

Erik: Joining me now is [Rabobank's](#) global strategist for economics and markets, Michael Every. Michael, it's great to get you back on the show. I'm sure you've heard the great news today, and we are recording, just so our listeners will know, on Monday afternoon, so three days before this episode will air. A lot can happen in the news flow lately.

But as of Monday afternoon, the news is President Trump says, "Don't worry, everything's all set. Oil prices are about to drop like a rock, and time is on our side." Do you concur, sir?

Michael: No, I don't think that time is on anyone's side, first of all. I think that's true for every human being throughout history that time doesn't work in our favor.

Entropy is a universal truth. But specifically, that news flow, of course, that we had on the Monday as we're speaking, was superseded within I think about an hour and a half, two hours maximum, where we went from a tweet saying, "Okay, Iran doesn't want to talk. That's fine. We don't have to talk. Maybe we've done too much talking.

I'll just maintain the blockade," to then suddenly backpedaling and saying no, the reason for Iran not talking is because Israel was still moving against Hezbollah in Lebanon, and now I'm telling Israel they can't move against Hezbollah in Lebanon. And Hezbollah have promised they're going to stop attacking Israel pinky swear and therefore everything can continue, and we're gonna continue talking to Iran."

So maybe that doesn't necessarily contradict the fact that Trump thinks that time is on his side, and I think you, you can put that to one side as a separate argument, but it certainly shows just how dynamic the news flow is and how incredibly confusing and befuddling this tweet-driven crisis continues to be for all of us.

Erik: Michael, let's go a little deeper on the time on our side perspective with respect to the global oil market. A lot of people have been warning for a long time, myself included, that we're going to run out of the buffers in the system. We're gonna get to the point where we don't have the crude oil needed to supply the global economy, and the only resort left is gonna be a wild price reaction in order to destroy at least 10 million barrels per day of demand.

A lot of macro guys are saying, "Look, stop listening to these doomer commodity idiots. They don't know anything. Obviously, they've been proven

wrong. Oil prices didn't go to 200. Everybody relax. We, time is on our side. We've got plenty of time. We produce plenty of oil. We can wait this out, and we can w- you know, the president is right to feel that he can wait this out."

What do you think? It's true that the oil prices have not gone to the moon yet. Does that mean that we're safe?

Michael: First of all, full disclosure, I'm not an energy expert, and I know you speak to many, and indeed you're very well-versed in that field yourself. So I don't want to try and over-represent my specialism here.

But I can't really recall such a dichotomy and passionate dichotomy of views as we have over this particular crisis, where, as you said, you've got absolute experts saying this is going to end in absolute catastrophe within, weeks. And these are people who, are neck deep in this industry.

And then to be fair, you have a few who understand the industry who are saying maybe it can be okay." But you get a lot, as you said, of macro fellow travelers who are great with an Excel spreadsheet and very good at being similar to that sarcastic meme of the elderly guy with the white beard drinking a cup of coffee saying, I've finished being an expert on X now, and now I'm an expert on Y," saying it hasn't gone wrong yet, therefore everything will be okay."

And when you've got that kind of talent stack really disagreeing, but the people who are really well-versed in the industry panicking the most, that makes me extremely nervous because I've worked through many different potential crises similar to this, and most of the time I've been the one pointing at the gray rhino or the black swan and saying, "This is bad," be it, all the way back to the global financial crisis 20-odd years ago, and everyone else around me who's, making money by not seeing it saying, "No, it's all okay."

And most of the time it's worth listening to those downside risks when they're that big. So I think at the very least, everyone should be paying attention rather than confidently rubbing their hands and saying the people who understand this industry like the back of their hand are all wrong.

Erik: Let's talk about what the follow-on and knock-on effects of this could be. One of the things that's really perplexing me is at first I thought, this has to be inflationary. We already, I thought, were probably into a secular inflation. It seemed to me this was gonna really force the argument, and I was really surprised when I talked to Mike Green, who said he thinks that it's going to be

deflationary and the Fed is gonna be forced to cut aggressively because of this oil crisis.

And I said, "Mike, can't you see that \$150 oil is inflationary?" And he said, "Yes, I can see that. Can't you see that \$500 oil is deflationary?" And I said, "Oh, that's a point." How do you see this playing out and how in the world do you analyze this if you don't really know, and it seems like experts can't agree on how far this can go?

Michael: Let's break that down for a moment. First of all, you would get, a lot of heated disagreement about whether we'd ever get to 150, and if we start talking 500, which is then, it's the first time I've heard that number mentioned, I think, that's a heart attack on the screen, isn't it?

In its simplest form, we have to recognize that central banking, as currently constituted, isn't able to deal with these kind of crises. We've had repeated, examples of that over the past few years where institutions which are effectively neo-Keynesian and all to do with demand management struggle to adapt to something the supply side and then have to try and work out, do they deal with second order effects?

And more importantly, is it temporary on the supply side, which of course, or that famous word transitory or is it something that's protect- potentially structural? And if so, what do they do? And effectively it's it's almost like that old comment, I think from the 1960s, the feminist comment, the, a woman needs a man like a fish needs a bicycle.

Like central banks understand supply side or structural supply side shocks like a fish understands a bicycle. They're just entirely different things. So you can listen to any number of different central banking experts who will say they should do this, they should do that, they should cut rates, they should raise rates, they should do nothing at all."

They're all wrong and they're all right at the same time because it's a very complex problem, and I don't think any of them really are the full solution to it.

Erik: We've got Kevin Warsh taking over as the Federal Reserve chair. How does that factor into this equation?

Michael: He was already prior to this happening, muttering about the fact that he wanted to change the Fed.

And I don't think that's going away. And looking at the fact that AI in his mind from, in public statements, is likely to be very deflationary and as a result, there's room for the rate cuts there because of that future deflation. Now it's a bit of a curve ball to say that you've got that deflation plus the, potential for the absolute economic cacophony and chaos that could be caused by the kind of outcomes that you are referring to hypothetically. It's very hard to call.

But I think the interesting thing will be listening to these central bankers who, while they may talk less under a Warsh Fed, tend to be so apparently transparent about what they're thinking and try to make clear to everyone how they're thinking about these things. It will be interesting to watch them squirm to an extent and make clear they just don't know what to do.

Because I repeat my larger point that I think the mechanisms we have set up now simply cannot function the way that we want them to. Clearly what you would need instead, at the very minimum, are vast strategic petroleum reserves or the equivalent across various different products which are no longer flowing because of the Hormuz crisis, which central banks could look to tap to try and smooth these processes out, which are, hundreds if not thousands of year old policies used in various different countries around the world and which China still uses today.

And you have to say to yourself, is that not a better mechanism than just making borrowing costs on aggregate for the entire economy, either more expensive or less with all the second and third and fourth order effects and with a lag. So I'm not trying to dodge the question in any way. I'm actually trying to hammer the point home that I don't know what Warsh will say.

I don't know what any central bank will say. I'm not sure whether they'll all be united, and I'd imagine they're probably gonna be on the phone to each other trying to make sure that they all at least hang together collectively rather than bravely trying to go in different directions with the odd exception.

But I don't think any of them are set up for it intellectually, and I don't think any of their advisors are, because all the economists who do the number crunching for them also don't have any models which work in this particular environment that we're talking about. They're presuming that this w- were structural and is as bad as you were just alluding to, which is not what I'm forecasting.

But if that is the case, yeah, w- what does one do? The en- the entire infrastructure that you've set up isn't fit for purpose anymore.

Erik: You described Kevin Warsh as muttering about changing the Fed. What do you think is on his mind long term? What do you think he and President Trump and Scott Bessent maybe are architecting in terms of a new central bank regime for the United States?

Michael: I think it is important to return to Iran, and I'm sure we'll do that in a few minutes. But if we kind of segue to that particular discussion, from my perspective, if you'll recall, in many of the chats that we've had over the years, I've been underlining that I thought when Trump was reelected that he would shift from economic policy to economic statecraft.

That was the, the line I was traveling with. And the US is openly now saying publicly that economic statecraft is what it's pursuing, and that's absolutely part and parcel of the argument I was just making then about this energy crisis. Because you cannot have an independent central bank which is trying to target 2% CPI and all the other paraphernalia that it claims to be targeting. And not have joined up thinking across every element of state and government towards the national security goals or the foreign policy goal that you're aiming for with economic statecraft, and not have the central bank as part of that.

The central bank is so important in all that we do. It's just logically ridiculous to conceive of a Fed saying we're not going to change. We're going to keep doing everything Greenspan did or Bernanke did or Yellen did." And he- who cares about the struggle for AI? Who cares about the struggle for the supply side?

Who cares about national security? Who cares that we're in, at a war at the moment, or that we need to re-arm rapidly to make sure that we can fight the next one, wherever that were to pop up? None of that matters to us. We're just gonna look at 2% CPI. Now, I can assure you there's a long queue of economists who will say that's the right way to go.

Of course, they're apparatchiks within a certain Soviet style machine, and that's how they think, and, that's the answer they'll always give. But from a political economy perspective, looking down from a helicopter view, it's just really irrational to conceive that Warsh would not be aware of the fact that Bessent, who's been pushing for him along with Trump to get this particular role, is himself plotting that particular course.

So un- unless he's worn a mask the whole time, now gets his sh- his feet under the table at the Fed and says I'm just gonna be the same as everybody else," which, you can't rule out, but it's pretty unlikely, the Fed will, from my

particular perspective of global strategy, gradually be moving more towards the economic statecraft field.

And I think one giveaway on that, before we maybe, pivot back to Iran again, is that Warsh, when he was asked, "What do you think about dollar swap lines?" Which I think are really crucial at the moment in many different ways. He gave an interesting answer where he alluded to the fact that he thought Fed independence didn't apply to them because they were a geopolitical transaction, effectively, and they are, which I think is hon- honesty on his part.

But if he's serious about that, what that means is that potentially, instead of everyone just thinking the Fed is a technocratic institution, which is there to provide euro dollar liquidity to anyone around the world, particularly, the old boys club of largely Western and OECD central banks who need it to prop up their financial markets from time to time of course, in the US interest.

Now, potentially, this can be very much under the remit of the presidency or the treasury with a much more explicitly quid pro quo agenda, which we have actually seen, of course, running through the oil market via the DOE recently. And I think that speaks to exactly the point I'm trying to make here about economic statecraft emerging, and again, this all factoring into this Iran crisis.

Erik: Let's pivot back to Iran. As you said you told me off the air that you had several wild outcomes that you could conceive as possible, not predictions, but possibilities. Let's go wild. What are they?

Michael: Okay, so this isn't a forecast, but again, it's from an economic statecraft lens, taking a big picture view, joining dots and projecting them forward as a what if, which I find is a useful discussion point.

So before we get into the nitty-gritty or maybe even avoiding the nitty-gritty of how long this crisis is going to grind on and what the ultimate outcome is, let's presume that the US is cognizant of the fact that were we to get a TACO, which actually would be, as far as I'm concerned, the whole enchilada of a retreat from the Middle East and abandonment of US allies there, and effectively handing over Hormuz and all the energy in the Middle East to, an Iranian nexus along with its allies, that would be a geostrategic disaster for what the US is trying to achieve in terms of economic statecraft and for the entire West.

So if we presume it can't do that, and we presume therefore it's going to just keep maintaining this blockade going forward if it can't move ahead with more aggressive military action, which is seemingly the message that we're getting at

the moment You know, how long is a piece of string? How long can this blockade run?

Potentially long enough to start taking us towards some of the worst case oil scenarios that you're describing if you're in that particular camp, and I think a lot of people are. What is to stop the US taking even more radical economic statecraft action itself vis-a-vis energy? Because we've seen the US, for example, regularly dip into the SPR.

Now that's economic statecraft. Biden did it. Trump's doing it again now, and that's one of the reasons why we're not seeing energy prices going up, and actually, if anything, they're coming down overall trending lower. But that's obviously, a pot of a physical capital that's only got so much in the banks so to speak.

But what if they were to say number one, we are going to stop exports of refined products"? Now, they've denied it, but of course, you should never consider anything until it's been officially denied. And I think, lots of people can talk through the nuts and bolts of that, and it wouldn't necessarily achieve what they want to achieve, but you couldn't rule it out.

But that's the US in isolation. The more radical idea I had is that we could actually see the US in the face of a looming energy crisis where it really is just catastrophic, potentially, in, in the near term horizon, looking at a certain subset of countries, for example Mexico, Canada, Venezuela, Guyana others in Latin America, and key players in the Middle East who are still prepared to work with it, and key countries in Asia who are US allies who have key refining capacity, and saying, "Look, let's do the math here.

If we look at oil production and oil consumption," and I know that oil is not generic, I know there are different kinds obviously, "but we have the right mix and match between us of production, consumption, and refineries. If we form a closed loop, we can potentially get through this, and it's everyone else who's in serious trouble."

So that would really fragment the global energy markets in a way that we've already started to see in terms of different pricing for different kinds of product for different geography, but it would take that to an extreme. And the kind of the pun that I'm playing on for this idea is instead of having NAFTA, which of course no longer exists, and the USMCA itself is now being renegotiated as we speak.

Instead of having NAFTA, you have NAPTHA, which is the North American Petroleum and Hydrocarbons Trading Hub Association. Where effectively you have, again, this closed loop for energy, which means that the US could say to others look, we can ride this out. It's you who can't. Are you going to help us solve it or not?"

Erik: And what would the next card be in that deck if it's we're gonna force you to play ball with us, you're gonna have to do what we ask you to do in order to solve this, and they say, "Okay, Uncle, we have to do what you say." What does the US tell those countries to do?

Michael: Again, this is purely a hypothetical.

It's not a forecast but I enjoy these kind of, scenario projections. Rather than using military statecraft, which is obviously what worked in Venezuela in a very focused manner, and is what is not working at the moment vis-a-vis Iran versus where it was a few months ago, we've hit this stalemate, this comes purely back to economic statecraft and coercion, which is work with us and together with Fed swap lines, which of course have now been offered to the UAE, which if it is itself very cash rich, has a currency pegged to the dollar, and has an awful lot of energy, and is no longer in OPEC and OPEC Plus as we know.

Let's start offering swap lines to people so they have that ultimate financial backstop, which most commodity producers traditionally don't. It's only the old boy network of, Europe, BOJ, Etc., Etc., who have it when needed for financial assets. No. Okay, now it's for new allies rather than old allies, and it's for physical commodities.

So let's offer that. Let's offer the defense umbrella while it still has some meaning, which is one of the reasons why the US, I think, can't cut and run and do a taco, which as I joked, is the whole enchilada. But if we do that and then say, "And together with these other countries banging heads together, we can make sure that we can survive the energy crisis and others can't," I think just that carrot itself would see a lot of people rethinking.

In the same way an adjunct to this that while Canada has been obviously daggers drawn with the US because of the way it's been treated in public and one can understand why it's gone there, the change in rhetoric in some recent headlines from them has been remarkable. That in January you had the Prime Minister, Carney saying that we're in favor of a new world order working with China, which is quite remarkable rhetoric, for a NATO ally bordering the US to

last week saying, "We want to form a new partnership with the US to make America great again," and that's a direct quote.

So imagine what's gonna happen or what could happen were we to see that kind of looming energy crisis, and I think that coercion itself, that carrot together with that stick that we're creating this crisis by not just walking away could do a lot of the moving parts or be a lot of the moving parts in and of itself without any guns being needed to be placed on any tables.

Erik: You're describing a scenario where the US has a stronger hand of cards than other players at the table because we could weather the crisis longer than others could. It seems to me that in some ways China, China has more reserves, more oil reserves than anybody, including the United States. They haven't drawn them all down.

The US has already started to ra- well, it, during the Biden administration has already drawn down its strategic pro- petroleum reserve considerably. It's now being drawn down to much lower lows. China's held onto all of theirs. Now, China doesn't have the production capability that the US has, so i- it's not an apples to, to apples comparison.

But i- is China in a particularly strong position here, and what are the scenarios where China might assert their strong hand?

Michael: First of all, let's think about what their strong hand is, and obviously they are a commodity champion, either as the net importer and therefore everyone has to pay attention to them, and if they have the stocks in theory, they can be the net supplier to people in the way that the US actually is at the moment and Japan is by drawing down its particular reserves and sharing them with others in Asia.

So if China's stocks are as high as they say, and let's just say that there are different views on that, I'm not getting into it and I'm not trying to nudge, wink, wink, but there are public views out there that they're not as high as people think or they're even higher. We really don't know, but let's presume they're very high.

Then potentially China can turn around and say, "Look, the US has the ability for now to dip into the SPR for a while. It's got that defense stack. It's got the ability to step in and help on other fronts too. So we can step in physically with product and say, "If you actually need oil, we have buckets of it.

We can offer you the renminbi via renminbi swap lines," which can be set up in various different ways. And effectively, we can be there, through a medium-term crisis in the same way that the US can. And maybe we don't have the same military cards to play yet, but maybe in another few years we will, and, Russia can help out at the margin.

So you could potentially see that as being some kind of alternative emerging over time. But that really does depend on whether China wants to share. And you'll notice that initially during this crisis, the first thing they did was to stop exporting refined products and fertilizer, Etc., which didn't exactly stand behind that view.

And interestingly enough, it's only, I think around an hour after the UAE left OPEC and OPEC Plus that suddenly China started exporting again, because I think they realized that these geopolitical tectonic plates are shifting, and they needed to start staying ahead of the game and realizing that would be potentially an offering they would have to make to people.

But that's only true if they have the reserves. Let's take the other completely hypothetical case that they don't. Let's say that they're not there the way that they profess, and how would we know? Then they're not in particularly strong position. They can, maybe keep going for another couple of months, and then just as many other countries w- would realize by the time that we get to late summer, things are looking really pretty messy.

At which point, that brings us back to, the hypothesis that I've been expounding for quite some time, which is that ultimately part of this resolution could be, ironically, China having to work with the US against its own ally, Iran, because it realizes that the potential damage to it from this crisis i- is even larger than losing Iran as an ally.

Now, we're not there yet, clearly, otherwise there'd be more movement or at least you'd pick up rumors of it, even if it isn't being, reported in the mainstream press. It's still logical that could appear at some moment, but it purely depends, as I said, in terms of what China can assemble, and that's a product of what they do or don't have as cards in hand, and there's no transparency on that front.

Erik: Michael, let's come back to the US implications of this. Experts are telling us that even if the crisis ended tomorrow, it would take, eh, four or five months before oil prices and particularly finished product gasoline prices would start to stabilize again. Okay. The midterm elections are only five months away now.

So if gasoline prices stay at these extreme elevated levels all the way through the midterm elections, does that make it extremely difficult for the Republicans to hold on to the Congress? And if they lose the Congress, what are the implications?

Michael: Let's unpack that in a couple of different ways.

First of all, as we have seen, and as you were referring to at the beginning of this conversation, all it takes is a few handy tweets and prices can go down 5, 6% in a day. Tweeting doesn't cost that much, and it's amazing how much of an impact it can have for a while. Ultimately, if we are going to hit that pinch point up ahead, it's not going to work forever unless that particularly optimistic view that this is a crisis that can be worked through because, for example, China is importing much less at the moment, and is there some kind of background cooperation going on with the US?

We simply don't know. Then that might be one solution. If not, and we do find that tweets don't work anymore and prices start moving higher, that's exactly the pressure that would lead to hypothetically the US making one of two different choices. Number one is saying, "Okay, we have to go the whole enchilada," and say, "This is a mega taco," which, really does us enormous geostrategic damage and the entire West.

Or we have to look at the naphtha scenario I was just talking about, which is we will have lower prices in conjunction with others, but it means that they're going to be much, much higher in a larger subset of countries and, we're not gonna get our reputation back on the other side of that, but we can live with it But that's just the energy side of it.

You then have to look at the US itself, and I'm actually speaking from the US today, which is one of the reasons why I apologize if I'm stumbling over my words somewhat. The jet lag traveling here from Asia is quite remarkable sometimes. But we've seen this, constitutional upheaval, and I do think we have to be cognizant of the fact that obviously high gasoline prices are very unpopular.

But at the same time, it's always a binary, one party or the other. And it's also about enthusiasm. So provided enthusiasm can be kept up by Trump way or one way or another, and I'm not saying that can happen, but it's not impossible. If you can make it a sharp binary between whatever Trump is putting forward as a platform at the time versus what the Democrats are doing, with the redistricting that we're currently seeing it's still not a gimme that he loses the midterms.

And we have seen very experienced election callers really humiliated several times, not just in America, but around the world in recent years. And I wouldn't rule out that the confidence that people have of what it will look like in November could prove, misplaced once again.

Erik: Michael, let's move on to gold now.

A lot of us thought that the reason gold has been so weak and why we saw a breakdown in the usual correlation where normally, bombs start falling, gold goes up. In this crisis, it's been bombs falling, gold goes down. Most people, myself included, have assumed that the reason for that has been that we're seeing an oil price-driven inflation signal that's spooking the precious metals market.

We just had a 10-day long, pretty significant risk-off cycle in oil prices and, gold didn't recover to new all-time highs or anywhere close to it. So maybe we're I'm feeling like maybe I've misdiagnosed why we've had all of this weakness in gold. And so I wonder what do you think has caused gold to be so weak, and what's it gonna take for it to bottom and eventually turn around, or does it turn around?

Michael: Again, without giving any kind of investment advice, I'm looking at this as part of a bigger picture thesis rather than focusing on one asset and then trying to explain everything back from there because, that's my methodology the former, not the latter. I think an interesting anecdote, and that's the best I will do here because people who look at gold full-time will obviously get, passionate about this and send me very angry emails.

But I think the best anecdote to explain this is very early on in the war, you saw the fact that people were finding that they were having to sell gold for dollars to try and then move them abroad and then buy other assets again. So when it actually came, push came to shove in the Middle East, you actually had missiles flying in a region which historically likes gold a lot, you suddenly have people realizing it's not the easiest thing to flee with.

You're actually a high net worth individual with a safe full of dollars, sorry, sa-a safe full of gold. And it is ironically for all the problem with fiat currency, which I, I'm not gonna unpack here, we're all aware of the downsides, it's pretty easy to get out of the country, via one press of a button at times.

And then on the other side of that, do you really wanna put it back into, very heavy to carry metals on the other side? Now, that's only one factor amongst

many, but I do think it feeds into a broader thread running through Iran, running through economic statecraft, running through what the Fed and Warsh are doing.

And that is what is our emerging geopolitical, geoeconomic, geofinancial architecture looking like on the other side of this war? Because, at the moment you could say the war is in an interregnum. We don't know if it's gonna start again or just fade away. The shooting we've seen over the past couple of days has been, quote unquote, "mostly peaceful bombing," if you can, get away with that phrase.

But people aren't genuinely focusing yet on what things will look like when it is over, whether the US wins or loses or this draw drags on longer. And we've talked about the energy side of it to a degree, but many other things factor into it, and the dollar, gold, stable coins, commodities, all of them factor in too, and in a very big way.

Erik: Michael, let's come back to your specialty of economic statecraft. That includes stable coins. It includes the swap lines that I think have been offered to the UAE. There's probably other dimensions of this. Take us out to the bigger picture of what's going on here in terms of what you think Trump and Bessent really have in mind longer term.

What are their intentions for the US to assert economic statecraft, and how are the ways that's gonna play out?

Michael: Sure. I think the easiest summary of that is that clearly there's absolutely no appetite from Bessent or from Trump to give up the global power of the dollar, but there's a full understanding that the euro dollar system, which does give the US a great deal of power, is also responsible for de-industrializing it because everyone demands the euro dollar, which comes from holding US financial assets rather than productive assets.

So you can make the link that effectively, you know the rules-based order was propped up ultimately by the US military. The US military was propped up by US industry, and US industry was killed effectively by the US dollar system, and therefore the US dollar system killed the system the rules-based order, which actually props up.

So it's a closed loop, and I, I've been arguing that in various different ways for a long time. But that doesn't mean you wanna give the dollar up completely. So I think what they are going to try and do, and we've discussed this in part before,

but again, it runs through this war, it runs through energy, it runs through commodities, trying to push back at what China is doing, like through letters through a stick of rock. It is the use of stable coins to effectively create lower interest rates in the US and effectively sucking euro dollars out of parts of the global economy and replacing them with these digital tokens, which to an extent for the US are buy one, get one free.

Why would you not want to do that? And they also have a sorting effect in that the countries that will trade with you, that will put tariffs on China and share a common external tariff with you against them, and split their technology supply chains and work with you on defense, they will be the ones that will expect to accept these digital tokens, which are not money, but they can become money if people will accept them as money.

They will be the ones who will accept them, and the ones who won't ultimately weren't going to be your allies anyway. So there's a sorting effect, there's a reorganizational effect, there's a buy one get one free, and there's fiscal breathing room through all of that. So that's what I think the US is trying to achieve there, and I think they were already, they were moving towards that.

The Iran crisis/war is likely to accelerate that, particularly, depending on how it ends. But that's just the US view. There are other countries and other players involved here, obviously. It's not only the US playing the game. And the interaction of how all the different players come together will drive ultimately what that architecture looks like.

Erik: You mentioned earlier the scenario of you, you said something to the effect of, if the US wins this war with Iran or loses this war. It really got me thinking, obviously the US is not gonna lose the war in the sense of Iran won and destroyed the United States and the country doesn't exist anymore.

So what does losing the war for the United States look like? Is it just the scenario where Trump is forced to taco and walk away and say okay, that didn't work out the way we thought," and just walk away from this, leaving Iran kind of controlling the strait? Is that the lose scenario or is there a worse one I haven't thought of?

Michael: It's a cascading effect that flows on from that, because what it would do at a meta level is show that even when you have a very ostensibly gung-ho president like Trump, in reality, of course, he hasn't been getting involved in wars on a large scale up until recently, and of course, that's what he's

campaigned on so successfully in the past, which is, counter to the image that some people have of him domestically and internationally.

But even when you have someone who's prepared to, talk very tough about these things, that effectively the US would be in a state that the geostrategist Ed Ludback refers to as post-heroic Whereby, and this isn't any kind of criticism, it's just an observation, that the US is so casualty-phobic that while it has this magnificent technological military machine, which is of course very highly reliant on inputs from China and others, and that's part of what Trump is trying to address by, onshoring and shifting supply chains, Etc., Etc., It's limited in what it can achieve.

It can do a lot, but it can't achieve everything it needs to in the same way that Israel wasn't able to fully defeat Hamas because it would've required, many more men on the ground going everywhere. The US would've needed to have boots on the ground versus Iran in some scenarios, you could argue that.

And if that political will for that isn't there, then you can say therefore there are certain geostrategic problems or quandaries that the US simply isn't going to be able to resolve, and the cost of being involved is going to get higher and higher without any realistic prospect of victory. Ergo, the more logical thing to do is to, as you said, cut and run and say however we dress it up, Iran controls Hormuz," Etc., Etc..

But that would shatter the US image globally, which is why in the past I've referred to it as a 1956 crisis for the US in the way that the UK and France experienced one, and it dropped them from being great powers to just being powers. And the US would of course remain a hyper power, were this to happen, but people would recognize there are lots of things it just can't or won't do anymore, and that does absolutely change the parameters within which its opponents would expect it to then operate.

So it really is very significant. And within the Middle East in particular, just to underline that, it would change the dynamic totally. It wouldn't necessarily be for the better for anyone else either because if Iran says effectively we're top dog," even the, though the UAE has openly come out and, and attacked Iran several times, which has now been revealed, much of the Gulf might end up having to try and make terms with Iran even though they don't like it.

But not everyone would. It's potentially the case that the UAE and Israel would continue sniping away at it, and you could still therefore have stru-structurally high energy prices even if the US says we're out of here." Countries that are

permanently based there may not accept the fact that happens and say we're not gonna give up."

So there are lots and lots of cascading effects, both for the region, for the US, and for the entire West that flow on from it. And how you price that is interesting, but I think you would have to really take a step back and think, is one still as positive on the US dollar and on US assets in their totality if you're accepting that there's a very firm limit to what the US is prepared to do?

Erik: Final question, Michael. Let's go back to the Kevin Warsh Fed. I think you're right that the theme here is going to be economic statecraft, stable coin statecraft, and so forth. What policies do you think, if you had to predict the wild surprise scenarios that nobody sees coming, not predictions, but scenarios or possibilities, wild outcomes, what are the Fed policies that Kevin Warsh might advance that would surprise everyone?

Michael: I've been talking about this for a while, so this isn't completely new, but I'm not sure if we've discussed it here or again, my jet lag is so severe that I can't remember if we have. Apologies. And that's this, that Warsh is openly talking about trying to reduce the Fed balance sheet, which itself would really set the cat among the pigeons, as I'm sure you're aware.

But at the same time, Trump is talking about expanding the Pentagon budget next year by \$500 billion. How do you square that circle? And ultimately, alongside a corollary to this, which I think is the Fed may have to start looking at the supply side rather than the demand side and which sectors of the economy need lower or higher rates than others rather than one size fits all, which I've never understood the logic for in a geopolitical environment.

The Fed might be having to think, do we really need to be offering QE style balance sheet support to the financial part of the economy, which effectively doesn't do anything in terms of actual physical bang for the buck?" Fair enough. But do we need to be looking at some kind of acronym, tacit balance sheet support using one mechanism or another?

And there are lots of ways, of course, this could be dressed up in a technocratic way that wouldn't make it look quite as egregious as it is when I describe it in a simple form like this, to saying we can offer the same QE support that we have done up until now, but for the physical economy." So for example, again, swap lines or stable coin support for countries that are going to physically build out mines, port, infrastructure, shipbuilding, military supply chains, Etc., Etc., Etc., to re-industrialize and re-militarize parts of the US.

And I think I've made this joke on this podcast before, and if I haven't now's the time, and if I have, I humbly apologize, which is I've said for years that we're now living in a world of Warcraft, and I think we can all recognize that, whether this particular war is on hiatus or not. But effectively, the joke here is that would be using what I also call financial Farcraft, which is just financialization, to try and prepare for a world of Warcraft.

And I don't think people have, in markets broadly, got their heads around what it would mean to have extra liquidity that goes to some sectors, but it doesn't flow to all the favored ones, which is what an entire generation, if not two, of financial market participants have grown up expecting as normal.

But I think we are now in a new normal, and therefore that paradigm will have to shift.

Erik: Michael, I can't thank you enough for another terrific interview. I really enjoy our talks every time we get the opportunity. Before I let you go, please tell our listeners a little bit more about what you do at Rabobank and how they can follow your work.

Michael: Sure. As you've probably heard I'm the global strategist at Rabobank for the economics and markets team, which means I look cross-asset, cross-geography, and cross-disciplinary to try and join the dots and project those dots forward to look for the kind of rather esoteric emerging trends that I'm talking about that once upon a time only happened every few years or every decade or so, and were just colorful entertainment up until that point, but now seem to be happening once every couple of weeks.

And so we really do need to be spending much more time talking about them. And if you'd like to join me in those conversations, if you're a Rabobank client, please go to the [Rabobank](#) Knowledge website. And if you're not, look for me on [LinkedIn](#) and also look for me on X, and the handle is [@themichaelevery](#).

Erik: Patrick Ceresna and I will be back as Macro Voices continues, and be sure to stay tuned because we've got a cameo appearance from Commodity Context founder Rory Johnston with an update on some of the logistic issues in the crude oil market