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Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC.

Global Risk Watch Newsletter

Will the reality TV show becomes your new reality?, etc.

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3. Highlight of Indicator for this Month

US corporate profit and the strong dollar (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

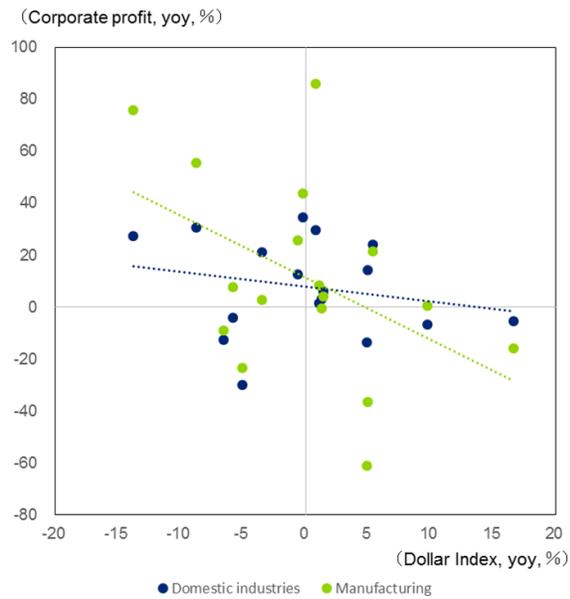
The President Trump has been inaugurated, and the whole world is anticipating the policies under the new administration. In regards to the relations with Japan, among a several issues such as on the diplomatic front, measures on trade policy and the strong dollar have been the key topics recently. President Trump made remarks that the dollar is too strong before taking the oval office, thereby leading the market to sell-off the dollar. For the US economy where personal consumption accounts for 70% of GDP, the strong dollar should be welcome as a positive factor to increase the purchasing power, whereas a negative factor for exporting companies and undermine the competitiveness in the trade area. By looking at the relationship between currency exchange and exports in the past, especially since 2014, it seems that the dollar exchange rate and the export value are linked with a lag of several months. In addition, corporate profit data from the US Department of Commerce Bureau of Economic Analysis (BEA) indicates that the manufacturing sector is needless to say, in overall, corporate earnings are declining during the year of strong dollar. This may also suggests that economic downturn and risk-off trends occurred during the same time, while foreign local currency revenues could have been reduced by dollar conversion. The newly appointed Treasury Secretary Mnuchin stated that strong dollar will be beneficial for the US in the long-term. Regarding the impact of the new administration's plans on economic policy, and trends of monetary policy on how the strong dollar will affect corporate profit, it depends on what kind of stance that the new administration will take to control the strong dollar in check.

Chart1 : FX Market vs Export



(Source) US Census Bureau, Deloitte Touche Tohmatsu LLC.
 *USD index indicates USD rise

Chart2 : US FX Rate vs Corporate Profit



(Source) US Department of Commerce Bureau of Economic Analysis (BEA), Bloomberg, Deloitte Touche Tohmatsu LLC.
 *Data between 1999 and 2015

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