

MacroVoices Episode 555

Feature Interview with Anas Alhajji + Louis-Vincent Gave

Recorded October 22st, 2026 Hosts: Erik Townsend & Patrick Ceresa Feature guest: *Anas Alhajji + Louis-Vincent Gave*

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Anas: When we talk about the three seas crisis, we are talking about the Gulf, we are talking about the Red Sea, and we are also talking about the Black Sea. This has changed energy markets forever.

Erik: That was Energy Outlook Advisors founder Dr. Anas Alhajji. I'm Erik Townsend, and this is Macro Voices, the free weekly podcast targeting professional finance and sophisticated private investors.

Episode five fifty-five was produced on October twenty-second, twenty twenty-six. Make some popcorn, folks. With crises in both the Middle East and France mushrooming this week, we decided to cover both, and that will make for a very long episode. But I think you'll find the content in both of our double header feature interviews to be very worthwhile.

Our scheduled feature interview guest is Dr. Anas Alhajji, and the subject is the rapidly developing geopolitical situation and its impact on global energy markets. Anas and I will discuss the energy week conferences that he just attended in Riyadh, Saudi Arabia, what he learned there, and the rapidly escalating refining capacity crisis that I think could threaten global energy security for many years after the wars have ended.

Finally, we'll discuss Vladimir Putin's proposal for a summit with President Trump and Xi Jinping, which apparently Volodymyr Zelensky would not be invited to. I know many of you have been looking forward to a Macro Voices unplugged long form bonus session with Dr. Anas, and I'm really looking forward to that one myself.

But unfortunately, due to Anas' numerous commitments to other public speaking obligations, as well as my own suffering from bronchitis that you can probably tell from my voice, we were unable to commit to the time needed to pull that one together for you this week. We promise to bring that episode to you the next time that we bring Anas back for another feature interview.

We're gonna make it up to you this week, though, by adding a special cameo appearance in this episode by Gavekal founder and CEO Louis Vincent-Gave. Louis and I will discuss the rapidly devolving situation in France, what's driving it, and what it means for traders. We'll also tie it into the energy crisis and the events that Anas and I will be discussing.

You can also find two excellent pieces that Louis wrote on this subject linked in this week's Research Roundup email.

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

Erik: Anas, it's great to get you back on the show. I'm really looking forward to this. You just returned last night from Riyadh, Saudi Arabia, where you attended the Energy Week conferences there.

What did you learn? What's the talk there? What does everybody in Riyadh see in terms of what comes next in this crisis?

Anas: Thank you, Erik. the three Cs crisis, we are talking about the Gulf, we are talking about the Red Sea, and we are also talking about the Black Sea.

And this has changed energy markets and probably forever, not only energy as we discussed in previous shows, the fertilizer industry, the agricultural trade, etc. And the Three C's crisis made everyone realize just how in- interdependent the global economy really is. And this is, of course, one of the main lessons of those conferences or the energy week in Riyadh.

The core message basically is summed up by Prince Abdulaziz, who is the Saudi energy minister, who emphasized that global energy security cannot be taken for granted, and that an inclusive energy transition and reliable supply chains must be or must advance side by side And he made a statement, I think that is a very important statement for everyone to realize.

He said, "There can be no energy future for all without energy security for all." Which means that, look, if Saudi Arabia is hit, everyone is going to be hit. That's what the bottom line is. And that, by the way, leads me to the point, we have people on Twitter and others who are celebrating attacks on Saudi Arabia, on ships, on tankers, in the Gulf, in the Hormuz Strait, in the Red Sea, simply because they wanted oil prices to go up.

They want their call options basically to generate money. And those are no different from the merchants of death who create wars and make money out of those wars. When we talk about the lessons out of what I learned, basically, there are several of them. We cannot discuss all of them today, but I will mention a few of them.

The first thing is the expansion of the Saudi pipelines. The Saudi pipeline east-west used to have a capacity of 5.5 million barrels a day. They expanded it to 7 million barrels a day. Now they want to expand the total pipeline capacity, not only the east-west, basically, the total capacity of Saudi Arabia that circumvent Hormuz to 10 million.

And what they want to do basically is a couple of things here. One of them is to build a pipeline through the empty quarter to Oman. So that will go directly to the Arabian Sea and to the Indian Ocean without going through any of the waterways, and it goes to Asia directly. So that's really the main option.

They think they can finish that within two, three years if they can finish all the paperwork and do all the studies, et cetera. He-- The, the other issue is other countries, other Gulf countries that want to pipeline or to want to build pipelines, they can attach to this pipeline, which mean that Iraq can build pipeline from north to south to connect to this pipeline.

Kuwait can do the same. So the idea here is there will be no pipelines to the Red Sea. They will be all going south to Oman, if they can, all of them basically agree to have all those pipelines circumventing the, the Hormuz Strait The other thing that Prince basically mentioned that they do have a gas pipeline east to west.

And he said that they don't need the gas in certain months. They need it in the summer months. So they can, within few weeks, three, four, five weeks, they can clean it up and get it ready to ship oil in it. They can add about 1.2 million barrels a day until May and then clean it up again and bring the gas again.

So they have some optionality there. The other lesson I learned, which is an amazing lesson, the kind of a master class in logistics And here is why I'm saying this. As Saudi Arabia been attacked from all sides, from the Gulf, from the Red Sea, from the north, from the Iraqis, and the airport was attacked, and the other airports in Jeddah and Abha and Dammam were attacked, too.

And now they have those conferences. They have the World Petroleum Congress with the number of people who registered for it basically was record high. This is a 90-year-old conference, and yet they were able to break record in term of registration. And people from all around the world were coming in.

And how to operate five conferences in one week with all this international community coming in without an airport, because they closed the airport. I was there, by the way, in Riyadh when the airport was closed. So how to operate that? That was literally a masterclass in logistics. My interpretation of that is that the Saudis have long experience moving oil from east to west via that pipeline, and together with the annual management of the Hajj, that the pilgrimage, when millions of Muslims converge on the holy cities of Mecca and Medina within a tightly fixed window, like a very fixed time a year, all of them come at once and leave at once, in millions.

That given the Saudis deep operational expertise in large scale logistics under pressure. And we've seen it during this conference. I experienced that firsthand. So the experience basically, or this expertise was shown or was on display last week. The level of organization, the level of, or the ability basically to manage all those ministers, to bring them in safely and send them back safely.

Thousands of delegates has to be rerouted so they can still reach the events, and arrangements for their eventual departure were being managed with the same precision. So that's why it was a masterclass in logistics. I did arrive in Riyadh without any problems before the major attack on the airport.

The airport was closed literally the day before the events began, when everyone started showing up And w- they were, again, flying from all around the world. Aircrafts were diverted to other cities, to other countries. Minister were brought in private jets to nearby available airports, then driven by road to Riyadh.

The speed and the flexibility with which the contingencies were handled, again, demonstrated this level of logistical capability that the world can learn from. The third point is what Secretary of Energy, US Secretary of Energy Chris Wright said on Hormuz flows. Wright basically participated virtually, but that's another issue I noticed.

The capabilities of the conference, basically, or those five conferences to communicate remotely without any glitch, without any interruption. The pictures

were very clear. The sound was very clear. It was just amazing. In fact, I have never been in a c-- at a conference where you have virtual speakers with this clarity.

Wright basically attended a whole session, and he said that 80 to 90% of pre-conflict levels of oil flow was going through Hormuz Strait, moving about thirteen to fourteen million barrels a day. I know a lot of people doubt that, and people think that those numbers are incorrect, et cetera. And I agree that there is double counting there, and we don't know what's in this oil, whether it's crude products, NGLs, et cetera.

Regardless of this, it is very clear that some of those statements are made on one night basis, not over a week, for example, or over a month. But what was striking to me was he was able to highlight clearly that while they were able to move all this crude, only 25 to 35% of products of pre-crisis levels were moving in.

And this is where the problem is when we talk about the diesel crisis. That's where it is really. We are not able to recover the diesel we lost from the Gulf until today, and probably he was trying to highlight that. However, what was also important that every single minister attended those five conferences showed their support for Saudi Arabia, condemned the attacks on the airport, and Chris Wright basically was a little emotional when he was talking about this in his talk One of the striking points at one of the conferences, which was the IEF, the International Energy Forum conference, that was a ministerial meeting that I participated in, where the economy minister of Germany, who controls the, the energy thing in Germany, made a statement that was crazy statement And she repeated that again the following day at the World Petroleum Congress.

She said that they are planning to bring back refining capacity. So she's talking about those closed refineries. They are going to open them up and bring them back online. You are talking about Germany, the, the queen of green, who closed refineries because of climate change policies, and now under pressure because of energy security, bringing back the refineries.

So the the issue here is we have to see how this crisis is changing the attitude and changing policies, which something I will talk about later on this show. What was striking too was a statement made by the Turkish energy minister. He was talking about this massive growth in electricity demand in Turkey, and he talked, of course, about renewables, he talked about nuclear, etcetera.

But he made a statement that was... I never knew this by the way. This is the first time I heard of this. He said power demand or electricity demand was increasing because of AI and data centers, but he also mentioned desalination plants. We are not talking about the Gulf here. We are talking about Turkey.

We are talking about a country that's supposed to be rich in water. They are talking about desalination plants. And he said that the demand for electricity is increasing because of the increasing number of desalination plants. This is the nexus of kind of energy and water. So th- this was a striking issue to me.

The other issue is the energy transition versus energy additions, or you can look at it as net zero versus zero energy, in a sense. Saudi and OPEC speakers, that include the Secretary General of OPEC, Haitham Al Ghais, both of them, basically, the Saudis and the OPEC officials, stressed energy security reliability, and the continued centrality of oil and gas.

So they kept talking about oil and gas is going to stay with us for a long time. Amin Nasser, who is the CEO of Aramco, Saudi Aramco, described the current situation as an energy addition. The, and in fact that they are saying there is no energy transition. There is only energy addition And everyone in-- agreed with him, whether from OPEC or the Saudi Energy Ministry, that oil will remain, and oil and gas basically will remain the core of the energy business, while new sources that include solar and wind are added.

So people were emphasizing this point. The issue here when we talk about energy addition versus transition becomes important when we realize that the central message was net zero means zero energy security. So if you look at the three seas crisis, everything is about energy security here, but they are still emphasizing the point that those climate change policies, net zero basically means zero energy security.

And we see it in Europe right now. You have those crisis in various places, and all of a sudden Europe got stuck and Germany is returning back to those old refineries because of that energy security. But the final point is regarding my remarks at the IEF meeting. I argued that the three seas crisis are accelerating the inward turn among most countries, and this is producing greater redundancy and more optionality between domestic sources and imports, depending on the price and cost, and continued role for coal in many systems.

The-- Why I'm saying this? Because when I listen to the ministers and I listen to the experts and I listen to the officials, everyone basically was talking about resilient system, that they want to build resiliency, and they want to diversify exports and imports. So they were talking about resiliency on one side and diversification on the other.

But that does not go below the veneer. If you deep dive into it You find out that resiliency means infrastructure redundancy, and that's costly. That means it's additional cost. And when you talk about diversification attached to it, it means more volatility than ever because you have this optionality.

So infrastructure redundancy and diversification is the name of the game now to ensure energy security. While the 3 Cs crisis support additional growth, renewables, EVs, storage batteries, but they also make coal, oil, gas more entrenched. Here's the problem. None of that is incorporated in any energy markets outlook yet This idea of optionality, for example, where you have redundancy and you have diversification, you are secured from an energy point of view.

But now you look at prices and say, "Okay now prices outside are cheaper than my domestic market, so I'm going to buy from outside. But next month, once prices go up, I'm going to cut my imports and go to domestic sources." This type of volatility we are not used to, and it's not incorporated in any outlook.

So these are some of the messages and some of the discussions from those conferences.

Erik: Anas, there's a huge amount to unpack there, but the thing that really stood out to me in your description of all this, and congratulations on surviving what sounds like a very difficult situation there.

If they had the presence of mind, the Houthis or whoever made these attacks on the airport, obviously they knew about these conferences. They made these attacks to make it difficult for the key players to get to those conferences. If they have that foresight, that means that as soon as Saudi Arabia and its partners try to redirect the East-West pipeline to go south to Oman, obviously it will be in that construction over the next two years, unless this war is resolved fairly quickly.

It means that it will be targeted, and they'll do everything they can to prevent it from happening. So did the conference talk about what's at stake in terms of how

promptly this conflict in Iran needs to be resolved, and what are the threats to the plans that they have in order to make these mitigations?

If it's a major construction project, seems like that's a, a big risk to be interfered with by military opponents.

Anas: This conference was originally scheduled for April before all this conflict happened, and it was planned long time ago. I think they started working on it six years ago. The plan and the programs and the questions and the panels and everything basically was structured around the traditional issues and the traditional questions, and all of a sudden this came up.

So in most cases, basically the focus was the traditional issues away from politics and et cetera, but some ministers basically have to address this in general. So the attacks the way you mentioned it, et cet- et cetera, was not addressed. But I know one thing, that the UAE already started building the second pipeline despite the war.

So they are doing it And it will be very tough to w-waste a, a multi-million dollar rocket on start of construction rather than destroying the final product. For me, it does not make sense to delay the construction one way or the other at a very high cost.

Erik: Anas, let's talk about refineries, another subject that I've become very concerned about.

You talked about people cheering the difficulties Saudi Arabia has had. I'm really disgusted by people who are cheering the destruction of refineries in Russia just because they're in Russia. We've, as had a problem for years before any war broke out that we didn't have enough refineries in the West to refine our products, and there is no user of crude oil other than refineries.

It's the finished products that we need. So I'm concerned if we continue to make military targets out of refineries, people are cheering it. "Hooray, we're getting rid of Russian refineries." Wait a minute. It means the whole world is going to have a crack spread explosion problem that I don't think can be solved until you build new refineries.

Now, maybe I'm misunderstanding the news, and it's just a matter of a repair bill to fix these refineries that are being attacked. But based on the video I've been seeing, it looks like some of them are being destroyed, and usually it takes 10 years to build a new refinery from scratch. We don't have the ability in the global economy to suffer 10 years that we don't have the ability to refine crude oil.

So am I exaggerating to think the problem with refineries is that bad? And if not, why not?

Anas: No, you are spot on, Erik. And in fact we've been writing about this in our report for months, and we've been, by the way, we've been attacked on social media for saying that. We are apolitical when we talk about or analyzing the market.

Yet it was very clear that attacking the Russia refineries is going to hurt people around the world and is going to hurt farmers in Africa and South AmErika and other places, and is going to affect the livelihood of people in Egypt and Kenya and other places. So to that was very clear, so you are spot on this.

The issue here is we lost many refineries in the United States, mostly in California. We lost many refineries in Europe, like I mentioned earlier, in Germany. And now we are seeing the Russian refineries being hit, the Saudi refineries being hit. Before that, during the war the active war or the big war, whatever you want to call it, in March and April, the Ruwais refinery in the UAE was hit.

So we lost a lot. And the reason why we have a diesel crisis that we lost the oil from those refineries in the Gulf. Then we have a panic that led countries to ban the exports of petroleum products. And then we have rerouting of ships that put more petroleum products on water than arriving to their destination.

We also had hoarding by traders, and then we have the Black Sea And people do not realize what happened. The media played a very nasty role in this because while the media for a whole week, and I remember this vividly, when the Houthis attacked Jazan refinery and they attacked basically fuel depots. The attack on Jazan refinery, by the way, does not affect the flow of crude.

And Jazan basically is in the southwest of Saudi Arabia, very far away from where the oil is and where the ports are. Yet the media got fixated with it at the time when

we lost three million barrels a day of crude, and we lost eight hundred thousand barrels of diesel in the Black Sea, and the media ignored that completely.

For months, the media refused to talk about what's happening in the Black Sea. They told us about the oil spills in the Gulf and near Oman, and they ignored all the oil spills in the Black Sea. If it wasn't for President Trump basically bringing up the issue a month ago and accusing Zelenskyy for the diesel shortages, et cetera, the media would have ignored it completely.

So I'm glad to see the media talking about the Black Sea today. It is a serious problem, and whatever happens in the Gulf, we have to remember that the three Cs crisis that we have is multidimensional, multilevel, multicommodity affecting everyone in the world, and this is important. Why? Because if we solve one problem, and I know you are going to probably ask me about this later on, we talk about the proposals to end the war.

But ending one war is not going to end the rest. Ending one dimension is not going to end the other dimensions. Ending one level is not going to end the other levels, which means that trying to solve the markets for certain commodities is not going to solve the market for other commodities. But that diesel crisis is going to stay with us for a while.

Erik: Anas, go ahead. Let's talk about biofuels and how that affects all of this, and then I want to come back to China, and I also want to get back, as you said, to Putin's proposal. We've got lots left to cover.

Anas: The issue here is we have the three Cs crisis. Above that, we have other issues that are making the situation worse in term of demand for diesel or shortages of diesel.

We have the drought. We have low water levels in the European rivers that closed nuclear plants and led to higher diesel use in France, for example, so it increased the demand at the wrong time. But if you look at the news this morning, today, we have two pieces of news, basically, that are extremely serious.

The first one is we do have a global sugar crisis simply because of El Nino. And we have, if you look at India, for example, India is the largest sugar consumer in the world, and it is the second largest producer of sugar in the world. Yet we have

a very bad monsoon season, and therefore the sugarcane crop basically this year is the worst in, I, if I remember correctly, in 11 years.

And what is the impact of that? As ethanol, ethanol is made from sugarcane. And if sugar prices go up, then the production is going to go to sugar, not to ethanol. So we are going to have ethanol shortages as a result. And ethanol, as is mandated in several countries as a fuel, including in India.

So that is one source of the problem right now above everything we have, that we are losing ethanol. So when sugar prices go up worldwide, then the first country in the world that produces ethanol, which is Brazil, is going to experience what we experienced before during the drought, that the, some of that sugarcane will go to sugar, a fewer amount will go to producing ethanol, and ethanol prices will go up, and fuel prices will go up.

And if we end up with that situation, are we going to see the Trump administration doing what they are doing right now is, "Okay, I'm going to remove the tariff, and I'm going to remove the taxes," and et cetera, et cetera. Are we going to continue playing this game forever? So we have a problem because of the weather and the drought causing a problem for ethanol.

The other piece of news is related to that, too. We have low water levels in Europe. We know that affected the supplies of energy in various ways. And for example, the, all the petroleum products that move via barges did not reach their destinations. Factories basically delivering their products, they couldn't see their products delivered, et cetera.

So we have a major logistic crisis as a result of this. But if you look at the news today, we have a crisis in Indonesia. The largest river basically lost, or the water level in the largest river declined substantially, and barges are not able to deliver the palm oil that is used to, for many, in many ways for many industries, including biodiesel.

So they are not able to deliver the palm oil that makes the biodiesel. So this came in above all the shortages of diesel we have at the refineries. So it's not only the issue of refineries. Now we created all those additional industries through subsidies under the issue or under the idea of climate change policies, and we need this, and we need this, and we need this.

And all of a sudden, we got stuck with all of that So we lost ethanol, we lost biodiesel, and th- both of them have nothing to do with refineries. This came on top of all of that.

Erik: Anas, I wanna come back to what you said earlier about these things get priced in a global market, and it is so frustrating to see people cheering these refinery attacks in Russia when especially even European Union leaders of government are saying, "Yeah, go Zelensky, take out some more of those stinking Russian refineries."

And they're going to, I think, create a crack spread crisis that's going to cripple the global economy. And something that I've noticed that seems to be happening at the same time is on one hand, we're seeing the back of the futures curve is really starting to catch up to the elevated front-month prices.

So we see backwardation coming out of the price even as the flat price goes up, which is a very unusual way for a backwardation to resolve itself. And it says to me that the market is realizing this is gonna last a long time. I just interviewed Paul Sankey about this refinery issue last week. Paul Sankey is a analyst who focuses primarily on refineries and is quite expert on it, and he said, "Look, the remaining spare capacity that exists for refining is mostly all in China.

And you've gotta remember, China has just signaled their willingness to take a China first approach that says, "We're going to ban all exports of finished products and keep them for our own use in China." Now, I don't think China would ever crash the global economy intentionally because they depend so much on exports to the rest of the economy.

But setting up a policy where China says, "Look, we're gonna make the finished products that are cheaper available in our country, China first, and we're only gonna allow enough export from our own refineries just barely to keep the global economy from crashing. But we're gonna keep the best of those finished products at lower prices for our own domestic consumption."

If China were to adopt that policy, it seems to me that they could really put the rest of the world in a really hard place. And while this is all pending, we've got l- not just, futures traders that are hoping to make money on their crack spreads, but you've got heads of state in Europe cheering the destruction of refineries that contribute to a globally set price on crack spreads.

Where is this all headed, Anas?

Anas: Sankey is correct on this, that the spare capacity is in China, and at the same time, European leaders basically are taking Europe into a big hole that Europe cannot get out of. And the biggest issue here is this, that Chinese refineries basically are losing money every single day.

And what China basically has done is they set the product prices below world prices within China. So refiners basically lose money on that. The only way to make money is to export. So what they've done is they've done two things. They have quota, so they allow them to export little, and in some months, basically they tell them, "Okay, you cannot export at all," like what we've seen in October.

So the, the idea here is, are they in con- in control or they were enabled to be in control? And it is very clear that they were enabled to be in control. It wasn't that they planned all of this to be in control. The European leaders basically enabled them. California enabled them by closing those refineries.

And w- if you look at what's happening in the Middle East, we have several refineries in the Gulf. Like I said, Secretary Wright mentioned only 25 to 35% of products going through Hormuz are like crude. So we still need the oil from those refineries to compensate. But the point I would like to make here that looking at China and what China is trying to do, I think that China at this stage is looking at the Hormuz crisis and the Three Seas crisis and say, "Okay, how I can take advantage of that?"

And they just remembered, "Oh, I have the BRI," the Belt and Road project that the United States and its allies tried to fight for a very long time, and they have put some limits on it in some countries. And they said, "Look now I'm going to take advantage of that, so I'm going to focus on it.

I really want Hormuz to stay closed or semi-closed. I want to see those problems in Bab el-Mandeb because it benefits the BRI." So all of a sudden, China basically is deciding the end of this war and how things are going to end, because they found out that everything happened now can be turned to their advantage and for the BRI.

So if you look at the news in the last couple of days, and I'm going to read something to you here. This is from the news, okay? China and Russia are quietly advancing Arctic maritime cooperation, and that's after Russian officials basically

visiting China. Proposals include linking the maritime Silk Road with the Russia Trans-Arctic Transport Corridor, developing ports, sharing automation technology, and joint research.

That's what they are working on, and this is alternative for what? This is an alternative for Hormuz, alternative for Malacca Strait, alternative for Bab el-Mandeb, alternative for Panama Canal. So while the United States is trying to expand into those choke points, China and Russia basically are working on a completely different plan.

So it is important for China to keep choking the world at this stage to develop those alternatives, and some of them are very expensive. And if you look at the trade just in, in the last two months, at the trade between China and Russia through the northern route, whether you are talking about LNG or you are talking about oil, it is, for oil, it's near record high through the northern route.

So now, looking at this, we can understand better why Trump and the people behind him wants to control Greenland. It's not about Greenland oil and gas. It's not about Greenland resources. It is really about what's going on in the Arctic. It is about those transport routes that might reshape the world If they take place and they happen

Erik: Anas, I definitely wanna come back to Putin's proposal, and it seems like he wants to involve China in resolving the war, and it all fits with what you're saying.

But before we leave this question of crack spreads, I've been musing on this whole thing of why did so many people think that we were going to see \$200 benchmark oil? You were very quick to point out that you did not think it was going to happen, and you've been proven right, so congratulations on this call.

But something I've realized is wait a minute. Everybody who was thinking that there was going to be this blowout in oil prices, there, there's no consumer of crude oil other than refineries. If we're going to be knocking refineries offline, it seems to me that there could actually be an ironic outcome that almost nobody sees coming, but maybe the market has seen it coming the whole time, which is you never really see oil prices go a whole lot higher than \$100 because what happens is crack spreads go to \$200.

And you get to a situation where you've got 25 or \$30 diesel fuel, but because geopolitical escalation continues to remove refining capacity, you end up in a situation where you just can't make what the world needs. It takes you into a global depression, and you end up with really subdued crude oil demand because there's enough crude oil to supply a much lower number of refineries than existed previously.

But the crude oil price isn't what goes up. It's the crack spreads that go to the moon. Is that a possible scenario?

Anas: Yes. In fact, we-- most of this basically we discussed in the previous show for those who would like to go and listen to the recording. The issue here, or the new issue here is exactly the last point you mentioned whether there is a ceiling for that crack spread and whether there is a ceiling for the demand.

And if you look at the demand numbers around the world, we have a massive decline in demand, whether it's destruction or whether it's decline. And for those who are listening destruction cannot be recovered. Decline will be recovered over time. So we've seen a major decline. Those who are claiming that, "Oh, we did not see it.

Look at the United States. There is no decline in demand." No, they are missing the point, and I'm going to give you some numbers on that. Because if you look at December, last December, before the war, the IEA expected US oil demand to increase by 160,000 barrels a day in 2026. OPEC expected the increase to be 110 thousand barrels a day in 2026.

So what does the actual data tell us? Now we have data, the monthly data for the first seven months of the year. The average of the first seven months in term of oil demand in the United States year over year is virtually zero. So we had all those expectations of growth, and now it's zero. So we do have a decline in US oil demand.

Worldwide, we do have a decline. You brought up the recession or depression. I expected to have a recession, but we don't have the data yet. Of course, one of the problems when we talk about a recession is that in most countries, we will not know about it until after the fact, because as it is reported after two quarters of decline.

So we won't know about it in advance. We know about it after the fact. But this is not the main issue today. The main issue is we do have several reasons to explain why we have not seen a depression or a recession until today, whether in Europe or the United States or in the main advanced economies. The first one is that we have massive spending on AI and data centers.

And we are talking about hundreds of billions of dollars being spent. And as you all know, when we talk about the macro variables that stimulate the growth is the investment spending. So the AI basically saved the world for now in term of spending. The other issue is people forget that if you look at the EU alone, in the second quarter, the EU alone spent, in term of subsidies on fuel, \$16 billion, just fuel subsidies, or in fact, it's additional subsidies, \$16 billion.

And that fueled that government spending. That fueled economic growth too, compensated for the impact of the, the higher prices of everything. And, but Europe, basically the EU, cannot subsidize itself out of the crisis And we cannot go with the spending of AI forever thinking, "Okay we can rescue ourself from a recession."

So the recession is going to happen no matter what the moment that AI spending is going to stop and those subsidies basically decline. And if you look at diesel prices, you look at gasoline prices, jet fuel prices, et cetera. Look at the airlines. If you look at the airlines worldwide, everything related to passengers declined.

The only segment in the airlines that made money so far is the cargo. And why? Because of AI, because of all the equipment and all the shipping that happen in cargo. But the fact is demand, oil demand is declining, and it is responding to higher prices. But to higher prices of what? Like you said, exactly, to higher prices of diesel, gasoline, and jet fuel.

Erik: Anas, let's move on as a final topic to President Putin's proposal to, as he put it, resolve or end the Ukraine war by having a summit between President Trump, President Putin, and Xi Jinping. Notably, Zelensky is not invited. Needless to say, that is going to cause political backlash, where a lot of people were saying Zelensky should be invited.

It sounds to me like Xi Jinping is picking up on the opportunity to maybe take advantage of President Trump's frustration with Zelensky continuing to strike Russian refineries right now. How do you see this playing out? Is it possible that

we're going to see this kind of summit occur without Zelensky's participation and that actually does bring an end to this conflict?

Or do you think this is just political positioning on Putin's part?

Anas: Generally speaking, without Europe being involved in those negotiations, nothing will go forward. And the reason why, because most of the problems and the challenges that Zelensky making to Trump are supported by the EU. So without Europe, basically nothing is going to move forward.

And one of the striking things that the last month when Trump announced or made a statement that the Zelensky is responsible for higher diesel prices and he must stop attacking the Russia refineries, within 12 hours, Zelensky, for the first time ever, went public and said, "Oh, we just hit a refinery in Russia."

Basically, it was really defined and challenging Trump directly. There is no way Zelensky can challenge Trump without the support of the EU. And probably the audience must listen to what I'm going to say here, because this is a piece of information that is very useful to understand this.

Every time Trump pressured Zelensky on Russia, we've seen some EU members boarding Russian or oil tankers carrying Russian oil every time. Although Trump basically exempted Russian oil from sanctions since the start of the war, as it's temporary exemption renewed every month. Every time he pressured Zelensky, we've seen France or the UK or the others basically boarding Russian ships and taking the, the ships out.

So without Europe, basically, it's very hard to see any agreement or any resolution.

Erik: Anas, I can't thank you enough for another terrific interview. Again, listeners, we are going to bring Anas back for a Macro Voices Unplugged session and get to your questions and so forth. We weren't able to do that this week just because obviously Anas has come back from a war zone, literally, and we'll do that as soon as we're able to pull it together.

Before I let you go, Anas, please tell our listeners what you do at Energy Outlook Advisors, what services are on offer there, and how people can follow your work.

Anas: But just before I do that, I just want to mention that anyone glued to social media, especially X, reading about the attacks, explosions, and fires on Saudi Arabia would be shocked upon arriving in Riyadh.

The city is carrying on as normal. Even after the attack on Terminal 3 at the airport, the streets were congested, malls were full, restaurants were busy, the cafes were crowded with spectators watching soccer games, et cetera. I really, despite everything else, I enjoyed my stay in Riyadh. Riyadh is the capital city of restaurants for those who are foodies and like to eat various type of foods from around the world.

Yes, some areas basically were problems, but the city itself has 10 million people. This is greater than Greater Houston and greater than North Texas, and this is only one city. Anyway, people can find me on X. Basically, this is the best way to communicate with me. I do have a website, and we do have two publications, one for institutional investors called the Energy Outlook Advisors Energy Newsletter, and then we have the Daily Energy Report.

The Daily Energy Report really is a lot of fun to read. It's commentary on the news, and it is intended for everyone, and it's very cheap too. It's four hundred and twenty dollars a year. And then we have a subscription on X. But the easiest way to get in touch with me is on X.

Erik: Well, Anas, I can't thank you enough, and we'll bring back that Macro Voices Unplugged episode as soon as we can pull it together.

As Anas has just alluded, the situation in Europe is just as relevant. We've got France really in a very difficult situation. So stand by next for my interview with Louis-Vincent Gave and a cameo appearance where we're gonna do a shorter interview, but still an interesting one, talking about what's going on in France, what it means to global credit markets, where this is all headed, and where the trades are.

That's coming up next right here at macrovoices.com. Joining me now is Gavekal founder and CEO Louis-Vincent Gave. The subject is going to be the situation evolving in France. France is burning, as several people have said. Louis, the tempting question to ask would be, could anyone have seen this coming?

But of course, you not only saw it coming, but wrote a couple of pieces on that. Listeners, you'll find the links to the two separate articles Louis's written about this coming crisis in France and now upon us crisis in France in your research roundup email. Why don't we start there, Louis? Why was it so easy for you to see this coming?

You've been warning about it for quite a while. Tell us what you warned about and why, and how it's evolved and how that compares or differs from what you expected.

Louis: Thanks a bunch for having me, Erik. It's always great to catch up, even if it's at a pretty distraught time right now for my own country.

And look I don't think there should be any patting on the backs going on. This crisis in France that's unfolding has been perhaps one of the most telegraphed things out there. France has been in a political crisis already for the past two, three years with a parliament that essentially has been divided between three different blocks all three of which hate each other, unable to work together to even pass a budget.

France has been running roughshod around all the various European rules, running budget deficits essentially of five percent of GDP. And you could easily tell me, "Yeah, so what? Other countries do so." I think there's a few massive differences for France today which explain why France has essentially started what looks and feels like a typical emerging market debt crisis, to be honest.

And I think the... You could say the, the US is running budget deficits of seven percent of GDP, and that seems to be going well, and, why should France hit the skids at five?" And I think there's a few things to consider. The, the first is that France's ability to increase taxes is essentially zero.

France total tax receipts account for roughly forty-four percent of GDP. I think in the US, you're at about twenty-four or twenty-five percent in that ballpark. So right now in France, we're on the wrong side of the Laffer curve. If we try to meet this massive budget deficits through tax increases, we'll actually be raising less money.

So that's the first problem. I think the second massive problem that that France is confronting is that a majority of our debt is now owned by foreigners. And I just spent the past couple weeks on the road meeting with clients And it was actually

interesting, the, the first question most clients ask is, "At what level of yield should I buy US government bonds?"

Is it... Are we there yet, essentially? Have yields risen enough in the US that they're now- that bonds are now attractive? That's the first question I've been pitching for the past couple of weeks, and invariably the second one, almost in the same breath, is, "Who's stupid enough to own French bonds here?"

Who is who's gonna be the bag holder of this unfolding train wreck?" And I think this, this sort of divergence in perception between the US risk and the French risk goes to the very core of the French problem right now, which is that for a lot of people, owning France, and especially French debt has now become a career risk.

It's, if you buy French bonds and you- and France ends up restructuring its debt or the euro blows up or whatever else, you'll look like an idiot, because for the past couple of years it's been all over The Wall Street Journal and this was one of the most predictable crises ever. So I think that's the second issue.

But the third issue, I mentioned that France was going through some kind of emerging market debt crisis. The reality is, like an emerging market, France has issued a bunch of debt in a currency that we can't print that we depend on other people to print the money to bind us over at this stage.

And that's the crux of the matter. Now, you could say the ECB will... Push comes to shove, at the end of the day, the ECB's run by a French lady and, so push comes to shove, things will happen." Which, as an aside, is perhaps one of the oddest things right now in the market is that while as France is on fire, as you put it, the, the market is still pricing in three rate hikes from the ECB.

That's never gonna happen. The ECB's never gonna have three rate hikes. But in event, the the... What we have today in France, I think, is the confluence of different crises. We have a fiscal crisis, we have an energy crisis, we have an economic crisis, we have a social crisis, and we have a political crisis all at once.

And all this is occurring at a time when we have a president who's in office but not in power. He's, I think his opinion polls at this stage are down in the low teens, and he has absolutely no authority whatsoever. And with this lack of authority, rioters are running wild.

Rioters have come from all over Europe. That's, I think, one of the plagues of our modern days is that whenever you start seeing trouble somewhere You have black box Antifa types that show up from... You could jump on a train and in an age of open borders such as we have in Europe, these guys will come from anywhere and just break stuff.

And so here we are. It's a tough bind, and it's hard to see how this ends without pretty violent police repression. You gotta get the genie back in, in the box. But the police repression might stop the riots on the streets It's not gonna stop the economic problems that that France is confronting

Erik: Louis, to what extent do you think this is a harbinger of things to come for the rest of Europe or for Western Europe and EU countries?

And specifically, we heard so much years and years ago about people predicting that the euro currency would eventually face a crisis because of the old adage that you can't have a currency union in the absence of a fiscal union. You've got completely different tax systems across Europe all sharing one currency.

A lot of people said that would eventually result in a crisis. It's not clear to me, is this crisis that crisis? Is this crisis really more of a political crisis that has to do with different political parties in France that maybe is not as contagious to the rest of Europe? It seems like Italy is already starting to feel some contagion from what's happening in France.

Is that right? Where does it go from here?

Louis: So look, I too have been a, a big skeptic of the ability of the euro to to survive over the long term. And, I think it was Milton Friedman who said that that the euro likely won't survive its first real bad recession. And it did. We had the recession of 2008, and on the back of the recession of 2008, we had a, sort of echo crisis in 2011, 2012, when the bank balance sheets were very-- already very weakened and damaged by what happened in 2008, all the bad bonds that they'd bought, the bad mortgage bonds, et cetera.

And that echo crisis created the European crisis of 2011, 2012. But back then, essentially, the ECB could come in, print a bunch of money because we had no inflation. Interest rates around the world were essentially close, close to zero, and

there were very little constraints on frankly, what both monetary and fiscal policy could do since the constraint is always inflation and back then there was none.

Energy prices had already started rolling over. That was then. And so in 2012, 2013, the euro was saved. Today, the, the situation is of course very different. You have, first of all, a very different political situation, and here I think France's situation on the political side is somewhat unique within Europe.

Now France, through its own history has always been a divided country. I think we, we have to start there. Divided between royalists and republicans, between Catholic and Protestants or Catholics and Freemasons, between aristocrats and commoners Pétainists versus Gaullists Dreyfusard versus anti-Dreyfusard.

We've always been divided, but we were always divided essentially between two forces. So you had these tensions and one side would do better and would get to rule. I think what's quite unique today is that France is now divided, not in two factions, but in three And each faction has their own flag, each has their own gripes, each has their own anger.

And you have a very good, very left-wing but ex-excellent geographer who's written a number of books on this, a guy called Christophe Guilluy and I keep writing about him. I mention it in the papers that I sent you and that you're welcome to share with your readers. And what Guilluy explains is that France is essentially now divided really within three zones, where in zone A, in you have the center of the big cities of Paris, of Lyon, of Bordeaux, where essentially you have the bobos who live, people who work in government, people who work in finance, in technology, who work in the knowledge industries who have been the big winners of globalization, and their flag is very much the EU flag.

And then around them you have... Around those cities you have the inhabitants of zone, what Guilluy calls zone B, that are essentially mostly migrants and for all intents and purposes work as indented servants of the people of zone A. And they work as nannies and as Uber drivers and as cooks and chefs in the restaurants and everything else.

And they live in the outer suburbs And the people of Zone A essentially make sure that social transfers to the people of Zone B continue unabated. So f- first to maintain the peace and secondly, because essentially they're subsidizing their own workers in this way. And the flag of that, that Zone B, as we're seeing right now in

the demonstrations, because in a lot of the demonstrations it is that Zone B that is taking to the streets, the flag of that Zone B is very much today it's the Palestinian flag.

And then you have the inhabitants of Zone C. Zone C is essentially the rest of France. It's the rural areas. It's the part of France where shops are boarded up, where hospitals are closing down, where schools are closing down. And Zone A, the inhabitants of Zone A always stayed in power by making sure that Zone B and Zone C were always divided.

So Zone Z- Zone C, obviously their flag is the French flag. They vote for Marine Le Pen and they vote for the Rassemblement National. But the problem now today for France is that essentially Zone A is running out of money to pay for Zone B. And so Zone B turns violent and Zone A gets very scared because staying on this idea of three flags, they also have three different sports.

Zone A plays tennis, Zone B plays soccer, and Zone C plays rugby. So now all of a sudden that the guys in Zone A are quite afraid, and so they end up voting for the protection of the Zone C rugby players. That's why Marine Le Pen is now polling in the mid-40s. Because as Zone B ravages the streets, you're left with needing the protection of the countryside.

So we are gonna see a massive political shift. The question of course is, and a big problem for Marine Le Pen when she comes in, is she's coming in at a time of fiscal and economic crisis with absolutely zero money in the till. If the program is we'll break skulls in Zone B, that's hardly gonna move the needle forward.

So it's a period of great uncertainty. And yes, when you look at France, the bottom line is if we wanna get out of our current economic bind, there's only two choices. Either we have to move the retirement age to 70 years old, option one, which is, extremely hard to do. Or like in any good emerging market crisis, you have to devalue the currency by 50%.

Within the euro, that's not possible. And one of the very disappointing things of this French presidential election that is coming up in six months is you have lots of candidates, but not a single candidate to propose either of these options, when economically you're gonna need to do one or the other, and perhaps both, but you need to do at least one, and you don't have a single candidate that is proposing

either, look, we need to massively increase the retirement age, option one, or B, leave the euro.

What you do have is the far left candidate, Jean-Luc Mélenchon, essentially saying, "Look, we need to default on the debt," which, w- once the majority of your debt is held by foreigners, is actually not completely stupid. So for Italy, for example, it makes no sense for Italy to default on its debt because 80% of the debt is held by Italians.

Why would you default on your own people? Defaulting on foreigners, yeah, maybe that makes sense. But the reality is defaulting on the debt won't be enough anyway. You'll still need on the other side to either devalue the currency and/or massively increase the retirement age.

Erik: Louis, with respect to the idea of leaving the euro currency, is that practical for France at this moment?

If somebody decided, "Okay, emergency action, we've gotta reissue French francs," do they even have the capability to do that?

Louis: Yeah. Like printing money isn't that... You mean physically do it?

Erik: I'm just thinking, th- this day and age, we live in a very integrated electronic commerce system.

You've gotta issue a whole new something.

Louis: Yeah, no. If you do it, like if you go down this path, you're essentially bankrupting, I think, the entire European insurance industry. At this stage to put things in context, France has issued more debt than the, the entire African continent.

Africa is one point... What is it now? 1.1, 1.2 billion people. France is 67 million people. We have more debts than the entire African continent, to put things in context. And a lot of that debt, we are one-- We, the French, are one of the biggest debt issuers out there, and a lot of our debt is essentially held by European pension funds and European insurance companies.

So the first thing, if France goes down this path, the, the first thing you do is essentially you blow up the European insurance industry and probably the global ins- because Japanese insurance companies, US insurance companies a lot of people own French debts. So that's your first issue.

Your second issue, one, one you'll be sensitive to as a, an energy trader and somebody who's quite involved in the world of derivatives we have three banks in France That are systemically important banks, Société Générale, BNP, Crédit Agricole, and that are huge in the derivatives markets.

So if all of a sudden French debt is redenominated in euros the balance sheets of a lot of these banks, they have liabilities in euros, all of a sudden their assets are redenominated in a French franc that loses 40%, that, that could create some serious mishaps. So let's not pretend that this would be easy and that it would not be deeply disturbing for global financial markets.

Once you pull on those kinds of threads, you're never quite sure where it goes, where the liabilities are, what ends up collapsing, but it would be a massive event. And that brings me just to a side point is that I can't remember in my career, and I'm 52 years old, I can't remember in my career a period where we're facing so many massive tail risks at the same time.

Now, we've talked about the tail risks on France the tail risks on energy, the tail risk on whether the CapEx spending boom in AI is coming to an end, and that's a massive tail risk if it is coming to an end since it's been such a driver of both economic growth in the US and asset price appreciation, which in turn has led to consumption.

And so you have all these decisions right now, these sort of heads or tails decision. And by the way, on the CapEx spending boom, you now have a US equity market which is 50% tech and communication services, a level of concentration never seen before. So You have all these tail risks. France is a massive tail risk out there.

It's hardly the only one. So we're coming into a period of where, you have a number of coins that heads everything's fine, and tails everything collapses, and all it takes is for one of these to fall on the wrong side, and things can get pretty nasty pretty quickly.

Erik: It sounds like there's a double whammy risk there with the insurers because if the primary holder that gets bankrupted w- if there's a default on French debt is the insurance industry which is insuring France and it's being burnt down by, I don't know if it's Antifa or what, but at least a lot of the headlines that I've seen, it sounds like this is not an average Paris taxi strike.

They're actually burning down some of the most important buildings in the country as part of these protests. If those events are going to the... or potentially on assets that were insured, but then there will be a default by the insurer because the insurer is passing on the default on the sovereign debt that the insurer was invested in you, you get a self-reinforcing spiral that potentially goes completely across Europe and destroys the entire currency union.

Is it, is that an exaggeration to think it could go that far?

Louis: Look, the, the reality is if France defaults on its debt, restructure on its debt, leaves the euro, pick any scenario. If any one of those things happens, I- it's very hard to see the euro surviving as it is today because at that point, the European financial industry, the banks, the insurance companies basically all face catastrophic losses and every, every country will need to nationalize their own debt.

Now, of course, you could say actually it could happen and then the ECB just monetizes everybody and injects capital into all the banks and the European Union takes equity into the French banks and into the f- the French insurance companies. It could go down this path, but don't forget that at the same time what you have, and this is where how things are very different today from twenty twelve, twenty thirteen, is while in twenty twelve, twenty thirteen in Germany, which has historically been the paymaster of Europe, things were humming along in Germany.

Germany was this industrial powerhouse still that the world envied and the Christian Democrats and the Social Democrats were nicely alternating power and essentially following more or less the same policies give or take little changes at the margins. The massive shift in Europe is you now have the rise of an AFD in Germany that openly says that it wants to leave the euro, it wants to leave Europe, that it wants to fix the relationship with Russia, which is a more strategic relationship for Germany since that's where Germany's commodities come from and that's where Germany's goods now will be sold like cars or whatever else.

And so Germany isn't the global industrial superpower that it was back in twenty twelve. Today, Germany's getting its lunch eaten by China. So its ability to say, "Don't worry, we'll pay for this. Don't worry, here's a check. Don't worry, we'll paper things over," a lot of that is now behind us. So I highlight this because the situation is more perilous.

Now, as I think as investors, it's incumbent on us to not fall prey to the most catastrophic scenarios and to try to think, okay, let's try to think of scenarios of heads I win and tails I don't lose. Yes, I can make catastrophic scenarios for Europe, but Maybe it works out after all. Now, if you believe, let's make a catastrophic scenario, you could say, "Okay, fine, I'll go short French debt and go long German debt."

The, the problem is at this stage you're paying 150 basis points away in carry, and if somehow the ECB turns around and decides to monetize all the French debt, then you're gonna get crushed. So for me, when I look at the situation in Europe, I think there's smarter trades to put on, if only as hedges against things blowing up.

The-- And the, for me, the smartest trade at this stage is to sell the euro against all the European peripheral currencies. Now, I like those trades because most of those are actually positive carry trades. If you sell the euro and go long the Norwegian crown, if you sell the euro and you go long the Icelandic crown or the Hungarian forint, you're making...

Or the, even the British pound, you're making anywhere from 150 to 300, to 500 basis points in the case of the Icelandic crown of positive carry. So I like those trades. And on the Norwegian one, you get I think a second bonus, which is that if oil prices ever shoot up massively, you've, maybe the Norwegian crown could be a little bit of hedge on that as well.

So you have a twofer in going long the euro long the Norwegian crown and short the euro. If you're more adventurous, you could say look, if Europe really ends up hitting the skids, your Japanese pension funds, your Singaporean sovereign wealth funds your Chinese, your Hong Kong monetary authorities, all those, you know, decent size allocators into European bonds, they'll be repatriating their money.

So you could buy vol on euro/yen or vol on euro/renminbi. And by the way, the vol on the euro/renminbi is close to record lows. So you can buy that, or that's

obviously you're paying away premium there, but... Or you just you go long the Asian currencies against the eu- against the euro.

So lots of ways to express this, this trade in France without having to go down the path of essentially the kind of Armageddon that you're describing.

Erik: I'll ask another Armageddon-oriented question I can't resist. Louis, the thing I've been looking at recently is refineries, and if we continue to see them being blown up, whether it's in Russia or anywhere else, we're getting into a situation where the world, regardless of crude oil supply and those logistics that are obviously under extreme pressure already, as Anas is going to talk about.

The refinery situation, I think, is going to cause crack spreads to continue to blow out, and I think you could have a diesel crisis in all of Europe. Gee, it seems like this is not really the best time to add a diesel crisis on top of everything else that's going on. How would a energy crisis that centers on, you know, diesel prices doubling from here affect all of this and everything else that you're seeing?

Louis: To be honest, it's the chicken and the egg story. I, it... I could argue that it's because diesel prices have essentially already doubled that perhaps we're already starting to hit the skids in France. It's I... You know me. I've heard... I've probably used this line too many times with you, but the idea that economic activity is energy transformed lies at the very core of a lot of our work.

And so the fact that as energy prices for the end consumer, because to your point, we don't, most of us don't use oil. We use gasoline, we use diesel, we use jet fuel. That's what when food is brought on our tables, this reflects a rising or falling diesel price. And with that comes popular anger when that starts shooting up.

And so to your point, yes if it gets worse then it's hard to imagine how the political situation, the fiscal situation, the economic situation will get better in the face of diesel prices that, that continue to go up. But on this, Erik, if you'll allow me just a side note from France.

What's been fascinating to me in the past nine months is, yes, we've had two massive wars amidst some of the world's largest energy producers, of course, Ukraine and Iran, and the policy in the Western world, whether in Europe, in Japan, in Korea, in Australia, in the United States, the policy has essentially been for-- to tell the end consumers and to tell businesses, "Don't worry about it.

Don't look over there. Yes, it looks bad on TV, but just keep going as you were going before. Keep consuming exactly like you were before. Keep driving. Have fun. Don't worry about it." we've got these wars, but please, no reason for you to adjust your lifestyle. Now, of course, a lot of emerging markets went a, a different direction.

China tightened the screws massively and slowed their economy right down. To some extent, India did as well. And so we've tried our best over the past nine months in the Western world, I think, to cushion the consumer from these wars. And the big question is, are governments reaching, and I-- you might discuss this with Anas, but are governments reaching the limit of their ability to cushion governments, consumers and businesses from the, this slow-moving but very real unfolding energy crisis?

And yeah, if if we are reaching the limit, and for what it's worth, I think we are reaching the limit. The fact that China's now back in the market buying oil when it wasn't for months on end, the fact that, yes, to your point, crack spreads keep going up every day. You can point to many different things, but the, the bottom line remains that if this energy crisis continues into twenty twenty-seven yeah the big question is who who gets cut off?

And I think the perception amongst investors has always been you know what? It'll be the Sri Lankas, the Ethiopias the Pakistans of this world that get cut off from from oil, that get cut off from diesel, that get cut off from gasoline. And it's very sad for them, but what do I care? It's not like Microsoft sells anything in Sri Lanka.

And it's not Ethiopia is buying a lot of tokens from Anthropic. What do I care? Of course, if the end result is actually it's not the Ethiopias of this world that are breaking apart, but it's the European Union then that's a whole other can of worms

Erik: Louis, I can't thank you enough, as always, for a terrific interview.

Before we let you go, please tell our listeners what you do at GavCal, how they can find out more about your work.

Louis: Yeah, sure. Thanks again for having me. Always good to catch up. I wish it was in better circumstances. And again I wanna stress that, look, don't be too despondent. Hopefully that, solutions end up being found.

But having said that, very happy for people to follow me on Twitter. we publish financial research for institutional investors on a subscription model. We manage a few funds, mostly on Asia, so China Equity Fund, Asian Equity Fund, China fixed income funds, and we also have a private wealth management business.

The best to find out about us is to go to our website, gavekal.com, G-A-V-E-K-A-L dot com.

Erik: Louis, thanks again. Listeners, it's now time for our market desk segment. Patrick,

Patrick: where's the trade? Thanks, Erik. I wanna focus on the conversation you had with Louis. The argument was that France's fiscal and political problems can have consequences beyond its borders.

Heavy government borrowing and expensive energy backdrop and limited room for policy adjustment creates vulnerabilities that could spread through Europe's financial system. So for banks, that raises the question about funding costs, credit quality, and sustainability of recent earnings growth. Now, what's interesting here is that European financials have enjoyed an extraordinary run since the Liberation Day lows.

Now, the EUFN European Financials ETF is approximately up fifty-seven percent compared to only twenty-seven percent for the US financial sector using the ETF XLF, so more than twice the percentage gain. That's a substantial performance gap. If the pressures Louis describes undermine European's banking recovery, there's room for that relative leadership to reverse.

So for this week's Trade of the Week, the structure is a traditional long/short pair, buying JP Morgan and short selling Deutsche Bank in equal dollar amounts, with JP Morgan trading around three hundred and thirty-four dollars and fifty-eight cents at this time of this recording, and Deutsche Bank's US listed shares at thirty-two dollars and thirty-nine cents.

That would work approximately out at ten point three Deutsche Bank shares short for every one JP Morgan share purchased. So in this trade, we're expressing a preference for JP Morgan's earnings resilience against Deutsche Bank's exposure to more challenging European environment. This pairs trade can profit in a rising

market where JP Morgan advances more than Deutsche Bank, or in a falling market where Deutsche Bank declines faster than JP Morgan.

Equal dollar size reduces outright directional exposure, although the differences between the businesses leave meaningful company and market risk. The Deutsche Bank shorts carry structurally asymmetric risk. Its profit potential is finite, while losses from a sustained rally are theoretically unlimited.

An optional call option overlay can cap the right tail exposure through expiration. Now, specifically, I wanna talk about an April 16th, 2027 Deutsche Bank thirty-six dollar call, which is quoted around two dollars. The strike is roughly eleven percent above the reference price, and the premium cost is approximately six point two percent of the short position's value.

One call for every hundred shares short caps the Deutsche Bank leg's losses from a rising share price at five dollars and sixty-one cents a share. The core position remains at an equal dollar pair with insurance as an investor choice. After European financials delivered more than twice the US sector's gains off of Liberation Day lows, we're positioning for J.P.

Morgan to regain relative leadership as the market reassesses the durability of Europe's banking recovery. Now, 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, let's get this stock started with equities, Patrick, because markets keep being under pressure as the first major tech earnings come out. Now, what has stood out to you this week?

Patrick: All right listen. Right here as we're recording, the S&P 500 is about seventy-five points off of its highs in the post period after Meta and Tesla's earnings.

And we are now around seventy-seven hundred testing the fifty-day moving average and right along the month lows. So let's quickly touch on these earnings

and why I think it's that important. So Meta actually has been one of the good stories in the AI space. Its Muse assistant was very well-received, and there was a lot of high expectations about this earnings.

And they didn't really disappoint. The... In fact, everything they said was quite positive. But clearly, the hurdle of the expectation was higher. And what we're seeing is that the initial gains that happened in the first reactions have completely faded, and the stock is relatively flat going into the open.

So why is this important in my mind? For n- for the Mag Sevens have been the cornerstone of keeping the S&P 500 in a bull trend. Just a few weeks ago, the breadth of the market deteriorated down to twenty percent, where basically four out of five stocks were in a downtrend. And the majority of AI stocks continue to be under pressure.

And the Mag Sevens being a thirty-five percent weighting in the S&P 500 have resiliently held the index up higher while we see this huge dispersion happening under the surface. And so here we are in the heart of earnings season. Next week, we have another three of the Mag Sevens come up to bat. And will they be able to live up to the the elevated expectations?

Obviously, I'm not looking for any big misses, but rather about simply that everyone's looking for too much from them. And if the market in any way is selling them into their earnings, will these Mag Sevens give out? And if they do, does it trip up the S&P 500? This is very relevant because at this moment the S&P 500 is basically trading right along its month lows and a- about one percent away from so- what some people estimate the CTA sell triggers and when systematic selling kicks in.

We haven't seen a CTA sell trigger kick in in five, six months. And if we saw that happen, would that be enough of a feedback loop to potentially start a bigger correction? What is important to note is what's actually happening under the surface. What we are seeing is a substantial rally in the last few weeks In the defensive names.

We saw big b- breakouts in the consumer staples and a continuation of the bull in the healthcare space. Money is flowing to a lot more defensive things. At the same time, beyond the hyperscalers that are doing very well, many AI stocks have

broken badly. As an example, the semiconductor index using the SMH, attempted an early breakout a few weeks ago.

But over the last two weeks has been off of its peak, down 16%. At the same time, the memory stock ETF is at its six-month lows. So it really comes down to the Mag Sevens keeping this all together, and this is what making this really interesting. Another quick note when looking at the commitment of trader reports.

Just two weeks ago, as the Nasdaq was breaking to its 52-week highs, we saw the large spec position get to a hundredth percentile on a one year, three year, and a five-year look back. So basically, large speculators went all in on the Nasdaq, and it's been pain ever since. And this is why we're watching very closely as we're at the seventy-seven hundred level on the S&P because if all of this starts to unwind, we may finally see the first market correction since the one we saw back in the first quarter.

Certainly gonna be very interesting to see how this plays out, Massil.

Massil: All right, Patrick, let's move on to bonds because it seems like they've put in a short-term low. But what are you seeing across the broader credit market that would still make you worried in this environment?

Patrick: Let's start off with the fact that the bonds have established some sort of a short-term low.

They were incredibly oversold, and they've been bouncing. The yields were up on the thirty year, near one hundred and seventy-five basis points, down about thirty-five basis points in the last several weeks, and this has allowed a relief rally in the broader part of the bond proxy stock.

This is where utilities, consumer staples, and healthcare stocks have all had meaningful rebounds and the breadth has improved. But there are-- some structural problems in the other parts of the bond markets. Let's start off with junk bonds that remain technically weak. Now, they initially started selling only as a reaction to rates right across the board rising.

But over the last few weeks, we have seen a substantial rise and breakout in credit spreads, meaning that now junk bonds are starting to ask for and command an additional risk premium over that of Treasury, and certainly things like CoreWeave

have certainly added to this. And so we're seeing at this moment that junk bonds remain structurally weak.

Will we see them signal that the high-yield markets are under more meaningful stress? At the same time, the other part of the bond market I wanna watch is what's happening in private equity credit. Now, that was such a big thing in the first quarter. Going into the second quarter, everyone was worried about unraveling, and it has been something that most people have stopped talking about.

But what's happened in the last two weeks when looking at an ETF like the BIZD, we have now just seen a break to fresh new lows. So we continue to see actually a deterioration in this part of the credit markets. And so while the initial shock was in the high-quality US Treasury bonds, we're now actually seeing the stresses pass on to the more risky part of the bond market, where there are a lot more consequences for an accident.

Nonetheless, while Treasuries have bounced and people are rolling into some of the quality, you are definitely seeing stress points in the other parts of the bond market, which is something that we can't take our eyes off of here.

Massil: And the dollar has backed off its highs just like bond yields have. Is there any currency that has caught your attention during this move?

Patrick: So let's talk about this US dollar 'cause it's super interesting. First of all, not all currency pairs have been aligned. There are three currency pairs that were the disruptor and the catalyst behind the US dollar strength, and that is the Euro, the pound, and the Canadian dollar. All of them that when you look at the commitment of trader reports, were trading at the zero percentile of their look back scores.

Traders basically were positioned aggressively short those currencies against long US dollar positioning. Now, we saw a short-term US dollar swing high here in October, which has allowed and alleviated both the pound and the Canadian dollar to have retracements of that selling of the last month. W- in many cases, we're at the 50% retracements of those sell-offs.

What's particularly noteworthy is that the bounce on the Euro has been very weak, and the Euro remains the largest component inside the dollar index basket. And so if the Euro has meaningfully broken down and can't even rally when the other

currency pairs are bouncing, then the question is there more downside to come on that Euro?

And if it is, the window remains open for the US dollar to continue higher. Maybe we're gonna see one oh three on the upside as we go. Now, the one, one other currency we're talking about is that US dollar Yen, and particularly we just saw today a one day of Yen strength that has meaningfully broken out of what has been just a meat grinder trade range in the Yen for the last three weeks.

And I certainly am gonna be watching whether this Yen breakout has substance on it.

Massil: Okay, let's turn to crude because it's moving higher again as geopolitics come back into focus. What are you watching beyond today's price move?

Patrick: All right. At the time we're recording this we have crude oil trading near \$100, up \$2 on the day, and we have Brent oil clearing the \$110 area, in fact approaching \$112 making fresh highs from last month.

And so the oil markets remain in bull trend. But what has to be the more interesting part is what's happening out on the term structure of oil. There is clear flattening of the backwardation. While the front-month contract of WTI oil has been in consolidation for the last month, when you go anywhere out on the curve, let's say out to April of 2027, the oil chart has been just ripping higher without a correction at any point.

What we're continuing to see is that oil is actually still in very clear bull trend outside of these front-month contracts here in the US. And so it'll be very interesting to see whether that is met with a new fresh breakout in WTI. Clearly, there was talks of potentially a de-escalation that was very quickly squashed, and oil markets barely budged during that whole period.

So overall, inventories remain depleted. the oil markets remain very tight. And the question is, from a geopolitical perspective, will they be able to keep oil stable in, through the midterms? And more importantly, is there a re-escalation of the situation in the post-midterm period?

So this continues to be a very interesting market at this stage. But what I find the most fascinating thing here, Massil, is that when we go to the commitment of

trader reports, we remain at the 23rd percentile in a three-year look back. Basically, this is a completely unloved rally in oil. We have not seen any meaningful build in gross long positioning and the gross short positioning remains stubborn, holding at multi-year lows.

And question is the-- Are they gonna become a player on the field if oil breaks out to some higher level? Overall, oil remains the macro catalyst, because if any meaningful breakout was to happen on oil, it's going to have a huge impact on inflation expectations, may once again rattle the bond markets, and may drive further risk off impulses.

So let's see how this plays out.

Massil: All right, let's turn to precious metals, Patrick. Gold has actually stabilized over the last month, but looking at the charts this morning, we're actually seeing gold prices breaking down again. What are the key levels you're watching here?

Patrick: Here we are on gold trading around the summer lows, a stone throw away from the 4,000 level.

At the same time, silver also trading right at its f- 2,026 lows. In fact, attempting to even further break down. We continue to see that this is not the macro backdrop from which gold and silver are bullish. And in a period where liquidity is tight when there's dollar and interest rate headwinds, gold and silver remain in a distribution cycle.

There will be a point when we're gonna see a macro pivot that will restart the gold and silver bull market. There's obviously a very strong bull case to be made, big picture, in terms of where gold can go. But it's very likely going to be in a different macro regime. For now, the selling pressure continues, and we remain trading along these lows, highly vulnerable for a further breakdown.

If we did break the 4,000 level on gold, it would-- The next kinda support levels would be in the 3,600 to 3,800. That would almost certainly be a very interesting tactical buy on dip zone for gold. But the question is: Does it first have a trip down to those levels before the more meaningful and durable bull market begins?

Massil: Hold on, I want to take a moment to talk uranium stocks, Patrick, because since making their highs at the beginning of this year, they have not been able to find a base. What do you make of all this?

Patrick: Listen, there's a clear divergence between the U308 prices of uranium and what's happening to the uranium equity basket.

What we're seeing is that physical uranium remains very stable and there's no real distribution that's coming in there. Maybe some of the Sprott Physical is selling a little bit of a deeper discount to its net asset value, but that is not a big disruptor in that trend. But uranium stocks have been basketed with many AI trades, and so as the broader AI baskets are selling, we are seeing that pressure likely leading to some distribution in these uranium stocks as well.

Now, overall, there's obviously a great long-term nuclear story, but on the short term, the liquidity is driving these break to 52-week lows on many of these stocks. The bigger question is where do they stabilize and where will be the next key buying opportunity? As of this moment that is not very clear.

For now, I'm expecting some further distribution to remain there until we see a more durable bottom on many of these AI stocks that remain in a sell cycle.

Massil: Before we turn to our positioning, Paul, what are the biggest things that investors should be watching from here?

Patrick: So Massil, we're going into the pig in the python moment for economic news and releases.

So let's start off first, we have the Fed decision coming on October 28th. Now, the market is not expecting the Fed to raise in this meeting, but what Warsh says is gonna be very important. The market remains positioned for a very hawkish Fed, and will the Fed be softening those expectations or not during that meeting?

Right around that meeting come the a couple of very important Mag Seven earnings. We have Microsoft Google and Amazon all coming out with their earnings within a couple of days. And then of course, on the first few days of November will come Apple's earnings and the midterm elections. So there's this huge glut of market moving news that's going to be coming out, and it is 100% the thing to watch.

Now, from a technical level on the S&P 500, it's important to watch this 7,600 level or roughly about 1% below where we're currently trading, where many estimate are the CTA sell triggers for systematic selling, which could substantially pivot market flows. And so the it... this could be triggered by potential oil price continuation or any number of these other factors such as an earnings surprise.

You gotta also be obviously watching these junk bonds and whether credit spreads continue to widen, whether this breakdown in the private equity credit is real, and of course, obviously how the geopolitics continue to play out. It's certainly a very interesting moment of the year.

Massil: And for this week's positioning pulse, I wanna talk about copper.

What stood out to you on the positioning front?

Patrick: So this copper story continues to be super interesting. Now, first of all, it's been a structural bull story. Electrification, grids, data centers long-term supply constraints, everything was there for the bull market. And the positioning of investors and the commitment of traders reflected that.

Basically, for the last six months, we've been bouncing around the hundredth percentile of positioning, including just a month ago, we were at a 10-year high in terms of net positioning. Basically, all investors were essentially all in on this copper trade. Since then, that positioning has been quietly fading.

But the interesting part is that the technicals have not been rewarding investors for this bold positioning. Overall we've seen over the last three, four months a substantial ceiling in copper prices, and they have failed to meaningfully break out bullishly on the upside. And now we find ourselves in a situation where copper is breaking down.

We're now at a one-month low and approaching a key support line that's been the low since July. If copper was to, in any way, give out that support line, it decisively would pivot this bull trend, and the question then becomes this incredibly bullish position in copper, does it shake traders out and create a liquidity crowding that basically forces some potential serious volatility on the downside?

One way or another, this is essentially one of the most interesting kind of setups that happen when you're tracking commitment of trader reports because it's never

about whether or not there's crowding or a position has been completely washed out, but it's about the inflection points where a trade is very crowded, stops rewarding traders, and then potentially reverses when everyone is on the wrong side of the trade.

And now I'm not guaranteeing that copper is about to wash out. The positioning is certainly stacked in one side and the price is deteriorating. So the question here is that will copper break this six forty level on the downside and create a big washout on the downside? That is a hundred percent the thing to watch.

Now, any listeners that wanna see these charts for themselves, go check it out at cotsignal.com. It's completely free. You can see this positioning report on the copper and see how this is gonna continue to develop, especially since the updated report's gonna come out tomorrow.

Massil: And that's it for this week's Trading Desk.

I'm Massil

Patrick: Beguenane. And I'm Patrick Ceresna. We'll see you all 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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