Mar-a-Lago Accord: 10 questions answered on devaluing the dollar

A recurring story in the financial press over recent weeks has been that Washington may be operating off a blueprint for restructuring the global trading system. A big part of that plan is first to tariff trading partners and then offer incentives of lower tariff rates if partners participate in a 'Mar-a-Lago Accord' to weaken the dollar. Here's our Q&A

The Mar-a-Lago estate in Florida, owned by President Trump, has been used as a venue for diplomatic meetings during his administration

Mar-a-Lago: What's all the fuss?

Over recent weeks, there has been increasing attention in the financial press on what could be a blueprint for the Trump administration's plans to restructure the global trading system. Part of this potential plan is a 'Mar-a-Lago Accord' to weaken the dollar - an overvalued dollar being seen as the root cause of America's trade deficit.

The proposed remedial action is incendiary, including aggressive tariffs and then a carrot (lower tariffs) or stick (a 'user fee' for holding US Treasuries) approach to encourage foreign central bankers to leave the US Treasury market and the dollar.

Below we unpack some of the key themes in 10 questions and answers.

? Q1: Why is a Mar-a-Lago Accord in the news?

President Trump has made it clear he wants to rewire the global trading system to secure a better deal for the US and bring higher-paid manufacturing jobs back home. At the same time, he wants allies to pay a fairer share for the US security umbrella. Both of these topics are covered in what could be a seminal essay published back in November by Stephen Miran, Trump's newly appointed Chairman of the Council of Economic Advisors. This essay introduces the idea of a 'Mar-a-Lago' multi-lateral accord to weaken the dollar. Earlier this year, the inflation-adjusted dollar was trading at its highest levels since 1985 – the year of the Plaza Accord, when the US, Germany, France, Japan and the UK coordinated policy to weaken the dollar.

? Q2: What are some the key observations of this essay?

The standout observation of the essay is that US trade deficits are not a function of too lax US fiscal policy as conventional wisdom would suggest, but wholly a function of an overvalued dollar. This dollar overvaluation has been driven by the inelastic demand for US Treasuries and the dollar as a reserve asset - as trading partners for decades have resisted the appreciation of their local currencies with FX intervention. The paper posits that while the dollar may be at some 'financial' equilibrium level supported by that inelastic demand for US Treasuries, the currency is way above its 'trade' equilibrium level. This has to be addressed. Miran also argues that the failure of the eurozone (too fragmented) or China (lack of convertibility) to present credible alternative reserve currencies has contributed to the current state of affairs.

For reference, IMF data has global FX reserves currently at around $12.7trn, with just under 60% of those in USD product. When it comes to the US Treasury market, the latest data shows that foreigners (both the public and private sector) own around $8.5trn of US Treasury securities, of which $3.8trn are held by foreign official institutions. These will be the target of potential US government action (see below). Note as well that foreigners own around a quarter of the $36trn in outstanding US government debt. By far the largest holders are the US private sector (55%) and the Federal Reserve and other US agencies (20%).

? Q3: What are some of the key recommendations here?

At the heart of the essay is the requirement to get the dollar lower in an orderly manner. Miran presents two key routes here – depending on whether allies and trading partners play ball. The first is a multi-lateral agreement with trading partners – or the 'Mar-a-Lago Accord'. The second is the unilateral approach.

The leverage applied to deliver the multi-currency approach will be through tariffs and the threat of withdrawal of security zones. In other words, the security zone provided by the US is a public good and will need to be paid for by allies. On the tariff side, the essay points to some important sequencing – tariffs first, then the incentive of lower tariffs should trading partners join the Mar-a-Lago Accord.

? Q4: How would this multi-currency, Mar-a-Lago Accord work?

Given the nature of global trade and FX flows plus FX reserve stockpiles, the eurozone, China and Japan are identified as the key nations which would need to sign up to the accord. The accord would involve these countries selling dollars and US Treasuries from their FX reserves. To mitigate the unwanted financial consequences of higher US interest rates, these countries would be encouraged to 'term-out' their remaining UST holdings – even encouraged to term out as far as century bonds. Again, this would be an incentive-driven accord, where nations could benefit from lower tariff rates should they acquiesce.

The author acknowledges that the above will be difficult to get the eurozone and China on board, but that other nations (where the US has more sway) might be more amenable – these include Japan, the UK, Canada and Mexico. The main issue here, however, is not just that most of the world's FX reserves sit with Middle Eastern and East Asia nations, but also that the private sector will likely take fright at reserve managers selling US Treasuries.

? Q5: How would the unilateral approach work?

The unilateral approach is far more dangerous and would involve either forcing foreign reserve managers to reduce their Treasury holdings or the US government increasing its FX assets.

On the former, the US Treasury could impose a 'user fee' on foreign official holdings of US Treasuries to drive reserve managers out of the dollar. The initial suggestion could be a 1% fee on interest remittances. Here, market dislocation in theory could be managed by: i) starting small ii) differentiating fee structure per country consistent with country trade tariff rates and iii) enlisting the help of the Fed to buy Treasuries if rates spike too much.

The latter approach of the US growing its FX assets would involve the US Treasury increasing the size of its Exchange Stabilisation Fund (now $40bn) or selling its gold reserves (8,000 tonnes). An even more outlandish suggestion here would be for the Fed to print dollars and use them to buy European, Japanese or Chinese debt – clearly an ultra-inflationary policy choice.

? Q6: How would any of these measures impact Treasuries?

Any forced swap of existing Treasuries to zero-coupon century bonds would be characterised as a default. A default would mean rating downgrades, likely quite severe. Technically, Treasuries could operate outside of credit rating buckets, impliedly ignoring rating scores. But, in many (or likely most) cases significant downgrades would mean that certain types of portfolios would not be allowed to carry Treasuries at all.

With respect to voluntary swaps, technically these would not be deemed a default. The US Treasury would offer swap terms whereby they would take in existing coupon-paying bonds, and swap out with century bonds. These in fact would not be bonds, but principal strips. There is a market for long-dated strips in the pension fund industry, but typically not for as long as 100 years. Most strips are structured according to an estimated life starting from the moment an employee begins work and contributes to a pension fund. That typically maxes out at 60 years. And it is only applicable for defined benefit schemes, which are in decline. Also, there is a currency risk involved with 100-year dollar bonds, as their value can be uncertain in different local currency regimes. Currently, there is no product available to hedge against this risk.

Bottom line, proposals like these would be hugely detrimental to the Treasury market as a product. If bondholders see a rump of holders being treated in an unconventional manner it will be reflected in the quality of the product itself. Treasury bondholders are notoriously conservative. They don't want to be dealing with "issues". There would be a huge move from Treasuries into high-grade corporate debt, potentially leading to corporate debt trading at lower yields than Treasuries. Taken to the extreme, Treasuries could lose their benchmark status, as it would no longer make sense to price off such a curve. Given these factors, this is not a viable option.

? Q7: Tell me more about sequencing, what does the blueprint say?

Miran is very clear on the sequencing here. For Mar-a-Lago to work, Washington needs to have incentives to offer trading partners to come on board. Both the threat of withdrawing its security guarantees and very likely the reciprocal tariffs to be announced in April can be seen in the context of creating leverage.

The paper also provides some insights as to what April's reciprocal tariffs could look like. Both Miran's paper and the US factsheet on reciprocal tariffs point to US Treasury Secretary Scott Bessent's suggestion of country buckets for tariffs, based on a whole host of assessments. The announcement of country tariff buckets in April could therefore lend support to this essay proving some kind of policy blueprint.

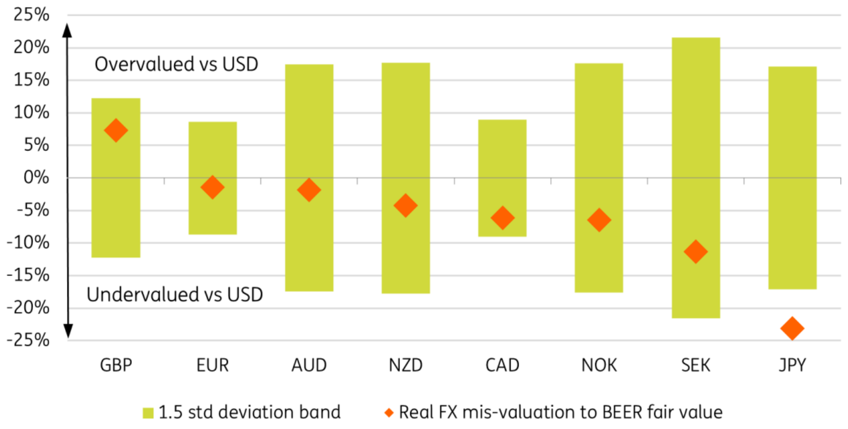
Crucially, tariffs and threats of security re-alignment need to come in before the currency accord – the leverage needs to be acquired first. Additionally, the essay seems to suggest a more acquiescent Fed would be helpful for the potential fallout in the bond market. Fed Chair Jerome Powell's term ends in May 2026.

? Q8: What does this all mean for the dollar?

Miran notes that the sequencing here probably means a stronger rather than weaker dollar. A stronger dollar during the period of higher tariffs is essential to suppress the temporary inflation shock. But a subsequent Mar-a-Lago Accord, with much wider consequences than the Plaza Accord – more like Bretton Woods – would significantly impact FX volatility and lead to a broad dollar decline. The latter could be the story for late 2025 and 2026. If any of the above ever did see the light of day, this could generate a seismic 20-25% adjustment in USD/JPY. The yen is the most undervalued currency in our G10 medium-term fair value model and its defensive characteristics would be in demand on the likely financial instability should Washington ever try to usher foreign central banks out of US Treasuries.

The above is very hard for financial markets to digest right now. The dollar has weakened this year on tariff uncertainty and European fiscal stimulus. We do think the dollar could make somewhat of a comeback in the second quarter if the narrative shifts back to tariff pain on trading partners and Washington can somehow resell the story of US longer-term growth.

ING's fair-value calculations for G10 currencies



Source: ING

? Q9: Are there opportunities for Europe here?

If an obvious by-product of the above accord is a dismantling of the dollar's status as a reserve currency, then the environment could be ripe for the eurozone to develop the reserve status of the euro. To address the criticism of debt markets being too fragmented, the eurozone could issue more joint debt – a topic under consideration as Europe rearms. In our work on the subject of de-dollarisation, we've consistently found that the dominance of USD-denominated debt has been a key factor in the dollar retaining its crown. Measures to encourage the growth of the EUR-denominated debt market would therefore be welcome. Also helping would be Europe accelerating its Capital Markets Union – its ambition to complete a single market for European capital.

? Q10: Other takeaways?

At the heart of the essay are the linkages between global trade, security and finance. Friends will be pressured into paying more for their access to the US consumer and the US security umbrella. Foes will be shut out through tariffs and other measures. This could prompt a re-assessment of sovereign risk premia on the back of changing security guarantees.

On the financial side, this all points to higher traded levels of financial market volatility and greater interest in alternative investments outside of the US.

Pie in the sky?

The idea of encouraging foreigners to leave the US Treasury market at a time of 6%+ budget deficits seems like playing with fire. And equally the idea of dangling currency accords/threats to weaken the dollar may prove counter-productive if a stronger dollar is what's required in the shorter term to insulate US consumers from import tariffs.

Much higher levels of traded volatility across all asset classes will be coming if any of the above sees the light of day. The first big test here will come in April as to whether the Administration is prepared to go hard on reciprocal tariffs - even at the expense of still lower US equities - in order to restructure the global trading system.

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