



How is 2026 US monetary policy reshaping the global economic landscape?

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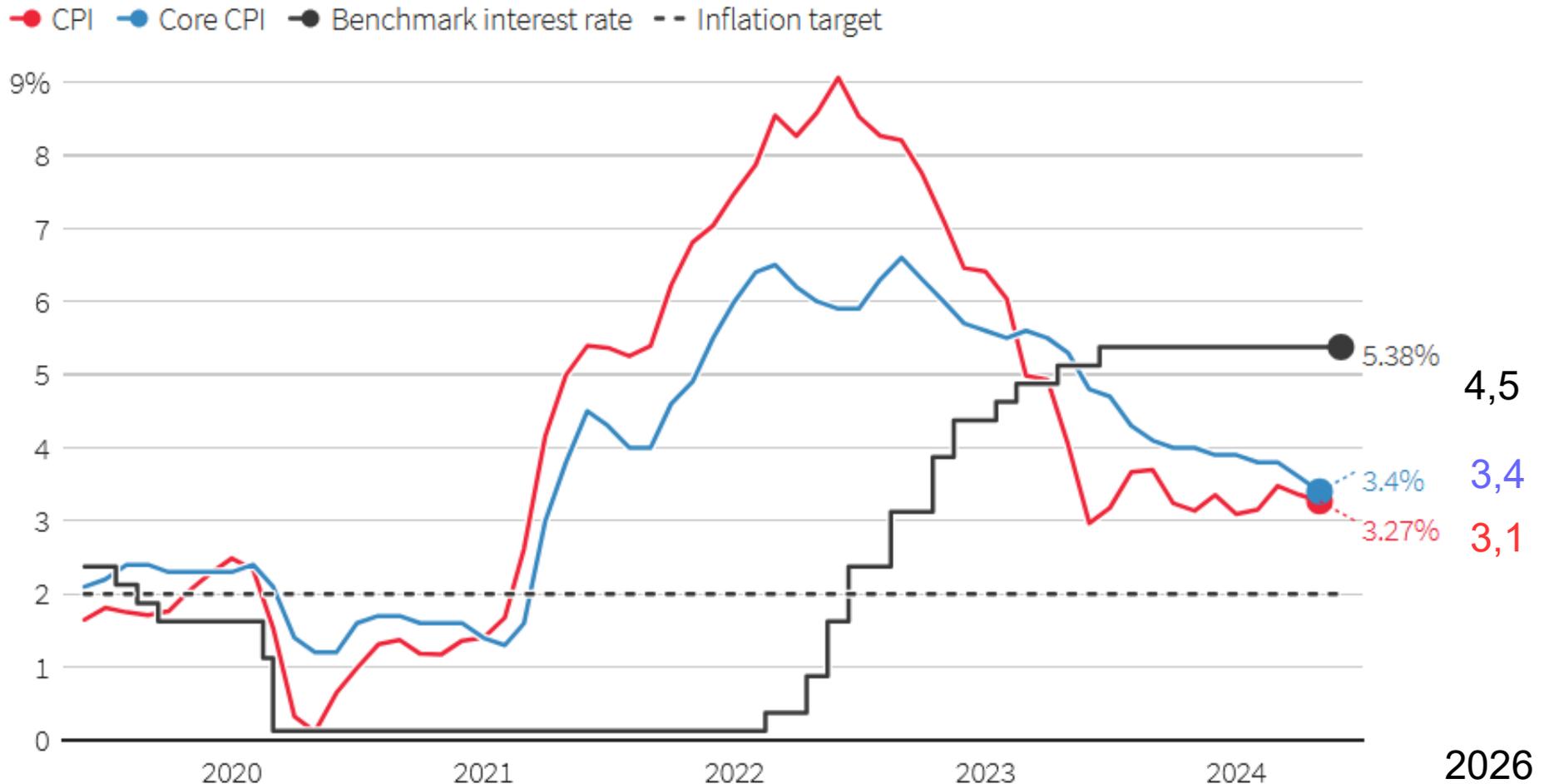
# The US Federal Reserve

The Fed controls the dollar interest rate – which effects the value of the dollar

- Standard Keynesian monetary control – the interest rate goes up when inflation goes up, and vice-versa
- BUT – most international commodities are priced in dollars and much international debt is in dollars
- A strong dollar makes imports cheaper, exports more expensive.

# US inflation and interest rates

Benchmark interest rate and year-on-year change in CPI inflation



The benchmark interest rate is the midpoint of the federal funds target rate. Published June 12, 2024 at 7:41 PM GMT  
Sources: Bureau of Labor Statistics, LSEG

CPI – Consumer Price Index. Core CPI – CPI minus food and energy

# Comparing the USA and the Eurozone

## USA vs Eurozone — CPI & Interest Rates (2020-2026)

Year	 US CPI	 Fed Rate	 Eurozone CPI	 ECB Rate	What the world economy looked like
2020	~1.2%	~0.00–0.25%	~0.3%	-0.50%	Pandemic collapse, emergency stimulus
2021	~4.7%	~0.00–0.25%	~2.6%	-0.50%	Reopening boom, supply shortages begin
2022	~8.0%	~0% → 4.25%	~8.4%	-0.50% → 2.50%	Energy crisis, Ukraine war shock
2023	~4.1%	~5.25–5.50%	~5.4%	~4.00%	Peak tightening worldwide
2024	~3.4%	~5.25% → 4.75%	~2.8–3.0%	~4.00% → 3.75%	Inflation cooling
2025	~3.1%	~4.75% → 4.50%	~2.4–2.6%	~3.75% → 3.25%	Slow normalization
2026	~3.0–3.2%	~4.25–4.50%	 ~2.2–2.5%	~3.00%	New higher-rate world

Source ChatGPT

# Trump vs the Fed

Trump wants the Fed to lower IR (and hence weaken the dollar) faster to improve exports, reduce imports, reduce debt servicing (10YB 4.5%) (deficit 6.5% GDP, Debt 124% GDP) and increase consumption – especially housing.

Trump is not allowed to remove Powell, the head of the Fed (put there by Trump!)

The Fed wants to move more slowly since inflation (3.4%) is still higher than the inflation target (2%)

# Effect on the world

The 2026 budget and keeping a high IR to maintain a strong dollar increases imports (what Trump does **not** want) and weakens exports – hence a negative Balance of Trade (Winners and Losers)

- Countries such as Turkey, Argentina, Egypt, Nigeria and South-East Asian countries have borrowed in dollars and must service their debt in dollars. They suffer.

# Effect on Europe

Higher US yields (10YB) attracts money to the US. The Euro weakens vs the dollar, energy imports cost more. Dangerous for the EU to lower the IR and weaken the Euro.

Countries are starting to trade in local currencies, not dollars. They accumulate gold rather than dollars.

- For 15 years, we have had cheap money. The future will be expensive money.

# The Winners

## Dollar-Energy-exporting countries

### Big winners

- Saudi Arabia
- United Arab Emirates
- Qatar
- Norway
- Canada
- Australia
- Brazil
- Chile



# Other winners

## Countries

- Mexico
- India
- Vietnam
- Indonesia
- Poland
- Brazil

They benefit from

De-globalisation

Supply-chain diversification

Young labour forces

Attract factory relocation

# Partial

# Losers

- China
- Turkey
- Egypt
- South Africa

They rely on

Cheap global credit

Construction booms

External dollar funding

# Losers

- Argentina
- Lebanon
- Pakistan
- Sri Lanka
- several frontier African economies

They have

Dollar denominated debt

Weak currencies

Poor exports

Dependence on imports

# Questions?

