QUICK TAKE

The Winners and Losers from a Stronger US Dollar

1) We expect the US dollar to remain strong in 2017, largely thanks to a solid US economy and a weak outlook outside the US.
2) Over the longer term, the strength of the US dollar will depend on the success of the anticipated fiscal stimulus that will be put forward by the new administration.
3) A strong US dollar negatively affects US exporters and businesses with a high percentage of foreign revenues, which includes technology companies such as Alphabet, consumer staples brands such as Coca-Cola, international retailers such as Walmart and Costco, e-commerce leader Amazon and automobile manufacturers. Retailers that rely on tourism shopping will also be indirectly impacted.
4) US domestic retailers including Kroger, Target and Home Depot, telecommunication companies, energy refinery companies and domestic insurance companies face less pressure from a strong US dollar.

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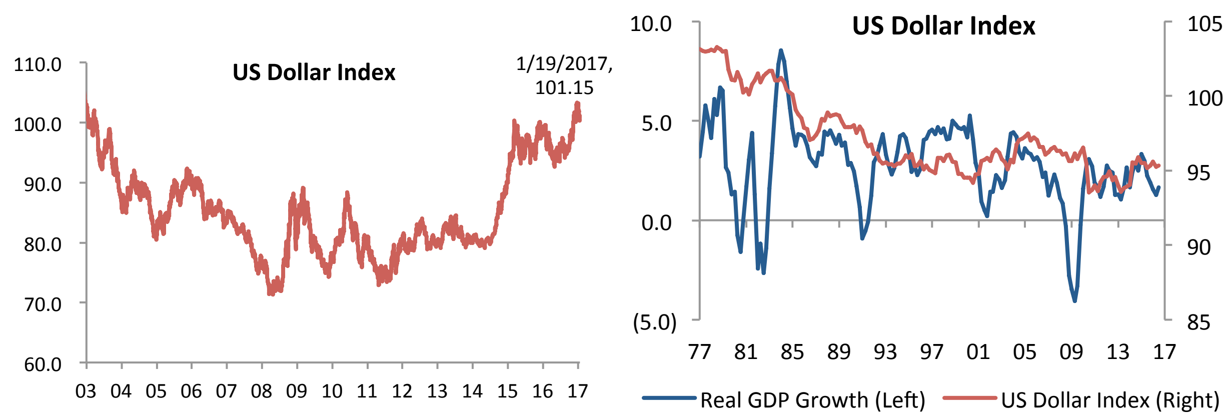
US Dollar Outlook

The US dollar has undergone a strong rally after Donald Trump's election win on November 8. The US Dollar Index, which measures the value of the US dollar relative to a basket of foreign currencies, surged from 97.8 on November 7 to 102.9 on December 28, 2016, increasing by 5.2% to reach its level of 13 years ago, before nudging down to 101.15 on January 19, 2017.

Figure 1. US Dollar Index



Source: Intercontinental Exchange

Historically, the US dollar is highly correlated with the growth of the US economy. Expectations of higher GDP growth fueled by fiscal stimulus have led to a strong US dollar.

Historically, the US dollar is highly correlated with the growth of the US economy. Donald Trump has advocated boosting the US economy with tax reforms, deregulations and $550 billion of infrastructure spending over the next 10 years, aiming to bring GDP growth to 3.5% per year on average with the potential to reach a 4% growth rate. The market, then, has radically shifted its expectations of slow growth and low inflation to a higher-growth and inflation environment, with expansionary fiscal policies replacing monetary policies to stimulate the economy.

Figure 2. Donald Trump's Policies

Infrastructure	
Policy	• Pursue an "America's Infrastructure First" policy that supports investments in transportation, clean water, a modern and reliable electricity grid, telecommunications, security infrastructure and other pressing domestic infrastructure needs.
Transport	• Implement a visionary plan for a cost-effective system of roads, bridges, tunnels, airports, railroads, ports and waterways, and pipelines. • Modernize US airports and air-traffic control systems to end long wait times, and reform the FAA and TSA, while also ensuring that American travelers are safe from terrorism and other threats. • Incorporate new technologies and innovations into a national transportation system such as state-of-the-art pipelines, advancements in maritime commerce and the next generation of vehicles.
Water	• Develop a long-term water infrastructure plan with city, state and federal leaders to upgrade aging water systems. • Triple funding for state revolving-loan fund programs to help states and local governments upgrade critical drinking water and wastewater infrastructure.

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Tax	
Policy	• Reduce taxes across the board, especially for working and middle-income Americans who will receive a massive tax reduction.
Individual Tax	• Reduce the current seven tax brackets to three brackets, topped at 33% versus 39.6% in the current tax system. • Increase the standard deduction for joint filers to $30,000, from $12,600. • Retain the existing capital-gains rate structure with the new three tax brackets. • Repeal the estate tax.
Business Tax	• Lower the business tax rate from 35% to 15%, and eliminate the corporate alternative minimum tax. This rate is available to all businesses, both small and large, that want to retain the profits within the business. • Provide a deemed repatriation of corporate profits held offshore at a one-time tax rate of 10%.
Deregulation	• Reform the entire regulatory code to keep jobs and wealth in America. • Cancel overreaching executive orders. • Eliminate intrusive regulations, like the Waters of the US Rule. • Scrap the EPA's Clean Power Plan that will cost an estimated $7.2 billion a year. • Decrease the size of government with an agency review.

Source: donaldjtrump.com

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We expect the American greenback to remain strong in 2017, largely due to a solid US economy and a weak outlook outside the US. However, market sentiment over the magnitude, form and timing of the pledged fiscal stimulus may bring jitters to exchange rates throughout the year.

Risks to the Further Strengthening of the US Currency

Over the longer term, the sustainability of a strong US dollar depends on the effectiveness of President Trump's policies to boost the US economy, and the following risk factors can impact their success:

1. The magnitude of the fiscal stimulus may not be as big or effective as the market anticipates.
2. There could be political opposition to the proposed policies that hinders the suggested policies being enacted.
3. A long-term negative impact to the economy as a result of proliferating government debt.

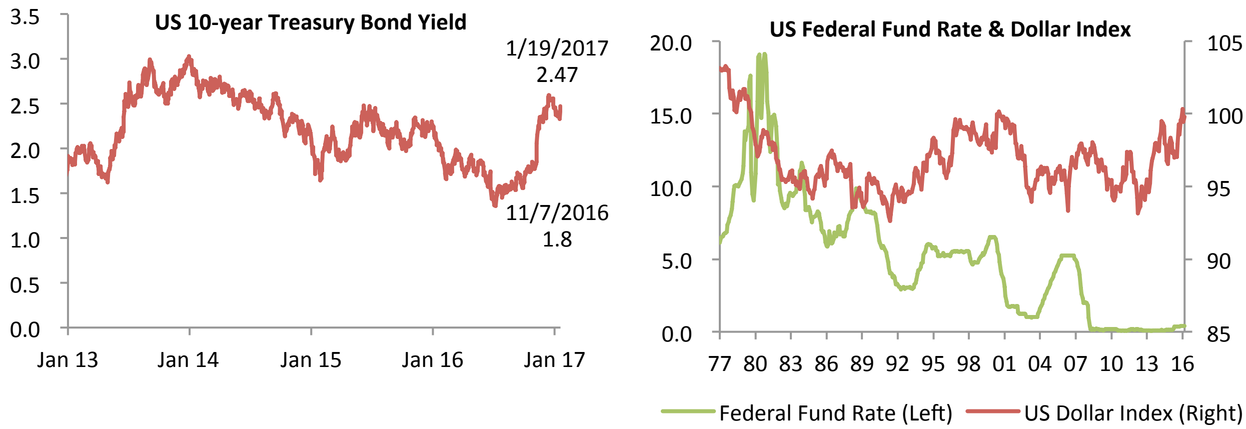
The strength of the US dollar will depend on the form, magnitude and timing of the fiscal stimulus under the new government administration.

Drivers Behind the Strength of the US Currency

Higher Interest Rates in the US

As inflation erodes the real return of bonds, the higher inflation expectations have triggered a bond market rout. The 10-year Treasury bond yield rose from 1.83% to 2.56%, hitting its highest level since September 2014, before edging down to 2.47% on January 19. The higher yields and the expectation for a more rapid pace of interest-rate hikes from the Federal Reserve will in turn attract more capital inflows, driving the American greenback higher.

Figure 3. US 10-year Treasury Bond Yield (%); US Federal Fund Rate (%)



Source: US Treasury/Federal Reserve

Foreign Direct Investment into the US

President Trump encourages direct investment in the US and since his victory, several multinational companies have made announcements that they will boost their investment in the US:

- **Carrier:** The air-conditioner manufacturer decided to keep its factory in Indiana instead of moving to Mexico.
- **Softbank**: The company pledged to set up a $100 billion technology fund and invest $50 billion in the US.
- **Ford Motor:** Ford cancelled its plans to build a new $1.6 billion plant in Mexico and announced it would invest $700 million in expanding a plant in Michigan, US.

Trump's intention to plow back US companies' foreign cash hoards with a one-time repatriation tax rate of 10% is also aimed to increase investments in the US and will likely drive up inflation.

Weak Global Outlook Outside of the US

A weaker global outlook outside the US will likely bring strength to the US dollar in 2017.

Another reason for a stronger US dollar is the position of the US relative to its major trade partners and the economies of the rest of the world. Economic data from the US showed solid growth and strengthening labor, consumer and housing markets in 2016, while other economies, such as the EU, have stagnated.

There were also a number of potential incidents outside the US which bring about a growing sense of pessimism and instability into 2017:

- **Asia:** In China, we see an economic slowdown in the mid-term, with potential corporate debt issues, currency depreciation and capital outflows. South Korean President Park Geun-hye faces impeachment over a corruption scandal.
- **Latin America:** In Brazil, political instability has added fuel to the country's economic recession. President Michel Temer has faced

corruption allegations only six months after the impeachment of Dilma Roussef. Mexico faces a dreary trade outlook in 2017 against US President Trump's negative stance on trade with Mexico.

- **Europe:** We will see the Brexit shock come into effect in the UK as Prime Minister Theresa May pledged to trigger Article 50 by the end of March 2017. Weak European banks plagued by bad debts, especially in Italy, and upcoming elections in Europe with the potential rise of populist parties that advocate leaving the European Union create mounting uncertainties that will keep European growth low.

A strong US dollar will hurt US exporters, technology companies, international brands and retailers that generate a large portion of their revenue outside the US.

Impact of a Strong Dollar on US Businesses

A strong US dollar hurts US exporters and businesses with a high percentage of foreign revenues. Technology companies such as Alphabet, oil and gas explorers and consumer staples brands such as Coca-Cola generate more than 50% of their revenues outside of the US. International retailers such as Walmart and Costco, e-commerce leader Amazon and automobile manufacturers such as Ford Motor in the US also generate around one-third of their revenues from foreign countries. Their foreign revenues will be depressed when the US dollar appreciates against other currencies. In addition, a strong US dollar will dampen inbound tourism into the US. That will bring a negative impact on US sales impacting retailers that rely on tourism shopping.

Airline businesses and commodity exporters will face multiple headwinds as they generate revenues mostly outside of the US, and commodities including oil, one of the largest costs of airline businesses, are traded in US dollars.

Figure 4. Top Companies with the Most Revenue Outside of the US in 2015

Rank	Company Name	Industry Classifications	Total Revenue ($US Mil.)	Overseas Revenue ($US Mil.)	Percentage
1	Exxon Mobil Corporation	Energy	236,810.0	144,626.0	64.5%
2	Wal-Mart Stores, Inc.	Hypermarkets	482,130.0	124,571.0	25.8%
3	General Electric Company	Industrials	116,048.0	62,848.0	54.6%
4	Ford Motor Company	Automobiles	149,558.0	56,416.0	37.7%
5	Chevron Corporation	Energy	122,566.0	55,433.0	56.1%
6	The Boeing Company	Industrials	96,114.0	56,827.0	59.1%
7	General Motors Company	Automobiles	152,356.0	47,991.0	31.5%
8	Intel Corporation	Information Technology	55,355.0	44,234.0	79.9%
9	IBM	Information Technology	81,741.0	43,255.0	52.9%
10	Alphabet Inc.	Information Technology	74,989.0	40,179.0	53.6%
11	The Coca-Cola Company	Consumer Staples	44,294.0	39,042.0	88.1%
12	Amazon.com, Inc.	Retailing	107,006.0	36,469.0	34.1%
13	Archer-Daniels-Midland Company	Consumer Staples	67,702.0	35,874.0	53.0%
14	Johnson & Johnson	Healthcare	70,074.0	34,387.0	49.1%
15	The Dow Chemical Company	Materials	48,778.0	31,957.0	65.5%

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Rank	Company Name	Industry Classifications	Total Revenue ($US Mil.)	Overseas Revenue ($US Mil.)	Percentage
16	Costco Wholesale Corporation	Hypermarkets	116,553.0	31,537.0	27.1%
17	United Airlines, Inc.	Industrials	37,864.0	30,796.0	81.3%
18	Delta Air Lines, Inc.	Industrials	40,704.0	30,696.0	75.4%
19	Pepsico, Inc.	Consumer Staples	63,056.0	27,790.0	44.1%
20	Dell Technologies Inc.	Information Technology	54,886.0	27,465.0	50.0%
21	Pfizer Inc.	Healthcare	48,851.0	27,147.0	55.6%
22	Time Warner Inc.	Consumer Discretionary	28,118.0	26,499.0	27.4%
23	United Technologies Corporation	Industrials	56,098.0	25,109.0	44.8%
24	Cisco Systems, Inc.	Information Technology	49,589.0	23,189.0	46.8%

Source: Capital IQ/Fung Global Retail & Technology

US Businesses in certain industries are prone to face less pressure with a strong US dollar. Domestic retailers, including Kroger, Target and Home Depot, receive little to no foreign revenues. Telecommunication companies such as AT&T and Verizon, energy refinery companies such as Phillips 66 and certain insurance companies also operate their businesses mainly at home.

Figure 5. Top Companies with the Most Revenue in the US in 2015

Rank	Company Name	Industry Classifications	Total Revenue ($US Mil.)	Overseas Revenue (US$ Mil.)	Percentage
1	UnitedHealth Group Incorporated	Healthcare	157,107.0	6,284.3	4.0%
2	AT&T Inc.	Telecommunication Services	146,801.0	6,567.0	4.5%
3	Verizon Communications Inc.	Telecommunication Services	131,620.0	0	0.0%
4	The Kroger Co.	Consumer Staples	109,830.0	0	0.0%
5	Express Scripts Holding Company	Healthcare	101,751.8	82.0	0.1%
6	The Home Depot, Inc.	Consumer Discretionary; Retailing	88,519.0	8,000.0	9.0%
7	Phillips 66	Energy Refinery	85,195.0	15,617.0	18.3%
8	Anthem, Inc.	Healthcare	79,156.5	0	0.0%
9	Comcast Corporation	Media	74,510.0	5,800.0	7.8%
10	Target Corporation	Consumer Discretionary; Retailing	73,785.0	0	0.0%
11	Marathon Petroleum Corporation	Energy	64,471.0	0	0.0%
12	Aetna Inc.	Healthcare	60,226.9	2,042.3	3.4%

Rank	Company Name	Industry Classifications	Total Revenue ($US Mil.)	Overseas Revenue (US$ Mil.)	Percentage
13	Lowe's Companies, Inc.	Consumer Discretionary; Retailing	59,074.0	0	0.0%
14	Humana Inc.	Healthcare	54,289.0	0	0.0%
15	American Airlines, Inc.	Industrials	41,084.0	5,539.0	13.5%
16	HCA Holdings, Inc.	Healthcare	39,678.0	2,050.0	5.2%
17	Best Buy Co., Inc.	Consumer Discretionary; Retailing	39,528.0	3,163.0	8.0%
18	Cigna Corporation	Healthcare	37,876.0	4,691.0	12.4%
19	United Continental Holdings, Inc.	Industrials	37,864.0	3,367.0	8.9%

Source: Capital IQ/Fung Global Retail & Technology

Summary: Revenue Impact From an Appreciating US Dollar

Businesses Based in the US	Revenue Impact in US Dollars
Export-oriented businesses	
Retailers with significant international exposure	
Retailers with significant exposure to revenue from international tourists	
Domestic Telecommunication businesses	**Negligible**
Airlines with significant international exposure	

Source: Fung Global Retail & Technology

Conclusion

The US dollar is likely to stay strong over 2017, while over the longer term, this will depend to a large part on the efficiency and effectiveness of the pledged fiscal stimulus. A strong dollar environment is going to hurt US-based brands and retailers with substantial international revenue streams, while US domestic companies will be relatively immune.

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