



## MEMORANDUM

**TO:** Federal Financial Analytics Clients  
**FROM:** Karen Petrou  
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Bankers are of course bemoaning the trade war, but what if Donald Trump also turned against the forces of global finance as his battles against Chinese imports, Central American immigrants, and so many others turn toxic? Investors have been repeatedly stunned that the Trump Administration presses hard on aggressive tariffs despite consensus that macroeconomic growth – already fragile – will suffer. But, Mr. Trump cannily wants to have the proverbial cake and eat it too – that is, blame any disarray in the U.S. economy not only on the obdurate Federal Reserve he already targets, but also on Wall Street bankers raking in “record profits” at the expense of the working stiff. Given that progressive Democrats largely agree with Mr. Trump on all these anti-finance points, it would be foolhardy to discount the risk that a finance war could follow the trade inferno. In fact, it’s already started.

As we noted in our [analysis of the new Commerce Department proposal](#), the Administration is already considering countervailing duties to punish nations it thinks manipulate their currencies for export advantage. A Treasury official was quick to reassure markets that [nothing here is meant to impugn global central banks](#), but Treasury is often the last to know what the Trump trade agenda has in store. Our read of the Commerce proposal shows that central banks are very much in its cross-hairs.

And, even if a finance war is still at the skirmishing stage, a series of reconnaissance actions have established clear battle lines. Ironically, the U.S. fired the first shot. Obama-era officials instituted the Fed’s intermediate holding companies and extraterritorial rules that led other nations to retaliate with subsidiarization, regulatory demands, and an array of impediments to seamless U.S. banking, securities, and insurance activities within their borders.

And, even before Mr. Trump makes his next move, other nations now aren’t so sure that they want to preserve the U.S.’s strategic advantage in global financial markets: the status of the dollar as the global reserve currency. Moves are thus afoot across the globe to punish the U.S. not only for all the earlier financial-regulatory restrictions, but also and even more importantly for costly sanctions, AML rules, and many other standards which other nations think the U.S. deploys to exert its financial might.

All of these cracks in the fabric of global finance give the Trump Administration all the excuses it wants should the President seek new culprits for the slowing U.S. economy. Taking on finance is in many ways even easier than taking on trade. The trade war hurts Mr. Green Jeans and other loveable farmers. A finance war savages only Gordon Gekko and other fat-cat bankers, or so

many Americans will see it. Despite its innocent victims, the trade war unites a unique coalition of the very willing between Mr. Trump's base voters and many who once were Democratic stalwarts who believe with some reason that [globalization has done them wrong](#). An anti-finance campaign could rally the same coalition and again give Mr. Trump an edge with the white working class against centrist Democratic candidates. Add in a few conspiracy theories about the Federal Reserve and Wall Street bankers and the going could get very, very ugly.

Other than those who know how fragile finance can become if only a few hiccups occur in cross-border payment markets, most Americans will either cheer Mr. Trump if he tries to sanction foreign banks or cheer him on and at the same time demand that big-bank "record profits" be expropriated for climate change or other objectives dear to the progressive base. If either side notices IOER, let alone how many foreign banks receive it, the going could get very nasty very fast.

Could Donald Trump call for a financial wall encircling the U.S. payment system, access to the central bank, and other privileges to which foreign banks are long accustomed? One surely hopes not, but who would have thought the federal government would be shut down over a coast-to-coast border wall? Who could have imagined much of this Administration's foreign policy and its disdain for historic allies in favor of once-abhorrent tyrants? President Trump has put a decisive end to any expectation that U.S. policy will follow the dictates of propriety or even civility, let alone reckon also with the real risks of vituperative, partisan, tweet-driven policies.

In the midst of the financial-market unravel, the Financial Stability Board earlier this week warned the G20 of increasing systemic risk due to [financial-market fragmentation](#). It is, though, toothless to do any more than lament the disarray in global banking, securities, and insurance regulation. If anything, the forthcoming G20 will just make matters worse. God only knows what President Trump will tweet thereafter.