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## MR MACRO's OPINION

May 13, 2017

*There have been many bad laws in U.S. history. Some bills were poorly conceived; some were cruel and unjust; some were sold on false pretenses. Some were all of the above. But has there ever been anything like Trumpcare? …What really stands out is …. the Orwell-level … of the whole effort… This was a Freedom is Slavery, Ignorance is Strength moment. And it may be the shape of things to come ….* Paul Krugman, writing in the New York Times, May 8, 2017.

*… Doesn't this sound reminiscent … of … Nineteen Eighty-Four, George Orwell's dystopia about a place .under the totalitarian rule of ..the… manipulative, official truth status carrying oxymorons War Is Peace, Freedom Is Slavery, Ignorance Is Strength and 2 + 2 = 5? ...* Mr Macro's Opinion, February 17, 2017.

Donald Trump's first 100 days in office were in all probability the worst in Presidential history. This is the analysts' virtually unanimous verdict – to the obvious exceptions of the very same Trump, who has given himself an A+, as well as those, of course, of the crowd around him and Fox News Figuring most prominently in this debacle is the issue of the repeal of the Affordable Care Act, or ACA, aka ObamaCare and its replacement by the American Heath Care Act, or AHCA, aka TrumpCare.

It all began with the fiasco, last March, of the AHCA's first version, which, following *inter alia* the Congressional Budget Office's finding that the bill would leave some 24 million deprived of health care cover, was pulled from the House floor, as the Republican proponents reckoned that they wouldn't muster enough votes to pass the measure. At that point President Trump signalled his intention to put the issue on the backburner and to move on to the next point on his agenda – tax reform. Bur he subsequently reconsidered and Paul Ryan, the Republican Speaker of the House, headed another effort, in April, to obtain passage for an amended version of the bill – only, however, to demure after a short while. But in the first days of this month of May a third version was put together and rammed through, notably without anything resembling a proper debate, under utmost pressure from the White House and without the customary estimates by the Congressional Budget Office. This is the bill Paul Krugman is speaking of in the quote above. What is certain is that in its present form the bill entails a sharp rise in insurance premiums and countless people without health care cover.

The question arises why Trump chose to engage in an operation so reckless and open to criticism if not outright outrage, considering in particular that the bill, to become law, has yet to go to the Senate, where, according to the analysts' consensus,  the it is highly unlikely to pass in its present form if at all. The immediate explanation is that Trump was desperate for being able to claim a legislative win, at least kind of – something he had conspicuously failed in his first 100 days to obtain. But there is more to it – much more.

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Let's go back for a moment to Trump's principal, and arguably sole, economic policy goal: a huge tax cut for upper and top income brackets – the "biggest in history", as he says. The cut is intended to be instrumental, and to pay for itself, as posited by Supply Side orthodoxy. But to operate the cut, without getting the budget deficit to explode, money – very big money – is needed. So, where is this money to come from? And here is the thing: Trump and his team figure that said money will come from a draconian cutting down in public current outlays associated with the replacement of ObamaCare by TrumpCare.

The snag with this line of planning is twofold. First, the "trickle down economy" model and the Laffer Curve are Voodoo Economics of Reaganomics fame, as stated by George Bush the Elder a long time ago and since repeatedly and unequivocally proven fact. And second, as already pointed out, the Senate is highly unlikely to go along with the precondition of the whole construct, the passing, that is, of the AHCA bill in the form approved by the House.

At this point regular readers of this column may be wondering how come we didn't speak so far of the Yates/Comey bomb which provoked first magnitude tremors all over Washington. We didn't because the argument in the preceding is a matter of economics in the strict sense and we wanted to keep it that way. But yes, the development is indeed the ultimate proof of utter, all-encompassing incompetence and nefariousness. Let's try and lay out the essence of an issue full of tortuous and confusing ramifications.

On May 8, Sally Yates, the former Acting Attorney General who was sacked by President Trump for refusing to comply with his original ban on Muslims' immigration, testified in front of Congress that shortly after inauguration day she had informed the White House that retired General Michael Flynn, at the time Trump's National Security Advisor, was in fact a high security risk on the Russian side. Meaning that it then took as many as 18 days for the White House to terminate Flynn and thus take him out of the loop.

On the following day, May 9, President Trump axed FBI Director James Comey, citing the way he, Comey, had handled the investigation of Hillary Clinton, when Secretary of State, *re* her use of a private e-mail server. As expressed by New York Times columnist Charles Blow on May 10, this is an insult to public intelligence. For Hillary's FBI investigation had been closed six months ago and besides, Trump had previously had the warmest of words for Comey's behaviour in the matter. The truth is, as anyone provided with functioning eyes and ears is aware of, that Comey was planning to expand the investigation the FBI is conducting on the 2016 Trump campaign's connection with Russia – an affair which, to the White House, is coming too close for comfort. There is indeed in all this a distinct Watergate whiff, with the difference that in the present instance the involvement of a foreign power would constitute a case of high treason. In any event, on experience to this day, Trump's Presidency is an odds-on bet for eventually going down in history in ignominy.

Back to strict economics, the general idea currently entertained in financial circles is that 2017 will be a year decidedly under the sign of overall improvement. We feel that this qualifies as an umpteenth case of unwarranted use of rosy spectacles. We note that at 0.7% saar, first quarter 2017 US GDP growth is even lower than the corresponding 2016 rate, which was 0.8%. We also note that the yield for US 10-year treasuries keeps hovering under the 2.5%. Under consideration, in addition, of the policy and political context sketched above, we see little reason at this juncture for assuming that overall 2017 growth will exceed the corresponding, anaemic 1.7% for the whole of 2016. Rather the contrary.

If our take of growth this year is correct, then the present level of stock quotations is a bravura exercise in artificial levitation. Accordingly, "sell in May and go away" should all the more be the order of the day. Conversely, treasuries should be stuck to, while the recent retreat of gold could reasonably be viewed as a fair opportunity for entry.

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Another widespread notion is that the lopsided win of Emmanuel Macron over Marine Le Pen in the French Presidential election has been a ringing rejection of the anti-Euro position. Not so: if you add the present shares of casted votes obtained by Euro sceptic ranking candidates in the first electoral round, viz Le Pen + Mélenchon + Dupont-Aignan, what you get is some 48%; and if you repeat the operation on the other side of the divide, viz Macron + Fillon + Hamon, the number is 49%; with the very substantial number of those who have abstained from voting potentially up for grabs. Hence, a situation not very different, *ceteribus paribus*, from that in the run-up to the 2016 Brexit Referendum.

Rather, Marine Le Pen's loss in the final run-off mirrored her failure to distance beyond doubt her *Front National* from the ghost of Marshal Petain's Vichy philo-Nazi regime, which remains to all intents and purposes abhorrent to the vast majority of the French public.

Yet, to us Euro-sceptics since day one, the French election has all the same meant two bits of most perplexing news. One is that during the final, televised debate between Mrs Le Pen and Mr Macron, a few days before the second round run-off, when it came to the Euro, Mrs Le Pen, the standard bearer of the French anti-Euro front, mixed in a distressing hodgepodge the Euro with the Franc and the ECU (yes, the long gone European Currency Unit), thus convincingly proving that she didn't know what she was talking about. Put differently, while the return to the national currency, as Mrs Le Pen is fond of calling the Franc, is writ large on her flag, this seems to be more of an emotional (if not chauvinist) *cri de guerre* than an articulated and thought through policy stance.

And the other is that beyond the new President's somewhat indefinite "neither left nor right" (hopefully not akin to Tony Blair's New Labour), at times delivered in highfalutin and hard to follow manner, the distinctive connotation of his platform is his vocal, though quite generic, embrace of "Europe". Which to us can only mean continuity from the Hollande years or, if you prefer, *status quo*. Which in turn is not exactly the best thing France, and for that matter Europe as a whole, should be looking forward to.

All that said, at US $ 1.09 = € 1 on May 12, our previous forecast proved not all too far off the mark. We shift the expected trading range for the 1 – 2 months ahead from 1.04 - 1.09 to 1.07 -1.11, with still a bias to the upper end.

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