Myrmikan Research

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Daniel Oliver
Myrmikan Capital, LLC
doliver@myrmikan.com
(646) 797-3134

Trump's Gamble

Trump's emergence as a viable alternative to the establishment rested on two platforms: attacking the Democrats for their domestic assaults on Western civilization and the Republicans for their wars to impose Western political structures on Muslim nations. Trump's constituents included the Christian right, the America-first movement, those secretly disgusted by Democrat transgender ideology; even the tech billionaires turned against Biden when his administration threatened to take control of A.I. infrastructure.

The key, vigorous support from was from MAGA, an acronym Trump invented to create an identity for those who want to close the border and to stop spending trillions of dollars on foreign wars instead of investing those funds in domestic infrastructure: Jeffersonian republicanism over Hamiltonian imperial ambition. MAGA is, therefore, shocked to discover that Trump's condemnation of the Bush wars was not, in fact, anti-imperialist but instead merely a disagreement on strategy.

Empires exert control in two ways: the first is full cultural replacement achieved through brutal means, such as the Mongol or Islamic conquests or American westward expansion—the defeated submit or are eliminated, as is occurring currently in Gaza and Tibet. The second is rule through proxies: the British could never have conquered India through military means—force was applied discretely to co-opt and control the Rajas in order to rule through existing power structures. Great empires typically use the former when they are expanding and, once stable, the latter to preserve order on their periphery.

The Bushes attempted cultural imperialism without the brutality; it transpired that compassionate conquest in a barbaric setting was an absurd idea. Trump has embraced the rule through proxy strategy. He has no interest in conquering Venezuela—he simply demonstrated that the U.S. can abduct a head of state with impunity. Maduro's replacement understands: the existing political structure may retain domestic power so long as it accedes to U.S. international interests—a pretty good deal compared to being abducted or taken out by a cruise missile.

This is a way to run an empire efficiently: the threat of force—or force constrained to limited, targeted settings—achieves imperial goals while preserving resources for domestic purposes. Perhaps more importantly, it kept Trump's political coalition from fracturing: the neocon establishment that retains control of institutional power was placated while the brevity of action and minimal cost mollified MAGA.

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Trump seemed to be following the same script with Iran. His previous bombing campaign maintained the MAGA/establishment balance. It failed to achieve his objectives, however, so Trump parked an armada of military assets within striking distance armed with the credibility that he was prepared to use it. In response, Bloomberg reports: "Iran told the U.S. in recent nuclear negotiations that its stockpile of highly enriched uranium 'is the result of our practical achievements and that we are ready to get rid of it, provided we get something good in return….'"

Trump once berated Obama on Twitter: "Remember that I predicted a long time ago that President Obama will attack Iran because of his inability to negotiate properly—not skilled!" Trump had the proper negotiating tactic—peace through strength—it was the time to see the art of the deal in action: eliminate the nuclear threat and grant Iran economic incentives to direct its flow of oil towards Europe and away from China without firing a shot.

Trump was outmaneuvered by the Israelis instead. Secretary of State Rubio told reporters: "We knew there was going to be an Israeli action. We knew that that would precipitate at attack against American forces, and we knew that if we didn't preemptively go after them before they launched those attacks, we would suffer higher causalities." In other words, Rubio admitted, explicitly, that the U.S. is fighting Israel's war to achieve Israeli strategic objectives, which includes total destruction of Iran's internal cohesion, the primary kind of imperial conquest, not just hard influence or soft control.

Trump's delicate balance toppled over: he was maneuvered into an open-ended regime-change war so beloved by the establishment and so detested by his core constituents. Trump senses the trap and rhetorically has been pivoting back to his original plan—claiming that this military escapade is nearly complete—but he cannot retreat and watch Iranian missiles destroy Israel and other regional allies, yet escalation risks turning Iran into another Libya or Iraq or worse—and where do we think that stockpile of enriched uranium is now? Who is left to negotiate its transfer? What now can credibly be offered in return? And who would negotiate, given that the U.S. used past negotiations to position the Iranian delegation for the kill? Trump even admitted to killing inadvertently his intended successors to the Ayatollah. Trump now seems beholden to Netanyahu's plan to bring about the fracturing of Iran as a regional power to facilitate a Greater Israel.

The gold price is an enigma. One would think that war in the Middle East should have launched the gold price higher, and yet it has languished. We remind that this gold bull market began when Biden confiscated Russia's foreign reserves, converting Treasury bonds from an economic to a political instrument. We have also noted, in our February 2024 letter, Failing Imperium, that sovereigns holding depreciating dollars expect tangible benefits as compensation, such as military protection, which Biden was incompetent to provide. Perhaps in its way, an Iranian conquest could atone for these sins.

Trump clearly is attempting to reestablish the American empire, not through soft power and economic influence and proxy battles in peripheral countries, the Cold War methods, when America was rich and the rest of the world impoverished, but through hard power. We cannot discount the possibility of success: a historic enemy that at its inception humiliated the U.S. by taking its diplomats hostage and a main supplier of energy to America's chief rival transformed into a Western-oriented nation: Persians freed from their long oppression by the radical mullahs; or, instead, Iran fractured into irrelevant micro-states; either way, the U.S. gains

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control of Iranian and Iraqi in addition to Venezuelan oil and makes a deal with Saudi Arabia to throttle supply to China; China is diminished, its belt-and-road economic expansion in ruins, its ambitions on Taiwan thwarted; witnessing the weakening of its main ally and erstwhile rival, Russia (which has already lost Syria) chooses a pragmatic suspension of the Ukrainian conflict under fair terms that Trump dictates; Europe becomes even more vassal and cannot object. Trump is already a historic figure domestically—success in Iran would cement his international stature. And should Trump's imperial gambit succeed, and quickly, MAGA might forgive.

It is an appealing vision. The public has a dim view on empire because the periods typically studied are either the heroic and glorious martial origins or the lugubrious decline and collapse with attending licentiousness and corruption. Established empires are boring: they suppress conflict and allow trade, which pays for their enormous expense. About the Roman Empire, a Greek would write in the second century AD:

> Today, it is possible for Greeks and barbarians, with or without baggage, to go easily wherever they want to go, exactly as if they were going from homeland to homeland. No fear in the face of the Gates of Cilicia or of the narrow, sandy passages leading through Arabia to Egypt, nor when confronted by mountains difficult to access, vast rivers, or the fierce races of barbarians.

Not much drama in his description: only an empire can impose such pervasive order. In its heyday Britain ruled the seas whilst being dedicated to free trade; the U.S. has served that role since World War II, while simultaneously bearing the expense of the Cold War. The whole world blithely swims in the waters of Anglo-American imperial free trade, and the success of Trump's plan would maintain this international order and extend the Pax Americana for years to come, especially if he can reverse Clinton's error in Yugoslavia and reintegrate Russia.

In this vision of empire, with vassals paying the costs explicitly, the dollar may reestablish itself as the desired reserve currency, not supplanting gold but lessening the urgency to hold physical bullion.

But healthy empires have something the U.S. does not: an expanding population wielding a confident culture. America's heritage population is shrinking fast, saddled with monetary debt and moral guilt imposed by the DEI cultural revolution; America's manufacturing culture is all but dead; white collar work is being transferred to immigrant Indians and now A.I.

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All that is left is the legacy debt on assets of questionable productivity and value, and the private credit market slides towards full collapse: first Blue Owl, BlackRock, Blackstone, and now Cliffwater and Morgan Stanley are facing the beginning of a run on private credit; and if private credit is worthless, so much the more so is private equity. The Fed can print money, and it will, but it cannot bail out these credit monstrosities: everyone needs a house and a car, so the monies printed in previous panics went to the locus of the crises—nobody needs to rent class C office space or buy knock-offs from Amazon sellers rolled up into PE-backed structures, so Fed money-printing will not flow to where the problem is but will exacerbate inflation instead. And war is expensive, which will require even more debt.

Trump understands the threat, the reason he is manically trying to erect trade barriers and use federal funds to finance the reconstruction of America's internal economy. Perhaps if he were a proper emperor, with an expected term of twenty or thirty years, and an unassailable successor, his program might have some chance of success. As it is, presidential hopeful Gavin Newsom told the Munich Security Conference: "Donald Trump is temporary. He'll be gone in three years." Newsom's warning gives solace to America's enemies, foreign and domestic, and makes allies pause.

Astute investors pay attention not just when prices move but when they fail to move. We wrote last month that the bull market began not when the gold price went up, but when it failed to go down in the face of Fed tightening. We are cognizant that gold has failed to surge in response to the Iranian conflict. Given American economic decline and the broadening military conflict, however, we are skeptical that gold is pricing in an American victory.

We observe that Iran continues to fire missile barrages and drone swarms; that Iran has begun mining the Straits of Hormuz; that Kurdish separatists are preparing invasion at the behest of the CIA; that Turkey is mobilizing its military, concerned about its own Kurds and an influx of refugees; that the *Wall Street Journal* has already published an article "An Urgent Need to Contain Turkey"; that Eastern Europe is panicked that a wave of refugees could pass through Turkey; that the president of Azerbaijan announced his country may assault Iran; that Baluch separatists have their own ambitions in the southeast; that Egypt is massing troops in Sinai; that the Israelis have ordered 500,000 Lebanese (10% of the population) to flee their homes before its bombs start falling; that the U.S. is redeploying THAAD anti-missile systems from South Korea to the Middle East; that knowledgeable sources question the extent to

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which the American military can maintain momentum given dwindling ammunition reserves. The clock is ticking, and the conflict is spreading.

And the knock-on effects have already begun. Brent crude has jumped from $60 bbl in January to $95 bbl, which will act as a drag on the global economy. China has ordered its major refiners to halt diesel and gasoline exports. Rising energy prices in Japan are weakening the yen, which may force the Bank of Japan to raise rates, unwinding the carry trade that has sustained financial markets for years. JPMorgan is marking down loan portfolios of private credit groups and limiting further exposure as the PE bubble is now in full collapse. Stock markets, held aloft by an A.I. bubble, are popping. The U.S. is releasing 172 million barrels of oil from the strategic reserve, reducing the supply available for a real crisis by 41% (Biden had already raided 38% of the reserve during his term for political reasons).

In short, we think any weakness—or, really, lack of strength—in the gold price reflects global liquidity pressures, not geopolitics. In addition, Iran for some time has been using gold as a trade instrument to avoid sanctions, and it would not surprise if liquidity needs by the Iranian regime were flooding local markets with bullion.

As for the gold miners, obviously a static gold price combined with rising energy costs is not good for margins. We have three observations: first, gold mining shares in no way reflect gold trading above $5,000 or anywhere close—cash flow will continue to flood into these companies even if operational costs suffer some increase. Second, if Trump does retreat, the oil price will likely fall sharply as supply worries vanish and economies continue to slow globally. Third, if the Straits of Hormuz remain closed and oil shoots to $300 bbl, as predicted by some analysts, gold will trade a lot higher than $5,000: such oil prices will crash the economy, and America's progressive taxation system means revenue would plummet right as Keynesian stabilizer costs spike. Failure in Iran would also means there would be fewer allies to subsidize the Treasury market, putting the dollar balance sheet in a dire position.

We do not like presenting only bullish scenarios—gold and the gold miners are investments, not a belief system. And we caution that we have little insight or opinion on where gold can trade in the short term as liquidity flows push it around. In terms of value, however, it is not easy to see how the bull market in gold can end before the dollar system is radically overhauled. The Treasury Secretary himself predicted such reform when he was angling for the job: "We're also at a unique moment geopolitically, and I could see in the next few years that we are going to have to have some kind of a grand global economic reordering, something on the equivalent of a new Bretton Woods or if you want to go back like something back [sic] to the Steel Agreements [which led to the European Common Market and then the European Union] or the Treaty of Versailles, there's a very good chance that we are going to have to have that over the next four years, and I'd like to be a part of it."

Trump likes huge risks. He is president because he has won more than his fair share. Toppling Iran is the biggest gamble of his career. Victory would reestablish American international power and diminish America's enemies, perhaps boosting the political value of the dollar to the detriment of gold. Trump's economic advisors actively seek a weaker dollar, however, and the Fed will soon have no choice but to begin printing to sustain federal deficit spending and to bailout the financial industry, which gold will love. And failure in Iran risks becoming an American Suez crisis, precipitating the final demise of the U.S. dollar.

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