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Talks of a Mar-a-Lago Accord: Is a new currency deal plausible?

In 1985, finance ministers from France, Germany, Japan, the United Kingdom, and the United States came to an agreement in the Plaza Hotel in New York City to intentionally devalue the US dollar. Could such an accord take place this year at President Trump's Mar-a-Lago estate?

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In a dynamic global economy, bold interventions have often redefined economic landscapes. Decades ago, a groundbreaking multilateral agreement recalibrated the US dollar, easing trade imbalances and reinvigorating domestic industry. Today, a similarly ambitious proposal draws on both historical precedent and innovative fiscal strategies to reshape global currency dynamics, enhance export competitiveness, and recalibrate international trade relations.

A brief history of the Plaza Accord

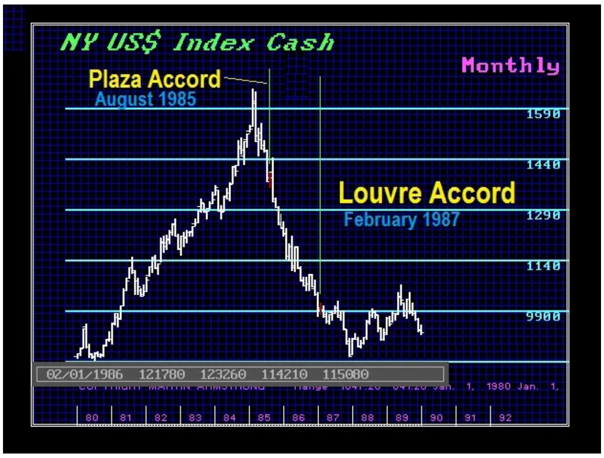
In the mid-1980s, the United States grappled with a strong dollar that was undermining its export competitiveness and industrial base. To counter these challenges, finance ministers and central bankers from the United States, Japan, West Germany, France, and the United Kingdom gathered at New York's Plaza Hotel. On 22 September 1985, they signed what became known as the Plaza Accord: a landmark multilateral agreement designed to devalue the US dollar against other major currencies.

The primary objective of the accord was to address the persistent trade imbalances that had developed due to an overvalued dollar. A strong dollar made US exports expensive on the global market while rendering imports of foreign goods in the US cheaper, which contributed to a widening trade and current account deficit and a decline in domestic manufacturing activity. Recognising that unilateral action would be insufficient, the involved nations agreed on a coordinated intervention. The plan was to allow their respective currencies to appreciate relative to the US dollar, thereby easing the competitive disadvantage faced by American manufacturers.

In the months that followed the Plaza Accord, the coordinated intervention produced tangible results. The dollar declined by as much as 25% and thus helped lower the cost of American exports, gradually restoring US competitiveness in global markets. US manufacturers began to see renewed demand as their goods became relatively cheaper abroad, contributing to a narrowing of the current account deficit.

However, the outcomes were not uniformly positive. In some countries, most notably Japan, the rapid currency adjustment contributed to economic turbulence over the medium term. Japanese exporters, facing a suddenly stronger yen, encountered increased pressure that eventually played a role in the ensuing economic stagnation of the 1990's, known as the "lost decade." The primary cause was Japan's failure to react quickly and appropriately to the collapse of asset prices in the early part of the 90's. When equity and real estate prices started to fall, Japan reduced rates, but by then a liquidity trap had been set and a credit crunch was on the way.

After the aggressive intervention and the significant dollar depreciation caused by the Plaza Accord, concerns grew over excessive US dollar weakness and its destabilising effects. In response, in 1987, the same group of nations reconvened at the Louvre Palace in Paris, leading to the signing of the Louvre Accord. This agreement marked a strategic shift from rapid devaluation to a stabilisation policy, with participating countries committing to moderate their interventions and maintain currency levels at a more sustainable equilibrium. The Louvre Accord effectively halted further dollar depreciation, marking the end of the Plaza Accord.



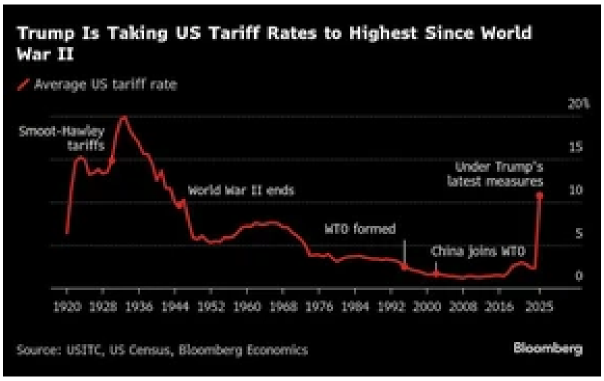
Source: Armstrong Economics

What is the Mar-a-Lago Accord about?

Today, there are talks of another potential multilateral agreement that would be named the Mar-a-Lago Accord. The proposed Mar-a-Lago Accord would aim to level the playing field in global trade caused by a current over-valuation of the US dollar relative to other currencies. This recalibration is intended to create a more balanced trading environment, ultimately enhancing American export competitiveness and strengthening domestic manufacturing. At its core, the proposal envisions that the United States will offer security guarantees and privileged access to its markets, particularly to the G7, the Middle East, and Latin America, in exchange for these partners adopting measures to recalibrate the US dollar's global valuation, expand America's industrial base, and help address fiscal challenges by swapping existing government debt for newly issued Treasury century bonds. In short, the idea is that the US provides the world with security and market access, while the rest of the world cooperates to push the dollar downward, thereby strengthening US exports and reviving domestic manufacturing.

Source: Apollo

Central to the accord are two key instruments. The first is the use of targeted tariffs. Under this instrument, the US would impose tariffs on imports from countries that do not commit to policies aimed at strengthening their own currencies relative to the dollar. These tariffs are designed to serve a dual purpose: they generate essential government revenue while creating economic incentives for partner nations to adjust their currency policies.



Source: Bloomberg

The second instrument is the establishment of a sovereign wealth fund dedicated to accumulating foreign currencies, such as the euro, yen, and renminbi. Capitalised by US great reserves, this fund would be deployed to purchase these currencies in the foreign exchange markets, thereby exerting additional downward pressure on the dollar. Moreover, an associated mechanism within the accord involves swapping existing US government debt for new, longer-maturity instruments: Treasury century bonds. This debt swap would not only help ease fiscal pressures by extending debt maturities but would also contribute to the rebalancing of global currency flows, towards extended bonds maturity.

Together, these instruments form the backbone of the Mar-a-Lago Accord. By leveraging tariffs to compel policy adjustments from trading partners and utilising a sovereign wealth fund to actively intervene in currency markets, the Accord seeks to result in a correction for the over-valuation of the dollar. In doing so, it aims to realign trade balances, revitalise domestic manufacturing, and facilitate a more balanced global financial order, all while preserving the dollar's essential role in international finance.

Is it doable?

President Trump's team is prepared to accept short-term economic pain as a necessary catalyst for long-term structural gains. Although tariffs have historically tended to strengthen currencies, the approach here is to use them as a trigger: the temporary pain of higher export costs is expected to force global partners into negotiations and prompt them to adjust their own currency policies, ultimately realigning trade balances in favour of the US.

Another key part in this proposal is the mechanism for international debt restructuring. The plan envisions that, in exchange for enhanced security and market access from the US, particularly for partners in the G7, the Middle East, and Latin America. These nations would agree to swap their holdings of dollars, short-term treasuries for longer-maturity treasury century bonds. This debt swap not only extends maturities to ease fiscal pressures but also helps diminish the safe-asset demand that traditionally propels the dollar's strength. By reducing fiscal constraints and channelling global capital into longer-term US debt instruments, the accord sets up a favourable environment that supports a dollar depreciation.

Moreover, the plan incorporates a tiered incentive structure for international partners. Countries would be classified into "green," "yellow," or "red" categories based on their willingness to participate in the currency intervention. "Green" nations would receive military protection and tariff relief but must embrace a currency accord, while those in the "yellow" or "red" categories might face transactional penalties or other restrictions. This categorisation creates clear, quantifiable incentives for global partners to align with US objectives, thereby bolstering the coordinated nature of the intervention.

Advisors like Stephen Miran and Zoltan Pozsar have emphasised that the current economic chaos is a signal that radical measures are needed. Their vision is that by leveraging these instruments, gradual tariff imposition, active foreign exchange intervention via a sovereign wealth fund, and strategic debt swaps, the US can force a reordering of global currency flows. In doing so, the accord aims to weaken the dollar deliberately, restore competitiveness to US exports, and revitalise domestic manufacturing. The integrated nature of these measures creates a self-reinforcing framework, making the ambitious goal of deliberate dollar depreciation a practicable, if bold, proposition.

While many question whether such a comprehensive intervention could actually be implemented, and some mainstream economists contend that these plans are too radical or even doomed to fail, what investors must grasp is that Trump's recent actions are not merely capricious. His team's vision follows a potent internal logic: the current chaos is as much a feature as a bug. As Bessent declared last year that he wanted "to be part of (...) Bretton Woods realignments" for the global finance and trade system, he was signalling a serious and deliberate shift in policy. The ongoing tariff shocks may well presage a much larger drama, one that could ultimately redefine the global economic landscape. "Main Street vs. Wall Street is quite usual".

Implications of the Mar-a-Lago Accord

The macroeconomic implications are significant. A weaker dollar would boost the price competitiveness of American products abroad, helping to revitalise the country's manufacturing base and create a more balanced current account. Moreover, by swapping short-term debt for long-term instruments, the government would ease near-term fiscal pressures, potentially reducing borrowing costs over time. As global investors adjust to the new paradigm, where US security and market access are exchanged for active measures to moderate the dollar's value, a realignment of international economic power could occur.

Geopolitically, the accord could also serve as a strategic lever. By offering the G7, Middle East, and Latin American nations enhanced security guarantees and privileged access to US markets, the United States would deepen its alliance network. In return, these partners would commit to measures that help depress the dollar. Such a multilateral arrangement would not only shift trade dynamics but could also enhance the US ability to influence global financial policy. This reordering of international relations may prompt a reallocation of global resources that benefits US industry and, by extension, industries that have long suffered under the pressures of a chronically overvalued dollar.

Furthermore, the structural shift toward longer-term debt instruments and the deliberate weakening of the dollar could signal a fundamental rethinking of the global financial order, echoing the transformative realignments of the 1980's. By easing fiscal constraints and recalibrating currency values, the accord may spur a virtuous cycle for the United States: increased export demand could lead to higher domestic production, improved employment in the manufacturing sector, and a gradual reduction in the persistent trade deficit.

A sustained weakening of the dollar could prove to be a tailwind for commodities. It could also have consequences in terms of regional, style and sector leaderships within global equities. For instance, resources rich countries and value sectors might regain relative strength against the US and growth sectors.

Conclusion

Both the Plaza Accord and the proposed Mar-a-Lago Accord underscore the powerful role that currency adjustments can play in shaping economic policy and global financial dynamics. The Plaza Accord explicitly targeted a devaluation of the US dollar through coordinated intervention to address trade imbalances. In contrast, the Mar-a-Lago proposal represents a broader strategy aimed primarily at recalibrating trade relationships among nations, a framework within which a correction in the US dollar's valuation would naturally follow. Together, these initiatives underscore ongoing efforts to leverage monetary policy for economic revitalisation and enhanced international cooperation.

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