"And the dull pangs of regret…"

Post-election: gold gets slaughtered, bonds get worse. Trying to make sense of it all….

If financial markets are a book, what are we supposed to read from the post-election activity? US equities surge, FANGs tank; base metals surge, bonds tank; USD surges, EMs tank. Read them entrails. If this instead were a book of ancient mythology, there'd be an illustration of a half-man, half-goat with piercing, beady eyes and dripping teeth, tagged by the caption: "Eros, the vegan goddess of industrial renewal." We can't figure it out either.

The first problem is to delaminate what was said or promised and what shall actually come to pass. This is a crapshoot too. But let's assume for the moment we live in a literal world where the President-elect meant what he said and that there is some transmission mechanism to connect stump-speech to congressional approval.

The bond market speaks loudest here. If you are a creditor, the last person you want to see on the other side of the table is Donald Trump. If the campaign promises don't convince, business history will.

The first opportunity the President-elect had to screw lenders he did. This was after he thought it was a good idea to saturate the New Jersey coastline, a stretch of faded American prosperity before the term 'rustbelt' entered the vernacular, with casinos. The Company was financed with a mountain of junk bonds at double digit interest rates which, after a short pause, then proceeded to go bankrupt not once but five times. Bondholders were given haircuts down to their scalps. Two decades on, boom gone, the New Jersey coastline is slipping back in to where it was thirty years ago. Atlantic County now has the highest foreclosure rate in the country.

None of us would lend Donald Trump money, would we? Even if he was our neighbour and a tree took out the fence dividing our yards, we wouldn't skate him on the repair bill for a week or two unless we put a lien on his house first, would we? This explains the rout in the bond market as much as anything and is the only thing that made any sense last week.

It is the strength in the Dollar and, to a lesser degree, equities and base metals that most befuddle. Should we take this to mean that America is about to be made Great Again? Smokestacks sprouting throughout the Midwest, shuttered malls re-opening to throngs of consumers, pockets stuffed with cash, lining up to buy Made in U.S.A.? That seems to be what the Dollar and equities and copper are telling us.

Figure 1: *Caption contest!*

The memo that seems to be getting missed is that any renewal is premised upon debt and devaluation. Indeed, if there were a central theme in Trump's campaign it was that the Dollar was too high, unfairly benefitting trading partners. "You see [devaluations] almost everywhere except for the United States," he told CNBC back in March. "We do nothing about it. We just sit back and let everybody do it. And that's getting to be very dangerous." On the same program, he even broached the possibility of default: "I would borrow, knowing that if the economy crashed, you could make a deal." A stunned establishment raised its eyebrows and the NY Times quipped: "Such remarks by a major presidential candidate have no modern precedent."

But like everything about Trump, there is a grain of truth in what he says, no matter how maladroitly he says it. The persistently high level of the Dollar has rendered large swaths of basic industry uncompetitive with respect to major trading partners. It is indeed in the interests of the "flyover states", the constituencies that swung the day for Trump to see a much lower Dollar. There is really no other way around it.

In this way, the cleavage that separated the two campaigns and that now separates much of the country is mirrored by the Triffin dilemma, a paradox that speaks to the tension inherent in the USD's status as the reserve currency. This exorbitant privilege has been a boon to those on both coasts, a boon to the government, a boon to large financial institutions, a boon to anyone who wants to go shopping overseas for items big and small. You could say that the US Dollar is the glue that binds

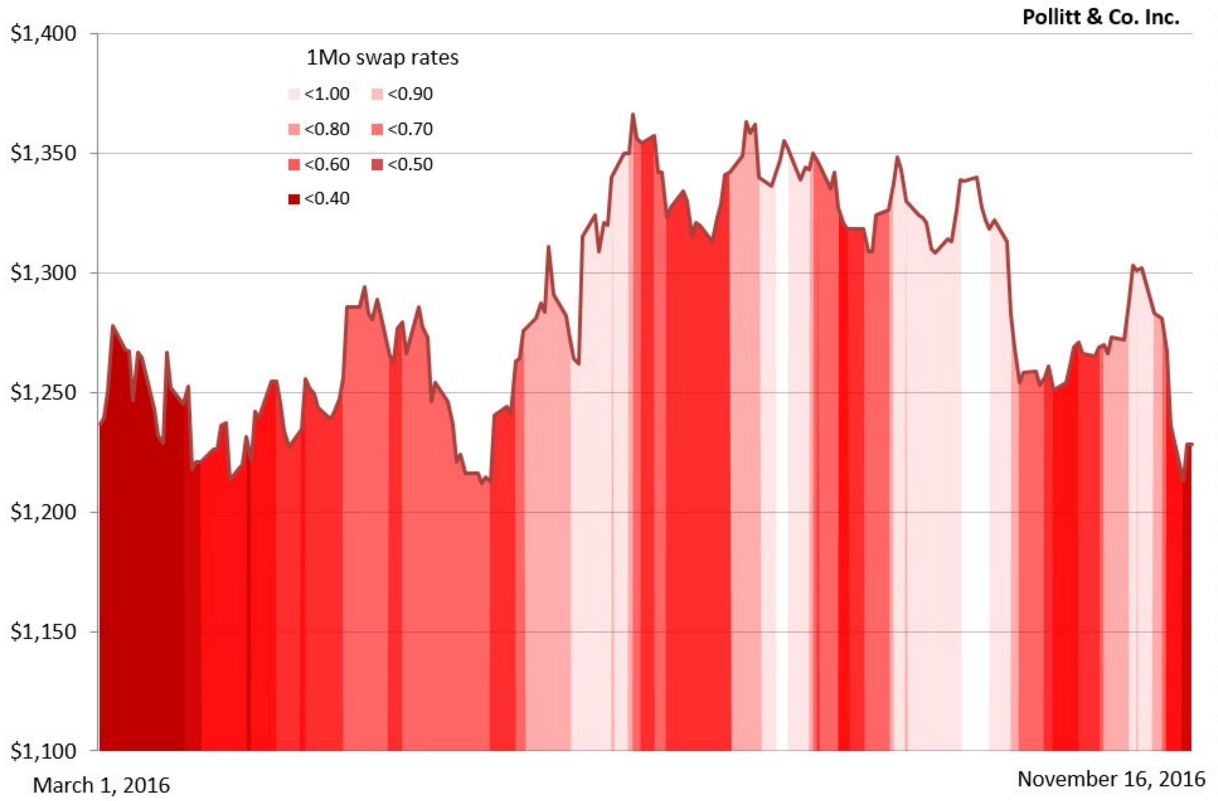

Figure 2: *The Comex may be the price setting mechanism day to day — the voting machine, as it were — but the physical trade is the longer term weighing machine. The former tends to be US-centric, the latter turns on overseas interest, or lack thereof. And while traders may have puked contracts out in anticipation of rate hikes or rising yields or whatever got their knickers in a twist, physical buyers have stepped up, as they typically do on dips. The swap rate has plunged 50bps in seven trading sessions. (Dec-Feb spreads have also come in.) Any sovereign with reserve assets in USD will take note of the election results in a way that may be lost on the day traders.*

globalization and the grease that got it there. Almost by definition, however, the premium that accrues to the reserve currency mitigates against trade on fair terms. You can't have it all and it is clear which side Trump has come down on.

It has been said that what Central Banks have been unable to do after three years of trying, namely, flipping the yield curb back upright, Trump has accomplished in three short days just by showing up. The other thing he did just by showing up was to devalue every currency on earth save for the one he wanted to devalue, namely, his own. This is a bizarre turn of events. If Trump were a country he'd rank in terms of creditworthiness somewhere between Venezuela and Equatorial Guinea, and indeed, if the sovereign markets were open to him at all, the bankers would insist that any issue be Dollar-denominated and they'd want his plane as collateral. Now Trump is USD, at least insofar as the Dollar is backed by the full faith of some other President's engraved mug on the bill. You can't make this up.

In this light, gold's top to bottom swing on the election results hasn't quite caught with this thinking as of yet. We have two explanations: 1. Yield chasing (on a 3% 30yr yield); 2. The bond market is a wise school mistress that will dutifully monitor (and compensate for) any misbehaviour in currency's value, at least as seen by said school mistress' stern eye.

As to the yield-chasers, buying any market on 35-year highs for yield alone is yield-chasing defined. Price cuts harder than income gives and price is now cutting hard. Not everyone can mark to book and for those bond investors who must mark to market the Trump era, both here and abroad, has already been proven to be a profoundly dislocating experience. We feel for these bond people, for us gold guys haven't been able to mark to book since Nixon chucked the book out 45 years ago. At the same time, we point out that gold, despite the bloodbath, still outperformed bonds last week and that says something. Gold has always been about wealth preservation and there is nothing like a tanking bond market to make that point. History, in particular the 1970's, bears this out.

Back to whether Trump is serious or not. He likely isn't. The RNC Chair is said to be penned in for the new Chief of Staff, John Bolton (!) is rumoured to be the next Secretary of State while someone from Goldman Sachs if thought to be in line for the Treasury Secretary. Sarah Palin's name has also come up. Drain that swamp indeed! Our best guess is that conflicting agendas and a disinterested president will tie the office into knots. Moreover, the majority in Congress shares the same party as the Executive in name only. Who is going to tell Trump about the small matter of the debt ceiling? (This bridge must be crossed in March of 2017, some six weeks after inauguration.) Frankly, the future seems a mess.

When lenders finally cut Trump off, he set off on a more capital-light approach to business: renting out his name: Trump Vodka, Trump Mortgage, Trump Magazine, Trump Ice, etc. These ventures all failed too. For those long Dollars, however, nothing resonates more forcefully than Trump Steaks. In the words of Gawker: "As you would expect of anything worthy of bearing the Trump name, the steaks didn't come cheap. For instance, $1,000 would buy you 24 burgers, 16 steaks, and the dull pangs of regret."

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