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Trump’s trade policy: What is behind it?

In his second term of office, Donald Trump continues to keep the global capital markets on tenterhooks with his protectionist trade policy. However, it is not always entirely clear what he is actually calculating. On the one hand, Trump is using the threat of tariffs to strengthen his negotiating position; on the other hand, he has frequently stated that he wants to completely abolish taxes for Americans in the long term and finance everything through tariffs. How does this fit together and why does Trump want to reform the global trade system? We have taken a closer look at the economic “playbook” behind Trump's policies.

Trump is implementing almost everything textbook that economist Dr. Stephan Miran writes in his latest publication from November 2024. Miran is an American economist who holds a PhD from Harvard and was Senior Advisor for Economic Policy at the US Treasury Department during the first Trump administration. In December 2024, he was appointed by Trump as Chairman of the Council of Economic Advisers and thus has a significant influence on Trump and economic policy as the top economic advisor. Although Miran emphasizes that his work does not constitute policy recommendations, but rather an attempt to “understand the consequences of potentially significant changes in trade or fiscal policy for the financial markets”, it nevertheless provides valuable insights into the possible economic policy direction of the Trump administration and allows conclusions to be drawn about both future interest rate developments and the dollar exchange rate.

The dollar dilemma

The USA has a problem: its dollar is too strong. The US dollar is the anchor currency to which the whole world is oriented and the most important international reserve currency. This leads to a structural demand for the greenback that is relatively independent of trade balances and interest rate differentials and tends to lead to an overvaluation of the dollar against other currencies. This overvaluation, which results from an inelastic demand for reserve currencies, is often referred to as the “Triffin dilemma”. Miran identifies the root of economic imbalances in this persistent overvaluation of the dollar, which he believes prevents equilibrium in international trade. The persistent overvaluation of the dollar makes US exports less competitive and US imports cheaper, which has a negative impact on the American manufacturing industry.

Strength of the US dollar compared to an international trade-weighted basket of goods

Source: Refinitiv Datastream

The main conflict at stake in the discussion is that the dollar acts as the world's reserve currency, which is important for the global financial system, but also harms the US real economy. Miran expects that these tensions can be resolved through a series of measures aimed at greater burden-sharing between trade and security partners: Instead of trying to end the use of the dollar as a global reserve currency, the Trump administration could try to find ways to recapture some of the benefits that other nations derive from providing US reserves.

Tariffs as a secret weapon?

Tariffs are often seen as a controversial tool, as they can make goods more expensive and put a strain on supply chains. However, Dr. Stephan Miran also sees them as an opportunity to generate additional revenue and make other countries more financially responsible. The key question is: who will ultimately bear the costs of the tariffs? Donald Trump repeatedly emphasizes that tariffs are an ideal tool to reduce the trade deficit. At the same time, he claims that the financial burden will primarily be borne by foreign trading partners.

This statement could actually be true under certain conditions. If the US dollar appreciates to the extent that tariffs make imports more expensive, the inflationary effects could be largely offset. An example: If a general tariff rate of ten percent were to cause the trade-weighted dollar to appreciate by the same percentage, US consumers could continue to buy foreign goods for the same amount as before. At the same time, however, exports from the USA would become more expensive, which would harm trading partners.

Miran argues that this is exactly the mechanism that was observed in the tariff increases from 2018 to 2019. The dollar rose at almost the same rate as the effective tariff rate, limiting the negative impact on the US economy. Nevertheless, significant revenue was generated. As the Chinese currency depreciated at the same time, the purchasing power of Chinese consumers fell - and China indirectly bore a large part of the tariff revenue. This effect also explains Trump's view of tariffs: they not only serve him as leverage in trade negotiations, but also as a potential source of revenue for the national budget.

Tariff policy versus currency targets

Donald Trump has repeatedly expressed his desire to weaken the US dollar in order to increase the competitiveness of American exports. Paradoxically, however, many of his current economic policy measures, such as tax cuts and protectionist tariffs, tend to strengthen the dollar. This raises the question: How can this apparent contradiction be explained?

The appreciation of the dollar has a direct impact on the US trade balance. A strong dollar makes American exports more expensive and makes them less competitive on the global market, while imports become cheaper. This exacerbates the trade deficit - a problem that Trump actually wants to solve. However, his strategy is based on the idea that the revenue from the tariffs could be sufficient to finance extensive tax cuts. These tax cuts, in turn, are intended to strengthen the competitiveness of the US economy, particularly for export-oriented companies. This approach is complemented by further deregulation measures, which are intended to promote economic dynamism.

However, critics doubt the sustainability of this plan. They argue that the expected customs revenue may not be sufficient to compensate for the loss of government revenue caused by the planned tax cuts. Dr. Stephan Miran's analysis does not address this potential financing gap in any detail.

The fusion of trade and security

Should the countries affected by tariffs respond with counter-tariffs, the US government has a clear strategy: it considers the provision of reserve facilities and a security umbrella to be related aspects and is aiming for joint burden-sharing. In extreme cases, this could even mean that the USA withdraws military security guarantees. This merging of economic and defense policy could become particularly relevant for the eurozone, which Trump has already accused in the past of spending too little money on its own defense. However, there is no guarantee that countries under US military protection will not respond with counter-tariffs and escalate the conflict. Miran therefore proposes introducing the tariffs gradually in order to reduce the shock effect and find the optimal tariff rate.

What follows the protective tariffs?

Tariffs alone cannot therefore solve the problem of the US dollar's appreciation. In addition to tariffs, Miran also discusses monetary policy as an instrument for reshaping the global trading system. He proposes that after strengthening the domestic economy through tariffs, the US dollar should be devalued in a second step. To this end, the Americans will try to force their trading partners to agree to a devaluation of the US dollar by revaluing their currencies. If they refuse, Washington could once again threaten to impose tariffs and withdraw its security policy.

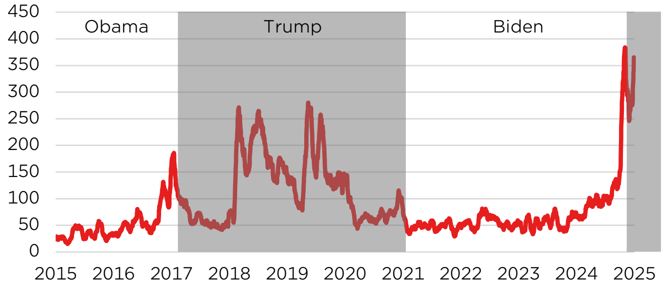
Will the US Federal Reserve remain independent?

But of course this would also have consequences: if the European Central Bank or the Bank of Japan were to intervene in favor of a weaker dollar and sell US government bonds, interest rates in the US could rise. To prevent this, Miran proposes shifting the remaining dollar reserves (of foreign central banks) into US bonds with longer maturities. This would reduce financing costs in the US and dampen a rise in interest rates - a goal that Trump has repeatedly emphasized.

However, this strategy raises questions about the independence of the Federal Reserve. The Fed, which is supposed to act independently by law, has little interest in lowering long-term yields, especially given that inflation is still too high. Although the Federal Reserve is independent, President Trump has already tried to influence the Fed on several occasions and strongly criticized Fed Chairman Powell, who he himself nominated during his first term in office. Whether President Trump can remove Powell from office is legally unclear, but Powell's term of office ends in May 2026 and Trump can appoint a successor who is in line with his economic policy ideas. With a Republican majority in the Senate, such nominations could be pushed through more easily.

The Fed faces the challenge of adapting its monetary policy to changing economic conditions. In view of the mixed economic signals of late, the central bank is engaged in a complex balancing act. In yesterday's interest rate decision, the Fed left the key interest rate unchanged in a range of 4.25 to 4.5 percent, as expected. Despite the recent difficult-to-interpret economic data, the Fed continues to see robust economic development with stable labor market conditions, but at the same time acknowledges that inflation remains slightly elevated. It has raised its inflation forecast for 2025 from 2.5% to 2.7%. At the same time, the growth forecast for gross domestic product was lowered from 2.1 percent to 1.7 percent. Fed Chairman Jerome Powell emphasized that the central bank was in no hurry to ease further after cutting interest rates three times at the end of last year. The Fed would first like to gain more clarity about the impact of the current trade conflicts on the economy and inflation. The central bank also announced that it would slow down the pace of reducing its balance sheet from April. Although two interest rate cuts are still forecast for this year, at his press conference Fed Chairman Jerome Powell expressly emphasized the central bank's willingness to hold on to higher interest rates for longer if inflation does not fall sustainably towards the two percent target or the economy develops more strongly contrary to expectations. The Fed's monetary policy stance therefore remains cautious and data-dependent - an additional uncertainty factor for the markets in times of increasing trade tensions.

Trade Policy Uncertainty
(moving average 30 days)



Source: Fed economists - Caldara et al.

Unexpected consequences of US trade policy

The latest mixed signals from the US economy illustrate how complex and contradictory the Trump administration's economic policy measures are. While Trump's protectionist tariff policy was originally aimed at reducing the trade deficit and strengthening the domestic economy, the negative consequences are becoming increasingly apparent: The uncertainty caused by changing tariff conditions is burdening companies and consumers alike and making clear economic planning more difficult.

Paradoxically, however, Trump's measures are already having a concrete impact on Europe. The increasing uncertainty regarding trade relations and security guarantees has led to European countries - especially Germany - significantly increasing their defense spending, in line with Trump's calls for greater burden-sharing.

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Market data

Stock marktes	As of 21.03.2025 11:28	Change versus 14.03.2025 -1 week	20.02.2025 -1 month	20.12.2024 -3 months	20.03.2024 -1 year	31.12.2024 YTD
Dow Jones	41953	1,1%	-5,0%	-2,1%	6,2%	-1,4%
S&P 500	5702	1,1%	-6,8%	-3,9%	9,1%	-3,1%
Nasdaq	17692	-0,4%	-11,4%	-9,6%	8,1%	-8,4%
DAX	22833	-0,7%	2,3%	14,8%	26,7%	14,7%
MDAX	28670	-1,7%	4,6%	12,2%	9,2%	12,0%
TecDAX	3731	-1,1%	-3,1%	9,3%	10,7%	9,2%
EuroStoxx 50	5415	0,2%	-0,8%	11,4%	8,3%	10,6%
Stoxx 50	4678	0,9%	-0,5%	10,0%	7,0%	8,6%
SMI (Swiss Market Index)	13044	1,0%	1,8%	14,6%	12,3%	12,4%
Nikkei 225	37677	1,7%	-2,6%	-2,6%	-5,8%	-5,6%
Brasilien BOVESPA	131955	2,3%	3,4%	8,1%	2,2%	9,7%
Indien BSE 30	76906	4,2%	1,5%	-1,5%	6,7%	-1,6%
China CSI 300	3915	-2,3%	-0,4%	-0,3%	9,2%	-0,5%
MSCI Welt	3694	0,8%	-5,1%	-0,8%	8,2%	-0,4%
MSCI Emerging Markets	1141	1,9%	0,7%	6,4%	10,5%	6,1%
Bond markets						
Bund-Future	128,18	95	-342	-596	-373	-526
Bobl-Future	117,36	55	30	-82	-20	-50
Schatz-Future	106,75	8	5	-36	118	-23
3 Monats Euribor	2,39	-9	-15	-39	-154	-33
3M Euribor Future, Dec 2025	2,07	-1	3	20	-41	17
3 Monats $ Libor	4,33	0	0	-1	-114	-4
Fed Funds Future, Dec 2025	3,68	-3	-28	-27	-22	-23
10 year US Treasuries	4,23	-9	-28	-30	-5	-34
10 year Bunds	2,76	-9	25	47	34	40
10 year JGB	1,52	1	9	47	79	44
10 year Swiss Government	0,71	-11	11	45	-1	43
US Treas 10Y Performance	613,56	0,7%	2,5%	3,5%	4,6%	3,7%
Bund 10Y Performance	548,89	0,8%	-1,9%	-3,3%	-0,2%	-2,8%
REX Performance Index	450,09	0,5%	-0,4%	-1,0%	2,1%	-0,6%
IBOXX AA, €	3,22	-8	18	25	-16	18
IBOXX BBB, €	3,64	-8	21	24	-32	18
ML US High Yield	7,60	-11	22	1	-29	-5
Commodities						
MG Base Metal Index	441,10	0,2%	2,4%	8,5%	11,8%	8,8%
Crude oil Brent	71,75	1,1%	-6,2%	-1,5%	-16,6%	-4,0%
Gold	3032,13	1,5%	3,2%	15,4%	40,6%	15,5%
Silver	33,45	-0,5%	1,4%	13,7%	34,3%	12,7%
Aluminium	2675,80	-1,0%	-2,3%	7,3%	20,3%	5,9%
Copper	9885,36	1,6%	3,7%	11,9%	12,1%	14,2%
Iron ore	102,15	-0,7%	-4,5%	-1,6%	-7,4%	-1,4%
Freight rates Baltic Dry Index	1635	-2,0%	73,8%	65,2%	-28,4%	64,0%
Currencies						
EUR/ USD	1,0829	-0,6%	3,7%	4,2%	-0,1%	4,2%
EUR/ GBP	0,8366	-0,6%	1,0%	0,9%	-2,0%	1,2%
EUR/ JPY	161,70	-0,1%	3,3%	-0,7%	-1,7%	-0,8%
EUR/ CHF	0,9553	-0,9%	1,4%	2,8%	-1,1%	1,5%
USD/ CNY	7,2503	0,1%	0,0%	-0,7%	0,7%	-0,8%
USD/ JPY	148,79	0,1%	-0,6%	-4,9%	-1,6%	-5,4%
USD/ GBP	0,77	-0,2%	-2,3%	-3,1%	-1,8%	-3,2%

Source: Refinitiv Datastream

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