Raoul Pal, Julian Brigden: When will the dollar route end?

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Erik: Joining me now are not just one but two of our most popular guests ever to appear on MacroVoices. Raoul Pal is the founder in principle of Global Macro Investor and a co-founder of Real Vision Television. Julian Brigden is the founder of MI2 Partners.

Now, gentlemen, the two of you are both members of a very elite club. You both run institutional advisory services and you've reached a pinnacle in your career to the point where you're able to command a $40,000 annual subscription fee for your advice. Great work if you can get it, so congratulations.

But if there's anything that I've learned in this game it is that contrasting views from more than one expert are worth more than the sum of the parts, because guys at your level are so persuasive that sometimes it's hard to see the other view. So I just want to let our listeners know that I have asked both of you to try to emphasize any areas where you might disagree or see things differently and try to give us those contrasting views.

Now, to get started, something the three of us share in common is that we have all articulated secular bullish views about the US dollar, both here on Macro Voices as well as on Real Vision Television. But, while the three of us seem to agree (we can pat our heads for that) it seems like Mr. Market is telling us a very different story. At least in the recent short term.

The dollar index is now tenfold big points below its cycle highest from just a few weeks ago. So let's start there. What's going on? Did we get it wrong on the secular call? Is this just a bigger than expected temporary pullback? And what can we expect from here with the dollar, as we're now trading on a 92 handle? Raoul, why don't we start with your view.

Raoul: My view, like yours, is bullish dollars. Now, the problem is we've only had two dollar bull markets in history, one in the early 80s and one in the late 90s. So we have a very small data sample to look at the behavior of dollar bull markets. But what I did notice is no dollar bull market has had a weekly close down more than 10%. Once it goes more than 10% it's generally a reversal. So that's a kind of—not so much a line in the sand but a guideline for me.

Now, we're very much there now. We're at 9.5% negative on a weekly basis. So it's starting to make me concerned. There's plenty of support levels around here as well. I use DeMark Indicators and they are counting towards a reversal. We know that the market positioning is very high. So for me it's really crucial that the dollar does hold.

I think the underlying basis for why the dollar bull market should still be in play is still there. But what we need is some sort of change of sentiment within the market, whether it's either a renewed belief in much faster rate rises in the US or it's weaker economic growth. The dollar has a kind of smile where it rallies in either/or but falls when we're in the Goldilocks phase, which we've been having recently. So I'm looking at that.

I'm obviously nervous on my view because it has been going against me. And I've been in the trade for a long, long time now so, in Euro terms it's about 148 and a half. So I'm now really finessing the idea does it move further than here?

If we look at the previous dollar bull markets they tend to go much further, so it would tend to suggest there's maybe another 15 or 20% upside in the dollar over time. I also look at—and something we'll probably talk about later—the comparison between this dollar bull market and the dollar bull market leading into the 90s is remarkably similar. The pattern almost fits exactly. And that was the period going into 1999 where we had a correction in the dollar.

At that time it went about 8.5% and then it turned around and started rallying as economic growth started falling and rates started easing off a bit. The Europeans at the time were raising rates still. And that whole scenario, we saw actually the dollar go much, much higher. And so that's what I'm looking for. If I'm wrong, the world's a different place, and there's a number of trade opportunities from that. But I still remain a dollar bull but a nervous one.

Julian: So I think one of the things—and I would concur pretty much with everything that Raoul said—I think one of the observations that I would make is that we've got to be a little bit careful of what we call a dollar. Because I think there's a great temptation to look at some of the dollar indexes, in particular the Euro, and say, well, that's indicative of what the dollar is doing. And I don't really believe that is the case.

I think we have been as a shop very bullish, and I think it was on your show, Erik, talking about how we saw the growth pickup coming in Europe. We were singularly bullish, the dollar backing end of April beginning of May, for our clients—sorry, singularly bullish, Euro end of April beginning of May, for our clients. And that was on the break of—we started to see break above 108 in the Euro. In actual fact, we just advocated 24 hours ago to start taking profits in those long Euro positions.

But the point is that things like the DXY are essentially Euros. I mean, they've got some Swiss Francs in there, some Swedish Krona, and those are both pegged effectively to the Euro. So you really, I think you have to be a bit careful.

I think what we've seen a lot this year is a repricing of the growth-inflation story in Europe. And I think that's one of the reasons why the dollar has been underperforming. So I'm not quite as concerned about this 10% line in the sand. I think Raoul makes some good observations on that, but I would say that I think to get the next kicker we need to see some developments in story here in the US.

We're either going to have to see a—and this is my fear—we're going to see a risk-off dollar rally. So you could have a situation where you can get a correction in bond markets and a correction in equities, and you can actually get the dollar rising because it's a safe haven vehicle. Or we move into the latter half of the year, we get the Fed to start to shrink the balance sheet—I talked to your listeners about this before—I think that's potentially a very bullish event. And particularly as well in early 2018 if we get the Trump tax cut.

And my sources in D.C. tell me that still the odds—even though Trump doesn't seem to be able to put his trousers on straight any day of the week—that the odds are somewhere around 65-70% that we get a tax deal. And it will definitively include repatriation. So I think, to me, I'm still in that structural bull environment for the dollar. But it—we may have quite a few months to wait still. And in that interim, I think what we're doing is just repricing the Euro.

Erik: Now, I'd like to follow up on the topic of the dollar by asking both of you for your reaction to an opposing view. Another member of that $40,000/year institutional advisors' club is our mutual friend Juliette Declercq. Back on February 22nd, Juliette sent her clients a short trade recommendation against the dollar. She got that call right and it's since taken profits. But much more recently, on July 26th, she sent her clients another letter recommending that they look for a bounce as an opportunity to reenter the short trade.

Now, while those letters are obviously intended only for her paying institutional clients, Juliette was gracious enough to allow us to share both of them with our Macro Voices listeners now that they're both at least ten days old. So you can find links to that, listeners, in your Research Roundup email.

So I want you guys just to imagine that I'm one of your institutional clients saying, hey, I really respect both of your work, but we all respect Juliette too. And, to summarize, listeners, you can find Juliette's view in detail in that download link. But to summarize it for anyone who doesn't have the link, Juliette's saying, look, what is the one thing that is allowing the risk on condition to continue so long when so many people are calling for risk-off? It's the weak dollar. What happens when we finally get risk-off? It's going to be Fed easing and that means weaker dollar.

So she sees this as a self-reinforcing situation that's only going to take the dollar lower. What would you say to that if you were advising one of your institutional clients who has maybe a client of your institutional service as well Juliette?

Raoul: Okay, so I'll kick off with this one. Firstly, it is provable that in the last two dollar bull markets the movements of interest rates were not the defining factor in the movements of the dollar. So interest rates rose and fell over the last two dollar bull markets. Generally interest rates fell when the dollar moved higher. So I do not believe it's interest rate driven. There is some element of interest rate differential driven, which is one of the key themes that Juliette has been looking at.

The other thing that's crucially important to understand is what is Juliette's time horizon? You know, both mine and Julian's time horizon in the structural dollar bull market view, it's a multi-year thing. So, you know, I'm still looking for the last two years of a dollar bull market, maybe 18 months. And I think Julian's probably looking for similar. Now Juliette is more trading orientated which is more in the same time horizon that Julian operates more in. And Juliette very correctly called this rally in the Euro, so I don't think there's much difference between Julien and Juliette.

I tend to be much longer-term in how I look about things, so I'm less interested in going against my view by selling dollars in the interim as the dollar weakens, and more interested in adding to the trade again once we get to interesting levels.

Erik: Anything to add Julian?

Raoul: Yeah, I think what Juliette's essentially talking is—she's saying, look, we can get a correction and you can get a dollar bounce, but you start to fade because the Fed will just ease again. And I have some sympathy with that. I mean, I think that's their proclivity and their inclination to try and do that.

However, I think we're getting to a very interesting point in the dollar. And I think, you know—to Raoul's point, both he and I have got a very long-term structural view of the dollar. And our structural view of the dollar is there's simply been too many borrowed and there aren't enough being supplied. Right? And I think we've gone through that with your listeners before. I mean, we see—I in particular see—this collapse in the current account deficit as a structural problem for the dollar.

I mean, I really think that—and I laugh continuously whenever I hear comments from the Trump administration talking about wanting to run a payer fiat current account deficit, and you can't do that and be the reserve currency. But, you know, we have had a significant reduction in the US current account deficit courtesy of shale oil and import substitution. And as a result, we are structurally not supplying the world with enough dollars.

What's prevented a crisis, even though we've had these spasmodic sort of bursts of all dollar strength—and emerging market in particular—weakness, is that we've had this huge capital flow which is being driven by the expansion of the Fed's balance sheet. So, essentially, current account deficit short for offset by capital outflows.

The problem is the Fed wants to start shrinking the balance sheet. And at the same time, as I said, we are contemplating doing this tax deal sometime early next year, where we're talking about repatriating trillions of dollars. I just think that that, to me—and I think Raoul's in that camp—that to me means that the biggest risk out there is that we get one final rally in the dollar, sometime starting in Q1 Q2 of next year, and it may start slightly before then, but I think the big risk is that repatriation money. And when that happens, it will be a destructive dollar rally. It will be a risk-off out dollar rally of inordinate proportions.

The other thing that I'm a bit cautious about, Erik, as I said, is that in the near term I'm actually quite worried about this focus that people have got on the dollar, and they look at the Euro, and they look at Eurodollars as that. And one of the things that I've been worried about increasingly is the mispricing that I see. The biggest mispricing I see out there is in the European bond market. And they're never going to talk about bonds in the same.

But I would draw your listeners' attention to events in the spring of 2015 when, not only did you end up with Euro strength against the dollar, but you also ended up with dollar strength against virtually everything else. So the dollar rose against the Kiwi, the dollar rose against the Aussie, the dollar rose against the Canadian, the dollar rose against the EM. But the Euro was strong, because what you had was a risk-off event triggered by a bond correction in Europe. And so I really, really would caution your listeners not to just say this is the dollar, because the dollar has got lots of different guises. And you have to watch them and focus on them very carefully.

Erik: We'll come back to fixed income in a minute, but let's start with the equity market outlook. So, many people, including Raoul right here on this program, have argued that, hey, we're just way long overdue for an end of this extended business cycle. It's time for a recession. It's time for a resurgence of volatility in markets. But that was a year ago, and the market just marches higher and higher. So how does this eventually end?

Raoul: Well, for me, I would like go back to the business cycle. You know, we looked at it last year and the business cycle weakened significantly, gained traction again, and bounced again. I mean, it's done this a couple of times now. It's tiresome, but it is what it is. Because I much prefer it when we get to the bottom of a cycle—we know when to invest etc. But waiting for this is slightly painful.

But until economic growth weakens in any meaningful way, the equity market will continue to grind higher, volatility will remain low, until something changes. Now there is—and that's structural volatility. There are opportunities—and I think Julien will talk a bit about this—for spikey volatility where there is an opportunity for a risk-off, which may not be pervasive and may not last very long. We won't get anything that lasts long and we won't get a structural shift in volatility until the business cycle weakens.

Now I think it's peaked out again, so I think—in line with Julien's timing—we'll be looking at another very weak quarter in Q1-Q2, and let's see how the economy looks at that phase. There is an opportunity, I think—if you look how the NASDAQ trades, some of the tech stocks, various other bits and pieces, you know, looking at how General Electric is trading, how the oil companies are trading—that there is a potential for a risk-off event in the short term, definitely. But the structural one, it's not here yet I don't think.

Erik: And Julian?

Julian: So I think, once again I'd sorta differentiate. I mean, we were long in advocating to clients—not long after we got—I think on your show we talked about this European strength—and we'd advocated to our paying clients to get long European stocks, back in the beginning of December. And then we got out about a month ago. Just because we'd had this incredibly good run, we think that a lot of the outperformance of the European stock market had been predicated on Euro weakness and also low bond yields. And both of those we think are in the process of changing. So we scaled back our belief in this European outperformance trade at this stage.

I think the US equity market, we seem to be going through this game of rotation. And once again, to differentiate between markets, you know, in the same way that you can't look at the dollar as just a single thing. What we've got is we've had up until the last week or so really very aggressive outperformance by a relatively narrow group of stocks. And those stocks—and you know we've talked about it in a number of publications—are increasingly looking like what I would call a classic bubble, and I think I've talked on your show about a classic bubble. It's just chart pattern we look for, Erik.

But if you look at the likes of Amazon, Nvidia, and these sorts of names, and even Bitcoin, you can make a case that this is—we're in the, sort of, end of the parabolic phase, what looks to be getting closer to the end of the parabolic phase. And the key thing that I would say to people is, look, you know you certainly don't short anything in a parabolic phase. It's the inverse of trying to catch a falling knife.

What you do do though, is you run your risk very tight in that phase. Because, just like the jet fighter that's going off to the moon (or appears to be), and it goes vertical, there comes a point where the jets literally run out of oxygen. And at that point the thing doesn't go sideways, it drops hard. And so, when I look at some of these tech stocks, I think that's the danger that we're facing here.

Yes, at the moment we're getting rotation into the Dow, but to me rotating into the safety stocks is not indicative of a bull market. That's what we did in 2000. Now, that topping pattern went on for a long time and I think—I'm not in it believing that we're going to get some sort of catastrophic selloff in the US. I can construct a scenario where we get a really nasty selloff in Europe—and we can talk about that in a second because it's very linked to the bond story—but the US, I think, needs to go through this extended topping pattern.

And this is beginning to feel quite reminiscent of 2000. And if you remember, in the spring of 2000 the NASDAQ topped. The money rotated out of that and went into the S&P, and the S&P stayed up until September of 2000. And then the money left that one and rotated into the super-safe Dow. And it stayed there until May of 2001. And only when the Dow cracked in May of 2001 did we get a broad bear market in the US.

And so I think we could be going through the initial stages of that rotation out of these high beta tech stocks, and some of that money will go into the S&P—but probably more—and it will be a quicker rotation, I think, than it was back in 2000. Because the composition of the index is we're going to the Dow.

But I just really struggle with the divergence between bonds and equities, and that to me is the biggest problem. Equities are only up here because bond yields are so low. And if you correct bond yields to where I think they need to go, then it's quite hard for equities to stay at this current level, even if it's on the basis of economic growth.

Erik: Let's go ahead, then, and come back to that topic. I can tell you're itching to get to it Julian. Where I think you guys may disagree a little bit is fixed income in general and treasury yields in particular. Raoul, I enjoyed your interview recently on Real Vision Television with Hugh Hendry, who was very quick to compliment you on your timing and so brilliantly making the bull call on buying treasury bonds. But then he kind of looked at you in his Scottish way and said, "Raoul are you still calling for 50 basis points? Are you crazy?" Are you still calling for 50 basis points, Raoul, on the US ten year? And where is this headed from here?

Raoul: Yeah, again, we need to talk about path and we need to talk about time horizons. So, for me, the path is—I'm less interested in—I think it's a pretty benign environment for US rates. Yes, if Trump does manage to pass something in terms of economic stimulus in terms of some sort of fiscal policy or taxation, whatever it may be, then can rates back up a bit? Yeah.

But, for me, I'm indifferent from a backup in rates from, you know, 225 where they are today at ten years, to, 275. Fifty basis points I don't really care, because I think the risk reward is that, at the bottom of the business cycle—which we've identified has to come and will come within the next call it 18 months—the bottom of the business cycle should see bond yields at 50 basis points or even less. So that makes, even with a backup in yields to let's say 275, it still makes it kind of a five for one risk reward.

So, for me, I look through the speed bumps and look at the horizon. The horizon for me is 50 basis points at the bottom of the next business cycle, which has to come. Well, it doesn't have to come, but the probability is extremely high that it comes in the next 18 months or two years.

Erik: So your view is still secular, very much bullish on bonds, bearish on bond yields. Julian, I think you have a very different view.

Julian: Yeah, it is Erik. I mean, it's certainly in the next, shall we say, six months. And I think it's—Raoul and I talk about this a lot and it's one of the things that I think we believe is one of the strengths of the product: we tend to sort of chew through our stories. And our views are structurally very, very similar, but often our timelines are slightly different in how we get there.

And my concern is I can ultimately see Raoul's right, I mean, I think we could get another very nasty downturn. I think we could get a—you know, it's hard to argue against the sort of structural deflationary trends or disinflationary trends that you see globally. The question is how do you get to that next crisis? Do you sort of go quietly into the night, and we walk in one day and ISM stands at 45, and everybody says, wow, QE doesn't work.. Or do you get there a different way?

And my inclination is I believe we'll actually get there a slightly different way. And at the moment the biggest risk that I see in markets is this chasm between, as I said, equity market pricing and bond pricing. And with that you can throw in Vol. And my biggest fear is that we're going to get to the next crisis, not via immediate economic weakness, but actually via strength.

And it isn't so much in the US. As I said, I think there's a chance that we get a burst of very aggressive activity. That's sometime in 2018 if we get this Trump stimulus through.

But when I look at the world, actually, my biggest fear—and I think this is interesting for US listeners of yours, because generally Americans don't look too broadly at the rest of the world, they tend to be very focused certainly in financial networks, they tend to be very focused on what's going on in the US—I actually think the biggest risk is Europe. I look at European growth models—and we've talked about this—but these things continue to strengthen. And the inflation picture, actually, I think is just really going to rip.

And I was reading today how one of my peers was talking about how, for the fourth time, ECB's going to have to upgrade their growth forecasts. Well, I just think they're going to have to keep upgrading and upgrading their growth forecasts. And what I fear is that we're on the cusp of a repeat of events that we saw in the spring of 2015. So, if you remember, at that point ECB had launched QE in the end of 2014, the DAX had ripped higher, and bund yields were locked at zero. And then, one day we walked in and the bund market finally said, screw this, I am repricing because what's the point of holding bunds at zero, if the DAX is going through the stratosphere.

And when I look at positioning, and I look at the beginning of the winding down of the program, then potentially the fact that ECB is going to be forced to actually accelerate that wind down of the program, that's exactly the risk that I see. I actually see the risk of a rapid repricing in the European bond market. I think that will actually push global bond yields, as it did in 2015, higher. But they won't rise as much in the US as they're going to rise in Europe.

But I also think that that can create a broad risk-off environment, because if you reprice bunds significantly higher then you have to raise your dividend yield on the DAX. And the most obvious way that you do that is actually by lowering prices. And so my immediate concern is you get to that ultimately weaker endgame from strength, not just insipid weakness where we just sort of roll down there. Because I'm just not seeing it in my models.

Erik: Let's touch briefly on gold. We've seen—what surprised me, actually, in terms of some strength recently in the chart—where do you guys think this is headed? Let's start with Raoul.

Raoul: Okay, again using my long-term horizon, I think gold is going to double from here at least. The question is the path. If we see the dollar gain some traction, I think gold will sell off again. If the dollar is truly weaker for longer, then gold will break out.

But what you really want to do is buy the next correction in gold either way. It's either broken out or it's still within the range, but you buy that correction, because, as you go towards the end of the business cycle, the central banks are going to be forced back into action back in an expanding balance sheet. And at that point I believe gold will do much better than most people expect.

It's been a slow base building for gold, which is lovely. Because when charts do this kind of thing it tends to mean that the move is explosive over time. And I have a feeling that gold and the dollar will rally together as safe haven assets into the next bottom of the business cycle. In the interim, as I said, if the dollar is weaker, then I expect—or the three of us expect—then gold is going to go higher.

But I don't think that rally will have the kind of momentum it would have if this were a risk-off environment. And gold would get a bid as people start to realize the central banks are going to have to go much larger than we ever expected. And if there is a recession on the horizon at some point, again, it's not here, it's not now. If it is, then the Europeans are going to be involved, the Japanese are going to be involved, the Chinese are going to be involved, and the US is going to be involved. That is not particularly good for fiat currency and tends to be extremely bullish for gold.

Erik: And Julian, your view—with particular emphasis on do you agree with Raoul's unusual take that the dollar and gold, which are normally inversely correlated, can rally together as safe haven assets?

Julian: Yeah, I would say that I've been somewhat agnostic on precious metals. I think you had me on before and I said at this point of the cycle I'm just not that fast and I—but I would concur with Raoul. You know if we get this dip in gold and—one of the ones that I look at very closely is silver. I mean, if you go and look at silver, we once again came down to a trend line that's basically held the up move since the beginning of 2002. So that was just around, sort of, $15. So I don't mind having a small position in at this point.

I'm not a structural bull right here though. And that is because I still think that we've got that burst of dollar strength, and I think, initially at least, you're going to get a burst of higher yields. And that to me would be the best time that I would want to buy gold. So I think—you know, I totally concur with Raoul longer term.

I think if we do end up with a very nasty downturn again—as I said, I think it comes about from a burst of strength and inflation where the central banks are actually forced to be more aggressive and they kick the whole system back over again, only to then have to turn out to themselves and be very dovish. That to me is going to be the best opportunity to pick up precious metals. Because I think—and I do concur with Raoul—that people are really going to start to lose some faith in fiat currencies at that point. Because the whole thing is just going to look like a total sham.

Erik: Let's move on to a subject I know Raoul has done a huge amount of work on, which is demographics. Baby boomers are retiring. Japan went through this about 15 years earlier than the United States, and there's a lot of lessons there. What about demographics in terms of both the general picture of what are the market implications of the baby boomers retiring, as well as the more specific subject of is there an impending pension crisis? Raoul, why don't we start with you?

Raoul: Yeah, what I love about demographics is that it is 100% forecastable. You know you're not going to add—suddenly find a whole group of the population you didn't know existed. We know what they're going to do, how old they're going to get, when they're going to retire give or take a few years. What we've seen is the average American—let's use America, it's the easiest example—the average American is extending their retirement. However, the baby boomers are starting to hit 70-and-a-half, and for tax purposes it makes it advantageous for them to retire.

So we've got, over the next 15 years, nothing but retirees: the largest group of people in the history of America and the history of the Western world retiring at the same time. Now, what is interesting is you can go forwards and forecast using demographics things like the labor force participation rate. Now, what it tells you is that we've had a steady period over the last few years where labor force participation has been going sideways. But, going forwards, it's going to fall off a cliff as these retirees leave the labor force and then not being replaced because the millennials are already in the workforce.

So we've got this huge problem coming. Now why is that a problem? It's because it correlates incredibly well with some key metrics. Interesting enough, if I look at consumption, the growth of consumption basically is the labor force participation rate. The Fed balance sheet - the labor force participation rate. Long-term inflation rates - labor force participation rate. Even gasoline sales - labor force participation rate.

And if you think about it—and I've talked about this frequently in the past—if you think about it, think what retirees did. My father retired, I guess it's about ten years ago now. He was about 60 at the time—sorry, 65, so 15 years ago he retired. Sixty-five years old, he was a, relatively well-off guy, buying a new BMW every two or three years, he spent money at fancy restaurants and a nice bottle of wine and some champagne at home. You know, not prolific spender, but that kind of, you know, middle class, had a good career kind of thing.

So what happened when he retired? His saving patterns collapsed, because he had now a finite amount of savings and he didn't know how long he'd live for. So you can't project, so you have to be conservative, because you can't project how long your income is going to last for. So what happens is his saving collapsed. And what happened is, as bond yields collapsed, his income collapsed too. So he spent less and less and less. My guess, he probably spends a quarter of what he did when he retired. Now if you put that into the context of all of the baby boomers, who are going to go through the same process, then that's catastrophic.

The other issue that's outstanding is the baby boomers know that they have this funding problem, because they never saved enough money. So the median American has about 180 grand saved up for his retirement of which 50 grand is positive equity in his house, 20 grand of savings, maximum, and the rest is basically equity market exposure. There's a very small bond exposure. So they're going to go into retirement with a pie allocation towards equities. And equities, as we know, tend to fall when the business cycle is weak.

We're waiting for the next recession. It will come during the period when all of these baby boomers are starting to leave the workforce. They can't buy the dip any longer, they're actually forced sellers into a bear market because they need to protect their income because they will not be able to earn it back by buying back into the stock market. The millennials, they don't have enough money to buy the stock market. So we have a gap.

This is really dangerous. It's very dangerous for people's savings, for their retirement planning. It's dangerous for consumption, it's dangerous for the economy, it's dangerous for inflation. So there's a number of things. I think it's the biggest, most important story over the next ten years in the US and in Western Europe. This is all we'll be talking about.

Erik: And Julian, your reactions? And, particularly, do you see a pension crisis as part of this?

Julian: I completely concur with Raoul. I mean, I think—funnily enough, we just produced a piece that's just sent out this morning to our clients talking about Japan. And we've written a piece the other day where we talked about the Japanese policy in the markets, and then today's piece was Japanese policy in the real economy. And one of the conclusions was that—and we were looking at the demographics, and we looked at the declining workforce.

And, to Raoul's point, you can take the declining workforce or the growth of the workforce through the 70s and into the 80s and into the 90s, peaking the beginning of 2005-2006, and then rolling it over. And you can look at Japanese CPI and you have to come to the conclusion that—look, I'm not a great fan of what the BOJ have done, I think they've slavishly followed the policies that have been promoted by the Fed and the ECB and I just don't think they're necessarily applicable for Japan—and one of those factors is the aging population.

But if you look at the fact that the BOJ has actually been able to hold inflation—even at these levels it will only hit the 2% target—these guys deserve a huge round of applause for what they've even managed to achieve in the face of demographics that are absolutely imploding.

You know, we produce this thing called the Japan Update which is one of our daily publications, and it's written by a friend of mine who's a complete Japanese specialist—35 years trading Japanese markets—and one of his favorite quotes is if you look at the Japanese population between 2040 and 2060 it is going to decline by the same percentage as the European population dropped during the Black Death. Just think of that from an expenditure perspective.

Erik: Julian, interesting enough, I've just been reading a book about the trading history of the world. It's called The Silk Road; it's a phenomenal book. They talked about Black Death. What was the outcome of Black Death in the end? Higher per capita GDP and faster GDP growth. It actually was a good thing, interestingly enough.

Julian: And during the Peasant Revolution you did get a bout of inflation, because you lost so many workers that you had to pay them more. But the initial stage—just think of it like this—what will happen, of course, is you'll have robots that will actually replace them, but, if you think about it like this, there is actually a point where, if you're losing a third of your population, and you're losing by default a third of your consumption, how is that made up? Right? How do you fight that? Do you fight it by giving the remaining people a third more wages? Well, they're trying in Japan; it just hasn't succeeded.

So I think there are lots of these structural factors, and I totally believe what Raoul is saying. And I concur with him completely in Western Europe and the US. It's just, for me, can we have that bout of excessive strength over the next 12 to 18 months before we get to that downturn? Right? Can I sit here and say I think the ECB has overcooked it, I can see rampant inflation, really robust growth that's going to catch the bond market in Europe offside, and that we have a spike in yields before the whole thing rolls over again.

And I think that's almost—that's sod's law would indicate. You take out the most people. And you ultimately return to the real underlying trends which are—and I don't like to use the word deflation—disinflationary, let's say.

Raoul: I think the point being is, whatever the outcome is, in the slightly longer-term Julian and I agree. So what does that mean for the average guy? For the average guy it means that pension underfunding is going to be higher than anybody expects. We're already seeing a pension crisis in the public pension schemes across America and across Europe. But, hidden beneath, are people like GE and the oil companies and Ford and American Airlines and all these people who have these huge defined benefit pension schemes. Pensioners are expecting a return of X% of their final salary.

The reality is, is you cannot have this many people retiring, drawing benefits at the same time, when the pension system is so underfunded because of low rates they will not get those outcomes. So there is a dawning realization that has to come at people, which is everybody's consumption patterns will change because they will not be able to retire on the wealth that they thought. And that's the pension crisis.

Erik: Let's move on now to a subject that's near and dear to my heart, which is crude oil. Real Vision subscribers know that Raoul has done a series on this and has a short view, as I've had, on crude oil. Raoul, what we've seen in the last month or so is that there's been a pretty good rally. I think that was a normal reaction rally back up toward its channel resistance line. But then we had what I think was a scare, out of Venezuela, that pushed us up above $50.

My plan for this interview was to ask you, Raoul, now that we're above $50, is that that rare opportunity that you get to sell short above $50? Well, as we're taping on Wednesday mid-session, we're below $50 again and it looks to me like it may stay that way. What's your view? Is this an attractive point to enter that short trade? And do you still have the same outlook that you had in that series of videos?

Raoul: So there's three things here with oil that we need to be—one was positioning, which you quite rightly said this would be a normal correction, because oil moved a long way. Okay, fine.

The second part of it is, is the structural situation with oil any different? Is OPEC still overproducing? Yes. Are they putting all their oil in storage? Yes. Are we going through the seasonality where you see draws of inventories in the US and around the world? Yes. So we're expecting to see draws, but the underlying situation of far too much oil—wait till we get to winter, and we'll see how fast they stack up the oil. I think they're going to end up with too much oil in storage, particularly in the US, as shale continues to pump out oil. So the structural situation is bearish.

But then we've got the issue of the dollar, because oil is priced in dollars. With dollar weakness, oil's going up, fact. So we need to get to this point where the dollar stabilizes or starts to rally, and then oil will also turn around. I, too, like you, have a kind of sneaking suspicion that oil's pretty much done here. But, if it doesn't, if the dollar continues to weaken, then oil's going to $70. And it's not my base case, but I'm cognizant of the risk and rising probability that something may have changed.

But my view remains—and I've been short since $57—I remain a bear on oil, and I think it goes much lower over time.

Erik: And Julian?

Julian: You know, we tend to try and focus on things that we've really got a—where we think we've got an objective advantage over people. So we were very bearish on oil since 2014 onwards. And now I think, to be honest, we're in a bit—I'm a little agnostic here. It's a bit like my precious metals view. And it's not the—I also concur with Raoul longer term.

I mean, I think that when you look at the picture and you look at the moves that you've got—for example, the UK and France now, talking about having no fossil fuel vehicles at all from 2040 onwards. Now I know our president would like us to be able to have coal-fired cars. But I think, you know, the reality is that we're moving to a world where there will be less use of carbons in transportation, outside air travel.

And so I think there's the structural problem. I don't believe these shale boys are going away any time soon. In fact, I think—everything I hear is that they've been stepping stuff up. So, exactly to Raoul's point, come the end of the year there's going to be a flood of this stuff that's going to hit the market again. So I think that—when I look at the short-term dynamics I think we can have this—maybe a little bit further—and to Raoul's point, on the basis of perhaps a little bit more weakness in the dollar—we can push things back up into the very low 50s again.

But, really, I'm not a great bull. I just think if we were to push much above that, the shale boys would just—it'll be even worse three months down the line because they'll just pump even more oil. And I think the big bear market, for me, starts when the Saudis have floated Saudi Aramco. That's the point where I want to get really bearish on this thing.

Erik: Let's move on now to a piece that Raoul wrote in Global Macro Investor. For people who are not subscribers to Real Vision Publications and don't have access to it, I'm going to ask Raoul to first very briefly summarize a piece that he wrote called Haven't I Seen You Somewhere Before? which draws parallels between today and the lead-up to 2000. Raoul, if you could summarize that first? And then I'd like to ask Julian to give his reactions to it.

Raoul: Very interesting. I was on Bloomberg, and a message popped up from somebody I didn't know working for a hedge fund based out of Baltimore. And she said, hey, listen Raoul, I know you like this kind of stuff, you might be interested in this. And she sent me a pack of 50 charts. And what they all were, were random charts of economic patterns and asset prices versus the run-up to 2000. And they weren't just, you know, a few months of data. They were an extended period of seven years' similarity. I was stopped in my tracks.

So then Remy (my analyst) and myself started piling through all the charts. And we looked at everything from the price of the Euro, to what happened to Australian exports, to Korean exports, to consumer confidence, consumer sentiment, industrial production, durable goods, in Europe, the US, Asia. And all the charts are as close to identical as I've ever seen any historical pattern ever.

And I think the charts—I've probably got well over 100 of these charts now showing the uncanny similarity going into 2000. And I think—if you listen to the nuance of what Julian's been saying and what I've been saying, we both see similarities to that point. Into 2000, I think it was the ECB were raising rates, the DAX was falling, Europe peaked out much before.

Julian talks about the rotation of stocks. The S&P matches very well. It would suggest that by slightly later in the year, maybe Q4, the S&P tops out as well. It would suggest, exactly as Julian said, that the NSADAQ goes first, then the S&P. And then maybe the Dow, not quite clear, but the Dow just hitting new highs again. It looks like that's the kind of environment that we're going to see.

Bond markets - almost identical as well. Libor almost identical. Inflation rates - almost identical. I mean, everything. And these are—again, I'm not talking about three months look similar or one year kind of vaguely similar, I'm talking about an almost perfect pattern match over a period of seven years from one recession into the other. It's extraordinary. I've never seen anything like it.

And normally I would discount those as interesting. But when you've got so many it gives us a roadmap. I love a roadmap, where we can prove whether we're right or wrong. It's suggesting, for example, that emerging markets should roll over soon. And I know Julian's been exactly on that theme, urging his subscribers to get out of some longs in emerging markets. It would suggest the top would be in and we would get a much larger correction in emerging markets. It would suggest the top in equities overall in the US will be the last. It would suggest the top that we've seen in the DAX is the top. And the economic growth going forwards should start weakening from here.

We saw it in the ISM print, we're seeing it in the Chicago numbers, we're seeing it everywhere, that it is actually following suit. So I'm going to continue to follow this as my roadmap—not saying 100% it's definitely going to play out this way, but it gives us a very nice guideline of what could happen and how things move.

Erik: And, Julian, your reaction?

Julian: I would take things a little further, actually. Erik, if you remember—and I think you were one of the people—we definitely came on to the show and talked about how we expected bond yields to pick up in the US, right? If you remember, back early last year. That was built on a cyclical pattern that we've seen in the past.

There have been three (including the last one) major, over the last 30 years swings in oil prices. And they always pretty much elicit the same thing. So the first one was basically '85 into '87. It's quite a brief and violent one. The next one was '96 into 2000. And we just had one 2014 into now. And the pattern is always the same. It is always the same. You get a big drop in oil prices, okay?

In the US your, obviously, inflation—and globally—your inflation drops hard. Then what happens is that your soft data—things like ISM, which are measurements of speed and not level of growth—also drop hard. And in both, in the late 80s and in the late 90s, they skirted to almost recessionary levels, in the sort of upper 40s. Then the central bank eases, the bond market rallies, and the equity market tends not quite to know what to do. In the 80s it, sort of, went a bit sideways initially. In the 90s we were—to some extent it did and then we got into the bull run of the NASDAQ as money tried to pick up the growth story. And that's a little bit more like we're doing now.

The point is, you have this big rally in the bond market and you have this slowdown in the data. Then what happens is oil bases, and, because we look at the rate of change of oil when we calculate inflation and not the level, we get this rapid ripping inflation. All your soft metrics, ISM, come rebounding back. What happens then is the economy comes surging back. At some point the bond market starts to go, oh, my goodness, starts to correct. Initially the equity market takes it as well, because it's got strong data behind it, and what we get is the equity market does very well.

So, between the beginning of 1987, for example, and September 1987, the S&P went up like 35%. Every single one of those events ended with a crash. And so, to Raoul's point, I wouldn't say this just looks just like 2000, I actually think it looks like the late 80s as well, which obviously ended with the '87 crash. And I think the parallels are exact today. I look at our cyclical models for the S&P, they show this thing is basically at the highs, right here, right now.

And starting in, sort of, October and November we start to move quite materially lower, my work is suggesting. So I think the cyclicality goes further and lasts longer and the parallels are even more acute than just 2000.

But, as I said, I'm looking for the final coup de grace of this bull market to come from a burst of hawkish central bank activity or, shall we say, a selloff in the bond market caused by inaction of the central banks to actually react to stronger data. And I think that's how I get to the endgame, Erik. It's not that I think we just slip there. I think we get—I need to get that tightening from either the central banks or the bond market to deliver that correction to the equity market—but I think it's coming.

Erik: I want to shift gears now to a different topic. As I mentioned earlier, the two of you guys are both in the business of providing institutional advisory services. Your views are so revered by your institutional clients that they're happy to pay a $40,000 annual subscription which, of course, if you're running hundreds of millions of dollars is a drop in the bucket, because they make that back on one trade idea that they get from you.

On the other hand, if you look at the retail market, all that really exists is there's a million and one of these two to five hundred dollar per year retail investment letters, some good some bad. Raoul, your partner Grant Williams writes one of the better ones and—but there's a very limited market there. There's really not a lot between the $500 a year and the $40,000 a year institutional level. You've got a plan to change that. Tell us about it.

Raoul: If you remember, when we started Real Vision part of the mission that we have is to democratize financial information. It is not right that only the financial elites get the best information. And, you know, there's not that many newsletters as you point out, at the cheaper end of the market that's as high quality as Grant's. There are a few, and some of those are in Real Vision publications as you know.

But, really, to get institutional-quality macro research, that's an expensive business. Because it's very time consuming. It's very detail homework-orientated. It's less storytelling and more this gigantic ever-moving jigsaw puzzle that Julian and I frantically try and solve at every point in our lives.

But the idea is that Julian and I strongly thought that we could do something by giving a peek behind the curtain of what we do in Global Macro Investor and MI2 partners a peek behind the curtain of some of our work. That work is not really applicable to retail, but some of it is. It gives us the idea of our framework. And we can use our frameworks to generate investment ideas and some clarity for retail investors.

Actually, it was an idea from one of our Real Vision subscribers who said, you guys should get together because you're very similar in what you do, but you're different enough to be interesting and you'll have nuance. And we laughed about it, because the last thing I ever want to do is anything with Julian. But now we decided that actually we're pretty complementary and we quite enjoy working together.

So we launched Macro Insiders. And that's a $3,000 product. And that's still a hefty price target because, really, to be trading in these macro themes you need to have some reasonable investment money to be able to do so meaningfully. But it's a lot cheaper—it's a tenth of the price or less—than the actual macro research of just one of us, let alone two of us combined. So we try to do it as cheaply as possible and as understandable, digestible, and actionable as possible for the retail market. And so far the feedback has been astonishingly good. It's just been—end of last week was the final launch and we're now up and running and going. Julian, do you want to explain a bit about the product?

Julian: Essentially you're going to get four deliverables. You get this piece called Meeting of Minds. In the Meeting of Minds we will give you—and this is the thing that is something unique—we're really going to give you a glimpse of what we give to our institutional clients. So, essentially, you'll get a report from each of us which we've shown to our institutional clients. And it is typically a more structural thought piece.

So, example, Raoul's written about the pension story. And we wrote about some of the risks associated with risk parity and balanced portfolios. So it's a structural piece, it's designed to make you think and examine some of the underlying risks in your portfolio.

Then you get two more actionable pieces, and you get those one a week, and those are called In Focus. And those are really meant to be, as Raoul said—we've been discussing with people, look, we think emerging market's had a great run but we think now these things are fully priced and we would be looking at this point to increasingly take profit in some of our emerging market portfolios, and this is why. And we explain those.

But they're really trade-orientated actionable stuff and applicable to a retail investor, Erik. And I think that's one of the key points. Because, as Raoul said, you still have to have a reasonable amount of money to be able to use the product effectively. But there just are certain tools that are just not applicable to a retail investor and you have to approach things in a very different way than you would do an underlying institutional investor.

And then at the end of the month what we do is we do a video conference call, and basically Raoul and I and with an adjudicator sit there and we discuss our views. And we may discuss new views, we may go over where we differ—for example, as you know, we differ in the short term over our bond view—but we discuss that with our clients and we explain to them why we differ in our bond view. So that was really part of the process. And those are the four deliverables you get every month.

Erik: I love the concept of it because what you're really saying is that you take the institutional grade content that you deliver to your institutional clients and you strip out of it that content that would be of no use to a retail investor. If you guys decide you've got a brilliant call, it's time to short IG9, which is an institutional grade bond index, great. Unless you've got $100 million under management you can't short IG9, because you need to do that with an over-the-counter derivative. So you're basically taking the stuff that could be of use to a retail trader out of the institutional quality product and delivering that at a retail price, perhaps a high retail price, but you get what you pay for.

I do want to ask a question about that, though, because if you're paying $40,000 for the institutional product, that gives the institutional client the right to call you up and chat on the phone with you about one of these reports. Is there an opportunity for somebody—what do I get at the $3,000 level? Is there any opportunity to ask questions, or to request that you cover certain topics, or anything of that nature?

Raoul: Yeah, there is. And it's particularly for that video. What we're doing is we're encouraging our readers to drop us an email and say, listen, I'd love to ask you a question about this. Or, Raoul, you talked about that, Julian, you talked about that, could you explain what you mean? Or, how has your view developed? So, yes, it's really for us to allow people to come and ask us questions.

Now, obviously, because it's a high-volume product, we can't have thousands of people on the telephone all the time or Julian and I would be dead. But this way we can figure a way that we can group together questions and get people to answer specific questions that answer a whole lot of questions that other people have given too. So, yes, we definitely want to get involved with people. Both of us are both available on Twitter.

Now, again, we don't give portfolio advice or anything like that. But, you know, we are vocal, we're there, we try and be involved in the conversation and the discussion, we try and add value whenever we can.

Julian: There is also a comments section that we have on the Macro Insiders website and we're hoping that that evolves into something much more fluid. And so it's really up to the subscribers to post stuff in there, and we certainly are monitoring it. And when we think we can add value we chirp up on that as well. So there is a—it's embryonic at this stage, but we're hoping it becomes a more active forum of interchange of idea.

Erik: Now there is no free trial policy for Macro Insiders. Normally you'd have to pay the full non-refundable $3,000 subscription fee to find out what's really inside. But Real Vision has generously offered our Macro Voices listeners a free copy of a research report, which is normally only available to paying Macro Insiders subscribers. So that provides you with a way to get a taste of what the Macro Insiders content is like without having to sign up.

Registered users will find a link to that download. You will have to register your email address with Real Vision, because they're strictly limiting this and want to keep track of who it goes out to. You can find that link in your Research Roundup email.

Julian, Raoul, I want to thank you so much for another fantastic interview. We have gone over time. But I wanted to let it go overtime, because you're two of our most popular guests ever. We're going to have to leave it there now though. Patrick Ceresna and I will be back as Macro Voices continues right here at macrovoices.com.