Greg Weldon: Translating Fed policy to Commodity Price Outlook

June 20th 2019

Erik: Joining me next on the program is Greg Weldon, the founder of Weldon Live, well-known commodities expert. Greg, everybody knows you as the commodities guy and probably are expecting me to dive right in to commodities.

But I think before we go there we should talk about central banks, monetary policy, and the general condition of the world. Because I think something you and I agree on is that, to understand the commodities picture, you've got to understand the monetary policy picture first.

So where do we start in terms of the situation that the world is in and where we're headed? Do you want to talk about the Fed or the ECB? Where do you want to start?

Greg: I don't know. If you've got three or four hours, then we can discuss it all. What I find interesting is the commodities angle because in the business 35 years, started on the trading floor in the COMEX in the World Trade Center back in the early '80s. And what I see is that everything has been commoditized.

So we are the commodities guys because we look at everything. It includes stocks and bonds. And everything is now a commodity because of this secular credit bubble that goes all the way back to 1971.

And now you're at a point that's becoming more and more obvious as – particularly today as we're recording, when Mario Draghi is in the headlines and this continued push for even more stimulus beyond QE, beyond negative actual deposit rates and official policy rates.

And that, to me, I mean you're at some kind of mathematical tipping point, potentially, where the amount of money needed now to stimulate, given the growth in credit, given the growth in sovereign debt, especially in the US, going back even just to 2008-2009, is grown exponentially to the point where I'm not sure they can have the political will to pump that much money.

They probably will because they'll do whatever they have to do to avoid falling into the debt-deflation scenario. That's the biggest fear among central bankers.

And, from that perspective, the question is what if it stops working? What if it only works to keep things where they are? Because that's not good enough. You need growth. With all this debt and all this credit creation you need growth to basically keep this thing floating.

So I think Mario Draghi made a bit misstep first quarter of last year when they failed to raise rates, when GDP was strong in a lot of member nations, when inflation was above target in a several places, particularly Germany. That fed in through all the Eastern European states as well.

They could have raised rates just even to zero, to give themselves some backend fire power.

The Fed's done a masterful job of that. But now it's almost like the Fed is going to have to be the central banker to the world, because they're the one that has actually created some room to stimulate by cutting interest rates.

Erik: I want to talk about that point of the Fed being the central bank to the world specifically, because I think it's just of paramount importance in the environment that we have right now.

The US dollar, if you look at the fundamentals and what the Fed has done and the expansion of the balance sheet, on the face of it, a lot of people would say, okay, this has got to be negative for the US dollar. Just look at what they're doing to debase the value of the currency with all of the balance sheet expansion and so forth.

But I've really come around to an opposite view, which is: As bad as it is, it's worse in Europe and Japan. And, as much as it seems to us like it doesn't make sense, the safety trade for most people is going to be into the dollar. Most institutions around the world will still see US Treasuries as their safety trade.

And I think it continues to provide a very counterintuitive boost to the dollar relative to other currencies, even in the face of what seem to be fundamentals that ought to be dollar bearish if you weren't considering the other currencies.

Where do you stand on this whole debate? Do you think that we should be shorting the dollar here at its recent highs? Or do you think that the dollar is going to get squeezed even higher?

Greg: The first thing I would say is BAM! I mean, you just nailed it. It really does seem to be kind of counterintuitive. What I would say is there is a massive conflict, almost a war going on right now on the dollar.

And there's three fundamental forces that I perceive.

Number one is all the dollar debt that's been created. So this is maybe what's holding the dollar up a little more. Because, really, if you go back to last November, you had a major disconnect between the correlation of the dollar index and the forward Fed funds futures market and the implied rates.

And what's interesting is, as that has occurred, you could even say that the fact that the dollar hasn't come off with that has actually intensified the push lower in yields in the fixed income market.

And then there's dollar demand.

I'll throw a curve ball at you just out of the blue. Take Angola, okay, where the kwanza is the local currency. Relative to gold, it's down like 500% in the last 10 years.

This is a country that's an OPEC member. It produces more oil per day than right now Nigeria does. And their currency is just getting annihilated to the point where you can't accept the local currency, you can't use the local currency locally for goods and services.

You have the same situation developing in a lot of places around the world. Venezuela is an obvious one. Argentina. It's infiltrating into Colombia. You've got a situation in Pakistan. We know Iran. You could take even places like Kazakhstan and Uzbekistan.

There are currencies that are getting slammed. And in this sense it creates demand for dollars. So I think the dollar is being held up by that.

But the fundamental now going forward, for me, is if the Fed is going to be the central bank to the world. Because I totally believe that, the dollar is absolutely in play in the downside.

And now that Trump is tweeting about Draghi – I mean, come on, man. You just took it up a notch. It's like the old Seinfeld thing: "Mandelbaum, Mandelbaum is taking it up a notch here now."

And I think if you take out 95.02 on the dollar index, the cash dollar index, that's a major technical breakdown. The entire rally has kind of been a Fibonacci retracement almost to the bigger picture.

It's always the dollar as the relief valve. I've been doing this 35 years. It's always the dollar.

And relative to gold, the dollar since 1971 is down 86%. That's going to continue to be the case. So I think the dollar is very vulnerable. It's in play. And that's what makes gold so attractive here.

Erik: And when you say it's in play, do you mean that you believe that the next move for the dollar is down? Or do you mean that the game is on and it could go either way before that happens?

Greg: I think it's going to play to the downside. The question, of course, is if the demand is so great in some of these other places in the world, how effective are they going to be? I would say that's already in question. Because you have the Fed funds and now even interest rate differentials, so really covering, like, the US-German bond yield differentials. Again, highly correlated to the dollar.

And more recently that's kind of broken down to some degree. So when you see those kinds of things you start to ask yourself, Why is the dollar holding up here when normally an inter-market dynamic like this that is bigger-picture would drive it lower?

And I think that the Fed will be as aggressive as they have to be. They can't let the dollar break out. It goes to 104, it's another 5-6% to the upside, and you're looking at a 30% five-year rate of change.

That has always been problematic in terms of the Fed's concerned about the credibility of their inflation target. They can't let the dollar go higher if they're concerned about the credibility of their inflation target.

Case closed.

So I think the dollar is in play to the downside if it breaks 95.02. Because we could be wrong.

Erik: And what happens – let's suppose that we don't break 95.02 and we do see an upside breakout from 98, which seems to be where this overhead resistance is, and let's say in a few months we're at 100 on the dollar index. Let's talk about some of the knock-on effects.

What kind of damage can that cause? And how does it play out and affect other markets?

Greg: First, if it takes on 98 it's not stopping at 100. It's going to 104. That's your even bigger-picture longer-term 61% Fibonacci retracement level that was the high in the 2016-2017 rally.

From that perspective, what happens is it depresses commodity prices. It then affects emerging markets. We were on the precipice of this. And, to me, this is why Powell had to do an about face. It wasn't so much the US economy. People look at the US economy and say, How can the Fed want to be beyond neutral to the easy side now, when the economy is seemingly a juggernaut?

Well, first of all, the economy is not a juggernaut. We could trash that to pieces, at least in the underlying pipeline for the economy.

But the really bigger picture is what was happening was all of a sudden you had emerging market currencies going down, the commodities were going down, base metals cracked, ags were at new lows. A lot of this is the dollar influence.

And when the emerging market stock indexes started to roll, come on, the timing was almost golden. I mean, Powell is now changing his tune. Because they can't allow emerging markets to return as a deflationary risk when you're so far, really, out of the range of where you're going to be, going forward on your inflation target.

And if they're worried about the credibility of their inflation target – and several members of the Fed have mentioned this in recent speeches and they don't do that by accident – I don't think they can really accept the dollar going higher.

So I feel that their monetary policy is kind of aimed at this thing more so than the real economy, which is maybe causing some people to be confused.

Erik: Greg, obviously precious metals have to come into this conversation based on what you've said about how you believe that the dollar is in play to the downside here. I'm assuming that you must already be long gold. But I also want to talk about where we are in this gold market.

Let's assume at least some of our listeners don't yet have a position. Because, even for someone with a bullish outlook, I have to wonder just below this important resistance level, whether it's the right place to be putting on new longs.

So how do you see the gold market? And what would you tell someone that doesn't already have a position?

Greg: It's a great question. That's a two-pronged question, so I'll give you a two-pronged answer.

First, from the bigger picture, yes, we're long gold. We actually are long gold from $1,196 – so from below $1,200.

And, yes, you have resistance here. You have tried to penetrate this resistance on numerous occasions. It was actually $1,377. Then it's $1,365. Then it got down to around $1,345. So you have this descending lower highs.

Well, you broke through the first one. You're kind of poised. And what I said yesterday is that the gold and even the GDX – the gold miners – to me look like they're on a launching pad. I mean, we're just waiting for the countdown here. And the countdown would theoretically be the dollar.

Is there a risk to gold? Sure there is. If the dollar breaks out, there is risk to gold. But that gets back to the bigger-picture situation where the dollar is basically near or at new highs. Or it's at a very high level relative to the past couple of years. And gold is up a couple hundred bucks from its lows.

In a normal situation, gold would probably be trading $1,050 to $1,150 right now, based on the correlation with the dollar. So what I do is take the dollar index and divide it by gold. It's a very simple thing to look at that is, basically, the gold-adjusted value of the dollar.

And herein is where the big picture takes shape. Because, again, if the dollar is always the relief valve, and gold is the flip side of that, it's already in play. So, from that perspective, we do believe gold is going to break out here.

We like silver, we like gold, we like the gold-mining shares. If it doesn't here, I think the downside is somewhat limited.

So, to me, I look at a breakout and then look at what is the upside potential. And it is significant. I mean, you get above this $1,377 level, there is virtually no resistance until you're into the $1,700s, the high $1,700s. That's a nice first move.

And that would come in context, theoretically, with a breakdown in the dollar. Otherwise, we're kind of just ebb and flow here and continue to go.

But I think the downside is really not that much. And I think gold has proven that to us already.

So, yeah, we're locked and loaded. We think this is big-picture stuff. And the biggest-picture thing that I can say about this is you are starting to see a crack in the confidence of everyone in paper, in all paper.

Because currencies, sovereign debt, it's all IOUs. And at some point you're kind of at the precipice of this thing of what currency that's a paper currency do you even want to hold?

And I think that's the biggest case for gold. And I think the ECB is going to stimulate from here. They're going to create consumer loans at minus 1%. I mean, come on. That's the biggest case for gold yet. So we like it a lot right here.

Erik: We had Danielle DiMartino Booth on the program the other day, and she pointed out the change in language – that the Fed has moved from the zero lower-bound to the effective lower-bound. And Danielle thinks that they are very intentionally setting the stage for negative interest rates.

How far do you think we can get into negative interest rate territory before something really big breaks?

Obviously there is a cash-hoarding incentive that at some point it's better for people, rather than pay a negative interest rate, to just take their money out of the financial system and store it in cash. And of course there isn't enough cash for everybody to do that. So you could have a run on the entire financial system if you weren't careful there.

How far do you think they're going to push this on this next round that we go through with central bankers? And what are the risks?

Greg: Well, I would agree with Danielle. She's obviously brilliant. And she has great insight into the Fed. And, you know, I watch the language like a hawk. I'm from the old school.

Man, when you had to watch the repos every day and figure out what the stop-out rate and what – you know, it was very much of a nuance. So we're kind of going back to that a little bit.

What I would say is this is where r-star comes into play and where the Fed is preparing for this. They know. And I think, if you go all the way back to when they started to hike rates, what was really interesting was they wanted to get rates higher so they could use rates as the next stimulus instead of having to blow out the balance sheet again.

So that's really interesting to me because the language then was pretty apparent, before they ended the rollup of the balance sheet. But I don't know. My though process immediately, when you asked me that question, is by the time the US gets to negative interest rates the proverbial "S" has already hit the fan.

Erik: Okay, do you think it's Japan or Europe or both? Where does it hit the fan first?

Greg: Absolutely Europe. Europe to me has been the setup the entire time. It really has. I mean, do I have to go through the litany? And it sounds like a broken record.

But I mean, you are here, you are at this time and space that's kind of converged here. And it's time to see how things are going to play in a bigger-picture way that may not be the end result that it's always been. So, to me, that's kind of where it all gets interesting.

You look at the fracture you have in Europe. It's kind of gotten lost in the translation. This is something people don't talk about anymore.

You have separatist governments in Italy and Spain. Last June, Spain had to include the Catalonians and the Basque party into their coalition government or they wouldn't have been able to seize power.

And you know what's going on with Italy. The League is now rising in power.

So this is a huge dynamic in terms of the potential for blowups to where some of these countries go back to their currencies because – so Italy wants to expand their budget deficit, all right? And they want to expand it not to a level above 3, which is the limit in Maastricht and their whole treaty.

What's interesting now is, all of a sudden, the EU Commission wants to impose penalties. They've been ignoring penalties for two decades. And all of a sudden they're picking on Italy who wants to lift their budget deficit, which theoretically goes against the spirit of the agreement because they're expanding their budget deficit.

But they're not exceeding the rules and they're going to be threatened with fines. This, to me, was a bad decision by the EU Commission or whoever is the ruling party that makes these decisions in the EU, because you put Italy in harm's way and you've potentially given them a way out.

So I think there is so much risk in Europe. That's just one of them that comes about.

But now, again, the biggest risk is policy, monetary policy.

You look at places like Switzerland: Minus 1.25 at the low end of their official target range. You look at places like Denmark and Sweden. That makes the ECB still look like child's play. Could the ECB go to minus 1.5?

There's a lot of talk about the LTROs. And what they could do is create almost a two-tiered system. So they wouldn't cut deposit rates. They might actually raise deposit rates but provide funding on the back end to banks through the LTROs. But the banks could offer consumer loans at negative interest rates.

If that's not the case for gold over any paper currency, I don't know that I've seen it in 35 years of doing this.

Erik: Now, as we look at the stock market versus the bond market, and what bond yields are doing, to me you're getting a pretty clear recession-is-coming signal from the bond market. The stock market seems to just want to party on. And that leaves us trying to decide who's right.

In terms of looking to commodities to find a tie-breaker, whether it's the copper chart or anything else, what are you seeing in some of the base commodities that might tell you about the direction of the economy in the next 12 to 18 months?

Greg: Well, it's interesting you mentioned base commodities. So I would look at that twofold. Outside of energy, it would be obviously the base metals, which are kind of in line with that recessionary, it's more of a global market.

And you just look at aluminum is making a new low here. It's through its 61% retracement so it's suggesting, hey, this is not a correction in an ongoing bull market anymore and relative to even the Trump rally in stocks.

And you look at copper. I mean, these are not commodities that are in hugely short supply, outside of zinc.

So that's number one is the base metals. So we're watching those and, man, they're kind of close to cracking. If you get below 2.59 on the US copper futures contract, that would be a major technical breakdown.

On the other hand, if you look at something like the agricultural commodities, holy mackerel. Love them right here. We have been laying out this scenario almost for the last 18 months. It's kind of bigger-picture.

I don't know how much you want me to get into that right here. But that's where maybe some opportunity lies that ties in with the trade war, which is what's scaring the bond market so much. But the stock market doesn't care. I think there's a reckoning that has to come there.

And, unfortunately, I think when you look at the Fed and what might have to push them to their next action, I always come up with the question of if they don't act fast enough and meet the timeline laid out by the Fed funds futures market and the 2-year and 5-year Treasury notes, then that's going to be a risk to the stock market.

That may have to be the catalyst. And that may be the thing that breaks the dollar's back too, by the way. But from a commodities perspective, like the ags, specifically the oilseed market.

Erik: Let's talk about the grains specifically, because we've had this flooding situation in the central United States which has just caused utter mayhem for farmers. A lot of corn crops just not being planted at all this year. And, as much as we've had this deflation signal of the grains almost falling off a cliff to super-low numbers a few months ago, the last couple of months it's been just straight-up, at least on the front months, the immediate delivery, which are affected by this.

What are we seeing in the term structure of the grains? And what does it tell us? Because when you say there's an opportunity here in the grains, it seems to me like it's kind of overdone to the upside, at least on those front month contracts.

Are you still buying there? Or where do you see these opportunities?

Greg: I would agree with you 100% on corn. So in the commodities business (quote unquote) grains is corn and wheat and rice and so on and so forth. That's why I say oilseeds. Because it is the soybean market that is the potentially huge opportunity here.

And what I find interesting – again, not to hype on this point, but having done this for so long, I remember the day when $9 soybeans would have been like, holy mackerel, the world is coming to an end. The fact is that, yes, you had a bumper crop of soybeans, really, for the last two years in the US.

It was interrupted by a big drought in Argentina that cut the soybeans, and that's a major supplier of soybean meal. That's what brings China into the mix as a trade dynamic. It's not so much about soybeans as it is, really, they take the soybeans and make soybean meal out of it.

There was a time, actually – just to kind of go off track for a second, tie it into China – when the trade war first started and tariffs were first affecting these things, the US was still selling soybeans to China. They were selling them to Argentina who was then shipping it to China and so on and so forth.

So the point of all that is, yeah, we've had bumper crops, but demand is at a record as well.

So what happens if crops don't stay at a record or don't continue to grow? That's a problem. Because the margin for error, particularly in soybeans, is razor-thin. And you wouldn't really think that, given the price action of these things recently, because it's a lot of headlines, it's a lot of psychology. It is a bumper crop, which gets the lion's share of the headlines.

Coming into the near term, what you have now, particularly with the weather, particularly with the rain, particularly with how wet it's been, you have a situation where the soybean crop was delayed.

Not as much as corn. But the problem is soybeans, so we look at that. The crop is delayed quite a bit.

And, more importantly, is the emergence number. So the crop that's actually emerging now, way behind schedule, way behind last year, way behind the five-year average. I mean half of it at one point. So that's maybe four or five weeks ago.

From that perspective, not only do you have less acreage planted in the US this year, but now with the later emerging crop you're running the risk of lower yields than have been estimated.

And if you don't get the kind of crop that the USDA is looking for, which is actually lower than last year, you're going to have a problem, because demand is still kind of screaming.

Demand from China is a little bit less. So that's maybe a wildcard to see what happens if that's just the trade situation or if there actually is some less demand. There's some thoughts around some of the animal issues in China maybe crimping demand for feed. But that's more, again, in corn.

So when we look at soybeans, the balance sheet in soybeans could really tighten up dramatically. And if you look at where you were two years ago, when the situation was much less bullish, it became a thing of is it getting less bearish yet?

And it just flipped because of the weather from less bearish to bullish. And I've been waiting for this opportunity. Because people, I think, are misunderstand or underestimating the tightness of the balance sheet potentially, in terms of not having another bumper crop could be bullish unto itself.

So we like soybeans right here. And frankly they just broke out yesterday. They didn't have the move corn had. And corn is overblown. I mean it's completely, in the short term, out of control. That's not the case with soybeans. So we really like the soybean market.

Erik: Is there a pairs trade there that's short corn and long soybeans to arbitrage that difference that's developed?

Greg: I looked at that. Of course, that's one of the first things I look at because I try and consider every angle.

I'd just rather be long soybeans. It's just a better trade. It's cleaner. It just makes more sense to me. I don't want to necessarily get bogged down on a leg that may or may not work.

I mean, it could be sold. But if you get the whole complex going and then the dollar breaks I don't really necessarily want to be short corn.

I will say this though, just to add on to the answer here. The DBA (the ETF of the agricultural commodities) is a valid way for probably some of your listeners to play this – that don't trade futures or have commodity accounts and so on. It is the ETF, the stock that tracks a number of commodities including soybeans and sugar.

To me this has so underperformed, has been so depressed, is so under-owned, no one's invested in this kind of thing. So when you look at the longer-term chart, and then when you overlay the DBA against the DBA versus the CRB Index of all commodities, it's almost like you're getting these things on the cheap right now.

Erik: Greg, on Tuesday morning of this week, when we're taping this interview, we've seen just a dramatic rally in energy prices. The price of crude oil $51 and about 70 cents this morning, just before we taped this interview. As we've been talking, we're now looking at $53 and 71 cents. So we're about $2 up in the last couple of hours here.

I'm not aware of any specific news other than the ongoing people are worried about the Iran military escalation potential. What do you think is driving this? What's going on? And what should we be looking for?

Greg: Fear, greed, and hope are driving this one.

If you break it down, you have the two sides. I actually wrote a special energy piece on Friday, and I came to the conclusion [that] this is a market that looks really bearish, both fundamentally and technically, but the geopolitical situation is such that it may prohibit being short.

So that's kind of where I'm at with this. I'd probably like to be short. I know I'd like to be short. It's just a question of what's the risk here for the potential blowup geopolitically?

I'm sure you know some of the same people I know in the hedge fund industry. There are guys out there that refuse to go home over the weekend short crude. They just won't do it.

And that's kind of like the psychology I think that applies right here. If you like the fundamentals the US is pumping out – 12.4, 12.3 – just massive amounts – when you have the demand numbers being cut everywhere, you're looking at a significant daily build of crude at a time when, in the US, inventories are now tracking up towards the upper end of the five-year range.

That in and of itself is bearish.

And if you play this out and project what the IEA and what OPEC – we dissected both of these report, really lengthy in-depth reports that were fascinating to me – you could construct numbers around the differential between supply and demand growth that's being projected for the third and fourth quarter to where you could potentially get a build here in the US, back about 500 million barrels in the commercial inventories.

That's not going to be bullish.

So what I do then is we want to go the swaps. The swaps are interesting here. Because the near-term, you're in a potential contango situation where you've had this bullish backwardation in crude for a while that kind of got whacked and it went back into a backwardation.

And now it's getting into contango again, meaning that the near-term contract is priced at a lower price than the deferred. And the market, by essentially pricing it that way, is trying to encourage storage.

And that is interesting because if storage is encouraged it's also a reflection of the fact that there is not much demand. So you don't need the crude for immediate delivery because there's not the demand for it. And that to me in interesting.

But if you look at the more deferred – if you go, for example, to the December of this year to December of next year (the 12-month December swap rate), it's actually still in a bullish backwardation.

Now some of that is the cost of carry and insurance and so on and so forth, but it's not in contango. So there is a real bifurcated bull process around crude oil.

To me, the technicals are the key. And from that perspective, if you take out the lows that we set since the end of May – there's two kind of spike lows that were, if you look at a candlestick, it was almost tailed, or a reversal-type lows.

And I watched the – look at the August contract. I mean it's down just around 50 bucks (it's above 50). If those lows get taken out, the trade is to be short.

The question is, is the geopolitical risk too high? And I'm not sure about the answer to that. I'm really not.

Erik: Greg, you are in Jupiter, Florida, just north of Palm Beach, a very affluent area. And something that I've noticed is there's kind of a disconnect when you see the kind of wealth that hangs out in South Florida. They don't really know what's going on in the market from day to day because a lot of them don't have to. But when big things start to change, they seem to get the scent pretty quickly.

What are you seeing, being in the private wealth management business, in South Florida? What is the mood of the wealthiest investors that you run into down there? And how are they looking? Are they reacting to the central banks? Or are they not paying attention to it? What's the mood there?

Greg: That's a great question, Erik. It really is. And I would say, first of all, I'm probably the least affluent person here in Jupiter, Florida. Yeah, there is a lot of wealth, particularly Jupiter Island, of course, and then Palm Beach Island. I'm more inland.

But from the perspective of the people that are around me, that are smarter than me, wealthier than me, however it is, these are people that are so successful in their own businesses it kind of blows your mind when you visit their homes. You're in awe.

And the perspective that I get from them is – I'm getting calls from them now. They're worried. And they're worried for the reason that I laid out earlier in terms of – and they don't put it in these words, they never announce it in this way, they never literally tell you that we're worried about central banks, we're worried about how much paper is being created and we think someday there might be a day of reckoning and so on and so forth – they're just seeing what's happening.

They feel it, I guess, is the best way to talk about it. And these are people that probably are so successful, for one reason, that they've learned to listen to their instincts. And these are instincts that are now coming out and causing them to call me and ask me about what I think about two specific things.

Number one – and this will go to your South Florida thing and why it has absolutely been so insulated in the psychology here – and that's because of the housing market. And that's because of politics. And that's because of the migration of people to Florida.

Real estate values here have been on fire to the point where it's ridiculous. So that's number one.

I would say you're reaching some kind of peak, but that could go on because of what we could see mortgage rates do. I could easily create a scenario where you see the 30-year mortgage rate below 3%.

That's one of the firepowers that the Fed has created. Because everything is going down in yield right now, but the spreads, the Treasury/mortgage rate spreads are going up. You're creating a lot of room there, so it could be insulated for a while longer.

But there is a concern here. And it is a concern of big-picture magnitude where people are asking me, Should I put some of my money into (get this) municipal and mortgage bonds, or gold?

Now, they ask mortgage bonds because they're in the mortgage business, a lot of these people, or at least they're property owners and so on and so forth.

And then the muni bond thing was interesting. I had a conversation yesterday with someone and I'm kind of like, well, muni bonds may benefit from this, but, you know, look at the state of the financial condition of some of the states and some of the municipalities. I'm not sure I want to really own those longer term.

But it always comes back to gold, man. It really does. And when I start to hear and see, you know, get the tells – anecdotal tells, I call them – that's something I've learned to really pay attention to.

And right now it is fear. And right now it is protection. And right now it is should I go to cash or do I buy some bonds or even gold? And to the point where there is a fear about gold is pretty interesting too.

And I tell them – I mean, if you start to look at the upside versus the downside. To me, the upside is stock market. Even if you know the Fed were to meet the expectation that's already backed into the Fed funds strip and the 2- and 5-year Treasury notes. They're at 1.75 practically. All right?

Next year's Fed funds is pricing in now a fifth rate cut. Below 1.5. All right?

So, from that perspective, I fear that if you don't meet those expectations – and this is Powell. This is not Bernanke, this is not Yellen. They were students of the Depression. Powell in his Jackson Hole speech made it quite clear he's a student of the '70s inflation. And he vowed not to let that happen again.

And, boy, if he wasn't successful. Because he probably went – I did a piece in December: "A Bridge Too Far" – so, from that perspective, it does kind of lay out to how people are perceiving things.

And the perception is fear. The perception is protection. And the perception is even should I go to cash?

And then that lays some of the big tech – I mean if passive investors and those wealthy individuals start to rotate capital or get out entirely, that's one of the reasons we like the gold mining shares. If you get some rotation of capital and some of these guys are more comfortable buying stocks than a commodity like gold, even though they can buy it through the GLD, I think there's great potential there.

So I have my own feelings about the big tech stocks and their vulnerabilities on many, many different levels. The volume has dried. These stocks are so high-priced, if people go to liquidate, you're not going to have buyers for big blocks of shares. It's too expensive.

It could be a vacuum of buyers. And it could be a real bad scenario in some of the tech space. So I think it drives people to cash or it drives people to gold. Or some of the wealthy people I talk to down here, gold mining shares.

Erik: Greg, what's your feeling on gold versus gold mining shares? Traditionally, the argument has been that you get more leverage with gold mining shares.

Of course, you're a futures trader. You know how to get the leverage if you wanted to in the gold itself. So let's assume you have the sophistication to be able to achieve whatever leverage you want. Do you think the play here, in terms of the best opportunity, best risk-reward, is in the shares or in the actual bullion?

Greg: That's a good question. That's a really tough one to answer. It's been not advantageous to own mining shares versus gold recently. I think that that may change.

So, from that perspective, the GDX is the thing to look at for your really adventurous types who are willing to jump out of a plane or something. The nugget, the NUGT, is a leveraged ETF on the mining shares, risk capital only, buyer beware. But I mean that could be a phenomenal way to play it.

I do believe that if you get some rotation of capital, depending – because it's not like the Fed is tightening here. So if they're easing, it does make it a little less violent potentially.

I'm not saying the market's going to come down hard. I could see kind of just a cascade, a rotation, a reallocation of capital. And all of a sudden the indexes are down and this is forcing the Fed's hand, which only plays into the –

Because if gold's taken off, you're going to see money moving to gold-mining shares. There is no investment there whatsoever and that's been part of the reason they've underperformed. No one's been able to even raise money, to a large degree.

And that leaves you open to mergers and acquisitions, which we've started to see, which is a total wild card and bonus, potentially. So I could potentially see some reallocation of capital that would benefit the gold-mining shares in an initial phase of a breakout.

I would even go back now to part of our earlier conversation and say one of the risks to gold as I'm thinking about this today, Do central banks want to continue to ease like crazy and see gold break out?

Maybe there's a thought process here that they're going to resist, in whatever way resist, and people say that they manipulate the markets. And I say, I've been watching this for 35 years. They've always manipulated the market. This is nothing new.

So could they step on gold and keep it depressed? They might. I might suggest they've already tried. I don't think they would ultimately be successful, but that is one of the risks to being long gold from here, like you say, at a higher level.

Erik: Greg, several years ago you wrote a book called *Gold Trading Boot Camp*. I understand that you have now created a video, *Gold Investing Boot Camp*, that's a little more substantial than just the book.

Tell us a little bit about that project. What brought it about? Why are you doing this now? And what does it involve?

Greg: That's a good question, and thank you. What brought this about was my publisher, or my agent actually, has been after me for the last four years to write a second book on gold. And I really wanted to do that when the time was right.

And I needed the catalyst to get me to do it because it's probably the hardest thing I've done, in terms of work in my career, was writing a book, the first one. I know how to do it more now so it would be easier. But it's still a really monumental task. So she's been pursuing me and so on and so forth.

And just in the last year or so, seeing this big picture crystallize, seeing the technical dynamics – I mean everything. To me, again, this is like a crystallization of this next cycle that goes back to 2006 when I wrote the original book.

There's a lot of similarities. We have created this tremendous amount of credit against a paper asset. Okay, in this case, it's equities. All right.

In the case in 2005-06-07 it was housing. And it was an asset that, basically, you had the unrealized profits in those assets that you borrowed against. And you were confident that central banks would always protect your back because in 2005-06 the belief was housing will never go down, home prices will never go down.

It's almost the same now. I mean investors have been kind of brainwashed by central banks into believing stocks never go down and stay down. So, from that perspective, I see this as a very similar situation risk-wise. Where, to cause the next reflation, they're going to have to do so much, and so much more than then, that this is going to be big. And it's going to be the next big bull lag in gold.

And I'm not a gold bug. I mean, we actually got bearish in gold after the 2011 top and wrote it to the downside for a while too. So I'm very much eager to take either side of gold.

But, in this case, I just think it's the most obvious, glaring thing to me. And when I start to get questions from not only my clients but just my friends and stuff about investing in gold, there is interest out there.

And rather than answer all of these questions individually, particularly for our clients, I decided I can create the material for the book by putting together a boot camp for my clients and then I would use that material. Well, the boot camp just became enormous.

And what a project, but what a great project. I really enjoyed doing it. Going back to the history of gold. How you can invest in gold, whether it's futures or coins and bars or ETFs or the individual mining shares. I break all of that down.

Some of the risk-reward dynamics that I would apply theoretically to create a portfolio of metals investments against other – being a part of your bigger portfolio. And then took it down to the history of gold, to the history of the dollar, to the history of this whole credit bubble that began in '71. If you want to take it back to even FDR you could.

But, from that perspective then, where are we now in the bigger picture?

It's a five-part video series. It's about five hours of video. Me personally, charts, it's a presentation. It's like you're going to a conference five days in a row for an hour a day. It's over 500 pages of charts and material and text. So you have all of that together as the comprehensive guide to how to invest in gold and why now it's such a critical time to be investing in gold.

Erik: Okay, Greg. Please tell our listeners where they can find out about the "Gold Investing Boot Camp" video product. But also give us a quick summary of what you do with Weldon Live and what else people can expect to find at Weldon Online (http://www.weldononline.com).

Greg: At Weldon Online, we are a CTA, number one. So we don't go out and hock money because we trade futures. And we use math that potentially creates returns that are maybe above average. But, with that, you incur higher risk.

But the real crux of the business is the Weldon Live. It really is. It's a daily research publication, it covers the globe. We do everything. We break it down into a macro piece every day. And then we have fixed income, foreign exchange, stock indexes and ETFs globally, the metals (base and precious), energy and ags. And we have specific trading recommendations in all of those sectors.

Every day we follow with hard stops and so on and so forth. We track the trades. It's called TradeLAB, it's part of Weldon Live. That's a subscription service that is sold on Weldon Online. You can come on and access a free trial if you haven't had one before.

And then the boot camp we just added, just finished it. It's at the bottom of our web page. There's a big video that gives you more information on it. It's me talking to the camera and so on and so forth. That's available and for sale on the website immediately.

Erik: Fantastic. And, again, the URL for that is www.weldononline.com.

Greg, I can't thank you enough for a fantastic interview. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.