

Erik: Joining me now is [GavCal](#) co-founder Louis-Vincent Gave. Louis, I'm so excited to get you on. I always enjoy your non-US based perspective being having lived in France and in Hong Kong and all over the world, I think of you as a very international perspective kinda guy. If ever we needed to step away from the biases of of US and US foreign policy and so forth I think it's now.

Without me preloading you with any of my thoughts, what do you think about this Iran situation that's going on? The market seems to be pretty darn certain it's just no big deal. We're off to, new all-time highs. Nothing to worry about with twenty percent of the world's oil potentially cut off in the Strait of Hormuz.

What do you make of this?

Louis: First of all, again, thanks for having me, and I wanna commend you for the lineups that you've had in recent weeks. I've really enjoyed listening to to Rory, to Anas, to to everybody you've had on here. And look I'm not sure I have great insights on on what's happening in Iran.

I would say this. I would say it is fascinating that the oil markets, have behaved in a certain way. They've-- obviously gasoline prices have ripped higher, oil prices have have ripped higher. And yes, to your point the equity markets have mostly brushed it off and, we'll go into that, I think, p-perhaps a little bit later.

Now, the reality, I think one of the reasons the equity markets have been able to so far brush this off is that while so far the energy price spike, and let's say oil is at, depending on which benchmark you wanna use, Brent, WTI, Etc, but you're essentially hovering around hundred to hundred and ten bucks.

It's high, but it's actually not punitively high. If you take a hundred dollar WTI or if you take today's gasoline price and you look at it adjusted for CPI and you look at it as a percentage of US disposable income either of these measures, you're getting close to the upper band where things start to get really uncomfortable, but you're not hitting sort of recession band yet.

So all this to say, hundred dollar oil, sure, it's not great, it's not ideal but perhaps one of the reasons the equity markets are brushing it off is that it's not a crisis. Hundred dollar oil is not a crisis. Hundred twenty, hundred thirty, that's when it really starts to take a bite. That's when the pain starts.

So the question really becomes do we get there? Do we get to the hundred twenty, hundred thirty? Now, I think- If we go back to a month ago there was

that period when the Israelis bombed the Iranian energy infrastructure, and Iran responded by bombing the Qatari gas field.

And at that point, it really felt oh my God, they're really-- it's not gonna be just about the straits being closed, they're actually taking each other's infrastructure away. And, which I- you know, opened up a much more nightmarish scenario. 'Cause right now, if you look at the oil forward curve, essentially, you look at oil in six months' time and it's at 85 bucks, so-- or 80 bucks.

So the market is essentially saying, "Yeah, you know what? Hormuz is gonna reopen. I don't know if it reopens this week or next week or in a month or two, but in six months it'll be reopened, and so by and large we'll be fine." Of course, if we start to bomb each other's infrastructure then even if Hormuz is reopened, then you're still left with busted infrastructure and a whole other quandary.

So I think in the first few weeks of the war, that was the big uncertainty. Do we bomb each other's infrastructure? And it looked like we walked back, then the whole question became, oh, does Hormuz reopen? And the market started to price in you know what? I d- I don't know when it's gonna reopen but it's gonna reopen.

So all this to say, there's different ways in which the market might be right or might be wrong. The first question is are we really done with the threat of bombing each other's infrastructure? Or was that just a short-term truce? Because if we go back to bombing each other's infrastructure then we're not talking whether we go from 100 bucks to 120 then we're at 200 very quickly.

And with 200 comes economic devastation. So the first problem is what probability do you put on that? The idea that we go back to bombing each other's energy infrastructure. The second problem is the probability on reopening Hormuz and reopening Hormuz smoothly.

And here if I'm Iran why would I wanna reopen Hormuz? This is what I keep coming back to, is today Iran is saying, "Look, you wanna put your ships through there, it'll cost you two million bucks." And if we go back to a world in which 100 ships paid 2 million bucks to Iran, that would be equivalent to roughly 20% of Iranian GDP.

So now that they have this potential revenue, why would they give that up? Put yourself in the shoes of the IRGC. Pre the war, they were selling their oil, they were selling between half a million and a million barrels, mostly through Iran's dark fleet, and they were selling it at 20 buck discount mostly to China.

And mostly to teapot refiners in in China who were buying this oil at at a \$20 discount. So again, half a million to to a million barrels at at 60 bucks. Now Iran is conceptually selling a million and a half, maybe two million barrels a day at huge premiums to spot because as the Oman benchmarks, Etc, are much higher.

So they're probably selling a million and a half barrels at, I don't know, 120, 130 bucks. And at the same time, for the few ships that go through, they get two million a ship. It's for them, this is pretty awesome. This is like financially they're doing better than they ever have.

So as long as they don't get bombed, like the ceasefire is a good deal for them. You know-- I firmly believe in Charlie Munger saying that, "Show me the incentives and I'll tell you the outcome." Iran's incentive is to not get bombed. And and the way they don't get bombed is they say, "If you bomb us, we're gonna bomb the energy infrastructure of the other guys."

Which, is a pretty scary thought for everybody involved. So right now the market, if you look at the curve, Etc, is essentially pricing in a reopening of the straits in the coming weeks, which I'm personally dubious. I don't see what Iran has to gain. And then you get to the third big player in this arena, which is Saudi Arabia.

Now, Saudi now has they can export through the Red Sea. They can export four and a half, five million barrels, which is down from the roughly eight or nine they were exporting before. And but before, remember, they were exporting eight or nine at 60 bucks. And now they g- they move into a world where it's we can export five maybe at about 120 bucks or we can export eight or nine, but then we have to give a bunch of money to Iran for every ship that goes by, and we don't really like Iran, and we definitely don't wanna give them two million bucks a ship.

So maybe we just sell five at 120 bucks rather than eight or nine at 60 bucks and have to pay Iran a toll on the way. So again, show me the incentives and I'll tell you the outcome. I think the futures oil market is pricing in a return to Saudi, to UAE, Etc, to f- you know, essentially producing fully and sending their oil through the Hormuz straits.

I'm not sure that comes back. I-- or it's not obvious to me that it does. So perhaps the better bet today is the idea that oil in six months' time is still too cheap

Erik: Louis, you said this is not that big of a deal at \$100 oil. It's not the end of the world economically, and I agree with you completely.

But hang on a second. This is a much bigger physical market dislocation in terms of delivery of oil than something like the Abqaiq bombing that happened a few years ago. But we're not seeing that price dislocation. So I guess what I come back to is, okay, yeah, it's 100, it's not 150. But why isn't it 150 when every single oil analyst that I listen to is saying the same thing, which is this is the absolute biggest physical disruption in the history of the oil market ever.

Okay, we've had lots of much bigger price dislocations than this one. So it seems like the whole investment community's kinda shrugging it off, saying, "Oh, those oil guys are just talking their book." What's going on?

Louis: That's right. What do they know? What do those guys know? No look I completely agree.

And to your point, and I know it's a point you've discussed with previous guests, it's of course not just oil, it's natural gas, and it's fertilizer, and it's urea, and it's and it's helium, and it's like all sorts of stuff. We don't wanna reduce the Middle East to just the oil.

I think perhaps most importantly, what this highlights, this whole war highlights a message we already had gotten when... with the Houthi things and something that you and I discussed before. But the days when we... you could always count on the US Navy to patrol the oceans and to deliver whatever goods you, you ordered are now clearly over.

And this isn't because of Trump, and this isn't because of Iran. It's just in this new age of drone warfare, controlling the world's ocean is, has just become impossible. And this matters a lot because I think it, it really means that every country that for years and years just always saved in US Treasuries because you could...

or you knew that in a crisis, the Treasury market is the biggest, deepest liquid market in the world. You could always transform your Treasuries into whatever commodity you needed. That is no longer true. Look at India. India's got \$700 billion in US Treasuries, and they're out of fertilizer.

And so they call China and say, "Hey, you guys have a lot of fertilizer 'cause you've been smart enough to stockpile it for the past decade. Can you sell us

some, please?" And China says sorry, mate, I'd rather keep what I have. But good luck selling your Treasuries for fertilizer."

I don't wanna belittle what we're going through. I think it's a dramatic shock to the system. I think coming out of this, every country will say, "You know what? I can't sprinkle treasuries on my field to grow wheat. I can't shove treasuries into my car to make it go." So every country will have to build inventories of refined products, inventories of fertilizer, inventories of stockpiles of oil.

If you want to essentially have an independent monetary policy and an independent foreign policy, you will now need to stockpile commodities. It's just that simple because the days when you can rely on the United States to bring you what you need are now over. And I think, th- this was, I think, already obvious for anybody who paid attention following Russia-Ukraine and following Houthis but now it really is in your face.

So I completely take your point that, energy prices should be higher. The question has to be why isn't it? And the only thing I can really come up with is that oil is a sort of unique market in that we have a lot of buffers in the system.

Obviously, the oil on the ships and the inventories and the strategic petroleum reserves. There's a lot of buffers in the system, and that maybe in this crisis, maybe, following Russia-Ukraine following the Red Sea thing, people did build up their buffers. The most obvious one, of course is China.

Officially, China has roughly one point three billion barrels in reserves. We've actually published various reports highlighting that the number is actually probably c- closer to one point eight billion barrels. So China today has the has more oil in storage than the rest of the world combined.

And the reason this matters, of course, is China's the biggest oil importer in the world. Having this massive oil inventory gives China the ability to go into the market when prices are down and to back off when prices are high. Now, what's fascinating is I would've actually expected in the back of all of this for China to back off with the price of the s- the spike.

You would've expected to see the price spike, you'd have expected China to back off. If you look at official import numbers for March, we don't have them yet for April China's imports of oil were still up eight percent year on year in March. So it doesn't look like China's backed off.

Although, maybe you take the official numbers with a grain of sa-sand. Maybe on the official stuff they backed off, but all the teapots, refiners, all the the dark fleet or all that stuff, maybe that faded. That, that's always very hard to know. The bottom line, I think perhaps the market is assuming two things.

The market is, A, assuming that Hormuz is gonna reopen in the not so distant future. And here, I just discussed, given the set of incentives, I'm not sure that that assumption will turn out to be right. So that's number one. And I think the second thing the market is assuming is, look, there's all this storage in China, so we're not gonna hit a crisis like, say, 2008 when China came into the market following the Go-Gansu and Sichuan earthquakes and just, hit, hit the bid on absolutely everything.

Everything that was energy related. So I think these are the two market's assumption. And both turn out to be right, but they may still both turn out to be wrong as well. The bottom line for me, if we step away from the day-to-day, if we step away from the, why are markets reacting, Etc, and we project ourselves to six months, 12 months, 18 months from now, I think you're still left in a situation where individuals, where companies, where countries will be building more inventories.

Where we will look at the supply shock and decide, "You know what? I need to stockpile fertilizer. I need to stockpile more natural gas." Why does Korea have less than a week's worth of natural gas today and China has more than 50 days? If I'm a Korean voter, I'll say, "You know what? I'd rather have fewer US w-weapons, I'd rather have fewer US Treasuries, and I'd rather have more natural gas in storage, thank you very much."

And so I think every country will head down this way. So however you cut it, you end up with a structural outlook for commodities that is, for me, pretty darn bullish

Erik: I definitely wanna come back to both China and structural bullish argument for commodities. But first, a-as you said, I've spoken to quite a few guests about everything from fertilizer to, to other knock-on effects.

There's one I've been saving just for you, Louis. ... Before this, let's set the way back machine to before the-

Louis: Is it Bordeaux wine that you've been saving for me?

Erik: No. You've, ... you've already got the market cornered on on that one. What I wanna go back to is before the Hormuz crisis broke out, the AI trade was kinda running out of steam, and the reason, or at least one of the reasons that a lot of people were starting to question whether we were about to see a bursting of the AI bubble was because AI was getting constrained by energy.

We didn't have enough electricity to really build all the data centers that AI wanted to build. People were getting really concerned about there being enough energy, and that was maybe gonna pop the AI bubble. Now, add an oil crisis, and that means that there's even more reason for worry, and semiconductors are through the roof driving this massive rally in the S&P to all-time to new all-time highs.

Apparently, the AI trade is back, and back with a vengeance. Why? Because there's a looming threat of a global energy crisis that could make the reasons that the bubble was gonna pop even worse. I'm missing something here. So am I maybe misinterpreting? Is the reason that semiconductors are rallying so incredibly strongly not related to AI?

I don't get it.

Louis: Now, look, it's the rise in semiconductors for those of us who, like me, who unfortunately haven't been massively long is is quite painful. It's especially painful for emerging market investors. If you look at the EM index depending on which benchmark you're using but essentially Samsung, TSMC, and SK Hynix are anywhere from a fifth to a quarter of people's benchmarks now.

And in a month like April where they all rip more than 30% you're left scrambling. So you look at the, the EM benchmark has absolutely crushed it. And it's all semiconductors. And yeah, to your point if you look at semiconductors as a percentage of the S&P 500 it was 10% two years ago.

It's now 17% which is very reminiscent... You'll remember this. Do you remember back in 2007, 2008 when everybody was running around talking about peak oil, how there wasn't gonna be enough oil for everyone and oil was hitting 150 bucks? In 2006, was 10% of the S&P 500, and then it spiked to 16% of the S&P 500 a couple years later before it all rolled over with the 2008 crisis.

So there's-- for me, as I look at semiconductors today, there's a strong sense of déjà vu. If you go back to 2008, you had the mortgage crisis, it was already obvious, banks were failing, Etc. But everybody was telling you, "You know what? Forget that. Who cares about Bear Stearns?"

Who cares about Citibank cutting its dividend? Who cares about UBS doing the biggest rights issue in history? Whatever. Boring. The real story is peak oil. There won't be enough energy for everyone. All this other stuff doesn't matter." And energy kept ripping in the first half of 2008, even as the world was falling apart.

And today I've got this sentiment of déjà vu because everybody is running around saying, "Yeah, you know what? Energy, who cares? It's not it's-- that's not where the story is. The story is AI. AI is gonna change the world, and there's no way we can produce enough semiconductors to feed the world's AI needs.

It's just we just won't be able to keep up." And so this year, Samsung Electronics will end up being the most profitable company in the history of capitalism. And so I think this is this is-- And people will point out that the Samsungs, the SK Hynix, the TSMCs of this world are actually very attractively valued.

They're trading sometimes at single-digit P/Es. Just like oil stocks back then were trading at single-digit P/Es. 'Cause people forget that cyclical businesses, capital-intensive and cyclical businesses, you typically wanna buy them when they have low price to book and very high P/Es, and you usually wanna sell them when they have low P/Es and high price to books.

The nature of of cyclical businesses. And you look at it and you're like, "Okay, either this is like I said, déjà vu all over again." It's reminiscent of the 2008 peak oil boom what am I missing?

Why in April did semiconductor stocks all of a sudden decide to go up 30%? Now, you mentioned in your question, I'm sorry to be long-winded, but I think this is super important. You mentioned in your question the fact that we were starting to run out of steam in the first quarter of this year on the premise that, yes, electricity costs were going up.

And you'll remember that there was like a referendum in Indiana and I think some other states when Trump was elected re-re-elected this last time around, where people were saying, "You know what? We don't want data centers in our state. Having a data center here means then my electricity cost goes up, and it doesn't create any jobs thanks, but no thanks.

No interest in having this in my neighborhood." And Trump's response to this was a fairly elegant one. To be fair, he said he immediately flew out to... His very first trip was to Saudi Arabia, to the UAE, to Qatar, where he not only

picked up a plane, but he also picked up contracts for huge rollouts of data centers all across the Gulf States.

And the idea was simple. These guys had cheap electricity. These guys had cheap solar, cheap cheap natural gas. So let's put the data centers over there. And conceptually, that made a lot of sense until Iranian drones and missiles started to fly. Then I think if you're... Today, if you're Microsoft and Amazon, you're thinking, "You know what?

I probably don't wanna build a \$20 billion data centers right next to Dubai especially since I probably can't insure it. So I, I have no choice but to bring it home. And if I bring it home, then I'm left with, how do I produce cheap electricity?" Now, there's a fairly obvious way to produce cheap electricity quickly and plentifully, and that would be to cover the whole of Nevada, New Mexico, and Arizona with solar panels.

And now, of course, you and I both know who would produce the solar panels, and that brings me to perhaps the reason why these things are rip- these semiconductors are ripping higher. If we start off with the premise that the Iran war is an inflationary shock to the system, and right now there's no doubt it's going to be an inflationary shock to the system.

Just on the back of gasoline, oil, heating oil, jet fuel, Etc inflation's gonna go up by at least one percentage point in the coming readings. If we start off with the fact that it is an inflationary shock, then you're left with the conclusion that Trump and Xi, who are scheduled to meet four times in the next 12 months, are condemned to get along.

They have to strike some kinda deal. And there's lots of deals they can strike because Trump desperately needs the rare earths and the magnets to replenish his weapons cupboard that has been emptied far faster than what he'd anticipated when he'd started this war.

The first thing is he needs China to agree to sell the rare earths. That's number one. Number two, he actually probably needs the solar panels now in a way that he didn't before. And he needs them, and all the big tech are gonna be lobbying are gonna be lobbying for the solar panels.

What he wants as well is China to revalue the renminbi. This has been a big demand of Treasury Secretary Bessent, and I think Bessent is absolutely right to argue for this since the renminbi is just... you and I have discussed this before, but it's the wrongest price in the system. It's like it's so stupidly undervalued.

It's absolutely ridiculous. Now, interestingly, the renminbi is going up every day which I think China is doing in anticipation of these meetings with Trump. The renminbi going up every day incidentally is a departure from traditional policy at the Chinese Central Bank.

Usually, when you have uncertainty in the world, in the past, they always freeze the value of the currency. This time they're letting it go up. Now what would China want out of all of this? I think it's pretty obvious what China wants. China wants the lithography machines.

It wants the A- basically from ASML, from Tokyo Electron, and it probably wants the high-end chips as well. Is there a deal to be struck where China sells the US what the US needs? The US agrees that China can get high-end semiconductors. I'm not saying that this is going to happen but perhaps that's what, that's why the semiconductor stocks are absolutely ripping.

And it's all quite speculative, and to be very clear, I'm not participating. I own some Samsung electronics, but that's pretty much the only one I own. And again, I think Samsung is gonna be the biggest, it's going to be the most profitable company that's ever been this year, and I don't think it's fully priced in for that yet for these kinds of headlines.

But maybe the market, as I look at the way the markets have behaved in April, essentially saying, yeah, energy, whatever. S&P energy stocks were down 2% in April, and semiconductors up 30. Either the market is completely delusional and is back to, oh the only thing that matters is AI. And note that the AI propaganda on the media is absolutely relentless, right?

It's constantly, oh, AI is going to replace half the jobs out there. This is the most important macro trend, etc. It's absolutely relentless. So maybe that's just the simplest explanation. We have market participants that are like goldfish in a fishbowl that just play the chess, one chess move ahead.

perhaps the market is sensing that you're going to get a China-U.S. deal that will be beneficial for Chinese rare earths, beneficial for solar panel manufacturers, and beneficial for semiconductors everywhere.

Erik: What do you think Trump could have lined up? He had a meeting with Xi Jinping. Then that seemed to get delayed at a time when nobody was really expecting it to be delayed.

It almost feels like Trump wants to get to a certain point with the Iran conflict where he has more leverage to negotiate. I'm not sure what's going on. How do you read that situation with the upcoming summit between Trump and China?

Louis: I think when Trump launched the offensive in Iran, I think he thought or was told by Netanyahu that it would be a one-week deal, that he'd come in, that all he needed to do was kill Khamenei and 170 schoolgirls, and that the regime would fall all by itself.

Unfortunately, that didn't happen. And he ended up being stuck in an operation that's obviously taking a lot more time, taking a lot more attention, costing him a lot of political capital. And yeah, he had to postpone the China trip because instead of rolling into China as the victor of Venezuela and Iran, he didn't want to roll in there while having to take phone calls about what was happening in Iran.

He wants to be able to sit down with Xi and negotiate without that concern in the back of his head. Now, as it turns out, he's going to have to go almost regardless. But incidentally, I think all these rumors that, oh, the war is going to start again, That we're gonna get a second wave. The US is moving more assets into the region.

I think if something is gonna happen, it's gonna happen after the China visit. I think at this stage we're getting too close to the China visit for Trump to launch a new a new round of offensive. So that-- I think that's the situation on the ground. I think that's where we stand.

And for different reasons, but mostly for domestic political reasons, both Trump and Xi need a win out of these... the summit that's coming up and then the next three following up. And by the way, I don't know if I mentioned this earlier, but it's the first time in history that the Chinese and US president are scheduled to meet four times in 12 months.

And again I don't think they're meeting to discuss the World Cup or the weather. There's a lot on the plate a lot of things to discuss. I think FX policy is a big one and that one is fairly obvious. Everyone's aligned on this. China wants a higher RMB. The US wants a higher RMB. It's the most undervalued currency in the world, but it's the currency with the strongest momentum today.

The way I work is I try to look for the easier trades. There's... I have a bucket of easy trades and a bucket of hard trades. The easiest trade in the easy trade

bucket is the RMB moving up. Everybody wants it to happen. It is happening and it's a trade with massive valuation tailwinds.

So from there, unless the meetings go really bad between Trump and Xi the obvious consequence if the meeting goes well, then investors all across Asia will say, "Okay, meeting went well. RMB is now definitely structurally going up, so will the other Asian currencies." And I think that means that absolutely anything with a, with any kind of yield in Asia gets bid up ev-even by local savings.

Local savings that up until now have mostly been recycled into Max Seven, into Bitcoin, into gold, into anything with momentum. All of a sudden, if you know that the RMB is gonna go up 6.5% a year, which is what it just did in the past 12 months, if it is gonna do f-five to 8% a year for the next three years, then you look at a lot of the local stocks that are yielding six, 7%.

Your PetroChinas, your China Mobiles, your... Some of the life insurance guys, Etc. And you're like, "Okay, I can get 6% dividend yield, 6% on the currency. That's 12% without taking too much risk." That seems like a pretty attractive proposition. So I think the... In the easy trade bucket, it's Asian currencies going up and anything with a yield in Asia gets gets re-rated.

But going back to your question, sorry to ramble on, but going back to your question what happens in the in the meeting between Trump and Xi? First, I think the meeting happens. And secondly, I think they both need the meeting to go well. They both need domestic wins. So the incentive structure for things to happen and for things to go well are very much there.

Erik: I very much agree with you on almost all of that. There's one dimension of it, though, that I just want to make sure I understood correctly, because the place we agree is Trump wants to go in from a position of strength. He doesn't want to be negotiating with Xi Jinping when things are falling apart in the Middle East.

He wants to come in with, we kicked ass in Venezuela. We kicked ass in Iran. We're the tough guys. You better not mess with us. So I agree with you on that part, but you're saying, therefore, it's more likely that any further escalation in the Iran conflict would happen after a meeting with Xi.

I would have interpreted it the other way, which is Trump is more likely to try to go for the Hail Mary and say, we got to get a win in Iran before I go meet with Xi. We can't go in, from a position of weakness where we are now. We got

to get a win first and try to get the win. And if he doesn't get the win, postpone the meeting again.

Louis: That's possible. Like it's Trump, anything's possible. What I would say is the window of opportunity to get the win in Iran before the meeting is starting to close pretty quickly. It's if he was going to do it, he should have done it by now. Because unless the plan is to really bomb Iran to absolute smithereens for which, I'm not sure there is a political appetite even in the U.S.,

For literally, is there the appetite for hundreds of thousands of civilian casualties? I want to hope that, there isn't the appetite for that in the U.S. for such a murderous type of action and behavior. And and to be honest, if they did do that, if they went ahead and murdered hundreds of thousands of civilian population, then it probably wouldn't be Trump who would postpone the meeting.

It would be Xi. He'd say, look, in these conditions, I'm not like you have blood on your hands. I'm not really keen to shake your hand, my dear president. So it's all this to say that it's, I think Trump actually needs, I take your point. He wants to come in strong, Etc, but he actually needs this meeting now.

Like the U.S. is getting to the point where they need they've emptied the defensive armament cupboard. They really need the rare earths. They really need the magnets. And they really need some kind of solution on Iran. Now incidentally, how do you get a solution on Iran?

Option one is yes, you bomb them to the Middle Ages, which Trump keeps threatening. The second option is you lean on the one country on-- that does have influence in Iran, namely China, and you tell China: "Look, if you help us out here you sort Iran out, you reopen the straits for us we can do stuff for you on semiconductors.

We'll decide actually China is not the bad actor that we were saying it was, and we-we'll help you on the semiconductor front. We'll help you... maybe we'll allow BYD to open factories in the United States and open our car markets," so on and so forth. And so there, you could twist it around and say, I think what Tr-- does Trump care more about looking strong to the Chinese, or does he care more about looking strong to the American electorate six months before six months before a midterm?

If he cares more about looking strong to the American electorate six months before midterm then actually he needs to go to China and he needs to cut a deal

that where he comes back and says, "I got the Chinese to revalue the RMB. I got them to buy a bunch of Boeings. I got them to buy a bunch of Nvidia chips.

And and they agreed because I asked them to sort out the Iranians who are a pain in everybody's neck." So y-you can slice that, slice and dice that in many ways. But for me, if really they were gonna go militarily for Iran I think the window to do it before the meeting is closing fast.

'Cause I don't think he wants to restart a war and have to be in Beijing as the war goes on

Erik: It seems to me that the new risk for Trump is that the political opposition is really pushing pretty hard now for, "You don't have congressional approval for this. You're at the 60-day mark." Trump's defense to that has been to say no, the 60 days doesn't count because we're in a ceasefire."

As soon as we're not in a ceasefire- Yes ... which as of we're recording this on-
To

Louis: restart

Erik: the clock ... on Monday yeah, w- we're not in a ceasefire anymore as far as I can tell. On Monday things have started to heat up again. So he's gotta do something in order to not have his political opposition in the US shut the war down on him.

And so a- as you say, we went from any export of Nvidia chips to China is absolutely embargoed because they're evil. Now Trump's gotta make a trip to China and try to get a, a salesman's commission on selling a bunch of Nvidia chips to China. That's right. That's the new twist.

Louis: So I think that's one possible explanation for this face-ripping rally in semiconductors from 10%, again, of S&P 500.

Erik: You think the market sees that Trump has no choice but to basically cave to China and say, "Okay, you can buy all you want"?

Louis: So the argument against this, again, I'm scratching my head, you try to put the puzzle pieces together.

The argument against this is that if this is what the market was seeing, you would expect a better performance from Chinese equities, right? And you really

haven't seen it. Now, interestingly, if you look at the Chinese equity markets the performance this year you had a great '24 for Chinese equities, you had a great '25.

This year's disappointing. And what's been fascinating, what's been really disappointing has been all the big tech stocks, your Babas, your Tencents, your Baidus. The... Meanwhile, the Chinese hardware names the CATLs, the BYDs the Cambrian, the-- like all those guys, they've done very well.

So Chinese hardware has done well. Chinese internet plays and and other sort of Telecom and media, Etc. That's all really struggled. So in that respect, it's, it actually hasn't been that different from the US where software stocks have gotten crushed and hardware stocks have thrived.

You've had the same dynamic in China. The big difference is that the hardware stocks in China are, pretty much meaningless in, in the broader benchmarks. They're very tiny. And your Babas and your TenCents, Etc, are massive and all those names are down fifteen, twenty percent y-year to date.

But I would imagine that if, the scenario I painted where it's okay the market is starting to price in the fact that the US and China can no longer trip each other up. That because of the Iran war, they're condemned to get along, they have to find a deal to curtail inflation, so on and so forth.

That if that was the case, Chinese stocks should be doing better. If really we're on the verge of a big US-China deal, then you would expect all the guys in the White House who seem to be front-running every decision to be front-running this one as well by going out and buying Chinese equities.

And so far there's been a little, again, there's been good performance in things like CATL, the biggest battery maker in the world, m-maybe that's where the US-China deals focus on in the broader EV space, in the broader battery space, 'cause that part of the market has actually done quite well.

But it's so far, I would say that the Chinese part of that equation isn't really giving a confirmation of the scenario I just made out

Erik: Louis, the most striking thing to me from this interview has been your comments going back 20 years or 21 years probably it was e- almost exactly, to the peak oil fears in the ear- early mid-2000s.

It was January of 2005 when Matt Simmons published the book "Twilight in the Desert," which started a whole bunch of doomsday bloggers writing about a theory, a speculative possibility that we might run into a real oil crunch. And just that speculative blogging led to \$147 oil. Inflation adjusted today, that's \$212 oil in 2026 prices.

That's what we saw in in early 2008, just because some guy who was discredited by most of the serious people, Dan Yergin was making fun of Matt Simmons for that book back in the day. Yeah. So a guy who was discredited by most of the serious oil traders writes a book and it leads to \$147 oil prices.

Now we have all of those same serious guys in the oil business who were making fun of Matt Simmons. They're circulating on Twitter that movie clip where Leonardo DiCaprio is talking about, "There's a Mount Everest-sized comet hurling toward the Earth." "We took a picture of it on radar. It's coming, and you guys aren't taking this seriously."

That's what the serious oil guys are saying now. And Street's "Yeah, but we could buy semiconductors," and those oil guys are just talking their book.

Louis: Yep.

Erik: This seems to me like a setup. Really, it f- what it feels like to me is the COVID pandemic, when everybody was ridiculing me and calling me a fearmonger when I said there's a pandemic, global pandemic coming in early February of 2020, and it took a month before the market finally figured out the obvious.

Are we in another setup that's just like that?

Louis: I think that's a distinct possibility, Eric. And I would say that the longer the Straits of Hormuz stay closed, the more your COVID-like scenario becomes credible. I think so far what has happened is that, cars are still driving and planes are still flying, and we haven't really dealt with the sh- the possible shortages in the system because they haven't emerged for two reasons.

First, there's a lot of buffers in the energy industry, so we could draw down these buffers. But now, on our calculation, by early June, we run-- the buffers run out. So that's the first point. The second point, I think, is we haven't really hit shortages because The last boats that left the Gulf were still arriving at their destination by around mid-April.

They-- If you left in late February, you were arriving in Australia or in the US or in Japan by early to mid-April. And so it's now that all of a sudden nobody is showing up at the ports, right? That nobody's showing up at the refinery. It's now that we have to draw down on the inventories that have been built in, the buffers in the system that will take us to early June.

But if by mid-June the Strait of Hormuz is still closed then yes, I think th-this is when you start to hit panic moment. And again, I think when you look at the forward curve, the market is very much pricing in the idea that the Straits of Hormuz are gonna reopen. So nothing to worry about.

Let's keep going. Now, and I said it earlier, but I'm doubtful that it reopens so quickly because I don't see the incentive for Iran to reopen this so quickly number one. And number two, there's also the sort of Damocles sword scenario the nightmare scenario that instead of just having the Straits of Hormuz closed, we go back to targeting each other's energy infrastructure.

And if that happens, then w-- then it's a whole other can of worms. And then things get, get nasty very quickly because once you take out each other's energy infrastructure, even if the Straits of Hormuz reopen, it's not like things are back to normal because th-they won't be. So I completely take your point that the downside scenario is actually quite scary.

It i-it is a scary scenario, and I think perhaps because it is such a scary scenario, just like your pandemic parallel, it's like, "Ah, you know what? I'd rather not think about it." This is like-- This seems like doom mongering. It's like too scary. Forget it. The AI is the trade. Let's go back to AI.

That's more fun. Thinking of the end of the world that's no fun. So let's just think of AI and how AI is gonna be so exciting. so yeah, I think there's, there is a certain level of discomfort wh-when you look at today's market behavior. Essentially I think the clock is count-- is turning.

The clock is ticking, sorry. We s-probably still have the month of May to be okay, but i-if by the end of May things aren't open, then we're setting up for a pretty horrible summer

Erik: Now, I really wanna push back on that part of this, 'cause this is the one place where I just don't understand the logic of the market.

Almost everybody I think would agree with what you just said, which is we've got maybe the month of May to be okay. But, if we can get this resolved in the

month of May, then things are gonna be okay because we don't run out of those buffers until early June." But here's the thing, Louis, you-- we agree that in early June we're gonna run out of those buffers.

Louis: Yep.

Erik: If we've solved this, if we solved it tomorrow before this episode even airs on May seventh, if Hormuz is totally solved and all the ships are flowing freely, it still takes six weeks for them to get where they need to be, and we're gonna run out of the buffers in early June. So we need to have solved it, I would say past tense.

Oh, yeah, no, we need to solve it now. It needs to have already been solved in order to avoid something utterly colossal starting in June. And everybody seems to be acting like but yeah, if we solve this in May, then that won't happen in June." I think it's set to happen in June no matter what.

Louis: So it's, look, here I'm gonna sound terrible, but it's it's the old story of the rich do what they want and the poor suffer what they must. What's gonna happen is the real victims, and it's already starting to emerge, but if there's not enough to go around, it's gonna be the Sri Lankas, the Pakistans, the Kenyas of the Bolivias of this world that get cut off first and foremost.

Oh,

Erik: so if millions of people starve to death

Louis: in countries that are not

Erik: really that significant to the S&P 500, it's fine.

Louis: This is what I said, I'm gonna sound terrible. This is exactly what I meant. I-- like I said, I'm gonna sound absolutely dreadful. But this is how the market is gonna take it.

It's gonna be, "You know what? If there's no electricity in Manila do I really care?" And I think that's the mentality right now. And look I'm not saying this is awesome. And again, I'm an EM guy, so for us it's much more problematic. But I think that's the... Perhaps that explains the S&P's behavior today, where it's like, "Yeah, you know what?"

Yep, I'm very sad for people in Sri Lanka, but anyway, let's what are Apple's earnings? 'Cause that's what matters to me." And all this to say that if it reopens now, I agree with you that we're still set up for some dislocations in June and July, but those dislocations will happen in the poorer markets first and foremost.

And either way, though, I would say that right now as things stand You know, w- debating whether if we reopen now, whether it will be okay in June, Etc, it's a bit-- it might be a just a specious debate because we're not reopening right now. And it doesn't look to me as if there's any attempt at diplomacy in the United States, 'cause this thing is only gonna get solved through diplomacy, and it doesn't really look like there's genuine attempts at the US at diplomacy.

The u- the way the US is conducting diplomacy is through a long list of demands that are equivalent to essentially Versailles in nineteen-nineteen, where we told the Germans, "This is it. Sign here, and here," as if Iran had been thoroughly defeated in the field. But Iran doesn't believe it has been thoroughly defeated in the field.

Iran believes its position is strong. Iran doesn't feel it's negotiating from a position of weakness. And I think that you must have seen this many times in your life either, people going through divorces or people going through fights with business partners or whatever. The worst results in negotiations happen when both sides are, A self-righteous, and B, believe that they're in a stronger position than they really are because the willingness to compromise is then not there.

And that's when you get bad outcomes all around. And to me it seems like we're still there in the Iran US situation where both sides believe they're very much in the right that the other side is profoundly evil talks about things in very Manichaeian term of good versus evil, and both sides very much believe that they actually have the upper hand.

And so if that's the case, like it's pretty hard to reach compromises on anything. You and I could debate, "Oh, but look, if we reopen now, what's gonna be the impact?" Etc. The reality is we're not reopening now, so that's what matters.

Erik: What happens if Trump gets his war-making abilities taken away from him because of this sixty-day rule?

What if he loses in Supreme Court says, "Look without congressional approval, you have to stop." Does Iran open the strait at that point with a toll, or do they

just say, ha, we won, and we control the global energy infrastructure from now on"?

Louis: No, I think Iran says "Yeah, you wanna go through the straits, it'll be two million bucks."

At that point, I think the ball then moves to Saudi Arabia. The question becomes, does Saudi Arabia wanna pay two million bucks a ship? Does the UAE wanna pay two million bucks a ship? Two million bucks that goes straight into the pockets of the IRGC. Now, if you're the UAE... By the way, the UAE leaving OPEC and essentially thumping their nose at Saudi Arabia strikes me as somewhat odd of an odd move because essentially UAE is saying we, here they are, you look at a map, they're stuck in between Iran and Saudi Arabia.

They're in a fight with Iran right now. UAE has received about three times as many missiles and drone hits as Israel. So they're in a fight with Iran and they pick this precise moment to pick a fight with Saudi Arabia. It's mind-blowing to me where it's like it'd be the parallel I would use is, in World War I when Germany invaded Belgium and if Belgium had turned around and decided to thumb their nose at France.

I think when you're in a fight, you typically you want to look for friends rather than make new enemies. And what's particularly surprising, I get Saudi Arabia's, UAE's point. It's we're going to need to rebuild after this. So we, we got to go. We want to produce 5 million barrels a day.

We don't want to produce three and a half. But how are those barrels going to move? Are you going to move them by ship? Then you're going to have to pay Iran. Or are you going to move them to pipeline through pipeline and then you're going to be fully dependent on Saudi Arabia? So you're going to be dependent on somebody giving you geography.

Why would you say stub your nose at both? It's to me, it's a little surprising. Anyways, to answer your question, if the U.S. Congress decides to tell Trump, OK, this war's over. You've had your fun. This has been a disaster diplomatically. It's been a disaster for the image of the U.S.

in the world. It's been a disaster for the U.S. consumer. It's been a disaster for the U.S. military. We've spent all of our weapons for no for really no concrete outcome. So we've done all this. So now you're done. You're out. You can't do this anymore. I think the ball then falls into Saudi Arabia.

Does Saudi Arabia decide, you know what? I don't want to pay Iran. So I'm only going to produce five million barrels a day and ship them out through the Red Sea. And that's that. Not only that, but I don't really have an incentive to move the UAE oil. You know what? UAE, you might want to produce five million barrels.

If you want to produce five million barrels, you have to pay the IRGC their two million. And the UAE is way more against the IRGC than Saudi Arabia. So politically, it's going to be very hard for the UAE to say, yeah, fine, we'll pay two million bucks a ship to Iran. Will they want to do it? So you're still left then on the other side.

If I'm Saudi Arabia, if I'm MBS, I'm saying, you know what? I'd rather sell five million barrels at a hundred and fifty than eight million barrels at sixty bucks, thank you very much. I'll just do that. And you might say that's gonna really piss off the US." But by that point, the US doesn't have military bases in the Middle East anymore, and the US has just shown it doesn't have the willingness to defend the Middle East.

So if you're MBS, do you still worry about what the US thinks? No. You just say, "You know what? I'll sell five million barrels at a hundred and fifty bucks and leave it at that."

Erik: Louis, I can't thank you enough for another terrific interview. I always really enjoy our conversations.

Before I let you go, tell us a little bit more about what you do at Gavkal, how people can find out more about what's on offer there, particularly for our institutional audience, since you are an institutional advisory firm, as well as how to follow your work generally.

Louis: Thanks. Look, Eric, I always enjoy our chats.

It always helps me crystallize a lot of my own thinking, so really thanks for having me on. Thanks as well for all the interviews that that you did in the past few weeks. It's really helped me think through a lot of issues, and y- I think you had some great guests in the past few weeks, so thanks a bunch.

Anyway, for me yeah, the best place is our own website. [It's gavkal.com](https://gavkal.com), G-A-V-K-A-L. We really do three things. We publish research for institutional investors. We we manage a series of fund, mostly Asian-focused funds, so Asian equities Chinese fixed income, Chinese distressed debt. And we we also

have a private wealth business run out of Bellevue for the US, for US clients, and run out of Mauritius for offshore clients and Hong Kong where our headquarters is.

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