

Trump's Honeymoon in the time of the \$36 Trillion Ticking Bomb

Shanmuganathan Nagasundaram
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Success is an ugly thing. Men are deceived by its false resemblances to merit. - **Victor Hugo**

Trump's victory in the recent US elections was a complete landslide. It was an extraordinary one as Trump won all of the 7 states considered swing/battleground states in the current election cycle. But then just consider another fact: In 2024 elections held in the developed world, more than 80% of the incumbents have lost the elections.

That said. Trump has been through an extraordinary election cycle –

- much of the mainstream media was pro-Kamala;
- Kamala outspent Trump by almost 2:1 in this election cycle;
- DC which is very symbolic of the Deep State, voted 92.5% in favour of Kamala - the second highest margin of victory was a very distant 64% in Vermont.
- Two very close attempts on life and a loss in this election would mean possible jail-term and bankruptcy.

Despite all of the above, this was not a vote "for Trump." It was not even a vote against Biden or Kamala. It was just a vote "**against the incumbent**". As I have written previously, the policies of both Democrats and Republicans are the same on the key issues (loose monetary policy through the Federal Reserve system, exploding National Debt, expanding government involvement in the economy, and Wars), which is deteriorating the US economy. Given the duopoly political structure in the US, all that the people can do to express their displeasure is to remove the incumbent and get the other party back.

This happened in 2016 (Democrats were thrown out to get Republicans), 2020 (Republicans were thrown out to get Democrats), and 2024 (Democrats were thrown out to get Republicans). At this point, the meltdown that lies ahead for

the US Economy and the US Dollar would imply that the Republicans will be thrown out in 2028 yet again. People continuously vote for change, yet they continue receiving the same policies packaged under a different label.

Let us look at what Trump is likely to do. As was evident in the election cycle, Trump pretty much riled the Deep State at every possible opportunity. Post the victory, he even stated that the two Neocons in his previous administration (Nikki Haley and Mike Pompeo) would not be part of his current administration. All these raised hopes that the US was indeed set for a historical deviation from a policy perspective. And a much required one at that.

But all that hope of the non-interventionists / libertarians lasted for less than a week. Consider Trump's key appointments made so far.

- I. John Rubio, as the Secretary of State, would be a continuation of Pompeo.
- II. Elise Stefanik would be a continuation of Nikki Haley for the role of US ambassador to the UN.
- III. Mike Waltz, as the National Security Advisor, is as Neocon as one can possibly be. Waltz had worked as an Advisor to both Donald Rumsfeld and Dick Cheney – the two most war-mongering Republicans of the recent past.
- IV. Pete Hegseth, Trump's choice for Secretary of Defense, is far from Trump's stated anti-war position. Pete is an out-right military expansionist and has advocated for "rewriting the rules of war" to ensure the US military's success.

After these four appointments, objective observers should have little doubt that Trump 2.0 will continue Trump 1.0 from a policy perspective. Whatever ideological chasms they had imagined between Trump and the previous administrations are non-existent in the current setup. There cannot be any doubt remaining after these appointments.

What Remains of DOGE?

Of the Republican Presidential candidates, Vivek Ramasamy came the closest to understanding the predicament that lies ahead for the US Economy. His statement after the election results, **“once in a century.... chance to radically downsize the size, scope, and mission of the federal government,”** reflects his understanding of the imminent crisis ahead for the US Federal government.

But he and Elon Musk have been relegated to a secondary role leading the “Department of Government Efficiency.” While Elon has promised to reduce national spending by \$2 trillion, this will be impossible to achieve. Ronald Reagan, who campaigned and won on such a platform, could not deal with and clamp down on the bureaucracy, though it was much smaller and substantially less powerful back then.

The only relevant question is how long Musk and Ramaswamy will take to realize that “Government efficiency” is an oxymoron. I guess both would recognize the futility of dealing with government machinery and return to their roles in the private sector within 12 to 18 months. All formal positions filled with war-mongers and big Govt advocates will be the primary driver of government expenses, and there is hardly anything that these two can do against such an onslaught. Within a few months, they will realize that they have a stark choice to make, like what happened to Larry Kudlow in the previous administration – either toe the line of Trump or walk out of the administration. Larry Kudlow did the former, but I suspect both Musk and Ramaswamy will do the latter, and this would be far better than singing in favor of policies they have explicitly advocated against.

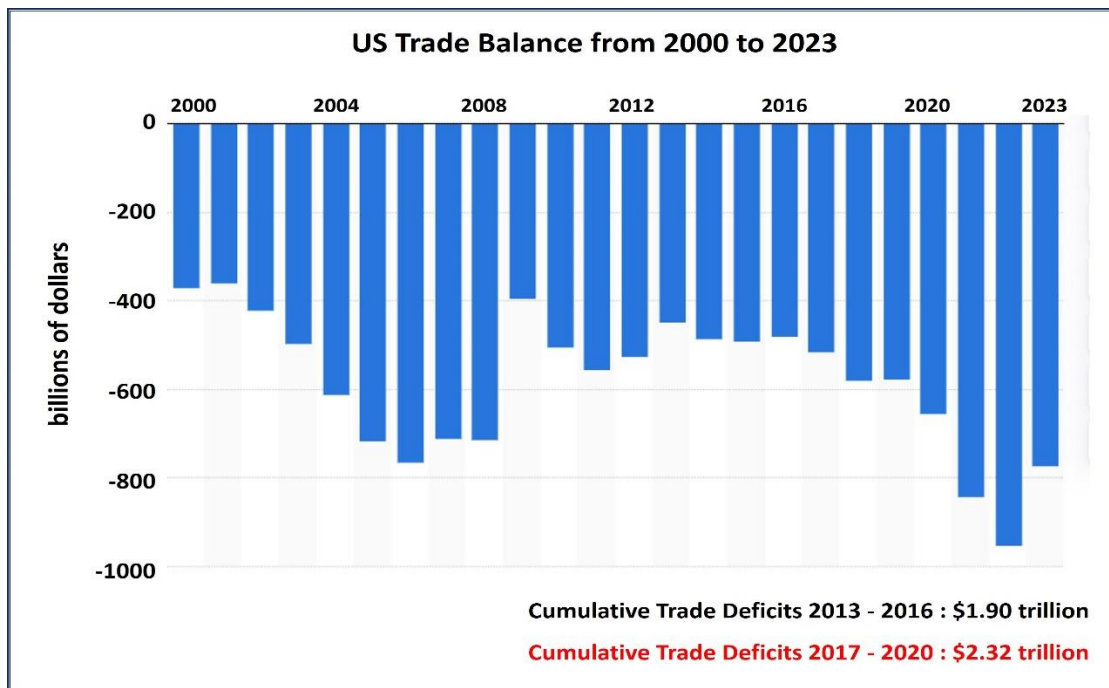
Trump’s Honeymoon – How Long will it Last?

We still have a good two months to go before Trump becomes President on Jan 20th, 2025. But since Nov 04, the DXY has been up about 2%, which is a huge change in the foreign exchange markets in 10 days. Consequently, the Dow is up about 2%, and the most DXY-correlated asset, Bitcoin, is up about 25%. On the

flip side, Gold is down, indicating that the market perception of a strong Dollar under the Trump administration.

How long will this market Honeymoon for Trump 2.0 last? My guess is that it will be over well before Trump even formally takes charge next year. The markets should not take long to comprehend that Trump will be more of the same from an economic perspective.

Tariffs – Trump’s Silver Bullet of Tariffs as a negotiation tactic against China is a non-starter. He ought to have realized it in his first term when the trade deficit under Trump increased by 20% as compared to the previous 4 years. Despite this, Trump continues to live with the illusion that the exporter pays for tariffs.



Whether Trump realizes it or not, China knows very well that Trump has weak negotiating power. Almost nothing at all, to be more accurate. The trade data between the US and China are given below, and it should be very obvious that what the US imports from China cannot be done from any other country, or at least at the rates offered by China. Any tariff by Trump on Chinese imports is going to hurt the US far more than it hurts China. At the end of the day, it is an economic truism that the importers pay for Tariffs.

To add insult to injury, what China imports from the US (soybeans, corn, crude oil, etc.) can easily be imported from other countries. If readers are in doubt, one has to look at what happened to Canada’s canola seed exports to China after Trudeau’s 100% tariffs on Chinese EVs. China will develop other producers, and it's only a matter of time before South American countries become alternate suppliers of these agricultural commodities. Does anybody believe that US and Canada’s auto manufacturers will become competitive with Chinese companies over the next few years? If applied on a material scale, Trump's tariffs will kill the meagre exports of the US.

2022 China and US Bilateral trade – Who exports What?		
2022 Exports	China Exports to US (USD in billions)	US Exports to China (USD in billions)
First	Electrical & Electronics - 142.56	Soybeans and Corn - 23.14
Second	Machinery & Nuclear Reactors - 109.64	Electronic Intg Circuits - 9.42
Third	Toys, games and sports requisites - 36.96	Crude Oil - 6.76
Fourth	Furniture, lightings, Prefab Units - 34.54	Blood, Vaccines - 5.93
Fifth	Plastics - 27.27	Civilian aircraft and parts - 5.52
% of Raw materials / Commodities exported by the US in the top 5 Exports to China		58.9 %

Source: tradingeconomics.com, USAfacts.org

Fig 5.8 – The quality of exports of China and US. China exports finished manufactured products while nearly 60% (in the top 5) of the US exports are basic commodities.

The Ticking Time Bomb – National Debt

As I write this, the National Debt is at \$35.99 trillion, and the US will end CY 2024 with about \$36.5 trillion. In another 12 months, we should be looking at \$40 trillion, assuming that the Global Currency Crisis I outlined in my book **RIP USD: 1971-202X** doesn’t manifest itself. In the very likely event that it does, we should look at a debt much closer to \$42 trillion. But even in the best-case scenario of \$40 trillion and an interest rate of 4% on the National debt, the US would be looking at \$1.6 trillion of Interest payments.

But the odds are overwhelming at this juncture for the economic / currency crisis to play itself out. What would it do to the finances? The national debt would explode on the basis of shrinking revenues. We could well be looking at interest payments of \$1.7 trillion (42 trillion National Debt at 4% interest rate) on revenues of \$4.5 trillion (a 10% contraction in Federal revenues of 2024. After the 2008 GFC, the revenues contracted by nearly 20%), could imply nearly 38% of Federal revenues go towards only interest payments.

The US is inching towards a finality, and nothing Trump has done so far has remotely indicated a reversal of the economic trends of the last few decades. But the worst part is not what Trump does; it is what Trump is perceived to be doing. He is viewed as a Conservative candidate, and all of the blame for what happens under Trump would be blamed on "Capitalism". That indeed would be the most unfortunate outcome for the US and the world. I hope that when the US dollar crisis plays itself, the US will make a hard shift to the right towards free markets, limited government, and individual liberty. But as things stand, it will likely be a hard shift towards the left towards more authoritarianism and central planning.

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Shanmuganathan Nagasundaram
Email: shan@plus43capital.com

About the Author: Shanmuganathan Nagasundaram (aka Shan) is an Economist based in India. He has published more than 100 columns in Newsletters worldwide on the topic of Laissez Faire Economics and the Gold Standard. Shan published his first book "RIP USD: 1971-202X ...and the Way Forward" in July 2024 where he forecasts an imminent Inflationary Depression for the US that will last a decade or longer. He also outlines the prognosis wherein the world's monetary system would revert to a Gold standard before the end of this decade as compared to the Paper currency standard that has prevailed since 1971.