MACRO Voices
with hedge fund manager Erik Townsend

Russell Napier: Prepare for Secular Inflation

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Erik:

Joining me now is Russell Napier, investment strategist and author of the book "Anatomy of the Bear". Russell, it's great to get you back on the program. This is kind of a historic week in my mind because it was exactly one year ago this week that we dropped everything and rescheduled our production schedule in order to bring our listeners an interview with Dr. Chris Martenson, predicting that a global pandemic was imminent, which at first we were ridiculed and harassed for.

But needless to say, a year later, the world is a completely different place. In many respects. Unfortunately, the pandemic is actually getting worse in terms of deaths and case counts and so forth, despite the fact that the light at the end of the tunnel is there with the vaccines on the horizon. But Russell, we're in the middle of 100 year, bad thing. And stocks have rallied to new all time highs considerably above where they were, at their previous all time highs before the pandemic started. How is that even possible?

Russell:

It's a good question. And of course, it might be just a good idea to contrast it with the last time we were in this situation, because I happen in my book to written about 1920, which is one of the great lows for the stock market. And we know that was in the shadow of that last terrible pandemic.

Of course, the crucial difference this time is that America was under a gol d standard then. And the central bank was constrained on what it could do. In fact, even fiscally, there'll be some form of constraint on what a government could do, outside of wartime, no constraints this time. So the fundamental data is that the total amount of Dollars in the world has up 25% year on year, total amount of Yen in the world is up nine and a half percent year on year, total amount of Euros in the world of 13 and a half percent year on year. And those other currencies like the UK, Australia and Canada are growing about 12% year on year. So that's really a doubling. And for some countries, a tripling in the supply of the total money. As you and I are both aware, it's not that easy to spend money these days, particularly on services or the goods economy is not doing too badly.

So that money gets diverted. And a lot of that money has been diverted into the stock market. Remember, we've spent 10 years trying to create money and failing abysmally, central bankers entirely failed in their, their choices they took to try and create money. But now we've

succeeded, we succeeded through a thing called the bank credit guarantee scheme. It's working beautifully well.

So suddenly, we've got this massive surge in the total supply of money. circulation is lower, velocity as though because of the constraints we all face in this pandemic. So the money is there. It's in the hands of people who didn't have it before small companies that were these loans have gone to small companies are paying their employees and their employees and the small companies are investing in the stock market, but crucially in many other things. And that would include Bitcoin. But Pokemon cards are doing very well. baseball cards are doing very well. premiums on gold coins are going up. They're basically investing in just about anything, and it's become the new form of spectator sport or participation sport.

Erik:

Now, let me ask you to clarify something there. Because it seems to me that in the first big round of quantitative easing, and so forth, a lot of people thought it would be inflationary, but it wasn't. And, you know, we were creating bank reserves, not really putting that money into the real economy. A lot of the money found its way into financial markets. And so we saw asset price inflation, as opposed to consumer price inflation, it seems to me that the political narrative is changing or has changed rather dramatically. And that it's likely that a lot of the focus is going to be sending newly minted money into the real economy as opposed to just into more bank reserves.

Could that mean that because we're sending the money someplace else, it's not going to continue to support the stock market? Or it does that effect of spending money into the real economy still support the stock market just as much as the old kind of QE did?

Russell:

That's a good point, we have to divide that into two because we're still getting quantitative easing, but we're also getting this new flow of money in the flow of money I've just mentioned, which is through the banking system. And that's absolutely crucial to understand that has nothing to do with quantitative easing. It isn't quantitative easing. It isn't fiscal policy, either. It is the government running monetary policy.

So let us skip forward six months when hopefully the vaccine is rolling out and we're all getting back to work. A lot of the money which has gone through the banking system rests in small companies, or perhaps in the hands of employees, I would expect to see quite a lot of money being diverted from the stock market and heading towards real economic activity, consumption in the services economy. In particular, quantitative easing, of course, will continue and that form of money as you so eloquently explained, it does tend to stick in the asset markets on a net basis.

What does that mean for the stock market? We're looking like maybe a little bit further than six months, I would say it means a very high level of inflation as that money is moved. We will then have to ask ourselves a question we haven't asked for a long time, which is what does that mean for long term interest rates? And if there's something that is going to cap the stock market, more than the flow that we're necessarily talking about here, which is the consumer taking money out of the stock market to spend? The question is, does that consumer spending generate the inflation that sends long term interest rates higher on the stock market lower.

So I think that is the mechanism through which taking this money, which is kind of sitting on personal and small company balance sheets, and moving it away from let's call it speculation in the stock market to real economic activity, that might be the mechanism through which is more potent than bringing down the equity market at the time when quantitative easing, no doubt will continue as a positive for the stock market. A key question and we will come on to this is just how high those long term interest rates will be allowed to rise? And what are the impacts of stopping them from rising. But initially, I think that's the sort of disturbance to the stock market comes more through inflation and growth than it necessarily comes from the man in the street, finally closing his Robinhood account.

Erik:

Let's go ahead and take a deeper dive on that question of bond yields and how far they can rise? Because it seems to me that they can't go too far before the US government literally bankrupts itself and is unable to service its debt. How far can it go?

Russell:

Okay, I'll give you a very over-precise answer 220 basis points on the five year, let me explain where that magical number comes from. We can look not at this government's I'm looking at the private sectors, I'm much more concerned about the private sector, because obviously, their interest rates are also related to the state. And of course, the private sector doesn't get to print its own money and create generated. So cash flow, we have things called debt service ratios for all the private sectors, like 22 countries, we can look through the current level of debt service ratios, which are, let's call reasonable to extend it. And of course, that's because interest rates are so low as interest begin to rise that begins to change, we can look back historically and say what level of debt service ratio has caused the form of distress that you just mentioned. And to be clear, that distress would appear in the private sector before it would appear in the public sector.

But anyways, it clearly is an issue for the public sector as well. And then will not be as you can begin to do some calculations on what level of interest rates we need to see. And the reason I chose the five year is that that's roughly the sort of average tenor of a loan to a corporation from the banking system. And also, obviously, the banks. It's not just credit from the banks, it's credit from the markets as well. And if we look out there, we see for the US probably about 220 basis points.

But I think the fascinating thing is you get actually much, much lower numbers for other countries, such as the European Union, where the excessive gearing of France, which is just off the charts, is really going to be a huge constraint on interest rates rising in Europe, and also in China. And that might surprise people to know but also it doesn't look to me that Chinese interest rates could rise much more than another 100 basis points. So one of the bigger questions on acidification and strategy will be who has to cap rates first, that actually is probably the most important thing going forward. Who gets to that level first? And that's an incredibly difficult thing to answer. Because it's very difficult to work it working on it, the rate of inflation may be difficult enough. But the pace at which that inflationary appears, is unlikely to be a uniform rate globally, and therefore the move to cap rates is unlikely to occur simultaneously.

Erik:

Russell, let's go back to the topic of inflation that you mentioned before. It's something like I certainly agree with. And it's something that I've heard from several of our guests recently on macro voices. But I've noticed that a lot of people talking inflation have a different concept of the bigger picture of what's driving the inflation and how it's likely to occur, when it's likely to occur, and so forth.

So let's not presume anything and take a big picture view of why inflation, why do you think inflation is coming? What's going to drive it? How is it likely to appear? Does it show up in consumer prices first? Does it show up in commodities first? What do we need to understand about the coming inflation and how it's going to look?

Russell:

Okay, I wouldn't attribute it to three things, which is the quantity of money, but secondly, where that money currently rests. And thirdly, who's actually in the business of creating that money. So we've dealt already with these major rises in the quantity of money, we know it's not circulating very much. Crucially, it is not in the hands of savings institutions, which is what happened to the form of money that was created during quantitative easing, but rests more generally, in households and the corporate sector, but particularly in the small corporate sector. And the small corporate sector is much more likely to spend this money than the large corporate sector, which is probably going to use it for financial engineering.

But the third one is really probably ultimately the longer term more important one, which is who creates this money. EriK, I'm trying to convince people that monetary policy is not run by the central banks with very little success. What is happening is that when a governor mandates a commercial banking system to make loans and it might make some money because it guarantees the principal, when it is in the business of creating money, most of the money in the world is created by commercial banks, not by central bankers, the governments are effectively in control of that, and will continue to be and that's the forecast.

Obviously, everything I was talking about before the surge in the supply of money where that money rests, that's history that's already happened, that the government will continue with this as a forecast. But I think the highly likely to do so because A, they quite like the idea that they can create money, the central banks having feel to do it for so long, they need a little bit of inflation. And see, it's a highly political I mean with when you control the banking system, you can steer credit to exactly where you want it to be.

Now, what we notice in the terms of the transmission mechanism, which you flagged up in the in the question, it starts, where liquidity who gets to run, if you like consumer behavior, so that is commodities that we've seen this many times before, that people with money with savings can begin to front run consumption. And they do that primarily by going into the commodity markets.

But it has to come from, ultimately from the explosion of this liquidity in the system into a form of consumption, I know that just about every sort of major body in the world is doing a forecast is forecasting, things will be not so good this year. But things could be explosive this year, given the amount of money in the system.

I mean, it's a remarkable recession. At one stage in September of last year, the growth and disposable personal income year in year was 7%. in nominal terms, we don't really even

get that in economic expansions, nevermind and economic recessions. And the willingness of the fiscal authorities to put their balance sheet on the line, to push wealth to the household sector of these small commercial sector is unparalleled. There's just been nothing like it.

So to me in terms of the actual inflation, yes, it will begin with commodities, and it has already begun in the commodity sphere, but it spreads rapidly into the economy as that massive liquidity creation begins to get used. And then unfortunately, not as don't ride really dying to the vaccine. And the only thing that really throws it off schedule, if we had some result that was immune to the vaccine, but otherwise, it's really highly inevitable that that gets spent. There are some people who think it'll be saved and not spent, but not based on where that money is based on who owns that new included liquidity. I think it's highly likely that will be spent, ultimately not saved.

Erik:

Does your policy Outlook or forecast include financial repression? And if so, how does that interact with the inflation outlook?

Russell:

Yeah, well, the financial repression is really, we've had a 90 minute discussion on, that is such a profound structural change. But it begins with those yield caps, yield caps our financial repression. I mean, it's to eradicate one of the most important pricing mechanisms in the world, which is the price of long term interest rates.

Now, we all know that for a generation, those rates have been tampered with, initially, by purchases from the PBOC, and other foreign central bankers more more naturally by quantitative easing. So it's not as if that rate has always been a true market rate anyway. But it becomes massively more distorted than a cap, because we're looking at it permanently staying below the rate of inflation. And what financial repression is, is yes, it's thought that inflation is above interest rates, but as much, much more profound than that. Because if anybody sits down for a minute, and everybody should do this, everybody should try to work a game being the authorities, the government, or the central bank, trying to keep that yield curve. How do you do that?

In this scenario, and what history shows us because it's been done before, it involves a huge amount of manipulation of the economy, and effectively slides the economy along the continuum, from market economy towards command economy. But to be clear, it doesn't take you all the way to command economy. It just moves you towards command economy. Most people listening to this call have been operating in what has been generally speaking a market economy. And then you have to learn a whole new skill set as to how to invest money in something that's becoming much more akin to a command economy. Maybe we could call it capitalism, with Chinese characteristics.

But the history of financial repression has included all sorts of things that we've just forgotten about, which is the quantity of control of credit like government, capital controls have been part of it, rent controls have been part of it. High transaction taxes have been part of it. I mean, I could go on and on. But we got to get into our heads that this is a fundamental structural transformation, and how the financial and savings system works, taking away from the

market and more towards a an area of government diktat going towards a command economy. end of the scale.

Erik:

Russell, there's at least one school of monetary policy thought that says that if you start to get inflation, you have to raise interest rates because otherwise the inflation can run away and it's actually the interest rates that are the cure for the inflation. It sounds like what you're saying is we're expecting inflation, we know what the cure is, which is higher interest rates, but it's impossible to dole out that cure because the government can't afford to let that happen. Does that mean that we're headed toward the risk of runaway inflation?

Russell:

So it is correct that people believe that. But it is not correct to say that it's true. It is true in a market economy. And absolutely, Erik, everything I've written in my career over 25 years would focus on that say, that's absolutely true. But that's only true if you live in a market economy. How would you control inflation in a world where you never raise interest rates, and you never shrink the size of the central bank balance sheet? You and I would both say, Well, actually, that's gonna give us not just runaway inflation, that's going to give us hyperinflation.

But I can tell you exactly how you would control the rate of inflation, without ever doing either of those things, which is to control the rate of bank credit growth. As it happens, I'm deep in the middle of reading a book about post World War Two, French banking. And it is very clear that inflation was never controlled by interest rates. Now, you might say, well, that's why it got out of control. But actually, through the 50s, and 60s, when, certainly after a big dose of inflation, from 45, to 48, inflation was moderate, in France, but by controlling the supply of bank credit, they control the supply of money. In the modern system that you and I are used to, we've used interest rates to try and control the supply of bank credit, and the supply of money. But it is possible to do it another way right now, why don't we do that? Or why haven't we done that over the last 30 years, because it was such a dreadful thing to do, because it ended up with us, as the government or the central bank, in cahoots, pushing bank credit to our favorite little industries and sometimes our favorite people as well.

And we decided in the late 70s and early 80s, that that was such an odd way to do things, what stopped? Well, it's back. So there is a way that you can control inflation, with opening up interest rates, or without increasing the size of bank balance sheets, I would say it still gets you higher inflation, because the government's very keen to get a reasonable level of bank credit growth and money supply goes much higher than we've seen in the age of quantitative easing. But it doesn't necessarily take you to hyperinflation unless the government for some reason just started telling the banks to lend to everybody, all of the time, which I think is, is highly unlikely. So we've got to step back in history to realize there is another way of running monetary policy, one that was long ago rejected when Paul Volcker came to the central bank. But it's bad.

Erik:

Russell, let me make sure that I understand this. So the concept of financial repression is essentially keeping interest rates super low, allowing inflation to occur, which means that

essentially, what's happening is, the cost of everything goes up, but the value of everyone's savings to pay for those things doesn't go up because the interest rates have not gone up. And the fear that that could lead to a hyperinflation, you're saying we don't need to worry about but it sounds like what we can expect, is a slow grind of steady, high inflation without an accordant increase in interest rates. So that what does in fact happen, is in purchasing power terms, in real terms, the value of the massive overhang of government debt gets inflated away, but people's savings don't get inflated in order to to match the growing prices. And that's financial repression.

Usually, as I understand it, the first few years of that actually feel really good because the inflation feels good in the beginning. It's not until the inflation gets to the point where you've lost purchasing power and your savings didn't keep up that the problem starts to happen. Am I right? In that understanding? And if so, how far along are we in the story? And how many years do we have? Until the scary part starts?

Russell:

Yeah, that is right. I mean, I try I've been asked to give a very simple explanation of what financial repression is. I describe it as stealing money from old people slowly. And slowly, that is important. For the reasons that you mentioned. We mustn't frighten people and Stampede them for the exits. You are discussing this very openly. It's free country, we can discuss this. You might say, Well, why on earth is anybody ever going to buy government bonds?

Let's say you're going to if inflation was five? And the answer is I'll be forced to, I'm sure people listening to this said, well, you're never going to force me to do that, or maybe not. But a lot of your money will be inside a savings institution that is regulated. And it is the easiest thing in the world pass a piece of legislation, which forces your regular savings institution to put a portion of your money into government debt.

And that is why we pull off the financial repression, even though all of us as individuals don't want to buy any of this stuff, our regulated savings institutions are forced to when does it get out of control? Well, what a great question. Actually, the answer to that is probably more political than anything else. But if we look at that post World War II, period, a period when people were in dire needs, there was a limited financial repression even in the United States of America. When did they get out of control? When they got out of control in the second half of the 60s and America was trying to run a great society. program, simultaneously with the Vietnam War. And then of course, we had oil shocks.

So it was really a political change that produced it getting out of control the the politician, Johnson had great political goals after the assassination of Kennedy, he pushed the limit, he got the central bank to collude in that limit, there was a war on. So I would say it's to do with politics, if we could conceive of a politician, who had the rectitude, to keep the growth in bank credit at a reasonable level that only produced 5,6,7 percent growth in broad money, we could conceive of that politician, then we could conceive of a world where this doesn't get out of control, I get inflation of three or four bond yields at two.

However, it is very difficult for me to conceive of that politician, because the demands on all of our politicians are so high, not just in terms of the green initiatives, but inequality of wealth, infrastructure. So when will it get out of control? I think we could give it four or five years. But I think in four or five years, it probably will get out of control. But what we really need to watch are

our politicians. Now we got to stop watching the central bankers, I mean, they really are an academic sideshow at this stage. At some stage, a politician will push this too far. On the issue of hyperinflation, could we ever get to hyperinflation? I don't think so.

But of course, politicians making mistakes, you know, there's lots of history of mistakes here in which the velocity begins to go up. So maybe they've created a system that generates growth and brought money at 10%. That's not something you should be concerned about, in terms of hyperinflation. But if suddenly, you and everybody else begins to fear that inflation is going even higher, we might begin to see the velocity rise pretty rapidly. And those are the times when inflation could get out of control. So when a financial repression, it would be perfectly normal to expect periods where inflation gets out of control periods when politicians do something about it. But not necessarily taking us to a period of hyperinflation, I think probably one of the best examples of that would be Richard Nixon, who was a man not known for being on the left of politics, but a man in extremists in 1974 - who brought in price controls, who brought in capital controls, and who brought in credit controls. It doesn't matter whether your politician has left the center, or right of center.

But if they compromise too much, and there's too much inflation, they don't necessarily try to fix up with interest rates. They try to fix it with administrative measures. So it was a right history for all of us to plug into here, to see how things can get out of control, either by the oil shock on that occasion, but also the fairly peculiar policies that governments can then come up with other than interest rates to try and control that inflation.

Erik:

Let's talk through a secular return is what we're talking about here is a return to secular inflation, something that has not occurred since the late 1960s. A switch from secular disinflation to secular inflation, we agree that it's not likely to escalate to outright hyperinflation, where you got wheelbarrows full of cash being, you know, used to burn to make heat.

But we do agree that we're headed toward a secular period of inflation. Let's talk through something that nobody's ever really thought about for the last 50 years, which is what a secular shift back to inflation looks like how it plays out in the markets. Because although people tend to associate inflation is bad for the stock market, really, it's very good for the stock market in the beginning, isn't it?

Russell:

Yes, it is. All early stage reflation, would be positive for the stock market. And to be more precise, if inflation is low and rises towards 4%, then visibly, you should be holding equities all the way until inflation gets to 4%. And that is why early reflections have always been positive. The reason being, that the monetary authorities have usually been behind the curve, in terms of attacking inflation at one and a half, two and a half, even three and a half. But some for some reason up for they seem to get a little bit more aggressive. And the worst combination for the stock market is a rising discount rate, interest rates to bring down a growth rate.

And if you're doing a discounted cash flow analysis, if you put the discount rate up or bring the growth rate down, suddenly your net present value is dying. So that historically hasn't really happened to inflation gets to form, we're still a significant way for it to form, I'm pretty bullish on equities.

What complicates things this time is that we're also living through the structural change that we mentioned. And one of the questions everybody has to ask themselves is if inflation does get to four, would long term interest rates be allowed to adjust to reflect four? Because they should be about four? And let's take that five year again, what would the yield on the government five year be if inflation was four? Well, I would suggest probably at least five potentially more than five because it's not just the level of inflation that kind of got the direction knowing most people looking at not just the US economy, but the global economy, which strongly question whether any of these economies, private sector or public sector, would really be that solvent if normal interest rates were close to that level.

So I'm afraid this time it is different. Sometimes that is actually true, famously in the 1950s when they, when the yield and equities went below the yield on bonds for the first time, instead, there are very occasionally there's a structural shift, which means that that's true, we're living through one of those structural shifts. And I would not, I'm not happy owning my equities, all the way to 4%. Inflation, I only w ant to own them to the yield cap. I suspect the yield cap is going to come before we get to 4% inflation, I need to be very clear why that yield cap is negative for equities is because it's enforced through the regulator and not through the central bank. But the central bank simply cannot stand behind that bond market and cap that yield curve with a further expansion of its balance sheet. That's far too dangerous in a word of rising liquidity, or rising inflation to basically commit to an infinite creation of liquidity to cap the yield.

So they have to turn to the savings institutions that I mentioned earlier. And they have to force them to buy that yield curve, because in doing so they don't create any liquidity in doing so they're simply moving money, but they're gonna have to sell equities to buy bonds. So I think that yield curve cap, which most people I would say, 9 or 10, people I speak to you think will be incredibly positive for equities, will actually turn out to be rather negative for equities. And to your introductory point, the 70s was a period of very high inflation. But it certainly wasn't a very good period, to be owning equities.

Erik:

So for the equity market, the stock market, the rule of thumb is stay long until you get to about 4% observed inflation. Let's talk about other markets, commodities, particularly inflation, certainly in the beginning needs to be good for commodities, maybe the way to look at this as as a financial historian, which markets should we be focused on? Is it rates? Is it commodities? Is it equities? If we think the big story here is secular shift toward inflation? Well, how do you play that if your global macro you can trade anything?

Russell:

Well, the big story is gold. And I realized it stands in the shadow of the mighty Bitcoin at this minute, but it's not a shadow, it can stand it can stand in that shadow for very long. So that is where you put your money because gold benefits from two things - one over the long term, it has held its value relative to inflation.

But secondly, and in a world of government manipulation, then also it does very well, it's not as if gold cannot be manipulated by the government. But you know, it's way down the list of things they need to manipulate. Because it's so small, relative to relative to everything else. So around the world what we are doing, I mentioned in the what I mentioned earlier that Pokemon

cards are doing very well as well. Why would Pokemon cards been going up and baseball cards going up? Because people are bidding up what I would call anonymity value. An anonymity value is well, I think the government's coming for my money, I better hide it. That's what an anonymity value is. That's what's behind.

You know, it's a crucial issue behind Bitcoin in many of these other things. But gold has a little bit of anonymity and tend to buy it in very small quantities. The way Indians do for their weddings, or perhaps what you do if you carry wine coins, it's got a lot of anonymity value, most of the gold of the world doesn't really have a lot of anonymity value. And it's you can't lose that anonymity value, can't collapse in terms of anonymity value. Whereas some of the other things I've mentioned, possibly could and I don't think the government's coming for your Pokemon cards, but maybe one day will come after your Bitcoin.

So gold is this asset that sits there, and is beyond government interference, because it's so small, and not particularly important. And then behind that we add in the other commodities, and we mustn't forget food, Now, I sort of hesitate to answer food because it's a shocking situation where we've seen it before savings capital rushes in and bids up the price of food given the fact that isn't necessity for most of the global population.

I once spoke at a conference for charities in London. And it was populated by lots of charities, and they were listening to the fund management company explaining how they'd all be making money out of speculating in the green market. Most of the charities in that room, we're in the business of buying brands to try and feed people and keep them, keep them happy and keep them well and keep them keep them healthy.

But we mustn't forget that inflation throughout history has been primarily inflation of commodities, but particularly of food prices. And if we look, you know, if you look over the last 30 years, we've amazingly had positive inflation over the last 30 years. There's been a significant erosion in the purchasing power of the dollar over 30 years, despite Amazon, despite China. And despite all of these things, we've still managed to generate that inflation. And if we're talking about a word of higher inflation, we really have to be talking about a form of higher commodity prices.

So commodity prices, commodities themselves, are a hedge. commodity stocks are more complicated. If we want to go into all of the extra complications you add into investment when you do it through an equity rather than do it through the commodity. But they are slightly more complicated, but I think on the whole probably a better place to put your money than pure equity.

Erik:

I want to come back to the question of gold versus Bitcoin. I happen to agree with you very strongly, but you know, this has become such a contentious issue and an issue that so many people are very focused on. And you know, if you stop and think about it, why is it that gold has historically been such an effective store of value and an inflation hedge? Well, because it is what everybody agrees by convention is the scarcity asset of choice.

It's what we trade into when we're concerned about the real purchasing value of money decreasing. And I think that there's a younger generation that's saying, hey, you two, old guys, you're missing the boat here. You know, the printing press. And the the newspaper used to be the primary means of public communication. It's been replaced with social media. And by the

way, guys, gold was replaced as the scarcity asset of choice by Bitcoin. Now, I personally don't hold that view at all. But I know that some of our listeners do so what would you say to that argument?

Russell:

Well, I would say to the argument is this there's lots of things that are in scarce supply. I mean, I, for a long time been recommending for 30 odd years saying buy fine wine. Because the fantastic bull story for fine wine, it wasn't that it wasn't fixed supply, was going to ask wealthy Chinese guys coming along, they were going to drink the fixed supply. So actually, the supply was going to shrink. So why wouldn't we buy that asset where you could guarantee an annual shrinkage in the 1995 Bordeaux, over any other asset? I mean, supply is the only condition we're interested in. And there's lots of assets that have, you know, better attributes than gold, and better attributes than Bitcoin.

But there's something else going on with Bitcoin. And I read it every day in the press, and everybody who's really into Bitcoin should think about this, think about the reasons they buy it. To me, most people buy it, because they think it has anonymity. Within the community, I see massive discussion as to what extent you have anonymity or not. But I saw a very prominent gentleman yesterday, telling everybody that if they own Bitcoin, they'd never have to pay any tax ever again. If you're somebody who likes Bitcoin, and believes that that is the future for Bitcoin, then I think you're wrong. I think that's simply you're wrong. We don't have a stable civilized society. If there is that asset class, that people are black holes into which money can pour to avoid taxation or regulation. No, I don't think everybody who buys Bitcoin wants to do that. But I think many people who buy bitcoin believe that that is a key asset of that asset. And it is inconceivable to me that governments would ever permit that to continue.

Now, the question is, if they did something to stop, what is the value of Bitcoin? Yes, it still has a fixed supply. But what is its use? Because it seems to me the mean and buyer at the minute, the use they think they have is avoidance of taxation and regulation. So I don't know how far Bitcoin falls isn't the vehicle for the avoidance of taxation or regulation, but I think it follows a very long way. And I don't think all falls at all. Because we, over the many years, the government's got a pretty good handle on gold. So the reason that people buy bitcoin, is that they think they can escape the government, I think they're wrong.

Erik:

Well, that used to be the reason that everyone bought gold is they believed that they could escape government in taxation.

Russell:

The reason that people buy bitcoin is they think it's better than gold and escape taxation, better than gold at escaping the government. And it's no better or worse, it's the same. So what

I'm trying to get at is whatever the price of gold is, there's a nominal value in there of x. And whenever whatever Bitcoin is, it's an anonymity value x plus 1000, or 2000.

So both of them have the same anonymity value, ultimately, government has government that gets what it wants, Caesar gets rendered on to him what Caesar needs to get rendered onto. One of the effects that is price, gold, and the other one doesn't. That reflects the belief that somehow in this one particular asset class in the history of the world, Caesar does not get what is rendered on to Caesar.

Erik:

Now, the next thing that you said after gold, it was agriculture, food specifically. It seems to me there's a really good argument for food and agriculture, because you know, we've got increasing global population and decreasing supply of farmland. And it just seems naturally logical that the boy the cost of agricultural commodities has to go up. But then I think, well, wait a minute.

What's the really big picture that's driving everything we're talking about? It's government's with trillions of dollars of stimulus, well, what do they want to spend it on? They want to spend it on a lot of infrastructure, and they really want to get an electric vehicle revolution going, seems to me like copper really stands out as something that's going to be needed to build out that infrastructure and is going to be needed for the electric vehicles. And I also think about the battery metals for those electric vehicles. I'm curious, how would you rank those next to golden food in terms of how to play this coming inflation?

Russell:

Yeah, so I'm not an expert on those are hard commodities at all. I have noticed in the past high copper has been a pretty good proxy for global growth, and that we're going to be seeing more investment. There's investment boom coming. I know people look at copper in relation to China, but there's several different types of investment boom coming, one, there's an investment boom coming even in, even in China itself, which is hard to believe, given their investment rates. And that is all to do with the severing of links between China and the rest of the world. We then also outside of China, whenever that block comes to be called, we also have to do an investment boom to make sure that we replace all the production that is no longer coming clearly from China.

What the COVID crisis has taught us that we need shorter chains of distribution, and that triggers and another investment boom, you've told me about the green Investment boom and its impact on copper. That is, what's going to happen, I think we're looking at a bifurcated world was needed to go for a more green agenda. There are clearly issues with emissions in terms of extracting the stuff from the grind, but they're also essential to get this economy to where it needs to be. So I would like knowing anything about any of these hard commodities, specifically, they are related to investment. And all of those things would suggest all of this, I think that we're going for an investment boom, which is really not the conventional thought process at all.

It's someone who believes that we live in a world where the internet businesses, destroy the need for any tangible physical thing that you can pick up, I think we've probably got to peak on that on that belief. And we realized that we ran for a long time outside of China, we ran for a long time on low physical investment, high investment and internet. And I think what we'll find for the reasons I mentioned, is that we're looking at high physical investment everywhere. And that is positive for commodities in general.

Erik:

Let's touch on energy, there's definitely a part of this argument you'll hear from some people is look that the Green Revolution is clearly been pending for a long time. And the political party change that we've just had in the United States is likely to accelerate the Green Revolution, that's got to be a headwind, in the eyes of some people, I don't agree myself, for oil prices, it means that the boom in oil prices has to end because we're going to reach peak consumption of oil, we're not going to need it anymore, because all the vehicles are going to be electric. I don't buy the story. But I want to know your take on it.

Russell:

I don't have any particular insight on that, except to say that a green revolution takes time in between now and then there'll be lots of trading opportunities in oil as to where the price of oil is in 15,20 years from now, I would suspect it will be lower. There are plenty of opportunities in between nine and if you're a trader, to buy what this green revolution is going to take a hell of a long time. And in the meantime, we need oil.

Erik:

Yeah, I would just add my own perspective is this green revolution is very real, it's going to change the world. And what it's causing right now is a lack of investment in oil production. And what I think is going to happen is we're going to have the higher price effect of not having invested in oil production, because we're going to need that energy before the Green Revolution, as you say, takes time. It won't have happened yet when we get to insufficient supply because of insufficient investment. And it is the Green Revolution that's causing the lack of investment right now.

Let's move on Russell, because before we close, I want to come back to what you said earlier about financial repression being a systematic strategy for government to steal money from old people slowly, is there any way or any strategy for normal people to evade financial oppression anywhere in the world?

Russell:

There are countries that we can look at after World War II, that turns out to be Switzerland and bond investors in Switzerland. This is an era of rising inflation, but not in Switzerland and bonds, Swiss Bonds, which has good returns, but particularly the Swiss exchange rate, this was currency produced very good returns only for people outside the United States who were subjected to regular devaluations. Why Switzerland, what was it about Switzerland, we take it for granted that it was always going to be Switzerland. But the thing that sets Switzerland upon in the world, in 1945, is its lack of debt. Government, and private for the

very obvious reason had not been involved in fighting a word war, and therefore it came out of the debt. So when we're looking at financial repression, we're just simply saying, Hey, you know what all of these guys have to inflate away the debt. And that's where you come to conclude that you'll have financial repression.

So if we could find companies that didn't have all that debt, then those are the countries to look at with the exception of China. those are emerging markets. Now, this is a timeframe thing. I'm a little bit nervous on emerging markets, given that this bamboo curtain or silicon curtain is falling down between China and the rest of the world. But over the long term, the debt of these countries is actually very low. And I'm particularly flag up India, as a country which may be able to avoid financial repression. It also helps India's already recently come out of a financial repression, which they called the License Raj. In other words, they know the cost of it. I think across the rest of the world, we've forgotten the horrible cost, long term cost of financial repression that India has. And so as a long term investor, I'd certainly be looking to emerging markets and obviously, particularly those that find themselves very clearly in the US coming Cold War, and there's no doubt in which India is in when it comes to that Cold War, it's very clearly put itself and the side of the USA.

Erik:

Russell, I have to tell you, you're one of my personal favorite guests that we've ever had on macro voices. And I think all of our listeners have really enjoyed your just terrific insights on the macro economy. We used to get hate mails after every single one of your interviews because I had to announce to people look, Russell does have a service. It's only for institutional investors and for compliance reasons. Retail guys, sorry, you're out of luck. I think maybe that's changing. Tell us about www.russellnapier.co.uk?

Russell:

That's correct. We used to have to do that because it was on a website, which had lots of other research, which wasn't available for retail, but I've not been able to find a way to get around that. And there will be an individual subscription available from next Monday on www.russellnapier.co.uk for the newsletters, so I hope people are interested. I hope it's useful. It is there as of next Monday. Fingers crossed.

Erik:

Okay. And again, let's just be clear, we're talking about starting February 1 2021. Because otherwise we're gonna get the angry hate mails all weekend saying where is it? He said it was there. Okay.

Russell:

Feburary 1st is probably the safest date.

Erik:

Russell, I can't thank you enough for a terrific interview Patrick Ceresna and I will be back right after this message from our sponsor.