Grant Williams: The Trouble in Europe has Just Begun

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Erik: Joining me next is Grant Williams from Real Vision Television and, of course, the "Things That Make You Go Hmmm…" newsletter.

I do want to let our listeners know that we are recording a week early in order to accommodate travel schedules, so our discussion about the markets will be about a week old. So we were not aware of anything that's happened at the end of the last week or so.

Grant, I want to start with the big picture of markets, which doesn't really have to be timely, which is okay.

Look, a lot of people, myself included, have said over and over again, this bull market is long in the tooth, it's the longest one in history, it's due to end. And we were proven wrong several times over and surprised by yet another round of all-time highs.

Have we finally gotten there? Is the top in for this cycle? Are we into at least a cyclical bear market? Or do you think maybe there's a chance that one more time I'll be proven wrong and we'll be pushed to new highs?

Grant: Well, you know, Erik, you are not alone. A lot of us have been saying that we think we've seen the top of this market for a while now, and it has proved us wrong. It's like the guy in the Halloween movie – you think you kill it off and it keeps coming back somehow.

To me, though, looking across the landscape, it kind of feels a little different this time. I hate saying this time is different. But it just feels as though the impetus for new highs now, it's not going to be earnings, it doesn't feel like it's going to be purely based on Fed policy, it definitely doesn't feel like it's going to be a strengthening economy.

So when you look at the things that have caused the surprise for us and have made us, let's face it, flat-out wrong for a while now, I don't see an obvious catalyst for higher highs other than the Fed reversing policy – Powell basically chickening out. I sent a tweet out on December 19 that said "I like Jay Powell. There. I've said it." And that marked the top in his hawkish policy, literally almost to the day.

But if he backs down, we may get a reaction from the market. You might think, hey, the good times are here again. But I think that will wear off very quickly and then people are going to start looking at the economy.

And everywhere you look now there are warnings coming out. Seth Klarman wrote a great letter with a very strong warning about the economy. A lot of the IMFs, the OECD, they're all warning about problems with growth. We're seeing what's going on in China.

So, this time, everywhere you look when you try and piece together a reason for markets to make new highs again, the only reasons I'm seeing are a change in the Fed policy. Which I don't think is going to cover it this time because it's going to happen against the backdrop of a weakening economy and a short squeeze, a melt-up short squeeze. And I just don't see that happening.

So I think we're bumbling around the top. Could we go up from here? Yes. But I think it will be a bull trap. And I think, ultimately, the direction has changed and the path of least resistance now is lower.

Erik: The other big one is bond yields.

We had so many smart people, whether it was Jeff Gundlach – our mutual friend Julian Brigden had told us, look, if you see a break of that 100-month moving average on the 30-year Treasury bond, that's a trend that's been in play since the mid-1980s. It's a major signal. Sure enough, we got that signal.

A lot of people were saying it's the break above 3.12% or so on the 10-year. We got that signal. And so many people said, once you see that break, there's no turning back. You're never going to see Treasury yields this low again for 30 or 40 years.

And, of course, it took 30 or 40 days before we hit, seeing a reversal of that. And, as we're speaking – what now is a week ago for our listeners – we're back in between that 2.60% and 2.80% range again, sort of chomping around here.

Where do you think we're headed? Are Lacy Hunt and Raoul Pal about to be proven right that maybe we really are headed below that 1.34%, which, so far, has been the low yield on the 10-year? Or is this just a temporary pullback before Gundlach and Brigden and others are proven right?

Grant: This is the really interesting thing to me. This, to me, is where – when people say where is all the damage that's been done by the last 10 years of monetary policy? And this, to me, is exactly where you're going to figure out what's happened.

The short answer is I think they're both right. And I think, in a normally functioning market, I think Jeff and Julian and the guys that are calling for inflationary pressures and higher yields are absolutely correct.

But what no one was really counting on is the fact that, if that happens against a global slowdown, you are going to have these weird dynamics going on where the built-up inflationary pressures could be unleashed for a period of time at the same time that the market is going into a massive slowdown. And I think the panic that you're going to see ultimately will possibly drive Treasuries down.

I think Lacy and Raoul will be proven right.

But once this breaks and confidence goes, once the panic grab for "safety" is over and people have got their Treasuries, I think the economy is going to start to matter. More importantly, the US's finances are going to matter. And that's the point where this whole thing breaks.

I'm sure you and I are going to talk about some of the bigger-picture issues that the strains on the system – but make no mistake about it, this is definitely one of them. The US's finances, they just haven't mattered. No one's really cared as the deficit has gone screaming up and the national debt has gone through $21 trillion. It's mindboggling. But the day that matters, that's when you're going to see, I think, the Treasury yields go much, much higher from here.

But, as I say, the short answer, I think, in the short term Raoul and Lacy could well be proven right.

Erik: Now this makes me wonder – if we think 10–20 years ago, what happened in Japan, so many people in finance were saying, look, Japan is so over-indebted, the blowup of their stock market bubble in '89, this is all leading to a massive collapse of JGBs. We're going to see the yield blow out astronomically as everybody realizes the default risk is through the roof and it's time to short JGBs, back the leverage truck up, that's it, baby.

And what happened, for decades, is so many people made that argument, which frankly was a good argument – on the face of it, the logic all made sense – but instead what happened is Japan found itself in economic stagnation that has lasted for decades.

And I wonder if it's a precursor, if the whole world is about to turn Japanese where, per Lacy Hunt, we've got so much debt that we can't get back to historical normal yields. And we just go to a very low-yield, low-growth stagnation environment globally that continues until we get to the point where there is either some populist uprising or something that resets the system.

Is that a realistic scenario to consider?

Grant: In my mind it is. Particularly the populist uprising – and I'm sure we'll talk about that.

I've talked about this fairly often, this Japanification of the world. There's two differences to think about.

One is the fact that the Japanese bond market is, essentially, completely domestic. People overseas don't tend to own Japanese bonds.

And, secondly, as Japan went into its nosedive, there were other countries picking up the baton for growth. At that point you had China growing double digits, you had India growing double digits, you had the US doing pretty well. So there were other countries that could carry the torch. And there was organic growth in the world, so people had a place to go.

And the Japanese bull market just didn't really matter to anybody. I mean, now, there are days when the whole thing doesn't trade. I mean, it's farcical, if you think about it, but it's really kind of just become a sideshow.

If we go into a period where the US sees no growth, and China is down at 4% and struggling and having to bail out its banking system, and India hasn't come through as people thought it would, even though we're seeing growth in the monsoon countries – which, again, is something that Raoul spoke about and he and I did a presentation about this a couple of years ago – that's not enough.

Those countries – growth in Ethiopia is not going to help the rest of the world pick up the load. It's going to be a completely different backdrop. So I think this idea of a Japanification of the world is a little misguided. I think it's going to matter, that this is a coordinated global slogan as opposed to a Japan-specific thing, and I don't think that's something that's going to be looked past by bond investors.

Erik: I was reading "Thing That Make You Go Hmmm…" on the airplane on the way to Vancouver the other day, and I was particularly interested in your article on China and Taiwan because I'm not really an expert on all of these China and all of its territories. I know quite a bit about Hong Kong, just because I'm a resident there.

But, as much as they're saying – and you've covered this in your newsletter – okay, China has got to unify Taiwan with mainland China. They've got to toe the line, become part of the mainstream. No more independence.

Haven't they been saying some version of that for 25 years? And why would we believe that suddenly right now is the time that they're actually going to enforce that and perhaps it is about to come to a head?

Grant: Funny you say that. The reason I included that in the letter was not so much the story, because you're right, that's been something that we have been talking about. When I was working out in Hong Kong was when the Taiwanese held elections and there was a big fuss about it then. The Chinese talked about they can't do this.

For me it's more about the timing. The fact that Xi Jinping is now making that a key plank of his policy tells you, I think, how much trouble the Chinese economy is in. Because if he is suddenly trying to say, hey, you know what everybody, forget the economy and let's try and reunify China, this is classic. It's a classic tactic: populism, reunification, nationalism.

So, for me, it's not the story. The story has been there and it's been floating around, as you said, for years. What is interesting is that Xi is trying to focus attention on it again. And that, to me, is just a distraction. The economy is in real trouble, so I need to galvanize people around a reunified China again, because that plays well.

The fact that they haven't mentioned it in years because everything has been going fine tells you everything you need to know. So, to me, it's not the fact that they're going to change their policy, but they're bringing that back to the fore because they see problems coming.

The problem is always miscalculation. All the tactics that politicians use, whether it's Trump in the US or – Cameron obviously made a massive miscalculation with the Brexit referendum. Miscalculation is what leads to problems politically.

And, who knows, if Xi does bring this back to the fore, and the people really get behind it, particularly in the face of a weakening economy, you just don't know what he might do to try and unite the country behind him.

So I think it's an important story to watch. I don't think you're going to see any action on it. But watching how hard they try and push it to the fore is a really, really useful indicator for just how weak that Chinese economy is. Because, as you and I both know, the data never really tells the full story.

Erik: Another subject that you covered in your most recent "Things That Make You Go Hmmm…" newsletter was Australian real estate. And this one particularly interests me because so many of us were right about this and just way too early – and in this business, early is wrong.

I helped to organize a trader group in Hong Kong in 2010, and one of our big topics was how do you short Australian real estate. And, needless to say, we were eight years early and therefore wrong.

And, I guess, my question now is twofold. One of the problems is nobody could figure out do you just short the bank stocks, and how is the weakness that we knew was coming in Australian real estate – because it's clearly a bubble – how is it going to translate? And how effective is something like a short on banking stocks going to be to capture it?

And, of course, the other question was the timing. Well, the timing seems to have resolved itself. We know there's been a significant pullback. How well has that translated in terms of any tradable strategy?

A lot of people would say they've had a 20% or something pullback on the price of properties in some cities. A lot of people would say, okay ,that's their correction. It's over, it's time to buy the dip.

Is it just getting started with Australian real estate? And how do you play it?

Grant: It's a fascinating story. This is something that I've watched for a while. I lived in Australia for a number of years. And even back in 2005 through 2010, the market was nuts.

In 2008, when the crisis hit, the very first action that the Aussie government took was to give a $6,000 windfall to anyone buying their first home, because they understood just how fundamentally that housing market is to Australia, to Australians. It means the whole ball of wax.

So if you look at a chart of Australian housing, you'll see a tiny dip in '08 and then it went straight up again. And if you put that chart up against the US housing market, you'll see it's so much higher than the US was before the crisis in 2007–2008 as to be almost laughable.

And the entire Australian economy essentially revolves around that housing market, so you can understand why they've been defending it tooth and nail. You can understand, almost, why the bears have been wrong for such a long time. And a lot of that is to do with finding ways to be able to play the short.

But there are a couple of things that happened which are starting to make it really, really interesting.

First of all, the commission on finance [which was called Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry]. And this was, again, politics. And when I talk about miscalculations, here is a prime example.

The incumbents have presided and been talking about how great the housing market has been. The opposition have been talking about how unaffordable housing has been, and they promised that if they got in they would address housing affordability.

And, literally, one MP was kicked out of his seat for personal transgressions and that lost the majority for the government in parliament and the opposition was able to force through this banking and finance commission. Now what that's done is start the whole set of dominoes toppling.

Because, guess what, when they looked into banking and finance, they found out that all the stuff that was going on in the US with liar loans and forged documents, all of that stuff was all happening in Australia. And the banks were up to their necks in it, as you knew they were going to be.

And this is the same problem. It's human nature. It's not going to be different anywhere else in the world.

But once this thing started, the data that's been coming out of this royal commission – and it's an open commission, it's televised, you can watch it, it's been truly extraordinary. What's happened is the banks have cut back access to credit. And they've done it before they were told to by the commission.

So you have finally got a catalyst whereby the banks are stopping lending to housing. And it's credit that has enabled this whole thing to go on, because housing is completely unaffordable – unless you've got access to cheap credit, it just doesn't work. So this is all still going on. The pig is still going through the python. But you've finally got a catalyst.

Now, the problem with shorting the banks in Australia, it has been the size of the dividends. They pay massive dividends. The big four – National Australia Bank, Westpac Bank, ANZ, and Commonwealth – pay huge dividends, so they're owned in all the public pension funds. So it's been a really tough thing to battle against them, simply because people would just own them for the yield.

But with this commission and with the restriction of credit, those dividends at some point are going to come under threat. And if they do cut the dividends, or even if it's just slightly (they may be forced to make significant cuts in the dividends) – if that happens, then you'll see a cascade in these things. And suddenly the banks will just be in freefall.

Now, against that backdrop, the other aspect of this, which makes it very, very interesting right now, is we all know that Australia has gone a quarter of a century without a recession. But it now starts to look as though the Aussies might be staring their first recession in 26-odd years in the face.

And if that happens, along with this, then this could be a disaster for the Australian stock market and, by extension, the housing market, because people are stretched. Housing affordability is appalling in Australia. So it's just one of those perfect storms.

And if we get the recession that looks like it's coming, and we get massive contraction in credit, which looks like it's either going to happen voluntarily at first and then be forced by the royal commission, there is really no way out of that for Australia.

Particularly if the third part of this, which is the Chinese economy, goes into reverse. That's it for Australia. You can stick a fork in Aussie for the time being.

It's still difficult to play the banks, because they're down, they're 20-odd percent down off the tops. But you've still got this need to own them for the dividends.

So you watch the Australian economic data, you watch what the banks are doing in terms of making reparations or in terms of the pressure being put on them by the housing and financing commission, but I think this trade is in play right now.

There's a couple of guys – a great friend of mine, Michael Schneider down in Australia who you should definitely have on to talk about this, he's all over this. Bill Strong of Eschaton is also looking at this trade. I did a great interview with him for Real Vision about six or eight months ago where we talked about this.

But it's happening. And it's – like all the other things that we've talked about, Erik, where we've been wrong for so long – this Aussie market, everybody has been wrong, but they've all been looking for the short. So I think once it starts playing out, which it is, you will see plenty of people who want to pile on this thing, which is just going to drive these things down further.

So I think the trade is happening. I think there is a lot further to go, and I think people should be watching this very, very carefully.

Erik: Let's talk a little bit more about the first recession in 26 years. I know you are a serious student, as am I, of feedback loops and human beings and what tends to happen to people. When you talk about the first recession in six or seven years, it might be that it's a little bit out of people's minds and they've got to refresh their memory of what that means.

When you talk about the first recession in 26 years, you're talking about an entire society where the youngest generation has no concept of what a recession is. What does that mean in terms of people's reaction and potentially exacerbating the effects of that recession?

Grant: I think you're absolutely right. That's the problem. It's the over-swing of the pendulum, if you like. It won't be a normal common or garden recession. You've got 26 years of imbalances built up that have been, let's face it, staved off. The Aussie economy was basically completely reliant upon China, and China happened to go big just as Aussie was weakening, which really kind of saved them from recession a decade ago.

But you're right, this is an entire generation that's gone without a recession. So the danger is that when one happens, and we all know it's going to happen – maybe they get through this year somehow, I don't see it but maybe they do. But it's coming.

And when it comes, people are going to be shocked to see mass redundancies and housing markets fall and stock markets fall. They just haven't seen it before. So people won't know how to react. They won't know how to invest. They won't know how to position themselves. So they will do everything out of a sense of panic, which always unsettles markets and causes them to overshoot.

And if you look at the Australian market, you'll see it's way too expensive for a country that's going through what it's doing. But, probably more importantly, the currency. I think what you'll see is the Aussie dollar is going to go back to 50 and, who knows, perhaps below that. And that's probably where it should be.

But the overshoot could be severe. So the Aussie bond market and the Aussie currency markets, that's where I think there is some significant money to be made. And, again, particularly the currency because, I think, even where it is, it's way overvalued.

Erik: Grant, you mentioned something a moment ago, which is that you and I and a lot of other people had been wrong about some things, or early at least, and we're now being proven right.

There is one of these that I really wanted to be proven wrong on. And that is that for the last several years you and I have predicted a dramatic increase in populism, social unrest, and violence. And a lot of people thought we were conspiracy theory nutcases.

Now, Paris is on fire. And I really, really would love you to tell me that I'm wrong to say that what we've predicted is starting, but I'm afraid that's not what you're going to tell me.

Grant: Oh, boy, Erik. Again, to me, this is the one that I hope and pray I'm wrong on. And I've been delighted to have been wrong for a while. I've been surprised by just how tolerant people have been.

And I think that a lot of that has been politicians standing up and telling everybody how great everything is doing. I think, even when you've lost your own job, if you're being told that the economy is doing great and everything is fine and it's never been better, you hope that, oh, you know, maybe, at least I'll be able to find myself another job.

There is the old joke about the difference between a recession and a depression: It's a recession when your neighbor loses his job and it's a depression when you lose yours. That's what I fear.

I think that you'll find that after '08 people understand a lot more about finance than they did before '08. And they may not realize it, but I think they now understand bailouts, they understand how unfair bailouts are when they're targeted at Wall Street as opposed to Main Street.

And I think that what you're going to see, sadly, is the Fed and the government will do what they've always tried to do, which is bail out Wall Street to "save the system." Bernanke and Paulson managed to frighten lawmakers into passing TARP [Troubled Asset Relief Program] back in '08 – $787 billion, which is a drop in a bucket this time around.

And even though people kind of thought it sounded wrong, they were too frightened by this whole, well, if we don't do this, the system is going to crash.

If you have a bad economy and you have people feeling like they're disenfranchised and you tell them, you know what, we need to do this to save the system, well, suddenly the reaction changes. And the reaction is to hell with it, let's burn the system to the ground. Which I think is your point.

And if we're in that place, which, again, it feels like we are – populism is on the rise, the fact that

Alexandria Ocasio-Cortez can float this 70% tax in the US and have all kinds of polls say that a lot of Americans are for it tells you that the attitude has changed.

Bernie Sanders was the tip of the spear in bringing this whole idea of socialism and fairness to a younger generation that haven't, perhaps, studied history or haven't lived through periods where they've seen the horrors that socialism leaning to communism can cause. I don't think anyone is really paying too much attention to Venezuela right now, even though it's a fantastic case in point as to what can happen when these things go wrong.

But when things are bad, an alternative is always more appealing. Do you want the status quo, which you know is bad? Or will you take a chance on something different?

And, of course, the big problem is people are saying that capitalism has failed. Well, we don't have capitalism anymore. We are not a capitalist society. We have crony capitalism, which is completely different.

If we had capitalism where weak companies were allowed to fail and companies were allowed to go bankrupt and there was some kind of check and balance in the system, we wouldn't be having these problems. But, again, the decisions made in the name of "defending the system" and "defending capitalism" and "bailing out Wall Street because it's in the best interest of Main Street" – that's all going to come home to roost.

And I think what you're seeing in France is, again, another symptom of that. We've seen it in the UK with the Brexit vote. Obviously, we Brits are all awfully polite – until we're not. And right now we're in the polite stage. But, again, you can see with some of the demonstrations, some of the marches, you can see the anger there.

This story, this past weekend (or a couple of weekends ago when this is going to go live) of the Native American protests and the young kid in the MAGA hat and the blowback from that story – and I watched that like everybody else – I looked at the smug smile on this kid's face and thought, oh boy, can you believe this kid?

But when you dig into the story – and it took a couple of days for the rest of it to come out – you see there is another side of the story, and it's not as cut-and-dried as it looked at first blush.

So suddenly you're being forced to pick a side. And people have already picked their side. Everything that happens they see through their own prism. And it just drives both sides further apart.

So when you have this chasm between left and right in politics, you have an economy that is running on fumes, you have a stock market that is potentially at all-time highs, and you have a moment in time where things like the national debt start to matter, I worry like you do, Erik, that the only way people are going to be able to express this is the way they are doing it France now. And that is going to be a very, very bad outcome for one and all.

As we record this, we are at the beginning of Davos. And there couldn't be a worse time, if you ask me, to shine the spotlight on the elite. Because that's what they are.

And some of the numbers coming out in the press – it's really interesting. Now, whatever you read about Davos, it's all within the context of how much richer the world's 1% have gotten since 2008.

And when you look at – there was a chart in Bloomberg that showed the richest men in the world and the percentage that their wealth has increased over the last decade – it's extraordinary.

Mark Zuckerberg is 2000% wealthier than he was. Mukesh Ambani, one of the big magnates in India, is up a couple of hundred percent. Benioff of Salesforce was up almost 1,000%. Jamie Dimon is 300% wealthier than he was back in 2008.

The fact that this is the angle that the press is starting to take on Bloomberg shows you that they realize that the way to get people to read – because right now in the world we live in it's all about clicks, how do I get people to read my article, how do I get eyeballs on it for the advertising dollars – the way to get someone to read is to make a headline that is anti the world's elite. I think the headline was "Davos Billionaires Keep Getting Richer."

Back in 2018, Oxfam put out a study that said that 80-odd percent of the wealth generated in 2018 went to the richest 1% of the population.

These headlines just fuel this populism. And I think it's Gerald Celente that says when people have nothing to lose they lose it. And that's where we're at, I think.

So watch the coverage, watch the angle people are taking with the wealth divide. Because when you start to see headlines that really play into the anger of the 99%, you know that that tipping point is getting closer.

We started this off saying I hope you're wrong, I hope I'm wrong. But every day that goes by, I fear that we're going to be more right than we thought we were. And that's trouble.

Erik: Another headline that you had in your most recent letter was if Macron fails, Europe fails. What precisely did you mean by that?

Grant: Macron is interesting. Macron came out of nowhere. Here we have an ex-Rothschild banker who was put up as the alternative to the very unpalatable – to the establishment anyway – Marine Le Pen, whose party was at its inception an overt far-right party led by her father. And there is a man you can absolutely apply the word racist to. But those connotations, she tried to weaken those. The establishment tried to strengthen her association with right-wing racism.

So when she started to get some real traction in the polls – François Hollande was an appalling president, and suddenly Marine Le Pen – if Marine Le Pen looks like a palatable alternative, you know that you've got a country facing problems.

Well, guess what? The establishment pulled Macron out of nowhere: Young, handsome, erudite, very much in the Obama mold, who, again, before he got elected was a junior senator that many people hadn't really heard of – but he spoke well, he looked great, he was very presentable, he was stylish. And Macron was that in spades.

The fact that he was an ex-Rothschild banker seemed to pass by most of the people voting for him, and he got it. And the establishment breathed a huge sigh of relief.

But, guess what? He's turned out, again, to be an appalling president. His approval ratings are – I don't know if I'm right in saying they're below Hollande, but they're down there with Hollande, which I thought would be a remarkably difficult thing to do – but he's achieved it with some ease.

So I think Macron, to me, represented the establishment's last roll of the dice. You know, here's a guy, we're going to put him in there, we're going to get him to say all of the things we need him to say, and he's going to calm things down, and he's going to help this whole thing blow over.

And nothing of the sort has happened. I think that is a representation of what you and I have been talking about, about this populist movement and the fact that they're not going to just go away and be placated. I think what's happened to Macron in France is the absolute embodiment of that.

So the fact that he is struggling, the fact that he is looking as though – I mean, in years gone by he would have already stepped down. Back when politicians had some shame, he would have already stepped down and taken responsibility for the state of the country. But they don't do that anymore.

Theresa May would have stepped down in years gone by, but she's refusing to do that despite various non-confidence votes and suffering a defeat in the Commons the like of which has never been seen before in the British Parliament.

So the establishment is kicking and screaming against this natural move towards a reset. And I think if Macron fails – which I would argue that he already has, but failure these days is seen as you finally give in and step down – if that happens, then I think the establishment is under real, real trouble.

And, with that, Europe could see it go where it's been destined to go forever, which is back to individual European nations.

Italy is the other thing that people need to be watching very, very carefully. Because this situation in Italy with the League – or the Northern League as they used to call themselves until they decided to get serious about uniting the country – and Five Star are playing for keeps.

And they're not Greece. They do have clout in the middle of Europe. And I think that if the Italians stick two fingers up at the EU, which more and more the response by the public to the way that the ruling party now are handling Europe tells you that's what the Italians want them to do – everywhere you look, Europe is coming apart.

And, as always, the European politicians, the Junckers, the Tusks of the world are whistling past the graveyard assuming that they have all the power and refusing to play ball. Everything is setting up for Europe to break. And I think Macron, should he step down, that would be the catalyst for the whole thing to fall apart.

Erik: Let's take this a step deeper because, as we said before, it's so easy to come up with the catchy headline that gets clicks – "Grant Williams says if Macron fails Europe fails" – that will make ZeroHedge easily. But I'm going hold you accountable, because the folks on ZeroHedge who read beyond the headlines want to know more. What specifically do we mean?

Let's get into this subject which you predicted before the Brexit referendum was even voted on, which is you said it's inevitable, all the ingredients are in place for the European Union to eventually fail and go back to individual countries.

Let's dive into the detail of how does that go. Does the currency start to fail and then in reaction to failing currency the countries kind of run for the exits and go back to their own currencies? Or is it not driven by the currency and it's political and for political reasons borders go back up?

How does Europe fail? What precisely does that mean for the folks that read beyond the headline and want to know more?

Grant: A failure of the EU is borders and individual currencies, that's the failure. Because that's what they tried to do is bring the continent together to create a continent, a federation of states, essentially, is what they wanted to create.

And, look, the reasons behind it were admirable. We don't want another war in Europe. If we can unite the French and the Germans at the heart of Europe and make them partners in something, then hopefully we can stave off another conflict. And it's worked. Look, it's worked in terms of staving off conflict.

But the EU – and the euro, particularly – as it was designed, was never going to work. The euro fiscal union has to be a part of a monetary union. And people would say, well, you know, it worked just fine. Why is it not working now? Because we had everything going in the right direction.

We had countries getting ridiculously low interest rates – Italy, Greece, Spain – that would never have been able to borrow at those rates absent the EU. And guess what they did? They borrowed as much as they possibly could. Are they going to pay it back? No. They never have. They wouldn't have been able to. In a normally functioning world, they wouldn't have been lent that money at those rates because the "bank" would have not lent it to them knowing they couldn't pay it back.

So a failure of the EU is everybody has their own currency and everybody has a border again.

Now, the key to this is going to be the euro. Because it is the monetary union that is creating the problems now. It worked great when interest rates were going in the right direction. It worked great for everybody.

Now they've started to go in the other direction and the debts have started to matter and the pressure is on these countries. You are going to suddenly see what being tied into this monetary union does. And if you throw in all the stuff we've been talking about, the strains economies are under, the fact that EU growth is now falling, and it looks like we could have a recession in Europe as well – when recessions happen, people suddenly stop worrying about how great things were in the past.

No one is going to say, well, you know what, the euro has been great to us for the last 19 years, so we'll cut it a break and we'll put up with some pain because it's done us so many favors. No. People don't understand what the euro represents. But they know that they can't make ends meet.

And they know that an answer to this from a political standpoint is to go back to – I'll use Italy as an example – is to go back to the lira, pay off all of your debts in lira, massively devalued lira, and not be forced to maintain a budget deficit that is dictated by Brussels – and to be able to spend and help your country come out of a recession.

That's what's going to happen. It was always going to happen.

Once we get these conditions, and politicians realize that they cannot do what they need to do domestically, forget international politics. This becomes domestic. And it always has done. Throughout history, politics is always domestic first and international second.

And they've clung on and clung on and clung on. But the way the bureaucrats in Brussels treat everybody – because they have to toe a hard line, they have to use the stick and not the carrot to keep this thing together – is we're going to be all Brexit.

So I think we will get a standoff and either the EU will have to back down to Italy, because Italy is just too big to say no to. Either they have to back down and cut Italy a break and allow them to blow out their budgets, which means everybody else is going to come and want the same thing.

Or they hold fast and miscalculate that the Italians will back down like the Greeks eventually did. And Italy says, you know what, we're big enough, we're a G7 country, we're not going to play by your rules. We shouldn't have to do what you tell us. We're going to do what's best for Italy and Italians. Make Italy Great Again. And they go out.

Now, the worst thing for Europe would be for the Italians to get out and be okay or Brexit to happen and the Brits to be okay, because that will make the rest of Europe realize, well, what the hell are we doing? Why don't we go back to our currency?

So it's a series of dominoes toppling. It begins with the currency – correction, it begins with politics. But the first brick in the wall that will be removed in Europe is going to be the currency. And everywhere I look I see signs that that day is headed towards us.

Now, as you keep saying, Erik, we've been wrong for a long time. And we have been. But inevitable and imminent are mutually exclusive, often. And that has been the case with Europe.

But, again, I think if you are paying attention to the headlines and if you are paying attention to the politics going on throughout the continent, you can see that it's bending and it's bending so much that I suspect that it's going to break.

Erik: One of the cardinal rules of financial podcasting is: *If you really want a socialist revolt, you have Grant Williams on your podcast and don't ask him about gold*. I learned this once the hard way. So we better get – before we run out of time – to the punchline I know so many listeners are interested in. And I particularly want you to comment on an aspect of this.

Certainly, anybody who has been paying attention in the last few years, the reasons that gold is almost certain to have its day in the sun at some point should already be clear. The thing is, some of us have held the view that, because we really see a very strong dollar liquidity squeeze argument, we fear that the dollar index is going to move higher. That's probably going to cause gold to move down in price before it eventually moves way up. And, to be clear, I think the big move is up.

But I kind of think there might be a little down left to go. And I really have felt like that view has played out very well. I still see the long argument for gold. It's always made sense. But, gold had been trading off very much in reciprocal action to the dollar index.

Just over the last – really since about October 11, when something snapped and the gold seemed almost like a peg to the Chinese yuan snapped – it seems like gold is acting a little differently.

So I guess my question is what do you think happened on October 11 that suddenly pulled gold out of correlation with the Chinese yuan? And are we perhaps, to that point, that your partner

Raoul Pal predicted, where the dollar bulls are going to be right and the gold bulls are going to be right at the same time? Both move up together.

Are we at that point? And what happened? Something changed dramatically in the middle of October. Any idea what it was?

Grant: Let's talk about what gold's "day in the sun" means. Because I think it means different things to different people. To a lot of people who have been frustrated with gold, it's all about price. You know, they own gold because they think it should be $5,000 and they think they can sell at $5,000 and double, triple, quadruple their money.

To me gold's day in the sun is something completely different. The day in the sun is when gold actually does what it's supposed to do and protects your purchasing power. It doesn't matter to me – if gold goes down 10%, if markets halve, great, holding gold has given me the ability to buy many, many more shares of the S&P than I would have been able to if I'd just held the dollar.

So I don't look at the gold price so much. It's not so important to me. It's reflective of what's going on in markets, perhaps. It's reflective of sentiment. But I don't own gold because I want to turn it for profit. I never have and I would never buy it for that. So I can look at it a little bit differently.

To me, the gold's day in the sun is the day when I decide that I want to exchange my gold for something else and I'm able to buy more of them than I would have been had I held cash.

Something clearly has changed. I have absolutely no idea what it is, because why gold would be for a period of time pegged to the Japanese yen and then for a period of time be pegged to the yuan, who knows, Erik. We could speculate about that all day long. And the beauty of gold is it gives the conspiracy theorists something to really get their teeth into.

But to me it doesn't matter. I think you will see a rising dollar and rising gold.

But, for me, the next move in the dollar is down. My great friends Brent Johnson and Raoul Pal talk – as do you – very eloquently about this dollar super-shock where it spikes to levels that would make your eyes water.

I don't think we're going to see it. And if we do see it, I think it will be stomped on so fast that you won't have time to get out of your position. I think the dollar is going to go lower. I think we're starting to see that now. And that will be good for gold. But it's not necessarily the only thing that's driving it.

I think gold is going to reach a point where, if everything we've talked about in the last 45-odd minutes comes to pass or certainly bubbles to the surface – if we get populism, if we get unrest, if we get falling markets, if we get the loss of confidence in the US government's finances – all of those things mean people will want to own gold.

And the day that this whole thing really unwinds is when people will only settle for physical gold. They don't want paper anymore. They don't want a futures contract. They don't want an ETF. They want to own physical gold.

When that happens, that's when you're going to see the price do extraordinary things because there simply isn't enough physical gold to satisfy all the paper promises on it. And I've talked about this, I've given presentations on it. But it hasn't mattered.

So if you really care about the price, it seems as though none of this is relevant. Because I don't care about the price so much, I care about the purchasing power. As I watch this rubber band get stretched further and further in terms of the world disintegrating and gold really not reflecting that, that, to me, says that – on the day when people say, you know what, not so much with ETF, how do I buy a gold bar?

The day that happens, you'll see some pileups in the gold price that will satisfy all the people that have been waiting for it to do crazy things. But, more importantly, the people who have put 5–10% of their wealth in gold as an insurance policy are going to be feeling a lot happier about the state of their finances if markets are melting down.

I don't know when it's coming. I try not to talk about the price or when because, as I said, it's irrelevant to me.

But if you go back to 2008, gold fell, I think, 15% in early '08 when markets fell 66%. So you were able to exchange your gold for all kinds of things. You could exchange it for houses. You could exchange it for equities. And you could exchange it for a lot more houses and a lot more equities than you could before the meltdown happened.

So this focus on the price, to me, is completely the wrong way to look at it. I think there are plenty of things you can buy if you want to try and make a 100% return. Doing it in gold is just a pointless exercise to me.

So I think gold's "day in the sun" is coming. But I think what that means is something different to a $2,500 gold price. It means gold is doing what it's supposed to do. And holding it is going to make you feel very, very happy as opposed to not having any.

Erik: Let's, very briefly before we close, just touch on the dollar. Because I know, Grant, that you are very familiar with the argument that I've made, that Raoul has made, that Brent Johnson has made, which is, look, quantitative tightening just has to be dollar bullish because every quantitative tightening Fed balance sheet roll-off is equivalent, effectively, to a rate hike.

Is the issue that you disagree with our logic? Or is the issue that you don't think that quantitative tightening is going to continue?

Grant: I certainly understand your rationale. I don't disagree with the premise at all. I can absolutely see the linkage. I can see how it happens. I can see why a short squeeze could pick up momentum.

But I think the damage the scenario you guys lay out would cause would be so severe that it would have to get stopped. QT would be stopped. QE would be implemented.

We'd have a Shanghai Accord of sorts. There would be an agreement to weaken the dollar, by everybody, because it's become so systemically important. And the system is so fragile that it's in nobody's best interest for the dollar to strengthen significantly. It's not in the US's best interest. It's certainly not in Asia's best interest.

So I can see what you say happening, but I think the speed with which they squash it will make your eyes water. And I don't even think you'll have a chance to get out of your trade.

And QT – we've already seen Jay Powell come out with his Superman suit on and then walk it back very, very quickly – you know, all this talk about QT being on autopilot, well he's backed from that pretty quick.

They understand the damage that QT could do, absolutely they do. They understand the positive effects that QE has had – and I choose my words carefully because I think if they think it will have the same effect next time, I think they're very much mistaken. I think they'll have to go much bigger, which won't be pleasant for the dollar.

So I think you could be right, I absolutely think you could be right. But I think you'll be right for a very, very short period of time. And I think you're going to be wrong first.

Erik: For the benefit of our listeners who may not be familiar with the argument and the premise that we're discussing, go back and listen to Brent Johnson's interview on this program just a few weeks ago to explain it.

We are just about out of time, Grant. But, before we go, we had such a fantastic experience with our second live event. It was such a grand success that Real Vision decided to not only copy the idea but even copy the name.

Tell us about Real Vision Live.

Grant: I'm not sure about the copying, Erik, but it's something we've been kicking around for a long, long time is to start doing live events. And we've had a lot of requests to do one.

So next week in New York, February 4, we've got a workshop which is going to be just tremendous. Tommy Thornton, Tony Greer, myself, Raoul Pal, and Dave Floyd are all going to give interactive workshops and talk about what we do. And, more importantly, how we do it.

So, as opposed to PowerPoint presentations, it's going to be a workshop. We're going to help people understand Raoul's macro view, how he builds it. How Dave sets himself up to trade. How Tony reads charts. How Tommy Thornton puts it all together.

So if you come along to it, you will really get a master class from a bunch of guys that have great frameworks and they're going to share them with you. You can find out more at realvision.com. It's February 4 in New York City and it's going to be an awful lot of fun, I think.

Erik: Fantastic. We're going to have to leave it there. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.