Daniel Lacalle: EU Economic Outlook, Inflation, Monetary Aggregates, Energy and Much More

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Erik: Joining me now is Tressis chief economist and author Daniel Lacalle. Daniel, it's great to get you back on the show. I want to start with the big picture here of boy, we've had so many guests on this program telling us, okay, the bottom is not in for the bear market, the hard landing is coming, the recession is just around the corner. But boy, look at this S&P chart, it sure seems like the market didn't get the memo. And the recession that everybody's been anticipating for a couple of years now, a lot of people say it's already happened. But boy, it's not showing up in the market data what's going on?

Daniel: Well, I think that there's a combination of looser monetary policy than what many anticipated. And an additional element of a more benign view about inflation. I think that basically, if we look at what should have been 2023, many expected a much larger contraction and money supply in the balance sheet of central banks. If you look at the balance sheet of the Federal Reserve, it's still 50% of GDP, same in the case of the sorry, 30% of GDP in the case of the Federal Reserve, 50% in the case of the ECB. And if you look at, for example, the window of liquidity that the Fed provides, it's gone from $20 trillion to $220 trillion. So we are in a much larger expansionary phase, precisely because monetary policy is significantly looser than what people may have expected. On top of that, inflation is coming down slowly, but to a level in which market participants seem to be happy to perceive that there will be a sort of soft landing. I think that the market is happy to believe in the soft landing narrative, despite the weakening of macroeconomic indicators, and is happy to take more risk. Assuming that if things get worse on the macro level, central banks will massively inject liquidity and therefore lead to multiple expansion. And this, I think, it's very evident. For example, if we see what the S&P500 equal weighted is doing, the S&P500, as you know, is rising. However, it's being led by seven stocks. If we look at an equal weighted S&P500, it is actually showing a pretty dire environment that is more consistent with a weak economy, with weak prospects for the economy, and persistent inflation. So, I think that the market is not so, let's say, optimistic. I think that what the market is more focused on is on the idea that if central bank liquidity injections remain, and the policy is accommodative, which it is, and we saw it with the Silicon Valley Bank, and regional banker crisis, then it's better to take risks in the long duration, equity assets like technology, etc.

Erik: Daniel, I had to chuckle because the intonation in your voice, when you said the market is willing to believe these things, kind of led me to believe that maybe Daniel Lacalle is not so inclined to think that this is an all clear from the market. Do you still see the recession risk and hard landing risk? Or do you think this soft landing narrative is going to come to fruition?

Daniel: Well, let's think of a soft landing and what that means. Now, I think that soft landing means that the credit to families is going to continue to decline, that credit to businesses is going to be much more challenging and at much higher cost and that there will not be a GDP recession, but a significant contraction of the private sector. And that is exactly what is happening. I always say that we are in a private sector recession. The manufacturing sector is in dire conditions, the services sector has been surviving, thanks to the consumption of the savings accumulated throughout the past years, but those savings are gone. And if we look at, for example, consumption in real terms, and adjusted for the accumulation of debt, then consumption is really poor. So I think that we are in a private sector recession that is disguising a GDP or that is bloated by debt, and it is bloated by government spending financed with debt. So if you look, for example, at the United States GDP, adjusted for the accumulation of debt of public debt, then we would be in the worst year since 1930. And so basically what we are living in, is in still very loose credit conditions, where the challenges for the private sector are being offset by accumulation of debt. And that is very, very dangerous. Because in 2023, we have not lived the wall of maturities yet. However, the largest number in terms of maturities, the United States Government needs to refinance about $7 trillion in the next 12 to 14 months. That means a lot less liquidity for the private sector, at much higher, much higher interest rates. So all of that is going to come back to bite. And we are right now in a private sector recession. And I think that 2024 and 2025 are going to be significantly more challenging.

Erik: The S&P chart was showing a series of lower highs and lower lows through the end of October. But now we've already moved well above that October high. And as we're recording on Tuesday morning, we're just about exactly matching the highs from back in September. Where is this S&P chart headed next?

Daniel: Well, I think that we're likely to see the S&P500 continue to do very well into the end of the of the year, the fund flows into ETFs basically tell us that the S&P500 is likely to perform well into a sort of “no bad news is good news” environment, both from the inflation front on the monetary policy front and on the geopolitical and macro front. So I would be relatively positive about the S&P500. Not necessarily as positive, as I would imagine in, for example, the Chinese index or the European index.

Erik: Let's talk about the European weakness in particular, it seems like the European Union has really experienced a lot of economic weakness. Many people were attributing that to the Russia/Ukraine conflict, it seems like Russia/Ukraine is de-escalating now. But I don't necessarily see the European economic data improving. How should we interpret this?

Daniel: Well, I think that the market is swimming in liquidity, and at the same time, adjusts very rapidly to macroeconomic and to geopolitical risks, under the impression that monetary policy will continue to disguise them. And one of the elements that I would consider more dangerous about that is the idea that we can sort of navigate all macroeconomic problems with rate cuts and with liquidity injections. But it's logical on the one hand, because if you think about it, most market participants have only seen rate cuts and liquidity injections. So it's logical that having seen other geopolitical events, most market participants would say, well, yes, that is certainly something that is a challenge, but it's not going to rock the boat of markets, because central bank monetary policy and developed economies fiscal policy, which both goes hand in hand offset and trump over any other impact.

So the problem here is that the impact of these geopolitical issues is more prolonged than what people seem to perceive. Many expect this to be a one year, six months problem. However, if we look at the reality of history, what we see is that these problems continue for quite some time, generating important ramifications in the real economy. And those ramifications include, obviously, the impact on trade, where trade is likely to continue to be weak, impact on manufacturing, which is very, very evident and impact on potential economic growth, because protectionism, sanctions, all these side effects of geopolitical tensions do have a very significant impact on growth and on real disposable income.

So, if we look at what has happened in geopolitical terms, globally, basically, we are seeing almost a slowly moving process in which the economy is going back to pre-globalization mode, in which tensions between large economies are rising, in which those tensions are not just not improving, but actually basically keeping the situation negative for a prolonged period of time, as we are seeing with so many people had a view that the tariffs from the United States to China would be lifted when the new administration joined, didn't happen. So I think that all those factors are quite important. And they erode economic growth, they erode trade, they have a very significant negative impact on productivity growth, which means lower wage growth. And that is very evident in the United States where, despite significantly more positive figures of, for example, job creation than what some expected, the reality is that with such low level of unemployment, the United States has negative real wage growth, which is a reflection of the very poor productivity growth and these sorts of de-globalization factors that are worsening the conditions for the average consumer.

Erik: Let's come back to the topic of inflation, and particularly the market reaction to last week CPI print. You know, when I looked at the reaction on the tape, I thought, oh my gosh, CPI must have come in just massively below expectations. And then I looked at the data, it was 0.1% miss on consensus expectations, seems to have started this grant party that hasn't stopped. Am I missing something?

Daniel: I think you're not missing anything. I think that people want to see positive things and things that are not particularly good. I mean just..

Erik: Has anybody questioned that maybe the reason inflation is coming down is that the hard landing that some people have predicted might actually be just around the corner?

Daniel: Precisely. I think that this is the problem with many market participants, is that many think that inflation is going to come down magically, without any contraction in the economy.

And obviously, it doesn't happen. If we look at the negatives of the CPI print, for me, they are very evident. First, prices are not falling, prices continue to rise, albeit at a lower pace. Second, if you extract those that are replaceable goods and services, if you look at the non replaceable goods, those continue to be rising significantly above inflation, the CPI print. Therefore, the purchasing power of salaries and deposits is certainly weakening. But also, as you very well mentioned, this soft landing myth of hey, we're going to see inflation going down to 2%. And at the same time, economic growth with low employment, unemployment, and with a real wage growth, that is not going to happen. It's impossible.

There is… I've written extensively about the myth of the soft landing. Once you have created such an incredible imbalance, like the one that central banks created in 2020, it may take a couple of years to sort of show the reality of what the economic impact is. But it's not just inflation, it’s that it's impossible to reduce inflation to 2% without seeing a very significant contraction in aggregate demand. And when governments are not reducing expenditure but increasing, that means that the reduction in aggregate demand can only come from the private sector, families and businesses. Therefore, the soft landing that the Fed is trying to engineer is actually a hard landing for businesses and families because governments don't seem to get the memo of hiking rates and contracting monetary aggregates. So absolutely, Erik, what you're saying makes all the sense, because there is absolutely no way in which these individual prices are going to come down to pre-pandemic levels without a very significant hard landing. And I come back to the point that, as usual, very well mentioned, CPI print was literally, I mean, it's 0.1% below consensus, means absolutely nothing. When we see, for example, how the CPI is calculated, and how many of the prices are not falling, but actually they continue to rise well above that CPI print.

Erik: Daniel, you briefly mentioned contracting monetary aggregates, give me a little bit more perspective on that.

Daniel: Well, if you look at the latest figures, that the Federal Reserve publishes the narrow money M1 deposits, money in circulation and deposits has fallen from $20 trillion to $18 trillion. And if you look at the M2, which is a broader money supply aggregate, it's showing also a quite a significant contraction. So those two are basically showing that this is more than a soft landing, because credit deposits, money in circulation is falling and falling very, very rapidly. And that's why many of the analysts that look at monetary aggregates are extremely concerned that the Fed doesn't pay attention to these indicators, because the figures that the Fed looks at, GDP and unemployment, are lagging indicators. They're also very aggregated indicators and GDP can be bloated by government spending, and by massive increases in debt. Unemployment may be low, but labor participation rate and unemployment to population rates both are below pre-pandemic levels, and real wage growth is actually negative. So that added to the fact that credit to families, credit to businesses, deposits and money in circulation, is all of those things are contracting quite rapidly. But at the same time, and this is an important factor, the window of liquidity of the Federal Reserve, where banks are trying to get credit from their assets in sovereign bonds, etc., the window of liquidity has gone from $20 trillion to $220 [trillion]. So the situation in the economy is worsening very rapidly. And the credit system is being kept afloat by this liquidity window of the Federal Reserve. All of those factors show why the S&P500 continues to be strong, despite a very dangerous and rapidly deteriorating economic environment. When we look at leading indicators, these monetary aggregate declines are not going to be shown in the fourth quarter GDP, because it's a lagging indicator. And because the quarterly GDP also has a lagging effect from the previous figure. But, it is going to come in 2024 and very, very significantly, in a number of the indicators, and particularly, I think, in those of investment and consumption.

Erik: So Daniel, it sounds to me like you're saying the rest of 2023 is likely to be an uphill trip for markets. But maybe you start to use some caution or even put some hedges on as we get into January. Is that right?

Daniel: I would do that, basically, because all of the things that are suggesting that you should be long risk into the end of the year, are predicated on the view that no news is good news. We're not going to receive very significant news on inflation, not very significant news on monetary policy. And the earning season is, so far, pretty much discounted. However, 2024 is going to be a much more challenging year. because multiple expansion is already behind you, because all of those effects of the decline in monetary aggregates are going to start to build up in the economy. And we are going to face the previously mentioned wall of maturities, which is one of the biggest problems to me, to face from the side of market participants, we need to understand that the $7 trillion of debt that the United States Government needs to refinance will be refinanced, absolutely. But that means much less liquidity for markets and for credit in general, therefore, 2024 is going to be another year of monetary contraction for the private sector. And we may see a much more challenging environment for multiple expansion in those seven, eight stocks that lead the S&P500. Because it is not so much about the environment of earnings of these companies as the environment of interest rates and of inflation. If the CPI print of December starts to show that the base effect stops working, and at the same time, that some of the prices in energy components etc., reverse the process that we have seen in the past two months, then the market will probably get less, I would say bullish about the idea of massive rate cuts in 2024.

So from today, to the end of the year, the market is going to continue to be, let's say, happy about the idea of the inverted curve of rates into 2024 with massive rate cuts between June and December. But if you look at what happened in the market this year, we are likely to see something similar, which is that as we move from January to June, the prospect of new and following rate cuts is likely to be different: i.e. that the market will start to price in less rate cuts. And probably no rate cuts, if inflation remains persistent. Because as I mentioned before, monetary aggregates are coming down, which means that inflation year on year is going to continue to decline into the end of this year. But liquidity injections in the economy continue to be very aggressive. That's why the CPI print is not bullish, it is actually bearish. Why? Because if you look at monetary aggregates, the CPI print today should be between 1.8% to 2%, not 3.1% to 3.2%.

Erik: Daniel, let's move on to a subject you and I both follow very closely, which is energy prices. A few months ago, I was very concerned that, as we headed into the winter, there was a risk that if the Russia/Ukraine conflict were to escalate, that Putin might weaponize oil prices. Well, it seems like if anything, we're going the other direction that both the European Union and the United States are backing away from encouraging any further escalation of the Russia/Ukraine conflict. So it seems like that's settling down. The Israel/Gaza conflict. boy, when we had Lindsey Graham on television, calling for the destruction of all of Iran's oil production assets, I thought boy, we really need to be concerned about a major price escalation in oil coming out of that conflict. And as Dr. Anas Alhajji predicted on this show, I was wrong on that one. We seem to be going the other direction, recently putting in a low. Now as we come into speculation that OPEC+ might cut at they're coming meeting on Sunday, we're getting a little bit of a rally in the market, but very depressed energy prices at a time I wasn't expecting it. What do you make of all this?

Daniel: Number one is that the manufacturing, the industrial complex, globally ,is very weak. So demand growth is not at all what people would have expected in an environment of global GDP growth of 3%. I think that that's the first. The second is that supply is responding in a much more bullish, that is for consumers or bearish for price, way than initially expected. For example, I think that very few people expected the United States to reach record levels of oil production in 2023. And that has happened now. So record production from the United States, Iran production reaching China, which is the marginal buyer of oil, natural gas and coal, and therefore, the one that tends to lead prices on the Chinese economy is not booming, as many predicted with the reopening. So a number of supply and demand factors are sort of supporting a price that, although it's not bad, because if you look into the prices of oil, in particular, most of the prices are showing that there is a very, very stubborn support level, justified by all of the things that you mentioned, challenges on the geopolitical front challenges on the supply front, absolutely.

But the weakness of the demand side, added to the monetary factor, I think, are very important. The fact that the Federal Reserve continues to keep rates, makes it more challenging in the energy complex to take margin calls to finance long positions, etc. All of those factors put a lid on oil prices and energy prices. In the case of natural gas in Europe and the Ukraine problem, that challenge remains, However, the reality, and I'm coming to the Netherlands very soon and addressing, traveling all around Europe, the reality is that the prospects of a very mild winter are also keeping gas prices, natural gas prices depressed. So I think it's a combination of weak demand, weather conditions, Chinese economy weaker than expected, and at the same time supply being more ample than what one would have imagined. Considering how I was reading the other day, for example, how the supply from Iran to China had risen very, very significantly. And that increase was putting a lid on the marginal buyer of Brent WTI, China, but also putting a lid on price to offset the challenges on the geopolitical front.

Erik: OPEC+ meets this coming Sunday, November 26. More and more people on Twitter and in the marketplace are starting to speculate about what they are describing as a weaponization of oil prices by some of the Arab states who are OPEC members. I personally disagree strongly with that characterization of weaponization. But what do you expect to see? Do you think this is weaponization? Do you think it's something else that might motivate a cut? And do you expect any policy change from OPEC on this coming meeting?

Daniel: I also strongly disagree with the concept of weaponization of oil prices. Because it's implying a view that OPEC+ has a policy that goes against its customers, which makes absolutely no sense. And if you follow the policy of OPEC producers in the past 40 years, it has nothing to do with that concept of weaponization. I think that what the OPEC+ members are likely to react to is the weakness of global demand. Let's see their estimates of global demand growth, which was already trimmed and is likely to be trimmed yet again. And their view of the balance of the market, I think that they're more likely to react to an imbalance in the market, whether there is excess supply, and then to just simply try to bring oil prices up, because it makes no sense from strategy to try to drive prices much higher, which would create a recession or a big crisis in developed economies and accelerate the transition to other technologies.

I think that the policy of OPEC, I've had the pleasure of attending five OPEC meetings in my life, and the policy of OPEC is always very accommodative to the reality of what the customer base is demanding, not what we as traders may think or may want, but what the reality of supply and demand is. And if you think about the reactions of OPEC, they are never reactions to try to pump prices artificially, but to balance the market in periods in which the demand side is weaker, or the supply side is way too robust. So I think that they will make a calculation, I think that they will come up with a view that demand is slightly worse than they expected. And that supply, particularly non-OPEC, supply was underestimated by them, and then adjust. But I don't expect, let's say weaponization, in any shape or form, I think that they know that there's a price at which demand growth continues to be adequate. And they're trying to work sort of like the Fed, or like the ECB, with monetary liquidity. They're trying, they're not trying to destroy the market, they're trying to sort of navigate it. And obviously, they can make mistakes. But I don't see in any shape or form that concept of weaponization. Let's also remember in any case, that OPEC+, including Russia, means about a little bit more than 40% of the overall production of the market. But in terms of exports, it is significantly lower. So a lot of what they do is not just to the market, but to themselves. And I think that that is an important driver, is attending their own demand growth. And if we look at the last year's, Russia, for example, is going to export around four and a half million barrels a day. Well, obviously out of the 10 million that they produce that four and a half million is going to generate an important balance in the market, but it's not necessarily going to drive prices significantly higher or significantly lower. So I think that they will be quite prudent. I always look at OPEC meetings as less of a surprise factor, and more of a prudent approach to a weakening environment of global demand.

Erik: It's so refreshing Daniel, to hear someone else, there aren't many voices share my opinion, that this is absolutely not about weaponization. And I actually think the risk is on the other side. In other words, I think OPEC+ should cut production, not just because of the supply demand factors that you just described. But also because right now we have fairly limited spare capacity in the system. I had Rory Johnston on recently, he estimates that we've got only about 3 million barrels of spare capacity. We've got Lindsey Graham, you know, making threats of knocking 3 million barrels of capacity in Iran permanently offline. It seems to me that we have OPEC, I think has a responsibility here in their role in managing the market to look at the geopolitical situation and say, we need to have more spare capacity to be ready for what might happen next, with these various different escalating geopolitical conflicts around the world. What I fear is that their desire not to be perceived, because I think the other Arab countries other than Iran, very much do not want to be perceived as encouraging any kind of escalation of this Israel/Gaza conflict. I'm afraid that they might shy away from a cut they ought to make because they don't want to be perceived as weaponizing. And I think that would be a tragedy if it happens.

Daniel: I think it's a very, very good point. The importance of having ample spare capacity in an environment of geopolitical concerns is, many times wrongly perceived by market participants and certainly by politicians. Many think that it's aiming to artificially tighten the market. No, it's to have enough spare capacity and spare capacity is a key driver of what OPEC is all about, which is to be the central bank of oil. Now. I think that because of what you just mentioned, which is absolutely essential, is the fear of looking like you are taking actions against your customers is a very important driver of why OPEC is likely to make a decision that is not, let's say, that is very flexible. So if they talk of supply cuts, it is likely going to be on the basis of demand weakening further. So I believe that they will not announce a supply cut, I believe that they will announce the likelihood of a supply cut, sort of similar to what the Fed does, when it says, and by the way, we will hike rates in 2023 and all that, so I think it's very, very unlikely that they implement measures immediately. There is also an important factor. In terms of price here, I mentioned the increase of supply from Iran to China. That is depressing the average OPEC basket price, because obviously, those are long term contracts that are not made at a spot prices that we look on the screen, etc. So what we are seeing is that there are more long term contracts being created between suppliers and consumers. And that the marginal driver of price, which used to be China, is becoming less of a spot buyer. So that ultimately keeps a lid on how prices may rise. I also think that the fact that in an environment of prices the way that they are today, the United States has reached a record level of production. Something that a lot of people find counterintuitive, because many expected last year, that 2023 and 2024 would be very poor years of production from US independent producers. So all those things, in my opinion, sort of put a lid on how much oil prices can rise. And that from the OPEC perspective, is also making things better in terms of the demand growth that they require.

Erik: Daniel, I want to move on to a changing sentiment globally around nuclear energy, which I'm very excited about. I'm so excited that finally people are recognizing that we've been missing the boat for 50 years. And I think very strongly that nuclear energy is the way to go. We need a nuclear renaissance. What really confuses me, though, is the mindset or the sentiment of the public. In Europe specifically, I know from my own personal travels in Europe, I always found the German people to be probably the least emotional and the most focused on logic and reason, they've got engineering and science just deeply embedded into their culture. Yet, that was in the 80s that I used to travel to Europe frequently. I don't know if something changed in Germany, but it seems to me, they just had their lifeline of energy supply into their country, the Nord Stream pipeline blown up in an active state sponsored terrorism that nobody seems to be willing to admit to having perpetrated and they're in a desperate situation of really needing every drop of energy they can get. And they're still having a very heated public debate, where a lot of people are pushing very hard to decommission all of the remaining perfectly good nuclear plants that they have in operation at a time when they're actually resorting in a very environmentally conscious country to building new coal fired electric plants. I mean, this just seems crazy to me. Has something changed in German culture? Have they gone from being unemotional to hyper emotional? What has happened?

Daniel: I find it so shocking, that it's difficult to believe that it is actually happening. Think about what has happened in Germany is that, it’s a completely emotional and illogical decision about nuclear, predicated on the fear of accidents that had absolutely nothing to do with nuclear energy to start with, as the case of Fukushima and nothing to do with the European type of nuclear energy as in the case of the accident in Siberia, many, many decades ago. What is the problem here? The problem is that in Germany, there is a very strong lobby against nuclear, no matter what. And the problem is even worse, when you think that in the middle of the biggest energy crisis that Germany has lived with the supply of Russian gas being stopped, and all of the sanctions and all those things, etc. I find it amazing that the government instead of keeping those nuclear plants that remained available, decided to continue with the decommission, which shows, again, what politicians do. Politicians don't solve problems, they double down on the bed that created the problem in the first place.

And I find it interesting, because while we see this, you've just mentioned the most important part is that today, in the energy mix in Germany, about 40% is coal. 40% is coal! It is so incredible, coal and natural gas, that they have to split in the pie chart, coal and lignite, which is the same for the people that are listening to us. And I find it so hypocritical from the Green Party and from the green defenders that they say absolutely nothing about this increase in coal consumption. But they continue to fight against nuclear, when at the same time in the European Union, France continues to produce about 70% of its electricity from nuclear energy. And more importantly, if you're a German citizen, you have literally close to the border 57 nuclear reactors in France and in the neighboring countries. Why on earth decide to destroy a perfectly viable source of energy that is essential for the decarbonization process that the European Union is trying to achieve? There is absolutely no way that the energy transition is achieved successfully without nuclear and without natural gas. Yet, governments seem to shoot themselves in the foot, and in the case of Germany, it is destroying the competitiveness of the industry. The industry in Germany is based on, obviously, very strong engineering, very strong commitment to just in time processes. But it is also based on the pillar of affordable energy. And affordable energy is not a pillar anymore of the German industry. And they decided to shut down the remaining nuclear terminals without a viable alternative, because, let's remember that after €200 billion, or almost $200 billion of subsidies, what we have seen in Germany, is that the reliability of the energy mix has worsened, that the volatility of the energy mix is very aggressive. Because obviously, wind and solar are intermittent and volatile. And at the same time, they have worsened their competitiveness of their industry. So it's extremely concerning. But it shows that when politicians decide one thing, they do it, regardless of the consequences.

Erik: Tell me a little bit about the changing sentiment in France. Because at least to my understanding, let's say 10 years ago, France was just an unquestioned leader in nuclear. Not just in what they were doing, getting to 70% of their electricity being generated from nuclear, which is fantastic. But it was also, at least as I understood it, kind of a public pride issue in France, the public understood that they had clean, safe nuclear energy, they were proud of that fact. And at least as I understood it, French environmentalists were much more likely than environmentalists in other countries to have a more level headed informed view and say no, actually, we're really leading the world and what we're doing in France with nuclear, it is the green way to go. It is the smarter way to go, you know, the rest of the world ought to follow us. Now it seems like the public sentiment is very strongly or there's a growing anti-nuclear sentiment at the very time when, because of energy transition and concerns about climate change, it should be the opposite.

Daniel: It is, it is truly incredible. But it is true. There is a rising…

Erik: What do you think is driving that? Is it misinformation?

Daniel: It’s ideology, it has absolutely nothing to do with information. One of the things that I found always very ironic about the European Union is that up until very, very recently, nuclear energy was considered as positive and even left wing, in a country like France, while it was considered negative and right wing in a country like Spain. And it was basically all of this propaganda that is built upon energy. The problem in the European Union is that energy policy is not driven by logic, energy policy is driven by ideology. And ideology has dictated that the only alternative is wind and solar, which makes absolutely no sense from the perspective of energy independence. Because one becomes more dependent on China, because of rare earths, because of all of the requirements of metals and the different components of renewable energy, which basically, around 50% come from mining, and from China. But it's basically an ideological view that the only thing that is green, is wind and solar. And energy policy needs to be built upon the pillars of obviously, security of supply, affordability, and competitiveness and environmental support, obviously. But when they think that the only environmental technology is wind and solar, they're making a huge mistake, because they're volatile, because they're intermittent. And because the basic concept of what an energy policy, a competitive energy policy needs to be, are completely forgotten.

So what has happened in France, is that the Socialist Party probably, remember that the Social Democrats, sort of center left party basically imploded. And now the left is extreme left, the left, basically the Mélenchon party is very, very radical. And these groups are basically the same groups that implemented the idea. And that supported the idea that nuclear is extremely negative, they do it in Spain, they do it in Italy, they do it in Germany, and they're doing it in France. So there has been a shift in the perception of nuclear from what you perfectly described as national pride, which was very much in line with the view of the fringe social democrat party of, you know, sort of strategic sector that they are leading. Not just from the perspective of supply, but also in technology, with the strong engineering companies and nuclear etc., is coming from shifting to from that national pride to an attack on nuclear, because the political debate has radicalized quite significantly. And the polarization of the debate on energy in France is shocking to me. The extreme right, the National Front is very pro nuclear, very pro, fossil fuels as well. But the radical left is only focused on wind and solar. And they think that France would be equally competitive and equally strong in terms of energy, supplied with only wind and solar, until you explain to them, how are you going to get the copper, the aluminum and all of the rare earths that are required for that renewable rollout. But they don't talk about that?

Erik: Well, if you've succeeded in explaining that to them, you're a better explainer than I am. Daniel, I can't thank you enough for a terrific interview. Before I let you go. Tell us a little bit more about what you do at Tressis. How can people follow your work and so forth?

Daniel: Thank you. I thoroughly enjoyed it. Obviously, you can follow me on Twitter, I have an English account, also on YouTube. I have my Daniel Lacalle in English YouTube channel, and I'm the Chief Economist at Tressis. I also manage one of the funds that we have, and I'm also a professor of global economics and an author of four books: *Escape From the Central Bank Trap*, *The Energy World is Flat*, which focuses on these things that we have been discussing In life in the financial markets and freedom or equality

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