Luke Gromen: More Dollar Liquidity To Come…

March 28th, 2024

Erik: Joining me now is Forest For The Trees founder Luke Gromen. Luke, it's been quite a while, we haven't seen you since October. I'm really looking forward to catching up. It feels to me like a lot of what you said last time we had you on has started to play out. And frankly, if we go to a bigger picture, it feels to me, since I've been talking to you for, I don't know how many years now, I've been waiting for the day that Luke Gromen starts to be proven right on the dollar. It hasn't really happened yet, in the sense of the dollar outright failing or crashing. But boy, it sure seems like the leaks in the dam are starting to show. Do you see it that way? And if so, what do you see coming next?

Luke: Sure. Thanks for having me back, Erik. You know, I was on, the last time we talked was October 5 of last year. And we finished up that show, I said the short run outlook: dollar up, rates up, feedback loop isn't going to be broken unless the Fed significantly or unless the dollar is significantly weakened, excuse me. And to be clear, that could be the Fed or the Treasury. And then I also said, hey, oil is probably going to be weakened meaningfully as well. And so, view coming out of that conversation was that, before too long, Fed or Treasury, one way or another are going to need to resume financing US deficits. And they can call it yield curve control. They can call it QE, they can call it not QE, we're only doing this to help the resilience of the Treasury market. This is a QE, whatever they want to call it, that's what they're going to call it, but that's what's going to happen, is what I said. And I said once they do that, I'd encourage people to call it the stock chart of the Argentine stock market, you know, the peso has been a disaster. But in peso terms, the stock market is up like 5x, in like three or four years. And I think the same thing is going to happen here, except it'll happen in dollar terms. So the dollar is not going to collapse against the peso, but it's going to be really good for stocks, it'll be good for gold. And that's when you'll see gold performance, when you see Bitcoin really perform. So that's what we finished up with on October 5. And so, the short term was like, okay, you've got this, this dollar rates feedback loop that was happening. I didn't realize how short-term short would be, to be honest.

The very next day, you had the first of seven Fed speakers, over the next 10 trading days, start to jawbone the dollar down. And it was like they all had received a Talking Points Memo saying the bond market has started, has done our job for us. The bond market has done our job for us. It was like going to church when I was a kid, it's like a chant. And two weeks later, we wrote a report for our clients that said, Fed just touched off third instance of treasury market dysfunction in past 13 months, US dollar liquidity cometh. That's what the title of the report was on October 17 for our clients and it said, look, Fed has driven Treasury market dysfunction again, and right on cue, it appears the Fed has begun jawboning the dollar down. So, if we're right, we could see a repeat of the liquidity injections we saw in March of ‘23, September of ‘22, March of ‘20, September of ‘19. And a lot of investors seem offsides for that, so feels like that particular report and point, as a follow on to what we had talked about two weeks earlier on the show, bought out pretty well. It said, look, this is going to be really bullish for gold, Bitcoin oil, commodity stocks, inflation. So not only did we get that in terms of the Fed jawboning, but then on November 1, we had Yellen shifting issuance, from the long end of the front end, much more than people expected. When you look at the effects of what Yellen did, it was effectively QE. In other words, if you look at QE, historically, what happens as you have a reduction in duration issuance, you have an increase in liquidity, you have an increase in bank reserves, and you have looser financial conditions and stocks up. And so, what Yellen did by shifting along into the front end by tapping the reverse repo, same dynamics, reduction in duration issuance, bank reserves up financial conditions, loosened stocks up reverse repo down. So, basically, you had the liquidity increase that we thought would come whenever the dysfunction came in the Treasury market.

Fast forward to today, is it the moment? I think we're getting near the moment of whatever it means, to me what that means is, ultimately the Fed and Treasury are going to have to continue to inject dollar liquidity into elevated inflation prints, into strong nominal growth, into low unemployment, because the Fed made the mistake in 2022, of not letting inflation run higher for longer. That was their mistake, this time. It's very ironic. Most investors are saying the Fed needs to be brave like Volcker. They need to be higher for longer but because Volcker was operating with debt to GDP of 35%, today, you know, when the Fed started tightening, debt to GDP at 120%, it’s night and day. To be brave this time, like Volcker, the Fed needed to let inflation run higher for longer because they didn't. Now they're going to deal with the consequences, which is yes, they did generate some near-term disinflation, inflation is off the highs, but they put the US into fiscal dominance, which promises a much worse inflationary outcome. And so I think, to answer your question directly, now that the Fed has put the US into fiscal dominance, vis-à-vis, or by virtue of its aggressive rate hiking, I think inflation is going to continue to pick up. And I think the dollar will continue to weaken in an orderly basis, I don't think it'd be chaotic, I think, an orderly basis between now and the election, and then we'll see what happens after the election.

Erik: Luke, one of the challenges of macro investing is, you have to interpret multiple trends happening on top of each other. And something that kind of baffles me in all this is, when we spoke in October, that was just two days before the October 7 attacks and the beginning of the Israel-Gaza conflict. Now normally, any kind of big geopolitical conflict like that, especially if the US is involved in, it is very strongly dollar positive. Yet, we really saw a very strong downtrend in the dollar, beginning just after the October 7 attacks that took us down to right around Christmas time was when the dollar bottomed. So it seemed to me like even in the beginning of a new geopolitical escalation, we were seeing that dollar weakness, that really stood out to me, is unusual. Am I missing anything? Is there something about this conflict that would not have been inherently dollar positive?

Luke: No, I think you're not missing anything. To me, any conflict in theory, is going to be dollar positive. I think there were two things worth noting within that. Number one, the Treasury dysfunction really kicked into high gear around October 6, which is to say the move of volatility index broke above 135. I think that, which was the point that Harley Bassman said the year before, is when the Fed has lost control of the bond market. And historically, like I said, we've seen five times since 2019, any time Treasury volatility gets too high or starts to dysfunction, dollar liquidity is applied very rapidly by either the Fed or Treasury or both. And so, I think factor number one is that the Treasury volatility that was going critical on October 6, required an immediate US policy maker response, which it got first and that fed jawboning over the next two weeks. And then, with Yellen, shifting issuance to the front end and bringing the reverse repo balances to bear to finance deficits. I think those two factors dominated the dollar positive dynamics that may have, that would have normally, I think, manifested during such a conflict.

The other thing I think that may have been a factor, and I think continues to be under appreciated is that, on November 15, President Xi flew to San Francisco and met with President Biden. And in my view, there is a significant non-zero chance that some version of the bones of a San Francisco accord to weaken the dollar, were agreed to by those two, you can see the dollar weakened after that meeting. We know multiple high level Treasury meetings where Treasury officials have gone to Beijing to start this year. We know that the conversations that have been leaked regarding the topics of those meetings are in no small part reference to trying to prevent the Chinese from dumping cheap goods onto global markets. Which is to me, really interesting, because most conversation around the yuan is, when is China going to devalue the yuan. But if the United States is talking to China about preventing cheap Chinese goods from hitting the market, the United States would not be talking to China about a cheaper yuan, they would be talking to China about making the yuan more expensive. In other words, revaluing the yuan higher against the dollar, the dollar down, which is what the US needs to improve Treasury market functioning and to make reshoring more economic, etc., anyway. So, I think those two factors of the Treasury market was in a very acute state on October 6, as measured by the MOVE index, as measured by the fact that as of October 6, the TLT, the long bond, ETF was down 20% in a quarter. And in my opinion, I mean, others may think differently, but in my opinion, if you have an asset that drops 20% in a quarter, especially one as big as the long bond, that's a crash. The Treasury market crashed in the third quarter. So you had a treasury market crash that needed instant dollar liquidity as of October 6. And then starting November 1, you had Yellen, obviously helped address that. But then this November 15, Xi-Biden meeting in San Francisco, I think may have been much more important for the dollar going forward than I think consensus at this point, has ascribed to that meeting.

Erik: Now, as I look at the chart now, the narrative doesn't really make sense to me, because at first I see after we spoke, and despite the fact that we were entering this conflict with Gaza, we saw the dollar moving down sharply, exactly as you anticipated that it would, that lasted through Christmas. Then, you see, starting just after Christmas, this looks to me like a rebounder relief rally. And I sort of think, okay, so we came down quite a bit from 106, and changed down to about 100, to get back up for a bounce back, a dead cat bounce to retest 104, which has been a key technical level for years now in the dollar index. Well, that made sense, and sure enough, 104 only lasted for a day or two, then we started trading back down towards 102. And I'm thinking, okay, that was just the dead cat bounce. We're headed back down from here, but just in the last two weeks, since the beginning of March, we're right back up to 104 again, in the last couple of days, we're recording this on Monday, so a few days before our listeners will hear it. We, just on Friday, closed above 104 back below it at the end of the day on Monday. So it seems like we're right back up there again, are we going to see further strength before this continues to play out further to the downside? Or maybe what I should be asking is, did I correctly interpret your prognosis that we were headed still considerably lower than 100, which is what we tested back around Christmas time.

Luke: I think we're ultimately headed lower. I think it's in everybody's interest for the dollar to be weaker. It's in America's interest. It's in China's interest. It's in Japan's interest. It's in yours, it's in everybody's interest. And that's because there's so much dollar denominated debt outstanding, decline in the dollar increases global economic activity, because it makes global dollar denominated debt easier to service. It makes global, as a result, global balance sheet capacity to buy more treasuries, it increases that balance sheet capacity which the US needs. It makes the dollar more competitive, it makes it easier and more stimulative to reassure the industrial base, which we have begun but need to be moving much faster on. I think, ultimately, the deal to be had or the deal, the bones of the deal, is something along the lines of what we agreed to with Japan in the 80s. When Japan was beating us up in the 80s, there was a lot of people that said, well, China's going to be the next Japan, okay. And in the mid 80s, the dollar went from 166 at the peak to 85. Two years later, a big part of how the US sort of undid Japan was massively weakening the dollar. And that's sort of Peak dollar, right? So even if you take 120 to 85, over 18 month period, still an enormous decline in the dollar that obviously that was agreed to at the Plaza Accord in September of ‘85. But that dollar move down started in February, February of ‘85. So, somebody leaked it, full six, seven months in advance. Okay, they're starting to talk about weakening the dollar. Same thing here, the dollar peaked at 114 in September ’22, after Yellen went to the IMF, I guess it was early October of ‘22. And Bloomberg reported that the number one kind of topic conversation was the dollar. Our allies were saying what are you doing to us, you're killing us, Japan, certain European allies, etc. And she came out of that meeting, and immediately the dollar weakened meaningfully. She ran down the TGA aggressively, the dollar weakened by a good 30% on an annualized basis, I guess 114 to 102, 103, if I remember right, over the next four months. And that was sort of a jumpstart of the economy, stabilized the Treasury market, stabilized asset markets, kind of kept everything from getting much worse than it was otherwise going to be in September.

So I think that what we've seen is, well, what we're seeing in real time is a conversation between the US and China, perhaps around a San Francisco accord to weaken the dollar. And I think the deal on offer, the deal that makes sense is, we weaken the dollar or we coordinate with China to weaken the dollar, maybe Japan gets involved as well, which may tie into some of the rate hikes and the ending of yield curve control, who knows. But we weaken the dollar notably, and we allow China to buy oil from the Saudis in yuan, recall the yuan swap blind sign between the Saudis and Chinese late Last year. That way, when the dollar weakens, the rising dollar price of oil doesn't break China, as it otherwise would, because they can print yuan for oil with the corollary that they will buy more treasuries as the dollar weakens. Which helps us and the Saudis will not recycle any yuan into Chinese government bonds that will have to go into Chinese goods or into gold. And I think that's a potential deal offer. I don't know, it's speculation. It's informed speculation. That's what I think, would make sense. And I think, ultimately, is in the interest of the United States and of everybody else, to have a managed decline in the dollar over the next 9 to 12 months.

Erik: Let's talk about how this has transmitted to precious metals. Because, what's kind of fascinating to me is, despite the fact that I think you've got the dollar story right, we did see some strength in precious metals. Gold was up during that period from October, I think it was, helped both by the dollar and the escalating geopolitical situation. But then, you know, gold was really kind of struggling for a while. And it wasn't until Wallers' comments about shifting the focus of the Fed's activity from the back end to the front end of the curve, that gold really went through the roof. I do understand the basic concept there. But you know, 150 bucks up on gold in just a few days, when we weren't talking about a structural change in interest rates, we were only talking about where on the curve, the Feds activities are. I wasn't expecting that. Is there more to that story that I'm missing? Or how do you interpret the response of precious metals, particularly gold, to all of this activity we've been discussing?

Luke: I think there's probably a couple things to that, at least as far as how I'm thinking about it. The first, to your point, Waller's comments, I think were pretty important around the front end, shifting more to the front end. Ultimately, that is a more inflationary policy. In my view, you're getting involved in more cash like instruments at the front end, then you are at the long end. I think, also right around then, in the first week of March, you had ISDA, the securities dealers proxy for the too big to fail banks, send a letter to the Fed, the FDIC and the officer of the controller of the currency, the OCC, asking for a permanent exemption to bank SLR, Supplementary Leverage Ratio calculations for Treasuries. In other words, the banks were asking the Fed, the FDIC, and the OCC, to re-grant them a power they had for just a limited basis, a limited period of time from April of 2020 to April or May of 2021. So basically, banking SLR exemption for treasuries, it sounds really technical, here's what it is. It gives the banks to buy an unlimited, infinite amount of Treasuries with no capital requirements, it is QE, done through the banks. That's it. And to me, I think that has at least as much to do with the jump in gold, as Waller's comments, for two reasons. Number one, the fact that the banks are writing this letter, tells you that they're starting to choke on Treasury supplies, they need relief. And number two, the fact that they're asking for this, pretty much everything the big banks have ever wanted, the Fed gives them eventually. And then you also had Powell to that end, talk in his testimony right around that same time, about basically revisiting the Basel regulations. And in fact, Bloomberg reported exactly that, that the big banks had won a major victory on Capitol Hill by deferring these capital requirements. So yes, I think part of it was Waller, and I think that was important, but I think married as well, with the banks saying, we want a permanent exemption for Treasuries to our SLR calculations. That means the banks, they basically borrow at zero, and they can buy Treasuries at five and a quarter at the front end, and four and a quarter at the back end. And so, then you go, well, how many Treasuries? Would the bank buy five, you know, if they fund at zero and can buy them at five and a quarter, four and a quarter, whatever along the curve? And the answer is like, a lot, right? It's a very nice little margin, net interest margin, when you're funding at zero and you're grazing at that level. So, I think that may, those two factors combined in the context of what we talked about to start the show, which is they're going to have to do some sort of liquidity and I don't care what they call it, it's QE. This is not QE. It's just QE through the banks, if you give the banks a permanent exemption to SLR for Treasury, it's QE through the banks. That's it, and that's fine. It is what it is. And that leads to a very obvious set of investment choices, which is gold is going to do well, Bitcoin is going to go to the moon. And you can kind of see what those, you know, even long bond has been fine. But mat relative to sort of everything else, and so when you look at the S&P 500 over TLT, over the long bond, like the chart just began exploding higher at the end of '22, when the dollar peaked and rolled over. When you look at the S&P industrials over TLT, same chart, gold over TLT, same chart, XOP, the oil service names over TLT, same chart, CAVE, which is an industrial infrastructure ETF over TLT, same chart. So, to me, it is really just sort of this, in the stock market, this Argentina with US characteristics playbook, we have a fiscal problem. It has gone acute. And we had our fifth episode of Treasury dysfunction in four years in September, they sort of did some short-term stuff to kick the ball into earlier this year. And then I think Waller and the machinations around whether it's a bank SLR exemption for Treasuries or other changes to the Basel rules, you kind of get an idea of how the Fed and others are leaning, which is, it's going to have to make it easier and cheaper for the banks to finance the government at really, really cheap rates. And I think that's what we're, not only what we saw in gold, but I think it's what we're seeing in Bitcoin and what we're seeing in markets, really, on a daily basis it seems like now,

Erik: Let's go a little deeper on Bitcoin because even us coin skeptics have to admit, the size of the move on Bitcoin was so much bigger on a percentage basis than it was in gold. Is that just because there's a generational change in everybody's favorite speculative asset for this stuff? Or is there more to the Bitcoin story that's independent of monetary policy that's been driving this rally?

Luke: I think it's, you know, Bitcoin is obviously way smaller than gold, right? The market cap of Bitcoin is, whatever 1.4 trillion right now, give or take. Gold is nearly 10 times that. I think that's part of it. So it's a much smaller asset base dollars trying to squeeze into, capitals trying to squeeze into, and so I think the moves on the upside/downside have been disproportionate. I think the other thing is, Bitcoin does not have nearly the financialization that gold has. In other words, you've got, historically, all this unallocated gold centered in London, and you've got much bigger gold futures markets and much more sensitivity to rates as a result, historically. And to your point, you can see in the flows, there's been more flows of, you know, generationally, and Western investors in particular, follow performance. Culturally, we are momentum chasers, we don't buy assets that don't go up. And if we have two assets going up, Americans will almost always buy the one that's going up faster. And so, it does have some momentum that feeds on itself. It is partly a generational issue. And so, I think it's sort of a little bit of all of the above.

Erik: Luke, let's talk a little bit more about these geopolitical conflicts, both Ukraine, and now Gaza. How do they play into your overall thesis in the dollar, moving forward? Because as you said earlier, you know, I think we agree that there's generally a trend that these kinds of geopolitical conflicts are dollar positive. As far as I can see, these geopolitical conflicts are not ending anytime soon. Looks to me, like they're getting worse, that would tend to be not necessarily, you know, a disagreement with your down-dollar thesis, but it's another macro overlay, which may be neutralizes that, at least for a while. Is that how you see it? Or how do you interpret the geopolitical outlook and what it would mean for your dollar thesis?

Luke: I think it's, it's always a risk, right? That if you get a severe escalation, particularly given that what we're really talking about here are proxy wars between the US and NATO against Russia, and then also the US vis-à-vis, China in some way. However, war is inflationary. It's always inflationary and the fiscal situation in which the US is in, the US doesn't really have a choice, It wants to win wars, it wants to support its allies. It wants to pay its Boomers to make sure they vote for the right people in November. And it wants to fight inflation by raising rates. The problem is, raising rates is inflationary when debt to GDP is as high as you reprice interest and you're basically pumping a trillion dollars in interest into the economy, which is no different than permanent training stimulus four years ago under COVID, so something's got to give. And I think ultimately, it's going to be nominal GDP, and inflation and ultimately, we saw last fall that there is a rate at which the US Treasury market at the long end starts to go sideways. And on the 10 year, that was around 5%. So if we continue with that as our working assumption, that that above 5% drives the Treasury market crash at the long end, and that is simply not going to be abided for domestic, economic and geopolitical reasons, then we can kind of say, alright, the relief valve is going to have to continue to be the dollar. And that's not to say it's going to crash or, but I think it's going to continue to, the more we're involved in these conflicts, the more that should put downward pressure on the dollar. And, to the extent they do heat up in a measured manner.

You saw Putin today instruct, told Russian oil producers, he wants production cut to 9 million barrels a day by June. And, who knows, it may be that simply the mark to market of the damage done by these Ukrainian drones in Russia, I don't know, at the end of the day, oil market doesn't care. If Russia is going to take down oil production, oil is going to go up, oil goes up, you know, that's another inflationary impulse. And again, in the short run, if that causes rates to go up, that can provide support for the dollar. But we know there's a rate at which the Treasury market dysfunctions and when the Treasury market dysfunction, that dollar liquidity comes very, very quickly. And so, I think it's much more, I don't know that it, unless there's a huge escalation, rather than sort of a measured escalation, I think gets more and more of the same of, you know, you'll have these sort of what we've had since September 2022, which is okay, dollar is at 114, goes down, bounces back up, and it goes back down and bounce back up. And it's sort of lower lows, lower highs, that's I think the war and geopolitical picture, as it stands now, fits into that my view.

Erik: Luke, the other trend that is on the horizon, or I should say upon us now, because it's just over six months away, is the presidential election. How do the various potential outcomes of the presidential election bear on your dollar thesis?

Luke: To me, I think they're broadly supportive of a weaker dollar in an organized manner. Because when I look at what Trump did, when he was in office was, effectively kick off a move toward US industrial policy, which is inflationary and weaker for the dollar, all is equal bigger deficits, etc. When I look at what the Biden administration is doing, and has professed to do, Jake Sullivan and others, is running industrial policy. And so, to me, I think there's some difference in the industrial policy. I think Trump would be more likely to classic, fossil fuel, old school industrial policy. And I think Biden would continue with this green industrial policy, which I don't think is necessarily the right thing to do. But I think they're going through with it anyway. But when I take a step back, and I look at, I get industrial policy with a guy who's kind of boorish at times, or I get industrial policy with a guy who's kind of senile at times. But either way, I'm going to get industrial policy. Which to me, I think is ultimately supportive of a lower dollar over time, again, not a dollar crash or anything, but just continued organized, managed decline in the dollar, in support of that industrial policy that both candidates seem to want to pursue in slightly different directions.

Erik: Luke, let's translate the macro views that you've expressed so far in this interview into portfolio construction guidance. I'm guessing based on what you've said, that you're probably long both gold and Bitcoin. Why don't we start by confirming that, and then maybe tell us where are the other trades are that you see?

Luke: Yes, I really like Bitcoin. I really like gold. I think they are going to continue to do well. In terms of other things, I really like electrical infrastructure related industrials. Again, because I don't care if they're generation agnostic, I don't care if it's nuclear generation or coal generation or solar generation, I don't care. They just need the wires and the equipment etc. And so I have some investments there. I hear the open field running in electrical infrastructure. It's wide open, open field running. I mean, you're out two years on electrical transformers, just now and that's before we really get into the electrical transition, or more industrial policy. I like broad US industrials, I think XOP, sort of the oil services will continue to be fine. I don't want to be short long bonds out right, simply because it's entirely possible if we do get the bank SLR exemptions, that the bank start funding at zero to buy Treasuries, that they could theoretically buy infinite amounts of. That's good for rates, you know, so it was really interesting to me to see Biden last week, or two weeks ago say, hey, I bet your rates are going to come down. I think it's really interesting, because my guess is they didn't sit down with Biden, given what sort of I've seen him in his mental state at times and tell them all about bank SLR exemptions for Treasuries and the Bank of International Settlements, talking about the use of bank balance sheets for monetary policy and macro prudential policy. And Chris Waller wants to shift to the front end, I highly doubt someone sat down with Biden and ran through all that, they probably sat down and said, Mr. President, we're putting in policies that are going to make rates come down. And that's what he said on CNBC two weeks ago. So that's why I say, I don't want to be short long bonds outright, I just kind of think they're like, you know, I would be underweight them from a standpoint of, if I'm right on that view of what we've discussed here, I think it's going to be really good for nominal GDP growth, I think it'd be really good for inflation. I think inflation is going to continue to pick back up. I don't think it's good for the dollar, but not disastrously weak for the dollar, it just sort of down in an orderly basis. And that's really good for global growth. So that's, I think, a really good setup for assets broadly, and then it just comes down. And so when I say I want to be underweight bonds, is there a very suboptimal way to play, even if yields come down, they're not going to go up nearly as much as I think a lot of these other assets that I own, that we just talked to before, will benefit from those trends.

Erik: Tell us your views on commodities generally, and specifically on copper vis-à-vis, your earlier comments about electrical infrastructure.

Luke: I like copper, I think it you need it. And so I think it's a good secular hold. Commodities broadly, I think we're in the very early stages of gold re becoming an oil and commodity currency. Which is to say, there's a lot of people that will say, well, the BRICS, there's never going to be a BRICS currency, and nothing's ever going to replace the dollar. And I would say, you're right. And you're right, the BRICS currency is going to be gold. And what's going to replace the dollar at the reserve level is gold, and it is replacing Treasuries and has for 10 years. I think what we're watching in early stages in real time, is gold really becoming an oil currency. And gold is much smaller than oil in commodity markets. So I think, you know, not even I think, if you call it the chart of gold over oil or gold over the CRB commodity index, since Russia, the world's biggest energy exporter began reserving large amounts of gold in 2008, the price of gold denominated in the CRB Index is up almost 4x. And I think that trend will continue over time, you know, any given month or whatever it can reverse, but I think over time, gold is going to continue to rise against every commodity, it will probably, in coming as the BRICS roll out more of their intra BRICS trade. I think gold being used as their neutral reserve asset as the quote unquote BRICS currency, means that the price of gold will go up faster than commodities do in dollar terms So the gold to the CRB ratio, while up 4x since ‘08, I think it will rise at a faster pace than that over the next 15 years, and probably shorter than that.

Erik: Let's talk about energy next. You know, it seems like on one hand, we've got increasing spare capacity in the oil market. So not a whole lot of reason to get bullish until you consider, boy, who knows what direction these geopolitical conflicts are going to take next, and anything might be possible.

Luke: Yeah, I continue to think we're in a regime of Peak Cheap Oil, which is not, which is to say we're not running out of it. However, we're going to need elevated prices to keep US oil online. Simply because shale is so price sensitive, and it declines so quickly. If you shut it off, and price falls far enough. We can look back to 2019 or 2020, when we shut down a bunch of production with COVID. We got over supplied, price got too low. It took four years, late last year, finally, US oil production overtook its prior peak in 2019. Geopolitically, that's really important, because if oil prices are allowed to fall low enough, sustainably enough, such that the US starts to shut down swaths of shale, long enough that US production rolls, we have no credible ability as a nation to raise production for 2,3,4 years. And said another way, that means we will, as a nation, have ceded the global oil market to Russia and to Saudi. And so I think it is, the oil market, in the short run, is increasingly politicized from the standpoint that geopolitically, it's in the US’ interest not to let oil fall much below $70 a barrel. And so I think we would do everything we could to prevent that. And I think it's also with US' interest to prevent it from going too far above $90 a barrel, simply because we saw last fall, once oil was at $85, we saw oil importing, US creditors being forced to sell Treasuries to buy dollars to buy oil. Japan, in particular, China to a lesser extent, and so over $90 is bad for the US, under $70 is bad for the US. And so for me, I look at oil, I think oil will probably continue to kind of be a range bound commodity $70 to $90 and it gets good for XOP, because they got to run harder and harder to kind of keep the production up. And I think it's good for that gold-oil ratio continuing to rise, as I mentioned, secularly as more oil basically gets settled in gold instead of Treasuries or US dollar assets. But in terms of oil itself, I don't have a strong view. I don't think it's about to runaway and I don't think it's about the crash. I think we're going to be range bound $70 to $90, for the next six months, nine months, at least till the election.

Erik: Well, luke, I can't thank you enough for a terrific interview. But before I let you go, please tell our listeners a little bit more about what you do at Forest for the Trees, what the website is, how they can follow your work.

Luke: We connect dots for our clients in a unique manner, trying to identify ways that our clients can make money. So for more information, they can find out, check out our website fftt-llc.com. You can also look up my X handle, I always call it Twitter handle, sorry Elon, my X handle is @LukeGromen.

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