

Erik: Joining me now is Michael Every, global strategist in the Economics and Markets team for [Rabobank](#). Michael, I've really been looking forward to this interview and getting you back on the show because frankly, I've noticed that you have an uncanny ability to translate what President Trump says into what he really means and even go.

The next step is to intuiting what maybe he intends to do next. Frankly, I'm confused by a lot of the things that are going on right now. It seemed like the president was signaling that he was. Really gonna go just Max Dovish on his choice for Fed chair. Then he picked Kevin Warsh, which surprised a lot of people.

Then we had absolutely positively striking Iran. No, wait a minute. The entire fleet's on the other side of the planet. We're repositioning the fleet. Now we're gonna strike Iran. Now we're not gonna strike Iran. Oh, maybe we made a deal with Iran. I, I don't get it. Can, can you help me sort out the geopolitics and what's going on?

Michael: Thank you very much for that hospital pass, as we say in, in British football. Yes, I'm very happy to be back on the show and very happy to try and be some form of Trump whisperer there. But what I would say first of all is A welcome to 2026 and B, welcome to President Trump because these are, these are things we have to get used to when we're dealing with both of those particularly, you know, conflated together.

Let's start. With what you mentioned in terms of Kevin Warsh, I've, I've mentioned already in writing that I really think that the market got things wrong in terms of portraying this as a hawk dove decision because. First of all, let's get down to the brass tacks of it. Everything that Trump looks for in a new appointee is loyalty, first and foremost.

And you know, Warsh has a close relationship with Bessent at Treasury, which is incredibly important. And he's the son-in-law of one of Trump's friends, Ron Lauder. So, so that already speaks volumes in terms of why Trump may have wanted to look to him. Secondly, and this is, you know, more in terms of a political economy, architecture above and beyond the fact that we now have one where being close to somebody matters more than it did in the past.

Although, although I think it always did matter, to be honest with other presidencies too, is that what we are going to see unfold this year. And in 2027 and 2028 as well, I'm quite sure is a new fed because if we have economic state craft to the fore now as the driving force in the US and we've spoken about that

on more than one occasion recently, so I don't want to go over that again, but I think you understand what I mean.

And I hope most listeners understand what I mean by economic statecraft. It's really completely irrelevant or just a complete tangent to reality, to worry about whether the fed is hawkish or dovish. In fact, it reminds me of that old adage of you know, the from feminists in the sixties, a woman needs a man, like a fish needs a bicycle. It's just two different things that you are looking at because where interest rates need to be low is abundantly clear in the US economy.

Where interest rates probably need to be high. If you're trying to reshape the US economy in a certain direction, which Trump is and Bessent, is he's also abundantly clear and you don't have one interest rate to do that. I, I, if the Fed were to be really Dovish and slash rates to 2% or 1% purely hypothetically, I think, you know, you, you would be immediately eager to say where you think markets would go and where the investment opportunities would be.

But that's not economic statecraft. Economic statecraft is where do you need the USA Inc to be? What does the ship of state need to look like and maybe parts of it get where they need to go with a one or 2% rate, and parts of it do completely the wrong thing. So in other words, Warsh is being brought in A, because he's loyal to Trump.

B because he's friendly with Bessent, but C because. Obviously, although he won't say it out loud and he shouldn't do politically, he is going to be completely on board with this new reshaping of the Fed into a very, very different institution with a very, very different toolkit, which I think will sit under treasury, under Bessent, under economic statecraft to try and make the US and the world around it look very different.

Erik: Ok, that's a huge difference from the theoretical and I, I do emphasize theoretical concept that the Fed was designed entirely for independence. It's theoretically not even part of the government. So you're saying it becomes a subordinate under treasury, you know, do what you're told kind of organization.

Michael: It already is to a degree.

In fact, I, I,

Erik: well, I've noticed that, but they, they used to pretend that it wasn't,

Michael: well, pretend is the accurate word, because let's not get into real conspiracy theory stuff here. Okay. But let's just be honest. So the Fed is much younger than most other central banks. Most other central banks in the western world was set up.

A long time before the Bank of England, of course being, you know, the grandfather or the grandmother, the old lady at Thread Needle Street as they call it, that was set up specifically to help the government fight a war against France. So there was no pretense whatsoever of it being independent until 1997 which is pretty recent, you know, even in market terms.

And the FED even thought there has been previous iterations as you know in american history. Only got set up in 1913. It's always been a quasi-government, quasi-private entity. If you actually look at the architecture of it, it's not structured like modern western central banks, which are purely in the public realm. It's always been a, a kind of hybrid. As soon as it gets set up in 1913, it gets dragged into World War I.

Well, there's an opportunity for a bank to show that they're only interested in market forces. He said sarcastically. So of course it was involved in statecraft. Within a year of being set up. Then we have the 1920s, which are absolute chaos globally. Then we have the 1930s with the Great Depression, which are absolute chaos globally.

Then we have the 1940s and World War II, in which the Fed proudly says on its own website, they helped win World War ii. Nothing to do with being independent there, and it isn't until 1951. We actually have any kind of compact where the Fed turns around and says, you know, in the Korean War, if we have to finance that, finance that too.

Now that the economy isn't locked down like it was during World War ii, it's gonna be really inflationary. And only then do we start moving towards any kind of pretense. Of independence. But what I want to add on top of that is in a piece that I wrote fairly recently looking at the structure of the US economy, I said, if we are really genuinely cynical and realist and take a step back, the US economy now is overly financialized.

And I think you would agree with that, that term most people objectively would, but the part and parcel of that is that asset prices in the US have to be high if you want. Cash to flow in from the rest of the world, capital to flow in from the rest of the world to fund your trade deficit. Whether that's a good thing or a bad

thing, and we can have a separate conversation about that, you need to have assets for them to go into.

Ergo, those assets can't just crash left, right, and center. So the fed's role is to make sure that assets are unaffordably high, to foreigners effectively. It doesn't say that anywhere. It talks about financial stability. So I, I really think we have to be quite cynical and realist in terms of how we're framing it and recognize that that role of the Fed doesn't help the US anymore because the trade deficit doesn't help it anymore. The capital inflows from large exporting countries like China don't help the us. They're a hindrance as it needs to re-industrialize. Ergo, there is no way, shape, or form. The Fed as the tech quote, neutral, apolitical, technocratic animal that it pretends to be, which it's not, is gonna be able to carry on with the same techno-Babylon gnostic nonsense that Greenspan and, and his ilk were coming out with year after year.

And whether it admits it or not, it's going to have to be part of USA, Inc, Inc, to try and get it out of the foxhole that it's currently in.

Erik: So it sounds like your perspective is essentially Bessent sits down probably behind the scenes with wars and says, look, if we make you fed share, do you understand that the name of the game in 2026 is economic statecraft?

We're, we're changing the world. We've got a big agenda. You work for us, you do what you're told and you're gonna be part of our negotiating toolkit. Do you get it? Warsh says, yeah, I get it. And that's how the nomination comes about. Obviously it wasn't quite that blunt, but is that. The gist of what you're saying,

Michael: well. Let's try the counterfactual to that because when you put something forward like that people may immediately push back. Let's put it the other way. You have a US administration, which I think everyone would recognize is running really radical policy in almost every direction simultaneously, whether it's in terms of domestic things, economic things, international things. It's really pushing the envelope everywhere, all at once.

And you think against that backdrop where it's trying to reshape everything it can. They're going to appoint a Fed Chairman and say, most important thing in the world for us is 2% CPI, oh. And keep the stock market out please. But apart from that, do whatever you want. Make whatever political statements you want you know, adopt whatever position you like.

We really don't care because that's the most important thing. I, I really think I've a bridge to sell you. I don't mean you personally, Eric, but I mean anyone

listening who thinks that's how the world actually operates. Very clearly what you just said is what did happen.

Erik: Okay. So if that's the agenda, help me with the next step, because it seemed like, and this is very much consistent with what I'm trying to understand of the president's style of diplomacy, which as someone recently said, is kinda like.

Throw a hand grenade into the room before you enter, and then as the dust settles, sit down and say, Hey, you wanna make a deal? It seems like we've had a lot of really heavy messaging. Boy, you don't want to be Iran. They're about to get hit. That's it. It's a strike. It's, it's coming. It's coming. It's coming.

We're moving the fleet into position. Then there's a tweet over President's Day weekend saying. Maybe we're gonna make a deal and there's an economic you know, transaction to be had here. Maybe there's an investment. Was this whole strike ran thing a, a lead up to a negotiation on some economic front?

Michael: On that one, we have to wait and see. I think we won't have to wait long to see vis-a-vis the fed, even though it's still a few months until Warsh officially gets in, I think from Iran. We'll have to wait and see another few weeks at least until all the pieces are in place. You can absolutely understand that Trump doesn't want to get sucked into another Middle Eastern war because if his one thing ahead of the midterm elections that wouldn't go down with either independence or his base, it's, Hey, we're in war in the Middle East again.

But that didn't stop him bombing Iran last year and very pointedly in the run up to it. The media were completely fooled, completely fooled you know, that there was a disagreement between the US and Israel, whether there was or wasn't going to be an attack. And people thought that the US had basically chickened out and wasn't prepared to do it, and had talked tough and wouldn't attack.

'cause no one actually well at least in the mainstream press, thought that he was prepared to bomb Iran's nuclear sites because of what they saw as the, you know, the fat tail risks there. Is that going to be repeated here? I think in his heart of hearts, Trump would very much like to avoid doing that because Venezuela with Maduro went as well as something as risky as that can possibly do.

And while Venezuela has not been quote unquote dealt with or sorted out, the message was sent globally. The geostrategic and geopolitical table was.

Definitely reset in a way that many people were shocked by. And if he tries again in Iran and that fails, and you do get sucked into a war, the US is very, very significantly weakened.

E. E equally if you knock out the Iranian regime, but what you get coming back is ISIS in the broader region, an absolute chaos. That's not such of a big win for the US either. But if he can manage to get them to agree some kind of deal, and I actually think the chances of that are extremely low. But if he were able to do that without any fireworks, that would be a geopolitical win.

Where again, the US can say, look, I talk tough, didn't have to do anything. Now I've gotta Iran on board. That's, that's something he would aim for. And if that doesn't happen, if you look at the continuing day by day movement of military power. Into that region as we speak. That's continuing to go on, and I would imagine on the day this podcast goes out, it'll still be going on in the background.

It seems very hard to climb down from that tree because all the geopolitical credit as a, you know, as a tough guy that he got from acting completely by surprise in Venezuela, and even though he had a fleet off of Venezuela, it was still a surprise when it happened. That would be squandered if you then move everything to the Middle East and actually don't do anything.

So I would say that the local intelligence in that region still suspects that you have an irresistible force meeting an immovable object when it comes to Trump and Iran, and that will end up with military action. And then we have to see what happens on the other side of that.

Erik: Let's talk about the road in this environment as you describe it, of economic statecraft, the road from here to the midterm elections, because it seems that one thing is very clear, which is President Trump is not the personality type to say, Hmm, seems like the Democrats don't really approve of everything I'm doing.

Maybe I should back down and moderate a bit. That's not his, his mo. So. It seems to me that he's very committed to the Hail Mary, passive. He's gotta do something to win the mid midterm elections, because let's face it when he was impeached twice, they didn't really have a whole lot of dirt on him at the time.

The Democrats, regardless of whether you think President Trump is right or he's wrong, or he is the best or the worst president ever there, there's really no room

to debate that His actions in this presidency have been. More aggressive and and more radical as you put it, radical policy than in the past.

So if we get to the Democrats taking the House of Representatives, and especially if they got both houses of Congress it seems to me that we're back to impeachments and gridlock and nothing but that. Would you agree with that forecast? And if so, does that mean that the economic statecraft is all going to be focused on somehow making sure that Republicans keep the House of Representatives in November?

Michael: Yes. And yes, because on one hand it's crystal clear that were Trump to lose, first of all the house and of course the House and the Senate. It would be a political disaster. It would be for any sitting president and very much so given the, the radicalness of what he's trying to achieve on multiple fronts.

All at once. So on that basis, it was very clear to me from last November when the special elections didn't go very well for him that he would pivot immediately to being as radical as possible on all fronts. But that includes focusing on affordability. Now, I'll admit the messaging on that I think is not getting through to some of his base.

For example, if you say the DOW is up to record levels again. That doesn't speak to people who haven't got, you know, a couple hundred bucks to put together. And that's exactly the kind of language that we saw from president after president in the past, which just sailed over people's heads and actually ended up with people like Trump elected, but that doesn't mean he isn't actually trying to move things significantly to genuinely put money in people's pockets. Let's just go through a few. Obviously there have been a couple of different measures floated, but not yet acted on housing to try and get mortgage rates down. I expect we're going to see a lot more being done on that.

Over the next couple of months, we've had attempts to try and get credit card rates pegged down to 10% temporarily. Again, very controversial. Obviously credit card issuers don't like it. I'm not making a judgment, I'm just listing that makes a big difference for some people's income. Short term, you've had tax against meat packing companies, particularly foreign owned ones.

Of course, that's a long-term issue. But again, it's focused on affordability. You've got this new discounted drug company where you know you can get the, the fat jabs. Much, much cheaper now than they were previously, which is you know, an interesting policy move. But you can actually join that one up in a couple of ways because if people have more money in their pocket because

they're not spending money on other drugs because they've managed to bring their weight down to a manageable level rather than being really big well on that level they have more money to spend on other products.

And guess what? You might be able to afford a Made in America one if there's a one-off price shift. Cost basis that you know, if it's made in America one off, it's gonna cost you more than in China. And then after that it will level off. The price will maybe even start to drift lower so you can join lots and lots of different dots.

And in fact, it's a no-brainer, an absolute no-brainer if you understand what economic statecraft is to see that it would be foolhardy to think of anything other than that being the policy backdrop for the next couple of months. And in fact, I think that would be the case in any normal election anyway that you want to do within November.

But doubly triply, so this time.

Erik: Well, let's talk about what that's going to mean for financial markets then, because as you said, the Trump administration has already taken a bit of a risk by, you know, telling everybody, look, stock market's at record highs, that's all because of me. Which means if that starts to reverse in any way you know, it's going to be a loss of credibility.

But it seems to me markets don't like uncertainty and. If you assess this situation objectively, again, regardless of whether you love President Trump or hate him, you know the best that can be hoped for is if his radical policy works and he is able to save the midterm elections so that Republicans keep both houses of Congress well.

The best you can hope for is his political opponents will be even more pissed off, and we will have gone through a period of great uncertainty because until that election is actually over, nobody really knows that that's the outcome. On the other hand, the market, I think, is going to start discounting well, wait a minute, what if he doesn't keep?

And particularly what if he loses both houses of Congress? Then we're going to have basically I think a hard stop on all of this radical policy as a new Democrat controlled Congress intervenes to block it, and we end up with the last two years of this presidential term basically being a gridlock.

That's about, you know, the next 17 reasons for impeachment. So. How do we get to here to November without the market really being subject, I think, to a lot of headwinds from uncertainty?

Michael: Well, there are only two things that I would add to that. The first one is that were Trump to suffer that political setback.

The logical thing for him to do is if he can't enact as much policy as he'd like to just move over to executive orders, which he's already relying on anyway, and then probably have to be even more radical again. To try and use them to clear the way through to 2028 for whoever succeeds him. And at the same time, of course, presidents traditionally, when they have trouble at home, do even more internationally.

So that can also be very radical because there are lots of ways in which what happens internationally now directly interfaces with what happens in the us like trade deals, for example. I wouldn't think that it ends just in November. That's the first thing I would say. And the second thing, and this is not in any way to try and segue because I think you're asking a very good question.

I'm making a very good point. It's this, a lot of what I think we're seeing in terms of market volatility over the past few weeks. Even though it's very related to Trump's agenda at core isn't actually being driven by anything he's said or done specifically, it's much more to do with the AI effect, which is something that Trump, of course, is very aggressively backing as I think any US President would in this particular situation because it appears to unlock so many magic boxes as well as Pandora's boxes.

But that. That destabilizing impact, of course, is just rolling through markets like a herd of elephants. And that I think is going to absolutely guarantee volatility going forward. Even if we were to see Trump suddenly have a complete change of heart and say, okay, here's complete predictability over everything I'm going to do, and no one's gonna stand in my way or do something bipartisan, even if those very unlikely scenarios were to unfold.

That wouldn't change the fact that on a almost daily basis you are seeing suddenly some new sector of the economy where people hadn't thought up until recently, well, that doesn't need to exist anymore because of AI suddenly thinking, well, maybe that doesn't need to exist anymore because of AI. So yeah, it's, it's, it's, it's already what you were saying, but it's even more on top.

Erik: So what would the opposite scenario be? 'cause frankly, I'm having a hard time seeing one. I do see where there's significant left tail risk to markets. Things could get uncertain heading into the election. We're, we're definitely at nine months out now where we're in the scope of where the, the timing is right for the election outcome to start.

Impacting the market. I see the left tail risk. Is there a right tail risk where economic statecraft is somehow fantastically victorious and somehow takes us to, you know, much higher highs on stock markets?

Michael: Well, yes and no. Let's, let's take the yes part first of all. If you actually look at the leading indicators, not on your Bloomberg screen, but looking at logistics, and this is, this is publicly available.

I'm not talking about proprietary sources. Freight companies are now saying that they are seeing the signs, the early signs of a really significant industrial pickup in the us But what they're finding interesting in terms of the amount of freight that they're shipping is, it isn't coming in from US ports as it traditionally would.

IE. The US is importing more, particularly from China, for example, as a precursor to the fact that it's gonna invest more or consume more? No, no, actually this is shipping freight around within the US as part and parcel of making things in the us. You are starting to see that, you know, just under a year into the admitted chaos of these new Trump trade deals and Liberation Day, some of the dust is settling and potentially it's, it's, you know, it's not a done deal yet, but they're starting to see it could be, we are going to get a genuine endogenous pickup in US manufacturing.

Now, a lot of that may be driven again by robotics. A lot of it may be driven by AI. It may not be as labor intensive as it used to be, but it's exactly what economic statecraft aimed at. So watch that space really carefully, because if it were to unfold, it is a significant feather in the cap, for Trump and whether it can be translated across to a voting populace, I dunno, but it's really important.

Where I was going to say no though, is at the same time, alongside that, you are seeing, of course, extreme price pressures and overheating in some sectors of the economy. Again, primarily led by AI, but also linked resource areas. And on one level, people will turn around and say, well, that's where I'm going to make my money.

I'm not gonna be able to make my money in services anymore, which is where I thought I was gonna, or in it because AI is destroying that. But I can go into raw materials. But statecraft again, isn't about making easy money. It may sound completely character intuitive 'cause Trump obviously doesn't dislike the stock market and doesn't dislike people making money far from it. But, statecraft as a whole even if it's not Trump's iteration of it

Is not the kind of entity or thought process which says, okay, the Fed's gonna cut rates to 2% because of statecraft. Therefore you need to invest your money here, here, or here to make a 10 or 20% return. I've made that point to you before. I don't think that's the game anymore. And if it looks like, well resources, that's the area to go.

Well, no. The state will step in and say, we're capping that we we're gonna do everything we can to make sure that price inflation doesn't get outta control one way or another. And so expect a lot more. Leaning on, or you know, fingers on the scale there, which will again, make it more difficult to invest because what you're looking at logically and rationally within a free market environment isn't the environment you are in anymore.

Erik: I wanna come back to something you said a couple of minutes ago, which is when things are not going ideally well in the United States, a lot of presidents have tried to divert attention by getting much more active internationally. Okay. Well, the usual way that tends to go down is Middle Eastern wars, but as you said, president Trump is strongly incited not to do that.

So are you thinking when you said that in terms of a military escalation in other parts of the world, or are you thinking about. Trade deals or, or tariffs or, or what kind of international distraction would would come to mind.

Michael: Well, I'm in no way thinking of a wag the dog scenario where a war is started to distract people's attention because even though you can get a rally round the flag effect, I, I don't think that would last very long.

And I think it would be a very, a very foolish move. And certainly one that, you know, any American. Would tell you he's unlikely to play well with Trump's space, which he needs to motivate. What I was implying instead, or what I'll state openly rather than implying is that yes, this sits firmly within the world of trade and investment deals, and particularly what I expect to be with a new Fed chair on under Warsh a shift towards dollar stable coins as part of the nexus of US trade.

And of foreign investment flows coming back into the US as part of those trade deals, which we're now starting to see crystallized, particularly vis-a-vis Japan. South Korea, South Korea, we are starting to see those two countries in particular being given blueprints of, we need your money to go into these sectors right now.

And by the way, they're not the 10, 20% return sectors that you might do if you are a private sector investor, just trying to maximize your return, you know, in the shortest possible time. These are long-term strategic plays, which are good. The USA Inc. Which will therefore be good for Japan Inc. And South Korea Inc.

And I think a lot more of those will be Inc. And one of the levers to get us there will be dollar stable coins.

Erik: You know, that really set a light bulb off in my head when I joined that. With what you said earlier about the outlook for Kevin Warsh and the Fed, are you imagining a scenario where Kevin Warsh takes office and says, okay, everybody first press release or pre first press conference?

I have a slightly different view than Jay Powell. The Fed is going to lead. The charge on replacing the US dollar as the world's global reserve currency with, you guessed it, the US dollar stable coin. And the Fed is going to champion this and it's going to be a new digital CBDC type of move that we're making.

But it begins with US dollar stable coins, which are tied back to the US currency and we're going all digital. Is that the, the kind of thing you're thinking of?

Michael: Lemme caveat that. I don't think it will be CBDC, which is a central bank digital currency. I think quite the inverse. I think it will be private money.

Very similar to what we had pre World War I. In, in Europe in particular, but globally, which were called Sterling Bills of Exchange, where the most commonly used trade currency was tied to sterling, which was tied to gold, but it wasn't the Bank of England issuing it. They were just basically promissory notes issued by private sector firms, banks.

Trading houses, individuals, etc, etc. And everyone thought they were as good as gold and they were literally, but the Bank of England had nothing to do with it. So I think that's what will be replicated. But yes, it'll be digital. I'm not forecasting this will happen to be abundantly clear.

Okay. But if it were to happen, I would just whistle and, you know, look eyes at 45 degrees, like, wow, who's surprised by that? Because it's entirely logical. Were that to happen within This a of what we have heard from Bessent from Iran. What we are seeing being chatted about in Washington in terms of how they want stable coins to work, where we only have one piece of key legislation waiting.

To be finalized, which is the Clarity Act, which is going to determine whether stable coins can effectively earn a yield or, and it won't be called a yield. Of course, it'll be called a fee, but whether you can get paid a fee for holding them similar to a bank deposit. And of course, banks don't want that.

But the, and what the Fed thinks banks should or shouldn't be doing in the US will be part of this equation. Once that's passed, you've got the new Fed chair, you've got the Clarity Act. Following the Genius Act, you have these new trade deals. You have these pledged investment schemes coming in, which are basically capital controls being steered into the US at the highest geopolitical level and geo-economic level, and a very, very good guardrail or mechanism to encourage that capital to come in where you want it to go and to make short term borrowing costs in terms of Tbill, much, much lower, which will therefore of course mean you have a low Tbill rate inside the us, but. And this is getting technical, but not necessarily the same low cost of borrowing offshore.

It could be a significantly higher interest rate in dollars and stable coins offshore, which is an interesting weapon for the US to have, interesting arbitrage opportunity for some. If you were to have all that, it makes perfect, perfect logical sense within Statecraft. But again, if you're not starting with Statecraft, every single point of that will appear madness and unconnected.

Erik: Now, it occurs to me that there's an angle here that I'd have to think through, but you know, all investors understand there's a profound difference between holding a large. Cash balance in US dollars as a bank deposit versus holding Tbills, which you know, carry the, the full faith and credit of the United States government.

And you, you don't have to worry about bank failures and so forth. Do you envision a stable coin being engineered that has all of the same safety characteristics of a tbi? But you can transact it more like a bank deposit because it seems to me that could be somewhat revolutionary. And if the Fed were driving it and basically saying to the world, look forget about swap lines.

We're going, those are antiquated mechanisms. We're gonna replace it with this new idea of the US having a major stable coin reserve. That's, that's backed by US Treasuries and anybody who holds those stable coins both. Earns a yield like they do on a Tbill, but they also have the same safety characteristics of holding T-bills as opposed to a bank deposit.

That would be revolutionary.

Michael: It would be. And it's what I think they're aiming towards. And just to add to that, of course, banks don't like that. Of course they don't. I mean, this feeds back to, you know, investment angles. And should you, shouldn't it be holding the financial sector? I don't give advice on that, but I'm just talking thematically.

Lemme ask you a question before I, I continue. Making this point off the top of your head, Eric, do you know what percentage of US bank loans actually go into productive capital in terms of capital stock? As in we're gonna build a factory here. We're gonna build something with a machine that makes something have, have a guess what percentage of US bank loans do that?

Erik: Productive capital, not consumer capital. So we're not counting buying SUVs. A, a very small percentage. I don't know a number, but not much.

Michael: Yeah, it's around 20%. So four out of five bank loans don't do anything to help build up the capital stock, which is absolutely crucial at the moment. They are for consumption or they are just to other financial entities.

So it's just money for money on money. That's just financialization for you basically. So if you are the Fed. And you have got statecraft in mind because that's what the treasury has in mind. Obviously, you don't wanna blow up the financial sector, that's the last thing they want to do. But what uses of financial sector, if four fifths of it, don't do anything for you if, if four fifths of it are doing everything to inflate the parts of the economy, which you have the least use when you're trying to take on China in any different dimension over any timeframe.

What's it for? And that, that of course flows back to the question I asked you when we first talked. You know, what is GDP for? That's what economic statecraft is all about answering. So it wouldn't surprise me to go back to that stable coin if you do end up with something whereby it is a form of threat to banks to a degree, because banks then have to get with the program, they have

to realize, okay, we can't just have this asset base, which is purely consumer and financial.

We need to be getting approval from the treasury to actually start doing more useful stuff, and then, then we get a gold star and a pat on the head rather than being hit with the stick. And that's a way in which you can use a market mechanism and it's still a market mechanism to actually achieve a statecraft outcome, which is what it's all about.

Erik: Do you think there's an angle to that that plays out as part of this now to the midterms timeframe? Because I could imagine Kevin Wars coming in as the new fed share and then the White House making an announcement saying look with the, the new Fed in place don't put your money in the bank. You can now buy these, you know, consumers.

Can get a much better return on your savings by just directly buying stable coins. You don't need banks anymore. Now, Scott has been messaging pretty hard that it's time for Main Street, not for Wall Street. Is there room that the Trump administration kind of does a frontal assault and says, screw the banking system.

You know, we're gonna fix the money system through our reforms in a way that Wall Street's not gonna be happy about. But we're not here to take care of Wall Street. We're here to take care of Main Street. By the way, make sure that you vote for us and. November I I is, could it all happen that quickly?

Michael: Thematically and logically, I think it could. I'm not saying it will, and obviously you're walking a razor's edge doing that because this is a fed, which everyone knows, has always been there for the financial sector. That's what it's there for. I already made that point earlier suddenly saying, that's not what we're there for anymore.

That's not who we're there for. And you know, the, the, the pushback would be enormous, particularly in terms of lobby groups going into the midterms, if nothing else. Also looking at, of course the, the macro effect and the market effect. But I do think that is the logical game plan. The question being how you get their, you know, with, with the least bumps along that particular road, and they would be the best arbiters of that, those individuals, they would've the best read on the economy.

But I, I think there's, again, taking the counter counterargument, which is how I try to do everything. Nothing else makes sense if they're not going to do that.

And this is the same fed with a different person running it, just moving a mechanical fed funds rate, which is less and less used to anybody, less and less of a guide to anything up and down, which is either inflating all of the economy, the good bits and the bad bits, or deflating all the economy, the good bits and the bad bits.

How does that help anyone achieve anything? Not just in the midterms, but but longer term? So yes, logically I think we go there. Yes. Logically, I think stable coins are part of that journey, and I can't tell you how few people actually grasp this yet. And I understand why. It took me a long time to get my head around it, and I'm, I'm not even looking at the technology of how it works.

I don't even focus on that side of it. I'm not, I'm not a tech bro like that, but I'm just looking at the geopolitics, the geoeconomics, and the balance sheets of it. And if you can suddenly get. A flood of funds going into T-bills and not just from within the US but internationally too.

So you have a flood of dollars going into the US, a flood of dollars going into T-bills, which pushed down the TBI rate significantly. You can refinance a lot of treasury debt, the short end of the curve at a much, much lower rate, and suddenly you can be spending a bit more into the midterms too or you can be pumping up the military industrial base and getting back into shipbuilding, etc, etc, or at least saying, vote for me.

And we continue to do this. We've just broken ground on that. We need another couple of years to, to really get, you know, the, the steel pouring. I think it's a very, very powerful combination with big risks, with big caveats that it can be done wrong, but again, I think it's a more logical outcome. Than forward, just going back to where we were and moving something mechanically up and down and hoping for the best.

Erik: If these stable coins are transacted internationally on open digital markets, does that open up a whole new realm of investment capital for the US treasury market? In other words, in lower yielding countries where, like Japan until very recently, where the, the interest rates are next to nothing. There wasn't a good way for the average, you know, individual investor to buy US treasury bills.

If they were a sophisticated investor, they might figure out how to do that, but it's not something the average guy knows how to do. If buying these stable coins was simple enough that everybody in the world could do it on their iPhone, does that potentially create a whole bunch in of indirect US treasury paper demand?

Michael: Trillions and while there may be large entities where it doesn't play well, and I, I would think Europe, for example, it won't pay particularly well in Europe for, you know, patriotic, political and even economic reasons that you have the Euro. So why would you look at anything else? Fair enough. But in most of the emerging world, which is a big, big slice of the global population, provided that they can manage to make them attractive enough that supply is less than demand.

And yet supply is still significant enough to help the US achieve what it wants. Yeah. You can manage to make sure that there's a decent yield on that, which competes with any local currency. And as you said, it's on your iPhone outta reach of the tax man outta the bank, even so no one knows where it is and you can still transact in it.

Domestically within that network and internationally, and you've effectively dollarized much of the global economy alongside, you know, the existing Euro dollar network, which frankly operates for the financial system and for the, you know, the global commodity trading system and at the highest level. But for the man in the street, unless you are somewhere like, you know, parts of Africa or Southeast Asia where they still have physical dollar notes, it doesn't work the same way.

Now, it can, as you said, it can be on your Android phone, on your iPhone. Trillions and trillions, trillion. And then on top of that, just to add to that, you can even start saying that US importers, you know, huge, huge import demand globally, start saying to people, well, we're gonna pay for you, sorry. We're gonna pay you in stable coins.

So for example, a US importer instead of sending dollars to a factory in Southeast Asia, hypothetically, they send dollars to a stable coin issuer in the US who use them to buy a Tbill again, Tbill goes lower. They get that stable coin and they send what is a digital token, not a dollar, a digital token backed by a Tbill, which stays in US hands in the US funding the US government at a low rate to that Southeast Asian entity.

And from there, that can flow on and on and on. You can either say, okay, we now want you to bring that back into the US as investment capital and build a shipyard here for us because you have your government assigned a trade deal with us, and that's part and parcel for that. So it's buy one, get one, and you get it invested back into the us.

Or you can say, do whatever you want with it. There are no guardrails. Just don't send it to this country or that country because if you do, we'll, cancel it, because electronically the US can. So amount of power. That puts in us hands potentially if it's done right, is phenomenal and it is market moving in a way few people realize. And it takes us from a two dimensional world into a three dimensional world.

And most balance sheet thinkers can't conceive of how it's going to work, but I can assure you it could, and I think it will.

Erik: Michael, the, the light bulbs going off in my head are just phenomenal in this interview. I'm just thinking from all of my travels around the world I've never met anybody in Latin America who trusted their own nation's currency and who didn't want to keep any savings they had, although most of them don't, unfortunately, have very much savings.

What they do have, they want it to be on US dollars. In a lot of those countries, the government restricts banks and doesn't allow them to offer. US dollar denominated accounts to to retail banking clients and so forth. But you could easily see the Trump administration go on a crusade to announce to the world on X that look a lot of the world's corrupt, and we're gonna fix it for you.

And the way we're gonna do that is by making it possible for anyone on the planet who's got a cell phone to invest in. Something that is, first of all, eliminates the foreign currency risk of staying in your own home country's currency. You can invest in US dollars, which across most of the world, most people trust much more than their own country's currency.

And you can do it all in your phone and your government can't stop you and your government can't even know what you're doing because we are going to engineer the system So you can. Deal directly with us, the US government, and our banking system, and our stable coin system. Oh, by the way, there's this fellow named Don Jr.

Who just might be launching a a business associated with that pretty soon. And, and that would make Trump a hero in Latin America. That would mean that a lot of the Latin American immigrants that maybe were otherwise inclined to vote Democrat in November might change their vote. There could be all kinds of consequences to this.

Michael: Absolutely. And in fact, you've hit the nail on the head. I'm glad the light bulbs are going off because I do get, for example, resistance from some

people who, you know, very, very smart people who have said, well, you're basically just substituting a Euro dollar for, you know, a token, a digital token rather than an actual dollar outside the us.

Why would anyone agree to that? And I said, for the reasons you've just stated.

Erik: I never met a guy in Chile who was buying Eurodollar futures. I know lots of people in Chile with cell phones that would love to buy US dollar denominated savings that their banks and their government doesn't know about.

Michael: Well exactly my point. But secondly, I mean, these tend to be you know, from Europe, these people. But then they turn around and say, well, you know, well we wouldn't want that. You know, we are happy with euros. Why would we accept that? And I'll say, because the US can make you because of nato, because of others, you know, other forces, energy, etc, etc.

But above and beyond that, it's even more devious or clever or cunning than that because think about the balance sheet dynamics of it for a moment. I know this is really dull and dusty, but just for a second, indulge me. Imagine you've got one of these countries, you know, country X, and within Country X, somebody wants to hold that dollar stable coin and they've got local currency.

Well, the way it works is they're going to have to contact a stable coin, stable coin issuer. They're going to have to basically transact and give them their local currency. That local currency at some point is going to be given back to their central bank. Their central bank is gonna swap that for the requisite number of dollars.

Those dollars go via by the stable coin issuer to the US Treasury, which issues the T bill. For the stable coin, which it's given to the individual who's buying it, right? You follow me? That's a very simple dynamic, but what are we having there? The dollars are sucked out of that economy. FX reserves disappear, and they're replaced by stable coins.

So not only do you have this liberalization where everyone can get hold of them, and they will do, but the, the financial tier, which again goes back to banks and the 80% of their loans are financial rather than productive. That global tier of Euro dollar liquidity at its at the base of collateral, the actual FX reserves starts a decline.

So suddenly countries which are reliant on the Euro dollar have a euro dollar squeeze, which pushes up the interest rate even more, which makes a stable coin

even more attractive. So, so you basically lock others into a spiral where they're just rewarded more and more and more for doing it. Now can it blow up?

Sure. Can it go wrong? Absolutely. They, I'm not, I'm not here to say there aren't ways it couldn't go wrong. Right. But I think it's a very, very, very misunderstood. And a tactic which I think is likely to be deployed well, as I said, as soon as this Clarity Act is passed and of course you can see why lobbyists who don't want it to happen, don't want it to happen because it upends so much of what remains of the global system, but it will be a very different system on the other side of it.

And I think one in which America sits a lot prettier and potentially so does Mr. Trump.

Erik: Michael, this just tracks very closely with a lot of the, between the lines that I've been trying to read from Scott Bessent. It's very clear that they have an agenda to do something big, and I wasn't sure exactly what it is.

And, and you've just painted a, a picture in my mind as to what it might be. I do want to move on to another topic before we close. At the beginning of the interview, you said that you think the market got the message wrong about the worst nomination. Now, one of the things that happened in reaction to that nomination was just a huge correction in precious metals, both gold and silver.

Just really took it on the head. Did the market get that wrong? And I, I think clearly they were, they had been on a, a, a very overextended run, so they were overdue for a correction, but. Did the market misinterpret that? Is the market still misinterpreting that? You know, should, should we expect this to continue for a long time?

Or is this gonna be, oh, wait a minute, we got that wrong. And we move back to the trends that we were on before?

Michael: Well, we were just discussing one kind of revolution. And let's be clear, everybody who's piling into gold and silver, unless you are just a trend follower, you are of course, and, and, and very often openly banking on a very different kind of revolution and saying that fiat money is over.

We're going to go back to a gold standard or a silver standard, or some kind of biome, Methodism, etc, etc, and everything around us, which is based on fiat, is done. That's a really revolutionary stance, and we take it as normal because that faction have always been in the markets. And if you look at the, the debt levels

in many Western economies, and if you look at the, the bill for, you know, reindustrialization and for building up a defense base, again in most of them to say nothing of, you know, future welfare requirements, you can understand why some people are voting with their feet like that.

But it's still a revolution that they're marching towards in doing it, whether they recognize that or not. And what worries me is that while the logical arguments. Is there number one, you are talking about something which is supposed to be the ultimate safe haven and which, you know, gold bugs in particular will always tell you, you know, under gold we didn't have any inflation.

That's not true. Actually. On average you didn't, but you had massive inflation followed by massive deflation. And so that the, you, the average was low, but you had incredible swings up and down. And ironically that is what you're seeing here. Now, you're seeing something that's supposed to be a safe haven trading.

Trading like a crappy meme stock. Which is not very reassuring. So that's one thing that I think everyone should be cognizant of. Whatever they, whatever they're doing with their money. But the other one is this. If we are looking at this potential revolution via stable coins, and I think we're, but again, you know, that's open to debate.

And you've got issues over Bitcoin in the background, which is having a terrible time a bit. But you know, is the US gonna potentially move towards using that in some form too? That remains to be addressed. They promised they would, but they haven't so far.

Gold in particular is still being held up by some as a potential new architecture as I just said. But I wonder how many potential new architectures you can have. So if for example, you backed the view that I just put forward, that dollar stable coins are gonna be a big thing, is there really room in the marketplace for that and for gold at the same time?

Erik: Well, what if it was dollar stable coins and gold stable coins and Bitcoin? What if those were the, the three digital assets and the Fed was actively promoting all three of them, including a strategic Bitcoin reserve?

Michael: Well, okay, that's, that's an interesting question. I think you are more likely to see a duality in the US where you have dollar stable coins and Bitcoin.

And where that would happen, for example, to give a very complex answer very quickly, is that I think people who US allies will be using dollar stable coins. And if they're not allies, now by dollarizing them, they'll become them. And people who really push back and say, we're not going to allow that to happen.

Capital controls, you know, whatever is necessary to stop that happening, fine. We're not dealing with you. You are gonna use bitcoin. You're not gonna get Euro dollars from us the way that you used to. We're just gonna switch to something neutral instead. So that's what I think the US may do, but that has yet to unfold.

And at the moment, as I said, Bitcoin's having a bad time of it on a lack of faith in that which, which may be justified. But in terms of gold, I don't think that the US is going to do that because dollar stable coins are still fiat, but a digital token for fiat. And so you're expanding the Tbill supply albeit into what you hope is productive sectors rather than financial areas or consumption areas, but it's still fiat, so then go to gold at the same time.

Seems to be really. Mixing your metaphors from a monetary policy perspective, I don't see that helps the us I can see there may be revaluing against gold, which is a separate argument people make, but then basically cashing in and walking away from it. It's other countries I believe, that have been leaning towards talking about maybe trying to do some kind of stable coin back by gold, but that, and this is a critical point to make in 30 seconds if that were to occur.

We don't have a global architecture anymore the way we do now. We have multiple. Global architectures. We have different currency blocks the way we did in the 1930s, a US block, a US stable coin block, and a gold back block doing their own thing, their own way, and not trading so much with the US block. But that's the risk that's always been there.

And that is certainly something that still should be at back of mind and in fact, front of mind when you're looking at these assets move. 'cause it's ultimately about who you think has the power and who sets the rules and draws the board game for the 21st century. That tells you what you should and shouldn't be buying.

Erik: So if I draw an analogy to the 20th Century Cold War arms race, we could be looking at a 21st century stable coin arms race where the US says, look, the, the answer here is US dollar stable coins, Russia and China. Partner to counter and say, no, no, no, no. That's, that's basically stable coins for fiat currency.

What you really want is stable coins that are backed by gold and we're the ones that are gonna give that to you. And you end up, as you said, with blocks where there are some countries that are. Gold-based through a gold-backed stable coin and others that are US dollar based through a US treasury paper backed stable coin.

And you have very similar dynamics to, as you said, the 1930s and different country, different economic blocks in different parts of the world. Is that part of the future that you foresee?

Michael: Again, not a forecast. It's a, it's a tail risk, which I've been warning of for over a decade, which you can start to see.

Gradually emerging. Just a few caveats that are really, really important. If were that to happen, what you will immediately see is the other block. Basically saying what you use is not tradable here, so there's no clearing. So in other words, if you're using dollar stable coins, don't even try and get a market exchange rate on your screen for our Gold Bank stable coin into that dollar stable coin.

They're just different things, which you've had in the past. We did during the Cold War, you couldn't transact between the Soviet ruble and the US dollar. Except very narrowly at a ridiculous exchange rate via a couple of guys in Moscow. So if that were to happen, supply chains from upstream to midstream to downstream, downstream have to fragment because you have to have two different blocks for everything with everything you know, in contained within them.

That's the first point. Second one is, of course, you know, in China's case, they still have massive fiat. I mean, you know, they, they're borrowing and printing money, like no one's business, just like everyone is. So it's not as if I would actually be You know, gold based in the way that you would expect. It's just that because they run a huge trade surplus, they can afford to, you know, nominally peg to whatever they want because it flows to them, except it wouldn't flow to them from the us.

There's no exchange rate here. Which would allow trade to clear. That's the clear, that's the key point. Don't think that if China were to do that, somehow the US devalues against that and therefore the US and China are friends again, just at a different exchange rate. No, they're separate. Don't talk to each other.

Berlin wall between them and, and the last point very quickly is you've probably seen the headline that came out last week. There are rumors going round, although they haven't been substantiated, the Russia is already saying they want back in onto the dollar system and walking away from any talk doing something China.

The big players potentially are more flexible than one might think.

Erik: Michael, I always enjoy our conversations. I'll look forward to the next one. But meanwhile, before we close, I want to touch on what you do at Rabobank. Tell our listeners a little bit more about the services on offer and what your team in the global strategy in economics and markets is all about.

Michael: Sure. Well, that's the easy part. Basically, it's what I was just talking about to you there. We don't give investment advice. We talk to stakeholders from, you know, farmers to the C-suite, trying to help people understand what's going on in the very chaotic world around us. And trying to explain what we see as the underlying themes and drivers that are emerging and to try and translate that into effective strategies for them to then implement because it's as much about risk mitigation as it is looking for opportunity, and both of them have to go hand in hand. So that's that part of the story. And of course, [Rabobank](#) is the leading one of the leading banks in the Netherlands and the world's leading food and agri and energy bank and is attempting to, you know, grow a better world together. So those two sit alongside each other.

Erik: Patrick, Ceresna and I will be back as Macro Voices continues right here at macrovoices.com.