MACRO Voices
with hedge fund manager Erik Townsend

Grant Williams: The Rise of Populism, Trump Rally, Gold & More
March 2, 2017

Please note: this was transcribed to best of the ability of the transcriber and may have minor errors. Please refer to the podcast itself to clarify anything.

Erik: Joining me next on the program is Grant Williams, Real Vision co-founder and of course author of the extremely popular, Things That Make You Go Hmmm newsletter.

Grant, your views on the global rise in populism have been among the most prescient of any guest who's appeared on this program. You predicted the Brexit outcome and you've described the rise of Donald Trump, Bernie Sanders and various European politicians including Marine Le Pen, as all being part of a connected global trend.

Since our last interview many of your predictions have come true. So, bring us up to date on your outlook, what is driving the global rise in populism, what does it mean and what's coming next for Europe, the United States and the rest of the world?

Grant: Hi Eric, it's great to be back on and good to speak to you again. The populism thing is so interesting and I think it's so important right now and I think, me predicting Brexit and Trump does not make me a great market seer, I think the beauty I had during those election campaigns was that I was in neither place so I could sit back from a distance and look at it objectively which I think both of those – the Brexit situation and the U.S. elections – was so just electrified with high feelings on both sides and it was really difficult if you were in the middle of that to be able to be objective about it.

I think with the Brexit, the Brits have always had a kind of tenuous relationship with Europe. We were never really in the EU, you could just sense that when push came to shove a lot more people were going to vote leave than perhaps admitted it and I think once we saw what happened in the U.K. from traveling around the U.S. a lot, which I've done in the last couple of years, it became really obvious to me that the phenomenon that we saw in Brexit was very much that if you're a vote leave guy you don't talk about it at dinner parties it's just not socially the done thing in England and so the polls kind of missed out that a lot of people were saying they were undecided or they were saying they were going to vote stay, when really they were going to vote leave, they just didn't want the social stigma.

In the U.S., what was interesting to me as I traveled around talking to people, it was obvious that they were going to take that a step further because to say that you were a supporter of Donald Trump, you immediately labeled with every kind of "ist" that you don't want to be. You were a racist, a misogynist, you were a sexist, all these things.

So, not only did people not just say they were voting for Trump or they were undecided, the very thought that you might be undecided or even be thinking about voting for Trump in a certain kind of company was enough to kind of tie to all those things.

So, I think people actively said they were going to vote for Clinton because that was the more socially acceptable thing to say whether you believe that or not and so when people went to the poll booths, pulled the curtains behind their backs it was much easier for them to vote their conscience.

There are two maps on the Internet, if you Google Trumplandia and the Clinton archipelago, you'll see the two most striking maps that I've seen regarding the U.S. election. Yes, we know Clinton won the popular vote but if you look at these maps it shows county by county the entire country and it shows the strength of the vote for each candidate.

If you look at the map for America, the strength of the vote right across the middle of the country for Donald Trump was extraordinary and then you flip the page to the Clinton archipelago and you see just a rim around the edges of the country which obviously includes places like Los Angeles and San Francisco and New York and all of big cities where there's heavily concentrated populations that's where Clinton got the votes. So, you can see looking at that map that the groundswell of support for Trump was extraordinarily broad and remarkably deep.

So, that's kind of where we are in terms of going forward from here, we're going into election season now in Europe and we've got some big ones coming up. The Dutch go to the polls in a couple weeks' time. The big one is the French Poll in May. And then further off in the distance we have the Germans going to the polls in October.

My concern right now is that optically to those people going to the polls in Europe, the U.K. looks like it's doing pretty well having left the EU. We've seen the economy actually pick up. It was the fastest growing economy in the G seven. I think it may have slipped to second place now but it's done optically very very well and there's been no real fallout from Brexit other than the positive variety so anyone going to the polls in Holland is going to look at the U.K. and say, "well, you know the Brits have done OK outside Europe" and anyone going to the polls in France is going to say, "well, you know what, the Brits don't seem to be doing too bad."

Now the Brexit effect might work its way through the snake and come out in the in the British economy later this year but by then it will be too late. So, I think Le Pen is going to struggle to win to be honest with you but French politics is such a snake pit and we've seen already what's been happening to Fillon and his wife being taken to custody yesterday so really anything could happen and Le Pen winning would surprise a lot of people, I don't think globally it would be as big a surprise as the election of Donald Trump was but I think in Europe if Le Pen was to win, and we're seeing this reflected in spreads of the German bonds, If Le Pen was to win it would really rip the core away from Europe and it would be a real problem for the eurocrats to try and keep that thing together.

As I say we're going into the season now of this populism trend it really isn't over and it's not going to die down now that Trump has been elected particularly as he's gone straight into power and has done things that he's base are loving. They're easy things for him to do, he's doing what he promised and so if you are a populist, you've got a pretty good talent at the moment and that is destabilizing for the world, it increases volatility in the world and those generally speaking up are two things that markets don't like although you wouldn't know that right now as this Trump rally goes on.

I think we're going to see more of this populism. I don't think we're going to see the sort of the left, the status quo coming out in their millions to vote and keep the status quo. I think the agitators are going to be emboldened by what they've seen overseas and I expect this to continue in Europe and I think the Dutch election in the next few weeks is going to be the start of that and I suspect Wilders will win and run on a very anti-E.U. anti-Europe platform. So, Europe has another summer of love coming and I think markets need be ready for it.

Erik: What do you think the core driver is for all of this because a lot of people have said well this rise in populism is just because everybody around the world is frustrated with the global elites and the government and so forth but if you look at it really it's not you know the government against the people it's the people dividing and you saw it in the case of Brexit in the U.K. as you described, you see it again in the United States with the Clinton versus Trump thing.

There is no moderates left everybody either thinks that if you didn't vote for Hillary you should be hung by the neck until dead or it was your God given duty to vote for Trump because he's the savior.

We get such divisiveness with people so polarized with opposite views. How did that get started and what does it mean because I can't help but think – we've talked about war in our past interviews – I can't help but think what causes a war when people have irreconcilable differences, extreme views, is that where this is headed and what do you see coming next?

Grant: Well it's tough to say that's where this is headed but suddenly after a few short years you can now say with a degree of certainty that's where this could head. That was a possibility that a few people were willing to entertain just two or three years ago and now I think we can all see a clear path to how we could accidentally fall into some kind of major conflict.

I think the start of this, you're absolutely right in what you say Erik, I mean this is not the government against the people, this is the people divided and that stems from this massive surge in inequality that we've seen which, I'm sorry, I hate to go back to this but I think a lot of this can be laid at the feet of the central banks and the policies they've enacted to try and "save the system."

The system is essentially run by the haves. They are the guys that fund the system, that have the capital. They're the guys whose money is sloshing around the system so to speak and so but by saving the system you are saving the people that have wealth and what they've done is made those people a lot wealthier and you can look at the charts about that. There's that great stat recently about eight guys have the same amount of money as 90% of the world's population. It's insane for these things to happen.

But ironically as the central banks and the governments have tried to keep the lid on this, they've done so by telling everybody how well everything's doing, how everything is getting better and they're making great strides and everything's coming back, the economy's coming back and jobs are coming back and that's not true and at the very best it's kind of putting lipstick on the pig.

So, people are listening to that on the one hand but they're not seeing it in their pay package, they're not seeing it in their cost of living, which is going up, they're not seeing it in the in the cost of health care, they're not seeing it in all the expenditures that they have to make and the non-discretionary stuff is going higher and they feel frustrated because they feel like they're being lied to they're told everything is getting better and they're thinking well if it is getting better, it's not getting better for me.

So, it just amplifies this divide between the haves and the have nots because the haves, they're not struggling I mean the guys that have assets and have capital have done incredibly well since the era of quantitative easing began so they're feeling this.

They probably might sit around at dinner parties and talk about how the cost of a holiday in the south of France going up this year but they're not feeling it. They're kind of seeing it and they're experiencing it but they're not feeling it whereas at the other end of the economic scale these guys are struggling and there haven't been any wage increases and the cost of living, the CPR is not 1%, the things you need it's a lot higher than that and so they feel like not only being lied to but their inherent faith in anybody in a suit and tie behind a microphone is such that when those guys are saying it is getting better, things are on the up, they think well they're telling the truth so just means it's other people that are doing better than me.

So, I completely understand where this is coming from and I really do think that this is an extension of central bank policy of eviscerating the middle class in an attempt to save "the system" and I think when history looks back at this we get the scope of this era of central bank omnipotence history is not going to be very kind to these guys and I think justifiably so.

Erik: On that theme of asset markets doing well in this environment let's go back to Donald Trump in particular because the stock market is telling us that all of president Trumps' aspirations will be realized. The economy will be great, corporate profit will go through the roof thanks to his tax cuts, the protectionist policies that he's threatening to impose won't pose any serious problems and his habit of infuriating entire governments and their people, notably Mexico and China, are apparently no cause for concern.

Personally Grant, I'm a little bit more pessimistic than that. What's your view but more importantly what the heck is going that markets or investors in general are seeing this is unconditionally positive and we've got what has to be the most contentious US president of our lifetime how can that be happing?

Grant: I'm totally in your camp Erik and I think again, I hate to keep up in all of this but if you look for the linkages they're very clear. I recently gave a presentation in South Africa and in that presentations I was talking about volatility and how volatility has repeatedly been crushed ever since Mario Draghi's, Whatever It Takes, speech and I spoke to a brilliant guy called Chris Caldwell about this, he's one of the best vol traders in the world and when I spoke about this, it's clear that the central banks have actively sought to dampen volatility because volatility makes skittish markets and skittish markets are unpredictable.

So, when you get the Trump trade coming on, we all knew, going into this, we all knew what the potential downsides were and I think often when you see markets react emotionally you get a real temperature and if you remember the night of the election the market fell a thousand points on the possibility that Trump might win and I think that instant unfiltered reaction when Trump was getting in with people to sell at some point those things tend to reassert themselves.

I think what's happened since then is the markets have basically looked at Trump's policies they picked out the ones that they believe are positive for the markets, tax cuts being the big one, infrastructure spending, reduction of regulations which are all inarguably – certainly the first, the tax cuts and the regulations – are inarguably positive for markets and once again they've gone back to this idea that, well you know what if something bad does happen, if the markets do get skittish, if we do end up with a big deficit, whatever the potential negative outcomes are, well the central banks are going to step in again, they're not going to let these markets go down.

And I think that's what the markets did in the central bank put, it started off as a Greenspan put, turned into Bernanke put and now it's just a ubiquitous central bank put that all central banks in the world are working together and when you look at the Fed balance sheet that's been reduced very gradually for the last couple years, you know the same time the baton has been picked up by the by the People's Bank of China and the E.C.B. an the Bank of Japan so as a group central bank balance sheets are still going up at a staggering alarming rate.

So, the markets have been conditioned to assume that there is a safety net there so it's OK to walk the tightrope and I think buying these markets at the valuations we're seeing which are at or around all-time highs at just about every metric you want to look at and the echoes from 2000 and 2007 are startling. Buying those markets is walking the tightrope but when you believe that there's a really strong net below you it's worth trying to get to the other side and the other side is these markets keep going up forever and everybody makes a lot of money, everything's great.

But if the laws of mathematics alone start getting factored into this, you will see that Trump cannot have everything he wants a great bond market and a great stock market and the problem is really going to come in the bond market because that's where-- it's pure math right that the deficits, the funding, the interest rates this is pure mathematics.

There is a point at which the U.S. doesn't function because interest rates too high and every penny of their tax receipts are going on paying off the coupons and we're a long way from that but very quickly if interest rates start to "normalize" which the Fed is desperate to try and tell us they're going to do, at normal interest rates, I would say it would be maybe 4% and that' possibly generous historically when you look at it it's probably about 6 but at 4% something like a trillion dollars is going to go to pay the debts off and that has to come from somewhere.

Is it going to come from military expenditure, probably not, not with what Trump's saying, is it going to come from the infrastructure spending, well yeah possibly, is it going to come from Medicare, Medicaid we don't know but it has to come from somewhere or they have to sell a ton more bonds to pay for it.

This is just pure mathematics but people are ignoring that for now because they feel like if things get squirrely, the Fed are going to run to the rescue once again and all the Fed, to my mind, now have is the market's confidence in their abilities and as I keep saying that confidence is such an ephemeral thing it can disappear for seemingly no reason at all and to be trying to suck the air of what's left of these markets with something based on such a flimsy foundation to me is just a very reckless foolhardy thing to do.

Erik: Grant you must have missed the memo on what Donald Trump said he's going to do, he's very concerned about the national debt, he's going to reduce it dramatically while at the same time also reducing taxes and increasing spending on infrastructure dramatically all at once, oh you said mathematics, I'm sorry OK.

Grant: Yeah, you're right I don't think I did get the memo Erik.

Erik: I want to come back to this subject of the national debt and the bond market a little bit later on but while we're on Donald Trump I'd like to share a couple of thoughts with you and ask you for your reactions because I trade crude oil very actively and I therefore have to think a lot about geopolitical risk and it occurs to me that probably one of the strongest messages of Donald Trump's campaign was defeat ISIS, get tough with ISIS.

Since he took office though, there was a very quiet announcement saying that he was asking the Joint Chiefs of Staff to prepare some kind of plan or proposal and that was it. We haven't heard a peep about it and it occurs to me Grant we've all been conditioned to expect this new cable news era mode of warfare that's existed since the Gulf War 25 years ago where what happens is first there's some signaling, some messages, some warnings which I would contend exists not so much to warn the enemy but to prepare the American people that for something big may be coming.

Then you get the big dramatic press announcement, my fellow Americans, we've gone to war and this is what's happening and then it becomes this media thing that goes on, day 14 of the conflict and we've got live coverage on C.N.N.

What do you think Grant, if you think about some of the other things that Trump has said about how we have given away our secrets to enemies and how intelligence has been collected by the bad guys watching C.N.N. on cable, what if what happens is there's not a peep about this until one morning president Trump announces military operations have commenced, we are going to defeat ISIS, there will be no further information given until it's over because we're not going to show our cards to the enemy, there will be a complete press briefing on all aspects of what happened after the conflict has ended and after the enemy has been defeated until then there will be no further comment from the government thank you that is all.

It feels to me that that could be what we're setting up for because we haven't heard a word about ISIS and he has said those things, he has criticized past presidents for doing that. If that were to happen you could have a sudden just huge market upset if there was no advanced signaling and all of a sudden it was we are at war and the president is not willing to tell you why or what's going to happen next. Am I crazy to worry about a scenario like that, do you think it's possible?

Grant: Well in some ways wouldn't that be great? You know what I mean? I mean in some ways wouldn't it be great to just be bombarded with this stuff but I think, as I said markets hate uncertainty and if he tried to do that and I think it's unlikely because if he's not reporting on it, everyone else in the world is reporting on it and the Associated Press are going to be reporting on it, Reuters are going to reporting on it and C.N.N. Donald Trumps' latest punching bag are going to be reporting on it.

Realistically when you're in a position like he is you have to control the information flow and so to leave that in the hands of people who could A, go anywhere with it and B, seemingly are not the best of friends I think would be a very risky move on his part.

I mean could he do it? Hell, we've seen so far he could do anything Erik but I think that may be a step too far because I think in times of war these guys have to control the information and if you abdicate that willingly you leave the information flow to anybody else and that's a very very dangerous thing to do in this day and age so I think it's unlikely.

Erik: I want to move on to some other major trends you recently penned a two-part series in Things That Make You Go Hmmm, titled Peak Optimism and we do have a download link for the first of that two part series as a free sample for our registered users and that's already in your research roundup email.

Please give us the executive summary Grant, what's driving Pick Optimism, what do you mean by Peak Optimism and why is it important for investors to understand it, where are we headed from here?

Grant: Well, again this comes back to what we were talking about with the central banks and this idea that everything's OK and what I was trying to point out to me and this went back to a conversation I had with John Mauldin several years ago at his conference and he asked me where I thought the biggest bubble in the world was and I said at the time it was confidence, it was a bubbling confidence in the central banks and obviously since then that's actually gone up which is remarkable.

So, the point of this piece I wrote was just to show people just how tenuous this is and with markets where they are investors, intelligence bullish ratings off the charts and this crazy rally after the Trump presidency, I was just talking about some of the things that could go wrong and obviously the big one for me was Donald Trump's because he's such an unknown quantity and I talked about the very first day he took office more or less when he got the congratulatory phone call from the Taiwanese.

And if you look through his proposed cabinet you'll see a very antagonistic group of people put in the front line to deal with the Chinese. Navarro he's a very well-known opponent of China. In his column he's written all kinds of books with titles like Death by China and The New Heart of Darkness, about the Yoke of Chinese Imperialism and he's put Lighthizer as his trade negotiator who again deliberately and overtly antagonistic towards the Chinese.

So, that's just one thing that could go wrong. Forget about the bond market, forget about Trumps' ability to be a wildcard there are so many things that could burst this bubble of optimism including currency moves by foreign governments. So, many, this just isn't in the control of any one person and all these countries are coming under their own pressure from their people to try and deliver what's essentially the undeliverable without fracturing relations somewhere else around the world.

So, I think we are at this peak of optimism, of this faith in the ability of the people behind the microphones to tell us everything's alright and to and to make it so, not from a societal perspective because I think that's – as I said earlier – that's the genesis of this populist movement but from a market perspective.

I think the markets are still believing that, saying, "OK, fine they've got this, they've proven of the last eight years that they're not going to let the markets go down, we're optimistic about their ability to keep doing that and we're going to keep buying these markets" and as a said that's a really dangerous dangerous reason to buy stuff just because you have faith in a group of human beings to control a natural organism like a marketplace, it's a very dangerous thing to do.

Because ultimately the only way they can really do it when it starts to assert itself are by some really draconian measures, we're talking capital cost controls we've seen those before, we've seen things like facts are getting accurate so that the U.S. can understand where the money is and as a good friend of mine said to me recently that's the first step you work out where the money is and then you ring fence it and then when you need it you can go take it and make no bones about it at some point in time they are going to need it. There are over a hundred trillion dollars in unfunded liabilities coming due before 25, I think for Medicare, Medicaid, social security etc.

They're going to have to get that money from somewhere and they will end up printing it because they've proven that to us. So, I do worry that markets are very complacent we see that in the volatility numbers. They're very confident of the abilities of the Fed we've seen that in the constant buying of the dips and so far, it's worked which is great.

If you've been long the equity markets the last couple of years, you had a pretty good time of that. we had a wobble in January–February last year when they quickly stepped in with the Shanghai code, stopped that the little wobble, since then we really haven't had any of downdraft to speak of and so of course there's complacency.

So, that was essentially what I was trying to get to, just to let people understand just how over our skis we are here and the fact that it's based on something that ultimately has very little chance of working forever and I always say has zero chance of working forever and to be in a market where you like everybody else figure you're going to get out before the next guy it's not a place I want to be. I've seen how that movie ends. We saw that in 1987, we saw it in 2000, we saw it in 2007 and 8 and it will happen again it always happens again.

Erik: You mentioned the role of China in all this a minute ago. I'd like to come back to that because in your most recent Things That Make You Go Hmmm newsletter, you wrote quite a bit about China from what you describe as a dangerous myth that they need 2.7 trillion in reserves to the precipitous drop in treasury holdings that's occurred just in the last few months.

Meanwhile we've heard quite a few views on China from our other guests that are just dramatically different ranging from the end is nigh and we should brace for a global deflationary shock when Chinese debt defaults forced the P.B.F.C. to dramatically devalued the Yuan overnight and the other end of the spectrum we've had very smart people tell us that there's absolutely nothing wrong everything's fine and there's nothing to worry about.

So, let's tie this all together, clearly China now plays a very very important role in the global economy. Is it broken or not broken, what are the factors that investors need to understand most about China and where does the Chinese debt overhang in particular fit into this whole story and where are we headed from here?

Grant: Listen, I mean this is the beauty and the frustration of China the opacity around it is just enough that none of us really know, we just don't know. We're looking at the numbers, we're looking at the massive increase in debt that we've seen in China which by any other metric you look at you say well that can't last, that just doesn't work, that's unsustainable.

We have enough disbelief in the numbers that come out the Chinese ministries about the performance of the economy, this idea that the G.D.P. of 1.4 billion people can be calculated within a few days at the end of the quarter and never revised is laughable frankly but there is a great deal of don't ask don't tell about this and if the Chinese say it’s 6.5% even if we think it's 4 for example as long as we don't have to invest accordingly we can stay invested and ride this thing because being told it was 4 would mean a lot of hard decisions to be made for a lot of people so it kind of works for both sides.

The truth is always somewhere in the middle the guys who say it's going to fall over tomorrow are most likely wrong and the guys who say everything's fine are also most likely wrong so everyone needs to kind of take a look at this for themselves and figure out which camp they come into but I'd caution against getting too resolute in your convictions because we just don't know and you'll talk to guys, like I did, that spend a lot of time in China and they will tell you that the economy seems to be humming along that people are picking up stuff, there is real demand, these numbers are genuine and I refer to them because they spend a lot more time on the ground than I do but I do understand and I've heard all kinds of stories about what people are shown when they go to China, buzzing factories and stockpiles of commodities and they're just being shown something that they wanted to see and so the Chinese conveniently showed it to them whether it's real or not is beyond their understanding at the time.

So, we don't know. The currency and the outflow of reserves and the selling of treasuries I think is important to notice because they are real and we can see what they're doing with the currency, they are trying to weaken that gradually but really whenever I think about China you come back to this idea that the real problem for the Chinese is always inflation because social unrest is the Achilles heel of the Chinese.

You know you have nine guys in charge of that 1.4 billion people and those 1.4 billion people know where those nine guys live and they have a habit when they don't get fed or it's too expensive to put food on the table of getting kind of angry about it. So, I think you have to understand that that's really their goal, its social stability and they will pull the levers accordingly to achieve that.

So, I look at the treasury sales which are really quite striking that's clearly something they've been planning to do and are actively and consciously divesting themselves of treasuries and I think a lot of that has to do with the gold market, it has to do with the currency market, it has to do with the oil markets potentially we’ll talk about that in a minute but I think you watch that, you watch the currency and you watch these reserves.

The reserves thing is interesting because people talk about this three trillion dollars in reserves, it's gradually slipping away but they forget on the other side of the ledger to talk about the fact that China now does 25% of its trade in renminbi’s so they don't need as many dollars as they used to need. So, a lot of this divestiture is related to this increase in Yuan dominated trade so it's not quite as cut and dried as people think it is this three trillion-dollar line in the sand that everyone was talking about is really not what it seems but you have to watch this very carefully knowing that you are never going to get the answer.

I did a presentation about three or four years ago and my closing question to the audience was, having laid out a lot of reasons why I thought that China wasn't doing as well as perhaps the officials have you believe, is that if there was a recession in China would we ever really know about it because if they're telling you that there's no recession, they're telling you that the numbers are X. and Y. we can look at the electricity consumption for example all we like as people used to do and I look at the (electricity consumption) index it doesn't really tell you anything.

So, I think everyone has to pick a side in China or stay out of the fight and once you've picked your side you have to recheck and recheck and recheck your case almost on a daily basis to make sure you're on the wrong side of the boat because I don't think the answer is the middle ground, I don't think it's going to muddle through like we've seen in some of the Western economies. I think it's either going to be OK or it's going to be a disaster in waiting.

I suspect just thinking about what's happened in the West and the difficulties that we've had at Western democracies to – as I keep calling it – stick the landing the fact that we're expecting the Chinese, first-generation capitalists, to pull off something that the U.S. and the U.K. and every European economy singularly failed to do, avoiding that recession and avoiding debt deleverage and avoiding non-performing loans and bankruptcies. I think it's a big ask.

So, I thought if you put a gun to my head and said, pick a side I would pick the crash and burn side but I'm checking that very very carefully every chance I get.

Erik: You mentioned that the key markets to follow and understand here were gold dollar index and the bond market so let's touch on those themes starting with gold. You recently spoke at the Mines and Money conference in London. Please give us the two to three-minute executive summary, what was that presentation about?

Grant: I started off talking about Trump because it was early December and you kind of had to talk about Trump and I was just trying to compare the economy that he's inheriting with that which Reagan inherited as at that time he was being compared to Reagan and they couldn't have been any different.

Reagan inherited crazily high double digit bond yields, double digit inflation an S&P at seven times earnings so he had all of the tailings behind me, things were going to go one way and they were positive and yet the market still lost 22% of its value in the next eighteen months.

Fast forward to today and Trump has 24 times earnings on the S&P and obviously zero rates and ten year was trading I think at the time around 2%, he doesn't have anywhere to go and so that was how I started off and then we went into something a lot more interesting which is what's happening in the gold markets with the Chinese particularly and the Russians steadily accumulating gold.

Now both countries as large producers of gold haven't let an ounce of gold leave their own shores since 2009 and I think it was in the Russians case I'm sure I'll get corrected and the Chinese for even longer than that.

They stockpiled every ounce of gold that they produced and the numbers show that the Chinese are shipping all kinds of gold in through Hong Kong, through the U.K. and Switzerland and once that gold is going in there it's not coming back and the Russians very currently announced their gold purchases every month and they are relentless buyers of gold.

Now the Russians ownership of gold helped to enormous extent when the ruble was under pressure and the Chinese, I believe, and this is actually a funny story I found a piece of research in the back seat of an airplane about a year ago, now which had no title on it nothing and I read this piece and it connected so many docs that I've been thinking about with the oil markets in China and gold.

I carried this piece of research around me for a year asking everybody I would come across, do you know who writes this, do you know who this is because there was just no identifiers mark on it at all and eventually I found out that this piece of research was written by a guy called Luke Gromen who writes for "The Forest for the Trees" and your listeners should absolutely check Luke out he's on Twitter @LukeGromen.

I tracked Luke down, I called him up and we went out for dinner and I sat and talked to him and he's done some tremendous work on this and not to get too deep into it but basically the Chinese are essentially negotiating a lot of contracts directly to trade oil for renminbi with the Russians, with Iran and through doing that and through the Shanghai gold exchange where you can now take delivery of physical gold, once they put in place the physical oil contract which they've been supposedly getting instituted since 2015 they have said that the Yuan will be fully convertible. Right now, it's a control currency obviously but once that oil contract is in place then the Yuan will be fully convertible under that contract.

So, if you sell oil to the Chinese for Yuan through that futures contract you will be able to get that Yuan offshore so you'll be able to essentially swap oil for gold by buying go through the Shanghai Exchange and once you put the three legs of that all in place you essentially circumvent the petro-dollar system which has been the source of the U.S. dollar hedge money for the last 40 years.

So, it's really really interesting what's happening right now and if you look carefully you'll see all the piece of the jigsaw and I wrote about this, I took Luke's work, did a lot of reading, put so more stuff together and people can see that presentation it called Get It Got It Good and if you search for it on YouTube you'll find it and it lays out that quite clearly.

There is something happening in these markets that if you join those dots, spells real trouble for the U.S. dollar, spells real trouble for the U.S. and is a significant power play on the part of the Chinese particularly but also the Russians. It's fascinating stuff and I would recommend if you want to find out more about it, watch that presentation and look for Luke Gromen's work or engage him on twitter.

Erik: Our registered users can find the link to that YouTube video of your presentation at the Mines of Money conference in the research roundup email that they received in conjunction with today's podcast.

Before we leave subject of gold I want to touch briefly on one more aspect of this which is you wrote recently about the gold copper ratio. So, let's start with why this ratio is important what it means what it tells us and then particularly talk about the pairs trade that was just signaled when the ratio touched its long-term trend line.

Grant: Yeah that's interesting, the bullish dollar, bearish commodities, bullish copper if you think there's going to be a lot of infrastructure spending and gold really, gold to me is money. I don't think of it as a commodity because I don’t think it trades like a commodity and so when you look at what's happened on the back of Trump's election with this promised infrastructure spending you’ve seen the price of copper go through the roof while gold has really done nothing.

And if you look at the chart of the copper gold ratio it got way out of line in terms of copper being way stronger than gold and it's touched the trend line that to me signals a great buying opportunity to actually sell copper and buy gold and for me that's a play on two things 1, is this infrastructure spend that Trump promises takes a lot longer to get through than as expected which to me is a given. I just think he's going to struggle to get that kind of stuff through, the thing is it’s going to be watered down and again if you go back to the Japanese who've done, I think, 24 of these extra budgets, surplus budgets, and each time what's been delivered has been less than what was promised I think Trumps’ is going to be to same thing.

You're going to see weakness in the sort of base communities, the construction communities and I just think that the one “flation” that no one's talking about as we arm wrestle over is it going to be deflation or is it going to be inflation is the nightmare that it is stagflation and I can see a very clear path to a stagflation environment and if I'm right about that then the short copper and long gold is a great way to play that.

Now a dear friend of mine Simon Hunt who writes extensive on China, spends a lot of time in China every year and is really clued into this stuff he wrote me a nice email after he read that piece, saying no I think you’re wrong about this whole thing. The Chinese demand for copper is real it’s going to ramp up and they're doing all kinds of things with it so that a warning to people.

But to me I look at that ratio and I think being short copper at this price and long gold is a sensible bet on Trump not getting everything he wants. It’s a sensible bet on a possible stagflation and it's a great bet on a return to the mean for both commodities so I like that very much.

Erik: Speaking of the dollar index, let's go back to that. A lot of people are saying now that the dollar rally is over because president Trump wants it to be over other people, myself included, have pointed out that while he may say that a lot of his policies such as asking multinational corporations to repatriate assets to the United States are actually dollar bullish despite the opposing rhetoric.

So, Mr. Trump definitely needs a weaker dollar to achieve his goals is that what drives-- it sounds like you have a bearish view on the dollar index whereas I think your partner Raoul Pal still has a bullish view, is it driven by Donald Trump or by something else and do you think that Trump can find a way to overcome this ascent of the U.S. dollar?

Grant: Well yes, I think absolutely they can overcome this. My bearishness on the dollar right now is well A, I don't think it's going to go to the places that the bulls think it's going to go. I will caveat that in a second. But I think that to me that the pain that a stronger dollar would cause right around the world is such that the central banks will have to get together, we will see another Plaza Accord type deal be forced on people. There’s just too much dollars and debt in the world that needs rolling over they have proven their willingness to print dollars.

I think Trump does need a weaker dollar and if you look at the reaction to the markets when he just came out of an interview and said the dollar's too strong, the Chinese are killing us, I mean the dollar had the biggest fall It's had about five years the next day and that's all he said.

So, the dollar is very responsive to jawboning it always has been in both directions but I think the one thing that does give me pause for thought is just this structural short position of physical dollars I.E. the amount of dollars that have been borrowed, need to be paid back, every dollar that has been borrowed is a short dollar position. That's the one thing that I believe could possibly get out of control if we do see people scrambling to get hold of physical dollars.

But I suspect if that happens there will be a very concerted effort to just supply dollar liquidity and it's not something that they will struggle to do because they've proven in the past they are very happy to do that.

That's my caveat but I think if you take out a short squeeze which sounds like a crazy thing to talk about in the case of the world's reserve currency but if you take out the idea of a short squeeze to me with the Chinese divesting themselves with the treasuries with the U.S. absolutely needing a weaker dollar, with Asia needing a weaker dollar, I just think the power is lined up against letting the dollar get it too much stronger from here.

So, I suspect they will actively stop it going to these crazy levels that the real dollar levels could go 15, 20, 25% from here, I just don't think that can be allowed to happen.

Erik: You have written a tremendous amount about the massive massive and crazy overhang of sovereign debt around the globe not just the United States but really all developed nations have just a ridiculous amount of sovereign debt.

So, where does that leave you at this juncture on this debate about, is the 35-year bond bull market really over as Jeff Dunlop thinks or does it have further to go how do you see fixed income and treasuries in particular going from here?

Grant: I bore myself talking about this stuff now to be honest with you because you are right I've written some much about it and it hasn't seemed to matter but as a keep saying none of this stuff matters to anyone until it mattered to everyone and I think in the case of the bond bull market, I would say it's all over but it's not over yet.

I don't think we're going to see this continued grind lower and into negative territory but my feeling is, we are going to see one more dash into sovereign debt. I think we're going to get a recession I know the data is reasonably firm at the moment but I think that's going to be transitory.

I think we will get a recession in the U.S. and when that happens people are going to want to run treasuries and if we get a stock market correction which we could at any point in time people are going to want to run treasuries and I think what we've seen in the past has been, to your point, a rush into sovereign debt I.E. I don't care which country I get but all these central banks they're all in the same page, sovereign debt is the place to be.

I think the next time with Europe fraying at the edges with the Bank of Japan I think having gone a step too far in first of all instituting negative rates but more importantly pegging the cut off at ten years that to me was a very foolish thing for them to do.

So, I think when this next panic into sovereign debt comes it's going to be focused on U.S. treasuries because they will be deemed the safest of safe havens and I think whether we see new lows or not I don't know but I think it's distinctly possible in yields but I think you will see a lot of money trying to get long treasuries in a hurry one more time and I think that will be the end of the 35 year bull market.

Erik: Before we close I'd like to get an update on what you guys are up to over at Real Vision Television. When we had your partner, Raoul Pal an in the show a few weeks back he told us that real vision would be launching a free podcast of its own this spring. Can you give us an update on that project, when does the first show go live on I Tunes and how can our listeners find out more about it?

Grant: Yeah absolutely, this revolution we started through the airwaves is something that when we're trying to extend with own podcast which we're going to call Adventures in Finance and the idea is we want to try and do in a podcast what we have been trying to do and continue try and do in financial television which is basically get past all the hype and the kind of junk stories and just disrupt the way that information and analysis around the world of finance is shared but we want to do it for a broader audience.

I mean this isn't just for kind of heavyweight investors and the kind of guys that listen to Real Vision this is for people that are just trying to get a foothold in finance and trying to understand it, we're trying to make this as relevant and as accessible as we can for everybody.

We've built Real Vision on this foundation of truth in finance and we want to try and take that to a wide audience the podcast world is a great way to do that and we want to share some of the ideas of these great investors that we have on and get it out to as many people as we can.

So, the podcast is going to air every Thursday at nine o'clock Eastern time. I'm going to host it with your good friend of mine Aaron Chan and it'll be out in I Tunes if people search for Adventures in Finance and it will launch next week on I Tunes.

We're really excited about it and hopefully I think you and I speak to a lot of the same people and I think our audience are similar they're very engaged, very smart financial people and I think they'll enjoy what we're going to put out here.

Erik: Fantastic, well I look forward to listening to it. We are up against our time limit so I just want to mention very quickly everybody these days knows you as the Real Vision guy because you've become a celebrity there but I want to mention also your very very popular newsletter Things That Make You Go Hmmm.

Unfortunately, we don't have time today to get into a discussion about it but we were able to secure permission to send – it's a paid newsletter – but Patrick was able to get your permission to send a couple of recent sample issues out.

So, we've got links to those in the research roundup email that registered users at macrovoices.com already received. If you haven't registered yet just go to macrovoices.com register, log in, once you're logged in, click on the black research library tab on the black menu bar and you'll be able to find that download.

So, Grant I cannot thank you enough for another fantastic interview Patrick Ceresna and I will be back as Macro Voices continues right here at macrovoices.com.