

Is The Dollar Really Dying?

Back on January 10, 2025, it cost \$1.024 to buy one Euro. Last Friday, the \$/Euro exchange rate was \$1.125 – a drop in the value of the dollar of about 10%. Similar moves in the value of the US dollar versus the British pound, Japanese yen, and Canadian dollar also occurred.

Many analysts have jumped on this drop in the dollar to attack President Trump's tariff policies...basically saying that if we keep heading down this road foreigners will pull back from investing in the US, the dollar will fall, overseas investments will outperform, and the US will undermine its global exceptionalism.

As a quick aside, while panic-stricken, politically-motivated attacks are nothing new, the fear generated by "end-of-the-world-as-we-know-it" forecasts since 2008 have reached a frenzy. Investors would be better served by staying level-headed.

First of all, think of how many times you have read a headline that "billionaires are selling all their stocks," or "the dollar is dead," or "a crash, or depression, is coming." Especially in the past seventeen years since 2008.

And none of these have happened. So, please stay level-headed. Yes, the dollar has moved sharply lower in the past four months or so, but if we look at five- or ten-year timeframes it is right in the middle of its trading range.

Yes, European stocks have outperformed US stocks this year, but European stocks are still trailing by a significant amount over the past decade or more.

So, what explains the movement in the dollar? Here is a theory that gets too little attention.

Everyone knows that there was a huge surge in the US trade deficit as importers were front-running tariffs. So, let's think about what this means. When people sell goods to the US, they get dollars. In fact, there is a school of economic thought that says the world must run trade deficits with the US because the dollar is the world's reserve currency and the world needs dollars to both trade and back their own sovereign currencies with one of the most trusted assets in the world.

Well, if this is true, and we believe it is, then how many dollars does the world really need? Between 2010 and 2020, the trade deficit averaged about \$40 billion per month. From 2020 to 2024, the trade deficit averaged about \$70 billion per month, but this was probably at least partly COVID induced...the US opened up faster than other countries.

Then in December, the trade deficit hit \$98 billion, and then \$131 billion in January, \$123 billion in February, and \$140 billion in March. If we compare this to the \$70B per month average from 2024, in just 4 months of 2025, the US has sent \$212 billion extra dollars overseas. \$212 billion!!!!

Assuming that the demand for use of the dollar in international trade did not change one bit, that \$212 billion of extra dollar supply in foreign hands would certainly knock its value down on foreign exchange markets. In other words, no wonder the dollar fell this year. We flooded the world with dollars by massively increasing our trade deficit.

Well, we believe the front-running comes to an end soon. Our bet is that this will lead to a stronger dollar as supply and demand come back into balance. The dollar is not dead or dying.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
5-13 / 7:30 am	CPI – Apr	+0.3%	+0.3%		-0.1%
7:30 am	"Core" CPI – Apr	+0.3%	+0.3%		+0.1%
5-15 / 7:30 am	Initial Claims – May 10	230K	227K		228K
7:30 am	Retail Sales – Apr	+0.1%	-0.2%		+1.5%
7:30 am	Retail Sales Ex-Auto – Apr	+0.3%	+0.2%		+0.6%
7:30 am	PPI – Apr	+0.2%	+0.3%		-0.4%
7:30 am	"Core" PPI – Apr	+0.3%	+0.3%		-0.1%
7:30 am	Philly Fed Survey – May	-11.0	5.5		-26.4
7:30 am	Empire State Mfg Survey – May	-8.0	-2.1		-8.1
8:15 am	Industrial Production – Apr	+0.2%	+0.3%		-0.3%
8:15 am	Capacity Utilization – Apr	77.8%	78.0%		77.8%
9:00 am	Business Inventories – Mar	+0.2%	+0.1%		+0.2%
5-16 / 7:30 am	Housing Starts – Apr	1.365 Mil	1.362 Mil		1.324 Mil
7:30 am	Import Prices – Apr	-0.3%	-0.3%		-0.1%
7:30 am	Export Prices – Apr	-0.5%	-0.1%		0.0%