

25 January 2018  
Opinion

## End of an era

### US Treasury Secretary Mnuchin discards strong dollar policy

#### The genie is now out of the bottle

US Treasury Secretaries have had a difficult time convincing markets that they were real advocates of the strong dollar policy. Hank Paulson had his work cut out to persuade markets, and even then many interpreted his remarks as being more in keeping with an "appropriately priced market-determined " dollar policy. Tim Geithner, early on in his Treasury career also had a few stumbles, and had to do a fair bit of back-peddalling to get markets back onside.

The problem is, of course, that once you tell markets that you are not really bothered about the value of your currency because it is expedient at the time to take that attitude, the cost of persuading them otherwise, should this be what you need in the future, is magnified many times.

The current US Treasury Secretary, Steven Mnuchin, let the Genie out of the bottle at Davos yesterday when he suggested that a weak dollar is actually good news, as it supports US trade. The USD decline was already well established, so Mnuchin's comments were pushing on an open door.

We have said before that a weak USD is helpful for Asian economies as it enables local central banks to go easy on monetary normalisation, and support domestic economies. But this view does not extend to rapid, and potentially disorderly USD declines, which could spur the Fed into more aggressive tightening, and raising bond yields worldwide. That is certainly not an environment that benefits Asia.

#### How will Draghi counter Mnuchin?

We had been holding open the possibility that European Central Bank President, Mario Draghi, might offer up some tantalizing taper hints at the press conference today - in line with the comments expressed in the ECB's last minutes. Now, Draghi is likely to adopt a damage limitation mode. We don't believe the EUR has exceeded the ECB's pain threshold line, which is probably somewhere around the 1.25 level. But rate of change can be as important as level for central banks, and so throwing more fuel on the fire with a hawkish testimony today would be counter-productive.

The problem is, would anyone believe Draghi if he offered a view in stark contrast to the minutes? This is reminiscent of the Emperor's New Clothes tale. And in true pantomime style, if Draghi tells the assembled press at today's conference that the Eurozone economy still needs emergency stimulus in the form of QE and negative rates, it would not be wholly inappropriate if they all shouted out "Oh no it doesn't". All that would be missing from the picture would be someone dressed as Widow Twankee.

#### Asia today - Malaysia should still hike.

Despite the USD weakness, and the MYR breaching 3.90, we still look for Bank Negara Malaysia to hike rates by 25bp today to 3.25%. Please follow the link to see further discussion of our thoughts on this central bank decision.

<https://think.ing.com/articles/malaysian-central-bank-to-join-tightening-binge/>

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