

ECON 1550 International Finance

A Tour of the World

Tariff Wars

Nominal Broad U.S. Dollar Index



Sources: [Reuters tariff timeline](#); [White House fact sheet](#) (Feb. 20, 2026); data: [FRED DTWEXBGS](#) (Mar. 20, 2026).

Tariff authorities for executive branch

- **International Emergency Economic Powers Act, IEEPA (1977)**
During declared national emergency
- **Section 232, Trade Expansion Act (1962)** For threats to national security
- **Section 301, Trade Act (1974)** To address unfair trade practices
- **Section 122, Trade Act (1974)** During balance-of-payments emergency

Declared emergencies for IEEPA tariffs

The failure of each country to...

- Canada — “take adequate steps to alleviate the illegal migration and illicit drug crises”
- Mexico — “arrest, seize, detain, or otherwise intercept Mexican drug trafficking organizations, other drug and human traffickers, criminals at large, and illicit drugs”
- China — “blunt the sustained influx of synthetic opioids”

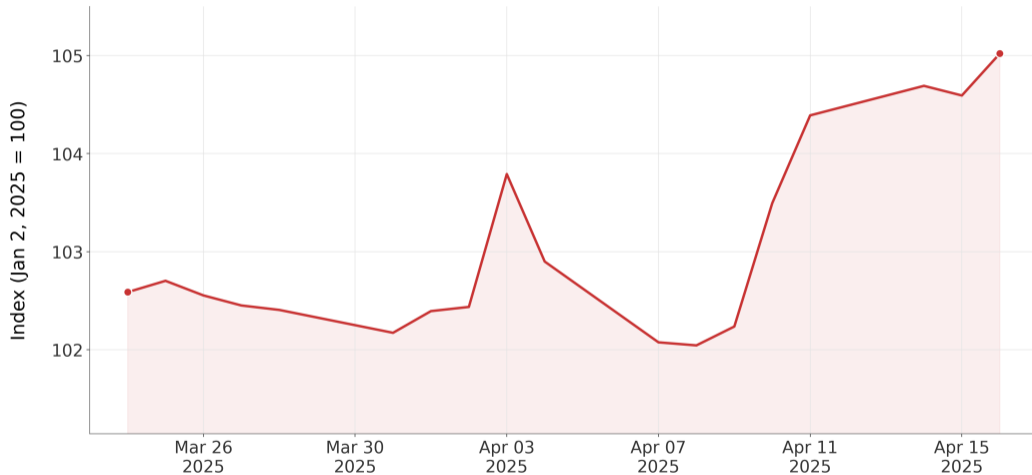
Timeline of major tariff events

	Event	TACO
2025		
Feb 1	25% on Canada/Mexico; 10% on China (IEEPA)	Canada/Mexico delayed to Mar 4
Feb 10	Steel/aluminum to 25%, no exemptions (Sec. 232)	
Mar 4	Canada/Mexico take effect; China to 20%	Mar 6: USMCA-compliant exempt until Apr
Mar 26	25% on autos/parts (Sec. 232)	
Apr 2	“Liberation Day” 10% + country-specific	Apr 9: 10% paused ex China
Apr 9	China raised to 145%	May 12: 30% for 90 days; Nov: 1-yr deal
Jun 3	Steel/aluminum to 50% (Sec. 232); UK stays 25%	
Jul 31	Reciprocal tariffs on ~60 partners (10–41%)	
2026		
Feb 20	Supreme Court strikes down IEEPA tariffs	All IEEPA tariffs terminated Feb 24
Feb 24	10% surcharge on most imports (Sec. 122)	Expires Jul 24, 2026

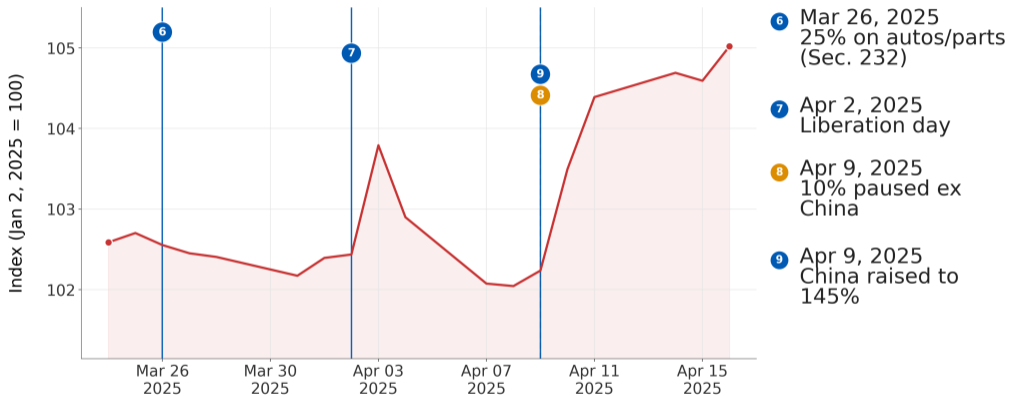
Nominal Broad U.S. Dollar Index



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The dollar fell despite rising tariffs

- Nominal broad dollar index: 129.46 on Jan 2, 2025 → 120.28 on Mar 20, 2026—roughly a 7% depreciation over about 15 months.
- AA-DD model says tariffs should make the dollar *appreciate*
- Yet the dollar weakened through most of the tariff escalation.

Why might tariffs weaken the dollar?

- Retaliation: trading partners imposed their own tariffs
- Duration of tariffs: the IEEPA legal challenge raised questions about tariffs being permanent or temporary
- Uncertainty: frequent reversals, volatile policies
- The overall behavior combines all effects

Retaliation: Not huge

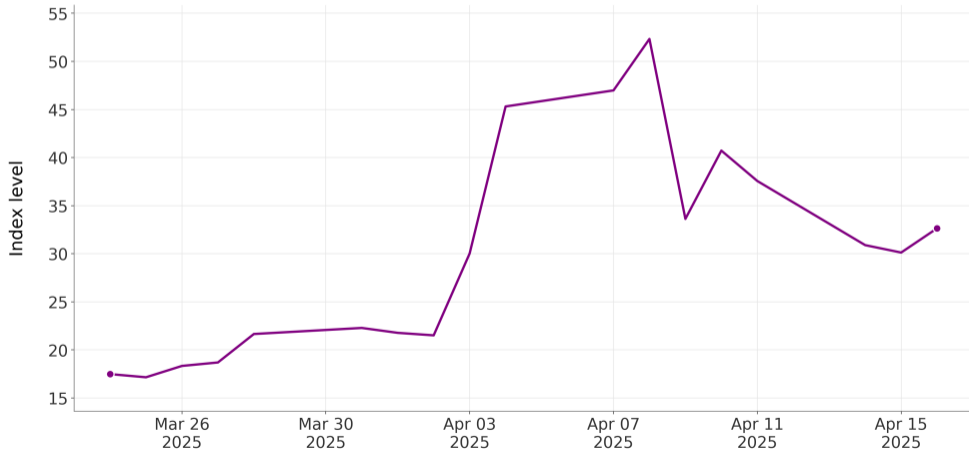
	Before (Jan 2025)	Now (Mar 2026)	Peak (Apr 2025)
On foreign goods entering the U.S.	2.2%	10%	28%
On U.S. goods entering other countries	1.9%	3.2%	—

Sources: Yale Budget Lab (peak); Tax Foundation; WTO tariff profiles; U.S. Census Bureau export data (2024). All figures are trade-weighted averages.

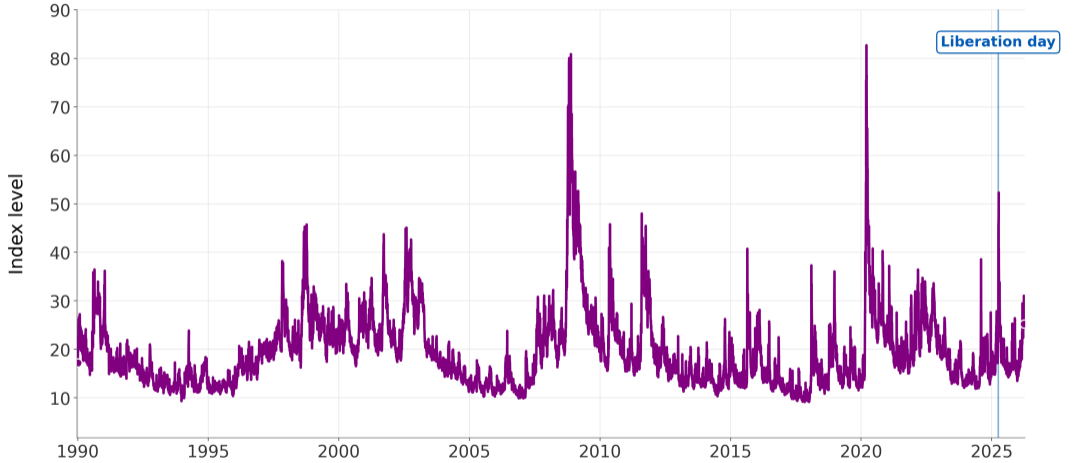
Duration of tariffs: changes size of appreciation only, not direction

Uncertainty: Increase in risk premium

CBOE Volatility Index (VIX)

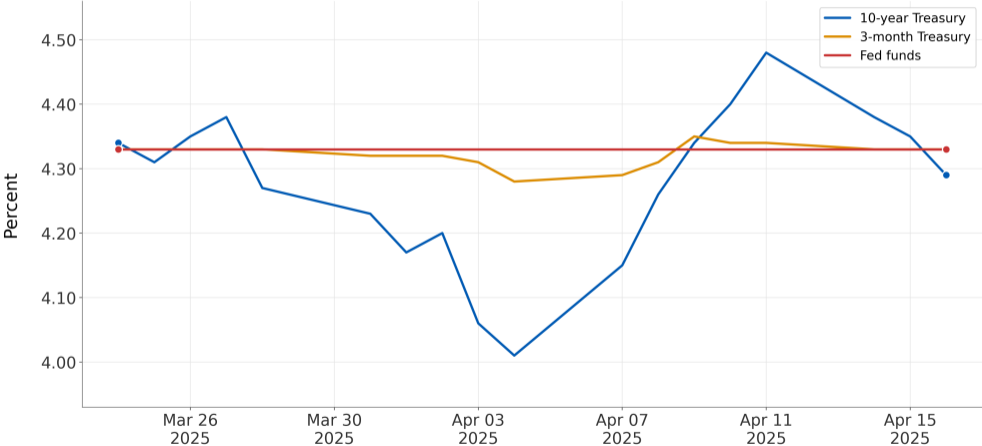


CBOE Volatility Index (VIX)



U.S. rates in the VIX window

Treasury Yields and Fed Funds Rate



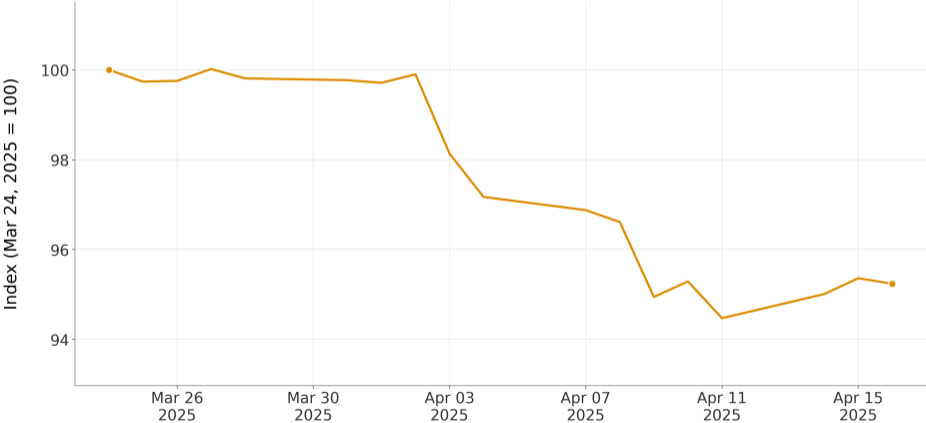
Source: FRED DGS10, FRED DGS3MO, and FRED DFF.

Carry Trade Index: S&P FX Carry G10 TR

- Rank currencies by 3-month interest rate
- Lend in the 3 highest interest rate currencies; borrow in the lowest three
 - 3 highest NOK/GBP/AUD
 - 3 lowest CHF/JPY/SEK
- Rebalanced quarterly

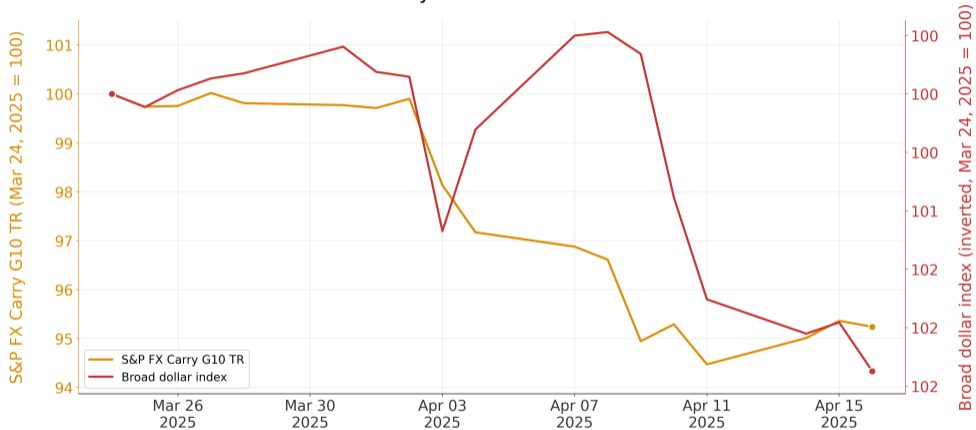
Carry Trade Index: S&P FX Carry G10 TR

S&P FX Carry G10 Total Return



Source: S&P Dow Jones Indices daily total-return index levels for the S&P Risk Premia FX Carry G10 Index (USD) TR. Rebased to 100 on Mar. 24, 2025.

S&P FX Carry G10 TR and Broad Dollar



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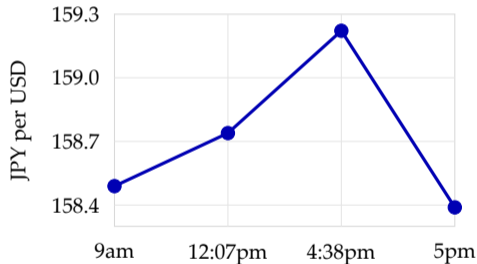
UIP Under Pressure: The BOJ and the Yen

The December 2025 yen episode

- On December 19, 2025, the BOJ raised its policy rate from 0.5% to 0.75%, but the yen weakened rather than strengthened
- The move had been widely telegraphed, so markets had largely priced it in
- Gov. Ueda's cautious, data-dependent guidance did not signal a clearly faster tightening path
- Investors judged the decision as not hawkish enough and pushed USD/JPY higher

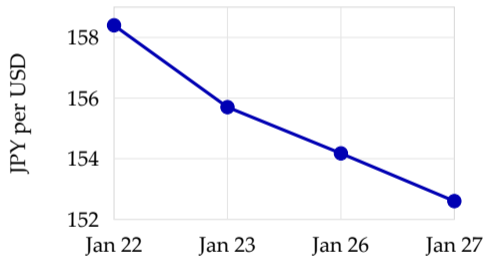
The January 2026 yen episode

Jan. 23 intraday



Yen weakened, then partially reversed

Daily



Yen strengthened sharply

Timeline of the turn

When	What happened	USD/JPY
Jan. 22	BOJ meeting opens.	158.43
Jan. 23, 12:07 pm	Statement: no hawkish surprise. USD/JPY edges up.	158.74
Jan. 23, 3:30–4:38 pm	Ueda press conference: no tightening	159.22
Jan. 23, late U.S.	Expectations of government intervention to prevent yen depreciation	155.72
Jan. 27	Higher interest rates expected	152.21

Why the direction changed

First: why did JPY weaken?

- The BOJ statement and Ueda's press conference signaled lower future interest rates than expected
- Despite no actual change in the interest rate, expected lower interest rate led to depreciation

Then: why did JPY strengthen?

- A NY Fed survey revealed market expects FX intervention to prevent JPY from falling
- Markets now concerned about JPY depreciation
- Depreciation → higher inflation → higher expected interest rates → appreciation

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When Safe Havens Stop Working

Are Treasuries still a safe haven?



Axel Christensen ✓ • 2nd

Managing Director, Chief Investment Strategist Latin Am...

2w • 🌐

 **Connect** ...

The Middle East conflict is upending well-established relationships in global markets.

In past geopolitical crises, long-term U.S. Treasuries would often rally and cushion equity market selloffs. But instead, yields have jumped. That aligns with our view that we are at risk of an inflationary supply shock — not a classic demand-driven slowdown. And why government bonds provide a diversification mirage.

Full AA-DD Model

DD Schedule: $Y = C(Y - T) + I + G + CA(EP^*/P, Y - T, Y^*)$

AA Schedule: $\frac{M^s}{P} = L\left(R^* + \frac{E^e}{E} - 1, Y\right)$

Phillips Curve: $\pi = \pi^e + \alpha(Y - Y^f)$

Definition of inflation: $\pi_t = \frac{P_t}{P_{t-1}} - 1$

Definition of expected inflation: $\pi_t^e = \frac{P_{t+1}^e}{P_t} - 1$

Supply shock vs demand shock

Same shock, different outcome

	Why	Stocks	Treasuries	Dollar	
2008 GFC	More demand for safety	↓	↑	↑	classic hedge
2020 COVID	Scramble for cash	↓	↓	↑	mixed
2025 tariffs	Investors cut U.S. exposure	↓	↓	↓	both failed

The stock-bond correlation flip

