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The global trade war has morphed into a currency war — and markets are tanking

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August 7, 2019

President Donald Trump's trade war has increasingly revolved around the role of global currencies.

It's a shift he's ushered along by **accusing others of currency manipulation**. And there have even been **reports that he's considered adopting the practice with the US dollar**.

Now, amid the trade spat with China, the currency war is again front and center as the global trade dispute rages. It ultimately amounts to a race to the bottom as countries try to push the value of their currencies lower than competitors to gain an advantage in trade. This is also why Trump has said **he wants a weaker US dollar**.

This runs counter to how countries are supposed to work together to achieve a balanced economy. When cooperation breaks down, global markets feel the negative effects. That's exactly what has played out around the world over a series of months — and experts are getting increasingly worried that there's no end in sight.

"The market is going to be very volatile," Dan Ikenson, the director of the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute, told Markets Insider. "A trade war that was supposed to be easy to win seems like it's going to be hanging around for a long time."

The immediate damage a currency war can inflict has been clear in recent days. US equities slid to their worst performance of 2019 on Monday, **erasing billions of dollars in wealth**, when China **let the yuan fall**below a key psychological threshold. The plunge also marked the currency's lowest level since 2008.

Meanwhile, the Cboe Volatility Index, or VIX, commonly known as the stock market's fear gauge, jumped 32% in a single day. The weakness also extended into major European and Asian indexes. Sharp fluctuations also struck the bond market as 10-year Treasury yields plummeted, pushing the yield curve — a closely watched recession indicator — to its **most inverted level since 2007**.

Then, on Tuesday, markets stabilized when the **People's Bank of China set the daily yuan rate higher** than expected and said it did not manipulate the currency after a formal accusation from the US Treasury Department.

The two-day takeaway is clear: Currency shenanigans are going to negatively affect market sentiment. And considering the matter is largely unresolved, it's likely that there will be much more volatility in the currency market that finds its way into other asset classes. Many, including **Trump**, now think the ordeal **could last into 2020**.

"The markets now are going to be hanging on everything that's stated on trade negotiations," so there will be fluctuations depending on signs of progress, Dom Catrambone, the CEO of Whitford Asset Management, told Markets Insider. "Now I think people need to be watching their portfolios."

It's not a phenomenon strictly limited to the US and China. Thailand, India, and New Zealand all made surprise cuts to their interest rates on Wednesday. Investors interpreted that as concern over the pace of global growth, which resulted in another sharp equity sell-off. At its lowest level, the Dow Jones industrial average saw nearly 600 points erased.

Further, China isn't the only global power Trump has fought. The president also accused his European counterparts of **manipulating their currency** when the European Central Bank suggested in June it might lower interest rates and purchase another round of assets to offset a slowing economy.

Trump did cool European tensions slightly when he made a deal to increase US beef exports to the European Union — a move also designed to **support American farmers who are hurt by the China tariffs**. But even when announcing the agreement, he spooked European officials when he made a joke about levying tariffs on cars from Europe.

While currency devaluation seems to be the latest bargaining chip in the global trade dispute, the long-term impacts of weaker currencies in the US and abroad could be "really bad," Catrambone said.

After all, a strong currency tends to be good for both consumers and consumption. And Ikenson thinks prolonged weakness in the greenback could usher in the next big economic collapse.

"A weaker currency could be inflationary and recessionary" over time, he said.