MR MACRO's OPINION

April 17, 2017

Right after last November's US presidential election, during a meeting with a group of bankers, we got involved in a discussion, highly animated and at times even on the raucous side, on America's prospects under Trump. Our line of reasoning was that - based on what we knew of the man and his views not only from the ways of his 2016 White House campaign but also dating further back – prospects were indeed terrible. This position of ours' came under multiple lines of attack. It was argued that for one, it was distinctly inappropriate to imply that an elected President would be unfit to serve. Further, it was held against us that a) we were basically at fault for being aligned with the likes of Paul Krugman and all the other liberal, elitist intellectuals at the New York Times, who should know better than to pass hasty judgements and should limit themselves, for the time being, to observing how things would develop; that b) Trump's contentious assertions and behaviour during the race for the presidency were no more than electoral jockeying, unlikely to be confirmed once seated in the Oval Office; that c) Trump stood for a most welcome retracing to Reagan; and that d) in any event, Trump was incomparably better than Hillary, whose practices deserved to be called "criminal" (arguably, not only in the metaphoric sense).

In a pushback, we answered that, regardless of considerations related to conventional appropriateness, the New York Times (and for that matter CNN and some others) should be congratulated for taking an all-out stand in the name of values constitutive of Western culture; that, as economists, our trade was not to sit on the fence, waiting and observing, but to formulate forecasts for operational decision-making; that Reaganomics, as famously defined by George Bush the elder, Reagan's second in command and then successor at the helm, was nothing but Voodoo economics; and that as to Hillary, disliking her, as we too do, is one thing but to call her a criminal (with or without quotation marks), echoing incessant charges by Trump all along the electoral campaign, was slanderous, next to silly, given that she had been screened for possible wrongdoings, and cleared, by the FBI and that the originator of the charge was himself a serial protagonist of bankruptcies, guilty of great damage to numberless people.

We finally invited our discussion partners to take stock of all that had been said that day and to reconvene on the matter some months later to assess in retrospect how things had developed in actual fact.

So, we are now almost five months on. And?

As already set out in our March and February columns, the scorecard of the new administration, not yet a hundred days old, is testimony to phenomenal incompetence, bungling and production of (creative courtesy of Senior White House Adviser Kellyanne Conway) "alternative facts". To the March updated list a number of items should in the meantime be added: the ObamaCare repeal fiasco; the masquerade of Trump's allegations of having been wiretapped as President Elect on orders of then still President Obama, staged to deflect public attention from the Russian connection in last year's presidential election; Press Secretary Sean Spicer's favourable comparison of Hitler with Syria's Assad re the gassing of people; the missiles fired in retaliation for Assad's related attacks, signifying a diametrical reneging on a key element in Trump's electoral platform – a development, the missile strike that is, which, one wonders, what good it should be for other than to create, as it did, a new low in relations between the US and Russia; and last but certainly not least, the news from the President's inner circle that his preferred adviser, aka his son in law, Jared Kushner, and White House Chief Strategist Stephen Bannon are now pitched in a power struggle against each other.

Toddlers in a sand box?

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Now then, what about policy measures, economic and otherwise? Four points here. The first is the raft of executive orders aimed at deregulation, both general and specifically financial, the new President has embarked upon. The second is his budget draft for fiscal 2018, proposing draconian cuts in funding for federal agencies responsible for social welfare, environmental protection and public services in general. In this regard, the effective dismantling of the Environment Protection Agency is a major case in point, with the whole operation aimed at freeing funds to pay for an ultra-massive increase in defence spending and tax cuts for higher income brackets. Points number three and four are Trump's planned overhaul of taxation (encompassing the cuts in rates just mentioned) and his 1 trillion expenditure plan on infrastructure.

We observe the following:

- deregulation is being pushed forward as if the onslaught of the subprime and derivative crisis never happened, climate change were in actual fact just a Chinese hoax and, we may add, notwithstanding incidents like the horrendous yanking of a passenger from a United flight, being badly injured in the process. As is well known, "Heaven protects children, drunks and the United States of America". But still;

- embroiled in the botched attempt to repeal ObamaCare, Trump mused in February that no one had imagined how complicated related things were. Reagan once used the American folksy line "you ain't seen nothing yet". Paraphrasing it, if only in the opposite sense (for the Great Communicator's intention was to convey optimism), Trump is poised to discover that he had seen nothing yet either. Just wait for when he will try and tackle the overhaul of the tax system;

- ditto for the 1 trillion plan on infrastructure, which in any event has been already pushed down the road to 2018;

- deregulation, radical downsizing of social protection services as well as government in general, less taxes for the already very affluent and ever growing defence spending square with a cabinet, Trump's, packed with tea partiers, billionaires and ex top brass militaries. But chances are that, as always with supply side recipes, the result will not be the supposedly intended lifting of all "boats" posited by the "trickle down" model but rather, to exacerbate the existent, already strident degree of societal polarization. With the further likely consequence of eventually causing Trump's very core, working class, populist electoral base to turn against him.

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Not surprisingly, as anticipated in our latest columns and reflecting worries about things to come, long term US treasury yields and gold have recently been trending down and up respectively, with, in parallel, the Dow displaying significant nervousness. We thus confirm our previous recommendations: beware of stocks, stick to bonds and buy gold on weakness.

A month ago we argued that the dollar was in danger of slippage on account of the highly disquieting image projected *ab ovo* by the new administration. The US currency did in fact retreat somewhat but then recovered, owing, we think, to the conjunction of two elements: Mario Draghi's stated intention to keep the ECB on a right out expansionary course on the one hand, and on the other, in contrast, Janet Yellen, over at the Fed, targeting short rates substantially above their current, still abnormally low level, as well as aiming at a shrinkage in the Central Bank's balance sheet. However, while Ms Yellen's stance is in observance of monetary orthodoxy, if overall macro trends turn south in the near future, as we see on the cards, she will have to put her "normalizing" efforts on hold. In this case, key support for the Dollar will wane. Also, watch for further stumbling and missteps at the White House and thereabout.

What about the impending French Presidential Election and its prospective impact on the Euro?

Both the far left candidate Jean-Luc Mélenchon and, at the other end of the political spectrum, Marine Le Pen lead the drumbeat for an exit by France from the common currency. Thus, a victory by one of the two would have an earthquake-like effect. But Mélenchon, notwithstanding performing quite impressively in recent polls, remains too far away from a credible threshold. And arithmetic is very much against Me Le Pen. Assuming she gets the 22-24% she is at present credited with by polls in the first, round and accedes to the final run off for the two contenders coming out on top from the first round (that's the way the election works), to then carry the day she will need another 25% ++. The question is: where from can she get them, given that all the other formations will coalesce against her? For her to win, one should assume an exceedingly high rate of abstention on the crucial voting day. Which we don't expect, considering the high degree of involvement currently displayed by the electorate.

So we are left with the two centrist candidates; François Fillon, former Prime Minister under the Sarkozy presidency, and Emmanuel Macron, President Hollande's former Finance Minister. Macron presents himself as a modernist, beyond the traditional left-right divide. He is in many ways a perplexing candidate though. For one thing he has never held elected office. And then there is the disloyalty he demonstrated towards Hollande, who had been his mentor, when he walked out on him, leaving the executive two years ago to prepare for his own run for the presidency. Without counting his age, 39, which to many is brow raising, also as, to the delight of the tabloid press, he is 23 years his wife's junior, who was his French teacher when he was at school, aged 15.

Yet Fillon, the onetime favourite of the establishment, has been severely pinned down by the "PenelopeGate" scandal, from which we don' feel he can sufficiently recover, notwithstanding the recent shift of his positions to the right in an attempt to capture votes from the Le Pen basin. So, presumably, if only for lack of a less unappealing candidate, it's going to be Macron. For the Euro, to conclude, in our opinion, a distinct non-event.

US $ 1.06 = € 1, on April 14; expected trading range for 1 - 2 months ahead: 1.04 – 1.09, with bias to the higher side.

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