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For Mnuchin, a Lesson in How Words Can Move Markets

By PETER BAKER JAN. 25, 2018

DAVOS, Switzerland — His name now appears on the dollar bill. But that does not mean it is safe for him to actually talk about the dollar.

Treasury Secretary Steven Mnuchin got a searing reminder of that this week when an apparently offhand comment, that a weak dollar benefits American trade, helped plunge the currency to a three-year low and touched off a flurry of speculation about the Trump administration's economic plans.

The market-moving hullabaloo highlighted the sensitivity about President Trump's "America First" trade agenda here at the World Economic Forum, the annual gathering of capitalist titans and world leaders. If the United States were reversing more than two decades of policy, as some feared Mr. Mnuchin's comment indicated, it could initiate a return to the currency wars that once roiled the global economy.

But Mr. Mnuchin insisted on Thursday that was not the case. He meant his previous remark only as a statement of fact, not an objective of the administration or another tool in Mr. Trump's war against what he considers unfair practices by America's trading partners. Mr. Mnuchin, a former hedge fund manager and Goldman Sachs executive, deemed the resulting tumble of the dollar to be an enormous overreaction by the world's money traders.

“I thought my comment on the dollar was actually quite clear yesterday,” he told reporters hours before Mr. Trump arrived in Davos. “I thought it was actually balanced and consistent with what I’ve said before, which is we’re not concerned with where the dollar is in the short term, it’s a very, very liquid market, and we believe in free currencies. And that there’s both advantages and disadvantages of where the dollar is in the short term. Let me say, I thought that was clear.”

Maybe it should have been. But Treasury secretaries have learned over the years that comments they thought were clear have not always been taken that way. More than perhaps any other official in the American government except the Federal Reserve chief, a Treasury secretary finds his remarks flyspecked to an extraordinary degree, with each word often given far more meaning than intended.

“Treasury secretaries normally are highly disciplined when they speak on the dollar to ensure their words are treated seriously when they want to signal policy shifts or to build confidence in challenging economic moments,” said Gene Sperling, who served as the top economic adviser to Presidents Barack Obama and Bill Clinton. “This type of seemingly off-the-cuff and politically careless back and forth just erodes that type of authority when it will be most needed.”

Tony Fratto, who was a Treasury Department official under President George W. Bush, said that Mr. Mnuchin had just come across the same tripwire that his predecessors had stumbled over, but that it was part of learning the job.

“It’s not surprising that a Treasury secretary has one of these moments — almost all of them do,” he said. “The reason is that the language of currency markets is different from everyday rhetoric. In fact, it’s even different from everyday economic rhetoric. I worked for three Treasury secretaries, and I’m friends with three others. Almost every Treasury secretary I know has had to acquire that language on the job.”

A novice in government, Mr. Mnuchin has at times projected messages that fell flat. When the first new dollar bills with his signature rolled off the presses in November, he posed with his wife, Louise Linton, holding a sheet of them in photographs widely mocked on social media for seeming to project a plutocratic image. Last month, he raised eyebrows when he said he "didn't realize that it was the global elite" who attended the World Economic Forum in Davos.

But his stock has been high lately in the Trump administration, after his success in helping to pass a $1.5 trillion tax cut package, and he has been the face of the United States here for two days leading up to Mr. Trump's arrival.

He made his dollar comment during a briefing on Wednesday with reporters who asked about the American currency.

"The dollar is one of the most liquid markets," Mr. Mnuchin said. "Where it is in the short term is not a concern of ours at all. Obviously a weaker dollar is good for us as it relates to trade and opportunities. But again, longer term, the strength of the dollar is a reflection of the strength of the U.S. economy and the fact that it is and will continue to be the primary currency, in terms of the reserve currency."

The part about "a weaker dollar is good for us," because it makes American products more attractive in foreign markets, ricocheted around the world. By the end of the day, the dollar index, which measures its strength against six major currencies, had fallen to its lowest point since December 2014.

Mr. Mnuchin expressed surprise on Thursday. "They took part of what I said and amplified part of what I said," he told Fox Business Network. "If my full transcript had been looked at, perhaps they wouldn't have had the same impact."

The reaction was predicated on the assumption that Mr. Mnuchin's comment was intentional, which seemed plausible because his boss overtly complained about the currency last year. "I think our dollar is getting too strong," Mr. Trump told The Wall Street Journal in April, saying that made it "very, very hard to compete."

The president has since learned not to say such things. "Nobody should be talking about it," Mr. Trump told CNBC on Thursday. He added that he thought Mr. Mnuchin's comment had been "taken out of context" and that the dollar should reflect the economy.

"Our country is becoming so economically strong again and strong in other ways, too, by the way, that the dollar is going to get stronger and stronger, and ultimately, I want to see a strong dollar," Mr. Trump said.

Mario Draghi, the president of the European Central Bank, indicated concern about Mr. Mnuchin's comment, referring reporters to a statement from the International Monetary Fund last year in which the United States and other major powers declared that "we will not target our exchange rates for competitive purposes."

But some of Mr. Mnuchin's counterparts reacted calmly. Asked by Bloomberg Television on Thursday whether the comment signaled the return of currency wars, Philip Hammond, Britain's chancellor of the Exchequer, said, "Well, I hope not." But he added that if it would "make Americans feel that the system is fairer to them and ease some of the pressure around the trade system, then I think that's a good thing for all of us."

Mr. Mnuchin's comment set off a sharp market tumble in part because it fueled an already established weakening trend for the currency. Over the last year, the dollar has declined by more than 15 percent against the euro, more than 10 percent against the pound and roughly 4 percent versus the yen.

That partly reflects optimism about the improvement in those economies rather than pessimism about the United States. But the political backdrop also matters. The Trump administration's vocal push to strengthen American exports and protect manufacturing jobs has raised uncertainty about the future direction of its international economic policy.

"The context in which he made this statement is what, I think, made it reverberate in international financial markets," said Eswar Prasad, a professor of trade policy at Cornell University.

It has been standard practice since Robert Rubin was Treasury secretary under Mr. Clinton in the 1990s to officially support a strong dollar even when administrations wished otherwise. When Treasury secretaries have made comments that seemed to suggest a softening on that, markets have reacted, as they did this week.

Mr. Fratto, the former Bush administration official, said that it was possible to jawbone the dollar and influence its value in either direction but that such an effect would not last long: Ultimately, currency values reflect real economic fundamentals.

"Looking back six months from now," he said, "wherever the dollar settles — stronger or weaker — it won't be because a Treasury secretary wished it so."

Follow Peter Baker on Twitter: @peterbakernyt.

Matt Phillips contributed reporting from New York.

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