



Michael Every: Does Anyone Remember PMI's?

Erik Townsend

Joining me now is Michael, every global strategist in economics and markets for Rabobank, or Rabobank if you prefer, Michael, I'm so keen to get you back on the show. I loved something that you wrote recently when you said, Does anybody remember PMIs remember when, when that was what everyone was focused on? It seems to me like the combination of political, military and economic, statecraft and posturing and positioning and so forth has hit fever pitch over the last month. I'm certain that it's really important to markets, and frankly, it's above my pay grade. I'm so glad to have you back on give us the the overall assessment of what's going on in terms of statecraft, politics and so forth that's going to affect markets. And how should we interpret all these interesting news events of the last month?

Michael

Okay, well, thank you very much for the opportunity. We've obviously got the whole world to cover there within that introduction, we can bullet point it that the primary driver is still the US trying to reinvent itself and changing the world around it by doing so. The reason for it doing that is still above all China in the simplest possible terms, but we have a panoply of really, you know, eyebrow raising developments over the past couple of weeks, which I want to just run through briefly before we get to the main event, which is, of course, the Trump Xi Jinping meeting that we had recently, and the outcome from that. So let's just consider that a month ago, I was speaking to clients and writing an editorial about it. And I said, economic weapons are things that you need to be looking for, or new forms of weapons. And immediately afterwards, China announced export controls on its rare earths, or further export controls, and said that no one was allowed to use them anywhere if they went into military supply chains. And given that you have to have them in order to build that equipment, effectively, China was saying no one anywhere except it or its allies would be able to build any military equipment going forward. That's rather a game changer, if you consider it. We had the Dutch government seizing a Chinese owned chip maker, an Xperia, which was about to be asset stripped by its parent company, and which then cut off chip supplies to the EU in response, we've had three EU oil refineries, which take Russian fuel, suffering mysterious explosions. The US dangled more military aid for Ukraine, and then pivoted at the last minute and sanctioned Rosneft and Luke oil. Although physical enforcement there is key. Russia brandished a new nuclear weapon, just going straight to real weapons. The US has restarted nuclear tests. The US is talking about regime changing Venezuela very clearly, Trump has suggested he could move on Nigeria and now potentially move into Mexico too. So that's that's just a smattering of what we've seen. And on top of all that, in Europe, we've had the former head of the ECB and the current head of the ECB talk about how Europe should run its political system, saying that it should be majority voting, rather than everybody having to agree to everything. Where's that? In a central bank mandate, we've had the European European Commission, President von der Leyen, laying out green tech policies that very strongly implied we're going to have non tariff barriers, so basically made in Europe for all public tenders, which is 14% of GDP, capital controls to screen FDI. So it's in the European Union's interests, and I presume that's coming in and going out, in which case you can stop people investing in other countries you don't want them to, and tariffs and subsidies to support key sectors. And on top of that, they threatened to put their anti coercion instrument into play against China, which is a trade bazooka, although it's never been used, and the rumor is that they're going to completely

remove or change all their legislation for financial markets regulation. And the number of acronyms I could run through there is almost endless, and basically lift everything up to the EU level rather than the national so that is just a gobsmacking backdrop, and that was before Trump swept through Asia and did a series of trade and FDI into the US, by the way, and defense deals, and of course, centered around rare earths, gathering a cluster of economies to his side, versus China, and Getting Japan in South Korea to say they would help with shipbuilding in particular. And then he sat down for that meeting with Xi Jinping beforehand, tweeting, the g2 will be convening shortly. The g2 well, there's 193 countries in the world left out. So let's then turn that Trump Xi meeting, did we get a g2 and in very, very short form? No, I don't think we got a g2 I think what we have here is a cease fire to re arm, if you will, quite literally, and it's not any kind of peace deal in the longer term. In the longer term. I think we're still heading for a 2g which is not the g2 working together, but the world with two different groups, the US centric group and the Chinese centric group. But we are going to have, at best, a year's interregnum where we basically Okay, wait and see who can have the better cards a year from now, so that we get a relatively easier ride in markets for the next six to 12 months.

Erik Townsend

Michael, if you've been sitting enjoying the Caribbean sun for months and months and all of a sudden there's a monsoon, and then it doesn't stop, you have to consider, okay, there must be some seasonality to this. Oh, it's monsoon season. You eventually figure it out. You've been a master of interpreting economic statecraft. It seems to me, economic statecraft is something that was subtle and seldom used until fairly recently, and from what you've just described, we've got so many things going on at once. How do you interpret that big picture? Does it mean an economic war has begun. Does it mean that we're just going through a phase here that gets resolved once we get to a certain set of Trump and Besant policy goals, then it's all going to settle down. How do we interpret the big picture? What's the big thing that's just begun, and how long is it going

Michael

to last? Well, that's a great question. And to be honest, it's really up to the listener to decide for themselves, because many people will view what we're seeing right now as an aberration, and the long run trend is that everybody just wants to trade and get along. I think that's pretty much the normal view in markets and in most, most economic circles. I disagree. I think everything is always about power. At the end of the day, while everyone's got a stable power balance globally, everyone will focus on markets. But when the hegemon starts wobbling, while everyone starts putting in their bets to see who's going to be the next leader, that's still the game, I believe is playing out. That's going to play out probably for the rest of our lives. It's a very, very slow burning process, because neither China nor the US is going anywhere, and both of them clearly have a very strong hand. Both of them have an enormous number of tricks which they can use to try and give themselves the advantage. So, you know, short of an actual shooting match, which some people worry about, I think directly between the US and China is relatively unlikely. This is going to be the new normal going forwards, but it is happening across geography, across asset and across disciplines, in a way that most people are having difficulty drawing together. Some parts of it are more obvious than others, but there's almost nothing going on that matters, that isn't in some way tied into this. And so if you see it the way I do, kind of everything points back to it. And if you refuse to accept that fundamental precept, which many people do, you know, I'm pointing to things that aren't there. And in reality, we just have a lot of random shocks. But if that is the case, you know, why are very easy to predict things like Trump talking about regime change in Venezuela, you know, which not many people had on the cards 12 months ago, but I did now headline news. Why have we seen, just in the past few days, rumors that the US wants to openly dollarize other economies, which, of course, would include Argentina, I would think, I mean, that's been floated before, but I don't think it's a coincidence that all of this is coming back right now, as in the background, you know, China is trying to do currency deals with other people, and both sides, or both blocks, are trying to feel out who's on whose team and with in what new set of rules.

Erik Townsend

Going back to the Soviet era, there were really two axes of power in the world. There was the West and there was, you know, the whole Russia controlled the eastern Europe and so forth. They basically didn't trade with the West, and they couldn't trade with the West. In many cases. Are you saying that we're going back to that kind of bifurcated global economy where there's the America centric West and the China centric east, or whatever you want to call the China centric pole, and we get toward a global economy where there's just not as much cooperation, and everything's living in two sides of a wall.

Michael

Well, that's your worst case scenario. And I think that absolute worst case is unlikely, in that there are going to be different categories of goods, some of which people have no problem trading. For example, you know, if China is going to make novelty toilet roll holders, I just don't see that the US is going to have an issue buying them. You know, there are advantages to making many different things, and manufacturing in general is an advantage, full stop. But I would think, if you're specifically talking about that product category, very few people in the West would say we're going to fight tooth and nail and use economic statecraft to get that back. You know, chuchkas, we don't care about them, but all the big strategic sectors which have direct national security, key industrial energy, tele. Coms or military implications, all of those. Over time, we are already seeing a bifurcation happen between different technology sets and production supply chains. And the logic is that this doesn't only point to downstream products, it's everything all the way upstream. That's what we're seeing now, where the US during this one year pause in escalation with China is desperately running around the world trying to find new rare earth supplies and refiners so it doesn't have to go back to China a year from now. And China, for its part, is desperately trying to make sure that everywhere that the US currently has the whip hand, for example, the highest end chips, or in software or in aircraft parts that it can catch up, and a year from now, it can say to the US, look, we just don't need any of your stuff anymore. So it's a dynamic process, and there will be things, yeah, where you can carry on pretty much as normal. But I think everything that matters is going to shift over time, even if it isn't done in a synchronized fashion.

Erik Townsend

What I don't understand about your explanation is just how it's possible that the US would be leading this charge from such a weak opening position. I mean, it seems to me, there's been, you know, economic bloggers that have been complaining for decades now, or certainly for the last many years, about the number of things that we are sole source dependent on China for, from our medications to rare earth elements to a zillion other things. This is very widely known, if you know all those things, and you want to get into a competitive, hot and heavy negotiation. I would think the first step would be to quietly shore up all of those vulnerabilities, figure out, you know, play nice smile and be happy with China and shore up all those vulnerabilities to put yourself in a very strong negotiating position. Then start talking tough, it seems to me, Michael, like Donald Art of the Deal, Trump is doing it backwards, and I think he knows better. So I don't, I don't get

Michael

it. Well, I don't think that Trump was in the position to be able to do what you're suggesting. If he were, then he would have done exactly that we have lived through decades. I mean, not just years, decades in which not just the US, but Europe and every major Western economy has done everything it can to get rid of all its productive potential and to shovel it offshore. It was absolutely the norm. That's how you made your money on Wall Street. That's how you, you know, got a nice slush fund if you're a politician, just ensure that you offshored absolutely everything. Sliced up the value chain into a million different pieces, and very, very few of them were still within the US, and everyone was happy. Now, you know, you can say that that was a utopian view, that if we did that, we'd have no more war, because

everyone's integrated together. And I won't rule out the fact that some people are idealists doing it. I think far more people just simply didn't care because they were getting paid. And, you know, I'm not trying to offend people saying that. I just think it's an objective truth. And there are still a lot of people who are either useful idiots, who can't see the way the world is now, or are still getting paid to do the wrong thing. You know, you can see headlines around you every day of people still not understanding the importance of the geopolitical moment and the geo economic moment and repeating past errors. So Trump would love to have gone in there, you know, guns blazing, because he had all the guns and all the ammunition. That was never going to be possible. Now, the US still has a lot of weapons, a lot of very good cards, absolutely, let's not forget just how significant they can be, but it doesn't have those things like rare earths, where China absolutely still has the whip hand. So we're now in this strange Mexican standoff where different kinds of weapons are being brandished against each other. So China has those rare earths. It also has pharma, as you correctly pointed to, and frankly, has the supply of almost every physical product, but the US has control of the financial economy, which does still matter for now, even if I think physical production outranks it, you know, in any kind of military conflict, it certainly does. And as I also said, it has high end software. It has top end chips, and it has, you know, aircraft. It has various different things which do still count, and the US consumer China must keep exporting to keep its economy moving forward, given how weak domestic demand is. So the US is kind of agreeing to continue to keep buying from China while it tries to decouple from China. It's a very, very difficult process for anyone, whether it's Trump or anyone else, to deal with, and he has to basically remake the US economy, the Chinese economy, the world economy, everything, all at once in multiple dimensions. It's a staggeringly difficult ask whether you're into the art of the deal or not.

Erik Townsend

Well, let's unpack this in terms of your take on where it stands and who. Really has the strength. Because, you know, frankly, I want to hear that the country I was born in the United States, is going to come out on top of this thing. But what I think you just told me is China is in a position to say, look, we're going to withhold all of your prescription medications. You're not going to have any medications, you're not going to have any rare earths to make your weapons with. We're going to hold, withhold a whole bunch of other products we've got you by the short hairs, United States, don't mess with us. And the answer is, oh yeah, we could withhold iOS version 26.1 and not let you have it for your iPads.

Look, there was an element of that. That's

Erik Townsend

what it sounds like to me. Michael, we're tell me more about our strength here and how we're going to say, China, you better not play any games withholding our medication, because we've got a stronger hand than you do. Help me understand that stronger hand.

Michael

Okay, well, let's get to the good stuff. First of all, let me repeat what I just said, because I was saying a lot of stuff fast, because I got so much to get through, and I don't want to leave key things hanging. So one of the first ones, as I said, is that the Chinese economy, because domestic demand there, is relatively weak, and that's part of this. That's part of the structure of the system. It just invests too much that has to be exported, and if it can't be exported, you do get problems. For example, you know, China's, you know, banking debt to GDP, or bank liabilities to GDP, is vastly, vastly worse than in the US. So Chinese government debt is also pretty high, trust me, it's not that. It's not that much better than the US when you really deep ground and the long grass, but their private sector debt is far worse than in the US. So from a debt to GDP perspective, if they don't get the inflow of capital coming from abroad, from exports, you know, all kinds of bad things can happen, even if they have capital controls and a

largely state dominated economy. There's only so far you can push that paradigm. So that's one weapon, as you said, you know, in one level, okay, you could. You can mock some of the software, but some of it's very important. Very, very high end chips are important. You know, aircraft are still important. But here's where I want to segue into. One other thing at the beginning, you've very correctly said, political statecraft, economic statecraft, military statecraft. And the political side of it is, can we make a deal? And that was, you know, can we get a g2 and the answer is no, no, we can't. So if we can't do that, we can try and use the economic statecraft and the US currently is it's trying to change itself. It's trying to change China, which is very hard to do. It's trying to change its allies, because if it's the US plus Europe plus Canada plus Mexico plus Japan plus South Korea plus Australia and New Zealand plus the UK, you start putting those economies together, and all the oil in the Middle East, or most of the oil in the Middle East, and that's a very, very different ball game. But where that links into my next point is that I think the US is going to have to over time, and maybe sooner than people think. If it isn't happening already, really start thinking, Well, what about military statecraft? Because China may have this magnificent production machine, and it may be re arming or arming at the fastest pace anyone has done, you know, since World War Two, and very soon, we'll have a much more powerful navy than the US, if it continues on the current trajectory. But for the moment, it doesn't have global projection of any of that, not seriously, not in the way that the US does now. And it's deeply reliant on resource imports from all around the world, from Africa, from Latin America, from the rest of Asia, from Russia, from Europe, etc, etc, you name it. The US is in a position to block those flows. Now that takes us to the realm of economic warfare, or, as I said, actual military warfare. But when you start looking at Trump, talking about regime change in Venezuela, for example, dollarizing Argentina, which, of course, sells stuff to China, what we saw versus Iran in the Middle East a few months ago. This is exactly what you would expect to see as part of a grand macro strategy from the US perspective, which is to say, if we've lost the game on this front in the time it will take us to try and build up our resources again, to try and go at warp speed to get rare earths and industrial production and onshoring and factories via tariffs back, we have to make sure China doesn't have an easy time of it either. So, you know, we will do all that we can to physically disrupt some of those commodity flows in areas where China can't do a lot about it, like Nigeria, for example. Okay, so Nigeria's oil. What happens if Nigeria can't export oil? You start going down the list of places that export things to China, and thinking, how could you disrupt them? And that's that's what I suspect we will start to see emerging next. And we're already seeing that happen vis a vis Russia. I already mentioned the three oil. Refineries in the EU which deal with Russian oil flows, all mysteriously exploded within a week that happened a couple of weeks ago. Don't tell me that's coincidence and market forces,

Erik Townsend

okay, but let's talk a little bit more about these military risks, because from the things that you just described, and some of the weaknesses or limitations that you describe China as having at this time, it sounds to me like a close alliance between China and Russia would overcome most of those things, because Russia has a lot of those needed natural resources. And from what I understand, the US is really kind of in last place on hypersonic weapons, so these super fast missiles that can hit the target faster than any intercept or defensive system could possibly stop them from what I understand. Russia has enough of them already that, you know, if it really came to blows, they could potentially do a simultaneous, you know, take out all 10 of the US is aircraft carriers in a single attack and neutralize that force projection capability completely. That obviously would start a nuclear exchange and pre Ali and humanity. So I really hope that it doesn't happen. But it seems to me that China and Russia, together, both economically and militarily, are a force that I'm not sure could be reckoned with, and it seems to me that we've done a lot to encourage, rather than discourage that kind of alliance between China and Russia.

Michael

Well, let's take that piece by piece, because there's a lot to unpack there. We're talking about the end of the world as we know it, right? Well, that's I'm hoping we're avoiding it. Yes, it's not, not a topic I brought up, you did. But you know, once you play the nuclear war card, it is a bit difficult to know where to go next. But I honestly don't place a particularly high probability on that, because I think both sides are rational and much as we saw during most of the Cold War, except for a few flash points, that's, I'm sure, something both sides want to avoid. Okay, so let's, let's compartmentalize that.

Erik Townsend

But isn't it true, though, that China and Russia jointly to assume that they don't have as much military might together, between them as the US has by itself, I think is not only optimistic, but just dead wrong. I think they've got much more military force, and we need to recognize that reality.

Michael

Well, let's be blunt. This is macro voices, not military voices, right? We can get people on here who can give a much more nuanced view, who wear uniform. All I will say is that China is completely untested, spending a lot on lovely new equipment. We don't know how it works. And, for example, they don't really have a blue water Navy yet. They can't project power anywhere. You know, on sea, they're starting to look at it, but they can't do it yet. And Russia, well, bluntly, Russia can't even beat Ukraine, with the West only half heartedly helping it, because the West is not all in on Ukraine in any way, shape or form. You know, Europe talks a good fight and does almost nothing. You know, in terms of physical flows of goods, and the US has been helping, but, you know, Russia has struggled to even take pokrovsk After a year. And, you know, 10s of 1000s of men dying just for, you know, a few, a few square kilometers. So I think it's easy to over hype how strong in one dimension they are together. But if you are talking about a nexus of resources and production. Yes, absolutely. And was it a geo street strategic mistake at whatever time period, and blaming whoever you want to to have accelerated the drift of those two countries together? Yeah, absolutely. And you can point fingers at lots of different people for it, but where I think the US response will now have to come, and again, it ties into what I was just saying is not just the very, very aggressive statecraft measures that we're seeing in the economy, which they really are quite remarkable, some of the shifts that we're seeing, and we haven't even got time to list through them all, and I expect many more radical ones to be coming over the next couple of weeks and months that will make people's hair Stand on End. It's going to be building a block within, you know, under a US umbrella, with Europe, with the UK, with Australia, with New Zealand, with Canada, with whether Canada likes it or not, with Mexico, with Japan, with South Korea, with a few others, with the Philippines, maybe with Vietnam. And we'll see who else gets included on that list. And you put everything there together in the West, and it's a very different equation. It's not the US alone. You know, America first doesn't have to be America alone, even if that's currently, I believe, quite a, you know, a tendentious issue on the right of the Republican

Erik Townsend

Party. Let's break this down, then into the macro trades and where it's all headed based on everything that you see. What, first of all, you mentioned some things coming that you expect. Are those specific things that you can tell us about? Are you just saying that there's more turbulence coming? And based on what you think is coming, where do you think the trends aren't going to be in

Michael

markets? Well, okay, first of all, in terms of. I think is coming when I published a piece nearly a year ago. Now, actually it was, I think, pretty much, yeah, just almost a year ago to the day, or a couple of days when Donald Trump was re elected, and I said that we were going to move towards statecraft. I explained very specifically how the taxonomy works. For example, you're going to put up tariffs, and afterwards you'll find you'll have to put up subsidies as well to match. And then you'll have to have price

controls in place. We've already seen all of those happening, specifically in rare earths. We will see that expanded. You are going to see subsidies on energy. You are going to see change after change after change being introduced in order to make sure everything gets to where it needs to go. And market forces will play less and less of a role within that that's inevitable. We've seen the Pentagon turn basically into a hedge fund where it can leverage itself up 20 times to be able to spend more. That's already happened. Where we're going to move next, I think, are capital controls. That's going to start seeing where money can and can't go. We're going to drag the fed into this absolutely when we get new management at the Fed, we will be a very different fed playing a very, very very different game, with huge implications for markets. And the currency will be dragged into it too, because dollar stable coins, the legislative framework is there for them now, sure they actually aren't out there in the marketplace doing much yet when they are that can absolutely reshape the entire geopolitical and geo economic architecture again, so the really big stuff hasn't been done yet. All we've had is the first foundations of this new building, in terms of the tariffs and when China, we've got, like, a blueprint of what it might look like, but we'll come back in a year. So that's going to be a huge shock for markets when they start to hear and people realize what they do and

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don't do. Let's hear more about capital controls. Capital controls on whom and impose town

Michael

Well, look, we already have emerging capital controls into the US. CFIUS is now screening things much, much more vociferously. Is this an entity we want investing in the US? Here alongside that, with the deals Trump Just Did on his road show through Asia. He's forcing allies like South Korea and Japan and Europe will be next, and Australia, by the way, too, with their with their pension funds, to invest in the US, forcing them to and specifying where he wants them to, in areas that maybe they wouldn't want to, maybe they would traditionally just want to buy the latest hot stock, you know, or a REIT. No, now you're going to open a factory here. Now you're going to open a shipyard here. Now you are going to do what we need to be done as a team, to re industrialize and get the military industrial supply chains going. The next phase of that, logically, which they've flirted with, is to control where capital can go when it's going out. So we don't want you investing in this country or in that sector. We're nearly there. I can see that happening very easily. And the more radical one which feeds into, I think the next part of the discussion on currencies and the Fed is okay. Do we just want foreign capital coming in and buying US assets like US Treasuries and US debt? Do we want the same global reserve status for the dollar and US Treasuries that we have now, whereby, when people want to buy US assets, that forces the US to run a trade deficit, forces the US to run a fiscal deficit, forces the US to de industrialize, and all of that is done to keep the dollar the way it operates now. And logically, the answer to that will be no.

Erik Townsend

So are you anticipating capital controls? And a lot of our listeners are institutional investors in Europe and elsewhere in the world who invest either significantly, if not predominantly, in US markets. One of the reasons for that is because US markets are so inviting. There are no taxes on capital gains for foreign investors, foreign investment capital is generally welcome in the US you're saying that's potentially going to change.

Michael

Yes, absolutely. I want to make that abundantly clear, because while the current system operates the way it does, that financial relationship is an absolute corollary to us. Deindustrialization, demilitarization and gradual decline in terms of its global status. Vis a vis China, they are absolutely wedded at the hip. Oh, sorry, joined at the hip, even if people can't generally see that relationship. Geo strategists can see it and describe it regularly. What I think you will see instead, there's a spectrum of possible outcomes

you can get, and I don't want to specify exactly what part of it will apply, where and when, but I think you are going to get a lot, lot more of what we just saw, which is the US saying to key allies, this is how we want you to invest. You are not going to have a free choice. You're still going to make money. There's going to be a return. We're not stealing your money, but you are going to put it here and here and here to ensure that we have capital in the right areas so that five years from now, we are resilient as a group, in order to do X, Y, Z. Right now, it's rare earths. After that, it will be many, many other things, many, many, many other industries, because we're no longer in a phase. Fees, where you can just say, because markets, which is a phrase I use flippantly at work all the time. I mean, frankly, who gives a damn about because markets, individual investors? Sure, I get that. But there are games being played at a much higher pay grade than any of us on this, on this chat or listening to it, you know are involved in and they have particular outcomes they want to see, and unfortunately or fortunately, depending on your point of view, I think markets will be moving from a world where they can do whatever they want, let's call it a jungle, where they can go wherever they want, to a safari park. So you know, you're free to roam around in certain areas, but you're now in a safari park rather than in the wild, and just count yourself lucky you're not in a cage in the zoo, because that's the alternative, and it's far worse.

Erik Townsend

What does that mean for the major stock indices? Because I don't know what percentage of the S and P 500 is, you know, domestically owned by Americans and American institutions, but a lot of it isn't. And if there was suddenly, you know, tomorrow morning, everybody who who's not in a certain category, has to divest their their index holdings. That would be hugely disruptive. So we can't have that. I hope. How would you impose this transition if you're not going to annihilate markets in the process?

Michael

Well, I'm talking flows, not stocks. To be abundantly clear, no one is going to put a gun to people's heads and say, We want you to sell off all your assets in the US. Quite the opposite. They don't want to see a massive capital outflow, which was rumored, by the way, earlier in the year when the Trump plan started to be rolled out. You had lots of gnashing of teeth and wailing and hair pulling and people saying, I'm selling everything us. If you look actually, capital is flowing back into the us big time. Now, okay, it's all centric, but even treasuries aren't doing too badly again. So you know, everyone who was panicking has had to reverse over a few months. But you don't see many mea culpa headlines in the financial press saying we called it completely wrong. And actually, statecraft can drag in capital. But from the flow perspective, you know, I don't want to keep repeating myself. You can't have a US versus China existential. And you know, the US itself calls it existential, geo strategic rivalry, and then just say, Yeah, okay, let's put all our money into an app that makes cats look like dogs. I think I've used that analogy on this on this show before. What an absolute waste of time. You need to be seeing capital flow to areas, as it does in China under their system, where you're going to get the maximum bang for the buck. And it's literally bangs for bucks that we're talking about in some cases here. Now there will still be money made doing that, absolutely but you may have to rejig the system to make it work. For example, as I said, tariffs and subsidies, together with price controls in some areas, and either deregulation or more regulation to ensure that you get an outcome that works, quote, unquote, for everybody. And I think we'll get more and more of that, and the US allies will be copying and pasting that, because they're not going to be able to have free markets in the same way they did. Whatever controls the US puts in place there's like an umbrella or a shield against a kind of a China system or a China block. Everyone with the US will have to mirror it, and we already see that happening on trade. The US is gradually moving towards everyone who it trades with having a common external tariff against China, or doing that via a trans shipment. So, for example, Country X, yeah, they can buy as much as they want from China. Not one carton or crate of that is going to go into the US from them. So if they want to swamp their own economy with it, good luck to them. And that's basically an incentive to

tell them, No, no, we want you to match our external tariff. The same thing will have to happen with these capital controls. But another way that will, you know, Evolve is through the use of the currency, which brings us back to dollar stable coins, which I think can be a very, very efficient way to build this new safari park that we're talking about, where you think they're free. You know, you can go and sit in that tree or that tree, and you can chew your, you know, your fresh meat and raw whatever, as much as you like, but you're not in the jungle anymore,

Erik Townsend

Michael, let's get your take, because we already heard from Brent on how he sees this. Why are stable coins so important, and do they have the potential to really reinvigorate the dollar's hegemony over the global financial system so that we no longer feel that the dollar is at risk of losing its reserve currency status.

Michael

Yes. Full disclosure, Brent and I are friends and have a very, very similar view on this particular topic. You know, I know that he's just published a really, really great piece of work on it, which I thoroughly recommend people looking at. I got my own fast, slimmer piece of work out a little bit earlier, and was making, I think, one key point the same way, which is, when people were talking about these dollar stable coins initially, the because markets crowd, and I am saying that with a sardonic smile on my face, we're just talking about, is this a new asset, like an NFT, that. I should be buying, if I have a buy all the things policy, you know, how much money will I make doing this? And I fully understand why individual investors would be thinking like that, but they are missing the point. These dollar stable coins are, as Brent quite correctly, says, entirely, entirely geopolitical. They are about creating a new financial architecture which will enable the US to re industrialize and where, instead of the offshore currently, Fiat Euro, dollar being the tail that wags the US dog, the US dog wagging the tail, again, no matter how large that tail has got, because that tail is enormous, it's like a kangaroos tail now, rather than a dog's tail, but these dollar stable coins will allow the US to wag it again.

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Michael, let's tie all of this conversation together. Run it through your mental blender, and let's spit it out in terms of market opportunities, what does this mean for investors? And also, how do all of these things affect major macro trends, like, I think we're in the beginning of a secular inflation. How does this play into that?

Michael

Well, okay, there are several different ways that you can look at it. You can you can slice the cake in different ways. So one of them, broadest is, are you Team China or team us? And if you're on X or on social media discussing this, there are really passionate views either way. And very clearly, if you've got a strong view, one is going to win and one is going to lose. Go short, one along the other, and you choose, and that's on the FX, that's on the assets, that's on every single related element of that team and what it has to offer. I think that's a very simplistic way to do it, but I know some people who do do that in the interim, while we are getting along that path, bit by bit, step by step, I agree with you that part of what we're seeing, for example, in this AI surge, which is absolutely related to it, it's who's going to win the race for ai don't, don't ask me Why. But that's where we are. That's clearly inflationary. You know, you're seeing power costs surge. You're seeing, you know, resource demand absolutely surge, and that will absolutely feed through into inflation in some areas, and at the same time, ironically, the AI we already have is highly deflationary, and it's deflationary on two fronts. First of all, if companies aren't going to hire anymore, and we're already seeing companies actually start firing and replacing people with AI, we have the potential prospect of massive corporate profits and no one working. I mean, if you push that to its logical extreme, it's a ludicrous scenario. But that doesn't mean we couldn't get there.

You know, everyone loses their job and one person in the corner owns everything. In fact, even the Financial Times in the UK recently ran an editorial, or, sorry, an OP head. It wasn't written by the FT, but they published it in their, you know, in their own paper, which shows how important they thought. The argument was that, rather than universal basic income, we need Universal Basic capital, where everyone will need some kind of share in AI to compensate for the fact they don't have a job. Now that sounds very much like universal basic income to me, but it's interesting that was, as I said, being discussed equally if AI doesn't make any money whatsoever, and it can't make any money, and it's all just about the military. And once the military gets that golden egg laid, it takes it, runs away and says to all the companies who did it, thank you. You can all go bust Now that's pretty damn deflationary in terms of asset prices, you know, that's that's going to wipe ahead of a lot of people out if that were the case, and if, basically, the US has outsourced the Manhattan Project to a lot of people who are in a race to make a nuclear bomb, per se, and then they'll just take it away and say there's no money in them, you know. So that could be another, another deflationary aspect to it. But above and beyond that, we have real disruption baked into the cake right the way down supply chains from upstream to downstream. I was mentioning that very early on at the beginning, that that's what I thought would happen. What we're already seeing in terms of, you know, for example, the oil refineries in Europe that got blown up. What we're seeing with Europe and Ukraine, sorry, Russia and Ukraine doing to each other's energy infrastructure and what, logically, China, what is already doing to the West in terms of these rare earths, which, by the way, is seeing the price soar in the west and remain low in China. That's the that's the paradigm they want to see. Well, the US and or the West needs to see that reversed, low commodity prices for what they have in the West, high in the Chinese block, because, well, whatever it takes to achieve that, and there are lots of ways to do it, so in its extreme. And this is an important thing to conclude with here. I think we may be looking at a world where we don't have one price for commodity X, Y or Z. We've already got a bifurcating technology environment. We've got bifurcating supply chains for certain goods. Why, for example, would we have one or, you know, one very close set of benchmarks for oil. We don't have one for germanium right now. We don't have one for. Other rare earths. We have a Western and an Eastern, and I think we will have that for lots of different commodities, and you can make serious money playing that the right way, and you can lose serious money not playing it the right

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way. Doesn't that arbitrage opportunity potentially create or extend a global network of crime that that seeks to arbitrage those prices by pirating things into countries that they're not supposed to be imported into.

Michael

Let me ask a slightly sarcastic question in a very British way, your first time in markets? Yeah, absolutely. Of course it will, and there'll be money made doing that, but it will be highly illegal, and you'll risk getting blown up quite, quite literally. I mean, during the Cold War, we certainly had some gray market activity, and I'm sure we all have some here. But if individual investors at home are listening and thinking, yep, I'm going to be a profiteer, you know, the kind of guy who in London in World War Two was selling, you know, knock nylons for the GIS had brought over with them to, you know, to ladies around the back of the pub. I wouldn't say that's your best pension option, right? I think there are going to be far more crystal clear ones that you will be encouraged to do at home. But yeah, at the margin, there will certainly be people doing that too, because human beings are human

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beings. No, I'm not thinking about opportunities for individual investors. I'm thinking about a massive increase in gray market transactions that criminals like, oh, I don't know mafia or Goldman Sachs or, I'm sorry, what was I saying other others might get involved with in ways that are not obvious to to the

public. So I'm just suggesting that markets could become more complex and grayer than they are black and white. Now, if the predictions that that you're making are come to fruition.

Michael

Well, look, that's already been the case historically. If you do a deep dive, you know, lift the stone, have a look at how some European economies have operated during the Cold War, you know, when there wasn't much official trade flow between East and West, and how certain countries which had organized crime networks operated within that and who they collaborated with and who they didn't, and how, I think you'll find it very entertaining reading, and it's certainly a lot better than the plot of the last couple of James Bond films. I'll tell you that for

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nothing, Michael, before we close, let's talk about where some of the opportunities that are on the upside for both our institutional and retail audience are, where are opportunities and markets? How should we be thinking about all this dire news in terms of upsides?

Michael

Look, there's a lot of upsides to it. So I warned, as I said when Trump won re election, that we were going to enter the world that we're in now. And I spelled it out really pretty concretely. I even mentioned things like the Panama Canal, okay? At the same time, I didn't say, sell everything a runaway screening from the US. And when people started to do that, started to do that, I was mocking them and saying, You don't understand what's going to happen. It's part of the interests of this particular new paradigm to make sure that people do Okay, maybe not the same trades you used to make before. Maybe you're being corralled in a certain direction, but there are still directions in which it will be worth going. And one clear example of that, of course, is AI where, if you look at the market cap of Nvidia, now it's more than the GDP of Germany, and you look at the market cap of Microsoft, and it's more than the GDP of France. So I'm not telling anyone what to do specifically, and certainly not in terms of those two stocks. What I'm saying is, if you understand how economic statecraft works. You understand how grand macro strategy works, factoring in also the military and the political statecraft alongside that, you can start to see what will need to happen in certain areas and where money will be made and where money will be lost. And that is the one critical set of lenses that I've spent all year trying to share with people, put them on, and you'll see for yourself what you need to do. Don't put them on, and you're just guessing,

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and you've done quite a lot of writing about these things. So for people who want to follow your work before we close, tell us what you do at Rabobank, and how to pronounce Rabo bank, and where we can follow your work?

Michael

Sure. Well, for us, it's Rabobank. If you're Dutch, it's rainbow bank. And I always get confused between the two. So I'm a global strategist, or you could pronounce it global strategist if you want to try and make it Swedish. And I do what we've just done on this discussion. I'm cross asset, cross geography, cross disciplinary, and I'm trying to look at the biggest of big pictures in order to understand what's going on at the local level, tying together the micro, the macro and the meta. So that's what I do. And if you've enjoyed hearing this, or this is your first time hearing me in particular, obviously, go to Rabobank knowledge. Now, you do have to be a Rabobank client to get the best of that, but some of the stuff is available there. Look me up on LinkedIn. Some of my recent research, which is most appropriate to these discussions, is available there. And I'm also on X at the Michael every or one word, T, H, E, M, I, C, H, A, E, L, E, V, E, R, Y,

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Patrick sobrezna, and I will be back as macro voices continues right here at [macro voices.com](http://macrovoices.com)