Flash Economics

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Are there any signs of waning demand for US dollars or public debt?

We're questioning a possible pullback in demand for US dollars or government debt. This decline would be linked to investor concerns about the effects of the economic policies pursued by the Trump administration (higher tariffs, rejection of immigration, rejection of the dollar's role as a reserve currency).

A decline in demand for dollars would be evidenced by a depreciation of the dollar exchange rate unrelated to an anticipated drop in US short-term interest rates.

A decline in demand for Treasuries would be reflected in a rise in long-term interest rates in the United States, unrelated to a similar movement in short-term interest rates.

We conclude that both the demand for dollars and the demand for US government securities have declined, but not massively.

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A risk often discussed

The economic policies pursued by the Trump administration (sharp rise in tariffs, rejection of immigration, preference for a weak dollar) **will**, if continued, **weaken U.S. growth** (anticipated inflation, **Chart 1**, being systematically linked with a decline in household consumption, **Chart 2**).

Chart 1
United States: Consumer's inflation expectations for the year ahead (as %,)

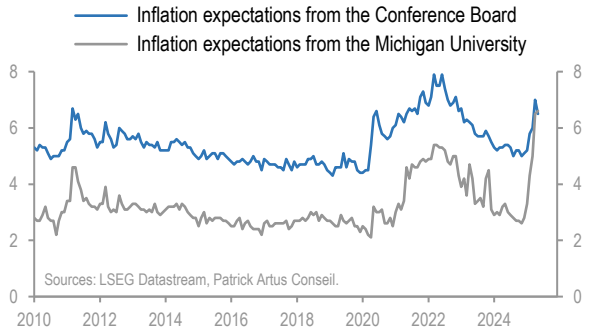
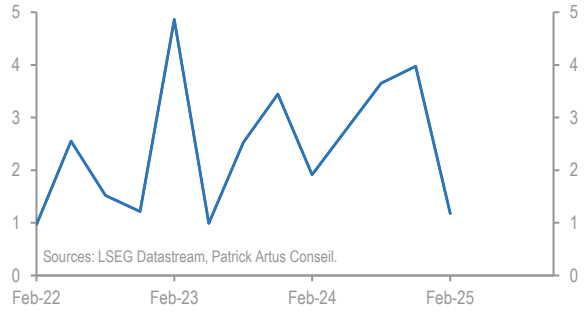
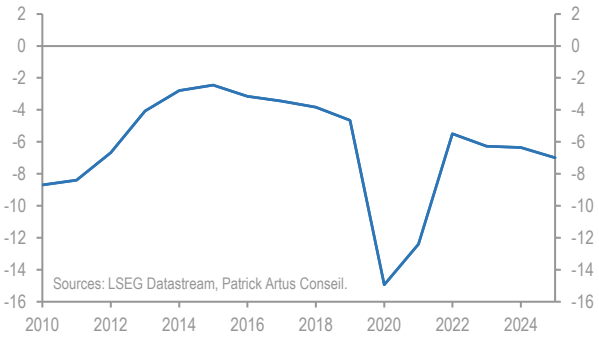


Chart 2
United States : Household consumption (in volume terms, Q/Q as % annualised)



What's more, **Donald Trump's tax plans** (extension of the Tax Cuts and Jobs Act provisions, additional cuts in local taxes, tax cuts on tips and corporate profits) **will**, if implemented, **lead to a sharp rise in the already very high public deficit** (**Chart 3**).

Chart 3
United States: Budget deficit (as % of nominal GDP)



If we also take into account the **institutional risks** (preeminence of the executive branch over the legislature and the judiciary, threats to the independence of the Central Bank), we can see that there is a **risk of a decline in the demand for dollars** (alongside weak growth and the temptation to call into question the dollar's role as reserve currency) **and a decline in the demand for US public debt** (owing to very high public deficits and threats to the rule of law).

Are there any signs of a decline in the demand for dollars?

A decline in the demand for dollars would be evidenced by **a depreciation of the dollar unrelated to an anticipated drop in short-term interest rates in the United States**.

When considering the 3-month interest rates expected for the end of 2025 and the end of 2026 (**Chart 4**) and the 2-year interest rate (**Chart 5**), we see a slight expected fall in short-term interest rates.

Chart 4
United States: Eurodollar contracts (3-month)

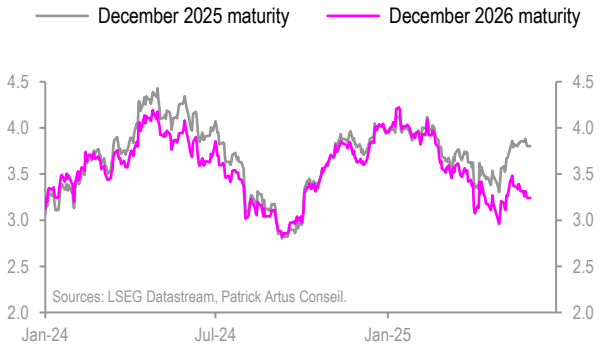
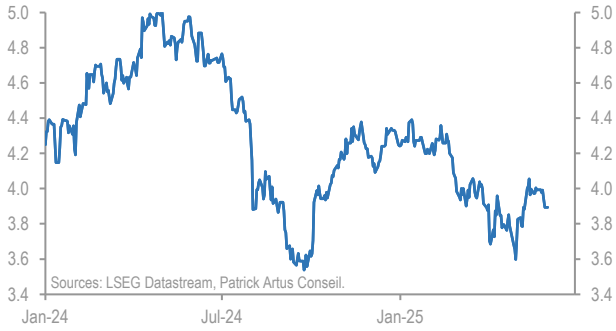


Chart 5
United States: Interest rate on 2-year government bonds (as %)



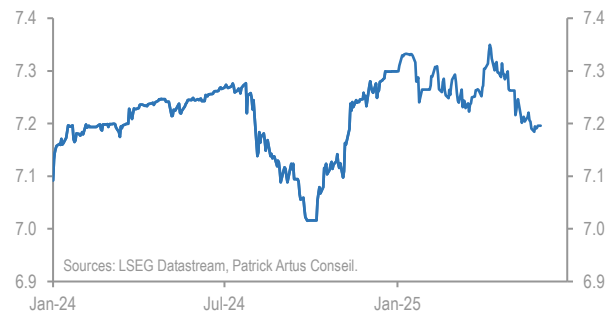
Since January 20, 2025 (inauguration of Donald Trump), **the dollar's depreciation against the euro** (**Chart 6A**) **has been clear but not very sharp; the dollar's depreciation against the RMB is very slight** (**Chart 6B**).

The eurozone and China have lowered their interest rates, so this depreciation of the dollar cannot be associated with a more expansionary monetary policy in the United States than in the rest of the world.

Chart 6A
Euro/dollar exchange rate (EUR 1 = USD...)



Chart 6B
United States : Exchange rate against RMB (USD 1 = RMB...)



All in all, there has been **a drop in international demand for dollars**, because the stance of US monetary policy should have implied an appreciation of the dollar.

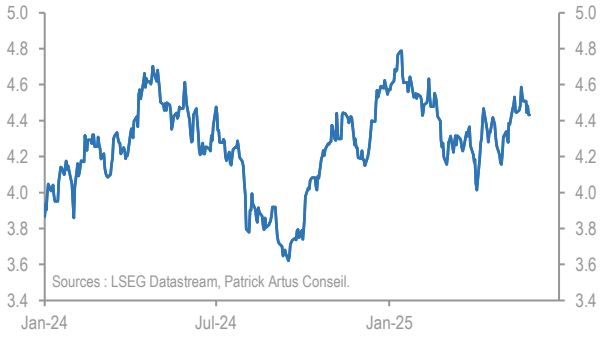
This depreciation of the dollar remains limited, however, because **trade negotiations** between the United States and other countries have resulted (United Kingdom), or are very likely to result (Europe, China) in tariffs much lower than those put in place at the beginning of April 2025.

Are there any signs of falling demand for Treasuries?

A decline in demand for Treasuries would be seen in a **rise in long-term interest rates**, or **resistance to declining interest rates** relative to short-term interest rates or long-term inflation expectations.

Chart 7 shows **10-year interest rates on US public debt**.

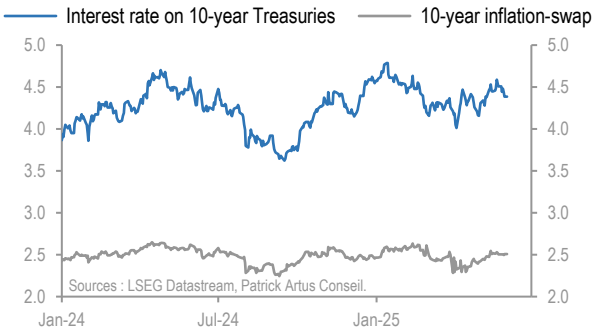
Chart 7
United States: Interest rate on 10-year Treasuries (as %)



When we compare **10-year interest rates with 2-year interest rates or anticipated 3-month interest rates** (**Charts 4 and 5 above**), we see a widening gap between long-term and short-term interest rates.

When we compare **10-year interest rates and expected 10-year inflation** (as measured by the 10-year inflation swap), **Chart 8**, we see that the rise in long-term interest rates in the recent period is not due to a rise in expected inflation.

Chart 8
United States: Interest rate on 10-year Treasuries and 10-year inflation-swap (as %)



All in all, **the persistently high level of 10-year interest rates on US public debt**, if we also take into account the weakening of expected growth (**Chart 9**), with a steepening of the yield curve since March 2025, **seems to indicate a decline in demand for US public debt**, probably linked to the decline in demand stemming from non-European non-residents (**Chart 10**).

Chart 9
United States: PMI composite (index)

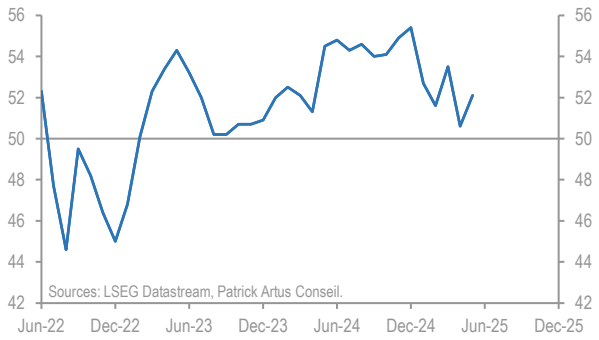
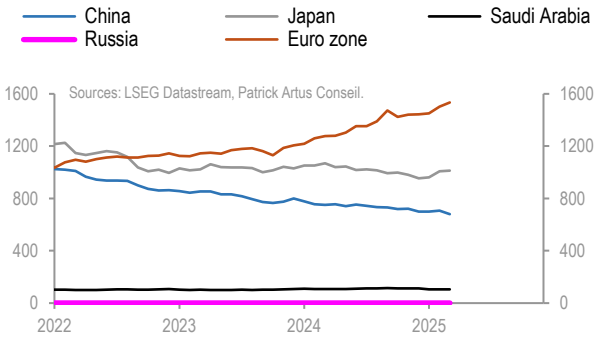


Chart 10
United States: Holdings of Treasuries by country (USD bn)



Summary: A waning demand for US dollars and public debt, but one that remains limited

We therefore conclude that both the demand for dollars and the demand for US government debt have weakened since the election of Donald Trump.

These moves can be seen in the decline in the dollar exchange rate and the rise in long-term interest rates on US government debt, which cannot be explained by other mechanisms (in particular US monetary easing).

But the size of the decline in demand for dollars and Treasuries remains fairly small, and does not call into question the dollar's role as the dominant currency or the leading role of US public debt.

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