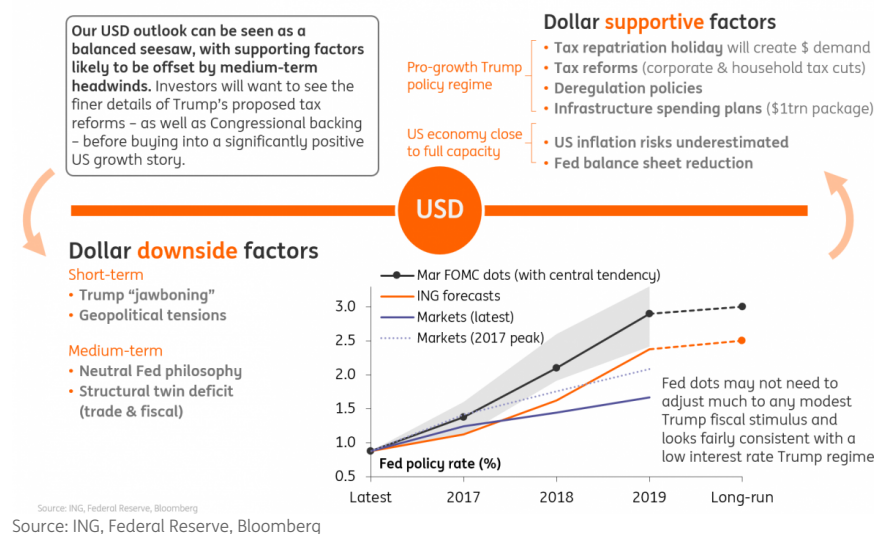


Decoding the Trump administration's dollar policy

There are two reasons why we think this could be as good as it gets for the dollar: a more watered-down Trump policy regime and real interest rates staying lower for longer



Our USD outlook: a balanced seesaw



100 days in and we're none the wiser on the administration's dollar policy. It's clear that the President is struggling to accept the positive dollar effects of his pro-growth agenda – with the rhetoric instead being that further dollar strength is undesirable.

But what can the White House actually do? In the extreme case, they could U-turn on their reflationary policies – but this seems highly irrational. It's more likely that officials will take subtle steps to keep dollar strength contained – and the most obvious to us at this stage is exerting some dovish influence over the Fed.

Trump's comment about preferring low interest rates was a game-changer and creates a credible action point when it comes to influencing the dollar. Even if inflationary pressures modestly build, we suspect the Fed – under the watch of the new administration – will stick to a fairly gradual normalisation path.

ING's Fed outlook: We have not changed our view on policy rates and continue to look for only one further hike this year in September. Where we may be diluting our view is with respect to the timing and speed of balance sheet shrinking – pushing this back until early 2018, with any adjustment phased in via partial reinvestments.

There will be some focus on the type of Federal Reserve governors appointed by the White House – especially with the possible appointment of a new Chair on the cards should Yellen opt to step down. But there may be little need to rock the boat; the White House's preference for a low interest rate regime wouldn't be too dissimilar to the 'inflation overshooting' bias which some FOMC members are leaning towards.

Our assumptions over the US fiscal-monetary interaction have changed; fears of falling behind the curve and prospects of front-loaded Fed hikes to offset any Trump stimulus are now low. Flatter

real US yields do not lend support to a bullish \$ view.