Interview with Raoul Pal: Inauguration Eve Macro Update
January 19, 2017

Erik: Real vision founder Raoul Pal is back with us this week and of course Raoul gave us a fantastic interview back in September.

Raoul before we get started, I just like to thank you publicly for being such a perfect gentleman which is so rare in the finance world. You guys have hired Aaron Chan our former co-host and producer and you have just been fantastic about it. You understood that would put me in a bind and you've allowed Aaron even when working on your payroll to continue to host the show until we could get Patrick on board in order to replace him. So I just want to thank you for that.

Raoul: Thank you I mean Aaron is such a great guy and you gave him such a great opportunity to learn so many things. He's going to be a real asset to us at Real Vision. So thank you again for your help in that.

Erik: It's my pleasure, I'm very pleased to see that Aaron's involvement with Macro Voices led to a career opportunity for him and I wish him all the best he's a super guy. What I'd like to do is borrow from a format you guys use on Real Vision called rewind where you have clips of what a guest said last time and kind of compare how the world has changed.

Now I don't have a Real Vision production budget so I don't have clips but let's go back to our interview from September 15th first thing we talked about was the U.S. dollar rally, you said at the time that it was paused but set to resume you thought and of course it has begun to resume although in the last week or so it's maybe taken a little bit of a nosedive in reaction to Donald Trump saying that the dollar's too high. So did Trump's comments change your views at all?

Raoul: No, not necessarily because what he says and what he does it two different things and we've known that from the beginning that Trump campaign. So he might say that the dollar is too high but it's very difficult to not allow the dollar to appreciate if you're doing certain things such as walking back from globalization, putting up tariffs, which generally mean there's less dollars out in circulation.

So the amount of dollars available for world trade fall therefore people who need the dollars because they're potentially in dollar shortfall that we've talked about before that the B. I. S. have identified, those guys need to cover their dollar positions because there's not enough dollars and the dollar keeps going up. So the less dollars in circulation the more problematic it is for the global economy.

So on one hand he's saying look we want less of this globalization, we want to make sure that trading is fair amongst nations, we want less of a trade deficit, now when you are the world's reserve currency and you have a smaller trade deficit with the rest of the world it means you're starving the rest of the world the dollars. So it's almost impossible to get what he wants. So he either has to have a weaker dollar or he can have the protectionist measures that he wants for the U.S. domestic economy.

So I think the Trump thing is complicated for the whole of this dollar trade. I think all we've seen now is just a correction as we go. I know a lot of people keep saying to me, " the dollar has turned, the dollar has turned" maybe they're right but the balance of probabilities and how I look at things is the dollar still has got much further to go and therefore dip like this is probably a buying opportunity.

Erik: Now let's suppose that you and I are both proven right and the dollar does, have not just a little bit, but a lot further to go to the upside, let's suppose we get say north of one ten, at what point do you think this leads to enough problems that central bankers around the world are forced to contemplate - let's call it Plaza Accord 2.0 where there is some kind of coordinated intervention effort to arrest the dollar from appreciating any more. Does that come into play anytime soon?

Raoul: Well again it's difficult because we're trying to get our heads around what this kind of protectionist trade war is going to look like, what it means and what tensions it brings because at one point-- if I look at the parallel example of what happened in the 1930s where we had a similar situation where the U.S. dollar kept going up in relative terms because it was pinned to gold eventually everybody else had to do something about it and they eventually devalued the dollar because all the currencies go smashed, world trade got smashed etc.

So I think there's further to go before people get together and try to negotiate something because in this mercantilist world we find that people actually want to have weaker currencies over time.

Erik: When we spoke in September, treasury yields – U.S. ten year treasury – was yielding one spot sixty, quite a big difference from where it is today. You predicted it at that time, you had actually covered your long bond positions brilliantly I might add back in August and you predicted a rise to at least 2% as being likely but at the time you thought that would be a buying opportunity by the dip.

Of course a lot has changed since then. Do you still see it that way, do you still think we're headed toward sub 1% yields at some point with the recession or it may be has the tide changed to the point where we really are seeing the beginning of a secular bear market in bonds as so many people have suggested?

Raoul: Yeah I don't believe that, I do think the U.S. economy is very much following how the Japanese economy went twenty years prior or ten years prior and I don't think these reflation remeasures are anything more than the market hoping that something's going to change.

When you got the demographic issues the United States has got, when you got the massive debt owe the United States has got, it's very, very difficult indeed to generate inflation and so I think the bond market is pricing in some of the reflation repolicies of the new administration, but the chances are that many of these things such as protectionism, such as a stronger dollar actually lead weaker growth and lower inflation.

So I don't think again the market can have what it wants and listen to the narrative that

Trump is giving us. So I think-- could they get back up further? Quite possibly, could they get to 2.60, 3.00%? Possible, I don't think it goes above three, I don't really think it goes a great deal higher than here or where it was at the recent peak.

So I still think bond yields come lower over time. I don't see anything that can change the demographic trend for us to generate realistic, meaningful inflation over an extended period of time which is what you would need to change the bond market from being a bull market to a bear market you would have to see a change in spending patterns and demographics amongst people and I just don't see that even if you bring jobs back because your penalizing companies from going abroad, yes you might see some wage inflation, does that wage inflation go through to end products inflation? Less likely with so many people trying to retire, an aging population those things tend not to filter through.

And we've also-- you know you've got to imagine that if they start to bring companies back and labour is expensive then the likelihood of a robotized labour force increases dramatically and that itself is deflationary.

So I don't think this is meaningful. I can be wrong. Soon we'll know, around these levels go a bit higher and something has changed, It's possible, it's not my best case.

Erik: And you said that there is of course a possibility as there always is that we might be wrong. A couple of people, Bill Gross has said two spot sixty is the magic line in the sand, Jeff Gundlach said 300, even 3% is the magic line.

Do you think there's a magic line number after which you would throw in the towel and say OK my view has to change because the tape is telling me something other than what I expected?

Raoul: So I'm looking as we speak at the ten year bond yield chart by Bloomberg going back from 1985. If you join all the peaks you get a trade line that would suggest 3%, if you use more recent peaks which is going back from 2009 we broke some of those. If you use your pencil slightly differently, let me say as we speak I could it real-time, we're probably about 3.20%.

So it's kind of around those levels and that's all I'm doing, is say listen there's a very very well established trend, does that stop the market? Most likely, if it goes beyond that, then most likely something has potentially changed.

Now that doesn't necessarily mean we'll have a bear market forever, what it could mean is we trade sideways. I mean that's another thing markets hate thinking that, they will go from well it's going from deflation to hyperinflation and that really the fact that maybe bonds yields just trade in a 1 to 3% range over the next twenty years. It's possible.

Erik: We also talked back in September about the business cycle. You observed at that point that it was already the third longest business cycle in history that was as of September and you predicted that it would eventually lead to a follow on recession. You also observed that the two term incumbent president's cycle – that is situations like this where a two term incumbent president is replaced by the other party – there has been a 100% chance of recession within 12 months after that.

Now back and then when we had that conversation Raoul most of the smartest guys in the room whether it be Ray Dalio or Stan Druckenmiller or Carl Icahn they were all bearish just like you and I were but these guys have all turned fantastically bullish in the wake of the Trump presidency.

I don't know about you but I just don't get it. I don't know what magic wand they think that this guy's got. I don't think there's any ever been a case of a president having more people that hate his guts and want to kill him than Donald Trump. I don't know how he's going to be successful at all these things. What do you think about all of this bullishness that's out there?

Raoul: You need to separate out what they truly believe is going to happen to the U.S. economy going forwards or what they think the market is going to perceive to happen and to trade the opportunity that's what they're very good at.

So they may think that deflation, slow growth is baked in the cake and policy errors, whatever they may think about the Trump administration but they know that the market wants to interpret it as a reflationary trade and therefore the trade is reflation until it's not.

That's what these guys are good at, is not sticking to the view but also putting that view aside and saying OK what is the market psychology, should I trade the markets' view even though it's against my view.

Erik: Next subject we discussed was European exit contagion and I think back then in September you thought that even the U.S. election cycle was really part of something bigger, a growing global populist movement and you thought that that would probably spell a very bad outcome at least in the long term for the European Union.

Of course a lot of your views have been confirmed with the election of President Trump by the time most people hear this he will be president rather than president elect, were speaking on the eve of his inauguration. What do you think now? I mean is the situation better worse or the same from our last conversation in terms of the prognosis for the European Union?

Raoul: Well the prognosis is still the same. It is increasingly difficult for European nations to hold things together because of the financial issue. On a social level people don't want it to change. Europeans have a pretty good quality of life. They have a lot of benefits of being within the European Union in terms of the social contract that they have which is much more pro the average guy than other countries the U.K. and the US hence why the U.K. and the U.S. got the populous movement much larger.

But going forwards it's difficult to know what happens to Europe in this situation. It's not entirely clear that breaking apart from some of the parts of Europe is a good thing other bits such as the currency would be a very good thing and I think over time this populism movement does develop but we need to bear in mind that the market is expecting this.

So tail risk is priced reasonably fairly in Europe. People are all looking for the next shoe to drop. They looked at Italy, they're looking at France, they're looking at the German election. All of these things people are looking at and therefore they tend to be less interesting from a market perspective and if we're going to see something different it has to come as a wildcard. Brexit was a wildcard and that shook things out for a while. The Italian election which was an important election, the referendum, actually amounted to nothing in the markets.

Erik: We also spoke specifically about the European banking system, you observed that Spanish banks were at all-time lows back in September and nobody was talking about it except for you perhaps. We were looking at negative rates still at that time and of course you pointed out that Deutsche Bank's derivatives book was just out of control. So any update in terms of what you see there of course the negative rates have eased off so maybe that's not going to last. But how do you see the rest of the picture developing?

Raoul: Some of the Spanish banks still keep falling, nothing has been resolved there, there’s no news flow, there's nothing positive, the increase in bond yields takes the pressure off a little bit, it's not necessarily negative rates in places like Spain or Italy because they didn't really see them it's just the insolvency of the banking system overall. The positive yield curve has helped, I think the very flat yield curve was more of a problem but the steeper yield curve has helped take a little bit of the pressure off.

But my question always is, is how the hell do these guys get through the next recession? In good times with reasonable economic growth it's OK but if you have a recession then who's going to get wiped out in this? It's almost everybody so it seems and that's what I can't get my head around people ignore that because everyone is so quick to take a snapshot of here or now, you know the economy is growing or whatever it's OK therefore the banks are OK. We have to live in the future as investors and particular in the macro world is, OK what happens in a recession? What are the dominoes that fall over and how does that affect everything else?

Erik: One of the risk factors that we discussed last time was this crazy VIX contango trade where basically people are shorting VIX futures because each time they roll that contract forward they capture the contango by being short and they see it as a way to produce income. Of course you know that's not just picking up nickels in front of a steamroller, that's pennies being pried out from under the steamroller and so far a big downdraft in equity prices has not happened which was the big risk that you saw there. You described how if there was a sudden downward move in equity prices it could really blow up in these guys' faces. Is that risk still in the system, is that trade still on or have people wised up and gotten out of it?

Raoul: No that trade still goes on to this day and it reminds me a lot of the portfolio insurance stuff around 1987 or some of the kind of spread trade Low Vol trades that happens around 1998 people go over their ski tips with this stuff. They think it's all manageable and they think that OK we can sell VIX and if we lose money on that, we'll use this as an opportunity to buy stock because we've been taking in premiums but they don't realize the rate of change of the VIX can be so extraordinary that the losses can mount up massively and super quickly.

So I worry about that position. I worry about a whole world that sets up for low volatility when you've got a new administration that is almost unquantifiable. We don't know what kind of volatility should be under an administration like this but a relatively aggressive administration should create more volatility overall so at which case the generalized level of volatility should rise.

Erik: Let's move on to precious metals. Even in the face of rising inflation expectations gold hasn't done too well since we spoke in September and of course a lot of people think the reason is that Treasury yields are on the rise and that's the competitor to gold.

It seems like the Fed is signalling more rate hikes in 2017 and of course Mr Trump is encouraging them not to artificially lower rates the way they have in the past – although I'm not quite sure how, it seems like that's totally at odds with his dollar is too high statements – where do you see precious metals going from here, what's your outlook?

Raoul: So I think precious metals just did the [inaudible 00:16:44] the dollar for the time been until we get to the point that you kind of alluded to before where if the central banks have to do something about the strong dollar or economic weakness comes through which has not happened yet, every time it comes, the economy's bounce again.

But if pervasive economic weakness comes through then the market will have to forward price bond quantitative easing or fiscal stimulus financed by the central banks themselves to come and if that's the case then gold rises and the dollar rises.

So that was one of the core theses of mine, the gold and dollar. I mean-- as a trade as a pair using a basket of 27 against gold has been relatively flat. You know it was hugely positive for a while but really that trade moves in a situation where we've got economic weakness and the central banks have to do something and the chances are the dollar rises and gold rises.

Erik: You said that for now you would expect the dollar to rise and you're expecting gold to move in the opposite direction. So is it time to be in that pairs trade, long dollar and long gold at the same time or is it time to wait for maybe a better opportunity to add gold to your existing long dollars position?

Raoul: It depends on how you do it if you put the trade on as a trade it has to be in reduced size because it's a trade you want to hold on for few years. It's not a trading position it's an investment position.

If you want to trade gold now, yeah, you know I'd look for a lower entry point. Whether that entry point gets down towards a thousand or whether we just retest the recent low to level 25 I don't know, I don't have a strong view yet. I'm just kind of watching the price action, watching the chart more, looking at the economic conditions and waiting for a real opportunity as opposed to just a trade.

Erik: Another risk factor that we discussed last time was the whole clearing and custody system. Euroclear in Europe having as much as 30 times hypothecation of collateral that is all being passed back and forth in this big fancy electronic system but at the end of the day who finally antes up and covers the bill if there is a default.

And you described this basically as creating this too big to fail problem for the entire European Union where if any one sovereign fails and defaults on its treasury obligations. Basically the whole European Union blows up at that point.

It seems like we've got heightened risk of maybe one of those countries failing at some point. So is there any improvement or any in any attention being paid to this issue that you described last time?

Raoul: Well something at the margin happened I thought was very interesting something I've been talking about for maybe three or four years now which is the move by the D.T.C.C. so that's the U.S. version of Euroclear towards using block chain technology for the custody of and clearing of I believe it was some derivatives or stock contracts I'm not entirely sure I can't quite remember but I have a feeling that the entire system will go on to block chain technology which allows you to know who owns what in the event of a bankruptcy, it also allows you to reduce the amount of leverage in the system.

Now it's not easy to do because you'll immediately reduce the amount of leverage in the system which is a catastrophic event for the system but over time I think that's the biggest development, I think it's the biggest single use of blocks chain technology or bitcoin itself is in that custody of financial assets because these things are cesspools of risk that nobody understands. They are slightly arrogant as organizations because they have a backstop by the central banks if they go wrong because they are too big to fail but the problem is, is the mechanism by which they would do that means that they would end up pledging customer collateral to the central banks which is terrifying.

It means that even though you're a safe bond fund with no leverage and you've got the stuff nicely in custody you suddenly find-- and you've got your bonds to protect against bad events and then suddenly you find out that the D.T.C.C. or Euroclear has pledged your bonds to the central bank for liquidity injections and you could lose all of your bonds. So I don't like the whole situation. I definitely think it moves was block chain. I think that's going to be a fascinating development.

Erik: I couldn't agree more. I think that that would be wonderful if we actually saw some progress in block chain technology being adopted by governments and official institutions. Another subject that we discussed back in September, soft commodities especially grains. Your recommendation at the time was it looked like maybe there was a buy there but perhaps hedged by a short on copper just in case there was a downturn in the economy and a change in your outlook for soft commodities.

Raoul: You know I've been waiting for something to change in soft commodities and basically there's been no great opportunity yet but I think its coming. You know they tend to be quite cyclical I mean most of them have rallied since we last spoke but we've not had one of those accelerated moves and that needs a weather event generally whether it's Russian grain harvest or Australian grain harvest or Argentinian crops, it is set up slightly that because of the la-Nino from last year there is a shortfall in various crops in South America which had the real issues.

There was a potential to see in-- sorry the El-Nino we have a potential for a La-Niña event coming this year but it looks like it's going to be very weak if it comes at all.

So I'm watching and waiting. I don't see the great opportunity that I was expecting to see but they'll probably trend higher over time anyway.

Erik: Raoul that concludes my list of topics that we discussed last time I want to move forward now to looking forward towards 2017 and talk about what the opportunities that you see on the horizon are. I don't see a lot of directional trades right here. I'm kind of on the sidelines on the equity market. Where do you see opportunity as we look ahead to 2017?

Raoul: I'm kind of with you Erik. I don't see an obvious trade. If you look at the bond market you know my bias which is I think yields become lower but is here the opportunity probably not. So there's nothing I can do there. I don't see a huge back up in yields to make me a fortune if rates go higher, I don't see rates yet falling until we see some economic changes, some economic weakness I don't really know.

We've got a new government that's coming in we don't really know how they're going to act, what they're going to do. So it's very difficult to trade based around that policy and clarity of policy. We have really no idea what the central bank's going to look like in a year's time or so. So it's difficult to trade around that.

The only thing I do know if I look out and say what's an obvious trade, the dollar still seems to be a pretty obvious trade unless somebody does something to rollback this globalisation or even the thought of repatriating profits from companies abroad which is another strong dollar event even if they're in dollars abroad let's say Apple's profits that are in Ireland are in U.S. dollars once you take those out of the markets in the offshore euro dollar market that makes the funding conditions even tighter so the dollar goes higher.

So the dollar situation seems pretty obvious to me. I don't see anything that would change that, there is no risk yet of the Central Bank starting to cut rates or looking at doing any excessive policy. So I think that's still the cleanest trade in the world.

The trade that's a little more difficult but becoming more interesting to me is having a short at the short side of the equity market. I use DMAC technical indicator. I found them very helpful for me. We've got a perfect monthly, daily, weekly set up which is very rare. Usually at worst the market goes sideways or at best the market goes sideways at worst the market has a sharp, sharp correction or it's the entire top.

I don't really have a view yet on what that is, I'm just monitoring that, noting with interest that this position is there, noting that the market bought the election and knowing how fickle markets are, they'll probably sell in the inauguration. So that's one thing that's kind of interesting. What do you think?

Erik: Well I'll see if you want to grade me on the thoughts I have. The only real directional trade that I see right here is long the dollar index and I think we agree on that we've already discussed the reasons why.

Beyond that the things I'm looking at there, if I look at the term structure of crude oil. We've got a fairly steep contango for a few months but then we see backwardation in the belly of the curve. So apparently we're not going to need storage after June or July or so it's going to be a non-issue those tanks are going to be empty. I'm not buying that story.

So I do see a curve steepener trade that is-- I actually just bought a bunch of spreads short June, long December. Just thinking that at that point there was backwardation in that segment of the curve I don't think that's going to stay in backwardation I think by the time June gets here we're going to be looking at contango again.

So that's one trade that I see the other one I'm kind of waiting for and I'm lining up quite a few dominoes here is I think that Trump is going to get tough with ISIS very quickly after entering office and I wouldn't be surprised if there's some kind of ultimatum, ISIS knock it off or else, and I think there's so much hysteria right now politically there's so many people with such polarized viewpoints that you could easily see a an overreaction, a massive upward spike in oil prices because a lot of paranoid people are convinced that Donald Trump is going to launch nuclear weapons on ISIS or something.

I don't think that'll actually happen. If there was a $25 up spike in oil prices from here I would look at that as a very very ripe shorting opportunity because I don't think prices can go $25 higher and stay there because the shale revolution will be restarted, the bakken will be relaunched and those prices will come back down.

So I don't want to bet on the up spike I'm not convinced it will happen if it does happen I'll definitely bet on the mean reversion. Frankly that's all I can really see at this point for trades.

Raoul: So to add on about oil. Oil is interesting to me because if you remember I made a very public forecast on oil way back in 2015 I think it was, when I said look I think oil is going to fall to $30 dollars a barrel it was like at 110 at the time and luckily it got there these things don’t always work out that way but it did and the reason I had a lot of faith was twofold one the dollar was going up and I thought it would go much higher which obviously is the normal nature of oil prices so that helps that.

The other thing was speculative position in crude oil was all time high in fact if I took the trend going back from the early 80's it was seven standard deviations above that trend and well over three standard deviations maybe four standard deviations from the trend in the last 20 years or 15 years. So the position was huge.

If I look at it now again, I'm looking again at my Bloomberg screen as we speak it's equal to where it was. So it came, all the way back down, it's got all the way back up. So the market is wildly gigantically bullish on crude oil and that is something that starts looking like an opportunity to me on the short side.

I get what you're saying about the price risk which is always the danger of shorting crude oil it's always a bit of a negative gamma trade. So it makes it a bit nervous but I still think that crude oil comes lower so I’m bullish in that.

I've seen a similar situation with copper driven by China and a few other things where copper position is wildly extreme and so I start to think well too much reflation is priced into these things maybe there’s an interesting opportunity on the short side.

Erik: Yeah I very much agree with that I want to be short equities here and I want to be short crude oil but I don't dare to touch either trade from the short side right now because there's been so much bullish hysteria in the equity market. I don't know what's going to happen to you know sell the inauguration. OK I've said sell quite a few times in the last few years and been wrong so I want to be short but-- emotionally I want to, I can't bring myself to do it because there's just been-- every time I say OK the market can't possibly go higher than this it ends up going higher.

In the case of crude oil, I'm convinced that this rally has played out from a fundamental standpoint. It’s that hysteria risk that if it happens it's a fantastic opportunity to go short. I would consider puts on crude oil here as a speculation that maybe they'll go lower. But I don't want be an outright futures here I'd rather be in puts on futures and have a very limited downside if Trump scares everybody.

If that happens – I don't think it's a real risk – I just think it's hysteria and look at there's actually been an increase in residency applications in Chile because there are people freaking out about Donald Trump so much that they want to be in the southern hemisphere for when he starts the nuclear war that's a fact. This is hysteria and until it settles down I don't want to be on the short side of the oil trade unless it's an options or something protected.

Raoul: Yeah I agree. What is interesting oil volatility has been coming lower. Look at don't think it's going to get back to where it was in 2014 when it was trading below 20 but it has come down from a peak of 80, a kind of a real trading range of 50 down to 30. If it comes any lower the ability to buy options start to make sense because oil volatility can go to 80 can go to a 100 so maybe buying some puts on oil or you buy kind of out of the money calls out of the money puts If you've got the view that you have that there is a tail risk events of something that Trump administration will do to drive up the price of oil and that's possible don't forget that the economic policies is credibly pro oil in the U.S. right now with the new administration. So it is in that economic interest to drive up the price of oil.

So yes I can see that too. I love these kinds of puzzles. These are the kind of ones that get me up at night thinking wow, that’s interesting, you've got all of the reasons why the oil price should fall, all of the geopolitical reasons and business reasons why the U.S. wants a higher oil price so how does this play out what does that mean for us.

Erik: What do you think about junk bonds here and I've been short junk bonds for forever it seems and made a bunch of money on that trade a long time ago and now I've given back about a third of my profits and I am waiting for the big move but it doesn't seem to be coming. What do you think here is the maybe the end of the oil selloff kind of spelled the stabilization of the junk bond market or do you think that that big credit risk a lot of people feared is still coming?

Raoul: Right, so with the oil price going high it eases the worst creditors or the worst debtors which were the oil industry. So that has been the relief rally and let's say the industry is like the H.Y.G. So we have had that relief. We've also see an economy that started the year last year almost I think it was negative in the first quarter with the I.S.M. below fifty. So it was very close to recession. That's when junk bonds become super interesting from the short side.

When you had this recovery the oil prices rallied as well. Suddenly junk bonds aren't that interesting because shorting junk bonds is all about credit risk. Will credit risks explode when the economy's growing at 2.2% I would say no. Does it happen if the economy goes to -1% yes it completely explodes it becomes a very very lopsided pressure award.

So there really in economic trade I think many of us thought the economy was going to be weaker last year the election changed part of how that played out and so it is what it is the economy is growing whatever it is right now I think the Atlanta Fed is 2.8 the other markets is 2.2 let’s assume it’s somewhere around that the question is where does it go going forward, Trump has no policies to put into place immediately to generate this growth that the market is expecting.

How long could that take as you point out at the beginning of the interview, we look at all of these elections almost every single one of them has a recession immediately afterwards and that's to do with the economics of the political cycle and how it takes a long time to actually implement policy. So you get some policy paralysis and the flip side of the goosing up of the economy going into an election.

So to answer your question very long windedly is yeah I'm also looking for the bear side in junk bonds. It has to be about a weaker economy, if there's no weaker economy there's no trade to short it.

Erik: Yeah I agree with you and I've been waiting for it and you and I keep saying this business cycle is just way long in the tooth it's got to roll over there's got to be a recession coming and I still believe that but it has not come as soon as we thought it would has it.

Raoul: This is the crazy thing, people forget right, basically if, we're looking at monthly data we get 12 data points a year to look at how the economy is doing. Where markets go, we have hundreds of data points over that period, if you're looking at daily charts, we got 200 data points. So it's always seems frustratingly slow to wait for these economic events because we think of them like financial market events where things move relatively quickly.

So we have to wait for a trend to be established in the economy using monthly data, we are going to have to wait three, four, five, six months for that to happen. So maybe the economy is about to weaken but we are not going to know for a while so it's a frustrating process and people say well you were dead wrong there was no recession last year, well we came bloody close and fine yes I was wrong, there was no recession but we are still due that recession. Those risks don't go away.

The global economy, the U.S. economy are cyclical you do have cycles, you do have extended cycles like we had in the mid ninety's maybe this time is an extended cycle it's possible. I don't think either of us can say well it's not possible that it's an extended cycle it could be the longest ever economic cycle but the probability is not inside so that's how I think about this.

Erik: Speaking of how you think about things I want to tell you first of all I really love Real Vision publications ever since my subscription started I've been getting all kinds of cool stuff and it's fantastic. One of those is you wrote an 80 page report for your institutional global macro investor clients and you've got that up on Real Vision publications.

So first of all please give us kind of an overview I'd love to go into it in detail unfortunately we're not going to have time in today's interview but give us the executive summary of what people can expect to find in that 80 pager?

Raoul: Well that 80 pager is my January think piece and I do this every January that I free myself from worrying about what the markets are doing over the next month or two months and sit back and say OK what are the really interesting things out there, what should we be thinking about for the next few years ahead, what is nobody else looking at, what is being really misunderstood?

So in this particular one I wrote an article about the advertising industry and the digital advertising business just because I've learnt a tremendous amount and that's had a huge huge feedback on that, people love that article and I guess it's because it was like a detective story of me figuring out how deeply flawed the advertising business is online and how high frequency trading creates spreads of 75% which is ludicrous.

Then also I covered-- in fact one of my clients from Global Market Investor, Adam Rothman wrote an article about Ireland and looking at BREXIT and how BREXIT may cause companies to leave London but they want to remain within the European Union so Ireland is the obvious place which is English speaking.

The only problem with Ireland is there's not enough property to house these people. So big because like Google and Apple are all in Ireland and it's made this tremendous shortage of property so that means there is some huge opportunities.

I also looked a bitcoin and kind of updated my views on bitcoin I was very lucky last year to catch a good part of that bitcoin rally and I've also been long in the kind of longer term part of the portfolio since bitcoin was at about 200.

So just kind of updating my views on that. I talk a bit about the Trump administration and I generally avoid politics because I think politics and economics at two separate things. But when you have an incumbent government then everything is fair because you can criticize the government. I don't like getting involved in political debate ahead of elections and stuff because it's too heated and it's not necessarily what I do but I'm looking at the Trump administration the potential similarities to Silvio Balusconi in Italy what that did to the Italian economy, what the opportunities here are now, what the narratives are.

I look at some bombed out markets which is one of my favourite things in the world is you look for a market that's fallen 70, 80, 90% and if you look at the history of markets, no market stays down that way they tend to rebound and when they rebound, they rebound 300, 400, 500, 600, 1000% so these are great long term risk rewards.

The ones that are on my radar screen massively are Greece and Cyprus. Cyprus fell more than any other market I've ever found in all history and any of your listeners know any other market that fell more than 99% which is what Cyprus did you've got to imagine that the opportunities in Cyprus going forwards over the next ten, fifteen years have to produce decent returns.

Greece is another one where you could have bought every single company in Greece for the price of Bed Bath and Beyond in the US and I just think well that's nonsense Bed Bath and Beyond is not a particular good retailer either and you can buy every single company in Greece. So I'm looking at those kind of things, I'm looking at the future of emerging markets and also the Internet of Things.

So as you can see I cover a huge amounts of ground all kind of a nice little dive into topics that people that normally spend time over it and we spend so long worry about what the S.A.P. is going to do over the next two weeks but this is to step back and say OK let me learn something new, let me think about things in a different way.

So that's normally just for my clients, my global macro investor clients who are a highly restricted readership base but I put it on Real Vision publications because A. obviously Real Vision is my thing but I also love what they're doing, the idea of the publications platform of giving people access to research they would never normally get and the feedback has been fantastic.

So people should just go to the realvisionpublications.com website there's a free trial or a 30 day money back guarantee just go in there and can check out research from myself, Pippa Malmgren, Stephanie Pomboy, they've all come out in the last three weeks there's extraordinary stuff there. Stuff again people would never ordinarily be able to afford or get a chance to look at.

So you can learn from all sorts of people so it's really well worth doing and you get a 30 day free trial I can't imagine anybody would want to keep one of their newsletter subscriptions to a newsletter writer who's not that well known, spams you with e-mails every day and does all of those things that they do versus getting research from a 100 pieces of research from 30 of the smartest people in the entire world, the value proposition is ludicrous it's about three hundred dollars a year and for that you get all of this.

Erik: I could not agree more and I really want to endorse it myself I have a subscription, I have been shocked by-- I kind of thought OK look you've got a lot of institutional writers here that charge 30, 40, 50 thousand dollars a year for a subscription to their work, all I'm going to get is going to be a paragraph or a teaser or something. It's not going to be real and I have been shocked in the other direction there is a lot of substantive content as you say. Stephanie Pomboy's piece was outstanding and you've got so much there.

The thing that I have noticed about it too is – I never saw it coming, I don't know if you guys saw this – I almost find it's a different mood. I watch Real Vision Television usually at the gym on my phone on the treadmill or it's a drive in the car thing or it's out and about, it's something I listen to in the background. Whereas in the office for whatever reason I don't really sit in the office all day and watch television but I do read Real Vision publications it's like a different mood that it satisfies. Maybe that's just me.

Raoul: Yeah I agree and also what we're trying to do is how to do is create a world where people get access to excellence. Everybody does watch video, everybody does read. It's about we want people to get rid of the junk that they are being sold and get some proper quality from really experienced people who have proven track records and listen to them and not to the stuff that gets sold to people because it's wrong, finance is not entertainment we take it very seriously and so we're seriously building out some really cool stuff.

Erik: Well my hats off to you. I've been so impressed with everything that I've seen you guys do. Which brings me to another subject in this project that I'm doing here with Macro Voices I feel very fortunate that I have enjoyed a monopoly really it's been almost a year that we've been doing Macro Voices and of course there's a zillion and one financial podcasts on the internet but for this audience, for pro finance and sophisticated retail investors, the same kind of audience that you address with Real Vision television, really Real Vision television is the only content that I even take seriously as competition for what I do because for this audience nobody does anything in the pod – Real Vision Television's a totally different category, it's a paid service – but in the free podcast space nobody's doing this. I'm the only guy. Until you decided to muck it up didn't you?

Raoul: I did not, you and I talked about this – it's actually interesting because we've been friends for a while – and we talked about should we do something together here, what are the opportunities and I think we realized that we had-- we love what you do it's got a really important place, you do a great job. Your guests love being on it you've got a great audience but we wanted to do something slightly different and not disrupt your applecart because you've got your own applecart and you're doing a brilliant job with it. What we're going to go and do is something wildly different.

We're going to try and create the world's best financial podcast and we're going to create an immersive world of multi day broadcasting, incredible storytelling and the kind of rich texture of financial life that people don't get, that they have to piece together from all around the world. We’re going to bring all sorts of stuff.

I won't really be able to give you too much of the details we launch on February the 9th it'll be called the Real Vision podcast and you'll be to find it on ITunes, Stitcher all the usual places that you find them but is going to be a highly immersive financial podcast with incredible soundscape, amazing stories, a bit of fun some great learning and some interaction with the past, with some of the content we've had on Real Vision Television as well but it's not really about that. It's about creating a financial universe and letting people walk around in it and obviously it's free of charge.

Erik: And I assume that we can now finally, because Aaron Chan has told our audience that its top secret what he's working on for Real Vision, I assume he's involved in this project. What is his role? If this is something Aaron is producing I know that our audience is going to like it.

Raoul: Yeah Aaron is involved in about a hundred different things here at Real Vision but he's been one of the key drivers with James Gibb in designing this. He also will be the producer of it along with James. So he's been really instrumental in learning some of the great things that you've done and again because we didn't want to step on your toes we wanted to create something very different so they've been hard at work doing that and on February 9th you'll hear the first iteration of it and then it will develop dramatically over the next six months to be a really unique experience.

Erik: Well that's fantastic. So mark your calendars everybody for February 9th and by all means have Aaron send us a link when you launch it and we'll send it out in our research roundup email so that everybody has access to it.

I can't thank you enough for Raoul for another fantastic interview we're going to have to leave it there in the interest of time but Patrick Ceresna and I will be back as Macro Voices continues right here at macrovoices.com.

[End of interview]