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Trump Blasts Fed, China and Europe for Putting U.S. Economy at a Disadvantage

By Ana Swanson, Jim Tankersley and Alan Rappeport

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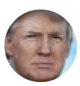
President Trump accused China and the European Union of manipulating their currencies and continued to criticize the Federal Reserve for raising interest rates, saying those moves are putting the United States at a disadvantage.

In a flurry of early-morning Twitter posts, Mr. Trump complained that the Fed's rate increases and a "stronger and stronger" United States dollar are "taking away our big competitive edge." He also said the Fed's plan to raise rates — known as tightening because it makes borrowing more expensive — "hurts all that we have done."



Donald J. Trump
@realDonaldTrump

....The United States should not be penalized because we are doing so well. Tightening now hurts all that we have done. The U.S. should be allowed to recapture what was lost due to illegal currency manipulation and BAD Trade Deals. Debt coming due & we are raising rates - Really?

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His comments once again break with longstanding White House norms, in which American presidents tend to talk sparingly about the United States dollar and, when they do, generally reiterate that a strong dollar is in the national interest. On Thursday, Mr. Trump drew criticism for saying in an interview with CNBC that he did not like the Fed's interest rate decisions, comments that also upend presidential protocol to respect the independence of the central bank.

Mr. Trump, along with Republican lawmakers, is trying to make a booming economy a big issue in the midterm elections. The president's $1.5 trillion tax cut, along with federal spending increases he has signed into law, have injected new stimulus into an economy that is finally shaking off the sluggish growth that has marked its recovery from the Great Recession. Unemployment is at an 18-year low and gross domestic product growth could hit 3 percent this year, which would be the best rate in more than a decade.

The Fed, meanwhile, is shifting away from a decade of ultralow rates that supported growth — and it is beginning to gently tap the brakes, in order to prevent the economy from overheating

Fed officials are gradually and steadily raising interest rates as the economy strengthens, a strategy that began under previous Chairwoman Janet L. Yellen and has continued under Chairman Jerome H. Powell, Mr. Trump's pick to replace her. They have raised rates twice this year and are on track to raise them twice more by the end of the year, officials indicated after the Fed's June meeting.

While financial markets seemed to shrug off Mr. Trump's initial comments on the Federal Reserve on Thursday, his Twitter posts on Friday — all of which seemed aimed at pushing the dollar lower — drew a reaction.

The dollar, as measured by the U.S. Dollar Index, fell sharply, by roughly 0.6 percent. Prices of 30-year United States Treasury bonds, which are highly sensitive to changes in inflation expectations, also dropped, pushing yields — which move in the opposite direction — higher. Prices for gold, a traditional hedge against inflation risk, rose.

Eswar Prasad, a professor at Cornell University, said the president's tweets displayed "a breezy ignorance of facts and limited understanding of basic principles of economics."

"The dollar is strengthening against other currencies because the U.S. economy is doing well and is implementing a fiscal expansion through a massive tax cut, both of which Mr. Trump has claimed credit for," Mr. Prasad said. He added that condemning rate increases as "implicitly aiding the enemy in U.S. trade wars is a dangerous and destructive strike against the Fed's independence."

Aides said Mr. Trump was not trying to influence the Fed, but added that he would prefer if officials paused their plans for rate increases in order to avoid dampening economic growth.

Mr. Trump's sharp words come ahead of a gathering this weekend of finance ministers of the Group of 20 countries in Argentina, where Steven Mnuchin, the Treasury secretary, is expected to participate in a dozen bilateral meetings and broader multilateral meetings. Mr. Powell will also be in attendance and will participate in a discussion on global economic risk, the Treasury Department said.

It will be the third such meeting of the world's top economic officials in recent months in which Mr. Mnuchin is expected to bear the brunt of the frustration of American allies. Viewed as a voice of moderation on trade in the Trump administration, Mr. Mnuchin will once again attempt to do damage control and will be a sounding board for growing concerns about American tariffs on steel and aluminum and the prospect of new tariffs on automobile imports.

In a slew of trade actions, the president has already imposed tariffs on roughly 4 percent of American imports, including foreign steel, aluminum, washing machines and solar-power products, and a variety of goods from China. But he has threatened to greatly escalate that number, expanding tariffs to cover roughly a quarter of all United States imports.

A senior Treasury official who previewed the event said that Mr. Mnuchin does not have a meeting scheduled with Chinese officials in Buenos Aires. They are expected to interact during the multilateral discussions, but one-on-one negotiations are currently stalled.

The Treasury secretary will meet separately this weekend with counterparts from G7 countries to discuss ways to coordinate "concrete action with regard to China and its economic aggression," the official said.

In an interview with CNBC that aired Friday, the president described the tit-for-tat threats on China as a poker game and said he was ready to place tariffs on $500 billion worth of Chinese imports — roughly all the goods China sends to the United States each year. He added that the trade conflict was "the right thing to do for our country."

"I raised 50, and they matched us," he said. "I said, 'You don't match us. You can't match us because otherwise we're always going to be behind the 8-ball.'"

China's currency has weakened in recent months, though economists debate whether the change has been propelled by markets turning more cautious or whether the Chinese government has sought to boost its exporters. Mr. Trump's own Treasury Department declined to label either the European Union or China a "currency manipulator" in an April report.

Derek Scissors, a resident scholar at the American Enterprise Institute, said that China would be able to offset the effect of Mr. Trump's tariffs through changes to its currency. However, any changes would have to be made gradually to avoid alarming investors and sparking capital flight, which could destabilize Chinese markets.

Mr. Trump's trade actions have invited retaliation from Europe, Mexico, Canada and other countries, as well as China, taking a heavy toll on major American exporters, including farmers. In another Twitter post on Friday, Mr. Trump defended his strategy.

"Farmers have been on a downward trend for 15 years," he said. "The price of soybeans has fallen 50% since 5 years before the Election. A big reason is bad (terrible) Trade Deals with other countries. They put on massive Tariffs and Barriers."

Farmers have been struggling with lower commodity prices in recent years, but the price of soybeans has plummeted sharply since the beginning of May, as China, America's biggest foreign buyer, threatened to curtail its purchases.

Though Mr. Trump has a strong base of support among American farmers, many insist that exporting is vital for their livelihoods and that trade pacts like the North American Free Trade Agreement, which Mr. Trump has heavily criticized, have benefited them. American agricultural exports have nearly tripled since Nafta went into force in 1994, reaching $140.47 billion in 2017. They continue to outpace agricultural imports, which have also risen.

Ron Moore, the chairman of the American Soybean Association chairman and a farmer in Illinois, said that tariff threats had appeared to have caused the market to "collapse" in recent months. "There's extreme amount of volatility in the marketplace right now," he said. "That really makes farmers nervous. We've all got bills to pay."

Matt Phillips contributed reporting from New York and Alan Rappeport from Buenos Aires.