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Warsh-ing Out Debasement Risks?

- After President Trump revealed **Kevin Warsh** to be the **Fed Chair pick**, the **USD rallied** *alongside front-end USTs* (yields lower).
- To be clear, Warsh is in favour of more rate cuts and sooner. Notably, he has **criticized the Fed for being** "**backward-looking**" and too slow on cuts.
- In which case, one might expect the USD to weaken, *not strengthen.*
- Nonetheless, **Warsh's positive impact on the arguably USD derives from** three key features.
- First, and ***most importantly***, **Warsh is a firm believer of a smaller Fed balance sheet**. In other words, ***the anti-thesis of QE***.
- This by extension **checks the risks of USD debasement**, which **undermine the allure of fiat debasement hedges**; explaining *Gold's 9-10% plunge* (and silver's 25-30% collapse).
- Second, Warsh's **pursuit of lower rates does not compromise the 2% inflation anchor**, being **premised on** *productivity gains* and *overstated artificial inflation constructs.*
- Notably, ***if Warsh is right on productivity gains***, then the *marginal case for investing in non-productive assets - such as Gold - also loses its shine*.
- Finally, Warsh was an **inflation hawk** in his past Fed tenure, who ***values Fed independence***.
- Hence, the *presumed credibility gains offer Warsh more policy flexibility* without compromising USD (and USTs).