Daniel Lacalle: On The Road To Stagflation

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Erik: Joining me now is Tressis chief economist and fund manager, Daniel Lacalle. Daniel, it is great to get you back on the show. It's been way too long and of course, what's on everybody's mind and particularly when your name is mentioned is the macro outlook for Europe. We had pretty good perspective on the European story from some of our guests through last fall. Everybody knows about the energy crisis in Europe and boy, it seems like we made it through the winter, are we out of the woods? Are we headed for more trouble? What do you see in on the horizon and what's the situation look like in Europe?

Daniel: Thank you so much, Erik. Thanks for inviting me and I think you've summed it very well. On the one hand, we have survived the winter thanks to a very mild temperatures, very mild temperatures. And also, because rate hikes have had a very significant impact on commodity prices. So the combination of lower consumption of natural gas and at the same time, lower prices has certainly helped the European Union economy. The eurozone economy though remains very weak. We have had as latest PMI figures show that the manufacturing sector is in its 35th month of contraction. And overall GDP is slightly better because of lower imports certainly, because of higher government consumption, which is certainly not a positive in my book, because it comes fundamentally from higher debt. And because of the services sector remains relatively strong thanks to the tourist season and the amount of spending from savings that were accumulated during the COVID crisis. But those savings are almost consumed. Citizens all over the European Union are feeling the pinch of elevated and persistent core inflation and overall inflation. And the impact of rate hikes is certainly going to have a significant dent on the economy for a very simple reason. In the United States, the real economy is mostly financed through the private sector, and not through the banking system. About 15% of the US real economy is financed through the banking channel according to the IMF. In the European Union, it's 80% of the economy that is financed through the banking channel through direct banking, lending. And we are seeing, for example, in the latest figures from the ECB that lending is more challenging, that credit conditions are tightening very, very fast. So the combination of our situation that has been aided by weaker commodity prices and lower consumption may come back to bite in winter of this year because the European Union hasn't done anything significant to reduce its energy or to improve the energy crisis.

Erik: Daniel, let's move on to commodities and the signal that they're giving us because frankly, the message is a little bit distorted in my view right now. On one hand boy, if you look at this energy transition, and where we're headed, the demand for copper is going to be off the charts. But oh wait a minute, look at the chart, speaking of charts and it's not off the charts, it's actually down and you look at crude oil, and you know, people will tell me Erik, you were saying we were going to have this this big run up in crude oil when China came back online and supply disruptions. And you know what, none of it happened, the price went down, not up. You got it completely wrong. And I say yeah, you know what, you're right. I got it completely wrong on flat price, but look at the term structure. It didn't flip into contango, we got about a month or two of contango at the very front of the WTI curve, but the rest of it is in structural backwardation at a time where you know, at least the retail markets all talking about the weakness of crude oil prices. These things don't jive with each other... What's going on?

Daniel: I think that what is going on in the commodity spectrum is the impact of rate hikes and the monetary contraction. Very few people look at the monetary aggregates when analyzing the price signals for commodities. But if you think about it, the moment that the Federal Reserve started to hike rates and to reduce the amount of money in the system. Immediately all commodities that were affected by supply disruptions, the Ukrainian Warm, and all these different important aspects. All of them started to retrace and come back down. Now, it is true that the Chinese recovery has been weaker than initially anticipated but weaker relative to expectations not weak in terms of marginal demand. So the demand and supply picture of commodities as you're very well mentioned, in the case of crude oil is extremely tight Demand is rising and supply is very, very tight added to the fact that we have seen supply cut from OPEC that is undeniable and the long term picture is compounded by situation in terms of investment that is extremely concerning, because the investment required in order to keep the supply robustly is not there. There is about $600 billion of underinvestment in the oil and gas sector now.

So, what we need to look at is the monetary situation. And the monetary situation is what is affecting commodities right now, is that rate hikes plus monetary contraction means that taking long positions in crude oil, financing margin calls, financing, storage and vessels is significantly more expensive. Therefore, prices have come down. But as you have mentioned correctly, the curve remains in backwardation it's not in contango. So the long term picture, the fundamental picture for energy commodities, and for copper as well, you were mentioning industrial commodities, because of this massive increase in investment required for energy transition, is the supply-demand picture is certainly bullish. But we need to pay attention to the monetary factor. Because if the Fed continues to hike rates as they're threatening to do, and monetary contraction starts to really go deeper into the real economy, it is certainly going to affect the spot prices that we see every day in our screens. So I think that it's a very interesting picture. On the one hand, a supply-demand situation that is undeniably bullish. And on the monetary side very, very important impact from the decisions of the Federal Reserve. Ultimately, commodities are priced in US dollars and if monetary contraction starts to take hold, and we see a significant reduction in money supply, like the one that we have seen so far in the year, think about it, the reduction in money supply compared to the decline in the spot price of WTI are almost equally correlated.

Erik: Daniel, before we leave this energy topic, I want to come back to the outlook for European energy security, particularly with respect to natural gas, because something that's really surprising me is the number of people or I'll call it the amount of excess complacency at least it's complacency in my perspective, where people are saying well we got lucky! We got a weak weather winter, it wasn't that bad in terms of how cold it was, we made it! The European energy crisis is over, we survived. It's all set. And I just think, don't these guys understand that winter happens every year? Are we really out of the woods in terms of a European energy crisis?

Daniel: Certainly not our out of the woods. The European energy crisis was closed as if everything had changed, and nothing has changed. But a few things are very concerning in terms of the European energy crisis. The first one is that, unlike last year. If we look at the picture of how much liquefied natural gas can be imported into Europe from the United States, in a situation of crisis, it is much tighter. The liquefied natural gas market was ample and the European Union could use extraordinary resources in a very particular time, which was the Chinese shut down. But now there's no Chinese shutdown. Now there is a reopening. So the European Union policymakers are thinking about next winter with the perspective of an economy and an energy market that had one of the largest importer of commodities in almost total shutdown, and it's also considering the same weather patterns that we had last year. And those two elements was Chinese shutdown, and a very mild winter saved the energy market in Europe, but nothing in terms of security of supply has been changed. In fact, Germany is more dependent on coal. We just saw the recent figures of imports of Russian natural gas and products. And they're basically at the same levels, as we saw prior to the 2022 crisis in many of the Southern European countries like Spain, like Italy, etc. So the energy crisis has been ignored, but remains. And all of the energy companies that I speak with in Europe, and this is unanimous, they're all saying the same thing. They're all saying, policymakers are counting on the same conditions for 2023 that we had in 2022 and they don't exist.

Furthermore, policymakers in Europe are not paying attention to summer, because it's not just winter. The peak of demand of energy consumption happens in summer when you have a very high demand for air conditioning, and there's all the massive traveling because of the holidays, etc. And so most of these energy companies tell me, if policymakers are counting on a mild winter, they should also be counting on a very hot summer, which means very high demand for electricity, for natural gas, and for oil. But if policymakers are counting on China to have the same imports as they had in 2022. They're in lala land, they're in fantasy land, it makes absolutely no sense. So there's this huge problem, because at the same time, in that period between winter 2022 and winter 2023. Spain and Germany will have shut down at least three more nuclear terminals. So the dependency on fossil fuels, imported fossil fuels, natural gas, coal, you name it, in periods of low wind, and low solar load factor is going to be through the roof. And nobody's paying attention to this, everybody thinks that they've been incredibly successful, and policymakers credit themselves for the success of this winter's anomaly, without paying attention to how challenging the security of supply system is when all of the European countries are, on the one hand, increasing the exposure to volatile and intermittent energies. Obviously, solar and wind, and not making anything or not doing the job at securing the peak demand when there is a global player like China that is obviously going to be there at any price when demand peaks. So you're not going to have the same prices, and you're certainly not going to have the same availability. And policymakers simply have done nothing they have just soldiered on building a more volatile and intermittent energy mix that in peak times, is massively more dependent on fossil fuels.

Erik: I want to go back to your point about energy consumption actually peaking in the summer, which absolutely is supported by the data. But hang on a second, it seems to me that there is a distinction in terms of the ability to I don't know what you want to call it, sacrifice, compromise, etc. You know, in the winter, you don't just decide well, this is a year of of sacrifice, folks. We're going to not heat Europe, you know, people die. If you don't air condition Europe for a summer. Well, you certainly compromise the lifestyle of the European people. And frankly, I'm not sure of the benefit of this nation building exercise. But wait a minute, you know, you go without a luxury of air conditioning. Does that really break the economy?

Daniel: Well try to go to a shopping mall without air conditioning in Spain, Italy, Portugal or Greece in the summer. I wouldn't recommend anybody. But we must remember that most of the air conditioning and most of the increase in demand for energy in summer is not coming from households. It's coming from businesses and it's coming from transport of the energy demand part. So, it's not that easy to say oh we're going to sacrifice ourselves and be, you know, I remember there was a minister of industry in our Southern European country that said, we're going to solve it all by making people not use ties. Don't use a tie, and then you won't feel as hot well these kinds of things don't work. Ultimately, transport is what leads energy demand in summer. And air conditioning is fundamentally not household driven. So that's difficult, difficult to cut. Because think about this, it you may remember that the European Union actually implemented a limit of temperature in businesses to I don't remember now. 22 degrees or something like that there was a lot of legislation built on a maximum heating and a minimum temperature in summer and winter in order to conserve energy. But they forgot about all of that, because they didn't need to. But if they would have been implemented, we would have seen the consequences. And I'm not sure it's that easy. I don't think people realize how damaging it can be to shed a few degrees up and a few degrees down in your body temperature.

Erik: So far, we've been discussing this from a thematic standpoint, let's come at it from another angle of time horizon. Let's focus specifically on the second half of 2023. Because Daniel my head is spinning, it's like, wait a minute. Okay so is inflation is starting to come back up again. So no, wait a minute, it looks like a recession coming. So maybe we're about to see a crash and wait, the other signal says inflation is going to be okay, I'm confused. If you just had to lay out as much as you can imagine of what's coming in the second half of 2023? What's the picture?

Daniel: Well, I think the picture is one that doesn't necessarily solve everything very quickly, but doesn't break everything rapidly. The picture for inflation is of small decline, but still persistent and elevated levels of core inflation. I think that is the big risk because if we look at markets in general, there is way too much optimism about expectations of inflation simply coming down dramatically to 2% or 3% levels, with no significant impact on the overall economy. But you cannot have a reduction of inflation to pre-massive increase in money supply of the of the central banks levels, without a very significant recession. So what I think is most likely is that we will see a mild slowdown in the economy, because central banks do not want to accept that there is no other option of reducing inflation to the levels that we were used to prior to the monstrosity created in 2020. Without a very significant contraction in the economy. we have to think about what is driving GDP growth these days. So if we look at what's driving government consumption, higher debt, which means consuming more units of new currency. What's driving consumption, also higher debt, because as I said before, the savings have been almost consumed, and people are taking more credit to continue to consume.

So central banks are basically doing one thing and the opposite at the same time. They're hiking rates, because they want to show that they have a commitment to reduce inflation. But on the other hand, at the sign of the slightest problem in the financial world, as we saw with Silicon Valley Bank. As we saw with First Republic, they're injecting liquidity like there's no tomorrow. So the picture for inflation is it's relatively easy to bring down inflation from 9% to 5% as I said before, you just hike rates, commodities come down and everybody feels relatively more comfortable. The problem is from five to two, and that requires a big contraction in government spending and in consumption. Those two are likely to happen more slowly than what many expected and therefore, what I think is that the picture that is being created is one that is very uncomfortable for policymakers, which is that of stagflation, which means that inflation yes comes down but remains significantly above what we were used to. And obviously, inflation is annualized and inflation is accumulated, so that means generalized impoverishment. But at the same time, economic growth continues to slow down to uncomfortably low levels. So, the picture for the United States for the Eurozone is, we might escape a recession. But we're not escaping stagnation and because we're not escaping stagnation and central banks, despite the messages about tightening continue to be hugely accommodative. In reality, it is more likely that inflation remains stubbornly high, particularly core inflation. And at the same time, economic growth starts to slow down more significantly than what we have seen so far. So we're painting a negative picture of stagflation, because central banks are really not tightening the way that probably would require an economy of the level of exposure to the cycle that we have created in the years of loose monetary policy.

Erik: Well Daniel, if you say that all that's needed is a massive contraction of government spending. I'm sure we can count on our elected officials to do the right thing because they're always responsible. But just in case, why don't we touch on gold, and how that fits into the stagflation story. We did actually test new all-time highs in the gold market at 2085. That lasted all of about five minutes and we're now seeing a correction that's taken us back down almost to the bottom of the price channel, which is conveniently located with a major moving average, the 100 day moving average that's down at 1940 as we're recording on Wednesday afternoon. The market is only about $35 higher than that at 1974. Is it time to try to buy that 100-day moving average if we hit it or are we headed lower, what do you think?

Daniel: I generally always look at Gold relative to the rest of commodities, and relative to the global currencies. And if you look at Gold relative to emerging market currencies. It is doing phenomenally well, except for Mexico, a couple of emerging market currencies, gold is doing extremely well as a reserve of value and as real money, relative to commodities as the results are doing extremely well exceedingly well compared to energy commodities and industrial commodities. So gold is certainly performing the way it should in an environment of risk of stagflation, like the one that we have described just a few minutes ago. However, it is true that there's always going to be a few periods in which there is volatility because in general, investors are not comfortable with gold. The entire market is more willing to bet on monetary expansion, creating big inflation in assets, but no inflation in CPI. And therefore, I think that that's why when there's a correction, it is a good moment to build positions on gold. You need to have gold in an environment that whether you look at it from a short term perspective, or from a mid to long term perspective. Monetary debasement is a policy, is not a doubt.

So when you see that the purchasing power of all currencies to start with the dollar, obviously, but also the ones that are compared with the US dollar is coming down significantly year after year, I think that it's always good to have gold in the portfolio and take opportunities in which there is a correction to build positions or create positions from those investors that didn't have one. I think that it's a very important asset as well, considering how correlated equities and bonds are. The problem that I see as an investor is that the historical de correlation between bonds and equities that gave you some level of protection in periods of volatility has disappeared. And as we saw in 2022, if there's a big correction in equities, there's a big correction in bonds and they don't protect you. And the same happens when the market recovers. So the only really decorrelated asset that investors can build and put in a portfolio to generate that level of protection to me is gold.

Erik: I agree with you but there's another aspect of this that you and I have discussed before, although I think it might have been a year or two since we talked about this angle, which is you and I like gold. But I think there's a generational perspective here where younger people are much more interested in cryptocurrency. Bitcoin and other cryptocurrencies used to be sort of all lumped together as an asset class seems like bitcoins trying to differentiate itself from the other cryptos. Do you still think or have you ever thought that Bitcoin, essentially competing for market share as a scarcity asset is what has maybe caused gold not to perform as well as some of us had hoped? And what do you think about where it's headed? Is Bitcoin going to succeed in distinguishing itself from other cryptos?

Daniel: I think that Bitcoin is certainly building a position in which it differentiates itself from other cryptocurrencies. Because when we think about it, currency only becomes money when it is a reserve of value, a unit of measure, and it’s a generalized mean of payment. Bitcoin is starting to be those three things, but it still, as I say, usually it's a startup currency okay. But it's certainly closer to being money than what other cryptocurrencies have become. So I think that it's sort of creating its own unique space that's worth looking at from the monetary perspective. But one thing that I always find troubling when discussing Bitcoin with people that look at it from an investment perspective, is the nugget proposal of saying that because supply is limited, it can only go up and that is not realistic. There are numerous assets that are scarce and where supply is limited and prices come down, we have just discussed for example oil, but there's water for example. I think it's important, therefore, to understand that Bitcoin is moving in two different directions. On the one hand, it's cementing its position as a possible alternative, certainly in the metaverse but also in other transactions and in other markets as a as a unit of measure and as a means of payment.

But as an investment that can only go up and that can only go up exponentially is something that we have to be extremely prudent. If it cemented its price around the $23,000 level, then you can start to see some liquidity coming to the asset, but it continues to perform very, very similarly, unfortunately, I would say uncomfortably correlated to profit tech and the riskiest assets. So I would say that Bitcoin is certainly becoming an asset class of its own, but we cannot expect it to reach full level of reserve of value status with the level of volatility that it continues to have. It needs, it needs more liquidity. I will certainly not take large positions in Bitcoin, certainly on our long-only basis, maybe on a relative basis against a basket of cryptocurrencies that would be quite interesting, actually.

Erik: You mentioned a correlation between Bitcoin and technology. And it seems to me like that's an important angle, because if I just sort of play this out in my mind, seems to me like what we're headed for is probably a recession. I think the recession is already here, but market recognition of the recession, and markets coming down equity prices coming down. Let's suppose we get into a bit of a market, soft patch, a little bit of a panic, and I don't want to use the word crash. But let's say there's a very substantial correction in technology stocks. Now what that says in my mind is the people who are most astutely capable of understanding cryptocurrency are the same people that invest in tech stocks. So if tech stocks get clobbered, and everybody's losing money on their tech stocks. Does that mean they have to sell their Bitcoin to cover their margin loans?

Daniel: Absolutely, absolutely. But also, if you think of why somebody as an investor decides to make an investment in a no profitability tech stock is because it's a very long duration asset with huge promise and the net present value in a period of improvement of the economy, but relatively low interest rates or negative real rates, then is the net present value is enormous. So ultimately betting on Bitcoin is very similar as betting on a startup technology company, because Bitcoin is a startup currency. But therefore, if there is a market correction, and those four stocks that have generated 100% of the S&P 500 returns in the first four months of this year, start to correct and with them, obviously, the beta exposure of those non-profit generating tech stocks leads to them crashing the way that they did in 2022. Bitcoin, obviously, is going to go down with them. That mentality and that investor mentality, and that perception of investing in the future includes understanding the volatility of these stocks. And one needs to think about it from that perspective as well. So if what we have in front of us, instead of rate cuts which is what the market is discounting was to be rate hikes, then obviously, technology, nonprofit tech, and cryptocurrencies, as well as Bitcoin would be leading the decline that that would be the most logical conclusion, yes.

Erik: Let's move back to the macro outlook. And, you know, as I look at this Daniel, I think about okay, what are the things that you need to understand to anticipate where the curveballs are going to come from in the market in the next year or so? It seems to me that most roads lead back to China. And I say that from a few different perspectives. One is, you know, if we're going to see the commodity sector recover, it's probably going to be Chinese demand that's pushing it. So there's a critical relationship there. On the other hand, if I look at the geopolitical outlook and war cycle, and so forth. If US and China escalation continues, and particularly if there is a big contentious, you know, battle between US and China over Taiwan, wow that could have devastating effects on one hand, yet it could also create supply chain disruptions that just run commodities in either direction, you know, but I don't know how to forecast or analyze any of this, because none of the data is really visible. Am I right to think that China is the big wildcard here?

Daniel: It is. I think you're absolutely right. What we are seeing with the reopening of the Chinese economy, is a narrative that has been created, that the entire slowdown of the Chinese economy was due to the COVID zero policy, and ignoring the very important impact of the burst of the real estate bubble which continues, and that is affecting demand for industrial commodities, certainly for energy commodities, and reducing the overall growth of the Chinese economy and to a more sustainable level. So I don't have a problem with China growing one-two percentage points less. But we see that that same narrative and the way in which the market has sort of accepted the as a given the situation of the Ukraine crisis. I think that everybody seems to be unwilling to think of the ramifications of worsening situation of the relationships between the US and China. I think that we have grown to sort of accept that the trade war that was in every headline a few years ago has vanished from investors concerns yet it continues. And it not only continues, but it's getting worse. And the ramifications for the overall economy are very, very strong and the Chinese situation and where China is moving its interests which are aligning themselves more with emerging economies with Russia, with India, with Brazil. And at the same time, the worsening of the relations with the United States from both sides, obviously, I think that that definitely is going to lead to much slower growth and increase in protectionism that is obviously negative for trade.

And you've mentioned a very important factor, which is supply chain disruptions, disinvestments, or tightness of supply in key commodity areas. So I think that it's something that is extremely important. And actually, when I see the estimates from the IMF, or from the different international bodies, with improving trends in productivity in growth, and employment, and in inflation, almost in unison, I see that the risk is rather the opposite, that the risk is at that if the tightness or the worsening of relations between China and the United States continues, which is something that I believe will be so... The trend of productivity growth and jobs is going to be weaker for the developed economies. And the trend of inflation on the commodity spectrum is likely to revert and go back to the trend that we saw in 2022. At the beginning of 2022.

Erik: Let's talk about a scenario that I'm going to call the Taiwan escalation. And Daniel, I have no idea how specifically it might come about what the path we might take to get there would be but let's imagine sometime in the next year that US and China get to a real showdown over Taiwan, where the US is saying, look, the entire planet's dependent on Taiwan semiconductor manufacturing, We the United States have to protect the as the self-appointed police force for the entire planet, we have to protect the supply chains of the entire world. This is the most important thing China get out of the way. You know, we're protecting Taiwan, of course, China says no, no, no, we've always owned Taiwan as part of our country. Those are our semiconductors, we'll sell them to you if and only if we want to, and you've got a stalemate. I think there's a lot of good reasons to think something like that might be coming in the next year or two. If it did, let's kind of do a war game scenario of what are the macroeconomic consequences knock on effects and market effects if a scenario like that were to start to play out?

Daniel: Well, interestingly enough, in that scenario plays out, the one that gets the losing side, no matter what happens is the European Union, because it doesn't have the technological leadership. The United States may be able to escape a big crisis because it's a major producer of commodities. And at the same time, it has a technological leadership. The same with China. So both it's a trusting that scenario because they may get in in a conflict in which the two main players China and the United States are obviously negatively impacted. We're talking from that scenario that you're mentioning Erik means global recession, but the two main players involved may be the least impacted out of all of the economies that we look at from that scenario. So one thing that I find very concerning about the escalation of tension between China and the United States in the Taiwan situation is that I am completely sure there is a lot of people in Washington and in Beijing, there are thinking the same way as I am, which is that if things get worse, obviously, they're going to get affected, but not as affected as the rest of the world. So because everything is relative, they might even get to a situation that becomes untenable. And that worries me because obviously it means that somebody out there may be thinking that there is no need to implement diplomacy and negotiations and avoid and avoid a really serious conflict. But if that scenario was played out, they will be very dangerous certainly.

Erik: Will I vote for diplomacy but nobody's listening to me. Daniel, let's go back to something else that you said a few minutes ago about the BRICS countries. A prediction that I made in my 2018 book Beyond Blockchain was that China and Russia would eventually assert a currency very likely a digital currency designed for the purpose of competing with and displacing the US dollar from its Perch as the world's global reserve currency. I'm going to make the contention that that is finally playing out exactly as I predicted it. But frankly, I made a big bet on that. So there's confirmation bias there. Am I right that this is playing out of that there's a real threat here and how real of a threat is it?

Daniel: I think that obviously they're going to advance that project and that's why it is important to bring to the table countries like India, and countries like Brazil, because one is a big commodity consumer, the other is a big commodity producer. And they're obviously huge buyers and sellers of dollars as the world reserve. So it's a way of creating the liquidity that that currency would require. My take is that it's quite difficult for whatever results in currency that comes out from those negotiations. If it does, it becomes a contender for the throne of world reserve currency for two very specific reasons. First, two out of four of those countries have capital controls, and you cannot have a world reserve currency with capital controls. Nobody would be willing to accept a currency in which you don't know if you're going to be able to use your funds, wherever you want, however you want. The other problem is independent institutions. In reality, the reason why the United States dollar is the world reserve currency is not because the US is particularly better or worse than other economies, but because it has institutions that are truly independent, and therefore, legal and investor security is guaranteed. Obviously, those things can change. But right now, with the construct that we have, on a geopolitical basis, I think that that currency, if it is created, would probably make a dent on the US dollar in terms of for example, the commodities that are traded between Russia, India, China and Brazil, in terms of the investments that those countries make within each other, but very, very difficult to believe that we would decide to change as the financial system, for example, and use let's call it the BRICS now instead of the US dollar.

Think about this, the Euro being the most phenomenally successful monetary experiment in history, has not been able to replace the US dollar. In fact, it remains very, very much in a very distant second place to the US dollar in terms of use globally and if you think about it, as well, and you look at the BIS numbers, it is fundamentally because the Euro is used within the eurozone countries. So that ultimately, could be the path for this BRICS currency, if it happens is to be sort of a Euro in which it is used for the transactions between those countries. But you need a lot more than the strength of four global strong economies to create a world reserve currency, which is ultimately a fiat currency is all about confidence now and confidence is something that is very, very subtle, but it's impossible to create a world reserve currency without independent institutions, and certainly with capital controls. So I think that the path is not to become an alternative to the US dollar, but a sort of a much more utilized currency than the than what the current ratio of utilization of currency relative to GDP dictates. For example, China is about 13-14% of the world's GDP, and its currency is only used in 4% of global transactions. In the case of Russia, and India, and Brazil also very much a much lower percentage of the utilization of the currency relative to the size of the economy. So maybe align a bit better those ratios but not necessarily or at least, certainly not in the short term. I don't think I would see a hedge fund deciding to put its liquidity in a BRICS currency in the BRICS financial system, because of what I said before because of capital controls and because of lack of independence of institutions.

Erik: Well Daniel, I can't thank you enough for another terrific interview. But before I let you go, I want to talk a little bit more about your YouTube channel. You now have both Spanish and English language YouTube channel. A lot of people are familiar with your book which was freedom or equality for anybody who may not already be aware of that why don't you give a quick perspective on that but I want to particularly talk about the YouTube channel. Why are you doing that? What is their and what can people expect to learn when they go and subscribe to your English or Spanish language YouTube channels?

Daniel: If you subscribe to my English YouTube channel, what I give is mostly information about the economy and markets. Very focused on macro monetary policy and market timing.

And the channel basically has a couple of videos every week, with snippets that anyone can watch no more than 5-7 minutes, in which I basically give my views on the economic world and obviously on monetary policy and market implications.

Erik: Patrick Ceresna, Nick Galarnyk, and I will be back as MacroVoices continues right here at macrovoices.com.