



## ***Michael Howell: Is This The end of the Everything Bubble***

**Erik:** Joining me now is Michael Howell, CEO, of Global Liquidity Indices. And boy, what a perfect time to get Michael on the show. Michael prepared a slide deck to accompany, today's interview, which I strongly encourage you to download as we'll be discussing those slides throughout the interview. There are also two research notes, which are very much worth reading.

One of them is called a Giant Hissing Sound, and it's exactly about this drying up of global liquidity that's occurring in markets. Michael published that long before the market events of the last week or so. So he's definitely got some prescience in terms of what was going on in this market. The second download is called The New Currency Wars and the Gold Bitcoin Axis, America's Digital Collateral versus Chinese Gold.

Both of these papers are very much worth the read. Just for our listeners benefit, we are recording this interview. Early on Tuesday morning. So Michael and I are aware of the market carnage, which brought us to the first sell off to a closing print below the 50 day moving average on S&P E mini futures since the 21st of February in 2025.

The last time this happened, it was 1200 points down from there before it bottomed. Michael. Is that about what's gonna happen next, or is this one gonna be shallower?

**Michael:** Oh, hi Eric. It certainly could be. I think the concern is that we've we've been in a bit of a bubble and liquidity is basically being pulled from markets and, liquidity has been a major driver of asset prices really well, as long as I can remember, in fact.

But certainly since the the low point in. Late 2022 markets have catapulted upwards by more liquidity. And it looks as if this is coming to an end, or certainly at least for the short term, if not one into 26.

**Erik:** Now I wanna compare this. I agree with you completely that boy, liquidity is everything to markets.

It does seem like the technical indications are giving us a signal we haven't seen since February. That was pretty nasty in February. This could be big. The other side of that though, is our good friend Eric Peters over at One River Asset Management has a note out saying, look. President Trump has never had more at stake than he has right now.

If the Democrats take control of the Congress in the midterm elections in 2026, we're gonna go back to Lawfare, probably another impeachment. Who knows what could happen. On the other hand, if he can get through this and somehow make sure that Republicans win in 2026, then the rest of his presidency, and he can't run again, so this is the end of his presidency.

It sets him up for the legacy that he wants to have. So what Eric Peters is saying is, boy, there's never been a stronger incentive for Trump to pull out all the stops and do absolutely any policy action that it takes to turn this around. So I guess the question in my mind is, okay, are there any policy actions that can turn a drying up of global liquidity around?

And I agree with you, it's not just US, it's global. Liquidity that seems to be drying up. Is there some trick up Secretary Bessent and President Trump's sleeve that could reverse all of this?

**Michael:** I think there's a lot of things out there. And I'm absolutely sure that their focus very much on the midterms, so I'd be surprised if they do nothing from here.

But the question is do they really try and goose Wall Street or do they put more stimulus into Main Street? And I think everything that we're hearing out of. Treasury Secretary Bessent is that we're basically moving towards an environment where it's quite likely that Main Street is gonna get the thrust of any policy impetus.

Now, I think you can see that in some ways by listening to some of the Trump appointees on the FOMC notably Steer Miran. And what he's saying is that sort of very curious combination of. Let's cut interest rates, but also let's shrink the Fed Balance sheet. Now that's a head scratching point because it's difficult to do that, but at the end of the day, what they're really saying, I think, is that lower interest rates will likely help Main Street.

But a smaller balance sheet is gonna take some of the impetus or some of the liquidity away from Wall Street and that may be is what they're thinking of doing. And it's really in this sort of camp that I describe as, a shift from Fed QE towards treasury, QE.

And that I think is really the direction of policy. The problem is it's very difficult to. Sort of fine tune that withdrawal of liquidity from Wall Street without causing the market some tensions. And I think we're seeing the early signs of that now in the repo markets. We haven't seen these kind of tensions in repo really, since 2019, and the script is looking very similar.

So you're seeing a run of excitement or wider spreads in repo and then suddenly as in 2019, you get an unexpected blowout and that could be happening again. So we've just gotta be really careful about monitoring some of these some of these issues.

**Erik:** Michael, let's tie this conversation into your slide deck. Walk us through what's going on and what we can expect next.

**Michael:** Okay let's let's start on slide 11, which is a little way in, but it gives you the sort of essence of what I've just been talking about, which is looking at at the global liquidity cycle.

Now, what this chart is identifying is the momentum of liquidity through the world economy. Now, I think we've gotta be, clear about. A couple of things. One is what is global liquidity? And the way that we define it is it's the flow of funds through world financial markets. Now is that money supply?

The answer is not, it's not probably an easier way to understand what we are doing is to say that this aggregate is really financial money, but it pretty much begins where conventional M2 measures of money supply end. So it's really looking at that sort of fringe. Of, of funds, which are, in repo markets flowing through shadow banks, Etc.

These kind of more esoteric areas. But it's that which tends to drive a lot of the leverage in the financial system. And it's very cyclical as the diagram says. So the black line there is the momentum. It's shown as an index, but it's basically the underlying growth rate of liquidity. And what we've overlaid on top of that is a sine wave that you can see as a red dotted line.

Now that sine wave was actually put in place 25 years ago, back in the year 2000. It was estimated for those that are mathematically inclined by fourier analysis, and it's basically been extrapolated thereafter. What is what you get. It's a 65 month cycle. Interestingly by coincidence the foundation for the Study of Cycles, which is an institute that looks very closely, as the name suggests, that cycles took the data away and did their own independent analysis much more rigorously, I'm sure, than we did. And they came back with exactly the same conclusion that it's a 65 month cycle.

So there's independence sort of corroboration here. And the other question is, why is it 65 months? And our best rationale is that this is a debt refinancing cycle. As we've noted before, capital markets are not as the textbook suggests mechanisms for raising new money for new investment projects.

They're much more systems for debt refinancing. And we've got so much debt. Something like 70 to 80% of all transactions in financial markets are about debt refi now. So this is debt refinancing cycle and the average maturity of Debt out there in the world economy is around about five and a half years, which is exactly the 65 month cycle.

So that's probably what it is. And you can see from the cycle that we last bottomed in late 22. In fact, it was October of 22. The cycle has been moving up, pretty pretty nicely in almost in a straight line ever since. But it's just beginning to inflect and it's inflecting. It's pretty much round where that sine wave is suggesting late 2025, early 2026.

And that's why we're concerned because we're seeing this downward momentum. And that's coinciding with where the cycle would norm, the rhythm would normally start to turn down. So that's our concern. And if you go to the next slide that basically just encapsulates that in by looking at the current cycle and comparing it with the average.

Cycle over the period since 1970. The average cycle is that black dotted line. The zero is showing the, of the middle of the chart is the low point, the months before and after that low point are shown at the bottom counting to the left and to the right. And the red line is the current cycle. So it looks as if we're pretty much at the end of a, what is a normal cycle.

Now there is tolerance either side of that average and the tolerance it's been on average about eight months. You've got a window there of

some flexibility, but it looks as if we're getting pretty late. That's the story. And then, if you want the implications, then take a look at the following slide 13, which is just a schematic diagram that looks at the asset allocation cycle and tries to overlay the liquidity cycle, which is shown on the left. Onto the asset allocation cycle, which is shown on the right, and it basically infers that if you're in the upswing, in the phases that we describe as rebound or calm, you are likely to have strong performance from equities around the peak of the cycle.

You tend to find commodities. Picking up strongly in the downswings you wanna be moving back to cash is the asset that gives you the better absolute returns. And then around the trough of the cycle, you want longer duration government debt. And then the cycle starts again. You go from risk of back to risk on, and that's effectively how the how the cycle tends to work.

Where are we now? We're basically around the peak in the US market. We reckon Wall Street's in what we call a speculative phase in terms of liquidity. Let's be clear. Other markets are nearer the peak, maybe Europe emerging Asia, and much more in the sort of the very late calm phase.

But you got the idea. We're late in this cycle.

**Erik:** I wanna make sure that I'm not reading too much into this. 'cause as I go back to page 11, this looks pretty ominous. It says that basically we're probably hitting a peak or pretty darn close to it, and it's two or three years of down before up starts again.

And we're seeing that confirmed. I would say certainly the signal that we've seen in the last two days in the market is the first time since February that we've had a closing print on the S&P below the 50 day moving average. And I saw an. Note from our friend Ola Hanson over at Saxo Bank saying commodities are really starting to take off.

That jives with what you're showing on page 13, that's what happens after the equity cycle has already peaked. Really seems like there's a lot of corroborating evidence that all says equities are done here. Am I reading too much into that?

**Michael:** May maybe, it's never quite as binary as that, as you know right , but I mean, I think the the fact is that we're likely to see much

more of a headwind for stocks if this is the correct judgment, that liquidity is turning down.

You can see this whole picture in a, maybe a, an easier way through traffic lights, which we show on slide 15. And the point about that chart is that it basically shows to the left. Asset allocation in which asset classes you should be picking in different phases of the cycle. And then the industry groups that tend to perform are on the right hand side.

Now what that traffic light system says, and by the way, that this is, not something which adapts to each cycle, it's something that we I'm not gonna say set in stone, but it more or less is we've used this for decades, but it basically shows where you would normally expect to see returns from.

Different asset classes, different industry groups. Now what it says is that if you're in the rebound stage where you know you want to be, just think about the traffic light, the orange light says proceed with caution. So that's saying that you wanna, overall in your asset location be prudent, but probably.

Moving forward green lights are clearly goes, so you want to be in equities and credits at that stage. Commodities, it's too early and bonds not really any interest. Then you go to calm and you start to see equities picking up more strongly and you're getting the first sniff of action from.

Commodities credits. You wanna be, maybe a little bit more cautious, spreads have already narrowed a lot at that stage. Speculation, equities proceed with caution commodities, full green. That's where I think we are now. By the time you get to turbulence, you wanna be out of out of equities.

You maybe wanna be sticking a toe back in the credit area because spreads may be more attractive and bond duration gets the green light. And you think about industry groups on the right hand side very straightforward. You wanna be in cyclicals in that upswing phase during rebound and calm.

You wanna be defensive otherwise, in the downswing phases. Technology always leads, so it does. Really well in rebound and calm. You tend to find financials really picking up strongly around the mid-cycle calm stage. And then typically energy commodities do well later in

the cycle. Now, I would say, despite the fact that we've had virtually no business cycle to speak of since the end of COVID.

Economists have generally flatlined maybe for a host of reasons, one being the the sort of strength of fiscal spend. What you've seen is a very normal liquidity cycle and you've seen a very normal asset allocation cycle. This has been almost operating like clockwork technology.

Were clearly leaders financials have had a stellar 12, 15 months across, worldwide. Commodity markets are, have been on fire mining stocks have been basically, thrilling us this year. So it looks extremely normal from an asset allocation and liquidity cycle standpoint. The puzzling element is clearly about reading the economy because that's pointing all different ways.

**Erik:** And I would suggest also that the obvious other elephant in the room has been an expectation or a desire among market participants to believe that this market weakness surely must have been all about the US government shutdown. With the government reopening. We must be almost at the bottom and it's all gonna take off again.

It seems like you've got the good explanation for why. Maybe that's not true, but I think we should touch on that topic. Is there any any validity to the idea that maybe what we're seeing here is just to sell the news reaction to the government reopening and we're about to see a recovery?

**Michael:** It could be, I think that, one has to be realistic here. And the fact is that, within the Fed Balance sheet, there's an element that we we've termed fed liquidity which is something we wrote about when we published a book, five or six years ago, called Capital Wars, which went into dissect it a lot of Fed operations.

And we came to the conclusion that it's not the overall balance sheet. That's really the important element. It's really understanding. Parts of the balance sheet, those components that actually create liquidity for the markets. And if you look at that that particular aggregate that that calculation fed liquidity it's been under, under pressure over the last few months.

Really from a combination of reasons. One of those is being the end of the debt ceiling. Treasury general account, which had been paired down

during the period when the, where the federal government couldn't issue debt. It's been rebuilt. That sucked money out of markets. And then lately the government shut down, has further sucked more money out because there hasn't been the, there's been limit limitations on spending.

So you've got the Treasury general account, which is it sounds slightly wonkish, but it's an element of the balance sheet where effectively the Treasury build up its bank account at the Fed, but that is taking money outta markets. It's not circulating liquidity, and that has been, now it's over a trillion dollars and that will clearly come down as the government restarts.

There's no question. So money will come back. The question is that the Fed has taken out. Over that, maybe the last six months since the summer about 500 billion. So half a trillion dollars out of markets it could put back with a government restart, maybe 150. So we're still gonna be sure, and that is being played out in bank reserves where bank reserves are now well below the 3 trillion threshold in the us and that's clearly causing problems in the repo markets.

I think what might be helpful is to try and understand why this is a problem and maybe what is coming down the track in terms of understanding this sort of whole debt liquidity nexus, which is really driving global financial markets as we see it. And there's a slide a little bit further on in the presentation on slide 21.

Which looks at a sort of schematic representation of the, the world financial system, if you like, post GFC. Now, what that slide identifies, it's as I say, a schematic diagram, right at the heart of that diagram is a debt. Liquidity Nexus, and what it basically says is that you've got this paradox in the world economy where, as I've maybe emphasized, we're in a refinancing world where capital markets are already focused almost entirely now on.

On refinancing existing debts. If you take out a debt, unlike an equity security, you've gotta think about rolling that debt. Spoiler alert, debt is never repaid. It's only just rolled over. You've gotta, you've gotta roll that debt on average FI in five years time. And that causes a great burden for financial markets.

So if you think of a very simple math here, if you've got \$350 billion of, sorry, trillion dollars, I beg your pardon. Trillion dollars of debt in the

world economy with an average term of five years, you are asking capital markets to roll over 70 trillion. Of debt every year. This is a huge amount and it's only getting bigger.

Now if you look at how this system works, you've got at the heart of the system, this debt liquidity nexus. The paradox in the system is that debt needs liquidity for a rollover, but liquidity needs debt as collateral. It needs all existing debts as collateral. Now, that's the paradox. Something like, as you can see from the chart, 77%, very precise figure, but that comes from the World Bank, 77% all lending worldwide now is collateral based.

So it doesn't mean to say your, home mortgage or real estate has got a, is collateralized. It's not just that. It's saying that a lot of financial lending. It's actually collateralized using US treasuries or German bonds. Think of the hedge fund basis trade that is underpinning the US treasury market.

A lot of that is, or the bulk of that is collateralized on treasuries. So this is really a very important element. And the point about this diagram is that what you need is an equilibrium there, and that equilibrium is a balance between the amount of debt and the amount of liquidity. If you have deficient liquidity, you're gonna get a financial crisis.

If you have too much liquidity, you get an asset bubble. Now, if you take a look at the following slide 22, that gives the history of that particular ratio. What that shows is the debt liquidity ratio over time. Now, I've often puzzled, been puzzled by the idea of why do economists look at debt to GDP, and I've never really understood the logic for that.

Maybe it's because it's an easy calculation to make. And so many things in economics what is most easily measured seems to take on the greatest importance, whether it's relevant or not. And I think that's the same with debt/ GDP, this is looking at something which is practical, which is saying, let's look at debt liquidity.

You need liquidity to roll debt. And if you look at that series, it's it's basically a stationary series that mean reverts. And it seems like there's a level of. About 200%, otherwise, two times debt to liquidity where you get an equilibrium. Now, if you stray above that equilibrium, if you go way above the two, you'll see there that you get spikes which have annotated, which happen to be global financial crises, and that's when

you get refinancing tensions in the system because there's too much debt, insufficient liquidity, you can't roll the debt.

And so financial markets get into gesture. If you look at the opposite of that, if you go down the page and you look at the low periods of the debt liquidity ratio, when there's abundant liquidity in the system, you get asset bubbles. The vent of that excess liquidity is asset prices. And you can see where we've just been coming from, something called the everything bubble.

Now that is an astonishing displacement downwards of that ratio, and it's clearly been propelling markets ever higher, and you can see that it's now coming to an end as that. As that line picks up, now we can go down two rabbit holes here. One is to look at the history of asset bubbles, which I think was the second slide in the deck, which is just something I snipped from Twitter which was a chart on asset prices in bubbles since 19, the mid 1970s.

And I just overlaid on that, our global liquidity cycle, just to show that almost every bubble coincides with a prior period of excessive liquidity, pretty much as this slide 22 confirms. But the question is, why did we go down so far in that ratio? Why was there so much liquidity relative to debt?

And now why are we going up? And that's really the second rabbit hole. Now, if you think about why we went down, it was simply because we reached the situation after the GFC and after COVID where policymakers just plowed liquidity back into the system to try and write put us back on the rails and write the system after those significant crashes or collapses.

Liquidity was the solution. It's now become the problem and the other thing is that interest rates were slashed to zero. If you've got worries about debt, why do you want to incentivize people to take on even more debt by getting interest rates to zero? That seems to be a completely crazy policy doing that, but it also encourages a lot of borrowers to term out their debt later to later in the decade.

So if you look at the next slide and I'll stop after that. But if you look at the next slide 23, that shows the debt maturity wall, for the advanced economies, what's called the debt maturity wall. And this is our calculations, but it

basically shows the incremental increase each year in the amount of debt that needs refinancing

You can see this is for, as I said, the advanced economies. You can see the bite out of the chart in the COVID years 21, 22, 23. And why was you, why did you see that bite? Because low interest rates encourage borrowers, governments, corporates, households to refinance their debt, term it out, in other words, push it back to the late 2020s.

And that is now coming back full steam into capital markets and it needs liquidity. To be refinanced, so that's why the ratio's going up and that looks fairly threatening for the next few years. Liquidity is desperately needed and that's not what policy makers seem to be wanting to do.

**Erik:** This slide 23 really speaks to me, Michael, because we've discussed this narrative for the last 10 years about, boy, we're gonna run into this problem.

Interest rates going back up, it's gonna be hard to refinance US government debt. It comes at a time when geopolitical relations are such that many countries are questioning their commitment to US treasuries as their primary reserve asset. That's a great narrative. But boy, you look at slide 23 and what it says to me is.

Was a good narrative, but we didn't really have a big problem until about 2024, and it gets worse in 2025 and wow, for the next five years, who the heck is gonna buy all of that US Treasury paper at a time when even before we had this maturity wall hitting us in the face, it was already getting difficult to continue to rationalize that sale of US Treasury paper because of geopolitical developments.

Am I reading too much into this, or is this a really scary slide here?

**Michael:** I think Eric, you're not rooting enough into it. I think the reality is, remember this is refinancing existing debt. This is not talking about the new debt that's coming down the track as well. So you've got on top of this for the us another 2 trillion every year of of new debt.

So I think this could, we're burying ourselves under paper here. This is the problem, and so you need more liquidity, and this is why the monetary debasement trade is so popular because the only way

governments can get themselves out of this is to basically start printing money.

Now you can see the tensions, which are forcing governments into a corner. On the next slide, which is looking at the repo markets, which is very topical right now. Now the issue that we raised is that if you start to see problems between the amount of debt needing to be refinanced and liquidity, you're gonna start to see tensions in the repo markets, which are the main refinancing arena.

Certainly post the GFC. And what slide 24 shows is the spread between Repo rates, which are a market based rate and fed funds, which is clearly the administered rate by the Federal Reserve. The targeted rate, and you can see how that spread is evolving over time over the last three or four years.

Now, it's not so much the extent of the divergence that's really important here. It's the frequency and what you're seeing is more and more evidence that the repo markets are struggling under the way to refinancing demands and the lack of liquidity. And normally you'd expect to see is that chart initially shows a negative spread because SOFR rates which is the main repo rate.

A collateralized whereas fed funds is not, so you'd expect actually SOFR to trade a tad below fed funds. And actually what you're seeing here is it's trading well above. And, paradoxically, the Fed's recent interest rate cut has been virtually wiped out now by the markets in terms of the rise in SOFR.

So it's the Fed has lost control. The interest rate setting mechanism. Now, at the moment, this is purely an inconvenience for the Fed, but it could turn into a bigger problem down the track. And one of the things to see is to look at a couple of slides on which I think is slide 27, which is looking at bank reserves in the US which is really the counterpart to liquidity in money markets.

Bank reserves are shown as the orange line in terms of their deviations from what we do. Deemed to be adequate levels of reserves or minimum levels of reserves, and the numbers of failed trades that you're getting in among primary dealers in these markets. Now, primary dealer trade fails are shown in black inverted.

So when that black line falls. Lower, it's actually indicating a big spike upwards in failed trades. And what you can see is that as bank reserves dip so you are seeing this this process of increasing trade fails. Now that's only gonna lend to volatility in. Financial markets and certainly in the bond markets.

And that's really a concern. And if you wanna understand how we got there, just take a look at the two prior slides, 25 and 26 25 is looking at the aggregate we described as fed liquidity, which is basically the liquidity components of the Fed Balance sheet. And this, comprises both their QE policies.

The QT policies and what we've slightly tongue in cheek labeled not QE, which is this ULA tabla or backdoor liquidity injections that can come, through running down the reverse repo account through the bank term funding program, whatever. You look at slide 25, which is the fed liquidity growth, and you can see basically where we are right now, which is this big draw

In in the growth in liquidity. So actually fed liquidity is falling in absolute terms, and that's because of these factors such as the end of the debt of the debt ceiling, the government shutdown, Etc. There's some recovery for sure, but it looks like a fairly recovery. And even to get there, we've assumed that we go back to a QE.

I've used the, heretic. I've used the word QE, the dreaded word. We go back to a QE of maybe 250 billion next year. But there's still not enough to already lift, fed liquidity growth. And you can see the impact of that if you go to the next slide, 26, which is the counterpart. So think about fed liquidity, initiates the liquidity impulse.

It goes into money markets and it ultimately appears as bank reserves excess or whatever levels of bank reserves. And you can see here are Estimates of bank reserves. So we've taken, we've calculated estimate or we've estimated bank reserves by looking at when you get tensions in repo markets. And that gives us a plot for minimum levels of reserves and we show actual reserves against that.

And the. Prior chart or I looked, we looked at earlier. Slide 27 is the one that shows that displacement relative to failed trades. So you can see where we are now. The Fed has basically let us bank reserves fall below

what we think is the critical measure of about 3.3 trillion, and that is why you're getting the tensions in markets right now.

And I'll end this bit on just looking at one further slide, which is slide 29, which is comparing fed liquidity in absolute terms with the S&P. And the S&P has been lagged by six months to show it has it follows on, not directly one for one, but, I've always looking at that chart and, spotting the fact the federal liquidity was dipping as sharply as it is.

I'd be fairly worried about the health of Wall Street. If you get my point.

**Erik:** Michael, let's move on to page 30.

**Michael:** Yeah, let's let's focus on that, Eric. What it's looking at is a slide that basically disaggregates the various sources of stimulus that are coming into US financial markets in liquidity terms and what the chart is looking at.

There are three divisions there two, which concern the Fed which is the orange and red areas. The red is conventional QE, balance sheet expansion by simply buying treasuries. The orange bid is what we've as I said, called slightly Italian sheet, not QE, which is really the backdoor liquidity stimulus, which comes from things like the bank term funding program, the rundown of the of the reverse repo account, Etc.

Other sources of liquidity, and that's really what you would call fed QE. And that's been something that clearly has lifted Wall Street. It's benefited wealth owners in the US. But it's something that treasury, secretary Bessent, roiled against, and more particularly recently new FOMC appointee Stephen Miran.

And what they're talking about is actually focusing much more on what I've labeled treasury, QE, which is the black area now that basically is concern something that Miran wrote about we've also focused on, which is looking at changing the issuance calendar in the US towards. Bill finance or very short term debt finance of the government.

And because that changes the structure of debt in the system, although this sounds wonkish, it actually is equivalent to a liquidity injection. In other words, if you're, if you are issuing a lot of treasury bills, the question to ask is who buys those bills? And it tends to be banks and banks by government debt.

Technically it is monetization of the deficit now. The little window in that chart is basically overlaying on the liquidity stimulus the the growth rate or the cycle of the US economy. And you can see that the two line up pretty well with a lead time of about nine months. So it should be that the real economy gets traction in 26.

Contrary to what a lot of people are talking now about recession, I think it's gonna be the opposite. You get stronger growth. Now, this is not just a US phenomenon of this monetization of debt, it's also a global phenomenon. And if you look at slide 32, this is looking at the scale of monetization of fiscal deficits and government debt by banking systems worldwide.

And the point is that this shift from longer dated debt issuance towards shorter debt issuance is. A subtle way of governments getting banks to finance them through printing money because banks love the short-term paper and that's exactly what they're doing. So if you look at that slide 32, that's worrying for Monetarists because what it's likely to be telling us is that more traditional M2 money supply growth.

Could be actually accelerating into next year and you Yeah, I'll back up. The envelope calculations would suggest that us M2 conventional money supply could be growing at something like, seven 8% in 2026, which is clearly incompatible with a Fed. 2% inflation target. So this is the longer term problem that the system faces.

Now, that's one reason why you want real assets as a protection against this debasement, but there's another reason, which is basically China. And if we look at what China is doing, take a look at slide 38, which is. Jump forward, but it basically looks at the debt to liquidity ratio of China and it compares that with Japan, which is the black line on that chart.

Now, as I tried to argue, debt liquidity ratios are the equilibrium in the system, and what you need to do is to get out of a away from a high debt liquidity ratio and to pair that down to more average levels. And you can see Japan has successfully done that. And despite the fact that Japan's debt to GDP is sky high, its debt to liquidity has been brought down significantly because of Abenomics and because of the bank of Japan buying lots of JGBs Japanese government bonds monetizing debt causing the Yen to weaken significantly. And by the way, it's still weakening despite the a lot of brave words about how the yen is so undervalued. It's responding to this monetary inflation by devaluing.

China is good doing the same thing now it is being forced into a devaluation of its currency.

It wants to print money. This has been, I think, accelerated by the stable coin phenomenon in the us It's threatened. Monetary system is threatened greatly by this, and you can see on the following slide. 39. The scale of the impulse that the PBOC has just added to markets in 2025. They've been sitting on their hands of quite a long time.

They're running a tighter policy to try and protect the Yuan against the US dollar. And my view is that's doing two things. One is. But that big liquidity impulse is driving the gold market up, which is what Slide 40 says. And I think we've gotta start thinking about how China is controlling gold now.

And that is another sort of ultimate segue into the future monetary system. And then finally, on slide 41, what you see there is the is a track of Chinese liquidity, which is taking a longer term view. Using our indexes of the Chinese liquidity impulse against commodity prices. And you can see there that in the black lines are the with or without energy, the impact of Chinese liquidity on commodity prices.

And the fact is that China has a big economic footprint globally and in the Asian region. And if the Chinese economic engine gets going again. It's gonna suck in commodities and that's gonna drive prices up. So I think we're absolutely at the stage where commodity markets do well.

**Erik:** Okay. You've said that a couple of times now that commodity markets should do well, and we're maybe getting to the point where equity markets have, are reaching a peak.

What does that mean for the commodity stocks, the mining stocks? Are they likely to continue to do well along with the com underlying commodities, or are they going to be affected by the pressure on equities?

**Michael:** Argue this in a number of ways, Eric. One is that if you look at these many of these mining stocks on traditional valuation grounds, or, even compared with their history, they look cheap.

So I think there's no question about that there, there's compelling value in them. But the thing is that a mining stock has two moving parts. The E

and the P and the E is gonna move up strongly as commodity prices rise. Assuming, let's say that oil remains. Or lags because one of the things that tends to affect mining stocks is the cost of extraction, and that tends to be energy related.

Looking at the commodity price to oil ratio is clearly a decent heads up for that, for the, for those profit margins. But assuming that is going upwards, then you're gonna get further. Earnings expansion for these stocks. But the question is the PE and the PE, sadly is also a sort of a function of general levels of Wall Street.

So if markets sell off, it's gonna be very difficult for mining stocks to gain dramatically. They may well outperform because they've got stronger earnings, but it's it's a difficult judgment. So I think that you are on safer ground looking at the underlying commodities. In this at this time.

But, I'm, personally, I'm still favoring mining stock because I think that they've got decent value behind them.

**Erik:** I want to just assimilate this entire slide deck before we move on to go a little bit deeper into this question of stable coins and re-architecting the monetary order, which you've got an excellent paper again, linked in the research roundup email for our listeners to download and read.

Let's just take this all into to perspective, Michael. If you had showed me this slide deck three weeks ago when the S&P was testing all new, all time highs at 69 50 or whatever it got up to, I would've said, boy, this is a really compelling argument that says we're nearing the end of a cycle. The big question now is, okay, when's it gonna crack?

Gosh, Michael, just in the last 24 hours as we're recording early on Tuesday morning before the European open, we've seen the S&P break down to its first close below the 50 day moving average for since February. And the last time it happened, it was 1200 points down from there. Did it just crack?

And if so, it seems like maybe this is a pretty big deal and a pretty big signal.

**Michael:** Yeah, it could be. I think the thing is that if you look at investor sentiment measures so this is what retail investors are doing. There doesn't seem to be a huge overextension in markets.

So this is not about, let's say excessive valuation concerns. This is much more about the flow of liquidity, and you can see the breakdown on the flow of liquidity. But looking at the repo market in the US that's a. Fairly decent heads up. It's only a US metric, but it's certainly important.

And the repo markets certainly are are not behaving very well, and they're not behaving very well simply because the Federal Reserve has pulled the rug away to some extent. And what I would go back to again, is the, is the comments that Stephen Miran has made recently about saying, okay, what we want is the balance sheet down and we want interest rates down.

And that says to me that they wanna direct the hose away from the Fed. And soaking asset markets with actually directing the hose more precisely into the real economy and trying to get Main Street driven forward. And that means, defense procurement. It means critical minerals, it means taking strategic stakes, Etc.

And it comes back to this general idea that we've been talking about for some years. This is a capital war, not a trade war. A trade war is a veneer on top. It's really a capital war. This is a struggle for. If you like, dominance of the world economy in terms of currency and capital and America wants to win.

**Erik:** From page 23, we know we're facing this massive refinancing wall that comes at a time when the relationship between the US and China is under extreme pressure. All indications are that China is buying gold hand over fist apparently, to replace their prior dependence on US treasury paper as their primary reserve asset.

You wrote an excellent paper, which is linked in the research roundup email. It's called The New Currency Wars and the Gold Bitcoin Axis, America's Digital Collateral versus Chinese Gold. In the time we have remaining, give us a quick rundown of what this paper is about.

**Michael:** Let me also flag Brent Johnson because he's done very similar work.

He probably makes the case more eloquent than me, but he's been a great advocate over the years of the MILKSHAKE theory, which you're familiar with, and I think a very good way of understanding the milkshake, theories to look at. Slide 35, which basically showing the big

inflows into the US dollar, and this is something which has clearly occurred almost uniquely since the GFC.

There has been a redirection of money flows into us assets in the US dollar for a whole host of reasons, but clearly it's been a fact and that has prop higher over the years and Brent has very clearly called the milkshake theory. I think what we've got now is a milkshake theory with two straws, and not just this sort of dollar straw, but we've also got a stable coin straw. And I think that explains an awful lot about the reaction of what of China in recent weeks to to the, to these developments and why it's putting a lot of liquidity into its markets right now.

It wants to repair its financial system quickly, and it also explains why China is buying a lot of gold. Now what I think you are getting is you are getting a financial system worldwide that is cleaving. Its two parts, one part which is being backed by gold, which is China. And China is clearly accumulating gold.

It's a big gold producer of now the world's biggest, but it's also buying on the open market. And, some market experts, as you'd be familiar with, are actually suggesting that China has actually managed to accumulate something like 5,000 tons of gold officially. Way above what the slated amount is.

The data shows. So they're doing this surreptitiously, but they're doing it by stealth, but they're still doing it, and that gives 'em the ability to back their currency by gold. Now, it's important to say that this is not a return to a gold standard. Fundamentally no, it's not. Because they still need fiat, because they need fiat money to basically fund the government in the same way that America does.

But America is not backing its system with gold. It's using a stable coin, and it's basically wrapping treasuries within a stable coin wrapper. So what you're getting is essentially digital collateral in the US versus gold. Or tangible collateral in China. And what America is implicitly saying is trust our technology.

And what China is saying is trust our gold. And that's how the two systems are basically working out now. Stablecoin is a big threat to China. And just to understand that, just think of the squeals that are

coming out of Europe now about the unfairness of US stablecoin and, a prominent member of the ECB.

Said only yesterday. Look, this is unfair competition because if the US starts issuing stable coin to European residents, we are gonna lose. Europe is gonna lose control of the monetary system. Let's just reap that for China too. 'cause China's got a much, much bigger problem.

And the way that I envision it is to say, look, if you are a Chinese exporter you are facing sort of the choice between the devil and the deep blue sea at the moment. You can put your money, your dollar earnings. Into a Western banking system and you can risk sequestration rather like the Russians faced after the invasion of Ukraine, or you can put it back in the domestic banking system and risk sequestration by the Chinese authorities, by the PRC if you do a Jack Ma full foul of the authorities.

So it's very, it's a straightforward decision I would suggest to start putting your money into stable coin. It's easy to open a stable coin account easier than opening a bank account. And what's more, there's some degree of anonymity in holding them. So the Chinese must be really scared by this, and that's why I think they've been triggered into stabilizing their financial system, trying to buy a lot of gold, issuing lots of liquidity to the debt problems because we're facing this capital wall.

So it's really a question of trust. Gold versus trust our technology, it's in America's interest. I would suggest maybe controversially to say, actually we want to destabilize the gold price because a much higher gold price will benefit China. And it's in China's interest to attack US technology through cyber warfare and maybe quantum computing to say we wanna un undermine the fabric of of US society, which is very technology dependent.

So you've got these two. Entities at war using very different weaponry.

**Erik:** In the interest of time, I'm going to have to refer our listeners to your excellent paper for more context on this. But I have one final question before we close, which is, how do I make sense of what this means for the gold market from here?

Because on one hand I could see the argument that, hey, China is gonna continue buying gold hand over fist. It's gonna drive the price

higher. You gotta stay long gold. We're maybe at a, a. Bit of a low point here. It seems like a good buying opportunity. Go baby, go on gold. But then I could see the other side of this, which is President Trump is very much engaged aggressively in negotiations with China.

He has, as far as I can see, a very strong incentive. And there's no doubt in my mind that Scott Bessent understands all this stuff and is coaching him on what it all means. To say, look, China, we gotta cut a deal here somehow, where you guys back off on the gold buying and go back to US treasuries and we'll make it good for you by wrapping them in stable coins and we'll make a promise to you that we're not gonna do to you what we did to Russia.

How do I balance those two ideas? What do you think the outlook is for gold here?

**Michael:** I think you've gotta play the trends, Eric. I think that's for sure. Both commodities gold and Bitcoin are volatile. We know that. If you take the longer term view, my view, my.

Perspective is, it's not a question of gold or Bitcoin, it's a question of gold and Bitcoin. You need both of those assets for the reasons I've just explained. And I think if you look at the longer term perspective, just consider the growth in federal debt US federal debt since year 2000. Compared with now is up 10 times.

That's an eye watering figure. The S&P has managed to gain less than five times over that same time period, but goal is up 12 times. So goal is more than outpaced the increase in federal debt. So if you start to extrapolate into the future you are looking, even taking Congressional budget office data that the debt GDP ratio of public debt to GDP for the US is gonna test 250%.

So more than doubling from where we are now by 2050. That would suggest that if you just use that same timeline and assume that the real value, the gold value of federal debt stays where we are now, not an outperformance by goal. The gold price should be 10,000 by the mid 10,000 an ounce by the middle 20.

Thirties and it should be \$25,000 an ounce by 2050. Now that'd be higher. We live to see that, I'm sure. The fact is the trend is there and you've gotta play the trends and people need essentially hedges against

this monetary inflation. And my point has been that we're in a monetary inflation world, not a financial repression world.

There's a subtle but a really important difference.

**Erik:** Michael, I can't thank you enough for a terrific interview. I really want to encourage our listeners to download all three of the attachments in the research roundup email. That's the slide deck, which we didn't have a chance to get to every page in.

I recommend that everyone peruse the pages we missed 'cause there's a lot of great content there, but particularly the two papers that you shared with us, both are excellent and I highly recommend them for people who want to go further than that and find out more about what services are on offer at Global Liquidity Indices, how do they follow your work? How do they contact you and what services are on offer there?

**Michael:** Okay, Eric. The easiest way is to look at Substack. We have a substack called [Capital Wars](#), where we provide both data and narrative, and we publish about three.

Three times a week on average. For that we've we've transitioned from a company called Cross-Border Capital, which I founded. We've now focused a lot on global liquidity indexes, but the old website, [crossbordercapital.com](#) still exists and works, and that's where our institutional research offering is still provided.

Those are the two main conduits I would suggest. And there's a Twitter account [@crossbordercap](#). For the occasional tweet,

**Erik:** Patrick Ceresna and I will be back as Macrovoices continues right here at [Macrovoices.com](#)