

Mnuchin's Silence on Dollar Policy Signals Rubin Mantra Lives On

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- Officials have touted value of robust currency since 1995
 - Trump manufacturing focus complicates administration's stance
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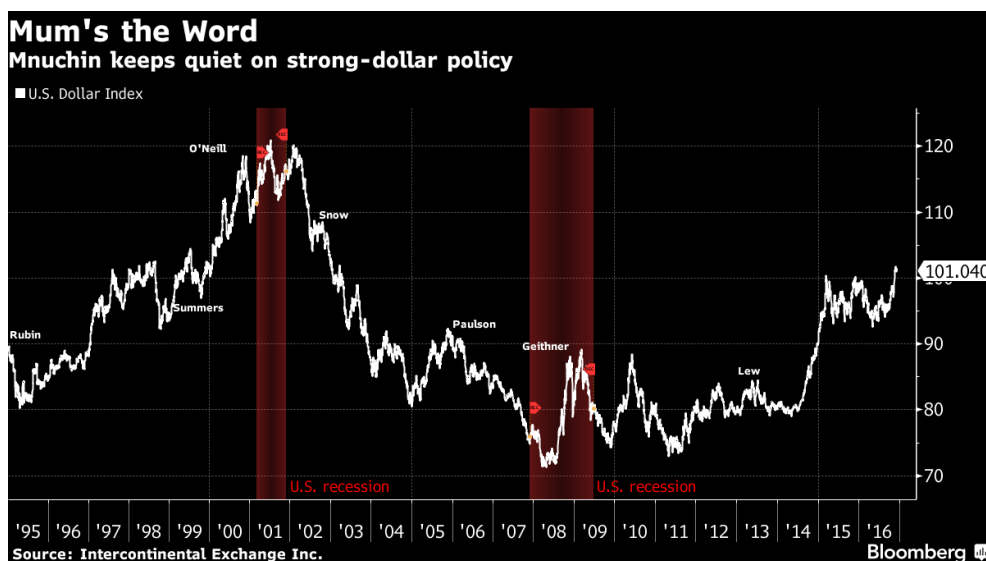
President-elect Donald Trump has made clear his administration will shake up long-held policies and traditions. Yet investors in the currency market see no sign that his Treasury Department will abandon the U.S.'s two-decade-old mantra touting the benefits of a strong dollar.

Steven Mnuchin, Trump's [pick for Treasury](#), has avoided specifying whether he'll maintain his predecessors' stance regarding the greenback. That's been enough for investors and strategists to expect the status quo to hold, potentially removing one headwind to a dollar rally that's been re-energized by Trump's promises of fiscal stimulus.

Then-Treasury Secretary Robert Rubin in 1995 began [promoting the dogma](#) that a strong dollar was in the nation's interest. Underpinning the policy is the view that a robust currency reflects a healthy economy and bolsters foreign demand for U.S. debt by reducing the prospect of currency losses. While a climbing greenback helps American consumers by lowering the

cost of imports, it also compounds manufacturers' struggles by making exports less competitive.

“Some of the policies that are now being proposed are dollar-positive, though we'll see what's implemented,” said Axel Merk, president of Merk Investments LLC in San Francisco. If Mnuchin “doesn't say anything about the strong-dollar topic, that might not be such a bad thing -- especially until we know about the administration's policies.”



When asked in a CNBC interview on Wednesday about the dollar policy, Mnuchin neither endorsed nor rejected it. Instead, he noted that international investors see value in U.S. assets and discussed his agenda. Trump's transition team didn't respond to a request for comment from Mnuchin.

“We see that money is pouring into the U.S. for those reasons,” Mnuchin, who has to be confirmed by the Senate, said on CNBC. “We're really going to be focused on economic growth and creating jobs, and that's really going to be a priority.”

[Read more: The genesis of the strong-dollar policy](#)

The dollar has surged since Trump's victory, reaching the highest since at least 2005, while Treasury yields have soared as his calls for increased infrastructure spending and lower taxes are seen bolstering economic growth. Traders see a Federal Reserve interest-rate hike this month as a lock, and have stepped up bets on further moves, boosting the greenback's

appeal.

The Bloomberg Dollar Spot Index, which tracks the currency against 10 major peers, is on pace to gain in 2016, after advancing the past three years. Easing the sting of its recent strength, the dollar's broad value remains in line with historic averages, judging by a Fed trade-weighted index that began in 1973.

Mnuchin's comments "seem to suggest they are willing to tolerate a strong dollar," said Steven Englander, global head of Group-of-10 currency strategy in New York at Citigroup Inc. "It's good to have a strong currency if it reflects the underlying fundamentals of your economy."

Snow's Education

Treasury secretaries since Rubin have shown varying degrees of adherence to the policy. Paul O'Neill, the first secretary under President George W. Bush, found it to be empty rhetoric and adopted it reluctantly. Jacob Lew, the current chief, uttered a variation of the mantra in June: "I have long taken the view, as have my predecessors, that a strong dollar reflects a strong U.S. economy. And it's in the U.S. interest."

John Snow, who was also under Bush, learned how quickly currency traders would react to his remarks related to the dollar.

The greenback slid to a four-year low versus the euro one day in March 2003 after reporters asked Snow about the dollar's weakened state and he responded by saying, "I'm not particularly concerned about that. The dollar is going to rise and fall some. There's nothing unusual about this, nothing alarming."

Campaign Talk

The president-elect has signaled limited patience with what he perceives as nations taking a heavy-handed approach to currency policy. Trump has said China was artificially weakening its currency to boost exports, and he promised to instruct his Treasury secretary to designate China as a currency manipulator.

"A Trump administration is likely to feature continued strong-dollar

rhetoric accompanied by aggressive hectoring of trade partners to refrain from policies that weaken their currencies,” said Eswar Prasad, whose 2014 book “The Dollar Trap” argues that the greenback will remain the cornerstone of the global economy.

Trump has also promised to revive manufacturing, even negotiating directly with Carrier to preserve an Indianapolis plant that had been set to move jobs to Mexico. A stronger dollar could complicate prospects for the sector.

“They have to tread very carefully now, because if the dollar were to appreciate a lot it could be a distinct disadvantage to manufacturing,” said Kathy Jones, chief fixed-income strategist at Charles Schwab & Co., which has \$2.7 trillion in client assets. “It’s a very tricky situation. If I were in Mnuchin’s shoes, I wouldn’t say too much one way or another.”

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