Leigh Goehring: The Role of Monetary Policy in Commodity Investing

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Erik: Joining me now is Goehring and Rozencwajg co-founder Leigh Goehring. Leigh, it's great to have you back on the show, we've got an exciting topic that's a little off the beaten path for today's show, which is the connection between commodity prices and changes in monetary policy regime. Now I'm sure a lot of listeners are going, what? Why don't you start by explaining what does commodity prices have to do with monetary policy?

Leigh: That's a really good question, Erik. And the answer is, I really don't know. However, as I'll explain, as I go through my talk today, is that we're now entered into a situation where commodity prices are radically depressed relative to financial assets. And, in fact, they've never been more depressed than where they are right now. And if you go back over the last 120 years, which really represents the modern financial world that we live in, there's only been three times previous to this instance, where commodity prices have been this depressed.

Erik: And what do you mean by this depressed, depressed relative to what?

Leigh: Relative to financial assets and primarily, say, just use a broad index like the Dow Jones Industrial Average. And what you do is you look at the returns of what commodities have produced relative to the level of the stock market. And going all the way back to 1900, that it turns out, like I said, there's only been three periods previous to this were commodities that have been as cheap relative to financial assets, in this case, represented by the Dow Jones Industrial Average. And what were those three periods, the three periods were the late 1920s, the second period was the late 1960s, and the third period was the late 1990s. And then you have today, which is basically represented starting in like 2019 to 2021.

Erik: So you're making the assertion that although you may not have a specific causal explanation for why it's happening, you're looking at when these depressed commodity periods have happened, you're scratching your head saying, hey, wait a minute, late 20s, that's kind of when the Depression started. Late 60s was just before we had a massive inflation in the United States. Late 90s, was just before the tech bust. And it sounds like you're then making the connection, wait a minute, it's monetary policy that gets changed. Aren't there a lot of other things that get changed? I mean, we've had a WWII happened. It seems like there's lots of things you could say that commodity prices bring wars on.

Leigh: And that's true. But I think that, if you want to think about it expansively, what are the things that's interesting about each one of those periods, which I just described, the previous 10 years, previous to 1929, previous to 1969, previous to 1999, the financial backdrop included a very, very large bear market in commodity prices. And that bear market and commodity prices did two things. One thing is, it really prevented commodity companies, that is the producer, the mining companies, the oil and gas companies, that prevented them from generating enough cash to reinvest back into their businesses, which of course, set the stage for the upcoming bull market. But one of the other things that took place is that each one of those periods, because the backdrop took place with a big commodity bear market, there was no source of inflation during those time periods. And what each one of those periods, you know that commodity bear market allowed the Federal Reserve in each one of those periods to run very, very loose monetary policy. Now, what that monetary policy did was that it allowed each one of those periods, a period of intention, intense financial speculation to take place. Obviously, the 1920s was the massive bull market that took place there, that was characterized by huge speculation on massive amounts of borrowed money in the new technologies of the market, that was radio that was appliances, it was the automobile companies. They were the equivalent of the AI companies of today. The 1960s, monetary policy was very loose, they could because commodity prices were very, very depressed. There was no inflation from that source. And it allowed the Federal Reserve to run a very, very expansionary monetary policy. It helped President Johnson finance both the Vietnam War and his great society programs, and there's all those very famous pieces written about how McChesney, who was the chairman of the Federal Reserve Board, how he was dragged into Johnson's offices and berated to constantly lower interest rates. So, what did that monetary, loose monetary policy bring forth? It brought forth a huge period of intense speculation, very similar to what took place then 1920s. You had the conglomerate phase, you had the mutual fund gunslinger craze characterized by personalities such as Gerry Tsai. And ultimately, it wound up producing the nifty 50 craze in the early 1970s, where you had basically 50 stocks that all traded a piece of 50s that became known as the one decision stocks, you only made one decision, that was to buy them, you never sell them. So the thing is, is that each one of those periods was characterized by intense loose monetary policy that wound up producing intense levels of financial speculation. And maybe what it is, is that it's that loose monetary policy, brought in with the intense speculation, ultimately undermined each one of the financial results regimes, and those regimes had to be replaced.

Erik: It seems to me like you're focusing on monetary policy regime. But really from what you're describing, it sounds to me like we're really talking about cycles and interest rates. You know, when interest rates are really low, that enables a lot of speculation. If commodity prices are low, that it kind of makes sense that that would happen. Why are you focused on monetary policy as opposed to just interest rate cycles as the driver for this?

Leigh: You know, it's interesting, you just you look at the level of interest rates back in say, the late 1920s. I mean, it's hard to compare them with the interest rates today where we actually have zero rates. And we actually had $17 billion or was it $30 billion of sovereign debt that traded at negative rates here, we never had anything like that in the late 1920s. But you do look at the monetary growth, excessive monetary growth that took place in each one of those cycles.

And that's a characteristic that has reemerged every time. And like I said, in the 1920s, it was the fact that Benjamin Strong, who headed the New York Federal Reserve, and set monetary policy, Bretton will try desperately to go back on the gold standard at the pre-WWI rate. So that meant that they had to deflate their economy or the United States had to inflate its economy in order to make that pound exchange rate viable. So Benjamin Strong in 1924, aggressively lowered US interest rates to try to inflate the US economy in order to enable Britain to go back on the gold standard to the pre-exchange rate at 25, which they did. It wasn't enough, Benjamin in 1827, had to aggressively go out and buy treasury bills again and try to lower interest rates and expand the money supply, inflate the US economy in order to allow Britain to remain on the gold standard. Again, it wasn't enough. And by 1930 was all over Britain just had to leave the gold standard altogether. And that was the major change in monetary regimes. And well, how did it wind up in US policy? Well, by end of 1933 Roosevelt devalued the dollar, not by 10%, not by 15%, not by 20%, he devalued the dollar by 60% in the end of ‘34, that was massively stimulative to commodity prices.

So that's the type of monetary regime change that I'm talking about and that happened again, big time in the late 1960s. You know, we forget about this. But pre-1968, the Bretton Woods Agreement said the US would back each dollar in circulation with 25% Gold. And so with the very, very loose monetary policies that were being expressed by the Federal Reserve in the 1960s, there was a massive outflow of gold outside of the US Treasury, and to the point where the US could no longer, in the winter of 1968, honor its gold backing of the dollar. So what did Johnson do, he suggested to Congress pass law to rule with that gold backing, and they did. And that was the beginning of the of the great commodity bull market in the 70s. That's, if you go and look on a very close basis, that's when commodity prices turned in their bear market. Now, the big event happened back in, I think it was September of 1971, when Nixon surprisingly removed the US from the Bretton Woods gold exchange standard, and left the dollar float for the first time. And that was massively inflationary, and a massive boost to commodity prices.

Erik: Now, as I think about commodity prices, and the role that they play in the financial system, most people would say: look, over the long haul, you're better off investing in the stock market than in commodity markets, because the returns are better. If I look at what you're saying here, well, the late 20s that, you know, that's just before the 1930s, that was a period where stocks did horribly, commodities actually did better than stocks in the 1930s. Likewise, if I look at the 1970s, that was just a horrible, horrible time for the stock market. Wonderful time for at least some commodities. Early 2000s, at least early 2000s, we had the dotcom bust and so forth, really bad time for stocks, yet the early 2000s right around 2001, gold was bottoming. Gold is not necessarily a proxy for other commodities. I'm not sure what copper was doing off the top of my head back at that time, but I wouldn't be surprised if it was quite a bit lower than it is now. So it seems like what you're saying is sort of, you know, presages, okay maybe the next decade, the 2030s should be or the late 2020s should be a really good time to be long commodities. Is that right?

Leigh: That is exactly right. And you can argue whether you should be invested on a commodity as a commodity investor on a long term basis. There's pros and cons to that argument, depending on the fact that the asset classes are inversely correlated, you can combine them together to provide portfolios that are significant long, booster Sharpe ratios and things like that. But ex all that stuff that you would read the journal of portfolio management, what you want to do is you want to significantly increase your exposure to commodity and commodity-related equities at a time when commodities are cheap. And we believe that we're in one of those periods right now. In fact, you would say that commodities are as cheap as they have ever been. And every time you do this, 1929, 1968-69, 1999-2000, every time you do this, you have done your spectacularly well, relative to all other asset classes. We've done this, for example, we've actually looked at this, if you've composed a portfolio, right at the top, right at the top, in September of 1929, a portfolio of 25% energy equities, 25% gold related equities, 25% metal related equities, at 25%, agricultural related. equities, that portfolio by 1940 would have increased by 175%.

Erik: Now hang on a second Leigh, I want to understand why you're focusing on commodity related equities. If I look, for example, at the bull market in gold that began in November of 2022, the metal has done fantastically well, the mining shares have not done very well, because everybody's worried about a resurgence of inflation. If inflation comes back, it means that the commodity producers are going to be facing high cost just like everybody else is. And although the price of the commodity is going up, it may be that the profitability of the producers is not quite keeping pace with the price advance and the commodity. So why wouldn't you invest? Since it's so easy to invest through ETFs and commodities directly work through the futures market if you're a professional. Why wouldn't you invest in the commodity rather than the commodity related equities?

Leigh: Oh, there's a very simple explanation for that. And I'm going to give you a great example. Remember, when you're a commodity investor, one of the great headwinds that you have to overcome is what they call the roll problem. That is future commodity prices, usually are higher than today's commodity prices. And that's the contango. And when you buy commodities, you have to pay that contango and that's a cost that you have to incur over time. Now, there is like, for example, the oil market is in backwardation right now, so you're actually getting paid to own physical oil, which is unusual. But that just goes to show you how dangerously tight the oil market is, even though we're all wildly bearish. However, I'll give you a good example, buy the Goldman Sachs Commodity Index in 1999, sell it in 2010. Buy a portfolio, that same portfolio that I just talked about 25% equities, energy, and base metals and precious metals and agriculture, that portfolio of equities by the end of 2010, basically the top of the bull market that's gone up by like 350%. Do you know what the Goldman Sachs Commodity Index returned during that time period? Zero. Zero. Zero.

That's what the role yield does to you over time. And that's why, everyone says, well, why don't you buy the commodity, is that there's incredible costs associated with owning the commodity. And you don't have that, in fact, is sort of just the opposite. What a theoretical basis, you know, companies can sell forward their production and actually capture the contango. And where you as the investor, you enter into the Goldman Sachs Commodity Index, you're going to pay that contango. That's why it pays to own the equities over time, maybe not in a short term basis. Like you said, gold equities are now underperforming gold stocks, but I suspect that's going to gold, the physical metal, but I suspect that's going to change.

Erik: Okay, so returning to your core thesis, the idea here is that at times when commodity prices are as low as they are as today, we should expect there to be a change in monetary policy regime. Boy, for a lot of other unrelated reasons, it makes a lot sense to me that now would be a good time to reconsider the way that we do monetary policy. Are we talking about a technical change that the FOMC has a committee meeting and changes their process or are we talking about something much bigger, like a political change? Where, let's say, maybe the Congress starts to question the dual mandate of the Fed and changes the directives that the Fed has given? What kind of level of change are we talking about?

Leigh: The pressures are going to come from outside and not from within. And I'm talking about a monetary regime change that could be as monumental as what we saw in 1930 and is monumental, as we saw in like 1971. And obviously, ‘30 was, Britain had to leave behind the gold standard. That was the end of the gold standard. ‘71 was the end of the Bretton Woods dollar gold exchange standard. And I think that this change could be something as monumental, as the US begins to lose its reserve currency status. And that would be as monumental as what happened 1930, and is what happened in 1971. But it would be outside political powers of the United States, it would be something that would be chipped away by actors on the global stage. The question is, you're beginning to see this already. Like, for example, there's been huge talks over the last decade about the US losing its reserve currency status. Except, the thing is that even though it's been talked about, and the fact that US does abuse its reserve currency status, is that there's been no movement on anyone to try to undermine it, or no movement by anyone trying to replace it with something. Now for the first time, we're beginning to see funny things begin to creep up and actors on the global stage are trying to aggressively put in place a different currency regime. And what I am referring to is, first is that you saw the announcement that Brazil announced that they want to settle all their commodity trades done with China in Renminbi, or the Saudi Arabia's exploring selling its oil to China in Renminbi, or the fact that total or the big global LNG players, liquefied natural gas players is willing to settle its LNG sales to China in Renminbi. You have to take this seriously because who was the person that did in the Bretton Woods, dollar-gold exchange standard, it was De Gaulle in the mid 1960s. He brought them to the Treasuries Exchange window and said, give me gold. And he was the one that really started to undermine the Bretton Woods Gold Exchange Standard and eventually collapsed in ‘71. Are we beginning to see this take place now on the fringes? So De Gaulle was a fringe actor in 1965-66. But the thing is, is that it eventually occurred for single monetary regime change, are we going to see the same thing now?

Erik: Let's apply some of the current social events and attitudes to what you're describing because if I've understood you correctly, you're saying this is not just a question of FOMC making a policy change, you're talking about there being pressure on the system where politically, there's pressure to change the way we do things. So what are the political themes that seem to be popular right now? Certainly, it seems like some kind of debt jubilee is on a lot of people's minds, particularly in the United States, at least with respect to student debt. But generally, it seems like if you saw a populist movement to influence monetary policy, it would probably be toward some kind of debt jubilee. Likewise, if I look at the social attitudes, there's more and more talk about reparations and transfer payments and redistribution of wealth, seems to be more and more of a popular theme these days in political circles. How do those things affect your prognosis for markets and particularly, if some of those things like, let's say, a debt jubilee were to come into this equation. Maybe it starts as a as a student debt jubilee that a bunch of people feel like, hey me too, me too. I don't have any student debt, but I still deserve a break. Okay, we're going to give everybody up to a certain amount of debt relief. What would that do to your forecast in terms of commodities and other markets?

Leigh: I think it would only, it would hasten and bring forward everything that I've just said. You know, when you think about what are the needed preconditions for someone to have a reserve currency, that the currency has to be financially viable and financially stable. And the idea that everything you just mentioned Erik, debt forgiveness, populace expansions of reparations, all this type of thing are ultimately going to undercut the value instability of what the dollar represents, it's only going to make people more hesitant to, basically use a global dollar based system, of which the US is a massive beneficiary of. So everything that you just said is, I would think is bearish for the future of the dollar.

Erik: So your outlook is generally commodity positive for, it sounds like the next decade, is that the time horizon?

Leigh: Yes in fact, I we've written about, and I've spoken a lot about is that we're very much, I think, repeating the decade of the 1970s. And that, you know, the commodity bull market started, like I said, with Johnson removing the gold backing of the dollar back in ‘68. That was the start of the commodity bull market, and rose quietly, people still speculating in financial assets, all the way to 1971. And then when Nixon took the US off the Bretton Woods Gold Exchange, short bang, that's what really started the bull market. And, you know, between 1970 and 1980, oil rose 11 fold in price. And that's the type of moves that I believe we're going to happen this decade. And the funny thing is that, okay, so this bull market is the equivalent started in 2000-2001. That's the quote of ‘68. So the thing is that this bull market will easily run to 2030 or into the very first several years of 2030. So the thing is that, I think that this decade is going to see huge capital flow into the commodity area, and we're beginning to see it, commodities have been the leader. They pulled back ever since March of 2022 but I suspected they will resume leadership soon.

Erik: You say that we're looking at a repeat of the 1970s? Well, the two assets that come immediately to my mind from the 1970s are gold and oil simply because those are the ones that were up the most in that decade. Does that mean that gold and oil are the thing to bet on and for the next decade or is this one of those cases of the generals always fighting the last war and we need to think about different commodities being in play this time?

Leigh: No, I think that those two commodities will again emerge as the leaders in this bull market. And the underlying fundamentals would say that they should be leaders in this bull market. And for example, the gold market, you know, one of the interesting things about gold is it started the 1930s at $35 an ounce. It peaked on January of 1980. It hit $850 so that was an increase of 24 times. You can make the case that we are almost, is radically undervalued, with Gold today at 2000, then we were when gold was $35 back then. So the thing is, is that now...

Erik: How do you make that argument? What's the basis of that?

Leigh: This is very interesting. We've written about this extensively over time. And if you ever want to see a funny article, I could pass it on to you. I was profiled at Forbes magazine in May of 2000, Gold is $275 an ounce and they said what is your target for gold? And I said 2000. And I thought it's the headline of the article, they had Gold at 2000?? and 2000 sounded preposterous, but you know, by 2011, it hit 1900. Andt he funny thing, how did it get there? Well, if gold is money, and the Federal Reserve prints a lot of dollars, there's some loose relationship between all that dollar printing and dollars in circulation, and the amount of gold that's outstanding. And we've done that calculation and back in 2000 with gold at $275. It said, given the fact how much gold the Treasury holds, how much money has been printed, that there was a chance in the next decade that gold would appreciate to 2000, which it did. Using that same methodology of the relationship of the size of the Federal Reserve's balance sheet, and the amount of gold that the Treasury owns, which is I think 265 million ounces today, is that basically gives you a dollar-gold price of some something between $15,000 and $25,000 and you say, well that's incredible how can that be? But it's happened before, it's happened before. It will happen again. You just have to have a change to psychology, that's all.

Erik: So would you go so far as to making a call to say gold $20,000 by 2035?

Leigh: I would say $15,000.

Erik: Okay, so $15,000 gold by 2035 is your call?

Leigh: Yep. Yep.

Erik: And what about oil?

Leigh: I would say that oil. I know that you've said you've had quite a few people on your program that talked about concepts like Hubbard's Peak and things like that, I won't go into it, but we are definitely going to switch the psychology towards oil markets from this concept in our minds that oil is in structural surplus all the time, that oil is going to go into structural deficit. And the reason why we flipped that psychology is that over the last 12 years, the preponderance of oil supply growth in the world has come almost exclusively from the US shales and the rest of the world has stopped growing. And the thing is, is that we do a lot of work on the shales, we probably do more work than what anyone else does. And we come up with vastly different conclusions about what's happening in the shales. And we believe that shales have rolled over. And including the last area of growth of the shales is the Permian Basin. We believe that the Permian Basin is going to peak in the next six months to eight months, and then we'll be, by the end of 2024, we'll probably enter into decline. So the only source of oil supply growth in the world is disappearing. And so that's going to flip the market from structural surplus to structural deficit, is going to have a huge change, the psychology towards oil is going to change. And of course, you know, it's interesting, we live in this incredibly bearish world of oil. I mean, the IEA came out with this grand pronouncement that which they've been now saying, since 2019, that oil demand is going to roll over. And we have this whole concept of peak oil demand occurring right now.

And I can guarantee you that is not going to happen. We are going in exactly the opposite direction. And I think my partner Adam might talk to you on your program about that. The idea that the underlying structural forces at work to increase energy consumption are exploding. The IEA, a lot of people believed that the oil demand was going to peak and peak to the fourth quarter of 2018. And we would never see that level of oil demand again. Well, it looks like by the end of this year we're going to hit 104 million barrels a day. So we're going to be over three and a half million barrels higher in 2023 than we were in 2019. And the underlying growth trends are strengthening, contrary to what everyone's saying. So the thing is, is that we have this idea that that oil demand has rolled over, it's not, it's actually strengthening right in front of us. And we're changing the complexion of supply. So where does oil go? I don't know. Oil will spike to a level, which balances supply and demand. And whether that's, you know, $160 to $180 or $200. I don't think it can stay over $200.

Erik: Leigh, I want to come back to your core thesis and particularly what you've said about the currency, because you've described that when you get the kinds of situations that you're detecting in the commodity market now, what tends to happen is a big monetary policy regime change. Let me lay out a really big monetary policy regime change on you. The one that I predicted in my book in 2018, which is that the US dollar will eventually lose its reserve currency status to a surprise competitor. And the reason that I expect this to take everyone by surprise is the entire financial market has always assumed that we have this financial engineering problem, which is nobody can figure out a way to match the depth and liquidity of the US Treasury market, not the dollar itself, but the US Treasury market, because it's US Treasuries, the dollar denominated debt that provide the instruments that are useful to central banks as reserve assets. So everybody's assumed until you can replace the liquidity and depth of that US Treasury market, there's no way to ever displace the US dollar. And I agree with them, at least in the sense that until you can match that depth and liquidity of the US Treasury market, you can't replace the US dollar.

Erik: What I think a lot of people miss is that if you're talking about a digital currency system now, that's not a financial engineering problem, it's a software engineering problem. And you have a lot more options and avenues as to how to address it. So, suppose that Russia and China are a little bit, have their act a little bit more together than people are giving them credit for with this new BRICS currency system that they've talked about. Suppose that their intention is to launch a CBDC, a central bank digital currency system, which is more centralized than something like Bitcoin, but it's still a bona fide digital currency system. And they assert that to become a competitor to the US dollar, but they used software engineering instead of financial engineering in order to create the liquidity and depth characteristics of a digital sovereign bond market that can compete with the depth and liquidity of the US dollar Treasury market. That to me is the potential what could happen in the next 10 years. That's my huge kind of outlier. And it has nothing to do with commodities, despite the fact that I'm a commodity trader. I listened to what you're saying and it sounds like the monetary regime change that you're expecting is kind of in line with what I've just described, although I don't know if you were expecting it to be quite that big. Am I crazy? Is this crazy talk? What do you think?

Leigh: No, it's not. Because everything you said, Erik, is exactly true about that you need to you have to develop an asset class that has liquidity. And it's something that you can fall back on to, basically used to balance trade related current account imbalances. I would put forth something a little crazy. I mean, you're looking forward to a new sort of a new age solution. I would say...

Erik: I'm not looking forward to it for the record, I'm just predicting it!

Leigh: Yeah, I would say that it could very well take a bizarre form, that it falls back on another style of currency. That is incredibly old school and incredibly old fashioned. But you're beginning to see this happen as well. And that's using the global gold markets as a method to balance currency imbalances, trade-related imbalances. And you know, you see it, for example obviously China would love everyone to trade all their trade in Renminbi. But the problem is that China has a closed capital account. So if you accumulate a lot of Renminbi, there's nothing you can do about it except if you want to go to Shanghai and buy a palace in Shanghai, which no one wants to do.

Erik: But you can buy gold in the Shanghai Futures Exchange.

Leigh: Exactly, exactly. And they're already facilitating that type of situation. Where if, for example, I'm Brazil, and I sell all my soybeans, and I sell on my iron ore to China, and I received this huge amount of Renminbi. The Renminbi I receive is greater than what I buy goods from China, then what do I do with the Renminbi? Well, as it’s structured now, I can't do anything. I've just got this excess Renminbi. Well, what happens if I go to the Shanghai Gold Exchange and I say okay, I'm willing to take this Renminbi and buy gold and you ship me the gold. And I can use the gold market as a mechanism by which I settle up by trade imbalances. And, you know, it's so funny to say well that's really crazy. That's really old world. But think about it this way: You know, Brazil in the first quarter of this year bought an additional seven tonnes of gold. However, what people forget is that Brazil in 2022 doubled their gold holdings, the central bank doubled their gold holdings. What is Brazil thinking? What is Brazil doing? Are they preparing themselves to this idea that they're going to start using gold as a mechanism to balance out Renminbi trade imbalances with China? It looks like that's the direction they're going. And it's interesting, a lot of these, you know, Singapore. now even India, which has traditionally not been a gold buyer, has bought a significant amount of gold in 2022. And again, beginning this year. So the funny thing is, is India thinking about beginning to sell its trade related imbalances with gold with China. It seems like countries are wanting to go in that direction. So whether that's the former or not, I don't know. But it's something to watch very, very closely.

Erik: Let me run another question or scenario past you as I've pondered this question of a digital currency designed by challengers to the US Dollars hegemony over the global financial system for the purpose of displacing the United States from holding that hegemony. As I think about this, I can think of a couple of directions it could take. One is that they could develop a gold backed central bank digital currency, so that they kind of say: look, let's embrace old school monetary concepts. We'll have a new age, digital currency, but it'll be backed by gold. So everybody who thinks that way will kind of you know, have their intellectual needs appeased or placated, so to speak. The other way that I could see this going is that they say, you know, gold served its purpose in its day, but now it's just a shiny metal. If we're going to back our system with something we should back it with energy or something that's more tied to what the world really needs as opposed to something like gold, which was really chosen just because of its scarcity and the fact that it was easy to carry back in the day, depending on which way that goes. I could imagine it having a very, very different outcomes on the gold market, and potentially on other markets. So as we think about this possibility of the US dollar losing its reserve currency status to something else, how much does it matter whether or not that something else is gold-backed?

Leigh: I think that gold is a backing to anything. It gives it more underlying acceptance, in the sense that gold is, even though it's obviously got clipped by the cyber currency craze that emerged at the early part of last decade and continues in various forms today that I think gold, it could very well emerge as an asset class that has every attribute that we would find attractive in either backing a cyber currency, or is a method by which, like I said, trade imbalances are settled out. And it's interesting, like I said, when this happens, I don't know, we have to follow the evidence that's emerging. And I mean, I forgot to mention this before, one of the strange things is China has bought gold for six months in a row. It's significant. I mean, some of those quarterly gold purchases, been as high as I think 20-25 tonnes and things like that. So now China, all of a sudden seems to be on a huge gold accumulation phase. Why are they doing this? Why all of a sudden, are they gravitating towards this idea that they'll be using the Shanghai Gold Exchange as a method by which what maybe conversion take place? Could be, could be...

Erik: I think China and Russia are jointly scheming to develop a digital currency system. And at least a possibility that I'm sure they're considering is backing it with gold. I wouldn't be surprised if they're also considering backing it with energy, which I think would be a more logical way to develop a modern age commodity-backed monetary system. What other possibilities should we be thinking about that could be on the horizon?

Leigh: As far as monetary regime changes? It's a good question. Something that could happen for example, the US loses its reserve currency status because at some point, we reach a tipping point, that the total amount of debt that the United States has is unsustainable. And we experience something which no one would expect, like a failed auction, when these treasury bill auctions that are taking place are so huge, what happens if it occurred during a period of financial turmoil, some geopolitical event, and the US had a failed auction. And failed auctions have happened repeatedly in the history of government and finances. And usually what happens in every one is that central banks wind up buying part of those issuances. Of course, that begins the direct monetization of debt, and that's when mass inflationary problems started. So maybe if the United States slips into a severe inflationary problem that actually begins to become uncontrollable. And the idea that it will be centered around the fact that it can't roll over to short term debt, and the Federal Reserve winds up buying it and monetizes directly. Maybe that's going to be the monetary regime change. The US will have massive dollar devaluation that takes place because of hugely rising inflationary expectations. Maybe that'll be the regime change. But again, that would be massively positive for US holders to own commodities, that would be massively positive, because that would be the way that you would protect yourself against that dollar depreciation.

Erik: Own commodities or own commodity-related equities?

Leigh: Both. I would say commodity-related equities help, I would say own physical gold.

Erik: Okay, physical gold and commodity-related equities.

Leigh: And physical silver if you have the ability to do so.

Erik: I can't thank you enough for a terrific interview. But before I let you go, please tell us a little bit more about what you do at Goehring and Rozencwajg because I think most people think that you guys are a research firm. That's really not accurate. Although your research is very highly respected in the industry. There's a lot more to what you do.

Leigh: That's exactly right Erik. A lot of people assume that we're just a commodity-related and natural resource related research firm. That is not what we do. Our primary function is we manage money. We're SEC-registered investment advisor. We run the Goehring and Rozencwajg mutual fund which is, you can call your broker up and buy it.

Erik: What's the ticker symbol?

Leigh: GRHIX and that's for the institutional class and the retail class is GRHAX.

I should point out that our research is the basis for the way we manage our money in natural resource markets. We are all research-related and that research is in the public domain. And you can all access it by just going to our website and downloading it. And as I heard my partner Adam say to somebody the other day said, you know, if we don't remove our old letters, so, obviously, when you look to the future, there's some calls that you're very proud about them. There's some calls that you become somewhat embarrassed about how wrong they are. They're all there for our readers to follow.

Erik: And that's at gorozen.com.

Leigh: Gorozen.com

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