Dollar Decline—And Some Not-So-Pleasant Implications

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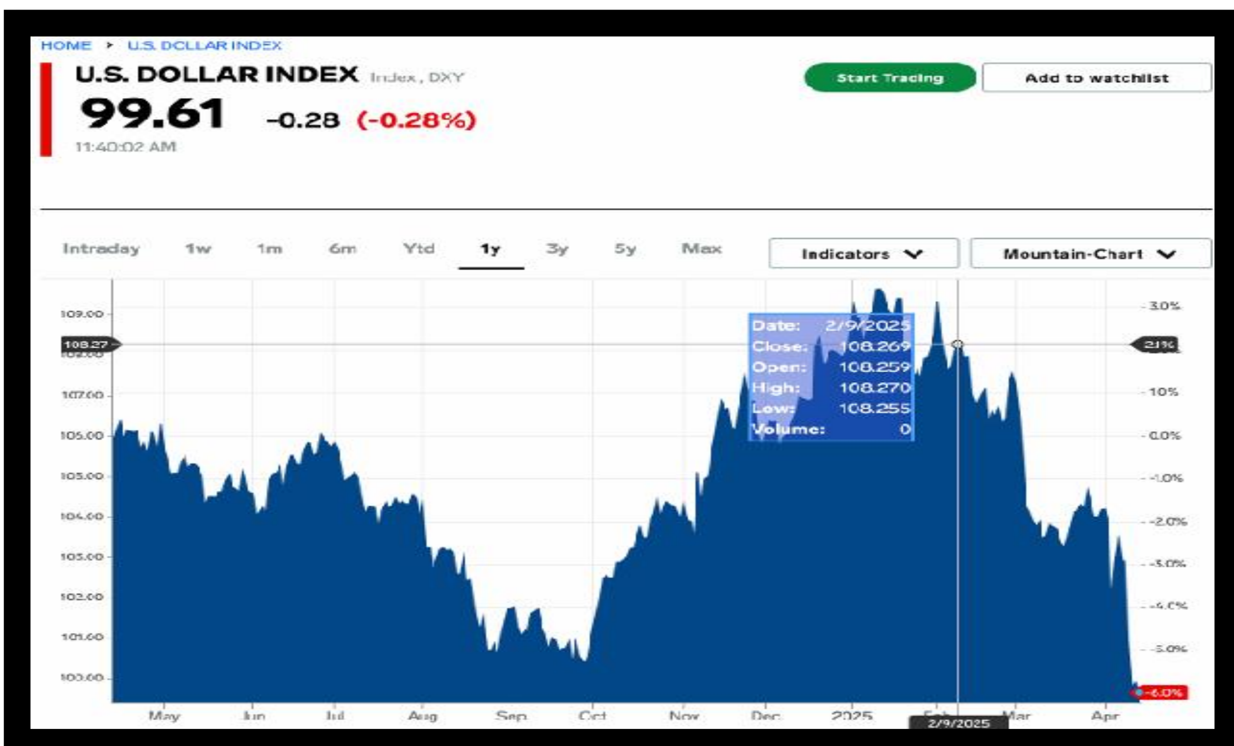
One of the less-noticed outcomes of the tariff tantrum in the markets is the sudden (and somewhat queasy) fall of the value of the U.S. dollar. As of this week, sound as a dollar' doesn't mean what it used to.

On Monday, the dollar fell to a three-year low when measured against a basket of global currencies (see chart), and the trend appears to suggest more of the same. The reason is not complicated: foreign investors are selling their dollar-denominated assets, including stocks and Treasury bonds, betting that the American economy is going to continue on a recessionary path. Put more simply, people are losing confidence that the dollar is a safe haven to store their money.



Economists will tell us that a weaker dollar makes American goods and services less expensive in foreign markets. But with reciprocal tariffs, and backlash among consumers in many countries against all things American, this impact is likely to be small or potentially nonexistent.

A more pressing concern is higher interest rates, and the potential impact on the national debt. Every tick upward in the rates that investors are willing to accept to buy American debt raises the percentage of the national debt that goes toward interest payments. With national debt currently running at more than $35 trillion, small increases can lead to large holes in the American government's solvency. In fact, this could become the first year that servicing debt represents the largest line item on the government balance sheet. At that point, people might lose confidence in the dollar, and in the American financial system generally.

Thus, while most reporters are watching the daily movements in the stock market, economists are closely monitoring the Treasury debt auctions. Investors here and abroad will have to buy roughly $10 trillion of Treasury securities this year to cover deficits and maturing securities—a figure that amounts to more than a third of U.S. gross domestic product.

The dollar may yet recover. But with the chaos revolving around the on-again, off-again tariffs, it's more likely to fall further than to gain against world currencies.

Source:

https://www.businessinsider.com/us-dollar-vs-dxy-drop-debt-deficit-spending-trump-tariffs-2025-4

https://markets.businessinsider.com/index/us-dollar-index

https://fee.org/articles/interest-payments-on-the-national-debt-will-soon-be-the-largest-federal-expenditure/

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