cache derived from strong institutions**.
- A clear example is *Scott Bessent*, whose *appreciation of an independent Fed being in the interest of getting lower rates, therefore reining this Administration’s worst assaults on institutions*.
- Finally, there is hope that **political opinion polls** and **Democrat activists** will **restrain** the most egregious misdemeanors (although the Administration is really pushing the envelope on this).
- All said, barring unchecked, debilitating and systematic attack on American institutions of a far grander scale, **US institutional integrity is deemed bruised, not buried**.

<sup>^</sup> As an example, the data collection/collation processes at the BLS (Bureau of Labour Statistics) are designed to collate and report data free from political favours or policy bias, and will require concerted changes for political motives/agenda to creep in.

## “Exorbitant Privileges”: “Network Effects”, “TINA” & Technological Innovation

- Crucially, the *disproportionate, self-reinforcing dominance/advantages of the USD* – associated with “exorbitant privilege” – are **hard to** imminently **eliminate and supplant**.
- For one, the sheer, **unmatched liquidity** and “**network**” effect\* of US reserve assets (USTs) has no currently viable alternative. This is *the “TINA”* (there is no alternative) *reality*.
- What’s more, **global reserve balance sheets** that are *invested heavily in the USD positions* **risk grave self-harm from a wholesale substitution out of the USD**.
- Moreover, **promotion of USD(asset)-backed “Stable Coins”** (*“Genius Act”*), **conjure “new demand” for USD/USD assets**, could help **offset marginal decline in traditional demand from reserve asset managers**.
- All of which conspire to **buy time for USTs/USD to retain pole position** as the unchallenged global reserve asset/currency.

\*\* Network effect refers to a self-reinforcing prevalence-dominance mechanism. Whereby the ubiquitous recognizability and holding go beyond just transaction share. Instead, entrenches as the preferred store of value and unit of accounting (denomination in which real global assets/commodities are valued/benchmarked)

## Slowing, Not Stalling, Dollar Decay

- Nonetheless, these factors *merely slow, rather than decisively reverse, the decay*.
- Point being, the **genie is out of the bottle** now, and the **erosion in trust** will **factor in as mounting risk premium one way or another**.
- Admittedly, *having averted catastrophe*, the “**Sell America**” movement is more of a *calibrated, relative hedge* **than** it is *an unfettered exodus*.
- But that will not overturn the underlying, albeit incremental (not instantaneous), shifts for;
- Structurally higher term premium to be baked into the UST yield curve
- A greater degree of sustained, marginal hedge against the USD that favours a host of; real assets (led by Gold), other ‘AAA’ currency assets.

## Our Dollar, Your Problem

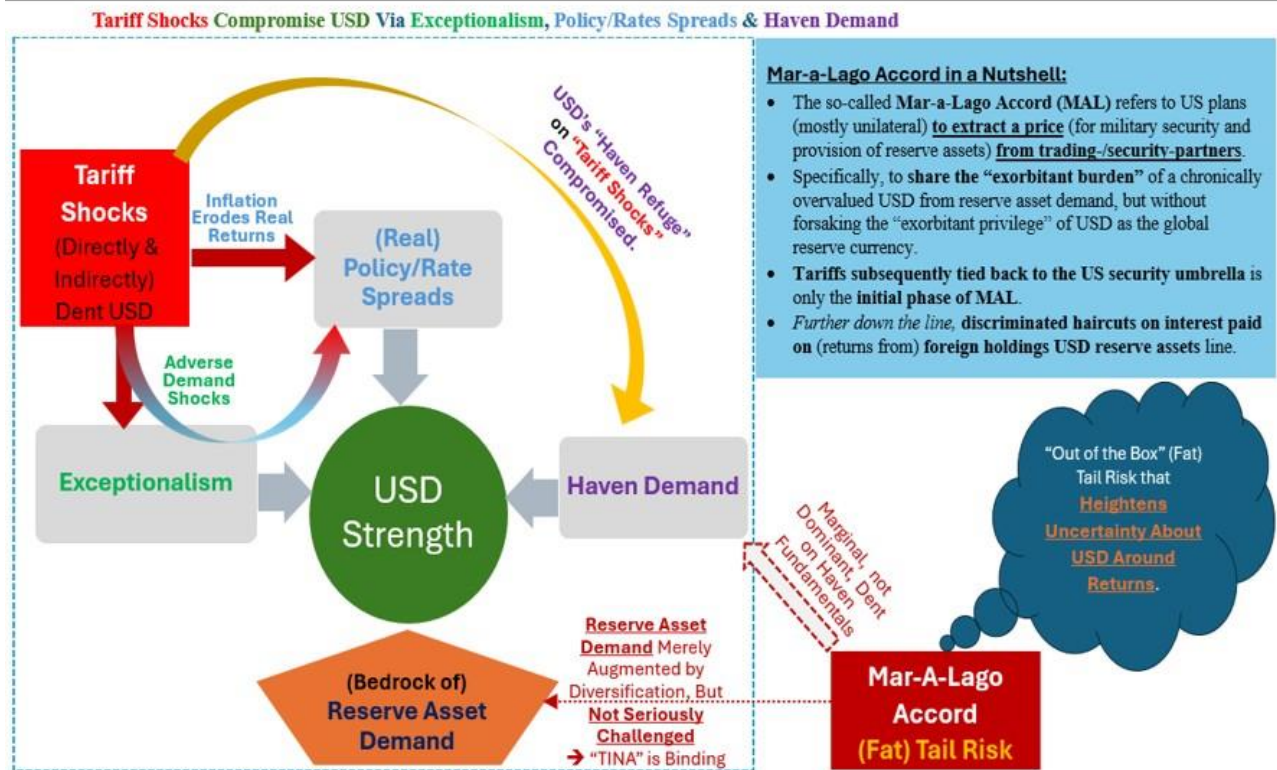
- All said, **USD decline may increasingly appear inevitable, but it is far from imminent**.
- And by virtue of its reserve currency status (and “exorbitant privileges”) the **tyranny of “Our Dollar, your problem” may still be imposed on the rest of the world**.
- Inadvertently, **underwriting the USD/USD asset risks** means that;
- the *global economy will also inherit a steeper curve* (higher term premium), “*crowding out*” risks and *FX volatility*.



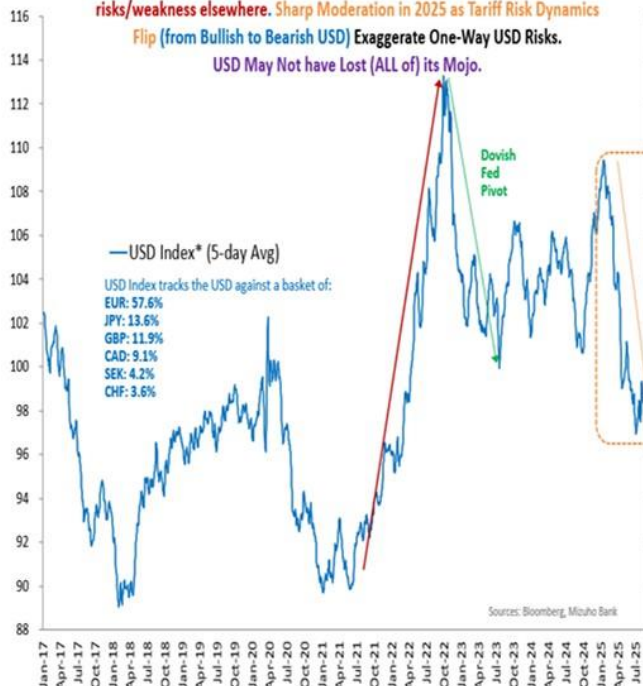
- *AXJ will be rendered far more divergent, (rather than ubiquitously stronger) depending on specific geo-economic fallout and pre-existing vulnerabilities.*

*“The Dollar is our currency, but your problem.” – John Connally, US Treasury Secretary, G10 Rome Meeting, 1971*

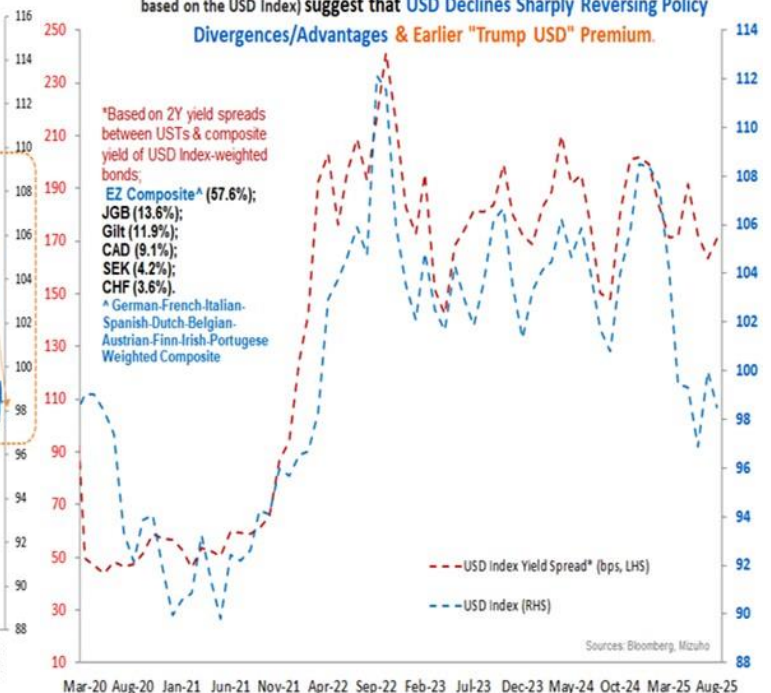
## Why USD May Retain Some Support, Dampening “Sell America”



USD Index hit 20-year highs in Oct 2022, Agitated by Fed Hawks and Incited by risks/weakness elsewhere. Sharp Moderation in 2023 as Tariff Risk Dynamics Flip (from Bullish to Bearish USD) Exaggerate One-Way USD Risks. USD May Not have Lost (ALL of) its Mojo.



The “Sell America” USD: 2Y UST yield spreads (vs. a composite of Yields based on the USD Index) suggest that USD Declines Sharply Reversing Policy Divergences/Advantages & Earlier “Trump USD” Premium.



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