



Weak Dollar Poses Global Risk

Currency's slide to hit exporters, raise pressure on central banks to cut rates

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The unexpected weakening of the dollar is suddenly becoming the rest of the world's problem.

For foreign sellers of all manner of goods, including cars, cognac and Scottish tweed, the dollar's steep slide is a double whammy, compounding losses caused by President Trump's import levies. For central banks around the world, the rapid strengthening of their own currencies heaps pressure to cut interest rates more aggressively.

The U.S. currency resumed its rapid weakening Wednesday, hitting fresh lows against the euro, Japanese yen and Swiss franc. The dollar decline has been historic, with the ICE U.S. Dollar Index, a measure of the greenback against a basket of currencies, slipping 8% this year, the worst start to a year in the index's four-decade trading history.

Wednesday's dollar decline came as Federal Reserve Chair Jerome Powell warned in a speech in Chicago that tariffs "are highly likely to generate at least a temporary rise in inflation," and that the central bank doesn't need to rush to lower interest rates in the short run.

Because of its role as the primary currency used for global trade and finance, swings in the dollar have significant global consequences.

"For exporters, you're not

getting the currency eroding some of the tariff impact for the end U.S. consumer," said Derek Halpenny, the London-based head of global markets research for the Japanese bank MUFG. "It has a bigger negative impact for sure."

A weak dollar makes the profits that foreign companies earn from their U.S. divisions worth less when translated back into euros or yen. It also makes the goods they produce more expensive for U.S. consumers.

Japan's Toyota is expected to face an earnings hit from the yen's climb to 143 per dollar from 157 at the start of the year. For years, the weakness of the yen has been boosting profitability at Toyota and other large Japanese exporters.

In Europe, the currency swings are likely to dent results at luxury-goods houses such as Prada and LVMH, and beverage sellers such as Campari and Pernod Ricard, according to UBS.

Deutsche Bank cut its earnings forecasts for companies in the Stoxx Europe 600 index to 4% from 6%, citing weakening demand and the strength of the euro. The bank warned it could shave an additional percentage point of its growth forecast if the euro stays at its current level.

The decline in the dollar has come as a surprise to many. Economic textbooks teach that foreign currencies tend to weaken when economies are hit with tariffs, helping to make goods cheaper to offset the cost of the levies.

Instead, investors have reacted to Trump's back-and-forth trade policies by dumping U.S. assets, unwinding huge bets they made in recent years on the idea that the U.S. would economically outshine the rest of the world. As investors sell dollar assets, they recycle them into home currencies, pushing up their value.

The slide in the dollar has fueled questions about the damage to the U.S. economy from Trump's shift in trade policy and whether the currency will remain a haven for investors in times of market stress.

The White House has sent mixed signals about its dollar preferences, but some of Trump's economic advisers have signaled they want a weaker U.S. currency. Trump has in the past argued that the dollar's strength has made U.S. manufacturers uncompetitive and fueled the trade deficits that he wants to erase with tariffs.

Stronger foreign currencies are likely to weigh on already anemic growth in Europe, the U.K. and Japan. The currency reversal will likely mean fewer and lighter-spending U.S. tourists, who have taken advantage of a strong dollar in recent years to go on trips to places such as Spain and Japan, boosting broader activity.

Shaan Raithatha, senior economist at Vanguard in London, this week cut his eurozone growth forecasts for this year and next. He sees 2025 growing by only 0.8% compared with his earlier forecast of 1%, and 1% next year from 1.6%. Stronger currencies and tariffs are also expected to reduce inflation in the rest of the world, unlike in the U.S., where tariffs have spurred a jump in inflation expectations.

"Before Covid happened, the psychology was one of very low inflation in Europe. The risk is you go back to that kind of world rather than the higher inflation that has dominated over the past two or three years," Raithatha said.

The European Central Bank and Bank of Korea are both expected to deliver quarter-point reductions on Thursday. Switzerland's central bank isn't scheduled to meet again until June, but some investors believe it could deliver an emergency rate cut to help bring down its currency.

The franc has risen more than 10% this year against the dollar, raising the specter that the country will face deflation, while also making its signature exports such as watches and high-precision machinery more expensive.

The Bank of Japan hit pause on its interest-rate-increase campaign in March, and investors have pared back bets on future rate rises. Bank of Japan Gov. Kazuo Ueda said Wednesday that tariffs are moving closer to a "bad scenario" that could lead the central bank to respond.

China has let its currency move close to its weakest level against the dollar in years.

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