

# Foreign Electoral Uncertainty and Currency Market Spillovers

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## Abstract

This paper examines the effects of foreign elections on domestic currency politics. I develop a theory of signaling and uncertainty to explain why elections in countries with close economic ties should affect exchange rates. Methodologically, this paper utilizes an event analysis framework to measure the impact of the 2016 US election on the Mexican peso by exploiting the plausible exogeneity of Donald Trump’s tweets. I also measure changes in the peso using Trump’s predicted chance of winning the election and show that the peso is weakest when Trump has the highest chance of winning the election. The results indicate that each tweet causes a substantial decline in the value of the peso relative to the dollar during Trump’s campaign; the election itself has an even larger impact on the peso. I include a series of robustness checks and analyses of other notable recent cases of how electoral uncertainty affected currency values in other countries, including the 2018 Brazilian election. I conclude by outlining potential future research and possible extensions of the findings. The results quantify the effect of foreign elections on exchange rates, building on the existing literature that focuses on how domestic elections shape currency markets.

Keywords: currency, international monetary politics, election, Mexico, campaign, foreign exchange

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# 1 Introduction

Agustín Carstens, the head of Mexico’s central bank from 2010 to 2017, had a mandate to maintain the stability and purchasing power of the peso.<sup>1</sup> Carstens found his task a difficult one, not only because of domestic economic and political forces, but also because of elections in the country’s northern neighbor. Carstens vividly described the impact of the US election on his ability to exercise domestic monetary policy: expressing frustration over his loss of power over the peso, he called President Trump’s election, and the concomitant economic threats against Mexico, a “horror movie” and a “hurricane”.<sup>2</sup> He also said that Trump was able to completely disrupt his plans to stabilize the currency – which cost more than 2 billion dollars in hard reserves – with only two tweets, both focusing on investment by the auto industry in Mexico.<sup>3,4,5</sup>

As the quotations from the the Mexican central bank chief demonstrate, elections can prove to not only affect domestic currency politics, but influence – and even overwhelm – monetary policy in other countries. While such effects are clearly evident in the case of the US–Mexico dyad, as well as in other cases where smaller economies are deeply intertwined with larger ones, I argue that the existing literature has thus far largely ignored this phenomenon. One reason for this lacuna is theoretical: scholars have naturally focused on domestic political factors (including elections) as the primary driver of exchange rates, and certainly this is the case for countries where the majority of economic activity is domestic or where foreign economic flows are either limited or diversified (Quinn and Toyoda (2007), Cohen (2015)). It is logical, perhaps even tautological, that domestic elections and the changes in economic expectations that they entail should influence exchange rates. Yet I argue that foreign elections can also exert an enormous influence on currency values.

The theory and results presented in this article have two important implications. First, they demonstrate the importance of a factor driving currency valuations – foreign elections– that has not yet been explored in the literature on exchange rate politics (Frieden (1991), Frieden (1997), Singer (2004)). Second, they offer a new perspective on the effect of economic ties between countries and suggest that when these ties are deep and concentrated, foreign elections may have a substantial impact on both the level and volatility of exchange rates (Strange (1971), Andrews (1994)). The findings suggest that countries may be less powerful in setting domestic economic policy than is understood in the existing literature, as exogenous factors like foreign elections become increasingly important determinants of exchange rates. We should expect these effects to be strongest when countries are heavily reliant on relatively few economic partners, as in the case of

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<sup>1</sup>Carstens, who also previously served as Mexico’s secretary of finance and head of the Mexican treasury, is currently the general manager of the Bank for International Settlements. He was also one of two candidates, alongside Christine Lagarde, to become managing director of the International Monetary Fund.

<sup>2</sup>Parker, Nick. November 21, 2016. *Exclusive: Mexico central bank boss hopes Trump won’t be a ‘hurricane’*. CNN Money.

<sup>3</sup>The two tweets were: “Toyota Motor said will build a new plant in Baja, Mexico, to build Corolla cars for U.S. NO WAY! Build plant in U.S. or pay big border tax.” and “The dishonest media does not report that any money spent on building the Great Wall (for sake of speed), will be paid back by Mexico later!”

<sup>4</sup>Campoy, Ana and Nelson, Eshe. April 10, 2017. *Two Trump tweets ruined Mexico’s multi-billion dollar efforts to protect its currency*. Quartz.

<sup>5</sup>Esposito, Anthony and Angulo, Sharay. April 5, 2017. *Mexican central banker says Trump’s tweets modified peso strategy*. Reuters.

the US–Mexico dyad, and when that partner unveils potentially deleterious economic proposals, as President Trump did during the campaign.

The remainder of the paper outlines my theory about how foreign election risks should affect currencies, then tests the theory using data from currency markets. In the case of Mexico, I find that a single tweet can substantially weaken the value of the peso, and the effect is strongest when Trump has the highest chance of winning. The causal mechanisms rely on both the anticipated negative impact of economic policy and on the uncertainty regarding that policy.<sup>6</sup> Generalizing from the case examined in detail in this paper, one should expect other foreign political shifts to affect currency markets in close economic neighbors, which would apply to a wide range of cases extending far beyond the US–Mexico dyad. This finding, along with evidence from additional case studies presented in the paper, provides evidence that the 2016 election is an existence proof of a much broader phenomenon.

## 2 Theory and Causal Mechanisms

The dominant theoretical approaches in political science and public discourse have thus far focused on domestic factors, particularly elections, and how they shape exchange rates (Garfinkel and Lee. (1999), Fowler (2006), Leblang and Bernhard (2006), Bernhard and Leblang (2008)). By contrast, I shift the debate to the influence of exogenous factors in determining currency values.

There is already a substantial literature about the political determinants of exchange rates, focusing on how domestic institutions and regime type influence currency politics (Bernhard and Leblang (1999), Keefer and Stasavage (2003), Keefer and Stasavage (2003), Cohen (2015)). Of particular importance is William Bernhard and David Leblang’s *Democratic Processes and Financial Markets: Pricing Politics*, wherein the authors examine the effects of domestic elections. They find that uncertainty about outcomes is the greatest predictor of how political processes affect financial markets. As Leblang and Bernhard argue with regards to domestic elections, political uncertainty is one of the major drivers of currency volatility. However, that uncertainty comes not only from within the borders of that country, but also from close economic partners.<sup>7</sup>

Furthermore, there is an additional literature on fixed versus floating exchange rates and academic research on the financial contagion brought about by major currency devaluations. More closely related to this research is the literature on domestic elections and exchange rates (Eichengreen and Leblang (2003), Wise and Roett (2000), Leblang (1999), Frieden (2014)). That research has primarily focused on volatility near elections, and the impact of partisan campaigns and victories on exchange rates, particularly how leftist parties can cause currency declines or volatility (Boix (2000), Bearce (2003), Campello (2015), Mukherjee and

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<sup>6</sup>Although the impact of the tweets in the US–Mexico dyad is negative, in the supplementary case study I explore the effect of the foreign election on currency values is positive.

<sup>7</sup>Bernhard and Leblang conduct an extensive parallel analysis of cross-border shocks on equity markets; extending that analysis provides part of the motivation for this article.

Singer (2008)). However, this literature has focused primarily on *domestic* elections. Partially because of the difficulty of endogeneity, measuring the impact of foreign elections on exchange rates has remained elusive.

Diminished control over exchange rates represents loss of one of the most essential levers of economic policy because exchange rates determine the prices of all goods in that country, as well as cross-border economic flows such as foreign direct investment, exports and imports, and portfolio investment (Frieden (2014)). Currency values, therefore, are crucial not only for policymakers and investors, who seek growth and stability, but also for anyone who participates in the economy. Shifting currency values create economic winners and losers, and highly volatile currencies can weaken confidence and make long-term economic planning – for policymakers, business, and individuals – difficult, if not impossible. Voters use currency values as one metric of economic performance in elections, meaning that if foreign elections affect currency values they can also affect domestic elections (Campello and Zucco (2016)). Moreover, exchange rates capture demand for a country's currency and therefore signal optimism or pessimism about the economic and political conditions in that country (Broz and Frieden (2001), Broz and Frieden (2006)).

Because currency politics shape all aspects of a country's economy, it is unsurprising that there is extensive existing research on the channels through which government policies shape currency values. However, this literature has tended to focus at primarily on how the domestic political forces influence currency markets and exchange rate regimes (Bernhard and Leblang (1999), Bernhard and Leblang (2006)). The primary focus of the existing literature, which primarily adopts the open economy politics approach, is how the conflict between interest groups such as importers and exporters – channeled through domestic institutions – shape exchange rate regime and the desired level of the exchange rate within a single country (Frieden (2014)).

There is substantially less research on how the policies of other states shape exchange rates, despite the importance of dyadic relationships in shaping the limits of currency politics. To the degree that the literature has extended to dyadic or multilateral interactions for currency politics, it has primarily focused on the potential for cooperation, particularly in the rich literature on currency unions. However, much less has been written about conflictual relationships, although there is a nascent literature that questions the mutual beneficial gains of interdependence (Farrell and Newman (2019)). As Hirschman (1945) notes in *National Power and the Structure of Foreign Trade*, the benefits of deepening economic ties are readily apparent, but the (often swift) reversal of these ties, even if unintentional, can cause sharp pain in partner countries that are affected (Krasner 1976, Baldwin (2013), Drezner (2003)).

A partial explanation for the fact that the existing literature has not focused on how foreign elections have influenced exchange rates lies in the methodological challenges that the question presents. I use the 2016 US presidential campaign and election as a central case primarily because it provides important methodological advantages that allow me to account for endogeneity. I supplement the primary findings with evidence from recent elections in other regions of the world in order to demonstrate that foreign elections affect

currencies in countries across the globe. The 2016 election is a particularly compelling case because President Donald Trump's tweets, which are as-if random and thus plausibly exogenous to changes in the peso, allow me to measure the impact of foreign elections on currency markets. I find evidence for the theory that electoral uncertainty in foreign countries with close economic ties leads to exchange rate volatility and that this currency instability is in turn harmful to investment and economic growth in Mexico. I supplement the findings with a series of robustness checks and additional case studies from both the developed and developing world.

There are numerous historical examples of how countries may exert overt political pressure on others in order to pressure for exchange rate changes or devaluation or use exchange rates as a bargaining chip in broader political negotiations. Moreover, there have been cases where countries have explicitly weaponized their currencies.<sup>8</sup> For example, in the case of China in the ongoing trade war with the United States, China has weakened its currency to offset US tariffs and then abandoned that policy as a conciliatory signal in trade negotiations.<sup>9</sup> It is worth noting that similar effects should apply in the case of economic sanctions and punitive tariffs, which are only effective if the threat of economic damage is credible.<sup>10</sup>

To summarize, the existing literature has focused on the determinants of currency markets primarily at the domestic level, yet foreign factors have an important, perhaps dominant, role in determining foreign exchange rates. As noted above, the phenomenon of foreign electoral influence on currencies is well understood by journalists but not by academics, as the literature on currency markets is notably lacking in examples of cases focused on foreign political factors. Filling this gap in the literature, I measure the impact of *foreign* elections on exchange rates, contributing to the growing literature on the external constraints on economy policymaking (Campello (2015)). In particular, I focus on the relationship between the United States and Mexico as a central case study, supplemented by several other recent cases.

## 2.1 Scope Conditions

The scope conditions for the effects I analyze in this paper are primarily limited to small states, but also extend to those countries that but also deeply interconnected to global markets while relying on a concentrated set of economic partners. These economic relationships are defined by deep trade ties and a relative imbalance of size and power. The US-Mexico dyad certainly fits these conditions; the approximately 18 trillion dollar US economy is more than an order of magnitude larger than that of Mexico. Further, 81.24 percent of Mexico's exports go to the United States and nearly half (47 percent) its imports come from the United States; the US also accounts for 39 percent of foreign direct investment inflows. This paper measures the influence

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<sup>8</sup>Stevenson, Alexandra. *China Signals It Will Continue to Weaken Its Currency as Trade War Rages*. August 7th, 2019. New York Times. See also Olsen, Kelly. *China's new currency policy is a dovish signal in the trade war, analysts say*. August 19th, 2019. CNBC.

<sup>9</sup>China was labeled as a currency manipulator by the US Treasury on August 5th, 2019. *US Department of the Treasury. Treasury Designates China as a Currency Manipulator*. August 15th, 2019.

<sup>10</sup>Cf. Kirshner (1997) and passim.

of the United States, both during the campaign and once Trump was put in charge of the world's largest economy over its smaller and economically dependent neighbor. Importantly, while this paper focuses on the campaign, election, and early presidency of Donald Trump, it is not simply about Trump himself, but the power of the US presidency and ultimately of the United States. I rely on the assumption that Trump's tweets are plausibly exogenous (a claim I justify and discuss in the methodology section), allowing me to measure these normally latent power dynamics that define the US-Mexican dyad as well as the broader universe of economic relationships where one partner is heavily dependent on the other.

Generalizing from the US-Mexico dyad, we should expect the same effects to occur under a set of four scope conditions. First, the effect on the exchange rate should occur between countries with close economic links, particularly where one country is more economically dependent on the other, whether through trade ties, bonds or currency reserves, or foreign direct investment. Second, there must be a foreign campaign and election with unexpected policy proposals that would negatively affect the other country's economy. Third, there should be methods of communicating that policy change in the other country. Finally, exchange rates should be free floating and responsive to market pressures in the country affected by the foreign election. Numerous present and historical examples fit these criteria, and I outline several case studies later in the paper. In terms of external validity, I argue that while the particular case outlined here is a most-likely case, I expect the effects to be similar in other cases that fit the scope conditions outlined above.

The size of the effects should be determined by the degree of economic reliance of one country on another, including whether the countries rely primarily on a few economy partners or many, as well as the size of those partners. For example, Canada's economy is about a tenth of the size of that of the US and 76 percent of exports go to the US. By contrast, the US has many different trade partners and exports to Canada only represent 16 percent of the total. Thus, *ceteris paribus*, a surprising election in the US should affect the Canadian dollar more than a surprising election in Canada should affect the US dollar. In extreme cases, foreign elections could prove more important than domestic ones in determining currency values. These would occur in cases of very small countries that are highly reliant on a small number of countries, such as Belarus (which is heavily dependent on Russia), or Lesotho (which is heavily dependent on South Africa).

## 2.2 Currency Politics in The Global Economy

Why examine the effect of foreign elections on currencies instead of stocks, bonds or any other economic asset? First, currencies are a measure of aggregate demand for that country's goods and services; policymakers also assert greater direct control over monetary policy than they do over other economic assets (Bernhard and Leblang (2006)). As such, I focus primarily on currency levels rather than simply volatility. As noted above, volatility itself has a negative effect by making long-term economic planning and investing difficult,

but currencies may be volatile for many reasons. Volatility itself does not necessarily indicate a decline in perceptions of economic prospects for that country; currencies may be volatile for a wide variety of reasons unrelated to economic fundamentals. However, declining currency prices signal a decreasing willingness to invest in that country and purchase assets in that country (Frieden (1997)).

Second, often there is a policy mandate to maintain relative currency stability, much more than would be expected for portfolio investment or other economic indicators. Interest rates and portfolio investment also impact a smaller portion of the country and the economy than currencies, which are used by everyone in the society and are thus widely watched barometer of an economy. Currency markets are also thicker, with more market participants across the globe (Cheung and Chinn (2001)). While the theory I outline should apply to financial markets more broadly, given the limitations of a short paper, currencies represent the most logical initial step. Despite the fact that I am focusing on currencies in this paper, my theory should apply to financial markets more generally, and future work should explore whether foreign elections affect bonds, stocks and other economic assets.<sup>11</sup>

This paper also explores a relatively less examined form of political risk: whereas existing analyses tend to focus on domestic political instability, particularly around elections, I highlight the potential role of foreign elections. As international financial capital has become increasingly mobile, the question of its regulation becomes more and more central (Wallerstein and Przeworski 1995, Quinn and Inlanc 1997). In fact, regulation of international financial capital has become increasingly difficult (Goodman and Pauly 2001, Obstfeld 1997). This paper provides a reminder that such flows are not inconsequential to state power and exist in the shadow of political and economic power and sometimes rivalry. These phenomena are heightened when a small country heavily depends on a larger one for its economic fortunes; in such cases, the loss of control for economic policymakers can be shocking, as the influence of the foreign election becomes apparent.

I also use tweets as part of my methodological strategy, and there is a rich and growing literature that uses twitter as a data source.<sup>12</sup> Some media commentators have described the recent shift in American foreign policy as “Twitter diplomacy”.<sup>13</sup> As mentioned above, the press has widely discussed the effect, although few academic papers have explored the phenomenon. Two exceptions are Allyson L. Benton and Andrew Q. Phillips, who explore why Trump’s tweets should continue to matter after his policy positions were revealed, and work by Raphael Cunha and Andreas Kern, wherein the authors explore the impact of the election on

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<sup>11</sup>One existing literature in this area focuses on how US interest rates have spillover effects in the developing world, particularly on asset values and borrowing costs. See Arias (2019).

<sup>12</sup>Other articles in the broader literature on the impact of tweets on financial markets include Born, Jeffrey A., David H. Myers and William J. Clark. 2017. “Trump Tweets and the Efficient Market Hypothesis” *Algorithmic Finance* 6(3-4): 103–109 and Gainous, Jason and Kevin M. Wagner. 2013. *Tweeting to Power: The Social Media Revolution in American Politics*. New York: Oxford University Press and Jungherr, Andreas. 2016. “Twitter use in election campaigns: A systematic literature review.” *Journal of Information Technology & Politics* 13(1):72–91.

<sup>13</sup>French President Emmanuel Macron has accused Trump of “doing policy and diplomacy by tweets.” Rubin, Alissa J. November 14th, 2018. *Macron’s Response to Trump: ‘I Do Not Do Policy or Diplomacy by Tweets’* New York Times.

banking and financial stocks across the globe.<sup>14</sup> <sup>15</sup> However, both of these papers focus primarily on the impact of the election on financial markets, rather than on the implications for politics in other countries, and neither focuses on the impact of foreign electoral uncertainty more broadly. However, I draw on the causal mechanisms outlined in both papers, particularly Benton and Philips’ theories of signaling via repeated tweets.<sup>16</sup> It should be noted that the subset of President Trump’s tweets that I use are only those with policy-relevant information, and thus excludes unrelated tweets (e. g. those related to “Miss Mexico”); the full list of tweets in my dataset is included in the appendix.

### The Relationship Between the Mexican Peso and Trump's Presidential Campaign

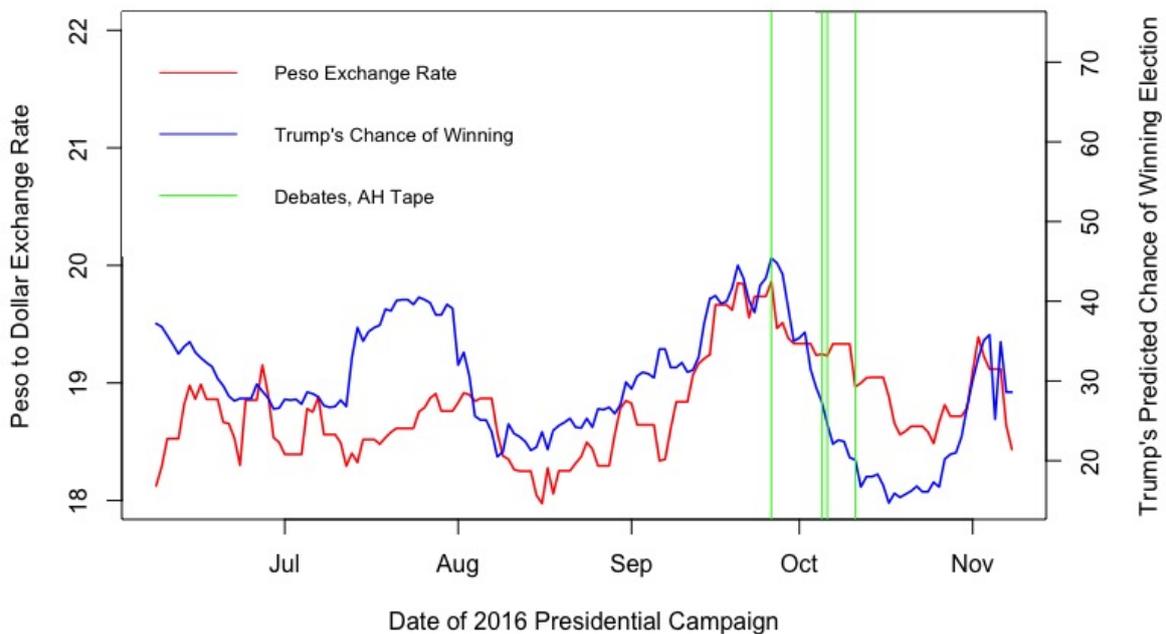


Figure 1: The Mexican peso moved in tandem with Trump’s predicted chance of winning the presidency. The green lines indicate the three debates with Hilary Clinton as well as the release of the “Access Hollywood” tape in which Trump boasted about sexual assault.

<sup>14</sup>“Does the @realDonaldTrump Really Matter to Financial Markets?”, American Journal of Political Science. Under Review.

<sup>15</sup>Cunha, Raphael and Kern, Andreas. “US Political Shocks, Global Banks, and International Financial Markets: Evidence from the 2016 Presidential Election.”

<sup>16</sup>Additional work specifically on President Trump’s tweets has focused on domestic monetary policy; recent research suggests that each tweet lowers the Fed interest rate by 10 bps, on average. Cf. Francesco Bianchi, Howard Kung, and Thilo Kind. “Threats to Central Bank Independence: High-Frequency Identification with Twitter” National Bureau of Economic Research Working Paper 26308. September 2019.

## 2.3 Key Assumptions and Causal Mechanisms

My theory relies on insights from financial economists and the financial markets literature, notably the semi-strong version of the efficient markets hypothesis (EMH). The EMH states that financial markets incorporate all known information about an asset (in this case, currencies) and create a present value based future expectations (Fama (1970), Fama (1991)). Thus, a decline in the value of a currency reflects shifting expectations about its value, driven by new information that causes those involved in currency markets to expect the future value to be lower. However, markets may incorporate information from any source; there is no reason to simply think that domestic drivers should primarily affect value. There is also a literature in financial economics on the impact of how currency markets function, which is important for understanding the phenomena that I outline.

The principal causal mechanism is that foreign elections lead to exchange rate movements and that high levels of volatility in exchange rates can have a negative effect on economic conditions. To capture the exchange rate politics presented in this paper, I rely on how traders in currency markets interpret information presented during the campaign and election. Conveniently, Trump's tweets provide a public repository of much of this information. Because of his habit of tweeting his ostensibly unfiltered thoughts, financial markets have been able to adapt to the potential policy implications of his proposals in real-time. Once Donald Trump announced his presidential run, and especially once he became the nominee, traders realized that the information in Trump's tweets could be useful for determining future asset prices. So-called algorithmic traders have created "bots" that use Trump's tweets to predict equity prices for wide-ranging companies such as Boeing and the New York Times. One automated trading bot, called "Trump2Cash" analyzes Trump's tweets and then automatically places a trade on the companies the president identifies.<sup>17</sup> Similarly, commodity traders often follow his twitter feed to get the latest policy information that might be relevant for potential price swings.<sup>18 19</sup>

The first causal mechanism involves the signaling of information, particularly information about future American economic policies, communicated directly through Trump as well as indirectly through intermediaries such as the news media. Even though traders and those buying and selling peso have many potential methods of receiving information about factors driving currency movements, twitter is one of the most common places to gain market-relevant insights. Given that all (relevant) tweets from Trump are perceived to contain information about policies with negative consequences for the Mexican economy, I hypothesize that any tweet will weaken the peso.

As the campaign continued and the information uncertainty about potential policy towards Mexico di-

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<sup>17</sup>Popper, Nathaniel. Feb. 16, 2017. *A Little Birdie Told Me: Playing the Market on Trump Tweets*. New York Times.

<sup>18</sup>Meredith, Sam. 23 April, 2018. *Trump vs. OPEC: Oil traders must now 'rigorously check' Twitter to monitor simmering feud*. CNBC.

<sup>19</sup>Borzykowski, Bryan. March 23rd, 2017. *Trump's fallout effect on the Mexican peso*. CNN Money.

minished, one would expect that the effect of tweets on the peso would diminish. However, as Benton et al. (under review) note, even when tweets did not contain any new information (indeed, they often contained similar or even identical language to older tweets), they were considered consequential by financial markets. That is, even though tweets should no longer have an effect if they did not contain new information, the effect of tweets on the peso continued. The explanation, again drawing on Benton et al., is that the frequency of tweets signaled a commitment to implementing those policies. Indeed, the size of that effect depends on both the frequency of his tweets against Mexico— a proxy for his willingness to target Mexico with harmful economic policies— and the severity of his rhetoric, including whether he mentions new specific proposals that would harm the Mexican economy. Thus, a repeated tweet signals a higher probability that the proposal is likely to be implemented and not simply noise or “cheap talk”.

Thus, the second causal mechanism is signaling about the certainty of potential US policy. To the degree that there is high uncertainty about US economic policy, either because of the uncertainty surrounding the election or around future US economic policy towards Mexico once Trump is elected, this will make the peso a riskier asset and thus decrease its value (or force Mexico to raise interest rates). Notice that in both of these causal mechanisms, a substantial portion of the value of the peso is related to expectations regarding US economic policy, given that the Mexican economy is so heavily dependent on the United States. Moreover, more tweets – even those that contain similar or identical information – convey an increased focus on Mexico and thus a higher probability that proposals could become future policy. Finally, given that previous tweets have been associated with drops in the peso, human traders and computer algorithms associate tweets with a sell signal for the peso.

In addition, the electoral timing and probability of Trump being elected affect how markets interpret tweets. Currency traders not only weighed the severity of Trump’s proposed policies, but also his electoral prospects, which formed a proxy for the probability that Trump’s policies would be implemented. In some parts of the election cycle, Hillary Clinton was assumed to have essentially won the election, and in other times Trump had a reasonable chance of capturing the presidency. His invective became a more serious threat to the Mexican economy when there was an increased risk of him using the power of the presidency to implement an anti-Mexico agenda. If Trump had a small chance of winning the presidency, then the tweet should have a smaller impact. If Trump had a larger chance of winning— or indeed, once he secured the presidency— the tweet can be treated as likely to be put forth as policy. To summarize, the peso will be weakest when Trump has a higher probability of winning, strongest when he has a lower chance of winning, given that there is a greater expected chance that he will implement his policies.

Thus, tweets signal two kinds of information that affect the Mexican peso: that about future US policy and the probability that those policies will be implemented, which is further tempered by the perceived likelihood of Trump winning the election. On the latter point, the largest move in the peso came after

Trump won the election– during which time no additional policy information was released, yet when new information about the probability of Trump being elected changed (from a relatively low probability to 100 percent, in a “surprise” outcome).

Generalizing the discussion above leads to the following hypotheses:

**H1:** New negative policy information via a tweet from Trump will lead to a decrease in the value of the peso.

**H2:** Tweets from Trump with repeated information will lead to a decrease in the value of the peso.

**H3:** An increased probability of Trump being elected will lead to a decrease in the value of the peso.

### 3 Materials and Methods

This methodological core of this paper is an event study analysis, focusing on the impact of Trump’s tweets on the Mexican peso (Campbell, Lo, and MacKinlay 1997; Bernhard and Leblang 2006; Oatley, Winecoff, Pennock, Bauerle Danzman 2013; Winecoff 2015; Wilf 2016). Event analyses are used less frequently in political science than in economics and finance, although their use in comparative and international political economy is growing. Event analyses are useful for capturing changes in value as the result of new and unexpected information, for example measuring the change in a stock as result of the announcement of a new product or higher than expected earnings. They measure the shift in prices of an asset, such as a stock or a currency, in a window around an announcement, with the fundamental idea that these shifts in prices capture the effect of the new information on the price of the asset. Event analysis can also use non-financial measures as the dependent variable; for example, previous studies have examined how polling results respond to new information about a candidate. They have become increasingly popular in political science for measuring the value of political information on financial assets (such as the effect of an election on stock prices – see [Jensen and Schmith \(2005\)](#)), building on the traditional use focused on the effect of other unexpected information (such as the effect of a merger or takeover announcement on the price of a stock). An event analysis relies on the assumption of approximate normality in the asset price and also assumes no events other than the announcement are occurring during the window that could affect the value of the asset ([MacKinlay \(1997\)](#), [Mitchell and Netter \(1994\)](#)). Event studies capture the “abnormal” return of an announcement or new information; in this case, the new information comes in the form of a tweet.

The abnormal return to the tweet is defined as the difference between the actual change in the peso when Trump issued tweets and the predicted change based on the period in which no tweets were issued. Similarly, the abnormal returns to the election are defined as the difference between the actual changes in the peso after the election and the predicted change in the peso in the absence of the election. The abnormal return is defined as:

$$AR_i \equiv R_i - E[R_i]$$

where  $AR_i$  is the abnormal return to the peso in time  $i$ ,  $R_i$  is the observed return in time  $i$ , and  $E[R_i]$  is the expected return in time period  $i$ . The change in the peso is defined as the  $\Delta P_t = (P_t - P_{t-1})/P_{t-1}$ , where  $P_t$  is the price of the peso in time  $t$ . Because the peso reflects the demand for peso-denominated Mexican assets, it is a broad gauge of the Mexican economy.

Several factors are important for completing an event analysis. The first is the event itself. In this case, there are two separate events for each of the event analyses. First is the 2016 presidential election. Second is a tweet from Donald Trump, which I hypothesize to be a shock to the peso. Since there are many tweets, I estimate the average abnormal return to the peso when a tweet is issued during the time period of interest. Finally, a model of normal returns is necessary to establish a counterfactual “baseline” model against which we will compare the observed change in the peso. To predict the normal returns to the peso, I use the broad-weighted dollar index of developing country exchange rates relative to the dollar, which is weighted by the amount of trade that the US conducts with those countries. This data comes from the US Federal Reserve.<sup>20</sup> Using the dollar index allows me to measure global currency fluctuations and exogenous risks that all countries face. Measuring this global trend allows me to separate it from the idiosyncratic changes in the Mexican peso. Where peso or dollar data are absent (as on holidays, weekends, or non-trading days), I use the data from the last available trading day.

The expected return to the peso is the change in the peso that one would expect in the absence of a tweet or the election. It is an explicitly counter-factual event that establishes a baseline to which we can compare the change in the peso after the election or when a tweet is issued. I am capturing the abnormal returns to an event, which I classify as either a tweet or the election itself. The abnormal return is the difference between the level during an “event” and the level outside of those windows. The event window measures the length of time from the event that we expect abnormal returns. I then conduct an event study, using Trump’s tweets as the “event” to predict changes in the peso. I use both a 1-day (the day of the tweet and one day before and after) and a 3-day window (the day of the tweet and three days before and after). For the event analysis in which I use the election as the event, I use a 1-day, 3-day, 6-day, 9-day and 12-day window to predict abnormal returns and measure the sensitivity of those measures to the window size.

### 3.1 Data Sources

The tweet data come from the Trump Twitter Archive, an online repository of all of Trump’s tweets.<sup>21</sup> I use only tweets after June 16, 2015, when Trump announced his candidacy and include all tweets until the end of 2017. I first subset to all tweets that contain the words “Mexico” or “Mexican” as an event. I remove tweets

<sup>20</sup>Mexico is part of the index, but is a small percent of the weighting. See <https://fred.stlouisfed.org/series/DTWEXB>

<sup>21</sup><http://www.trumptwitterarchive.com/archive>

that mention “Miss Mexico” (from Trump’s Miss Universe days) and “New Mexico” from his rallies across the country (e. g. “Beautiful rally in Albuquerque New Mexico this evening - thank you.”). I also remove several unrelated tweets (for example, several about El Chapo and Sgt. Tahmooressi, a U. S. marine detained when he accidentally crossed the border), which should be expected to have no effect on the peso given their lack of policy relevance. I also remove several tweets that are about Mexico, but which are either apolitical or positive, such as “God bless the people of Mexico City. We are with you and will be there for you” (tweeted after the earthquake in Mexico); while these tweets could conceivably have a positive effect on the peso if they are perceived as shift towards more cooperative economic policy towards Mexico, this analysis restricts itself only to proposals with the potential for economic disruption.

The restricted dataset contains 80 tweets regarding Mexico. I assume (and confirm via review and hand-coding) that all remaining tweets are negative. In the event analysis, I assume that they are all similar events, although I relax that assumption in the robustness checks. The number of tweets for each time frame is, fact, relatively small. Interestingly, Trump tweeted the fewest absolute number of times during his period as president-elect (10 over a 3-month period) and his highest per-month rate of tweeting about Mexico (nearly 4 per month) comes before he is selected as the presumptive Republican nominee.

I run several different event analyses, including on the time period after which he has announced his run but before the campaign as the Republican candidate (June 16th, 2015 to May 3, 2016), the time period in which Trump is the presumed and then official candidate (May 3, 2016 to November 8th, 2016), the time between election day and inauguration day (November 8th, 2016 to January 20th, 2016) and inauguration day to the end of 2017. The full list of dates and the text of the tweets is in the appendix. Notably, if several tweets are issued in the same day, I treat them as a single event, and use the average sentiment score for all tweets on that day.

Summarizing the information above, I run four different event analyses on four different time periods (the corresponding number of tweets and number of months or partial months is listed in parentheses):

- Tweets after Trump announces his presidential run, but before being selected as the nominee (47 over a 12-month period).
- Tweets after Trump is selected as the nominee, but before the election (11 over a 7-month period).
- Tweets between Trump’s victory and inauguration (10 over a 3-month period).
- Tweets between Trump’s inauguration and the end of 2017 (12 over a 12-month period).

In addition to the the event analysis, I simply regress the probability of Trump winning on the Mexican peso. I use Nate Silver’s 538 blog (the aggregate “chance of winning” measure that use a variety of polls)

for Trump’s electoral probability.<sup>22</sup> Nate Silver’s probability calculations are a widely used and respected aggregator of available public opinion polls. I also use the Iowa Betting Markets, given that it involves more than simply cheap talk, as bettors have a financial stake in the outcome and thus an incentive to gather accurate information about the electoral probabilities.<sup>23</sup>

The Mexican peso data comes from the economic data and research wing of the the St. Louis Federal Reserve (“FRED”). The exchange rate measures the relative increase in value of the dollar and correspondingly measures the the decrease in value of the peso. I use the value of the peso at the close of business, which is 4 pm Eastern time.<sup>24</sup> To measure the “impact” of the tweet, I include controls for the number of times it is retweeted and the number of times it is “favorited”. Data on the US Dollar Index come from the St. Louis Federal Reserve. I use the same source for data on the Yuan and Ruble, which I include in robustness checks that measure the impact of tweets regarding China and Russia. Data on the Mexican Bolsa (Mexican Stock Market) and oil prices come from the Global Financial Data Database.<sup>25</sup>

In addition, I also score the tweets using a sentiment analysis technique. This technique adds value by allowing me to relax the assumption that all tweets have the same negative effect on the peso. Given that the text of the tweets are different and thus contain different information, it seems plausible that some may have a stronger effect than others. Scoring the tweets using a sentiment analysis technique allowed me to measure these differences.

However, I can only include this robustness check in the linear models; to the best of the author’s knowledge, it is methodologically impossible to consider such controls when doing an event analysis. Further, Trump’s method of speech makes it challenging to reliably score according to a sentiment analysis. Traditionally positive words are used in negative ways, meaning that rules to score tweets according to an affective dictionary can be ineffective. For example, “a beautiful wall” would be a positive tweet according to the dictionary, yet would entail negative economic policy towards Mexico. Despite these challenges, I include the results of the sentiment analysis. I use the R “Sentiment Analysis” package and the Harvard GI dictionary; when multiple tweets occurred in a single day, I average the outcomes. As shown in the results, sentiment does not seem to influence the effects, either because all tweets are interpreted by markets in the same way regardless of tone, or because sentiment analysis inaccurately captures Trump’s style of speech for reasons discussed above. I also include wordclouds of the tweets in the appendix.

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<sup>22</sup><https://projects.fivethirtyeight.com/2016-election-forecast/>

<sup>23</sup>I use the “Winner Take All” Vote probability measure (<https://iemweb.biz.uiowa.edu/markets/pres16.html>).

<sup>24</sup><https://fred.stlouisfed.org/series/DEXMXUS> Mexico / U.S. Foreign Exchange Rate, Mexican New Pesos to One U.S. Dollar, Daily, Not Seasonally Adjusted FRED Graph Observations, Federal Reserve Economic Data, Economic Research Division, Federal Reserve Bank of St. Louis.

<sup>25</sup><https://www.globalfinancialdata.com/>

### 3.2 Methodological Assumptions and Challenges of Endogeneity

A central assumption of this event analysis is that tweets are affecting the value of the peso, as opposed to the peso affecting the content and timing of Trump's tweets. This assumption is essential, as a common concern about event studies is that the events themselves might be anticipated by investors beforehand. In such cases, that information would be incorporated in the value of the peso before the event itself occurs. If the event is anticipated, and markets are efficient at incorporating that information, then the event itself should bring no changes to asset prices. However, both tweets and the election outcome are plausibly exogenous events. Donald Trump's tweets appear seemingly at random; even his own staff claims to have little knowledge of when he is planning to tweet about a topic.<sup>26</sup> Further, the tweets are plausibly uncorrelated with the value of the peso, given that Trump has demonstrated little knowledge of global economic news in general and specifically developing country currencies. Trump has been widely cited as unpredictable in the media and often shifts his policy stances and he is famously protean in policy discussions. Trump's tweets mirror this "mixed messages" approach, and often jump from policy to policy in seemingly random order, sometimes giving conflicting or even unintelligible messages.

While the analysis demonstrates that Trump's tweets influence the Mexican peso, the reverse is less plausible, as he does not mention "peso" in any tweets. The idea that he would time his tweets around changes in the Mexican peso appears implausible, given his low level of interest in the details of the Mexican economy. Further, while the Mexican peso and Mexican economy might have had some impact on Trump's shifting popularity and thus chances of winning, the impact would be minuscule compared to domestic economic issues, non-economic issues like terrorism, and the behavior of Trump himself.

Trump's electoral victory was also an event which was not anticipated; commentators have noted that in retrospect, the probability of Trump winning the presidency was consistently under-estimated. While markets doubtless incorporated a small risk of a Trump victory, Hilary Clinton was widely expected to emerge as the winner. *The New York Times* estimated that Trump had only a 15% chance of winning. The 538 blog had one of the highest chances of Trump winning, at 29%. The Princeton Election Center predicted that Trump had a less than 1% chance of victory.<sup>27</sup> Foreign and conservative news outlets also predicted that there was only a marginal chance of Trump being elected.<sup>28</sup> Trump's victory was variously described as "stunning", "an upset" and even "shocking".<sup>29</sup> Because the electoral outcome was unanticipated, it is useful to leverage it for this event study.

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<sup>26</sup>Mahtani, Shibani. January 4th, 2017. "When Donald Trump Tweets, It Is News to Sean Spicer". *The Wall Street Journal*. See also McIntire, Mike and Confessore, Nicholas. November 2nd, 2019. "Trump's Twitter Presidency: 9 Key Takeaways". *The New York Times*.

<sup>27</sup>Katz, Josh. "Who Will Be President?" *The New York Times* Upshot.

<sup>28</sup>Cf. Meckler, Laura. November 6th, 2016. "Donald Trump's Path to Victory Is Narrow". *The Wall Street Journal*. See also Economist Data Team. October 24th, 2016. "Donald Trump's slimming chances of victory." *The Economist*.

<sup>29</sup>Victor, Daniel. Nov. 6, 2016. "Trump's Victory, on Front Pages Worldwide" *The New York Times*.

However, the “randomness” of his tweets could be challenged in a number of ways. First, Trump tweets at particular times of the day, especially in the morning, and especially while watching “Fox and Friends”. Thus, the content of Fox News— which is certainly not random— could influence the content of Trump’s tweets. Further, not all of Trump’s tweets are written by Trump himself; some are written by members of his staff and other aides. Still, despite these influences, the overall pattern of Trump’s communication policy, intentional or not, is one of uncertainty and unpredictability. As evidence, Trump has been described as a “wildcard”<sup>30</sup> and sending “mixed signals”<sup>31</sup> as well as simply “unpredictable”.<sup>32,33,34</sup>

In short, the evidence presented above about the tweets and the election means that there is reasonable evidence to counter concerns of endogeneity or reverse causality. Other possible sources of exogeneity besides tweets are difficult to find, but a few contenders would be natural disasters, war, or corruption scandals. Some other possible sources of exogeneity would be more difficult to separate from other economic and political effects, making potential instruments such as shifting interest rates, economic growth or change in trade less plausibly exogenous than tweets.

## 4 Results

The findings in this paper rely on the results of several different models. First, the event analysis around the election shows a strong effect, with the peso weakening more than 5 percent.<sup>35</sup> However, the effect seems to become smaller as the size of the window increases, perhaps as investors correct overreaction to the initial news. The effect of a tweet is approximately equivalent to about 0.3% decrease in the value of the peso for each tweet (as the net effect a decrease of about 0.10 in the peso and the peso/dollar exchange rate averaged 18–20 in this time period). This effect appears to hold even with a 3-day window instead of a 1-day window, showing that the effects are more than temporary. It is important to keep these effects in context and to understand the significance of their cumulative effect. While each tweet may have only a small effect, the total effect of dozens of tweets results in a major decrease in the value of the peso, which fell 17 percent over the year.

The effects hold even under a variety of different specifications and robustness checks. Notably, the effect fades – and appears to even turn slightly in the opposite direction – once Trump takes office, as markets no longer view his tweets as providing novel, plausible policy proposals. I explore possible explanations for this

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<sup>30</sup>Poh, Olivia. May 30 2018. “Trump is harder to predict than Kim Jong Un, says Stanford expert.” CNBC.

<sup>31</sup>Fisher, Max. April 27th, 2018. “How Trump’s Mixed Signals Complicate America’s Role in the World”. New York Times.

<sup>32</sup>Thrush, Glenn and Landler, Mark. April 20, 2017. *Bold, Unpredictable Foreign Policy Lifts Trump, but Has Risks*. New York Times.

<sup>33</sup>The current president of Mexico, Andres Manuel Lopez Obrador, describes Trump as “erratic”. Meredith, Sam. July 2nd, 2018. *Mexico’s next president believes Trump is ‘erratic and arrogant’ — but promises to build ‘friendly’ ties*. CNBC.

<sup>34</sup>Erlanger, Steven. Jan. 7, 2018. “Trump’s Twitter Threats Put American Credibility on the Line.” New York Times.

<sup>35</sup>Note that the analyses present net change in the peso/dollar exchange rate; as the peso exchange rate increased from under 19 pesos/USD to more than 20 pesos/USD, this is equivalent to a more than 5 percent change. To see a chart of volatility over time, cf. <https://vlab.stern.nyu.edu/analysis/VOL.USDMXN:FOREX-R.GARCH>

finding in the following section.

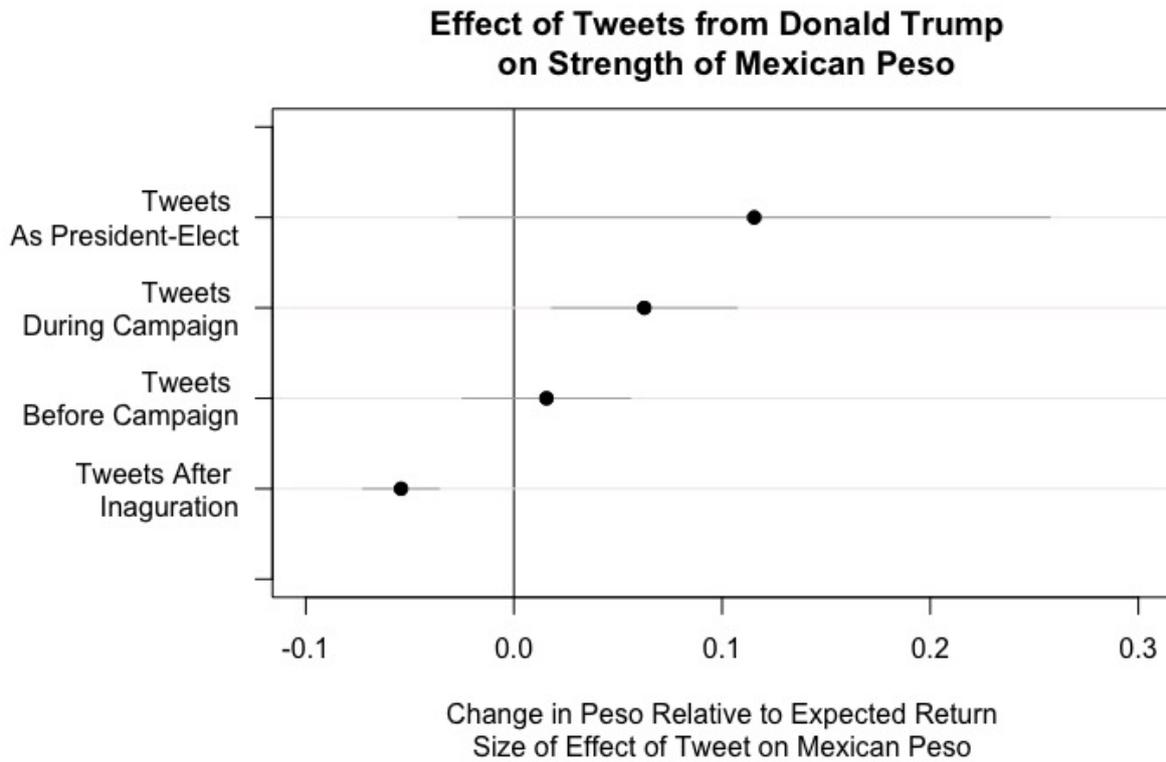


Figure 2: The effect of tweets during the campaign are significant at the 95% level. The point estimate is larger in the period before the inauguration than after the campaign, but the 95% confidence interval includes 0. Note that the effects are not significant before Trump becomes the nominee and actually indicate strengthening of the peso after the inauguration. The values shown are absolute changes in the peso. The value during the campaign corresponds to an approximately 0.3% change in the value of the peso.

The results of tweets are positive but small and not statistically distinguishable from zero before Trump was named as the Republican candidate. This would align with expectations, as Trump was considered a “long-shot” candidate at the time and thus the risk of him becoming president was perceived as low.

During the campaign, when Trump was the presumptive Republican nominee, the effect of a tweet is approximately an increase of .05 pesos to the dollar (an approximately 0.25% change in percent terms). The effects also appear to persist in the window after the tweet. Again, this would align with expectations, as securing the nomination increased the probability of Trump being elected as president and thus should impact the effect of his tweets. Further, the tweets appear to have an effect regardless of whether they contain new or repeated policy information, providing support for both **H1** and **H2**.

In all of the analyses after the election but before inauguration, we see a significant effect of a tweet on the Mexican peso. It aligns with expectations that this period would be associated with the strongest effects on the peso, as the risk that Trump would take office became 100 percent. Trump's tweets in this time period were also particularly vitriolic. The combination of his surprise victory and his continued negative policy stance towards Mexico appears to have the strongest effect on the peso. In that time period, the point estimate of the impact of a tweet is an approximate 0.60 percent drop in the value of a peso, although the 95 percent confidence interval includes 0 (because of the small sample size).

One notably puzzling finding is that the results are different after the inauguration. In this period, the tweets seem to *strengthen* the peso (the effects are small but significant at the 95% level). Ostensibly, this finding seems to run counter to the main causal mechanisms, as his tweets continued to have negative policy information regarding Mexico.

There are several potential explanations for this result. One reason is that the market started to discount Trump's tweets as "cheap talk" (contrary to the findings of Benton and Philips) in addition to the fact that he started to increase the number of economic advisors with experience in financial markets. These advisors were expected to restrain Trump's behavior and provide expertise on what policies would be economically beneficial to both the US and global trade. This would mean that the tweets were interpreted to have different policy implications after the inauguration because currency traders perceived that economic policy would come from this new set of more traditional, market-friendly advisors.

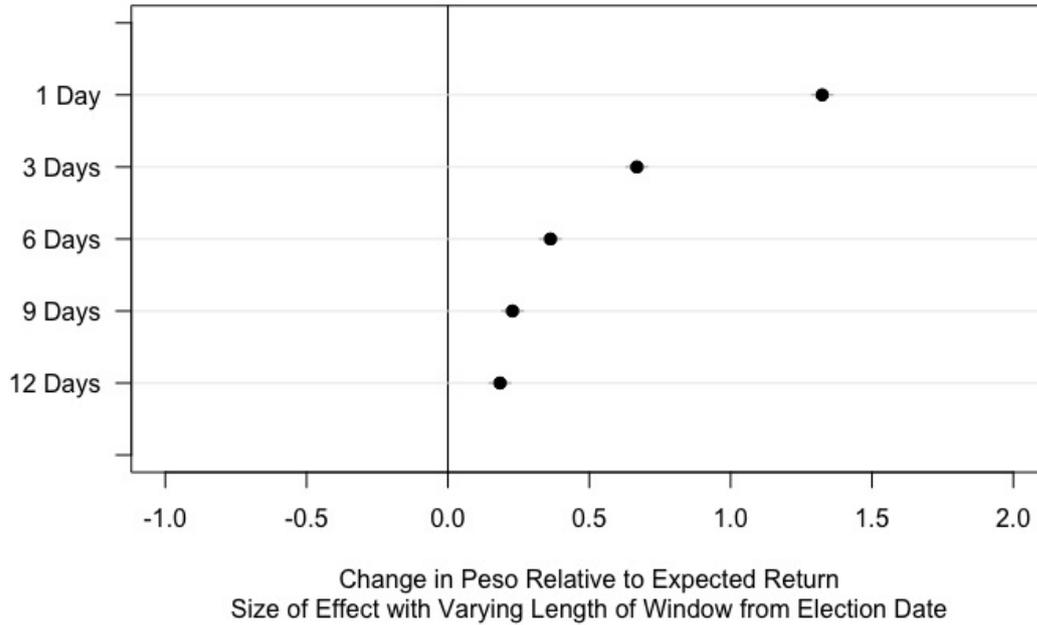
A second explanation is that financial markets began to discount Trump's tweets as no longer providing useful information. As Ioan Grillo notes in a recent interview with Mexican residents, "while Mr. Trump's language angers [Mexicans], his first year in power did not affect them as much as they feared".<sup>36</sup> While the potential for further trade action remains possible, and the possibility of a "trade war" looms large over the global economy, actual trade restrictions against Mexico (as of writing in late 2019) have been minimal thus far. In this case, the tweets would have a null effect on the peso, although I find that the tweets have a slight positive effect.

A third potential explanation is that the period after the inauguration simply represented a regression to the mean. In this case, markets "overreacted" and returned to the long-term valuation for the dollar-peso exchange rate. Since the overreaction was to the negative side, a return to the mean would represent a slightly positive outcome, as observed in the models.

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<sup>36</sup>Grillo, Ioan. Jan. 29, 2018. "In Mexico, Trump's Bark Has Been Worse Than His Bite." New York Times.

### Effect of Election of Donald Trump on Strength of Mexican Peso



This broadly means that there are different results with respect to the timing of the election cycle. After the election, tweets do not seem to have an impact on the peso, and may even have a slight strengthening effect on the peso. The effect presumably disappears because after assuming office, he no much less frequently tweets about economic policies with potential harm to the Mexican economy. Similarly, the most extreme versions of those policies have not materialized and Trump has backed down from both the high tariffs on Mexican imports and closing the border with Mexico. These results provide evidence that the effects are strongest when Trump has the highest chance of winning, given that threat is taken more seriously if he is more likely to win. This provides support for **H3**. In particular, his tweets once he's won the election are considered to be plausible policy proposals, given that he would soon be sworn in as President of the United States. The model that uses Trump's change of winning as the independent variable (instead of tweets) has a similarly large effect. I include two other variables that both indicate the health of the Mexican economy and are available on a daily basis: the value of the Mexican stock market and the price of oil (as Mexico is a major oil producer and government revenue depends heavily on oil). The chance of winning strongly predicts changes in the Mexican peso, whereas the other two variables are not significant.

The results of bivariate regressions are available in table 3 in the appendix; each of the independent variables used in the full model is regressed against the dependent variable (the price of the peso). The then-predicted probability of Trump being elected is significant, although only at the 90 percent level for the Iowa Elections Market model. Among the other variables, only the change in the Mexican stock market is

significant.

Table 1: Election Models

	<i>Dependent variable:</i>			
	Peso			
	(1)	(2)	(3)	(4)
Trump Win Prob. (538 Blog)	0.027*** (0.005)	0.028*** (0.005)		
Trump Win Prob. (Iowa)			0.011* (0.005)	0.011* (0.006)
Sentiment Score of Tweet	-1.076 (1.362)	71.167 (135.474)	-1.159 (1.498)	11.379 (55.231)
Favorite Count	-0.00001 (0.00003)	-0.0001 (0.0001)	-0.00000 (0.00004)	-0.00002 (0.0001)
Retweet Count	0.00004 (0.0001)	0.001 (0.002)	0.00002 (0.0001)	0.0001 (0.0005)
Oil Price (Cushing)	0.023 (0.014)	0.024 (0.014)	-0.001 (0.015)	-0.001 (0.015)
Mexican Bolsa (Change at Close)	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)
Trump Win Prob. (538 Blog) x Sentiment Score		-1.608 (2.929)		
Trump Win Prob. (Iowa) x Sentiment Score				-0.339 (1.399)
Favorite Count x Sentiment Score		-0.002 (0.003)		-0.0001 (0.001)
Constant	16.948*** (0.744)	16.905*** (0.758)	18.588*** (0.779)	18.570*** (0.797)
Observations	156	156	149	149
R <sup>2</sup>	0.230	0.232	0.095	0.095
Adjusted R <sup>2</sup>	0.199	0.190	0.057	0.044
Residual Std. Error	0.395	0.397	0.432	0.434
F Statistic	7.402*** (df = 6; 149)	5.546***	2.482**	1.846*

Note:

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

#### 4.1 Interpreting the Results

The table above shows the full models that include all the independent variables that are central to my theory. I present four models: two use the 538 measure of probability and two use the Iowa Elections Market measure. For each different measure of predicted probability, I present models with and without interactions.

The results are broadly similar to the bivariate analysis. The value of the dollar relative to the peso is highest when Trump has the highest chance of winning, although the results are only significant at the 90 percent level for the Iowa Election Markets models. Changes in oil prices are not significant, although changes in the Mexican stock market are significant at the 99 percent level in all models. The sentiment score is not significant, not are the number of times a tweet is retweeted or favorited; the interaction models are also not

significant.

There are several potential explanations for the fact that the Iowa elections market data is only significant at the 90 percent level. First, it is worth noting the fact that it varies less than the 538 blog data. In addition, the sample size is relatively small given the limited number of days between the selection of Trump as the Republican candidate and election day. This limits the power of the model and perhaps provides only a conservative estimate of the variable's significance.

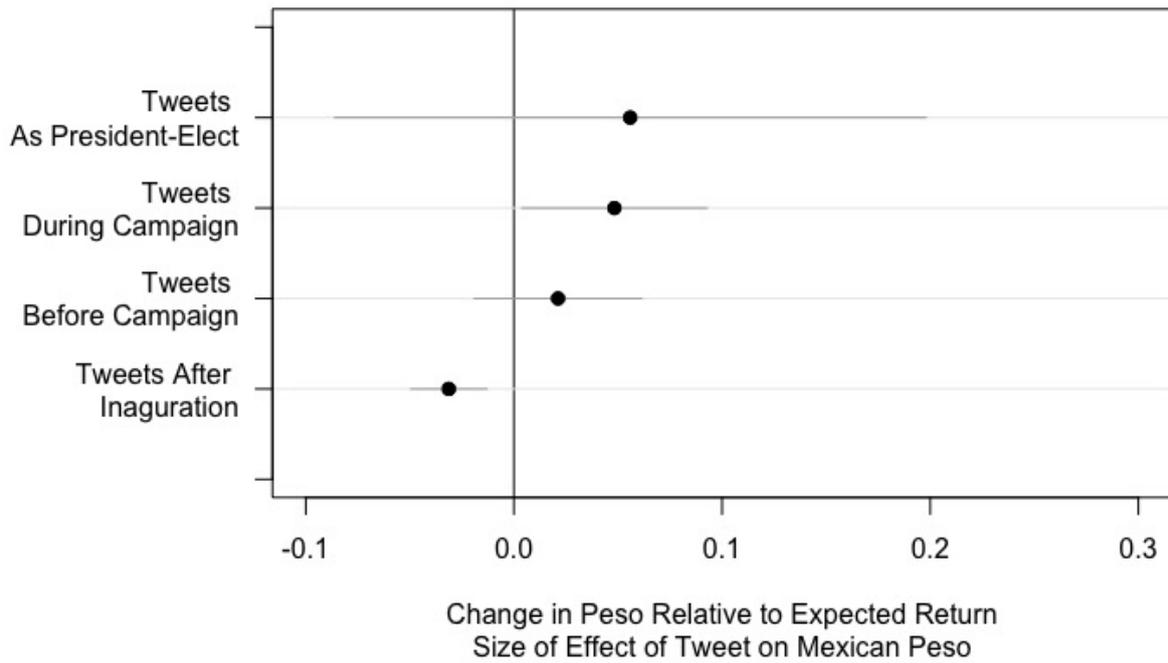
Summarizing the findings above from the different analyses above, we see that tweets that contain new policy information have a strong effect on the peso, in support of **H1**. However, even tweets without any new information, or even tweets that are retweeted and thus are identical to already released tweets, still have an effect on the peso, providing support for **H2**. Finally, because the peso is highly affected by Trump's chance of winning, there is strong support for **H3**.

In summary, tweets have a strong negative effect on the Mexican peso, and the effect is stronger when Trump has a higher chance of winning, although the effect disappears as he assumes office, as he both appoints economic advisors who were expected to bring his policies more to the center and markets begin to interpret his tweets merely as "cheap talk." This phenomenon mirrors that noted by Susan Stokes (2001) in *Mandates and Democracy: Neoliberalism by Surprise in Latin America*, wherein campaign promises are reversed once a politician takes office.

## 5 Robustness Checks

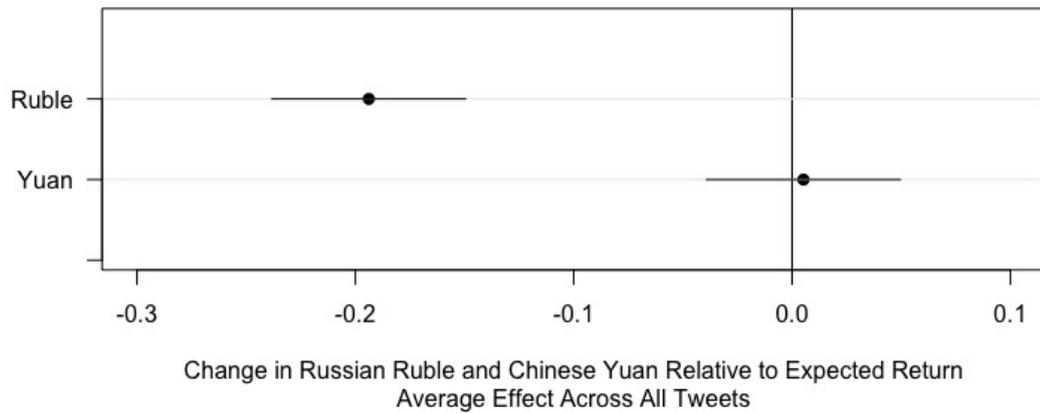
In order to supplement the main findings, I run a number of robustness checks and extensions of the existing analysis. First, I expand the tweet window from one day to three days in order to verify that the effects extend over a wider time frame. The effects are similar to, and indeed even slightly stronger than, the baseline results. Extending the window further than three days is desirable but not practical, as it would result in substantial overlap between events (especially in shorter time periods, such as the gap between Trump's election and the inauguration, which is a mere 103 days). However, verifying that the effect holds over a three day period should provide reassurance that the effect is more than a temporary phenomenon.

### Effect of Tweets from Donald Trump on Strength of Mexican Peso



Additionally, I expand the analysis other currencies, especially those which were relevant to the 2016 election and mentioned by Trump frequently. However, it is important to subset the analysis to only the most politically and economically countries and those that are mentioned in Trump's tweets. For example, Canada is hardly mentioned in his tweets, despite being a neighbor and major trade partner. Instead, I examine the impact of Trump's tweets on two other countries that Trump frequently mentions in his tweets (between the time of the announcement of his initial run and the end of 2017): Russia (213 tweets) and China (456 tweets). In fact, Trump tweeted about China substantially more than he tweeted about Mexico during this time period, making it an ideal comparison to the US-Mexico dyad.

### Effect of Russia and China Relevant Tweets on Respective Foreign Currencies



The results show that the effects demonstrated above are not idiosyncratic to the US–Mexico relationship; the impact of the US election spread beyond Mexico to other countries across the globe. Interestingly, the event analysis of the ruble provides evidence that Trump’s tweets regarding Russia actually strengthen that currency. A potential causal mechanism is that Trump was perceived to be pro-Russia and in favor of closer ties with Russia, including weakening sanctions against Russia. The ongoing investigation (as of March 2019) of Russian interference in the 2016 election would lend credence to this perspective. Putin has openly said that he preferred Trump to be president, citing Trump’s desire for friendlier relations.

The fact that tweets about China do not have an effect on the yuan is more puzzling. One explanation is that the tweets largely pre-date the trade war and Trump’s actions against China. Another explanation is that a shifting focus on Mexico distracted traders of the yuan. The yuan is also not a free-floating currency, but a managed float, meaning that there may be less speculation in the currency and it may be slower to adjust to market forces. This places it outside of the scope conditions of my analysis, so the fact that it is not influenced by a surprising foreign election is thus more understandable. The Chinese government may also take more steps to counterbalance downward effects on the yuan. China also has a more diversified economy and trading relationships than does Mexico, which is much more heavily reliant on the United States.

Some additional robustness checks are unfortunately not possible. For example, while it would be useful to control for such factors as economic growth and unemployment, those factors don’t vary at a granular enough level to make them useful for this analysis. An additional check that would be desirable would be to interact the chance of winning with tweets, in order to see if tweets have a larger effect when Trump has the largest probability of winning. However, as event analyses treat all events as similar, this is not possible. Instead, I use an interaction term in the linear regression models to show the interactive effect of tweets and Trump’s predicted chance of winning. Finally, while it would be desirable to add in fixed effects for the month in

order to account for any unobservable variation by month, the small sample size in the linear models makes this approach impractical, given limited power and degrees of freedom.

## 6 External Validity

In this section and the following, I add an additional case study to supplement the primary analysis of the US-Mexico dyad. The case shares strong parallels with the 2016 US election: the 2018 Brazilian election, which was a surprise election that led to a major shock in the currencies of Brazil's economic partners. I explore this case in greater depth in the following section.

### 6.1 Supplementary Case Study: Brazil's Surprise Right-Wing Election and its Affects on Argentina

An additional case study on the influence of a foreign election on the currency of a neighboring country comes from the 2018 election of Jair Bolsonaro in Brazil. Bolsonaro's election mirrors Trump's election in several important ways: he was an outsider candidate, and populist, on the political right, and had a penchant for politically controversial statements. The comparison was quickly noted by the media, to the degree that Bolsonaro's nickname became "The Trump of the Tropics".<sup>37</sup> In a similarly surprising victory, he won the presidency, after a near-fatal stabbing attack that quickly increased his popularity. Bolsonaro received 55 percent of the second round vote and defeated the Partido dos Trabalhadores (PT) candidate, Fernando Haddad, who had received the endorsement of popular former president Luiz Inácio Lula da Silva.

Bolsonaro's election fits many of the scope conditions described in the theory outlined in this paper. It was a surprise outcome, was accompanied by enormous uncertainty, and would result in economic policy that would be potentially path-breaking. The effects were noted by financial markets in Brazil, which interpreted Bolsonaro's election as pro-business. Bolsonaro quickly surged in the polls as an outsider candidate to one of the most likely contenders for the presidency. While details were initially unclear about his economic policies, he promised deregulation, lower taxes, and deep structural reforms to the economy. He also promised a major change from leftist policies that had been implemented by predecessors under the PT, and promised to "liberate the country from socialism."<sup>38</sup>

This case study compares the effect of the Brazilian economy on the Argentine one, mirroring the effects of the US election on Mexico. Brazil's economy, at approximately 2 trillion dollars in nominal GDP, is

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<sup>37</sup>Ironically, another similarity between Bolsonaro and Trump is their penchant for using twitter to announce important economic news. Bolsonaro used twitter to announce major plans to privatize the countries' airports and seaports, mirroring Trump's habit of posting important news on twitter. Cf. Anderson, Jon Lee. Oct. 30, 2018 "Jair Bolsonaro's Victory Echoes Donald Trump's, with Key Differences" The New Yorker. See also Reid, David. "Brazil's new president uses Twitter to announce privatization plan for air and seaports" CNBC.

<sup>38</sup>Lima, Sergio. Jan. 2, 2019. "Bolsonaro: Brazil has been 'liberated from socialism, political correctness'" NBC News.

approximately three times the size of Argentina's economy. Brazil is Argentina's largest import and export partner, with approximately 16 percent of Argentina's exports flow to Brazil and 22 percent of Argentina's imports coming from Brazil. This makes the relationship essential to the well-being of the Argentine economy and shifts in the Brazilian economy have shockwaves that affect the Argentine one.<sup>39</sup>

As with the election of Trump, Bolsonaro's election created shock waves in currency markets.<sup>40</sup> It is thus not surprising to see that the Argentine peso reacted strongly to the surprising elections in Brazil in 2018. In fact, it did so at two different periods in the election cycle. It reacted most strongly after the results of the first round election, when Bolsonaro's results were the most surprising. The first-round election occurred on Friday, October 7th, with Bolsonaro receiving 46 percent of the vote and handily defeating Haddad's 29 percent. On Monday, October 9th, Brazil's Bovespa stock index closed more than 4.5 percent higher on news that Bolsonaro was ahead in the polls. The Brazilian real similarly jumped 2 percent on no other news than the election results. Bolsonaro appointed Paulo Guedes, widely considered a highly pro-market advisor, as Minister of Finance, strengthening the real and Brazilian equity prices. However, the effects were not just seen within Brazil; there were important effects on the Argentine peso, which also rose 1.5 percent on the news.<sup>41</sup>

Economists and political commentators explicitly linked the strength of the Argentine peso to the Brazilian election: "Argentine markets like Bolsonaro because he has made promises to limit state involvement and lower taxes in Brazil. If he wins, it could be a boon for Argentine exports to Brazil in the medium term to long term, offering much needed stability and a more orderly economic transition in Argentina", economist Leonardo Chialva at local brokerage Delphos Investments said.<sup>42</sup> Similarly, in the second round election, both the Brazilian real and Argentine peso rose, on a day when every other emerging country currency fell except for the Japanese yen.<sup>43</sup> In short, the surprise election of Bolsonaro mirrors that of Trump; the effect of the US election on Mexico is also remarkably similar to that of Brazil on Argentina. The effects of the election on the Argentine peso were predictably weaker, given that Argentina is less reliant on the Brazilian economy than Mexico is on the US economy. However, the effects – albeit in the opposition direction, as the Mexican peso was weakened by bad news whereas the Argentine peso strengthened on good news – remain the same. This case should provide evidence that the phenomenon of surprise foreign elections influencing currency prices in close economic partners extends throughout a variety of cases in both the developed and developing world.

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<sup>39</sup>Nazareth, Rita. Oyamada, Aline. Andrade, Vinicius. "Brazil Stocks, Currency Surge as Bolsonaro Takes Commanding Lead". Bloomberg. October 7, 2018. Bloomberg News.

<sup>40</sup>Heeb, Gina. Oct. 8, 2018. "The real is soaring after 'Brazil's Donald Trump' wins first round of presidential election." Markets Insider.

<sup>41</sup>Reuters. Oct. 3, 2018. "EMERGING MARKETS-Brazil's currency, stocks rise on poll showing Bolsonaro win"

<sup>42</sup>Reuters. Oct. 8, 2018. "Argentine stocks rise on Brazilian election result, peso stronger"

<sup>43</sup>Kastner, Tassia. Oct. 3, 2018. "Brazilian Financial Markets Euphoric With Election Polls". Folha de S. Paulo.

## 7 Discussion

An important limitation of this paper is that it is not a complete test of the theory that foreign elections influence currency markets. Future research should assemble a broader range of cases, including ones that examine dyads without close economic ties in addition to the set of cases of countries with close ties that I outline in this paper. A large-N analysis across a wider range of years of cases would allow a more complete test of the theory. It would also permit a test of the scope conditions; are the effects limited to certain regions of the world? Have the effects become more intense over time? While the work in this paper is intended to be only a set of case studies that demonstrate the existence of an overlooked political phenomenon, the next stage is a broader exploration of the magnitude of these effects and where they are most prominent. Assembling this data will be a central challenge for future research, as will finding other cases of plausible exogeneity.

Moreover, while I have focused on the effect of foreign elections, future work could explore a much wider variety of political shocks. One particularly notable example, and one closely related to this paper, is that of surprise announcements by the media. There is likely a larger universe of cases in which the media makes surprise announcements or uncovers policy-relevant information. To the degree that such media events are “surprising”, they should also be plausibly exogenous. Additionally, when the media uncovers policy-relevant information in foreign countries, it should follow a similar causal mechanism to the foreign election effects that I outline in this paper. Similarly, surprise corruption scandals, coalition formations, economic reform programs, or any surprising, policy-relevant announcement. Even war or the threat of war could be an additional causal mechanism with strong similarities to the ones outlined above regarding foreign elections. While these effects have been studied in-depth on the domestic side, much less attention has been given to these effects in foreign economic partners. Future work should continue to expand upon these findings and measure the effect of other foreign political factors that shape exchange rates.

## 8 Conclusion

This paper has investigated how foreign elections can affect exchange rates, building on the existing literature that examines how domestic elections affect currency values. This case study of the US and Mexico is but one example of such a relationship, yet it should yield important insights into other such imbalances of economic power across the globe. The plausible exogeneity provided by Trump’s tweets is particularly important because it has allowed me to analyze the impact of potentially disrupting the deep and concentrated economic ties that I examine in this paper. Using an event analysis to measure shifts in the value of the peso, I am able to measure the value of the potential economic damage that the US could inflict on Mexico. Using my methodological approach, I find strong evidence that even a single tweet from President Trump

can cause a significant decline in the value of the peso. The size of that effect is mediated by the probability that Trump would be elected; indeed, the election itself had the largest effect on the peso, significantly larger than the effect size of any single tweet. The results add to the evidence that foreign elections can weaken the ability of economic regulators and policymakers to control domestic monetary policy and maintain stability in currency markets. While this paper has focused primarily on the US-Mexico dyad, future work should further expand on these findings by exploring the impact of foreign elections on currency politics in a range of other settings across the developed and developing world.

This paper adds to the growing literature on how global financial forces— including interest rates ([Arias \(2019\)](#)), oil prices, stock markets, and trade flows— affect democratic politics in Latin America. It should trouble those who are interested in the sovereignty of developing countries, especially those interested in the ability of developing countries to independently determine domestic economic policy. This paper also adds to the growing literature on the external sources of domestic politics, a claim echoing that of [Campello and Zucco \(2016\)](#), who argue that presidential popularity in Latin America can be predicted by the value of a basket of commodities whose prices are largely set on foreign markets. The ability of Mexican regulators to drive the peso was often diminished by Trump's tweets and the election itself— factors altogether exogenous to Mexican politics. This paper also demonstrates that elections have repercussions for not only a range of domestic economic and political outcomes, but also on economic outcomes in foreign countries. Future work should expand on the findings in this paper and explore other foreign political mechanisms beyond elections.

## 9 Appendix

Table 2: Summary Statistics

Statistic	N	Mean	St. Dev.	Min	Pctl(25)	Pctl(75)	Max
Mexican Bolsa (Close)	156	3,235	111	2,856	3,165	3,306	3,482
Oil Price (Cushing)	156	46.386	2.704	39.500	44.390	48.720	51.590
Peso	156	18.821	0.441	17.975	18.524	19.053	20.494
Change in Peso	156	0.082	1.052	-2.519	-0.297	0.317	7.266
Trump Win Prob. (538)	156	29.636	7.497	14.700	24.550	35.175	45.400
Trump Win Prob. (Iowa)	149	27.454	7.378	1.200	24.300	31.700	59.200
Tweet	156	0.032	0.177	0	0	0	1
Sentiment Score	156	0.008	0.047	0	0	0	1
Retweet Count	156	363	2,201	0	0	0	18930
Favorite Count	156	982	5,667	0	0	0	42376
US Dollar Index	156	121.619	1.015	119.434	120.891	122.405	125.384

Table 3: Bivariate Analysis

	<i>Dependent variable:</i>				
	(1)	(2)	Peso (3)	(4)	(5)
Trump Win Prob. (538 Blog)	0.024*** (0.004)				
Trump Win Prob. (Iowa)		0.009* (0.005)			
Oil Price (Cushing)			-0.018 (0.013)		
Change Mexico Bolsa (Close)				-0.002*** (0.001)	
Sentiment Score of Tweet					-0.203 (0.763)
Constant	18.118*** (0.132)	18.582*** (0.139)	19.669*** (0.606)	18.816*** (0.034)	18.823*** (0.036)
Observations	156	156	156	156	156
R <sup>2</sup>	0.163	0.024	0.013	0.058	0.0005
Adjusted R <sup>2</sup>	0.158	0.017	0.006	0.052	-0.006
Residual Std. Error	0.404	0.441	0.439	0.429	0.442
F Statistic	30.036***	3.553*	1.959	9.567***	0.071

Note:

\*p<0.1; \*\*p<0.05; \*\*\*p<0.01

**Tweets after campaign announced, before nomination (page 1)**

Everybody is talking about the protesters burning the American flags and proudly waving Mexican flags. I want America First - so do voters!	5/2/16
We must build a great wall between Mexico and the United States! <a href="https://t.co/05SjuRJFbf">https://t.co/05SjuRJFbf</a>	4/1/16
Ohio is losing jobs to Mexico now losing Ford (and many others). Kasich is weak on illegal immigration. We need strong borders now!	3/15/16
North Carolina lost 300000 manufacturing jobs and Ohio lost 400000 since 2000. Going to Mexico etc. NO MORE IF I WIN WE WILL BRING BACK!	3/15/16
Absentee Governor Kasich voted for NAFTA and NAFTA devastated Ohio - a disaster from which it never recovered. Kasich is good for Mexico!	3/12/16
FMR PRES of Mexico Vicente Fox horribly used the F word when discussing the wall. He must apologize! If I did that there would be a uproar!	2/25/16
AmFree: Trump On Ford Carrier Shipping Jobs To Mexico: I'm The Only One Who Understands What's Going On <a href="https://t.co/JsuiHpQpXX">https://t.co/JsuiHpQpXX</a>	2/13/16
Now an additional 600-700 jobs in America (2000) being eliminated for move to Mexico- via Hartford Courant. <a href="https://t.co/bOIYQLqGRG">https://t.co/bOIYQLqGRG</a>	2/13/16
.AnnCoulter has been amazing. We will win and establish strong borders we will build a WALL and Mexico will pay. We will be great again!	1/23/16
When will the Democrats and Hillary in particular say "we must build a wall a great wall and Mexico is going to pay for it?" Never!	12/25/15
Illegal immigrant children non-Mexicans surge across border at record rate <a href="https://t.co/V6TP55dRAC">https://t.co/V6TP55dRAC</a>	12/2/15
Word is that Ford Motor because of my constant badgering at packed events is going to cancel their deal to go to Mexico and stay in U.S.	10/25/15
josemen31: realDonaldTrump this Mexican here loves you man!! Keep doing your thing mexicolovestrump Great!	10/25/15
American1st: ofcadjust AnnCoulter GW Bush was open borders like JebBush. TERRORISTS CAN COME ACROSS MEXICAN BORDER AT WILL!	10/18/15
mimisaulino: seanhannity FoxNews Syrian Muslims escorted into U.S. through Mexico. Now arriving to Oklahoma and Kansas! Congress?	10/13/15

Tweets after campaign announced, before nomination (page 2)

Good luck to the US Men's National Team in tomorrow's CONCACAF Cup vs. Mexico! It should be a great game! <a href="https://t.co/nH31afzjNz">https://t.co/nH31afzjNz</a>	10/9/15
@YoungYoung54: @JeriHyatt @megynkelly @JebBush So true. Jeb Bush is crazy who cares that he speaks Mexican this is America English !!	8/25/15
@Foshay504: @greta DonaldTrump-Love him! It's time to run America like a business. We've given all our wealth to China n Mexico!! No more!	7/26/15
Ford is MOVING jobs from Michigan to Mexico AGAIN! <a href="http://t.co/TgVQ1458AJ">http://t.co/TgVQ1458AJ</a> As President this will stop on Day One! Jobs will stay here.	7/14/15
Mexico's totally corrupt gov' looks horrible with El Chapo's escape corrupt. U.S. paid them 3 billion.	7/13/15
The joke around town is that I freed El Chapo from the Mexican prison because the timing was so good w/ my statements on border security.	7/13/15
When will people and the media start to apologize to me for my statement "Mexico is sending...." which turned out to be true? El Chapo	7/13/15
...likewise billions of dollars gets brought into Mexico through the border. We get the killers drugs crime they get the money!	7/13/15
El Chapo and the Mexican drug cartels use the border unimpeded like it was a vacuum cleaner sucking drugs and death right into the U.S.	7/13/15
The U.S. will invite El Chapo the Mexican drug lord who just escaped prison to become a U.S. citizen because our "leaders" can't say no!	7/13/15
Now that the Mexican drug lord escaped from prison everyone is saying that most of the cocaine etc. coming into the U.S. comes over border!	7/13/15
Can you envision Jeb Bush or Hillary Clinton negotiating with 'El Chapo' the Mexican drug lord who escaped from prison? ....	7/13/15
Mexico's biggest drug lord escapes from jail. Unbelievable corruption and USA is paying the price. I told you so!	7/12/15
I said simply that the Mexican leaders and negotiators are smarter than ours and that the Mexican gov't is pushing their hard core to U.S.	7/6/15
@futureicon: @GOP Trump is correct Hear about a young woman who was shot to death in San Francisco by a Mexican who'd been deported 5 times	7/5/15

Tweets after campaign announced, before nomination (page 3)

@BonnieKit: Thank you America Ferrara for supporting lawless criminals from Mexico. One more needless death. 2 innocent lives taken	7/3/15
Mexican leaders and negotiators are much tougher and smarter than those of the U.S. Mexico is killing us on jobs and trade. WAKE UP!	7/3/15
@RealNinjetta @ErinSiegal @AppSame @Univision <a href="http://t.co/QNOuFlufaS">http://t.co/QNOuFlufaS</a> My many MEXICAN friends fly to visit Mexico because UNSAFE border	7/2/15
Via @THESHARKTANK1: "Donald Trump's Controversial Mexican Comments Are Accurate" <a href="http://t.co/nYL2QQMwKZ">http://t.co/nYL2QQMwKZ</a>	6/30/15
I love the Mexican people but Mexico is not our friend. They're killing us at the border and they're killing us on jobs and trade. FIGHT!	6/30/15
We MUST have strong borders and stop illegal immigration. Without that we do not have a country. Also Mexico is killing U.S. on trade. WIN!	6/30/15
@KEEMSTARx: Mexican criminals coming into USA? YES Did Trump say we need to stop them? YES Did he say Mexicans are good? YES Racism? NO	6/29/15
Must read article via @fitsnews: "DONALD TRUMP VERSUS MEXICO" <a href="http://t.co/tdjvtB6NB">http://t.co/tdjvtB6NB</a>	6/27/15
A great article by @NolteNC spelling out the truth on Mexico trade the border illegals. Thank you BreitbartNews <a href="http://t.co/oJnV2OXcEc">http://t.co/oJnV2OXcEc</a>	6/27/15
The leader and negotiators representing Mexico are far smarter and more cunning than the leader and negotiators representing the U.S.!	6/27/15
Only very stupid people think that the United States is making good trade deals with Mexico. Mexico is killing us at the border and at trade!	6/27/15
Univision cares far more about Mexico than it does about the U.S. Are they controlled by the Mexican government?	6/26/15
I love Mexico but not the unfair trade deals that the US so stupidly makes with them. Really bad for US jobs only good for Mexico.	6/25/15
Univision wants to back out of signed MissUniverse contract because I exposed the terrible trade deals that the U.S. makes with Mexico.	6/25/15

**Tweets after campaign announced, before nomination (page 4)**

Mexican gov doesn't want me talking about terrible border situation horrible trade deals. Forcing Univision to get me to stop- no way!	6/25/15
Mexico is killing the United States economically because their leaders and negotiators are FAR smarter than ours. But nobody beats Trump!	6/20/15
I like Mexico and love the spirit of Mexican people but we must protect our borders from people from all over pouring into the U.S.	6/20/15

### Tweets during campaign as Republican nominee

With Luis Mexico and the United States would have made wonderful deals together - where both Mexico and the US would have benefitted.	9/8/16
Mexico has lost a brilliant finance minister and wonderful man who I know is highly respected by President Pena Nieto.	9/8/16
Mexico will pay for the wall!	9/1/16
Mexico will pay for the wall - 100! MakeAmericaGreatAgain ImWithYouhttps://t.co/pSFuPZz0xP	9/1/16
Great trip to Mexico today - wonderful leadership and high quality people! Look forward to our next meeting.	9/1/16
Hillary Clinton didn't go to Louisiana and now she didn't go to Mexico. She doesn't have the drive or stamina to MAKE AMERICA GREAT AGAIN!	9/1/16
Former President Vicente Fox who is railing against my visit to Mexico today also invited me when he apologized for using the "f bomb."	8/31/16
I have accepted the invitation of President Enrique Pena Nieto of Mexico and look very much forward to meeting him tomorrow.	8/31/16
Vast numbers of manufacturing jobs in Pennsylvania have moved to Mexico and other countries. That will end when I win!	8/2/16
The "Rust Belt" was created by politicians like the Clintons who allowed our jobs to be stolen from us by other countries like Mexico. END!	7/30/16
Crooked Hillary just can't close the deal with Bernie. It will be the same way with ISIS and China on trade and Mexico at the border. Bad!	5/8/16

**Tweets during period as president-elect**

Ford said last week that it will expand in Michigan and U.S. instead of building a BILLION dollar plant in Mexico. Thank you Ford Fiat C!	1/9/17
Dishonest media says Mexico won't be paying for the wall if they pay a little later so the wall can be built more quickly. Media is fake!	1/9/17
The dishonest media does not report that any money spent on building the Great Wall (for sake of speed) will be paid back by Mexico later!	1/6/17
Toyota Motor said will build a new plant in Baja Mexico to build Corolla cars for U.S. NO WAY! Build plant in U.S. or pay big border tax.	1/5/17
Thank you to Ford for scrapping a new plant in Mexico and creating 700 new jobs in the U.S. This is just the beginning - much more to follow	1/4/17
@DanScavino: Ford to scrap Mexico plant invest in Michigan due to Trump policies <a href="https://t.co/137nUo03Gl">https://t.co/137nUo03Gl</a>	1/3/17
General Motors is sending Mexican made model of Chevy Cruze to U.S. car dealers-tax free across border. Make in U.S.A.or pay big border tax!	1/3/17
Yes it is true - Carlos Slim the great businessman from Mexico called me about getting together for a meeting. We met HE IS A GREAT GUY!	12/20/16
Rexnord of Indiana is moving to Mexico and rather viciously firing all of its 300 workers. This is happening all over our country. No more!	12/3/16
Just got a call from my friend Bill Ford Chairman of Ford who advised me that he will be keeping the Lincoln plant in Kentucky - no Mexico	11/18/16

**Tweets from Inauguration until end of 2017**

We are in the NAFTA (worst trade deal ever made) renegotiation process with Mexico Canada.Both being very difficultmay have to terminate?	8/27/17
With Mexico being one of the highest crime Nations in the world we must have THE WALL. Mexico will pay for it through reimbursement/other.	8/27/17
RT @foxandfriends: Millions of gallons of Mexican waste threaten Border Patrol agents <a href="https://t.co/yGAq4IgHOs">https://t.co/yGAq4IgHOs</a>	8/9/17
New Sugar deal negotiated with Mexico is a very good one for both Mexico and the U.S. Had no deal for many years which hurt U.S. badly.	6/29/17
Mexico was just ranked the second deadliest country in the world after only Syria. Drug trade is largely the cause. We will BUILD THE WALL!	6/22/17
RT DRUDGEREPORT: MEXICO 2ND DEADLIEST COUNTRY; TOPS AFGHAN IRAQ... <a href="https://t.co/i4FtSpLiHV">https://t.co/i4FtSpLiHV</a>	5/10/17
Rexnord of Indiana made a deal during the Obama Administration to move to Mexico. Fired their employees. Tax product big that's sold in U.S.	5/7/17
I received calls from the President of Mexico and the Prime Minister of Canada asking to renegotiate NAFTA rather than terminate. I agreed..	4/27/17
Eventually but at a later date so we can get started early Mexico will be paying in some form for the badly needed border wall.	4/23/17
Mexico has taken advantage of the U.S. for long enough. Massive trade deficits little help on the very weak border must change NOW!	1/27/17
of jobs and companies lost. If Mexico is unwilling to pay for the badly needed wall then it would be better to cancel the upcoming meeting.	1/26/17
The U.S. has a 60 billion dollar trade deficit with Mexico. It has been a one-sided deal from the beginning of NAFTA with massive numbers...	1/26/17

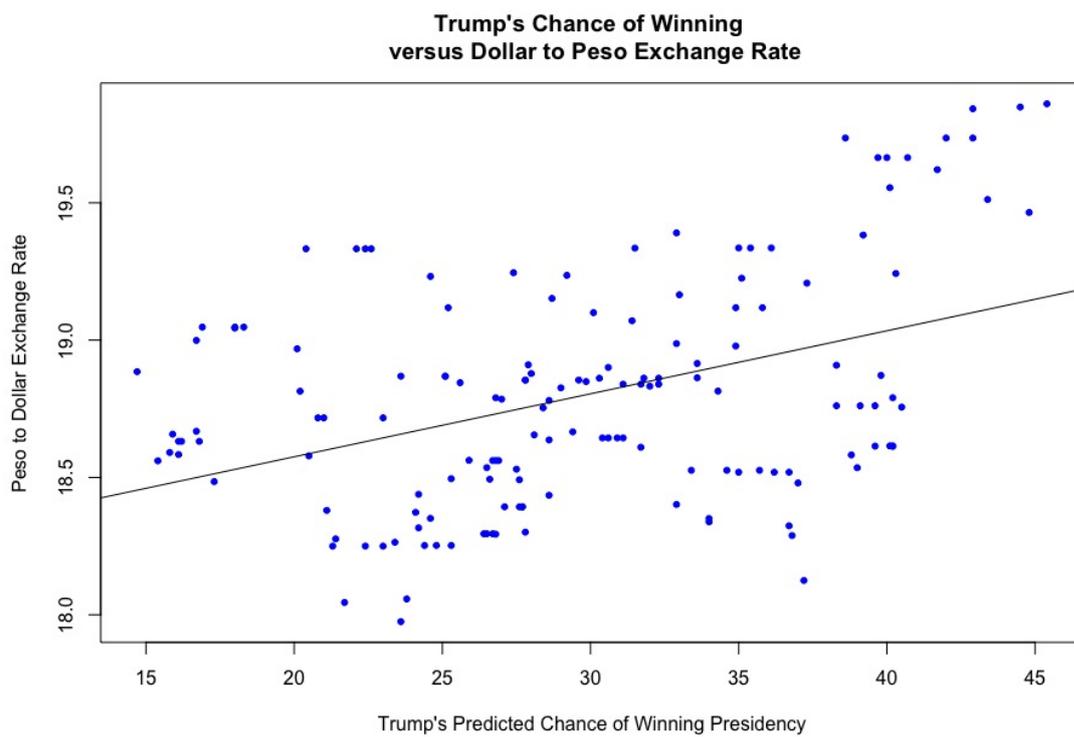


Figure 3: Trump's then-cast predicted chance of winning the election strongly correlates with the dollar to peso exchange rate ( $r=0.45$ ).







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