Luke Gromen: The Dollar Treasury Feedback Loop, Deconstructed

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Erik: Joining me now is [Forest for the Trees] founder, Luke Gromen. Luke, it's great to get you back on the show. It feels like it's been too long, although it really hasn't been. I really want to talk to you about the US dollar. Our friend Brent Johnson says he thinks we could get a retest of that what was it, 115 that we saw on the dollar index. Looks to me like if it got that far, it could go all the way to about 122 or so, which would break a lot of things. Is that a possibility? Are we looking at the potential of the dollar moving even higher than it's been and if so, what would the consequences be?

Luke: Yeah, I think it could move that high. And in terms of what would the consequences be, that would break the US Treasury market, that would break Western sovereign debt markets, that would break US banks, Western banking systems, it would accelerate even further dedollarization of global commodity markets. You know, headline today that China and Brazil just did a deal end-to-end in Yuan, which would only send the dollar higher, force more deleveraging. So, it would break the US dollar system. It's a paradox that most people seem to think that the dollar rising is a sign of the US winning, it's not. It's a sign of the US dollar system unwinding itself.

Erik: Let's go a little deeper on that. When you say it's a symptom of the US dollar system unwinding itself. Obviously, to the casual observer, there's a counter-intuitive, you know, you'd think if the system was failing, somehow the dollar would be crashing, how is it that the dollar appreciates? What's the mechanism and how long does that last? Does it reverse at some point?

Luke: It reverses when the Fed steps in and prints enough money to buy enough treasury bonds. But until that point, you know, I've been saying on Twitter and to clients, the beatings will continue until the dollar is weakened meaningfully and oil prices are dropped meaningfully. So how the rising dollar breaks, the list of things I laid out is essentially, by increasing the net effect of supply nonlinearly. In other words, every tick higher in the dollar forces foreigners to sell more treasuries. They own $7.5 trillion in treasuries, $3.8 trillion at the central bank level, most of which is longer duration treasuries. So as the dollar rises, their cost of offshore servicing, offshore dollar debt rises, they need to sell something to defend their currency to raise dollars to serve US dollar debt. And so, what do they sell? They sell what they can, not necessarily what they want to. They sell treasuries. So that adds to what is already a very problematic supply-demand dynamic in terms of the US running at two point, you know, trailing 12-month deficit is about 8.5%, just short of 8.5% of GDP, every tick higher in the dollar increases Treasury supplies, then as the dollar goes higher, and as foreigners sell more treasuries, that sends rates up, which then feeds back into the dollar, which then feeds back into Treasury sales, which sends rates up, which then feeds back into the dollar, which sends rates up.

And so we are living that feedback loop right now. And then where it starts to get really nasty. If that's not nasty enough already is, US banks own $4.1 trillion in US Treasuries and agency mortgages. They've sold down from, call it 4.6 trillion to 4.1 trillion, over the last 18 months as rates go up, they start to have credit losses. Way back in 2014, some of these treasuries were taken on by the banks as high quality liquid assets to sell, that they could sell because Treasury markets are the deepest and most liquid market in the world, trademark US Treasury in 1985. So they turned seller. And, of course, they're kind of stuck on one level, because if they sell, they're going to take the marks of a loss that they've already lost money on treasuries. But they need to sell something because commercial real estate is getting worse, as rates go up. Credit cards get worse, as rates go up, car loans get worse as rates go up, etc, etc. So now every tick higher in the dollar drives every tick higher in yields, which drives the banks to join in the nonlinear, very convex increase in the net effect of supply of treasuries. And so you can see how this dollar feedback loop will continue. Now, the reason why this is bad for the US is that ultimately, we're a financialized economy. And you're talking about taking down Treasury market, you're talking about taking down the banks. And you know, I know Brent would say, hey, it's also going to take down the Europeans. Yeah, and that's like sort of like the U.S. bombing UK before, you know, Hitler started sending V2 rockets over there and bombing France in 1939 to soften them up for Hitler. But importantly, the weaker these nations get, the Japanese, again, they are our creditors, they own $18 trillion in US dollar assets on a net basis. They own seven and a half trillion dollars in treasuries on a net basis. As they get weaker, they will sell treasuries faster. And that's why I think he's right that you could see this feedback loop, there's really no limit on where the dollar could go. I think the very perception has us at DXY 200 or 250, paradoxically, you're going to have oil shortages or gasoline shortages throughout the United States, because global supply chains are broken down, which is, I think, a very counterintuitive thought. That's how I'm thinking about it.

Erik: Let's talk a little bit more about the policy that got us here and maybe where that policy is headed. Because it seems to me that as rates were starting to back up, people said, okay look at interest rates, oh my gosh, how far is this going to go? And the answer was, the Feds going to keep hiking rates in order to fight inflation, until they break something. Then, Silicon Valley Bank happened and a whole bunch of people said okay, this is going to be it, they broke something, they broke something really big, because it was those backing up rates that put so much pressure on Silicon Valley Bank and other banks that failed around the same time. Well, surely that means that they have to pivot now they've got to go dovish, and almost everybody thought that had to be the last hike, because of Silicon Valley Bank. In reality, what it meant to the Fed, I think, was, hmmm that Silicon Valley Bank thing was a big deal, we should pause for a good solid month or so before we hiked rates again. And you know, that didn't stop them from continuing, it seems to me like inflation is not going away. Is the Fed going to continue to hike until they break something much bigger and how big of something has to break before they're satisfied, they've broken something.

Luke: This is a challenge of what they have done, particularly when married with what the Biden administration did with SPR releases last year. SPR releases plus aggressive Fed rate hikes were functionally oil price controls. And Erik, you and I both know price controls work in the short run, they do. And then they make the problem a whole lot worse. Because what you do is send a false signal for a brief period of time to the markets. And so the market stops growing supplies based on the price cap. And so then all of a sudden, you get this surprise at the back end of oh my God, why are prices rising even faster? Now, this doesn't make sense. Well, of course, it makes sense. And so what the United States did last year, in response to the Russian invasion of Ukraine was effectively institute price controls on oil, which is a really good idea. If you are not the world's biggest marginal high cost oil producer, whose decline rate of shale is anywhere from 5 to 10 times the natural decline rate of Russian and Saudi oil, which of course, is exactly what is true. So I think the Fed did not give any thought to what rate hikes would do in terms of acting as an artificial price control on US shale production. And now we're on the back end of it. I think the gambit was, hey, we're going to break Russia and we’ll break China with rate hikes and oil price caps. And it'll be just like it always is. And the problem, of course, is that they ran the same old playbook with a completely different set of circumstances. And so, what we're starting to see as oil prices pick back up, well, why is that happening? Well, you know, as I've warned over and over and over 90% of global oil production growth over the last 10 years, according to Enverus, and GOROZEN, Goehring & Rozencwajg came from US shale. And so what the Fed did with rate hikes, because shale is interest rate sensitive, and has a higher decline rate than Russian oil or Saudi oil. And what the White House did with SPR releases as aggressive as they've been in 40 or 45 years was to put a bullet in the growth of US shale production. It's rolling over now.

Erik: Now wait a minute Luke, I definitely agree with you that there is a much steeper decline rate on any given US shale oil rig as opposed to the conventional plays that you see in the Middle East. But in terms of total production, remarkably in the wake of the pandemic, the US shale patch has recovered almost completely, back to its almost new all time highs, EIA is still reporting I think 12.9 million barrels versus 13.3 was the previous record. But there are other reports that are already indicating that US shale in terms of total production, not individual wells depleting, but total production, it's right back up there with what it was pre-pandemic.

Luke: Sure, absolutely. And rig count is high and production follows rig count on a lag of call it whatever 3, 6, 9 months, probably more like six to nine months and rig count started rolling over I think late last year. It's starting to maybe bottom out now. And critically the EIA pointed out for October, Permian is down. Production in the Permian is down in September. So, that's the big mother right there and that has been much slower declining than all the others. The Permian is the only one of the big four that is set new highs post-pandemic. All the others aren't even close in terms of their pre-pandemic production, Brora, Eagle Ford, and Bakken. So we're seeing a rollover. The point is, is that what the US did with oil price caps is now bouncing, it's now boomeranging back, like price controls always do. And that is in turn reverberating into the inflationary impulse. And that is in turn reverberating back into the treasury market. So that in turn is reverberating back into the dollar. There's this feedback loop that is just, it is feeding back on itself in multiple ways. And the higher oil goes, the more treasuries foreigners have to sell, to get dollars to buy oil. And so, the price controls the US put on oil last year were very penny wise, pound foolish. And they're now feeding back in two ways. The bounce in oil and inflation by extension and the Treasury market, and that feeds back into the dollar. So it is, it's not to be clear, that's not to say US oil production can't grow. What it is saying is for US oil production to grow will require a much higher price of oil. And that much higher price of oil over time will increase inflation, which will increase Treasury selling and which will increase rates which will increase the dollar until you get this break we talked about, which is the fundamental mismatch is the price of oil you need to keep US shale growing will break the Treasury market, it generates an inflation rate that breaks the Treasury market. And that's fine if you're Volcker in 1981 and US debt-to-GDP is 25 to 30% and US deficits are 2% of GDP. But US debt-to GDP is 120 and entitlements are cashflow negative, and deficits are 8.5% of GDP. So the supply is so much higher, like we can't afford the rate of inflation and we need to keep shale growing. It's this fundamental mismatch that is contributing to and accelerating this feedback loop in the treasury market in the dollar that there's no brakes on this thing.

Erik: I agree with you in principle. I mean, in theory that makes perfect sense to me. What I'm having trouble digesting though is, how is it that the shale patch has done such an amazing job of recovering from the pandemic, a lot of experts said oh look, you know, the only way they ever got to 13.3 million barrels was a mountain of easy money from the Fed in the wake of the 2009 event and so forth. It's never going to happen again. Well, it has happened again, against all odds, they're back to, you know, these incredible production levels. How is it possible that we're managing to produce all of this oil and how much longer can we continue to grow it?

Luke: At the end of the day the answer is price, right? Oil went to 120 last year in March when Russia invaded. And then we got price down and recount rolled over. And so, you know, there's a lag on the production, there has been an element where there have been much longer laterals, right? You've seen record in terms of you know, the laterals that they've been using, but you can see the productivity numbers are starting to roll over, you can see production in Permian is starting to roll over. And so, again, it's a function of price. But critically, the oil price needed to do what they did is fundamentally incompatible with $2 trillion deficits and 120% debt-to-GDP, and the DXY at 107. Like, you can't have all of those things at once, the release valve will be dollar up, Treasury market up feedback loop, unless the Fed steps in and stops that feedback loop.

Erik: Moving on from oil, let's talk about some of the other consequences of that feedback loop. You know, some of the predictions that we've heard over the years were a bunch of bloggers that were saying, you know, someday China and Russia are going to divest their US Treasury holdings and when they do, look out baby, because it's going to crash the market and there's going to be martial law in the United States, the sky is falling and so forth. Well, the crazy thing is the prediction came true that China and Russia did divest much of their treasury holdings, but no such thing happened. That was a complete false alarm. The next prediction though was boy, if we ever got back to 5% Treasury rates that would push the US cost of borrowing so high and so far beyond tax receipts that you would have an abject fiscal crisis in the United States starting the next morning after treasury yields managed to hit 5%. Well, guess what we've had quite a few next mornings after treasury yields hit 5%. Those things haven't quite happened yet, although I'm not sure that they're not in the works. What do you see in terms of things actually breaking? Are there leaks in the dam yet and where do you expect them to start springing up if not?

Luke: Oh, my goodness, the leak started a year ago, You know, when the UK Gilt market broke, that was a leak. What was the US response to that? Janet Yellen ran down the TGA at a record amount, injecting massive dollar liquidity into the system, completely more than offset Fed QT for over a quarter, or for certainly for most of the quarter, and the dollar weakened about 15% in four months, which is an enormous decline. That was, you know, September of last year, so five months after the Fed, six months after the Fed really started getting aggressive. It didn't take long. The next leak was, you know, Signature Valley Bank, like these bank problems were not bank problems. They were Treasury market problems. The Fed had the choice of saying no, we're not going to do BTFP, we will not do Swaps where we'll swap you dollars at par on treasuries that are down 30%. Sell them, we told you to hold those as HQLA when you ran into trouble. And now you're in trouble, sell them. And what would have happened, the banks would have sold into what was a very sloppy market, you could see the MOVE index, the Treasury volatility index in March was at 160. Banks would have sold that would have driven, basically the Treasury move we're seeing right now the yield up every day, you know, 10-year 10-basis points every day, that would have happened in March. So that was sort of a leak too. 2Q basically had no issuance because of the debt ceiling. And that made things seem like it was okay, better than it was.

And 3Q like here we are. And so, you know, when you say, hey Russia, China, they sell or we'll. crash the Treasury market. Yeah, anyone that would have said is misunderstanding some various fundamentals and misunderstanding what happened, and understanding the path right? So what do I mean by that? I mean, China and Russia did sell and nothing happened. Why did nothing happen? Well, you can look back in time, in 2014, banks were regulated into buying treasuries. 2015, money market funds were regulated into buying treasuries. 2017, under Trump, pensions were regulated or incented by a tax breaks into buying treasuries. And so, banks, they went from owning 1.8 Trillion in treasuries and agencies in 2014 to 4.6 by 2021. Money market funds, their owning of government, T-bills, you know, the switch from Prime money market fund to government money market fund was $2 or $3 trillion in treasuries, they bought T-bills mostly the front-end. Pensions went from, you know, I had the number in front of me the other day, a couple trillion dollars from 2018 to 2020 to date, in terms of treasuries. And then more recently, you've had, twice the biggest marginal buyers have been hedge funds in this relative value trade. And most recently, the Fed has incented US retail to pile into treasuries over the last year with rate hikes. So the point here is that there have been cracks, they've been papered over, and that as soon as China and Russia stopped, it set off a scramble by US authorities to do something that is very familiar to people that have invested in Brazil, and Argentina, etc, which is oh crap, we lost our biggest source of foreign financing, foreign central banks. We need to encourage our own domestic investors to buy this stuff. And that's what they did, banks, money market funds, pensions, hedge funds, and it worked. It worked for 10 years. And now we're reaching the problem, which is all of those incentives, the HQLA and the money market funds and the pensions, were all based on one fundamental view, which was inflation will never return except between COVID and the stimulus and now peak cheap oil, inflation is returning. And I just said, you know, the geology of shale is such that to grow production, you need price to rise over time to levels that are not conducive with low inflation in the United States, and not conducive with the Treasury market this big with about foreign sponsorship, in a way anywhere near the size of our deficit.

So, like what we're watching right now in the US and around the world is the bursting of the global sovereign debt bubble that I've been talking about, you know, most of the times we've talked for last several years. Like it's happening right before our eyes, it just took a primrose path. And US authorities have all had a lot more leeway to deal with it by virtue of being the reserve currency issuer and having all these piles of money that once foreign central banks stopped buying this stuff, they could regulate others into buying it. But the challenge, and that is once inflation returns, once the dollar goes up, once oil goes up, everybody's on the same side of the trade, their balance sheets are full of this stuff. And now, if credit risk goes up, if rates go up, if oil goes up, they need to sell something, they all need to sell some. Well what are they going to sell? Who's the buyer now? And when you have no buyers, you get, you know, relative to demand, relative to net effect of supply, which as I said, is very convex. You get we've had in the last couple of weeks, which is 10-year yield just goes up and up and up and up and up.

Erik: Luke, you said earlier that the people who thought that, you know, Russia and China crashing the Treasury market by divesting their holdings didn't really understand where the vulnerabilities really are. Let's talk about where those vulnerabilities really are. Because I do think we're in an environment geopolitically, where nobody wants to go to nuclear war. So economic warfare is the preferred way to go. And the United States versus both Russia and China, the tension is mounting. So it only stands to reason that China and Russia would be looking for ways to injure the United States economically without having to go to kinetic warfare. What are the things that you know, if you put yourself in the Russians, in the Chinese shoes, what would you be doing in order to enter the United States? What risks should we be concerned about?

Luke: I think you'll see them weaponize oil. I think that's the obvious first one. I know there have been a lot of people, maybe not a lot, but I know there have been analysts out there that have said, well look at Xi, he's storing up all this oil. And he's clearly going to be you know, he's clearly planning to invade Taiwan.

Erik: He knows something. He knows what's coming.

Luke: I think he knows something, alright. I think Louis-Vincent Gave highlighted on your show last week or two weeks ago, right? I think Putin gave him the wink, wink, nod, nod. Hey, SPR is run down, shale production is peaking, Treasury market is under pressure. This winter, I'm going to properly weaponize oil and gas. And yeah, I think that's very possible.

Erik: Winter is starting. And what do you think that means? What would be the mechanism of weaponizing oil and gas if you're Russia?

Luke: Oh the inelasticity using the inelasticity of oil, right? Hey, I'm cutting oil production by 10% and I'm going to ship it over to China. So China has cheap oil and cheap gas. And Europe and UK have very expensive gas. Have a good day. And you know, interestingly, what did Russia just say? Russia just came out and said starting in January 2024, they're going to sell gas to China at half the price of Europe. Perfect. China will take all they can sell. It's just a matter of logistics. And if it's cheaper, great. So now China, it slows China's dollar outflows. And quite frankly, it's all in Yuan so they don't care. It doesn't actually, probably doesn't affect the dollar flows at all. Russia is selling in Yuan to China cheaper and UK and Europe are short energy. And so, what do they do? They sell dollar assets. Now who's like the fourth biggest holder of treasuries right now? The UK, which is a whole separate story. So it accelerates this dollar up, oil up. Treasuries have to get sold, dollar assets have to get sold because yeah, everybody needs dollars. But you know, the one thing everybody needs more than dollars is energy. I can't eat dollars. I need commodities. I gotta eat food. You know, my wife's truck doesn't run in dollars, it runs on oil and gas. So that's what I think they'll do.

Erik: Let's come back to this Treasury problem from the perspective of the investor who's holding treasuries. Let's talk about what the alternatives are, because I don't see many, if you've got treasuries in your portfolio really is the stability asset. That's supposed to be the offset that's going to save you when there's a sell off in the stock market? Well, it hasn't been working very well for that. But you know, what do you say if the Treasury market is actually beginning to fail in slow motion, as you're describing, with a logical alternative, I would think would be gold. Well, okay, gold is down 100 bucks in the last week. Seems like that's not the bet. At least it wasn't as of last week, maybe it is this week. What do you do instead?

Luke: I think there's a short term answer to this and I think there is a you know, beyond short term and beyond long term answer. The short term answer is that Treasuries are not going to work as balanced and portfolios, they're going to continue to not work. Again, this convexity of net effective issuance, foreigners have $7.5 trillion for sale, the US government has $2 trillion for sale. And that assumes no recession. In a recession, US deficits rise 6 to 12% in a recession. That's $1.6 to $3 trillion on top of the to $2 trillion. So, now you're looking at $3.6 to $5 trillion in US issuance, plus whatever, $2 trillion a year. Yes, they say they only sell $2 trillion. So there's $5.6 to $7 trillion in net effective issuance and rates ain't gonna go down if there's net effective issuance of $5 to $7 trillion, and Treasury net effective issuance, and that doesn't get into the trillion that the feds allegedly going to sell that doesn't get into anything that banks sell, because their credit losses are going up because rates are spiraling up. Like, treasuries aren't going to work until the dollar is weakened meaningfully and oil is weakened meaningfully. And paradoxically, what you need to get oil down is either, you know, Biden to apologize to MBS (Saudi Crown Prince) and I think it might be too late, but we'll see. Or you need a severe global recession but again, severe global recession is going to send Treasury supplies up by $3 trillion plus minimum because it's also going to send the dollar up. And so foreigners will sell more or less $7.5 trillion faster. So there's this whole narrative of like, I need to own treasuries, because the Fed is going to get deflation to get a bid for treasuries. There is a fundamental misunderstanding of the convexity of net effect of supply of treasuries. Supply is going to run higher, faster than demand can. Because everyone has spent the last 10 years getting plugged with this stuff to offset the loss of foreign central banks.

So, what in the short run works, you know, in that environment, gold is not going to work either to your point, for a bit. Gold won't work for, you know, basically, the only thing that will work is cash. It's not going to work, you will want to own cash, like that's it. And I don't know how many people can sit in 5% Money Market Funds but you're only going to want to be there until the Treasury feedback loop I just described hits a rate where it becomes a mathematical certainty that the US government cannot afford its fixed obligations. It's entitlement pay goes and it's interest expense, without printing money. So I don't know what that rate is, you know, that Jamie Dimon said the rates could go to seven yesterday, he said that. You know, seven is probably pretty close to the rate where the market looks at and goes oh my God, this isn't the US anymore. This is the US with Argentine characteristics. And that's why I say in the very short run, the only thing that work is dollar cash, maybe oil, because the higher rates go, the more pressure there is on the US to grow oil production. Once consensus goes, oh my god, the US can't afford its fixed interest like obligations without the Fed printing money. Rates are going to go up faster, the dollar is going to go up faster, and then people are going to be really confused because all of a sudden, the stock market's going to start just absolutely running. And gold is going to start absolutely running and bitcoin is going to start absolutely running. And this will confuse people in the same way they've been confused as to why gold has not fallen with real rates doing what they've done over the last 18 months.

And the answer is, it'll be the market playing by the new set of rules, which is, you know, the United States with its Argentine-like fiscal picture, and its Argentine-like twist twin deficits, and its Argentine-like political outcomes is starting to have Argentine-like markets. And so short run, cash beyond the short run, whenever consensus goes, oh my God, when this feedback loop in treasuries drives the dollar up and rates up enough to elicit that, oh my god reaction in consensus. People are going to go, I can't hold these treasuries. These are certificates of confiscation. These are not risk-free assets. What do you sell at that point? You don't go into dollars, you go into anything that preserves your purchasing power because what the market will look forward to see is that the Fed is going to have to buy all this stuff. They're going to have to cap yields. And the yield curve control is the Hotel California for the Fed, their balance sheet will go from what, today it's a 8 trillion. Yeah, it'll be a multiple of 8 trillion.

Erik: Let's move on to the stock market. Something that's literally just happened as we've been speaking during this interview on Tuesday, is we've dropped back below the 61.8% retracement level of the overall bear market, which was I believe, at $4,306 on the S&P. This is the first day and of course, this is just intraday, but as I'm speaking now we're leaning about 4,267 on the December E-Mini futures contract. So, we're back down below the 61.8% which I was watching carefully to see if it was going to hold as support. Seems like maybe this stock market has officially rolled over as opposed to just looking like it was going to roll over, as we told our MacroVoices listeners a couple of weeks ago, what do you make of this market? Where is it headed?

Luke: I think, again, I think there's a short-run outlook and then I think there's the just beyond the short run outlook. The short run outlook, the dollar up, rates up feedback loop that will not be broken unless the Fed significantly or unless the dollar is significantly weakened, to be clear, that can be Fed or Treasury, and oil is weakened meaningfully. The stock market is going to go down big and that's your risk now. Do I want to go out and short the stock market in massive size? No, I want to buy insurance protection, because I think what is about to happen is probably the trickiest trading environment any of us have ever seen in our careers. I think you're huge downside risk in the short run. And then there is, it's possible you'll get a slowing or even maybe even a slight bid for treasuries, like very slight, very slight, but that'll last for a moment. And then treasury yields will start going up again. And that will be the oh-my-God moment. Because again, another element of this convexity of net effect of supply of treasuries that consensus does not see is, what you and I've talked about before Erik in the past, which is the stock market is the key marginal driver for US consumption, US GDP growth, and US tax receipt growth. And people have sometimes doubted that. Last year it was proven beyond all reasonable doubt, which is to say, we didn't have a recession in 2022. Unemployment was three and a half percent withheld taxes. So employment receipts never fell and yet US tax receipts fell by 20%. Where did it all come out of non-withheld receipts, what's non-withheld receipts? Capital gains, and stock options, and stock comps. And so this is will further add to the convexity of net effect of supply of treasuries. The overwhelming consensus is, all we need to do is crash stocks and there will be a bid for treasuries, maybe for a moment. And then receipts will start crashing, right? We saw US Treasury receipts were down $500 to $600 billion last year. That was all stock and asset prices. It was stock-based comp and it was capital gains.

So you crashed stocks in the short run, you might get a little bit of a bit, but then all of a sudden, receipts are going to start tanking. And so again, you're actually going to increase deficits faster than you're going to increase demand for treasuries in that crash. And that's going to further add to the net effect of supply treasuries. And again, it's in part because everything that Western policymakers have done and specifically the US government has done over the last 10 years certainly and really going back to the Clinton era, has been to basically make demand for treasuries, procyclical. Everyone is on one side of the trade, out of regulation, out of tax treatment, out of all of it. And now it's gone the other way. So I think it's, in the short run, this Treasury dollar feedback loop is horrible for stocks, until Treasury yield hit a rate where the solvency of the US government is called into question. Now to be clear, US government can't go insolvent. The solvency is always solved for the Fed or Treasury one way or another, financing, you know, the Fed financing this in one way, shape, or form. Yield curve control, QE, not QE, we're only doing this to help the resilience of the Treasury market, this isn't QE. You know, whatever line they give us this time. That's what's going to happen. And then once they do that, I would encourage people to call it the stock of the chart of the Argentine stock market. Argentine pesos has been a disaster. But in peso terms, holy cow, their stock market's up like

5x in the last three or four years. Same thing, same thing is going to happen here, except it'll happen in dollar terms. Now, will the dollar collapse against the peso? No. But again, I don't care. It's going to be really good for stocks, it'll be really good for gold. That's when you'll see gold really perform. That's when you'll see Bitcoin really perform. And you know, treasuries might actually work if the Fed caps treasury yields at three. Hey, TLT is going to go up, but it's a very suboptimal way to express the trade because I suspect gold will be able to multiple that, Bitcoin to multiple that, stocks to multiple that, commodities will multiple that. Inflation will rip.

Erik: Well Luke, I can't thank you enough for a terrific interview. But before I let you go, I want to ask you a little bit more about what you do at Forest for the Trees and that's fftt-llc.com. Tell our listeners what they can expect to find there and what services you offer.

Luke: Thanks, Erik. Yeah, we have both mass market and institutional research products. And what we do is we connect dots in a unique way, often across different market and industry and sector silos to try to find economic bottlenecks that can help our clients make money.

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