

MacroVoices Episode 553

Feature Interview with Brent Johnson

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Brent: I've been doing this for 26 years now, and for 25 of the 26 years, I've been hearing that the Fed is out of bullets. And my point to people is that they have a lot more bullets than you can possibly imagine

Erik: That was [Santiago Capital](#) founder Brent Johnson. I'm Erik Townsend, and this is Macro Voices, the free weekly podcast targeting professional finance and sophisticated private investors.

Episode five five three was produced on October eighth, twenty twenty-six. Brent Johnson has been the lone voice calling for a higher dollar index while most of his peers were dollar bears. With the Dixie closing above one zero two on Wednesday afternoon, we were long overdue to get Brent back on the program.

And Brent just released a paywalled research report titled Disparate Housewives, an analogy to the apparent marriage of the Fed and Treasury Department. That is behind a paywall, but we were able to persuade Brent to let us share at least the executive summary with you, and that's linked in your research roundup email.

We'll discuss all of that, plus gold, the formative Cold War with China, and much more in this week's feature interview.

Patrick: And I'm Patrick Ceresna. Let's dive into this interview.

Erik: Brent prepared a slide deck to accompany this week's interview, and I strongly encourage you to download it. Registered users will find it in your research roundup email, or you can just go to our homepage, macrovoices.com.

Look for the red button above Brent's picture that says, "Looking for the downloads." Brent, it's great to get you back on. I want to start with the reason I brought you back on, which is, boy, all of us smart guys don't listen to that crazy nutcase, Brent Johnson. We know the dollar index can't possibly break out above a hundred here.

Oops, just did. You're the man who called it. So what's going on here? Why is the dollar breaking out now? For me, it was an unexpected move, although I think you've been anticipating it.

Brent: Yeah. We're at a pretty interesting time right now. I think over the summer, a lot of people were expecting now that we've got Warsh in power at the Fed, and they're gonna coordinate perfectly with Trump, and they're just gonna cut rates, and the dollar is gonna fall and, that's kind of it.

It just once again shows you just never know with markets, right? There is no certainty. And I think to a certain extent, markets are demanding higher rates. And in order to establish at least some credibility early on, Warsh went the other way and has raised rates. So I think raising rates is a big part of it, but I think there's a, the, there's other parts of it as well.

I think there's kind of three other parts. Number one is: Where else are you gonna go, right? Do you really wanna go to Europe that has a war raging on its border very little economic growth and a political union without a fiscal union? That doesn't seem too attractive to me. Japan still has a number of problems.

I don't see a lot of global capital flowing to Japan. Maybe a little bit. But again, that, that's not necessarily a safe haven. China's kind of got a closed market. It's possible to get in there, but not in a big way. And do you really want to go there when there's a trade war going on between the United States and China?

And so in some ways, the world still needs dollars to operate. The world still sells things to United States in dollars, therefore they earn dollars, therefore they have borrowed in dollars. And in order to match liabilities to expenses or revenues and not have to be a currency trader, they store their money in dollars.

And so that creates a bid for dollars. The other part of it that I think is a little bit less appreciated, and this is not necessarily my base case, but I can't rule it out, is that rates, I think, are also higher because to a certain extent, this AI ecosystem is perhaps saying, "Maybe we're not gonna go into this great reset.

Maybe we're not gonna have this Great Depression. Maybe we're actually coming into something that's gonna provide some growth, and perhaps they can kick this down the road further than we think. And because of the growth associated with the AI trade, we need to get paid more to sit in bonds," etc., etc. And so I think

there's that part of it, and I think all of that feeds into owning the dollar because, again, to take advantage of any of those three different things I've talked about so far, you first need to have dollars.

Now, what you do with those dollars, whether you buy a Tbill, whether you buy some US real estate, whether you buy stocks or maybe you just sit in cash, that's another decision to be made. But the first decision to be made is to buy dollars.

Erik: Now, I'm trying to think back to the last time we spoke.

I thought at one point your dollar milkshake theory, and I should mention that for any new listeners not familiar with Brent's work, definitely Google Brent Johnson dollar milkshake, or better yet, put those search terms into the search box at macrovoices.com. Listen to some of Brent's prior interviews about that.

I think at one point you were expecting a higher than the high we had a couple of years ago at one sixteen or whatever it was on the dollar index. And I thought you had revised that later to say, "Maybe not. Maybe that was the high." What's your outlook now? Can we go even higher on the dollar?

Brent: I think we can.

So I think we're at a really interesting point right now. If you look at the charts on the dollar, and you look at kind of the momentum and the stochastics and the positioning, all of this kind of stuff, it wouldn't surprise me if the dollar gets a short-term pullback because the dollar is very high, the momentum's very high.

The narrative around the dollar now is it's no longer a shock. People have already been surprised. But with the euro's kind of fallen dramatically. Positioning come down, sentiment is gone, momentum is gone in the euro. And the same with gold. Gold's kind of at a pretty interesting place here. The momentum on gold has gone away, the narrative on gold has gone away, and it just had a golden cross actually where the 50-day moving average came up through the 100-day moving average.

So in the very short term, I think it's very possible we get a short term pullback in the dollar and perhaps a bounce in the euro and gold. But more of the longer term, I still think that we can go back to much higher levels on the dollar. And what I would say, what I just said about the dollar pulling back, if the dollar does not pull back here and it continues to go higher, kind of heaven help the world because it's

already in a precarious place, and if the dollar goes much higher, it's gonna start to break some things.

Now, my original prediction on the dollar going back to, the first time I gave it at your conference back in 2019, was I thought we had a particular set of circumstances ahead of us that could see the dollar as part of a global sovereign debt crisis return to its all-time highs. And we got pretty close in 2020, and we got close again in 2022.

But ultimately it didn't happen. The powers that be were able to kick the can down the road. And there's been a few things that have happened since that leads me to believe that potentially they can kick the can down the road even further than I initially thought. And so I'm not necessarily predicting a super spike in the dollar in the short term.

But if we do get to this end game scenario, if we do get to this sovereign debt crisis level, I think it's more likely that the dollar shoots higher than the dollar shoots lower. So while the milkshake as a prediction event of a global sovereign debt crisis was wrong, the direction that the a- I said the assets would travel as a result of that sovereign debt crisis has been correct.

So the framework has still been useful to me when allocating capital.

Erik: Now, you mentioned gold. Let's go a little deeper there, 'cause what's fascinated me on this particular dollar move is, okay, gold is softening here, but it's not crashing to new lows the way- ... it was a few months ago. Is the bottom in already?

Let's suppose that we are going to see a move back to 110 on the Dixie. Does gold crash to below four thousand or is it already found a bottom?

Brent: If we go to 110 on the dollar index, I think gold probably goes lower, maybe to the, I don't know, \$3,700 range. It's already, I think, around f- 4,100.

It made a low over the summer. It had a really good run, peaked its head above the 200-day moving average, and then has rolled back over. I think it's at a really interesting point right here because it's at a longer term, not long term, but it's at a support area.

And I think if it breaks that support Then it could fall, another 10%. But listen, I'll tell you, I just yesterday I bought some gold for a client, and so I think this is probably the area to start nibbling on it. I think because of where we're at with the dollar, because of where we're at with the euro, because where we're at with gold and the fact that it just made this a golden cross, I actually think the gold's gonna make a fairly big move in the next few weeks.

I think it probably goes higher, but if I'm wrong and it goes lower, I would probably be a buyer of that low. But I'll just have to wait and see.

Erik: I wanna move on now to a piece that you wrote recently, which is behind your paywall, but we were lucky enough to get permission from you to publish an executive summary of it.

Registered users will find that linked in your research roundup email. The piece is called Disparate Housewives, and the metaphor here is Treasury Secretary Scott Bessent and Fed Chair Kevin Warsh are like Desperate Housewives. Although I'm not sure if the metaphor might better be that they formed a cult in order to change monetary policy.

But seems like they're up to something. They've got big plans, and it's not just to follow in the footsteps of Janet Yellen and Ben Bernanke and so forth. Tell us what the piece is about and as much as you're willing to disclose, I know it is one of your premium pieces that's behind the paywall.

Brent: Yeah. So I think this is really important to understand because I think the times are dictating this. And what I wanted to lay out, first I wanted people to understand that in many ways, the power of the United States has been built on the separation of powers, and the fact that there was three different branches and none of them answered to the others, and by dividing this power, it provided a certain level of credibility and structural certainty.

And as part of that, having an independent central bank was part of that. And they, the Fed and the Treasury have worked together in the past, but they have also been very much at odds in the past. And we've always felt that this idea of Fed independence was the wrong term. We do not think the Fed is independent.

We think they have autonomy, but we think that is different than independence. If they were fully independent, they wouldn't have to march up to the Capitol two

times a year and testify before Congress. If they were fully independent, they wouldn't have needed a Congress- a charter from Congress, you know, making their creation in the world.

And so we feel like these times in the past where the Fed and the sovereign, or the Fed and the Treasury, or the executive branch, however you wanna define that, whenever they've come into conflict, and the Fed actually has a pretty good track record in those conflicts, we think that the Fed kind of won because the sovereign didn't push it too hard.

They just said, "Okay, you know what? It's not worth it to fight this." But we think that the place that the Earth, the world, the market, the global community, however you wanna define that, the direction we are heading is into another great power competition. If you wanna call that the great game, if you wanna call it geopolitical 3D chess, whatever your terminology for this, we feel like that's where the world is heading, and we feel like this great game, this big power competition, is to a certain extent gonna demand that the sovereign have full power.

And to have full power, you're gonna need a united street, and this was the Desperate Housewives analogy. And many times in the past, the State Department may be moving one way, the monetary policy may be something, saying something else. The Treasury might have other goals along with the president, and they weren't necessarily all working together And as part of Trump kind of reorganizing the rules-based order, and in many ways tearing down the rules-based order and moving towards an America First strategy, we think the Fed and the Treasury working closer together is going to be one of those, the outcomes of that.

And j- I know I'm rambling here, but I, wanna make this point 'cause I think it's important to understand. I think there's a misperception that the Fed and the Treasury have always worked together or has always worked kind of hand in glove. But I wanna just point out a few different times where that hasn't been the case.

There was a big thing called the Treasu- Fed-Treasury Accord back in the '50s where this became very public and their differences became very volatile, and they came to the Treasury Accord, which said they each stay in their same lanes But that doesn't mean they always work counter to each other either.

Of course, sometimes they work together. But even in recent times, the most recent example I can think of is in 2022 when Powell was raising rates to slow inflation, and at the same time, Janet Yellen was drawing down the TGA and the reverse repo and sending liquidity back into the market. That was a, that, that was not working hand in glove.

That was at odds with each other. And what I think is really interesting in the last month is... I-- actually, let's say the last 18 months since Bessent has become Treasury Secretary, he has started to wade into policies that would traditionally be considered monetary policy, whether it's Treasury buybacks or whether it's swap lines.

Traditionally, that's the area of the Fed. And but instead of just staying in his lane, Bessent has, waded in there quite confidently. And then last month, at the same interview when he started talking about why they were increasing their Treasury buybacks, and he made the comment that, "I am the house now," and that got all the attention.

What he said second to that is, I think, more important. When somebody asked him how did he think that the new treasurer or the new Fed chair would react to that when he was more of a let the market determine the rate type of a guy, Bessent said, "We will work together." In other words, he didn't say, "We're each gonna stay in our same lane."

He didn't say, "They're independent and they can do what they want." He very clearly said, "We're gonna work together." And so I think that is where we're headed. Now, whether this is a mutual marriage, whether a shotgun is involved, whether it's public or whether it's private, I think that's yet to be determined.

But I think that's where we're headed, and I think that has dramatic consequences for both domestic and world markets going forward.

Erik: I couldn't agree more on that point, and I would even strengthen it to say, Scott Bessent is not only expanding the scope of Treasury beyond its traditional meaning, but to my thinking, he's really starting to participate in what I think are wartime policy decisions.

He's at least consulting, if not actively engaged in helping the Trump administration to design economic sanctions against Iran and so forth. And

whether that's good or bad is a political call that I'll leave to our listeners to make for themselves. But it's definitely different from the way things used to work.

I wanna take that a step further, though, because one option that they might pursue as we see Clearly a trend toward a more liberal interpretation o-of what staying in their lane means or maybe it's a willingness to cross into another lane. You've described an opportunity where all of the United States sovereign gold holdings are still, for a whole bunch of historical reasons, marked at a valuation of forty-two dollars an ounce when, of course, it's really, a hundred times more that.

Actually, slightly less than that as I look at the gold tape this morning where we actually dipped below forty-one hundred a few hours ago before recording this session. But we're at approximately a hundredth of the real value. You've said that's all money that could be raised in an afternoon by remarketing the gold to market.

And I think a lot of our listeners would be quick to say, "Wait a minute, that's nonsense." When you have an asset that's marked below market, that's an unrealized gain. You market to market, it doesn't raise any money, it just corrects the number that's on your balance sheet to make it realistic. It doesn't raise anything.

But I think you do make actually a very good point that the accounting rules for the government are different than they are for private investors. So how do you actually raise money in an afternoon by marking the government's gold to market?

Brent: So this is where I think it gets really interesting, and I think this is the part where the marriage between the Fed and Treasury is really important, or at least if they're not married, at least getting along and are able to stay in the same room.

Some husbands and wives are not able to stay in the same room with each other, and they would prefer to be as far away from each other as possible. But the point I wanna make is the government, the US government, arguably the biggest and strongest government in the history of the world, does not have its own bank.

The Treasury-- Or I'm sorry, the Fed is the Treasury's bank And if the Treasury is working with a bank and that bank is independent, that bank doesn't have to do the sovereign says to do or what the customer says to do. If it's truly independent, it would have the ability to say, "No, we're not doing that."

Now, this is why I say if it came to this, the sovereign would change their tune, and this could all change in a weekend. But going to your question, is the way that they could have this windfall show up in the Treasury's account is they could tell them that the gold certificates that are on file booking, the gold at forty-two dollars per ounce, if they were to take that to current market prices of forty one hundred, when they do that, they mark up-- The, the Fed then marks up those gold certificates, and they credit to keep the balance sheet balanced, they credit the Treasury's account with that trillion dollars.

And that can be done in an afternoon, but it requires the Treasury to say to do it, but then it also requires the Fed to say, "Okay." And so if you had a Fed and a Treasury that were at odds, and the president said to the Treasury secretary, "We're gonna revalue gold higher," and the Fed said, "That's not a policy that we think is appropriate this time," and they disagreed to accept those higher-rated gold certificates, they wouldn't-- theoretically, they would not have to credit that account.

Now, again, this is where I say the Fed would lose. The, I think the Congress would rise up, the executive would use everything in their power to get their way. But the point is the Fed-- The reason the Fed has a pretty good track record in head-to-head competitions with the Treasury, and the reason the Fed is so powerful is because it is the banking arm, and it is in many ways not only the banking arm, but the distribution arm of the dollar system to the rest of the world. One of the arguments I make in the paper is that for a-- This is what be-- Even though this is one of the reasons that the, the Fed has had this leverage over the Treasury for many years, there is a new capability or a new technology that's come about in the last five or 10 years that starts to put this back in the hands of the Treasury, and that is stable coins.

Stable coins do not need a banking system to distribute either the bonds or to raise cash or to make payments. And so as that technology gets built out, it starts to remove some of the leverage that the Fed has. And going-- So but the point is that as of right now, the Fed needs the Treasury, and the Treasury needs the Fed.

But we think that they are going to be more mutually working together, either by hook or by crook. And the g- having the ability at some point in the future to remonetize the gold certificates, I think is a key factor in that. Now, I w- I wanna say, I am not expecting this anytime soon. I don't think the government wants to do this.

I don't think that's why Judy Shelton was brought on as a Treasury advisor. But I do think that they know that's a possibility, and if and when that possibility or that insurance policy is needed, they want the ability to do it and do it quickly.

Erik: Let me take that crazy idea to an even crazier and more outlandish idea.

What if you took the success of stable coins and the trend Michael Every has described around stable coin statecraft becoming more and more embraced by the Trump administration as a tool of foreign policy? And what if you said, "Look, we've got an even more grandiose idea than what you just described.

Let's take all of the US gold, eight thousand tons or whatever it is that they have in Fort Knox and other places. Let's take all of that gold, and let's create a gold-backed stable coin instead of just the existing US dollar stable coins that are tied to US Treasuries. We'll create a new one that's backed by gold, and what we'll end up with is this gigantic stable coin balance in the government's account, which represents all of those gold stable coins, and now they can use them for any purpose they want in foreign in, in foreign negotiations and foreign policy and so forth."

I think there's a lot of risk and danger in that. I would not support it myself, but if you wanna go to the next level, it seems like that's it.

Brent: So I think this is the point that I make. I don't expect that to happen, Erik, but I do think that you cannot rule it out, right? And I think from the government's perspective, they want-- Listen, I think a lot of people think that the people that work at the Treasury and the Fed are a bunch of idiots.

And I've often said they may be misaligned, they may be off base, they may be misguided, but these are not stupid people, especially the people at the top. And so I think they know how they could use these different tools, and they want to have these kind of tools in their toolbox if and when it comes. So while I'm not expecting it, I think they wanna have that ability And then the other thing I would say, if you wanna take it even further than what you took it, Erik, is we're talking about right now about 8,000 tons of gold that the United States could do this with.

It just so happens there's another 6,000 tons of gold sitting in the New York Fed that doesn't currently belong to the United States. But I would have a hard time seeing the United States sending that back to everybody if everybody requested it.

It wouldn't surprise me at all if they put a little notice on the door that said, "We have now taken custody of this gold as our own for services previously rendered."

Erik: And we've credited you- In

Brent: other

Erik: words, if you get- ... with tokens in your account, so

Brent: don't worry and we have credited you. Exactly. This is my point. And so I often hear when we're getting towards these kind of in-game scenarios that there's only so much they can do, the Fed is out of bullets. I've been doing this for 26 years now, and for 25 of the 26 years, I've been hearing that the Fed is out of bullets.

And my point to people is that they have a lot more bullets than you can possibly imagine, and I think we're a long way from this type of thing happening. It doesn't mean you shouldn't think about it, doesn't mean you shouldn't be ready for it, but it also doesn't mean that, you should wake up tomorrow and think this is going to happen.

Erik: Okay. I wanna go back to the basic premise here. So let's take the simple case of just revalue the gold that the government has 8,000 tons. You take it from \$42 to \$4,100, whatever it's trading at on the day. You say we're going to market, and that means that you're going to suddenly have this gigantic increase in the Treasury general account.

Okay. You didn't really raise any capital. You just marked an asset to market. So what does this mean? Does it mean that the federal debt and debt to GDP ratio had actually been understated before and we're just correcting it to reality? It seems like we're playing an accounting trick here.

What's the other side of it?

Brent: It is an accounting trick, and it provides the government a bunch of money that they didn't have anymore. Then that money can get put into the economy, and now there's more money in the, some money supply, and so each individual dollar in the money supply has now been reduced in value, right?

And so this is an accounting trick. This is essentially what they did back in the, the '20s or the '30s when they confiscated gold and then revalued it higher. It's just doing it again, but the numbers are a little bit bigger this time. But, the one thing I would say is that in a w- I don't think that they're gonna do this yet, 'cause I don't think they need to do this yet.

Again, we talked, we started this episode off about talking about how the dollar has gone up, much to everybody's surprise. In my mind, they would, the only time they would use gold would be if they had to bring back some kind of a bid to the dollar in order to bring the confidence back to it. The fact that the dollar's going higher kinda shows that they don't really have to do anything for it to be in demand, right?

And again, I think that it's important for the Fed and the Treasury to understand how this is a possibility. I think in many ways they own gold for the same reason probably that you and I and many others do, as a form of insurance. If the day ever comes, they wanna be able to have it and be able to use it.

But I don't think that Scott Bessent goes to bed at night saying, "You know what? I cannot wait for January 1st 'cause we're gonna launch this gold stable coin and re-monetize gold." I think that's pretty far down their list of ideas.

Erik: Let's move on to U.S. rates and what's going on with U.S. rates and where they're headed, something I've been quite interested in.

A lot of people are saying, "Oh boy, here we go. Rates are backing up. It means inflation's about to run away." And then I've talked to a couple pretty credible people, including Harley Bassman, saying, "Look, the, the data just don't show that this is an inflation problem. That's not what's driving it."

And I'm kinda stuck with, "Really? Okay. What is driving it?"

Brent: I think it's a number of things. I think, number one, I think, there is some uncertainty with Trump's policies and what's going on in the world. I think people are perhaps not quite as excited to run out and buy a Treasury as they used to be.

Now, not being excited to run out and buy a Treasury is not the same thing as wholesale rejection of the Treasury. So I th- so I wanna be clear about that. So I... But I think the fact that they're not as excited to buy them as they otherwise would be is part of the reason rates are going higher. One of the other things that I think

reason that rates are going higher is it has to do with the AI trade that we were talking about.

I think to a certain extent, the AI trade is making the idea that maybe we're gonna have some growth, maybe this new technology is gonna provide some kind of a step function change and is gonna allow us to kick the can down the road with all this debt or even potentially grow out of the debt.

And as a result, we wanna get compensated more to a greater extent if we're going to buy government debt. And then there's a third thing that I think you'll understand what I'm saying. I don't know if you've thought of it in these ways, but I know you have spoken with Mike Green on several occasions, and I know you're probably familiar with his thesis on passive management.

And in the same way that the effects of passive can drive stock prices higher just because there's a constant bid, that same thing can work on sovereign bonds when they start to get sold. And the passive effects that are working on the way up on stocks can work on the way down on of an asset that is falling.

And as interest rates go higher, bond prices fall, and as bond prices fall, those, those bonds and those passive portfolios get sold. And it's not a human being sitting there making that decision. It's the machines that are making that decision. And as a result, you could get into some pretty severe dislocations pretty quickly as a result of the passive management, in the same way that you can get into some dislocations pretty quickly on equity markets or risk assets due to passive management.

So I think there's a number of different things acting on it. It's not that I'm not concerned about the dollar or rates going higher. I am concerned about rates going higher. But what really concerns me is the knock-on effects of US rates going higher.

One of the analogies I've been using recently is the United States is still the big stack at the table. Yeah, if you're thinking of a poker game, right? And it's, this is a relative competition. And if you're competing either for capital, you're competing, you're competing on a military basis, or you're competing on a geopolitical basis, the US is still the big stack at the table.

And when it's time to ante up or when the blinds come to you, if you're the big stack at the table, raising the blinds doesn't affect you as much as it does the smaller players at the table. And if you look at what's going on in rates in Europe, and you look at rates in South America, and you look at rates in some of the Asian countries, they're going up pretty severely too there as well.

And so one of the things I've encouraged people to think about it is think about this as a game. And if you're the big stack at the table, and you know that you m- if you bet a big hand, and you m- maybe even you know that you're gonna lose that hand, but if you also force another player to go into that hand, and you force them to lose too, you start putting people out of the game.

And at the end, and that kind of affects you. So what I mean by that is I have a slide in the slide deck that I gave you. It's slide twenty-one, and it's basically saying, I'm showing a distribution curve, right? And with the US as the hegemon- There's a worst case scenario and there's a best case scenario.

Now, the best case scenario is it all just works out perfectly in your favor. But there's a number of other potential outcomes, and some of them mean you're gonna take some risk and maybe even you're gonna take some pain But as long as you take the far left tail off the table and you becoming the small stack is no longer an option, you don't really matter or you don't really mind too much if you get hit along the way, as long as everybody else is getting hit more.

Now, I'm not saying this is what they want, but my point is the US can accept a lot more pain than the rest of the world and still come out okay. And I think that's true whether we're talking about stock prices, whether we're talking about energy policy, or whether we're talking about interest rates.

And so the rates going higher in the US are certainly a big deal, but I think when you zoom out and look at the whole forest and that the whole forest is on fire, the big picture starts to come more into focus.

Erik: As I move on to the next slide, page twenty-two in the deck, this one really speaks to me, and I should first disclaim that I am anything but an expert on fixed income and particularly carry trades.

But I think back to the, the yen carry trade era that it was just such a huge piece of finance. You had to take capital that mostly started in US dollars, and then you're

gonna short the yen, and you're gonna, I don't know, buy the New Zealand Treasury or something and take advantage of this big differential.

And boy, there's a lot of moving parts in that. As I look at this chart on page twenty-two, I just say, "Wait a minute. Isn't there a really ripe carry trade that's long US Treasuries and short Canadian Treasuries right over the border, very liquid market, easy to access?"

Brent: And I think this was one of...

This chart right here was the in- the, the foundation of my initial, milkshake theory, was that, yeah, rates are a pro- we've been in an era where rates are, were going down for forty years, right? Nobody had ever really lost bonds in a b- money in bonds in a big way. But then I thought in the years ahead, rates were gonna go higher.

And while they would go higher in the US, they were gonna go a lot higher for the rest of the world as well, and it would hit them harder than it's hitting the United States. To your, and so to your point I th- I think the trade you're suggesting is not a horrible one, right? You can, you... I would much rather own US dollars than own C- Canadian dollars.

Or if you're a Canadian, you just buy dollars and then you buy a UST bill, and as the Canadian dollar weakens versus the dollar, you make money there. But you also, you get an extra percent on the yields that you're earning in dollars, and that's a way that the United States sucks in capital from around the world.

Erik: I wanna move on to another point you've made recently in some of your writings in social media, which is you've described a couple of things. One is the US moving from a republic to an empire, and you've also said that the current period in history is similar in many ways to the beginning of the Cold War as opposed to other times that people are tying it to.

What do you mean by those things?

Brent: When we came out of World War II, we obviously had a lot of debt from financing World War II, and so we have a lot of debt now as well, right? And when we were leaving the late '40s or into the early '50s, we were embarking on this great Cold War with Russia, and I feel like that's what we're embarking on now.

We're embarking on this great Cold War with China. Now, I don't really want a Cold War with China, but I would prefer a Cold War to a hot war. But regardless of which one we're in, I don't see it coming to an end anytime soon. And so I think the late '40s into the '50s is the better analog for what we're going through now than the '70s.

I know there's a lot of people who think we're gonna have this hugely inflationary time going ahead, and as a result, the 1970s the best analog. But I actually think coming out of World War II is the better one. And the other thing that you mentioned as far as republic to empire, this is what I think many people miss.

I think it's very easy to look at the United States, and you look at the different problems that we have. And listen, they are innumerable. But if you look at the problems the United States has right now and you look at the, at the problems that Rome had, let's say, between 120 and 60 BC, they are extremely similar.

You had a number of foreign wars that were draining the treasury. You had inequality in the citizens. Certain citizens had the right to vote, and others didn't. You had cult of personalities. You had political infighting. And the similarities are very similar. And when peoples make those comparisons of Rome to the United States, then the natural answer is Rome fell, so then the United States is going to fall.

But they miss perhaps the most important chapter in that whole story, and that is that what came after the fall of the Roman Republic was the Roman Empire, and the reason is because a strongman rode in and said, "We're not gonna have this nonsense anymore. We're not gonna be politically disunified. We are not gonna have multiple different priorities.

We are going to consolidate power, and we are going to remain Rome, and we are gonna continue to run the Mediterranean, if not the world." And I think that is the more likely scenario for the United States now than one where the United States falls and becomes a second-class citizen on the global stage.

Now again this doesn't bring me great pleasure in saying this. I certainly hope there's a way that this doesn't become the case. But if I have to choose between that chapter coming next and failure, I think this is the more likely chapter to come next. And so I think the combination of all the debt in the world which causes all

these problems, the fact that we have this Cold War kind of breaking out with China, the fact that we have a very powerful republic that in many ways has seen its institutions fall, that leads me to think more about a republican Rome than it does the fall of the Soviet Union if we're going to, make an analogy for the United States.

Erik: Let's move on to the Cold War analogy. I agree very strongly with the Cold War analogy. I'm just not always certain is it US, China, or is it US against a formative bloc that's China and Russia and not sure, fill in the blank. What's... Who are we beginning a Cold War with?

Brent: I think it's primarily with China, but I think that great power competition with China is gonna force- countries or regions or factions to take sides.

I don't think many countries are going to be able to just sit on the sidelines. I think they are gonna be forced to choose one side or the other. And so whether it ends up just being with China or whether it ends up being with a bloc, I guess I'm not quite smart enough to know. But I think regardless of which one it is, I think this probably plays out for, a number of years, if not a number of decades.

I don't see this all coming to a head in the next six to nine months, and then we're on to the next thing. I think this is going... I think the pendulum of history was swinging towards globalization for 30 or 40 years, and now I think that pendulum of history is gonna swing back the other way for 30 or 40 years. And as part of this, what you mentioned earlier about the AI, the rise of AI, I think that's a huge part of the Cold War.

And I think it will be very difficult to win the overall power competition if you don't win the AI race as well. And so I think these two are very much intertwined.

Erik: Brent, I couldn't agree more, and I wanna go a little deeper on that topic of AI and the Cold War, because I was really taken aback when Matt Berry told our listeners on this program that he sees something on the horizon, which is, look, the Chinese models, the Chinese open source AI models that you can get for free if you are willing to run them on your own hardware, they're only three to six months behind the frontier labs models.

And this is not ChatGPT-3 anymore, where, the thing just barely does what you need. For almost all users of AI, except for the people that are solving unsolvable

math problems, you don't need Fable 5.1. Opus is plenty strong enough. And it says to me that it's not gonna be very long before open source free AI from China, maybe it's not as good as the US frontier models are, but it's still good enough that it can solve most corporate problems.

And the point that Matt Berry made is the real game changer here could be that it doesn't just work as good as AI used to three months ago from the frontier labs, but it also solves your problem with the frontier labs mining your data, because if you're forced to run it on your own hardware, you can air gap it so that Anthropic and OpenAI never get the ability to have your corporate decision-making data pass through their cloud.

Matt's saying that could potentially be a huge upset where everybody, including US corporations, says, "Yes, AI is totally the future," but just like other stuff where we buy cheap stuff from China where it's cheaper, we can get cheap or free open source models from China, and we don't need OpenAI or Anthropic anymore.

That would crash the, the private credit market that's formed behind AI, that the knockon consequences of that would be horrendous. What do you think about that theory?

Brent: I have to say that it's definitely a concern, and I don't know that I agree with that 100%, but I certainly don't disagree with it 100%.

And I think this is probably a good opportunity for me to say this because I think perhaps sometimes when people hear me talk, they misunderstand my position on China I think China is an extremely formidable adversary. I do not think that it is just an automatic given that the United States wins this power competition.

I think that this is a huge competition with... And I think China needs to be taken very seriously. The fact that their energy, their electricity output in some ways gives them a fantastic leg up in this race, right? Especially if they can use that electricity, the ability to run their AI industry on that electricity, and even if they don't, necessarily are leading the frontier, if they're just either right there or right behind it, does it really matter?

And I have to, before I forget, somewhat related to this, one of the best podcasts I have heard all year was your conversation with Carly Anderson. I had never heard of her before but I'm gonna pay attention to her now because I think what she was

saying and the stuff that she's working on sits right at the heart of this great battle And if the United States is able to figure out a way to create some energy sources that allows them to continue leading the AI race and doesn't...

and it allows them to stay ahead of China, then I think the US has a chance. But if they are not able to do that, and if China continues to nip at the heels and do it in a much cheaper way than the United States has so far, I think it's not a given by any means, and I think it's an open game.

And so that's why I've... A- and, but this then also bleeds into other things. This is part of the reason why chips are being weaponized. It's part of the reason that traditional energy is being weaponized. It's part of the reason that Marco Rubio was in Iceland a few days ago. It's part of the reason that, that we went into Venezuela earlier this year.

All of this stuff, in my mind, is just a, a derivative of this great power competition. And so for much of the first 20 years of my career, the, the landscape was set and it was known. Even though there was volatility in financial markets, the geopolitical situation was relatively calm and somewhat known.

But now, not only do we have volatility in financial markets, but we have volatility in social aspects of the world, we have volatility in the, the way maps are drawn and the geopolitical aspects of that. We have volatility in the energy markets, which is needed to run every other market. This kind of goes back to my initial premise of this show when I said, I think all of these challenges is what's going to lead to the United States Treasury and the United States Fed needing to come together in order to win this great power competition because by no means do I think it's a given.

Erik: First of all, thank you for the kind words about the Carly Anderson interview. Believe it or not, I was a little disappointed in myself for that interview because Carly is freakishly smart. That interview scraped maybe 2% off the top of how much is in her head, and I look forward to getting her back on.

We'll have to see what the listener reaction is on that one. We're trying to make Macro Voices as listener-driven as possible, so if you want us to bring back more Carly Anderson or do an unplugged session with her, let us know. Make some noise on Twitter and we'll respond accordingly. Or don't. Make

Brent: a-- please make an exception for her.

Erik: You know what we just... We should... That's a really good idea, 'cause what we just did, we conceived it for Anas Alhajji, and we just did it for Michael Every, is we keep the feature interview at 45 to 55 minutes, 'cause that's our target and it works well for our people with-- whose time is very valuable and they can't afford more.

But then we did a bonus hour afterwards to go deeper. And it-- if I did that with Carly we'd need a bonus weekend in order to get into what's in that woman's brain. Anyway, let's come back to the rest of this China and energy. You're just talking about current electricity, at least as I thought I understood you.

Yeah. China's got more nuclear power plants, conventional nuclear power plants planned and under construction than the entire US fleet. They've got an energy strategy that includes a whole bunch of advanced research on thorium-fueled molten salt reactors, which are something that really nobody in the private sector, except for a couple of companies that are struggling to succeed, have even dared to take on.

And the couple of guys that are trying to do it, they're fighting against a state-funded competitor, which is China. So if you really... I'm afraid that you're right, that the assumption that, oh, if it's a Cold War with China, we're gonna win because rah, we're-- you and I are both born in the United States, so that's what we should think.

Gosh, the facts and evidence are pretty daunting. I wanna hit a final topic before we close, 'cause we are coming up on that normal interview length deadline, which is AI and the perception of so many people in today's society that AI's gonna take our jobs, it's gonna completely destroy the economy.

I think in the long term that is ludicrous. That's like saying that the invention of tractors is gonna destroy farming. It's the biggest productivity tool ever, and if you look at what tractors did for farming, I'm gonna argue that AI is the white-collar equivalent of that, that will make all white-collar workers 100 times more productive than they ever could have imagined before.

Except there's one thing. That's the long term. If you're the guy, if you're one of the thousand field workers that got replaced by the one farmer that was driving the

tractor In your immediate timeframe, yeah, it did take everybody's jobs, and of course, longer term, those people got new jobs. They learned how to drive tractors.

But they were kinda screwed for a while, and it resulted in a lot of political turmoil and frankly geopolitical a- and local political unrest. Where are we headed with this whole AI taking everybody's jobs thing?

Brent: I am not one of these apocalyptic, we gotta shut all the AI down 'cause it's gonna kill us people.

I actually think it is going to be a step change function for the better of humanity. That's my base case. I recognize the dangers, and I'm not saying that we should not be concerned at all, but I actually think in the overall arc it is going to be a positive. And to your point, I don't think it is necessarily going to be something that leads to the downfall of economic output, and in many ways I think it could be fantastic.

What I think it is, I think there will be short-term problems with unemployment. My guess is the way that this is going to be handled, and I'm gonna put a caveat here that I should have said at the very beginning, is that when I talk about this stuff, I do my best not to talk about what I would like to see happen, because what I would like to see happen in many ways doesn't matter.

I typically try to talk about what I think's gonna happen whether I want it to or not, and that's definitely the case with this next comment that I think one of the ways this will probably be at least try to be addressed is some form of universal basic income or even further expansion of the welfare state, which again, this is not a, this is not a prescription.

This is not my recommendation, but I think that is probably the most likely outcome because the last thing you want is a bunch of unemployed, upset people with no money, with nothing better to do than go out into the streets and protest. So I think as we look forward 10, 20, 30 years, it's probably gonna be a fantastic thing the AI, but I think it could be a pretty bumpy road until we, we get to that, the escape velocity.

Erik: On that note, Brent, I can't thank you enough for another terrific interview. But before I let you go, tell our listeners a little bit more about what you do at Santiago Capital if they want to get the the full version of your latest missive,

which again is called Disparate, not desperate, but Disparate Housewives, referring to the marriage between the Fed and Treasury.

How do they find out more about what you do?

Brent: Yeah. So the first place to go is to santiagocapital.com. Long story short, we are a registered investment advisor. We provide holistic financial structuring and implementation of portfolios for high net worth individuals and families. As part of that, we also manage a private fund.

And then finally, as from the research side of things, if you go to research.santiagocapital.com, you'll see our different research offerings. That's where you'll be able to access the report that we've been talking about today. And what we do there is we try to talk about big kind of think pieces that we think are gonna impact the markets and perhaps the world in the months and years ahead.

And then we will typically also talk about how we think that impacts portfolios as far as things to be concerned about, things to be looking out for, and things to position for. So un- and then finally, I'm pretty active on social media. [Twitter](#) is always one of my favorite places to blow off some steam and have a little fun.

So if any of those different platforms is a way to interact with us And I appreciate you having me back on. I always enjoy speaking with you.

Erik: And again, folks, that's [Santiagocapital.com](https://santiagocapital.com). Now it's time for our Macro Voices market desk segment. Patrick, where's the trade?

Patrick: Thanks, Erik. Brent's central argument is that the US dollar can continue attracting capital even as higher rates create stress because the pressure falls harder on more vulnerable economies.

He specifically highlighted his preference for the US dollar over the Canadian dollar. For this week's trade, we're expressing that view through options on the Canadian dollar futures. What attracts me is the pricing. Implied volatility remains below five percent. Now, we've seen cheaper levels, but that still looks reasonable for currency that has recently moved two hundred and sixty pips, roughly three and a half percent from peak to trough in just twenty-seven days.

The market is moving, yet the premium required to express a directional view remains modest. So here's the structure. With Canadian dollar trading around seventy point three seven US cents, I'm looking at buying the seventy cent put option expiring on November sixth, two thousand and twenty-six, with about twenty-nine days remaining.

It is quoted at twenty-two pips, the equivalent of about two hundred and twenty US dollars per standard contract before costs. That gives us short Canadian dollar exposure with positive gamma and vega, while limiting the option's risk to the premium. Now, Brent allows for a near-term US dollar pullback, so the Canadian dollar rebound is a real possibility.

The put defines our exposure to that adverse move while preserving participation if the Canadian dollar weakness resumes. For perspective, a return to sixty-nine cents would represent a hundred and thirty-seven pip decline from our reference price. At expiration, the put would have a hundred pips of intrinsic value.

After deducting the twenty-two pip premium, that leaves seventy-eight pips of profit, approximately three and a half times the amount risked. Now, the trade does require timely downside follow-through. If the underlying futures finish above seventy cents, the premium is lost. A sharper decline or volatility expansion could also provide an opportunity to monetize before expiration.

Given that premium, I prefer the defined risk and convexity of the put to an outright future short position. It's a modest premium commitment to express Brent's dollar thesis through the currency already capable of a meaningful short-term move. That's where's the trade.

Erik: Patrick analyzes and trades the markets every day over at Big Picture Trading.

Macro Voices listeners can sign up for a free two-week trial at bigpicturetrading.com. Now back to Patrick and Massil.

Massil: All right, Patrick, let's talk about the 10-year Treasury yield now hitting five point three five percent and the 30-year are now climbing to almost five point eight. But equities continue to hold near their highs.

Now, these markets seem to be telling a very different story depending on where you're looking. But what could stabilize bonds and how much longer can stocks withstand this pressure?

Patrick: This story on yields continues to be the core thesis. We continue to see an incredibly strong bond sell-off, continued pressure on yields and this has certainly caused the hurdle rate of, for valuations to hurt so many of the financial assets out there.

We have clearly two different regime expectations. Equities continue to hold up in suggesting that they think that the earnings growth can absorb this higher borrowing cost, but the bonds repricing continue to show substantial pressures that eventually could force a repricing of equity prices.

And this pressure is definitely visible beneath the surface. We continue to see horrible market breadth where earlier in the week we were at twenty percent of stocks above their fifty-day moving averages, which is basically four out of five stocks are clearly correcting and only a few of these equity names continue to hold up.

Now, on the very short term, we've seen some relief on the SOFR futures bouncing a little bit as there's a little bit less hawkish near-term policy outlook on there. But oil could change all of this. If we saw another meaningful rise in inflation expectations continue to be the story, we could see the short-term interest rate markets re-resume their prevailing downtrends.

So there's a lot of stress in the bond markets and the big question, of course, is when- if and when this will translate to some potential reactions in the equity markets.

Massil: All right, now that brings us to equities, Patrick. The S&P 500's broken out to new highs and the NASDAQ remains pretty strong, but participation beneath the surface is still pretty thin.

Do you think this increasingly small group of leaders, the Mag Sevens and all the tech semiconductor names keep the rally going? Or do you think this bond market pressure is bringing us closer to a broader correction?

Patrick: It's funny you s- reference the Mag Seven because increasingly it's becoming a Mag Two.

Really, the majority of these hyperscalers have actually been stuck in a range, and it's only NVIDIA and Microsoft that continue to press higher. Like I was saying earlier, the breadth of the market continues to be under huge stress. And the big question, of course, is which one will prevail? Could we see some breakthrough in what's happening in the Middle East a- and a de-escalation that drops inflation pressures and suddenly alleviates all of the stresses on the equity markets and allows a meaningful rebound in so many of these beaten down names?

Or when we finally see that this very thin leadership finally succumbs to the selling. This is important to note because we are seeing some systematic triggers sitting down around the seventy-seven hundred level on the S&P, about two and a half percent off the recent highs. This is important because there's a, a lot of these systematic trading strategies that have been structurally long in this market and and certainly they're g- some estimates are there's as much as eighty-five billion dollars on a down market to sell.

And the question becomes, do one of these Mag Sevens, like if, let's say, NVIDIA began a market correction on the short term, could that be all that the S&P needed in order to hit one of these triggers and begin selling? Right now, the story has one hundred percent been that the market cap weighted index continues to hold along its highs.

But again, when you look at the Russell and you look at just the equal weight S&P 500, both of them are decisively in a downtrend. Something's gotta give. And and the only way I see the S&P 500 actually breaking higher is if there was relief in the rates markets that allow many of these beaten-down stocks to come up for a breath.

This is a highly tense moment in the equity markets, and it'll be interesting to see how this continues to develop into next week.

Massil: All right, let's turn to the dollar, Patrick, 'cause it continues to make new higher highs while the euro's broken to a lower low. Now, positioning firmly favors the dollar while Europe faces energy pressures, political pressure across all its major economies.

Now, do you think this dollar strength remains the path of least resistance? Or really, what does it mean for the broader financial conditions that we see a stronger and stronger dollar as we move forward here into the end of the year?

Patrick: It was very timely that we had Brent on the show, but there continues to be funding stresses evident in the currency trends.

We obviously had that 18-month trade range and the first attempt of the dollar to break out a few months ago never followed through. But here we have a very decisive breakout, but it's actually supported by a decisive breakdown in the euro. The euro has cleared almost all the major support lines and is at this point looks like it has room to weaken even down to one ten or one oh eight as they continue to be the net energy importer and the most vulnerable in the-- for the supply disruption, and it's manifesting on the currency volatility.

So at this moment, the dollar is strengthening, and it is the path of least resistance and continues to actually be one of the big macro drivers. And while there are all sorts of reasons why one could see that the US dollar could weaken in the long term, right now the current macro regime is US dollar rising.

And at least at this moment, there doesn't seem to be any immediate catalyst for this to reverse.

Massil: All right, Patrick, let's talk about crude, 'cause right now we're almost hitting ninety-three dollars this morning as concerns reemerge about possible attacks in the Strait of Hormuz. Now, with inventories already depleted and speculative shorts elevated, could further escalation send oil back above a hundred dollars?

Patrick: For certain, this remains the primary story because it becomes the catalyst that drives inflation expectations that ultimately is manifesting in these rates markets. And so where-- what oil does next is gonna be critical. Now, obviously, the Oman lane matters, and certainly there's obviously speculation that now there could be disruptions there.

This is actually pretty critical because the, the market has been reliant on the movement of the barrels that are coming through that lane, and the inventory cushion is very thin. And so there is lots of room that if there is any escalation over

there, that oil does need to go higher. And the interesting part is that the market is not positioned for this.

We continue to see when we look at these COT reports, the gross shorts have actually hit a five-year extreme. And so there is not the speculative positioning in the commitment of trader reports that have suggested that, that speculators are positioned for a huge bull breakout. And so there is lots of pent-up energy here that could certainly drive that short-term trend.

What continues to be super interesting is this ten dollars sharp reversal that we've seen in crude oil over the last couple of weeks is only really in the front month. When you go to any longer-term contract, such as the January or March contracts, they continue to make new highs. And so there is clearly a market that is anticipating oil to remain under pressure and this becomes the single most important thing to watch going into the macro environment because if oil does make this breakout above a hundred and heads higher, certainly there's going to be responses in the rates markets, and maybe that will be all it takes to, in the end, break down the equity markets from this highly vulnerable state.

So this is certainly the thing to watch. Oil's upticking here. Will we get that clearance of, ninety-five, ninety-six dollars will-- which will very clearly indicate to technicians that the next potential bull advance is underway.

Massil: All right, now with this dollar strength, we've seen precious metals remain under considerable pressure.

We're now reaching lows from this year around four thousand dollars, but speculative positioning also remains at the bottom of the range. So what would you have to see here on this gold chart to tell you that this decline is developing into a genuine accumulation opportunity, or is this still a risk that remains in this market?

Patrick: Now, in the really big picture, there's all sorts of arguments to be made that gold has a really big bull story ahead of it. But the question is what are we gonna see here on the short to intermediate timeframe? Now here we continue to see technical deterioration, and the big issue here is that overall, the macro regime doesn't support higher gold.

When you have real rates rising and dollar funding stresses being very clearly evident, this is a period where gold typically has headwinds, and that is evident

technically. We continue to see the price action very heavy, no follow-through, and that's visible on almost all precious metals. When...

especially when we look at positioning in the commitment of trade reports, silver, platinum, and palladium, all in the very low percentiles, if not zero percentiles of positioning in a one-year look back. Eventually, there's going to be a catalyst that is gonna turn gold higher, but clearly this is not here and now.

And certainly, like we were just talking about crude oil, if we saw a rise in there, that will even further stress this and may even create a short-term breakdown below four thousand in a corrective mode. Overall, that will become a long-term buying opportunity, but technically, there's no reason to assume here that the precious metals are imminently gonna turn bullish.

Massil: All right, let's turn to this week's positioning, Paul. I know you want to talk natural gas. What's going on in this market?

Patrick: When we look directly at the commitment of trader reports, we continue to see the zero percentile of positioning going on a one-year, three-year, and a five-year look back as we have now seen a build of gross short positioning that is at a record level.

And so there is all the traders are positioned for this fundamental weakness to continue. Now, what we've seen earlier this week is a discussion of an increased risk that we could see early season cold come into the United States. This has caused natural gas to uptick not only on the front month, but we can even go out to winter gas going out to January and see some increased volatility.

The big question here is, are we going to see the natural gas shorts get squeezed? Obviously they were continuing to rely heavily on the existing story to continue. If we see that in any way there is some sort of a short-term disruption based upon the continued development of a colder winter forecast then suddenly we could see a lot of these shorts get squeezed and causing a substantial rally.

We could see a squeeze where many of these shorts are gonna be forced to drive this price higher. Now, we have seen in the past that natural gas can be incredibly volatile when squeezed, and this is why I wanted it to be the key thing to watch this week. So let's see how this develops.

Massil: And for listeners, you can follow the positioning scores across thirty-seven futures markets at cotsignal.com, that's C-O-T-S-I-G-N-A-L dot com.

Patrick: So that does it for this week's Trading Desk. I'm Patrick Ceresna.

Massil: And I'm Massil Beguenane. See you next week.

Erik: And a reminder, as a Macro Voices listener, you're entitled to a two-week free trial of Big Picture Trading, where you can watch Patrick analyze and trade the markets live every single day at bigpicturetrading.com.

No credit card is required to sign up, and there's nothing to cancel. I'm Erik Townsend, and this is Macro Voices. We'll see you next week.

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