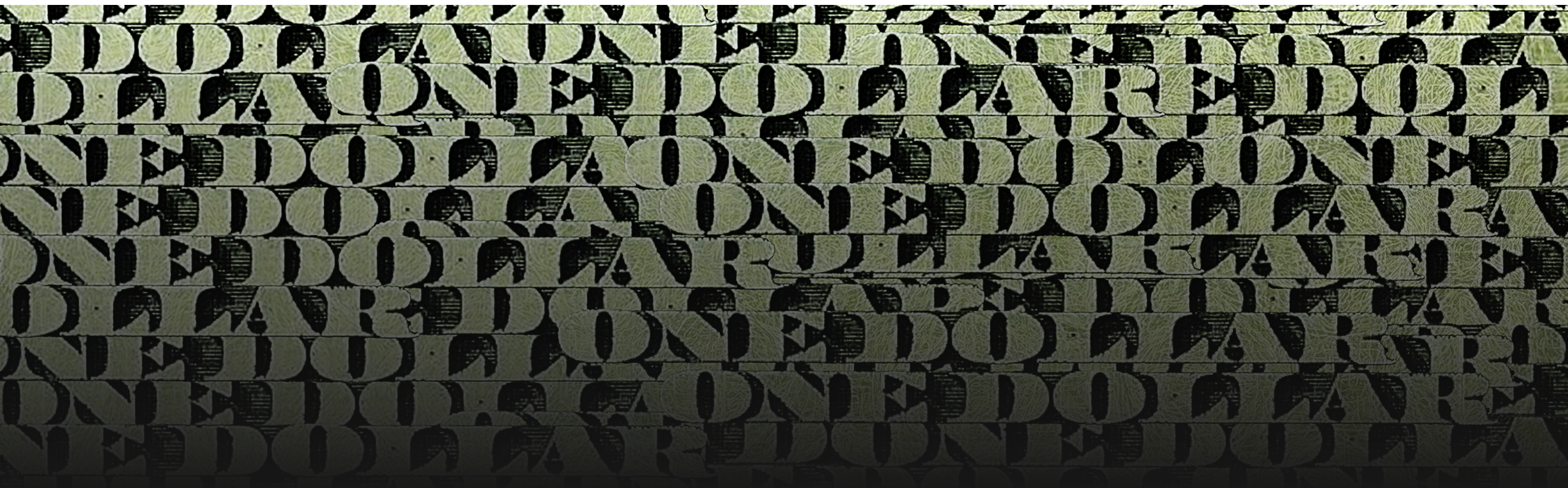

Stephanie Rickard April 11th, 2025

Two sides of the same coin – the consequences of Trump's tariffs for the currency markets

***Professor Stephanie Rickard** examines the impact of Trump's tariffs on the US Dollar and Chinese Yuan and the possible consequences for their respective economies.*

This week, the United States raised tariffs to levels not seen in more than a century. These tariffs will almost certainly raise the price American consumers pay for a wide range of imported goods. But so too may the value of the US dollar.

The value of the US dollar has been falling since President Trump began introducing new tariffs after he took office for the second time in January 2025. The value of the dollar dropped especially sharply following the announcement of so-called "reciprocal" tariffs, which were much higher than expected. The April 2 announcement triggered a drop of over 2% in the value of the dollar – the sharpest single-day fall in nearly a decade.

When the dollar's value falls, it buys less of other currencies. This is called depreciation, (or weakening or devaluation).

A weakening US dollar has several consequences. First, the country's buying power shrinks. Americans may find imported goods more expensive, holding constant the price effects of new tariff. Even imported goods facing no new tariffs may now cost American consumers more because the dollar buys fewer pesos, euros, yuan, etc. By pushing up the prices of foreign products, a falling dollar can also add to overall inflation.

Second, when the dollar depreciates, it becomes relatively cheaper for foreigners to buy US goods and services.

Third, a weaker dollar can be an advantage for American producers, by making their exports more affordable. A weaker dollar also helps US manufacturers and farmers who compete with foreign products at home, because the imported products become relatively more expensive.

In short, a weak dollar helps US producers but hurts American consumers.

Will China devalue?

Since devaluation lowers consumers' purchasing power, it's no surprise that governments in democratic countries usually steer clear of currency devaluations, especially right before elections. They worry that the negative effects of currency devaluation on consumers could cost them support at the polls.

But facing steep US tariffs of over 100%, what might China do? Might they devalue the yuan?

Countries that are trying to encourage exports prefer to keep their currencies weak, and China has long pursued export-led growth. The massive tariffs the US imposed on China this week may limit the viability of an export-led growth strategy.

Currency values are notoriously difficult to predict, and today's volatile global markets make this daunting task even more difficult. But it is interesting to note that the value of the yuan fell to a near 17-year low on April 9, after US tariffs of more than 100% on Chinese goods took effect. Goldman Sachs predicts that Chinese policy makers will focus on "managing the pace of depreciation". Watch this space.

About the author

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Stephanie J. Rickard is a Professor of Political Science at the London School of Economics in the Department of Government. She earned her PhD at the University of California, San Diego and her BA at the University of Rochester. Her research examines the effects of political institutions on economic policies and appears in journals such as International Organization, The Journal of Politics, British Journal of Political Science, and Comparative Political Studies.

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