

# Press Release

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## **U.S.-China Trade War Likely to Weaken Dollar vs. Yuan Over Time, Says MUFG Americas' Head of Trading**

*U.S.-Japan Trade Dispute in 1980s-90s  
Seen Offering Striking Parallels, Historical Precedent*

**NEW YORK, JULY 2, 2019** – The U.S. dollar will likely weaken over time against the Chinese yuan as a result of the trade war between the two nations, and it may take years before they reach a comprehensive trade deal, said **Kuniyuki Hirai**, Managing Director and Head of Trading in the Americas for Mitsubishi UFJ Financial Group (MUFG), Inc.

Mr. Hirai delivered his comments to financial journalists at a recent session of *MUFG Explores*, an issues-based media series featuring MUFG subject-matter experts, at the bank's New York offices on June 20. He based them in part on the parallels between the current dispute and that of the U.S.-Japan trade conflict of the 1980s and 1990s.

Mr. Hirai stated that the greenback's value would probably decline versus the yuan in the foreseeable future despite the prospect of China's economy suffering more than America's as the trade dispute lingers. He believes that, if the Chinese economy weakens during the current trade dispute as significantly as Japan's economy during the U.S.-Japan clash, China could pull back from its investments abroad, including those in the U.S. "Such a retreat, resulting in a massive selling of dollars and its potential conversion to Chinese currency, could strengthen the yuan's value versus the dollar," Mr. Hirai said.



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He also expects it will take years before the U.S. and China reach a comprehensive trade deal. He points to the U.S.-Japan trade row, which lasted more than a decade during a time when Japan was the world's second-largest economy; China currently boasts the No. 2 economy in the world, behind the U.S.

"Trade wars are typically protracted, especially if they occur between trading partners that are the world's largest and second-largest economies," said Mr. Hirai. "They also tend to be complex, wide in scope, and driven not just by trade, but also by industrial policy, domestic politics, geopolitics and intellectual-property disputes."

"Periodic negotiations and agreements on matters such as tariffs would be positive developments in the interim, as we've seen in the progress made at the recent G20 Summit, but a comprehensive accord may still take time to achieve," Mr. Hirai added.

### ***A weaker dollar preferred***

Citing the Plaza Accord of 1985, in which the U.S. and four other nations agreed to jointly weaken the dollar as a result of the U.S.-Japan trade war, Mr. Hirai said: "In the decade following the Accord, the dollar depreciated nearly 70% against the yen. A similar currency agreement between the U.S. and China could lift the yuan to its highest level vs. the dollar in more than five years."

Mr. Hirai noted that China's economy has shifted its emphasis from growth driven by exports, in which a weaker yuan would be advantageous, to growth led by domestic consumption, whereby a stronger yuan would make imports cheaper.

"China has an interest in not letting the yuan weaken too much against the dollar," he said. "The U.S. shares that preference as a weaker dollar makes American exports to China more competitive."

MUFG is the world's fifth-largest financial institution by assets, with approximately \$2.7 trillion. It is also one of the biggest market-makers in the foreign-exchange business, with trading hubs in the U.S., Europe and Asia that execute and participate in large-scale transactions for its institutional clients. MUFG Bank recently became the first Japan-based financial institution to be designated a yuan-clearing bank by China's central bank.

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## **About MUFG (Mitsubishi UFJ Financial Group, Inc.)**

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