MacroVoices Episode 542

Feature Interview with Luke Gromen

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Announcer: This is Macro Voices, the free weekly financial podcast targeting professional finance, high-net-worth individuals, family offices, and other sophisticated investors. Macro Voices is all about the brightest minds in the world of finance and macroeconomics telling it like it is, bullish or bearish, no holds barred.

Now, here are your hosts, Eric Townsend and Patrick Ceresna.

Erik: Macro Voices episode 542 was produced on July 23rd, 2026. I'm Eric Townsend. Forest For The Trees founder Luke Gromen returns as this week's feature interview guest. Luke and I will revisit how the Strait of Hormuz stayed closed for more months than almost anyone thought possible.

But also, why the price response that both Luke and I expected from the crude oil market didn't materialize, along with what comes next as the conflict re-escalates. We'll also cover precious metals, inflation, monetary policy, and much more. Then stay tuned for our new and improved Macro Voices trading desk, where Patrick and Maceo will deliver a fast-paced market wrap featuring Patrick's trade of the week, fresh positioning insights from the commitment of traders reports, and a concise breakdown of the key markets you need to watch.

Patrick: And I'm Patrick Ceresna. The S&P 500 spent the week pulling back from its highs and consolidating ahead of the heart of earnings season, with several of the Mag Seven set to report and potentially determine the next leg for the broader market. Crude oil, meanwhile, continues its powerful advance, rising roughly another thirteen hundred basis points week over week and trading near eighty-eight dollars and forty-three cents at the time of this recording.

We'll take a closer look at those moves and the key charts and positioning signals after the interview on the Macro Voices trading desk. Now, this week's feature interview guest is Forest For The Trees founder Luke Gromen. Eric and Luke discuss how the Iran conflict, China's energy strategy, fiscal expansion, and mounting pressure on global bond markets may accelerate the shift towards financial repression, gold, and a more fragmented monetary system.

Eric's interview with Luke Gromen is coming up as Macro Voices continues right here at macrovoices.com.

Announcer: And now with this week's special guest, here's your host, Eric Townsend

Erik: Joining me now is [Forest for the Trees] founder Luke Gromen. Luke, it's great to get you back on the show. Last time we had you on, the Iran crisis was just starting. You and I got ridiculed for talking about the, even the possibility that it could last as long as until July.

Everybody said, "No, it's gonna be two or three weeks." The crazy thing is we-- y-y-it was your call that it could go as long as July. You got that exactly right, but I don't think you were expecting the price to be where it was when we got to the- Wait a minute. That was the beginning of July. Oh now it is I have to take stock of what minute it is that we're recording in because it'll all be different by the time our listeners hear this.

So what what's happened the way we thought it was gonna happen? What thought-- What's happened the way we didn't think it was gonna happen? And where do you see it headed from here?

Luke: Thanks for having me back on, of course. We wrote a mea, mea culpa of sorts to clients probably two or three weeks ago where we said, "Look, we had high conviction that the Iran war was gonna last much longer than consensus thought."

That's absolutely happened. We had high conviction that Hormuz would still be closed in May and probably in June and possibly on July 4th, and as we sit here today, July 21st, it's closed again. That's worked. And where we got it wrong was really twofold. Number one, the price, obviously.

If you would've told me, "Hey, Hormuz is still gonna be closed," I would've thought equity indices would be lower, I would've thought inflation higher, and I would've thought oil higher. And I think part and parcel to the oil side of that has been the reaction of China, which a lot of other folks got wrong as well in terms of their reaction, which is to say in the first half of '26 alone, they shifted 1.4 million barrels a day of demand for oil to EVs.

They reduced demand overall by three to four million barrels a day. That has to be in part a rundown of their PR reserves. And that's really an astonishing thing, that you're able to take oil demand down by that much and yet It was conventional wisdom that China would be worst hurt or one of the worst hurt by what was going on, and yet China's exports to the world were up 27% year over year in May.

China's corporate profits year to date up 19, 20%. They have weathered it much better than I or I think anyone else would have thought. And that kind of brings us to where we are today, which is as of a week and a half ago, as we used to say, I don't know if you ever played street ball, whether you're playing football or hockey, whatever, car goes by, game off.

Car leaves the street, game back on, right? We're game back on from a much worse starting point or much more challenging starting point than we were when we originally said game on. So that's kinda where I see things as they stand today.

Erik: Luke, let's talk a little bit more about China because I think the, the big surprise here was what we just learned about how much power China has in, on the geopolitical stage in the world, and how much its energy reserves really give it leverage to, to flex that power.

We saw China basically intervene to stop what could have been a really huge price dislocation. China said, "No, we're not gonna let that happen." Whether they did that as a as a promise, a quid pro quo of some kind to President Trump, or if they just did it to save the economy so that their exports wouldn't get clobbered, I'm not sure.

But one way or another, China just showed us that they have more power than anybody understood.

Luke: Oh, absolutely. This was always a pain contest when you go back to when this started, and consensus was that China was going to be hit first. My view was that the treasury market would get hit first, and I think that ended up playing out correctly.

We can see, the, the Move treasury volatility index hit near dysfunctional levels on March 27th And literally within 12 hours of each other, early the next week, equity volatility and bond volatility peaked and fell precipitously, which is very odd. You wouldn't expect that with MOVE hitting 120.

You'd expect e- volati-volatility in bonds and equities to continue rising and feeding back off each other. So I think there was some intervention by Treasury or Fed or somebody else. So the Treasury market did show its vulnerability before the Chinese, but to your point, the Chinese showed they could have taken pain for a lot longer, certainly well beyond when the Treasury market would dysfunction, number one.

But number two, they showed the geopolitical power. we can cut our oil imports three to four million barrels a day, which is an astonishing number, and still grow. And when you really look at some of the components of growth, yeah, they were shorting themselves oil to prevent a much bigger market and oil supply catastrophe throughout Southeast Asia and across the Global South.

Let's not kid ourselves. The Global South would have suffered far more than the Treasury market and probably faster. So the Chinese, whether they intended to do it or not, created some real good political goodwill amongst potential trading partners. The other thing that they demonstrated that I think is still not really well understood or appreciated in the West is they just showed a whole bunch of potential customers, "Hey, watch what we can do.

By using our solar panels, our EV setups our EVs, our battery array setups," which, oh, by the way, China dominates the production of globally, "you can shift your oil consumption down meaningfully and begin to isolate yourself or hedge yourself from the oil policy and the foreign policy of the United States.

So let us sell you a bunch of solar panels. Let us sell you a bunch of EVs. Let us sell you a bunch of lithium ion battery arrays. Let us sell you the knowhow to set it all up. You can then reduce your oil demand. You can reduce your demand for dollars as a result, since oil is still mostly priced in dollars.

And oh, by the way, since China has large yuan swap lines set up with basically every country in the world except for the United States, the swap lines are already there. Pay us in yuan or pay us however you like." But I think absolutely when you look at it in through that lens, the Chinese demonstrated an ability to take pain much more than the West.

And that doesn't even get into some of what we've seen in terms of the rundown of Western weapons stores the ongoing rare earth drama where the US is still squawking that China isn't sending enough, or in some cases any, to the US that we need for weapons and other industrial goods, etc. So yeah, I, as we sit here on July 21st, I think objectively China demonstrated that it has a lot more geopolitical flexibility vis-a-vis oil and commodities than was appreciated five months ago.

Erik: Let's talk about where energy prices go from here, because I can make the argument that, boy, we're just getting started. We're finally seeing the, the rubber meet the road in Iran. This is only beginning. It's all uphill from here. But then I can make the opposite argument and say, wait a minute, China just pulled off a miracle w- with basically containing oil prices.

Whether they did that as a favor to Trump or not isn't clear, but they might be persuaded to do it as a favor to Trump. He needs that favor right now in a big way before the elections. So it seems to me like, why wouldn't they just continue draining SPRs and doing everything to manipulate the price of energy temporarily lower?

That game won't last forever, but it'll last until the elections

Luke: Yeah, I think it's a distinct possibility. I'm not convinced that China's gonna wants to do Trump any favors. I think they wanna do Trump just enough favors so that he hangs himself on his own petard. Which is to say, if I'm China, I keep oil prices low enough for there to not be a crisis, high enough to keep inflation rising, while simultaneously selling everyone on every side of every conflict the weapons they need, because China's really the only person that can do that, and that includes the United States, because that will keep Chinese economic growth going robustly.

And then I just let the bond markets do what they're gonna do. Because if I keep oil prices from a real crisis, but I keep inflation elevated and I keep these, the disruptions that these conflicts and the inflationary impulse of these conflicts going, look around the world what's happening to global bond markets.

Every bond market in the world, US straining on the upside, Japan straining on the upside, Europe straining on the upside, UK straining on the upside. The only bond market in the-- Korea straining on the upside. The only bond market in the world that's not straining on the upside is China. And so China's long-term goal for going on 20 years has been to change the global currency system towards one that better suits China and most of the rest of the world, including a big part of the United States, by the way.

They've been very clear about that since 2009, which is when they wrote, "We want to move to a non-credit based currency with a neutral settlement asset." They've repeated that over and over. They've said, "We don't want the yuan to replace the dollar. We want gold to replace the treasury bond as neutral reserve asset.

We want to internationalize the yuan, which means we want to buy oil and gas in yuan, and we're going to use gold settlement to do that." They've been very clear for 15 years, 16 years on this. And so if that is their strategic goal They can achieve that simply by doing just enough to keep oil prices low enough to not create a severe crisis, high enough to create inflation in the US and the world.

Keep these conflicts going so that they can keep selling components and weapons to everybody. They can keep selling lots of EV batteries, solar panels to everybody, gaining clout there. And in the meantime, that's gonna generate enough inflation that it's gonna create a bond market crisis in the US, in Japan, in Europe.

I don't know where it start, in the UK. I don't know where it starts first, but it doesn't matter, 'cause once one goes, they're all gonna go. And once they all go, then we're right back to the same moment we've seen replayed six or seven times since 2020 or late '19, which is, does Warsh wanna save the bond market or does he wanna save the dollar?

Does, does Bessent wanna save the bond market or save the dollar? And, again, this isn't necessarily an A for the US. You had Bessent come out n- four weeks ago and give a speech in New York where he said the US is moving to Hamiltonian economics. He, in case anybody missed that or thought he was mistaken, he wrote an op-ed saying Trump's economic plan is based on Hamiltonian economics.

That echoes something US Trade Representative Greer said back at Davos in January right before we started all this silliness in Iran, where he said the US is shifting to a Hamiltonian economic plan. And what is a Hamiltonian economic plan? It is high tariffs, neutral reserve asset that floats in all currencies.

And so to me I, if I'm China, this is going great. This is moving me where I want my strategic to be, because the ultimate strategic victory is the ability to buy oil and gas and other commodities in their own currency, settle in gold that floats in all currencies, and now the U.S., Bessent and Greer are on board with it.

Vance is on board with it based on comments he made last year and earlier this year at Davos. Trump is on board with it. He said he wants us to go back to 1870 to 1913 when we had high tariffs and taxed foreigners to pay for our people, which is again, a version of a Hamiltonian economic system.

So I think that's where this is all ultimately going. Now, that's the strategic of it, but life is what happens while you're busy making other plans. Everyone has a, you know, everyone has a plan till they get punched in the mouth. Choose your metaphor or your statement on it. When you're in wars, stuff happens, and things don't go according to plan.

So let's see. But I think China will be happy to just keep this thing going.

Erik: China will be happy to keep this thing going in the sense of prolonging the crisis and extending it?

Luke: The longer the U.S. stays at war, the better it is for them. And we-- and people might think that's a controversial statement, but let's go back in time.

Let's look at the relative power of the United States and China in two thousand and three when we invaded Iraq. Compare that now to twenty twenty. Compare that now to twenty twenty-six. Who won and who lost by us going to war for twenty-three years? It wasn't America. It was China. Why would China want us to stop being at war?

It's the best thing for them.

Erik: Okay. If that's what's best for them, then where do you think they're gonna take this next? What's their next policy move?

Luke: You've seen a couple things that I think hint at what the next policy move is, which is, number one, you've seen continued constriction of rare earth volumes.

You've had numerous articles out, complaints that the Chinese are not abiding by what they've agreed to in the trade agreements, which is exactly what you'd expect if they want this thing to last longer. And I don't think it's a bad policy on their part. I would... I think Americans that expect the Chinese to sell the U.S.

the weapons to point at the Chinese are, are-- need to think a little harder. But there was this interesting article last week highlighting that the Chinese had implemented helium export bans last week Which I thought was a really interesting signpost because first thing is it, I did is I called up the price of helium, and the price of helium's on the floor.

Like it's, they're giving the stuff away. So why would they need to export bans? Okay? That's number one. Number two is who's the biggest producers of helium worldwide? Number one's the United States of America, number two's Qatar. And what's, number three, what's helium used for? It's used, the most important thing as it relates to our economy today, is it's used in semiconductor chip production.

So you have the Chinese come out and say, "We're gonna ban the export of helium." Why would they do that? Price is on the floor, US is the biggest producer, Qatar's the biggest producer, and we need it for semiconductors. China thinks Qatar's going back offline again, number one, and number two, China thinks the US might curtail how much helium we'll send them.

Why would China think those things? There's only one thing that sort of checks all those boxes, which is the war is gonna last longer than expected and the Americans are gonna be honked off about something and weaponize helium against the Chinese. So I looked at that as a really big sort of puzzle piece around all of this, that the Chinese think it's gonna continue to go a lot longer, and that they're making preparations for that and for helium to be weaponized against them.

Perhaps even as part and parcel to what we've seen in the last week, which is, holy cow, Chinese AI is suddenly starting to threaten to disintermediate US AI models at the frontier, which is Something that nobody thought possible, which again, to me, you know, the first time, sha- fool me once, shame on you.

Fool me twice, shame on me. How about fool me six or seven times? How many times have we heard, "Hey, the Chinese, they're cheaper, but they'll never be better." And then it's like, "Oh, they're cheaper and better." I've heard that six, eight, 10, 15 times in my, over, over my last 25 years of my career.

And here, once again, we have that going on that we're, "Oh, they're just cheaper, but they're not as good. Oh, they're about as good. Oh they're better and they're cheaper." And that's a moment we're reaching in AI. And so maybe it's maybe the helium ban has nothing to do with the war.

Maybe it's everything to do with the Americans are getting desperate and need to find another way to slow the Chinese down and are saying they'll probably cut helium exports to us to try to slow down our chip production. Maybe that's it. But all of it speaks to a conflict that is going to continue to go on, that is going to continue to add to global inflation because there'll be tit for tat restrictions of supplies, et cetera, in both directions and around the world.

And then, go back to square one. Whose bond markets are getting hurt by this? Not the Chinese bond market.

Erik: So China basically sits back, allows the US to stay at war while China quietly builds out even more AI capability, more dominance in with respect to AI and so forth, and they continue to build out more power dominance, more energy dominance at the same time, which will support that AI agenda down the road.

Are they basically just sitting back and, y- smartly watching the US damage itself and quietly getting ahead?

Luke: Yeah. There was a dear friend of mine who sent me Kishore Mahbubani, and he gave a speech last week or two weeks prior. This is a guy very serious, very g- high degree of gravitas, saying that the West is sleepwalking into its downfall.

And one of the things he said was just fascinating. He said, "Where is your reflection about how many people you have killed around the world over the last 30 years?" And the whole point is like you guys are 4% of population. The rest of the world is a lot bigger than you, and we're moving on. And so yeah, I think that's exactly what China's doing, which is just, when you've got a dog that won't stop chasing cars, you let it catch the car and then see what it wants to do.

The one thing I hear, have heard from multiple different relationships in and around China is essentially like, "What is it with you Americans in the Middle East? Why do you keep doing this to yourselves? What are you doing?" And they're happy "Okay if you wanna do that again, great. It didn't work for you the last 23 years.

Maybe it'll work for you this time." I think that's exactly what they're doing. This is what I would do.

Erik: So where do you think this is all headed? where, what is the outcome for China and for the US?

Luke: I think the ultimate outcome is that it's gonna force the West into either some form of implicit or explicit yield curve control to control their bond markets.

Because when you look at what the West is doing, not only is war always inflationary. Always. There's never been a deflationary war ever in history. So war is gonna last longer than expected. Supply chain interruption's gonna last longer than expected and sell bonds, and people all over the world, by the way, are selling bonds.

But in the last month, Trump got every- everybody together in NATO and what have you and there appears to be a coordinated effort. And I say that because in, in three weeks' time, the US, the UK, the Koreans, and the Japanese all seem to come to the same idea simultaneously, which is... El- And the Germans, excuse me, as well.

They all came to the same idea, which is, "Hey, we need growth. We need supply chains. Let's all borrow money and build our defense base." So you're ta- so historically, the Japanese have been creditors of the United States. The Germans have been creditors of the world, right? They're running surpluses.

The Koreans to a lesser extent. And so now you've got three big creditors structurally in the global economy over the last fifty years now turning borrowers to build their... Basically engage in what I would call defense stimmies, right? We go back to twenty twenty-one, it was consumer stimmies. US, UK, Germany, Korea, Japan all doing defense stimmies.

We're all borrowing money, and we are gonna build, we're gonna build out a defense. Okay, on some level that makes some sense, but into supply chain breaks, into war, into rundown of inventories, into issues in the oil market that are getting more pre- more obvious by the day when you look at various crack spreads and refining spreads this week, for example.

Your buyers of bonds are turning borrowers, sellers of bonds, Germany, Japan, Korea. And building this stuff out's gonna be inflationary 'cause you're not gonna use China for any of it, and China's the biggest defen- industrial base in the world. And so it all says, "Sell bonds. Sell bonds. Sell bonds."

And that suggests rates are gonna keep going up until, until, something is triggered. And something, it could be Japan, it could be UK, it could be Germany, it could be US, I don't know. But then y- someone's going to need... once one starts into yield curve control of some description, they're all gonna need to.

And you'll get all those currencies, weakening. They should all weaken together against the yuan and against gold. But if they all weaken together, then maybe they all kinda look around at each other and, They all fall at the same rate. Nobody's really looks like their currency's getting weaker, but inflation, all these countries will be going bonkers on the upside.

their equity markets will be falling in gold terms 'cause gold will really be going on the upside. I think Bitcoin would do really well in that case. So I think that's where this is all heading. The $64,000 question to me is, A, when, and B, does Warsh decide he wants to be Mr.

Tough Guy and pretend that he can fight inflation by hiking rates first? And that could be the catalyst for the downside and rates running higher and forcing all this. I don't know.

Erik: Do you think Trump and Bessent have a master plan for how they're gonna get out of this or how they're gonna get through this conflict that, that's coherent and makes sense now?

Luke: I don't know. I've heard that bad news does not get reported to Trump. I've heard this from multiple different people that don't know each other, and I've worked for organizations where the CEO doesn't like to get told bad news and so he doesn't, and it-- those aren't good organizations. Those are companies that don't do well.

I think Bessent is extremely bright I think on some level he doesn't have ultimate decision. I think Trump does, even on stuff as it relates to the economy. And I have seen multiple instances where Bessent has said things that he either knows to be false or should know they're false. For example, when he was on with Tucker

Carlson in April of twenty twenty-five, and he told Tucker Carlson with a straight face that we have, we as the debtor nation have all the leverage, not the Chinese.

Within two months, he was eating his words, which was very obvious at the time. So was that bravado? Was that, just dogma, since he really does not like China and has not liked China for a long time? I don't know. I've seen him see there are other examples in oil markets where, when he said he was gonna lower oil prices down to fifty, sixty bucks and he was gonna grow production by three million barrels a day of equivalent as part of his Three Arrows plan.

And I know for a fact that he had oil analysts telling him that was impossible, and he told those oil analysts, "I don't believe you." And yet here we are a year and a half later, and guess what? That part of the Three Arrows, actually the whole Three Arrows are all right in the toilet, but that part of the Three Arrows is right in the toilet.

On some level, I think they have a North Star they are aiming for, which is this Hamiltonian economics that we discussed earlier that Bessent talked about four weeks ago, that Greer talked about again this week with The New York Times back in January in Davos. Vance referred to it as the, I think he called it the stupid rules-based global order or the stupid that, that hollowed out our industrial base, something along those lines.

And Trump, of course, talked about how America was richest and best from eighteen seventy to nineteen thirteen when we were taxing foreigners via tariffs to pay for our citizens as opposed to taxing our citizens to pay for foreigners. That's almost the direct quote from Trump. All of those things I think point to a goal of we would like to change the structure of the global monetary system, higher tariffs, neutral reserve assets, so probably settling in gold I know by the way, in the last 10 months, eight of those 10 months, gold has been the US' number one export.

Bigger than pharmaceutical preparations, bigger than jet engines, bigger than oil. Two months that it wasn't, it was oil and it was pharmaceutical preparations. I think they have a strategic plan on that front. Tactically, I think they're just messing it up as they go. This Iran thing is just a disaster in terms of trying to achieve that.

It is not working out for them the way they thought, and I think they don't know what to do, and I think they are f- I think Trump in particular doesn't wanna hear that. There was even a Washington Post article this week where the military's trying to tell him, "We don't have the weapons to keep this thing going."

He don't wanna hear it. I think there is a strategic plan as a North Star, but sort of the tactics they're using to get there, it-- what's the plan with that? I don't see how the tactics are necessarily working in favor of the strategic plan.

Erik: How do you come to a view on energy prices in this environment?

'Cause it's so easy to say gee, you and I both thought that if it went on this long, we'd be $150 prices. We didn't get anywhere close to that. Actually, we went above that briefly for some local markets, but we haven't stayed sustained above that level. I'm not sure that we're not still headed there, and I don't-- I can't decide.

I, it's very clear that China can step in at any time they want to and kinda calm things down. I'm not sure that China would want to do Trump any favors coming into the election, and if that's the case, if they decide to throw this in the other direction between now and the election, I could easily see $200 oil prices.

So I can go either direction. I can make an argument for fifty or for two hundred.

Luke: Exactly. And look, the thing I'll say too about Bessent where I think he's particularly shown his brilliance has been how he's managed oil prices. You know as a trader, with the volatility that oil was showing March, but especially April, where one headline and you're down 20%, you can't carry positions into weekends like that.

And so basically he enforced the degrossing of leverage completely out of the oil market because people just could not afford that kind of risk, right? You make, even on a small bet, you could ruin your year if you're at all levered. And so I think that the way the oil market was managed in April in particular, even into May, shows how much Bessent knows markets without a doubt.

But ultimately, as it comes down to the physical molecules. And so here we are basically in the same position we were on March 1st, except now we're coming up on August 1st. A lot of these SPRs, etc., are to some degree run down. one of the happy outcomes was you had a lot of oil volume that was shifted over to the Red Sea.

Right? And now you have engaged or activated the Houthis who are perhaps as of a couple days ago interrupting those, that diversion in terms of that route, which was reducing the net drawdown of supplies caused by the blockade in Hormuz. You've got the Chinese, which is exactly, they have proven they can make a significant impact in terms of effective supplies.

Will they? What are their motivations? All of those things I think are important swing factor on its own. Put all together, it's a huge puzzle to try to put together on oil. And I look at it and go, for me, it's too hard. Just buy gold. I just look and go, "You know what? Too hard. I'll just own gold."

And I think gold's gonna do well over time on less volatility and at least keep up with oil over time in all of this. We had a compression of the gold to oil ratio, but ultimately I think gold's going way higher relative to oil. So that's how I've thought about it for my own my own money and for clients as well.

But overall, I think oil's gonna stay at levels that are good prices for U.S. oil producers and for global oil producers.

Erik: So where are the other trades then? You mentioned that one of them was in buying gold. So do-- It sounds like you think the turbulence is over in the gold market, or you're just waiting it out?

Luke: So far, war equals g- war hot equals gold down, and war off equals gold up. And I think that's about to reverse. I think it may have already reversed. Let's see. This week has been very interesting. War on, rates up, oil up, gold up. That's different versus the past five months. And it makes perfect sense, right?

Because ultimately, the longer this goes on, the better it is for gold. We can go back to the Iraq War, right? 2003, oils-- or excuse me, gold is, I don't know, 300, 350 an ounce. By 2008, it's 1,000. And that was from a starting point of U.S. was running surpluses, right? It-- the thing that's been lost in all this with the war is like, we can't afford this.

We were having fiscal problems before this, and there's nothing more inflationary and disruptive than war. And so there comes a point, yes, in the short run, there's reserve selling and there is, of gold, and that's knocked prices down, blah, blah, blah. But ultimately The longer this goes on, the better it is for gold.

In no small part because we've seen the Chinese be able to be like, "Eh, we have a, we have an alternative system." The CIP volumes, yuan vol- trade volumes and the CIPS, China International Payment System they hit an all-time record in May. Huge number, like $2 trillion in the month. Dollars, not yuan.

Like 14 trillion yuan. So the longer this war goes on, the more everybody makes other arrangements, and there's only one other arrangement. It's yuan and you net settle any surpluses in gold, which means you start having more world trade diverted to yuan and diverted into gold settlement, which is really good for gold.

And so I... That's why I look at that and go, "Okay, the longer this goes on, it's g- gold's gonna start to get bid and people are gonna be confused." Now, is it... I think it might've started this week. Let's see if it continues. I don't wanna play five-minute macro, as, as one of my dear friends says. But it was interesting to me so far this week, we've seen, rates up, oil up, gold up.

Erik: Luke, it'll be interesting to see if those trends continue. What other trends and what other trades are you looking at?

Luke: I still really like US electrical infrastructure equities. we're seeing very clearly the bottlenecks around power, and the Chinese are able to sort of brute force a lot of stuff because they've spent the last 20 years subsidizing power generation and, when we've been subsidizing $8 trillion in wars in Iraq and Afghanistan that did nothing.

And so we're behind the eight ball. The United States has barely added any electrical capacity in 20 years. It's just starting to tick back up. I'm involved in a couple, in a... One of my biggest positions, a electrical infrastructure private equity deal. They basically, they make metal that goes into that infrastructure.

They bend and shape and sell, right? So they're generation agnostic. Gas generation, coal generation, nuke generation, hydro, doesn't matter. They'll sell into those things, and They are seeing lead times just open field running for years and years, much more than what the public companies are willing to admit.

'Cause look, if you're a public company, there's no upside to you saying, "Hey, we think our revenues are gonna double over the next five years." They will never say that. But those are the types of things, not specifically, but those are the types of things hearing from this private company like, "Oh yeah, our big public companies are...

could not be more excited. They've got three to five years of really good open field running." So I think electrical infrastructure equities are in a really good place. Things like the PAVE ETF, the GRID ETF, if you look at the components of those things, that'll give you some idea of the types of companies I'm talking about.

Look, I think Japanese equities, they've done really well within that, though the the industrials haven't done as well as some of the headline stuff around AI. And the reality is that the U.S. is not going to be able to reshore without Japan. Y- if you wanna build something these days, you're gonna have to have Japan build it for you or China build it for you, and China's not gonna be the one to build it for us for obvious reasons.

Korea can help on the margins, Germany maybe can help on the margins maybe. But if it's not gonna be that, and America just, we waited too long to do this. We don't have the ability to make stuff without just crazy inflation. And the Japanese have a major role to play, and I think that is, that-- I don't think that's a total shock to anybody listening, but I think that is still pretty early days.

So I think Japanese industrial equities also do very well. So those are a couple things that I think are of interest in terms of how I'm seeing the world at the moment.

Erik: And what about the semiconductor rally and all the strength that we've seen there? Is it too much too fast? Is it set to continue?

What do you think?

Luke: I don't know. Gun to my head, it's probably been too much too fast simply as a result of this trade war and what we're seeing in AI. Which is to say, what the Chinese have rolled out on AI, this isn't gonna stop. I've seen this movie. I've been in the Rust Belt my whole career. I remember this vividly for US industrials, and it was like yeah, the Chinese are cheaper, but their quality's terrible, and, so they're never gonna take us."

And then it became their quality's getting better, but we're still better. We still do the high-end, the frontier stuff." And then it was, "Oh, God, they're cheaper and they're better. We're screwed." This week we've had a, "Oh God, they're better and they're cheaper moment." The tech guys and the finance guys, they really have no idea what's coming for them on this because they never had to deal with it.

For forty years, US tech was dominant. The last time US tech had real competition was probably in the mid-'80s to late '80s from the Japanese. And so there's never been this moment where tech guys have had any-- How do you adjust the multiples of what you're paying for some of these, AI models? And then the other thing within that I would flag is there was this great Substack in early July by somebody who writes as Groundbreaker.

So you Google Groundbreaker Substack, and he put up this mind-blowing Substack on AI where he says, "Look, these are not tech companies. These are real estate companies." And when real estate has a problem, it's not because demand falls. Demand almost never falls in real estate. It's when the second derivative of growth slows and you can't refinance your debt because the second derivative of the asset value falls, and that is happening right now in AI.

And that was before the Chinese-- This thing was published, three weeks before the Chinese, the Qimi, performance thing that's weighed on these names in the last week or two. So my point here is that people should read this Substack. Oh my God, it blew my mind As it relates to the semis, my view is if USAI has a problem, semis are gonna get dragged down alongside it.

And that's probably an opportunity to add to them 'cause I don't necessarily think that's the right thing, but I think that's what would happen. Longer term, we've seen this over and over, the US has weaponized semiconductors against China. They did it in 2022 with Biden. At the time, people were saying, "Oh, this is the death of Chinese tech, death of Chinese semiconductors.

They're never gonna be able to compete in AI," which again, was totally frigging wrong. But now that you've showed that to the Chinese, they're never gonna go-- They're gonna work until they create something that creates a hedge for them. And this week there's, there was something out just today that the Chinese Z.AI had some giant one gigawatt data center that's running entirely on Chinese semiconductors, no Nvidia.

Now, what's the performance? What's the energy efficient? What... Who knows? I don't know. To me, that just says that a day is coming where this sort of AI moment for China, which we saw in the Rust Belt 20 years ago of, hey, it's cheaper, but it's worse, to, oh God, it's cheaper and it's better. Something like that's coming for semis in...

And again, is it one year? Probably not. Is it two years? Probably not. Five years? Eh, probably within five years. And then you can go, okay what multiple do I wanna put on semis if the Chinese are gonna do to that like they've done to everything else? But so for me, I look and go near term, I think AIs get-- chips get dragged down with AI, but on that risk.

But ultimately I think they probably end up higher ultimately.

Erik: Seems to me that long-term China has the energy advantage, they have the strategic commitment to AI, and they're not backing down. So I just worry that we get to a point where, it's just, eh, it's actually it's cheaper and it's better and it's from China and they've dominated the market.

And all of the sudden, you potentially get to all of these big US AI companies. I don't know if they go to zero value, but, it's wait a minute, if China's got it better and it's cheaper and they've already nailed it, why are we continuing this?

Luke: When you look at this throughout the rest of the world's eyes, right?

The US, China's a very divisive subject, understandably rest of the world, China's rating higher than the US is in a lot of different places. There's an article in the FT about it again today. All cultures are different, and the issues we have with China are not issues a lot of other places have with China.

Some places have other issues with China. We always hear China's authoritarian and they've killed all these people," and it's true. And think what Kishore Ma- Mahbubani said. When are you, America, and the West more broadly, when are you gonna reflect on how many people you've killed? You just fl- There's-- Nobody's got a higher body count than America in the last thirty years.

And I say that not 'cause I hate America, but simply as I look at this as an objective analyst and go, I don't think the rest of the world is gonna have the hangups of using Chinese equipment that will better their lives the way a lot of American analysts and investors think they will, that the rest of the world will have those hangups.

Because American analysts and investors tend to completely smooth over all the bad stuff America's been doing abroad over the last, 25 years. And the Chinese, Larry Summers said, "Look, when the Americans come, we get a lecture. When the Chinese come, we get an airport." That's a former Treasury Secretary of the United States said that in 2018 or 2023.

So that's still holding true, and now, the deal sounds pretty good. Hey, the Americans are there disrupting your oil and gas flows, and your fertilizer flows, and your people might starve, and you might have a dollar shortage, and your e-economy might collapse. That's what the Americans are doing.

Here's what the Chinese are doing. Hey, we've already got you on a yuan swap line. We'll make you as many solar panels as you want. We'll sell you as many EVs as you want. They're dirt cheap, and we will sell you as many battery arrays as you want. And so guess what? In Asia right now, solar is generating more electricity than gas.

Think about that. That just crossed over. I just saw that the other day. And so that's where I think this is all gonna go, which is it just America needs to pivot into basically building ourselves out, fixing what we messed up, and Then once we fix that, we're gonna have really good products to offer people and compete on that basis versus we're behind, let's just dump the whole frigging chessboard and, woohoo, we're gonna win 'cause of the dollar, 'cause we're not.

We're not gonna win 'cause of the dollar, 'cause I can't eat the dollar. The dollar doesn't generate electricity for me. You know what generates electricity for me? Chinese solar panels. I can't drive the dollar. You know what I can drive? I can drive a Chinese BYD. I can't because my country won't let it in.

But most of the world, like when I was just over in London and Scotland, there are BYDs all over the place. There's other Chinese car brands all over the place, 'cause it turns out people like having cheap transportation. Who knew?

Erik: BYDs are good vehicles, too. They're-

Luke: Absolutely ... y-

Erik: the first time I got in one, I was expecting it to be just the lowest end quality thing, and it's not.

It's actually a good quality product.

Luke: That's what I hear. Yeah, that's the ones I saw over there were nice and people raved about them. American strategy appears to be we're gonna turn over the chessboard and try to squeeze you with the dollar until you comply, and the more they squeeze, look, you can see it showing up in yuan payment volumes.

You can see it showing up in Chinese export volumes. You can see it showing up in Asian EV or Asian solar panel electricity generation. It's not working, so at some point, American leadership needs to maybe think a little bit about changing the strategy or, they can keep trying what they've been trying for twenty-five years.

It's going so star-spangled awesome. Maybe just keep doing that. China was nothing twenty-five years ago when we invaded Iraq, and now look. Fight Iran for another, however long. It's folly to think w- we will end up ahead of China following the same strategy we used in Iraq. What are we doing?

Erik: Luke, on that note, I can't thank you enough again for a terrific interview. But before I let you go, please tell our listeners a little bit more about what they can expect to find at Forest For The Trees-llc.com, and what services are on offer there.

Luke: I appreciate that. Yeah, we aggregate large amounts of publicly available data trying to identify developing economic bottlenecks.

We're basically trying to see where excess returns will accrue because in I've been doing this over thirty years now, which is frightening to say, and in my experience, sectors that are set to benefit from economic bottlenecks earn excess returns, and those that get hurt by it don't. And that's what we try to identify and we've got different products available for both institutional and mass market investors.

So check that out, and if you're interested in more, you can also find me on X, of course, @LukeGromen.

Erik: And be sure to stay tuned for our new Macro Voices Market Desk segment. Patrick and Masil are coming up next. Patrick, where's the trade?

Patrick: Welcome to the Macro Voices Trading Desk. I'm Patrick Ceresna.

Massil: And I'm Massil Beguenane.

Let's dive straight into the trade of the week, Patrick. What do we got?

Patrick: Luke's tactical observation was that gold had started rising along oil and interest rates during renewed geopolitical escalation. That matters because it may signal that the market is moving beyond short-term liquidation and beginning to price the longer-term consequences of war spending, fiscal expansion, and eventual financial repression.

At the same time, gold has already endured a major reset. From peak to trough, the correction has lasted roughly six months and erased almost thirty percent of the prior advance. A substantial amount of the excess has already been cleared, but the short-term trend has not yet decisively turned bullish. So the objective is to establish long exposure without pretending we can identify the exact low.

So for this week's trade of the week, I want to own the GLD at around three hundred and seventy-six dollars, but wrap the position in a short-term risk corridor through the September eighteenth expiration. Think of the structure in two parts. First, I'm buying downside protection that begins at three hundred and seventy dollars and remains effective down to three hundred and fifty dollars.

That gives me a twenty-dollar band where the hedges offset further losses in the shares dollar for dollar. Second, I'm helping finance that protection by agreeing to cap my upside at four hundred and fifteen dollars, which is roughly ten percent above the current price. After combining all three option legs, the total cost of the outlay is just a dollar seventy-five per share, or a hundred and seventy-five dollars for every hundred shares of the GLD.

So the payoff is straightforward Over the next sixty days, I remain fully exposed to the upside to the four hundred and fifteen dollar strike while the hedge meaningfully dampens the drawdown towards three hundred and fifty in case there's still some short-term summer volatility. The objective is to confidently start leaning into gold positioning after this thirty percent correction, knowing you cheaply reduced the volatility of one more corrective leg lower during the fragile early stages of this trade.

Massil: I love it, Patrick. I was looking at the latest commitment of traders report from the CFTC, and the positioning definitely backs you up here. Gold speculators are near the bottom of their one-year positioning range, meaning there's room for that upside to four fifteen. But there hasn't been a broad wash on in positioning, which is why that protection at three seventy is so valuable.

It can serve as a cheap insurance on a turn that's still fragile. All right, now let's get into the markets, Patrick. What are you seeing this week?

Patrick: So the current market backdrop is in this environment where we have a re-escalation of the war in Iran. Oil is responding higher. Bond markets are weakening.

But so far, the equity markets are not responding to those headlines. Right now, the focal point, it continues to appear to be all driven by earnings and the potential turn here in the semiconductors. So what is it that I think is most important thing to watch? Right now we continue to see some top being formed in the Kospi, but the semiconductors have worked their way for several weeks now off of their highs.

We now just entered into the earnings season where Mag Sevens are reporting. We just got a report from Google and Tesla, and each of them are at least in-- at this point indicating a lower open. And so the question really becomes, what is going to drive the markets higher if we see that the Mag Sevens and the semiconductors can't do the heavy lifting?

While we have seen the breadth of the market widen it may not be enough. And with the markets having traded sideways for a prolonged period, all of those CTAs and systematic traders, their flip points are slowly rising, like almost like a trailing stop loss. If we see at this stage even a hundred and fifty or two hundred S&P point drop, it would put us into a sell trigger area where suddenly the flows will pivot and and a lot of forced systematic trading strategies will actually be active sellers.

Now, we haven't seen those triggers hit yet, but the market right now is quite vulnerable, and at least the hope that the Mag Sevens were going to give some bullish tailwind has not started to emerge yet. We obviously have some really big numbers coming out next week, and it's gonna, I think, set the tone for whether or not we're gonna have a summer market correction or not.

The key level to definitely watch is gonna be the seventy-four hundred level. We wanna see whether the bulls can immediately buy dips when those risky areas are reached. Otherwise, any sustained price action down there could really start to create that feedback mechanism of selling, which could spur a correction down to seven thousand.

Let's see how it plays out

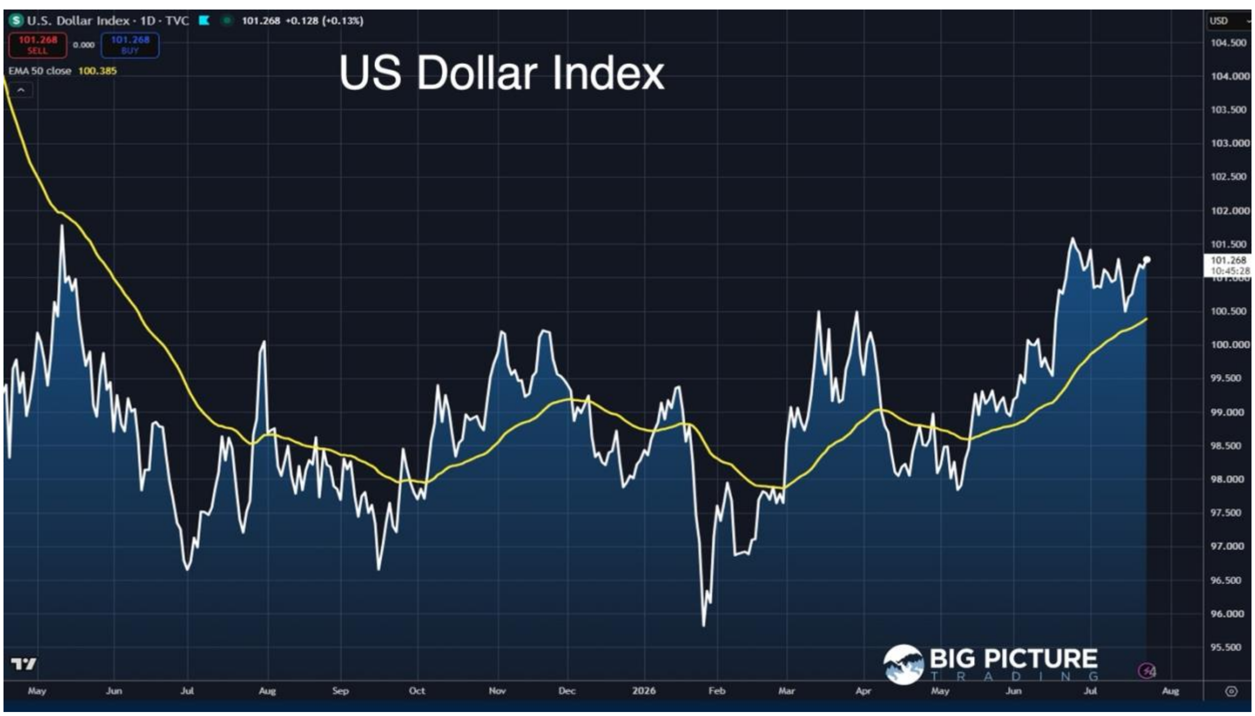
Massil: It's interesting you say that 'cause the story on flows this week is all about who just joined the party. Large specs, they've been crowded long on the S&P and the Dow for weeks now. But now small specs are piling in too, and that was the biggest jump in positioning on the board.

Almost 30 points on each of the index in just one week. That puts small speculators in their top decile positioning from the last 12 months. Both groups now are sitting at 90 on their one-year positioning score, and here's what that tells you. The bullish positioning isn't just holding, it's broadening.

Large specs, small specs, everyone leaning the exact same way. And when there's crowding this clear, it can exacerbate downside volatility if a sell catalyst ever changes the narrative, just like you mentioned. All right, let's turn to the dollar, Pat. Lots of interesting things happening in the cross-currency pairs.

What do you see?

Patrick: Mass, I wanna start with just looking at this US dollar. With the flagging formation that was basically forming above the 50-day moving average for a month now, and we're seeing early signs that the US dollar may attempt to bull break out here. Definitely the key level to watch is the 101.50 level.



If we see a decisive kick higher in the dollar index, that could really get going a new bull advance. We've already broken out of that 15-month trade range. An entire month we've spent consolidating above that range, which is quite technically bullish, and looking for bull continuation on the dollars there.

But what's interesting is that it's the euro that remains so decisively weak. Any breakdown here below 114 on a sustained basis could see us visiting the 112 or 111 level in just the next few weeks. And not only that, but the US dollar/yen is shockingly strong. The US dollar has now broken out of a two, three-week trade range on the upside as we've now hit the 163 handle on the upside of that US dollar/yen.

We're seeing pretty much strength in the US dollar g- against almost all cross currencies. Asking the question as to whether this is being driven by some sort of US dollar funding stresses.

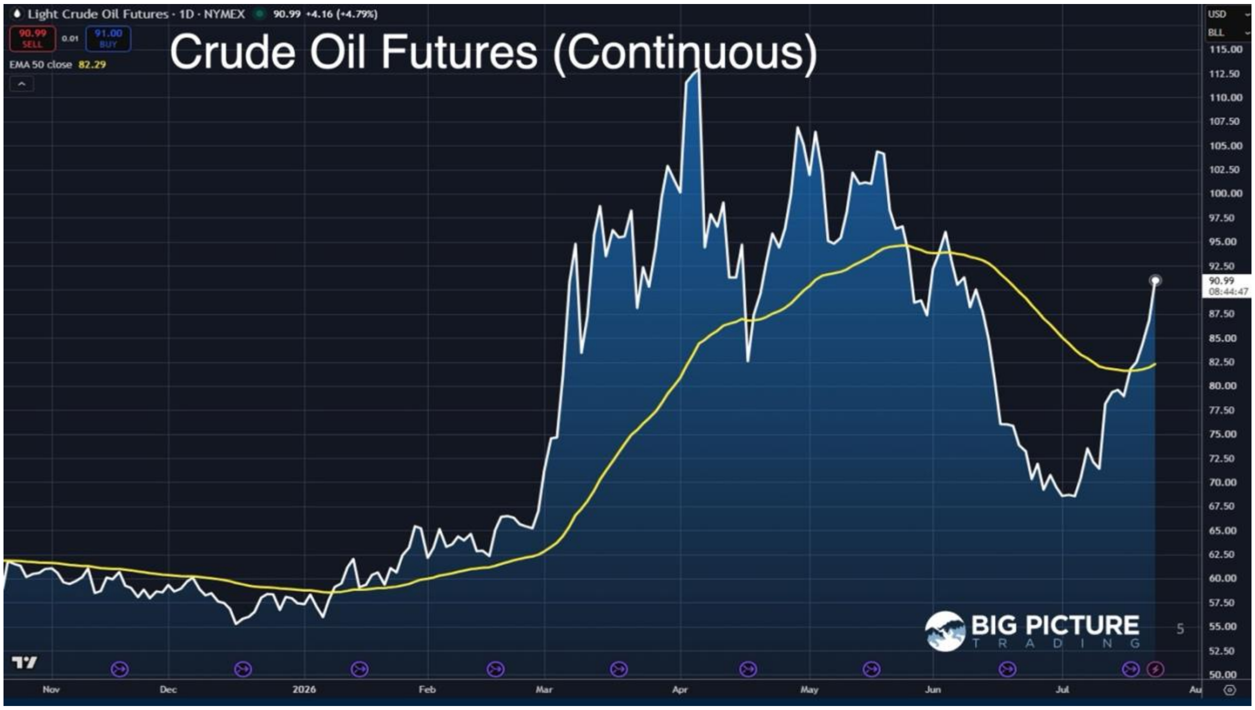
Massil: Yeah, and you can see that in the large specs too. They're still pinned at the very top of the range. They didn't add, they didn't sell, they barely moved a single contract all week.

And across the major pairs is the mirror image, the euro, the yen, the pound, just like you said, all sitting at extreme short positioning. But here's the one that jumped off my screen, the Canadian dollar. Speculators are now short almost half the entire market, 48% of open interest. The most abandoned trade on the entire Commitment of Traders Report this week.

All right, Pat, the craziest market's definitely been in crude. What's happening this week?

Patrick: Listen, this is where almost all of the major action has been. Not only did we have that June massacre that had forced flows washed out on the downside, but we have had an extraordinary reversal as the re-escalation of the war has gone full throttle.

Obviously, both straits are in play as we heard from Anas last week. And right now, off of the lows, we've already seen a thirty-five percent advance in crude oil in just three weeks. This-- We are back to this ninety handle where we were trading at back in the early part of June, and this recovery has now decisively broken back above the fifty-day moving average, catching a lot of traders off guard on this one.



Where, where-- As fast as this was a washout of long positioning, suddenly it's turned into a full-on short squeeze to the upside. What's really interesting here at the same time is that Brent oil has made a full recovery, almost back to the hundred level on the upside. And the interesting part to me is that oil volatility has not spiked with all of this.

Now we-- Back in March, we saw implied volatilities on crude oil futures up in the hundred and twenty percent range. It collapsed down to forty percent throughout the June massacre, and we're only back up to about the sixty-five percent level. Nowhere near the type of volatility we were seeing in the previous crazy bull advances of oil.

That makes it pretty interesting because a lot of option strategies can still be built around oil here. We still continue to have a very fat right tail skew developing in there. And when you look at a lot of the sub-products, gasoline, diesel continue to rip to fresh highs. Crack spreads remain very high in terms of refining rates.

Even the three-two-one crack spread continues to blow out. What is clear is the re-escalation of this war has caught a lot of traders off guard. Now, the bigger question for me is that where is the fair value of oil? Clearly, it did not belong down at seventy dollars, but does oil on the short term belong back at a hundred and twenty?

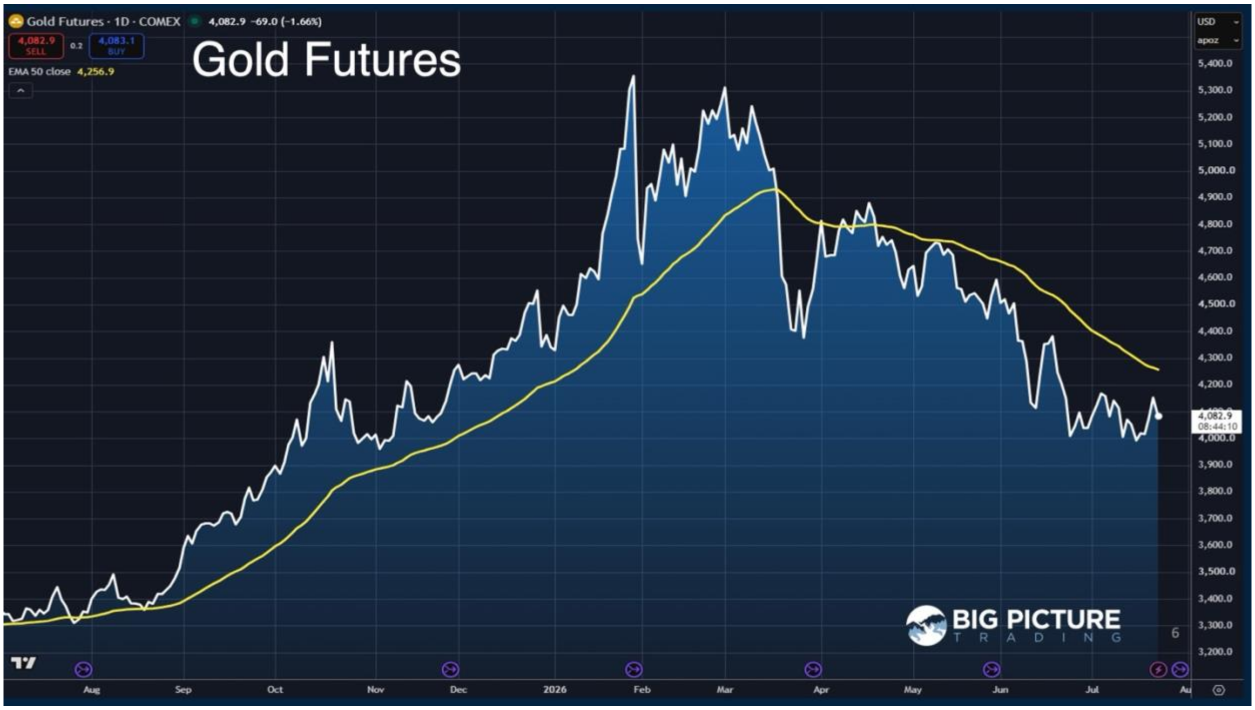
Are we now going to see crude oil settle into a a more of a trade range and a much higher elevated fair value zone, let's say between ninety and a hundred? A lot of this has to be revealed. On the short term, it's very hard to press the long trade unless you're now putting on some sort of gamma to create some optionality because with this magnitude of a move, the volatility here in both directions can be gut-wrenching.

Massil: Patrick last Friday's COT report, which is for positioning that took place on July 14th, the WTI data actually surprised me. WTI has actually been ripping higher, and you'd expect speculators to be chasing it, right? But they actually did the opposite. As of the latest report, large speculators actually sold into the rally, cutting another 13,000 contracts, and their positioning score, it's down to just 12 points.

Think about that Price surging and the specs are leaving, which means this move is running on fundamentals. So the market keeps tightening, and there's still a whole crowd on the sidelines that hasn't even bought in yet. Now, speaking of safe haven, Patrick, what are the precious metals doing?

Patrick: It's interesting.

We obviously talked about the trade on gold here. There is a primary downtrend on gold that has been in place for six months. And while we've definitely had this week a little bit of a pop to try to recover off that four thousand handle that's been acting like a support, one thing that we're gonna be watching into next week is whether or not the bulls can actually sustain a short-term breakout.



Every time we've seen these kinda two, three-day breakouts, they almost immediately fade and are under pressure of selling. Will we see that pattern repeat itself, or will we start to see bottoming formations developing here? As of this moment, there is no new bull trend that can be identified, so we're gonna see whether or not bottoming formations just start to develop here.

The one thing that I do wanna observe is that if this current rally that started over the last few days fails, and we trade back to the four thousand level, is a, a technical weakness sign that could open the window to a break to lower lows, which could usher in that retest of the thirty-eight hundred level.

So there is, again, some short-term pressure. That's why we wanted to hedge up some of the the risks associated with picking the bottom here. But we definitely are sixteen hundred dollars off the highs, and we're just looking at here where gold will finally settle in and start to form bottoming formations.

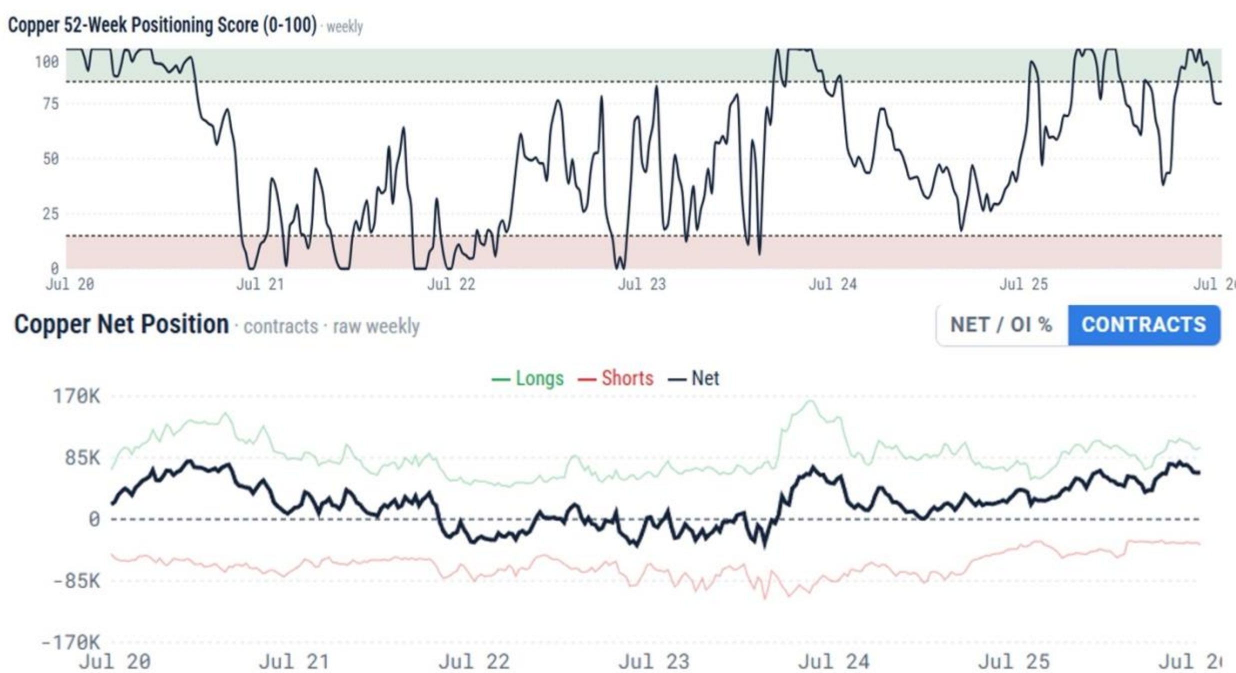
Massil: Gold's positioning is actually telling a fascinating story here. Think about what this market just went through. A six-month correction, thirty percent off the highs. That kind of drop usually breaks people, it shakes them out. But look at the data here in the COT report. Large speculators, they're still holding almost half of that entire market.

Small speculators, they didn't sell a single contract. Their positioning is basically unchanged. Through the whole correction, nobody left. That is some real sticky positioning we're seeing here. The main question that is left to answer is whether that conviction becomes fuel going forward.

Patrick: Okay, Massil, let's take a deeper dive into these Commitment of Trader reports and go into some of the other really interesting things going on.

What's what did you pick up in the COT reports that you wanna talk about?

Massil: Yeah, in this week's positioning pulse, I want to focus on copper. And this one's really a lesson because copper just showed us something every trader should understand about positioning data. Here's the story. Back in May, copper was a crowded trade.



Large specs hit one hundred on the COT signal score, holding nearly twenty-nine percent of the entire market on that net positioning over open interest basis. And that's pretty extreme, even on a five-year view. Now, most people see a reading like that and think crowded means sell. But that's not how this works.

An extreme is a condition, not a signal. Because there are two ways a crowded trade resolve. One, the price can crack and the crowd gets flushed out in a correction, or two, the market simply digests it through time. And copper this time chose time. Over six weeks of sideways action, specs quietly trimmed 14,000 contracts, and the score still cooled from 100 back down to 75, right back inside that normal range.

But price never really broke down, and that's because the physical world kept buying it. Chinese inventories were falling, import premiums rising, metal leaving the warehouses, and that's the lesson. Positioning tells you who's in the boat, but price and fundamentals tells you whether that boat is actually in trouble.

So now copper enters this breakout attempt with a reset score and room to rebuild. Now watch this upcoming Friday's report. If speculators return gradually while price holds, that's a healthy fuel. If price climbs while positioning stays calm that's even better. And the best part, you can track all of that yourself on every market every single week at cotsignal.com.

That's [C-O-T-S-I-G-N-A-L.com](C-O-T-S-I-G-N-A-L.com). So that's your positioning pulse for the week.

Patrick: Great insights on copper. Let's see how it plays out into next week.

Massil: That does it for this week's episode. Thank you very much for listening, and see you next week

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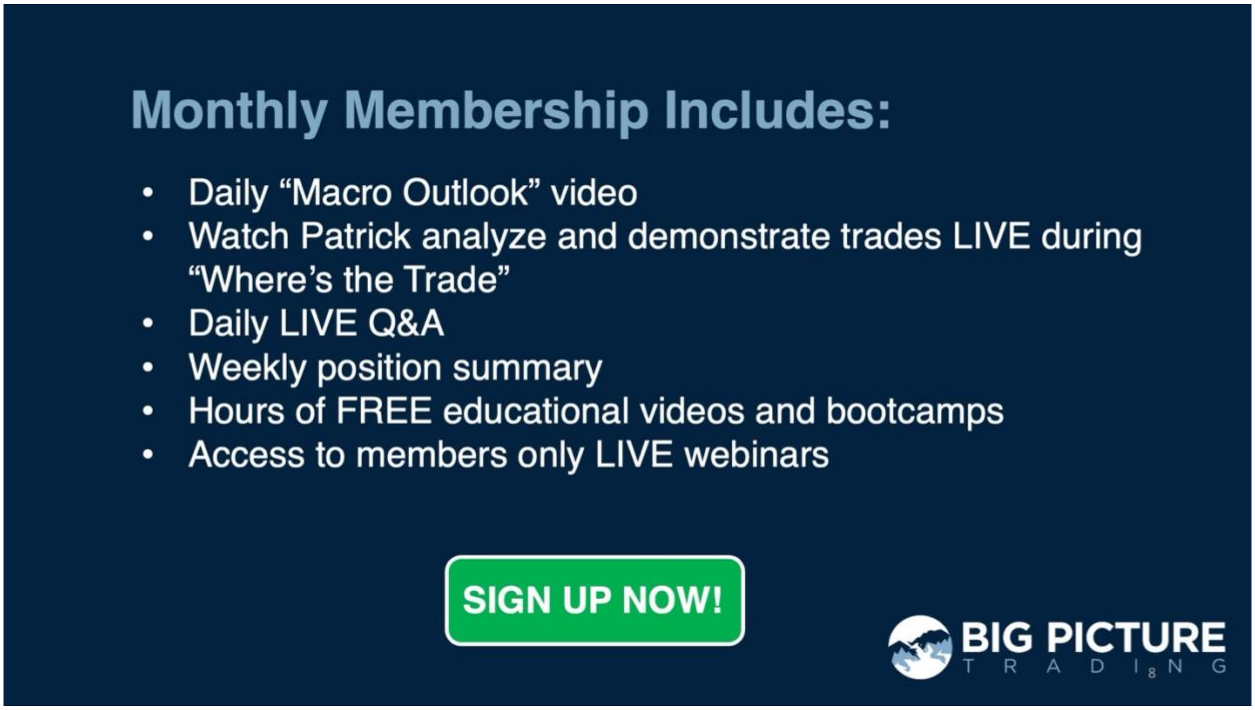
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