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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

# Global Risk Watch Newsletter

## “Winners” and “Losers” in the New Trump Presidency, etc.

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#### # “Winners” and “Losers” in the New Trump Presidency (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy (CRMS) at Deloitte Touche Tohmatsu LLC/Deloitte Asia Pacific Risk and Capital Management Leader)

While the world has become increasingly accustomed to “unexpected” events, with this month’s event, the “expected world” may itself have started to be seen collapsing. Mr. Trump’s victory in the U.S. presidential election was astonishing enough to provoke this sense of uncertainty. Though his remarks on policies have been gradually adjusted to reality, his fundamental values, such as protectionism, isolationism, and anti-immigration, undermine the conventional American policies, and, to a certain extent, will remain unchanged as long as he does not betray his white middle-class supporters.

It was also “unexpected” for many to witness the markets’ fanatic reaction to this “unexpected” event. Just after the election outcome turned out, the Japanese market reacted to the increased uncertainty with the dollar weakening against the already strong yen, and consequently declining stock prices. A few hours later in the U.S. and the following day in Japan and Europe, however, the markets experienced the inverse with dollar appreciating against other currencies including the yen and hikes in stock prices. It was rising fiscal expenditure, massive tax reduction, and also deregulation of financial and energy industries, all advocated by Mr. Trump, which the markets expected to enhance the economic growth and induce a rise in interest rates. This contributed to a stronger dollar and higher stock prices, which consequently helped currency depreciations in Japan and Europe and their stock price hikes. On the other hand, emerging countries including China are concerned that the U.S. protectionism would unwind their growth pattern buoyed by external demand. Their currencies were also depreciated with the U.S. high interest rates having caused capital outflow from those countries. Depreciation of local currencies serves

in favor of Japan and Europe that are long facing the zero bound of monetary policy. For emerging countries, however, this could become a catalyst for a financial and sovereign debt crisis. Furthermore, if deregulation of the U.S. energy industry brings about an increase in shale oil production, a pressure for lower crude oil prices would be reinforced and this may overwhelm the economies of the resource-rich countries who had finally seen a sign of stabilization recently.

Thus, from the short-term point of view, the new President Trump, at least in the economic aspect, has created 'Japan and Europe as the winners' and 'emerging economies as the losers'. From a geopolitical viewpoint, however, we see another picture. Mr. Trump's isolationism and conciliatory attitudes toward Russia are feared to evoke the review of its security relations with Japan and South Korea, and to decrease its contribution to NATO (North Atlantic Treaty Organization) in Europe. In this case, it would be China and Russia which enjoy more room to unroll their diplomatic and military strategies in East/Southeast Asia and Eastern Europe/Middle East respectively. In this geopolitical space, they are the winners, and Japan and Europe turn out to be the losers as a result of Mr. Trump's victory.

It should be noted that the above composition might completely change once Mr. Trump's actual policies come into place. As the realistic policies began to appear, the frenzy in the market seen thus far is likely to fade away. Either way, considering the latest patterns, it would be wiser to avoid the risk of persisting in narrow-minded "expectation."

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