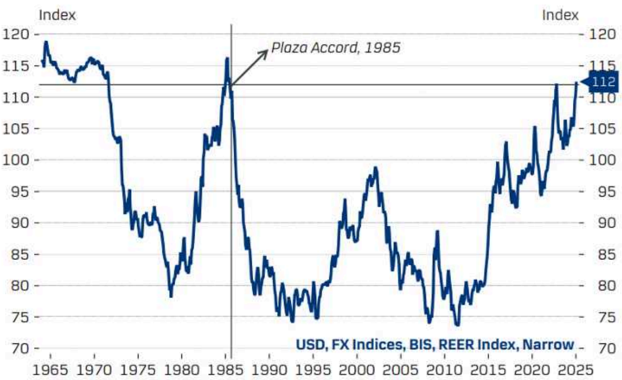
The Mar-a-Lago *Accord:* Addressing Dollar Dominance and Global Economic Challenges

Insights

One topic that has garnered investors' interest in recent months is the so-called "Mar-a-Lago Accord". This idea was brought closer to market attention by a discussion paper last November by Stephen Miran, who has been recently confirmed as chair of the Council of Economic Advisers. The Mar-a-Lago Accord is premised on the view that the dollar's global dominance is detrimental to the US economy, which unnatural demand led to gross overvaluation in the dollar.

A key historical reference for a "Mar-a-Lago Accord is the Plaza Accord of September 1985, signed by the US, Japan, West Germany, France and the UK. At that time, the dollar was significantly overvalued, making US exports uncompetitive and widening the trade deficit – a situation similar to today. The five nations coordinated FX intervention to weaken the dollar, leading to a 50% depreciation against the JPY and D-Mark. This devaluation boosted US export competitiveness and improved the trade balance. However, the Plaza Accord eventually led to Japan's subsequent asset bubble, which contributed to its 1990s financial crisis.

Chart 1 : Time for another Accord?



Source: Macrobond Financial, LSEG, Danske Bank

A combination of two motivations forms the underlying premise of "Mar-a-Lago Accord". The first – often described by the Triffin dilemma – is a view that the US is forced to run trade deficits in order to meet global demand for reserves due to the dollar being the global reserve currency. This creates tension between the need to provide global liquidity and maintain domestic economic health, leading to an over-valued dollar. Ultimately, US manufacturing and workers bears the cost of this arrangement as cheaper imports displace domestic production. A second key part of the view is that the US not only underpins the global monetary system but also bears the cost of extensive global security guarantees. As the global economy grows, the resulting system adds to excessive US debt accumulation that in turn raises concerns about sustainability and vulnerability to higher interest rates.

Key elements of Mar-a-Lago accord implementation

Mar-a-Lago Accord addresses interconnected issues such as dollar overvaluation, trade deficit, cost of the global security umbrella and the increasing debt burden in a novel way that consist of several elements. The first element is **coordinated currency realignment**, where the US would negotiate with or without pressure on major economies to strengthen their currencies relative to the dollar. This could be achieved through FX intervention or through the alignment of monetary policies. The second element involved the **restructuring of US debt** held by foreign official entities by converting their Treasury holdings into non-marketable 100 years zero-coupon bonds, known as **'century bonds'**. This conversion aims to alleviate the strain on public finances from the rising interest payments relative to GDP. To encourage such debt maturity extension, the US can **extend central bank swap lines or repo facilities**, so cooperating nations can access liquidity and mitigate risks of holding ultra-long debt by being able to borrow against the par value of the Treasury bonds. The third element is **using the US global dominance as leverage**. The US could potentially use tariffs and the US security umbrella in a stick and carrot approach. For instance, access to the US market and US security commitments can be made conditional on participation in the agreement.

Practical obstacles of implementing Mar-a-Lago Accord

Coordination difficulties with the other G7 economies have increased compared to the Plaza Accord 40 years ago. A major issue is the level of trust, with traditional US allies seeing the new administration as pursuing a more zero-sum approach to foreign policy and trade relations. In addition, such a move would present a major break from the monetary system of recent years, reversing the G7 move towards flexible market exchange rates and likely requiring some coordination of monetary policy for it to succeed over time.Coordination difficulties with the other G7 economies have increased compared to the Plaza Accord 40 years ago. A major issue is the level of trust, with traditional US allies seeing the new administration as pursuing a more zero-sum approach to foreign policy and trade relations. In addition, such a move would present a major break from the monetary system of recent years, reversing the G7 move towards flexible market exchange rates and likely requiring some coordination of monetary policy for it to succeed over time.

Another major coordination challenge stems from China's much larger role in the global economy. China would have an important role to play in any FX realignment, but its geostrategic rivalry with the US and a focus on industrial policy and exports make its participant appear unlikely. Lessons from Japan's bubble, weighing on its industrial leadership and contributing to the debt-deflation trap that emerged a decade later – are unlikely to incentivize Chinese cooperation. In addition, China being the second largest US treasuries holdings on foreign official reserves, poses practical limitation on the conversion into ultra-long Treasuries.

Chart 2 : List of US treasuries holders

Country	December 2024 (USD)
Japan	$1T
China	$759B
UK	$723B
Luxembourg	$424B
Cayman Islands	$419B
Canada	$379B
Belgium	$375B
Ireland	$336B
France	$332B
Switzerland	$289B
Taiwan	$282B
Hong Kong	$255B
Singapore	$249B
Total	**$8.5T**

Potential market and economic implications

One immediate impact with high uncertainty would be a sharp and significant initial depreciation in the dollar. However, the end effect on the dollar and interest rates would be dependent on the Fed reaction function. Higher inflation stemming from a weaker dollar could push the Fed to maintain a more hawkish policy stance. However, the Fed could also adopt a more dovish stance if risk assets were to view this negatively, which will push the interest rate path lower and support a steeper US Treasury curve. Another point to note is that for FX interventions to be sustainable, international coordination is key. Hence, the actual make-up of the accord participants and their commitment level would be relevant, both for individual currency pairs and the dollar more broadly.

On the bond markets, the implication would depend even more on the details of any possible Treasury extension/swap or other steps to try and limit the increase in yields. At face value, the debt swap proposal would effectively see a reduction of short end US Treasury and increase in long end US Treasury. Our expectation is that this would result in lower US rates and a steeper US Treasury curve. Historically, the aftermath of the Plaza accord saw lower rates though this was likely due to slowing US economic growth and Fed rate cuts in 1985-86.

In terms of direct economic impact, the depreciation of the dollar would likely lead to a narrowing in the trade deficit as demand for exports rises and imports fall, which would provide incremental support for the US manufacturing sector. That said, we are skeptical that this would lead to a significant reshoring of manufacturing jobs. The positive impact from the manufacturing sector on the US economy might be more mitigated. Additionally, higher inflation would reduce consumer welfare and consumption. Secondly, a risk-off event would likely lead to less business investment, hiring and consumption through a negative wealth shock.

Conclusion

While the Mar-a-Lago accord might be feasible on paper, it would require an extraordinarily deft mix of economic statecraft, alliance management and market calibration to succeed, which we see as rather unlikely to be practically implementable. The recent US tariffs development with the Trump administration imposing a uniform base tariff of 10% and an additional reciprocal tariff on individual trading partner, should all but eliminate the possibility of the Mar-a-Lago accord. The imposed tariffs have led to a further dollar weakening driven by further unwinding of US exceptionalism trades, where part of the goals of the accord is being achieved. According to JPMorgan Chase, the reciprocal tariffs would raise just under USD 400 billion in revenue, or about 1.3% of US GDP, which would alleviate the US fiscal deficit.