

*Are investors losing confidence in U.S. economic policy?*

## What the Trump Dollar Plunge Means

Investors around the world on Thursday passed their verdict on President Trump's monumental tariff push, and it wasn't pretty. Amid the hubbub, the dollar and gold warrant special attention since their moves point to special dangers awaiting Mr. Trump.

The greenback lost value as other currencies surged Thursday. The euro strengthened to about \$1.11 per euro from \$1.08, and the Japanese yen strengthened to around ¥145 per dollar from ¥149. The British pound also gained. The Journal's dollar index fell 1.8% on top of declines in recent weeks.

This appears to be based on expectations of weaker U.S. economic growth and higher inflation. That impression is buttressed by the gold price, which soared to nearly \$3,200 per ounce for a time Thursday after Mr. Trump's announcement. Investors flocked to this traditional hedge against inflation and slowing growth.

Mr. Trump is likely to interpret this greenback slide as good news. He has long believed the dollar is overvalued in a way that hurts American exporters, and alleged "currency manipulation" by other countries was one of the benchmarks he says he applied when setting Wednesday's reciprocal tariff rates. That may mark the end of his intuition on the matter, but economists in his orbit put a finer theoretical point on it: They believe policy distortions in other countries cause this excessive dollar strength. To some of these advisers, a falling dollar will be a sign that the protectionist plan is working to rebalance global trade and capital flows. But not to all of them. Under another theory, an across-the-board tariff should cause an appreciation of the dollar by narrowing the U.S. trade deficit. That is the view of Stephen Miran, now the chairman of Mr. Trump's Council of Economic Advisers, in a widely circulated paper last autumn.

Under this theory, dollar appreciation is a crucial tool to prevent tariffs from setting off domestic inflation in the U.S. The accompanying depreciation of other currencies such as the euro, yen and yuan, meanwhile, is the mechanism by which those countries are said to "pay for" U.S. tariffs in the form of their own diminished purchasing power.

Which side of this argument is right? You'll have to wait and see, as Mr. Trump likes to say, and a lot is riding on the outcome. Protectionists believe (without convincing evidence) that a weaker dollar boosts the U.S. economy. Households may notice the increased prices for imported goods first—exacerbating the pain from the tariffs. Mr. Trump won't believe it, but a dollar resurgence is the best thing that could happen to him now.

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