Grant Williams: Petroyuan Oil Contract could be a Game Changer
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Erik: Joining me next is the one and only Grant Williams, the author, of course, of "Things That Make You Go Hmmm," probably one of the most interesting and well-known newsletters in the business. Grant, thanks so much for joining us again.

I want to start, as we always do, with the US dollar, because everything else is priced in that. I know your partner Raoul Pal has been a secular dollar bull, but I think last time we talked to you, you had a different view.

What's your current outlook for the US dollar? It seems like maybe we're seeing the Raoul scenario play out, where the secular bull market is going to continue. Certainly the chart's been looking pretty good for the last couple of weeks.

What do you think?

Grant: Hi, Erik. Great to speak to you again. Yeah, Raoul and I have differed in the last, I guess, year or so about this. We were very much aligned and I kind of – I went to the dark side and figured that the dollar had run its course, and became, not a bear as such, but I figured we'd seen the highs, and the likely future path was down. Not any kind of crash, but it was going to move lower over time.

And I based that on the fact that (A) it was in everybody's interest – I mean, everybody's interest for it to work lower – and (B) I figured that the US finances would actually start to matter at some point. That last point certainly doesn't seem to be the case.

But in the last few months there certainly have been signs that perhaps the bull market is going to take one more try at going higher. The Fed seems determined to hike. And, as always happens, I think the vast majority of recessions post-1980 have been – sorry, post the US Civil War, according to a chart I saw recently – have all occurred due to one interest hike too many.

So I understand that in the short term the dollar could go higher, and I can see how that could happen. But I still think that over time the dollar is going to move lower, perhaps significantly so. But I don't expect any kind of crash any time soon.

Erik: Yeah, I wouldn't expect a crash either. I'm curious, though, because I know that you have interviewed both Luke Gromen and Mark Yusko, who both have a view of the dollar that's not a crash, but it is an infinite decline. They kind of think the party is over and the US dollar is going to fade into the sunset and be replaced as the world's reserve currency.

Personally, I'm convinced that they will be proven right in the end game. I'm not so convinced the end game is upon us yet, at least that end game. Do you think that this could really be it for the dollar in the sense of the decline that you see leading to the dollar losing its hegemony in the global finance system?
Or are you just looking at a secular decline but not quite the doom and gloom of Luke and Mark?

Grant: I think you articulated it perfectly, Erik; I think they're both right. But I think you're right in that you don't think that's happening just yet. It's going to be a creeping process.

The only thing that kind of concerns me about that process – because, if you're paying attention, as Luke does better than perhaps anybody – that the moves are being made to install the yuan as a viable competitor. At first to the petrodollar. That's clearly happening.

And I think that is the way this will go. Because, ultimately, when you have the biggest buyer of oil, in China, and the biggest exporter of oil, in Saudi, talking about bypassing the dollar, that's a big deal. But I think many people aren't really paying attention to that story, because it's a little out in the weeds.

I think that is the natural place this is going. But I think, to your point, we're probably not going to see the acceleration phase for a little while yet. And, between now and that acceleration phase, I could perfectly understand and see how another rally in the dollar could play out.

Erik: As long as you touched on that petro-yuan story, let's stay there for a minute, because I'm really curious to get your view on this. I know you've looked at this carefully, as I have.

It seems to me that if the petro-yuan oil contract on the Shanghai Futures Exchange were to gain traction and a year from now we're talking about how the Brent contract lost 35% of its market share to the new yuan-denominated contract, that would be game on and it would be probably the biggest news of our lifetimes.

I'm thinking it's not going to happen. I think that it's symbolic. I think it's important, but I think it's going to be a sideshow. I think everybody's going to say, yeah, okay, well the world still does business on the Brent contract.

Do you think it's going to get traction? Do you think that it's really going someplace? Or do you think that it's really in the propaganda and marketing space for now?

Grant: To me, having it in place is the crucial change. And I think, whether it's symbolic initially, the trouble was always going to be creating a viable alternative to the petrodollar. And, essentially, once they open these, that's what they've done, and it's there. So the escape valve is there. And, if nothing else, it puts pressure on the US in terms of what Luke calls, very nicely, the weaponization of the US dollar.

It lessens the ability that the US has to bully people with the dollar, because at some point there is a parachute there that's up and ready to go. And, frankly, even if the Chinese just decide, okay, fine, we are just going to transact with the Saudis and the Russians through this mechanism, that would be enough.
So I think there will be a hell of a lot of stuff going on behind the scenes, a lot of discussions and negotiations. But I don't think immediately this thing is going to become the market for all. That's too big a stretch.

But I think it very subtly but very meaningfully shifts the balance of power, which has been exclusively with the US and its ability to weaponize the dollar. And it does give some of the smaller kids in the playground the means to potentially stand up to them. And I think that's the shift.

A lot of people talk about this whole gold-yuan-oil triangle, and they get confused between a gold-backed yuan and just this ability to pay for oil in yuan and convert that into gold. I think the two things are separate, and what we're talking about here in terms of giving the Chinese the ability to print yuan to buy oil is a very meaningful move the full force of which may not become apparent immediately. But I think it changes the game materially.

Erik: Jeff Christian made the argument on this one, where he said there is no gold-backed anything. You've got a contract which is payable in yuan and you have the option to spend those yuan. There is no guaranteed conversion rate or anything. If you want to spend the yuan to buy gold at the market price, you can do that. You could spend it on dim sum, for that matter. There's really nothing that guarantees any convertibility. So Jeff thinks that it's pure marketing.

Do you think there's anything more to it? Or is really just as simple as this is a yuan-backed contract, and the comments about gold-backed are really just a marketing statement saying if you wanted to convert that yuan into gold you could do so on the open market?

Grant: Jeff's right. But I think that's missing the point. It's not a gold-backed contract. But the issue has always been being able to get your Chinese currency out of the country. So to make it convertible, even if there's an extra leg to it, makes all the sense in the world.

And I think it's a big deal. I think it's a big deal that you can transact the world's most fluid commodity between the largest buyer and seller in a currency that's not the dollar, but you have an escape valve. And you can actually get physical gold through the exchange in Shanghai. And I think it's a meaningful change. I think it's a very meaningful change to the status quo.

And Luke Gromen – you had a fantastic interview with Luke – he's, to me, the guy that's done the best work on this. And if you read through the way he posits the story, to me it makes an awful lot of sense. And I think it's important for the Chinese to set this up, which they've done. I think it's important for them to feel their way into it and work out what leverage it gives them.

But, as I said (and I'll go back to my earlier point), what this is, in effect, is a very clear escape valve should the dollar be used to try and strong-arm the Chinese into actions that they're not particularly keen on doing for their own self-interest.

Erik: Well, I guess it certainly does eliminate the possibility of the US sanctioning China and preventing them from being able to buy oil. And that's certainly is very important.

Let's move on to the stock market. Because you guys at Real Vision have produced a fantastic video called "Edge of the Cliff" basically saying what you and I and Jesse Felder and a lot of other people have been saying for years now, literally. Which is that these valuations just don't make sense. You look at the CAPE ratio, you look at dozens of other things, it seems like the stock market is crazy high.

But that's old news. The question I've come to ask is not: Are valuations high? I think we all see that.

But if you look at what's happened and how the market has just continued to march higher, what's going to change it? What's going to be the trigger that suddenly throws a monkey wrench into the works and things fall apart?

Grant: That's the $64,000 question. I think that's what we're all trying to figure out. The process of making that video was actually very interesting because we just noticed this rising tide – Raoul called them drumbeats – of guest after guest coming on and expounding very similar theories about valuations, about the speed at which the market was reaching a point where something is going to tip it over.

Now, the problem is there are so many potential tipping points that it's almost impossible to pick which one it's going to be. And it's most likely going to be something that, really, nobody's thinking about. Is it the correction in Australian housing markets? Is it a correction in New Zealand housing markets? Auckland's just seen the first fall in property prices in six years. Is it something out there in the boondocks? Is it the resumption of the dollar bull market?

We really don't know. But the longer this goes on, and the more one-sided the boat gets, the more dangerous the snapback becomes.

So we put that video together just to say, look, markets are going higher every day. It's the most passive bull market I've ever seen. But that's the time – you don't necessarily need to panic, but you really do need to take the time to think about: Okay, what's happening here? Why are my monthly statements so great? Do I just want to sit back and watch this happen? Or do I want to understand this? And at least go through the exercise of thinking things through and deciding for myself: Am I happy still being fully invested here? Or should I take some money off the table?

Because the worry, for me, is that we don’t get a gentle correction of these markets. In trying to game this and trying to figure out what might happen and what any kind of snapback might look like, I try and put myself in the position of the Federal Reserve, who have been the anchor for what we’ve seen from 2009.

And with Yellen talking about hikes, and the Fed being clearly intent on pushing rates as high as they can, I would posit – because they need some ammunition the next time we get a recession. But there’s a very clear chance here that they may – if the market falls 5% for example – that they may step back and say, you know what? 5% from these levels, that’s great.

That lets a little bit of air out of the bubble, and perhaps we should just let that happen and tell people that, unlike January or February of 2016, we’re not going to ride to the rescue when the market comes a little unhinged.

Now, with what they’ve done, in terms of instilling that belief in market participants that the Federal Reserve are there and we’ve got your back, by taking that action and trying to let a little bit of air out of the bubble (down 5%) – When everybody turns to the Marriner Eccles Building and waits for the sound of hooves as the cavalry ride over the hill – If that cavalry don’t come –

And, more importantly, they send out a messenger who says: You know what? We’re not coming. Don’t worry, it’s going to be okay. But we’re not coming this time. We’re just going to let the market settle a little.

I think at that moment everybody has to then reprice every asset that they own, based on the fact that there is no backstop. And, if you do that, and you reprice everything, x the Federal Reserve’s intervention, I can’t think of a single asset in the world whose price would be higher than where it is now.

And that incredible correlation we’ve seen, where everything seems to have a correlation of one to everything else, could really reinforce itself and you might get – from that 5% fall, you might get a very quick 15-20% fall.

And that to me is a very plausible – I don’t want to say it’s probable, but it’s very plausible – path for this market to take. And I just worry that when things do turn, when we get a market that falls, I just don’t know who the buyers are.

We’ve had the dip buyers. That’s fine. But with so many people having lifetime high exposure to equities, who are approaching retirement – We’ve spoken about this before in terms of the boomers having huge allocations to equities, because they can’t get any income on their bond portfolios. These people can’t afford to take 15%–20% drawdown. They don’t have the time to make that back again.

So I worry that, if markets show weakness, the Fed will try to do the right thing in letting it fall a little bit and take some air out of the market – things could snowball very, very quickly. At that point, the Fed might have to step back in. And then we finally get to that stage where their credibility is clearly impaired. And that's the point that a lot of people are looking at guys like Bill Fleckenstein , waiting for the loss of credibility of the Federal Reserve and of the central banks.

So you can see ways where this could get out of hand very quickly. And, to me, it's not a case of saying this is what's going to happen tomorrow. It's a case of saying, okay, at all-time highs, on just about every asset class on the planet, I need to sit down and I need to think about why I'm invested where I'm invested. Am I happy with my exposure? Do I want to raise some cash and just be cautious?

Because, to me, you have to have a plan for what happens when the market goes the other way. Because it will. Markets don't go up in a straight line forever. There's going to come a point when the markets go down. And I think we're closer to that every day. And I just think people should have a plan as to how to deal with it.

Erik: Grant, another subject – you mentioned we're all talking about beating drums and the changing tone of guests. I've noticed something, and I'm sure you probably have too, just six months ago every single guest we had said, forget about inflation, it's all about deflation.

Now we're seeing a real turnaround. More and more guests are really talking about a resurgence of inflation. Hugh Hendry has told both you and I his view about it's being 1965 all over again.

Do you think it's time for inflation? Where are we in the story?

Grant: I think that now it's a very distinct possibility, certainly more so than it's been. More so than it's been in the last few years. I don't think we're quite there. You can't really see the whites of Inflation's eyes just yet.

But it's interesting that the pressures are certainly building. And that could be another one of these moments that tips this whole thing, if we really do get clear inflation in the Eurozone and in the US.

Particularly with wages. That, I think, is the key. If we start to see wage pressure – which has been strangely absent, given the low unemployment rate – that would be the canary in the coal mine. And I think if we do get that return of inflationary – again, it's just another one of those really clear paths to markets changing their character. And I think it's that change in character that is the real danger.

Markets have been so docile for such a long time now, that volatility is down to single figures and seems rooted there. But once that changes, once the character of the market changes and we start to see a different set of variables, if we are seeing increasing inflation that's going to change an awful lot of things.

Dominoes from the inflation story picking up go to all sorts of places in the market and suddenly the character of the market changes. And, once the character changes, responses change. And, once responses change, a lot of the computer programs will change.

And so, as I said, this correlation of everything is very dangerous given the perilous state of where we stand now. The US GDP at 3% – 1.2% of that was inventories, which are already at all-time highs.

So the growth, I don't think, is there. And certainly not to the degree – and I think the Atlanta Fed came out today and they're expecting 4.5% for the next quarter. Which – the history of the Atlanta Fed has been to start with a high print and then walk its way ever lower down to somewhere in the high 1s most times. But, again, they're now talking about 4.5% GDP prints.

I don't think we're going to see that, but I do think we have a very clear way where we could see inflation pressures and, as I said, that will change the character of the market.

Erik: We should mention, for our listeners' sake, that we are recording on Wednesday and we do not know who President Trump's nominee for Fed Chair is going to be. Our listeners probably will have heard that news by the time this episode airs on Thursday evening.

Let's follow the inflation though. As you said, it leads to lots of other markets. I know one of your favorites is gold. My question – I know you're a big fan of gold – So far, at least, it seems like the dollar is recovering, and that presents a headwind for gold.

So is it not gold's time yet? Or do you think that the gold and dollar both appreciating at the same time scenario that we've talked about over the last year or two is eventually going to come about?

Grant: Gold has been remarkably quiet. When you talk about me being a big fan of gold, to me it has a place in, I think, everybody's portfolio right now. I fully expect there to be a time when that allocation would be minimal. But right now, with what's happening, the fact that gold isn't moving, to me it's just a great opportunity if you want to own gold.

Now, there's a big difference between people who want to own gold as portfolio protection and people who want to trade in it. And I totally understand the two.

There are a lot of people who look at charts and think, oh, gold could go down to $1,000. And could I see that happening? Absolutely I could. I think Harry Dent's call of $700 is a little farfetched for me. But I think if gold goes down to $1,000, if you want to allocate some of your portfolio – as some kind of insurance policy – that is going to be a phenomenal opportunity.

Because I think over time, given what's happening, given the stuff that you've covered so brilliantly on you show in terms of demographics –Mark Yusko's "Killer Ds" – we can all see the really, really big picture here. We can see that the entitlements are never going to be able to get paid. We can see that the answer to that is going to be further money printing by central banks.

They're hoping that they get enough growth in the interim to make that go away. But, realistically, it's – I'm not going to say it won't happen, but, to me, it's a miniscule possibility. And so the long-term picture to me is pretty much set. And, if I'm right about that long-term picture, then people will want to own gold. So accumulating it and not necessarily stressing over the price just makes sense to me.

If you're a trader here, would you sell it or buy it? I'm not going to argue, but you might sell it if you're looking at what's happening to the dollar. You might think, okay, I'll get a quick hundred bucks down here.

But that's not how I look at gold. It's not a trade to me, it's an allocation. And that allocation shifts up and down depending on the circumstances. Right now, to me, the allocation to gold – particularly given what we've already spoken about in terms of escape plans and taking money off the table, and just trying to take a pause and see if the markets can consolidate up here and give you a reason for another leg higher – gold, to me, at these levels, is a great place to allocate some of your portfolio, for all those reasons.

Erik: Now the crypto guys would say, Grant, as much as gold was not a barbarous relic when that phrase was coined decades ago, crypto is the way. Forget about gold. It's just shiny, yellow metal. It cannot be transacted instantaneously, globally, securely, the way bitcoin can. Forget about gold; it's all about bitcoin.

I know you've done a fantastic objective job as a journalist on "Adventures in Finance" in not taking too many sides as you've interviewed people on both sides of that argument. I want to know your view.

Are we talking about tulip bulbs, or are we talking about the way of the future, when it comes to things like bitcoin?

Grant: You had to do it, Erik, didn't you? You had to do it. You had to get out there and make me say something that's going to upset 50% of the world's population. The bitcoin thing is fascinating to me, and I think there are two answers to that question. I think, when you talk about is it tulip bulbs? Yes. Absolutely it's tulip bulbs. But I'm talking about the price right now.

The price of bitcoin right now, I think, is tulip bulb territory. Blockchain and the future of this technology on the other hand, I think is one of the most important things that we've seen in our lifetimes. And, the thing I've been waiting for with bitcoin, and the thing that, for the longest time now, I've said that I want to see before I really understand where it is in its evolution, I need it to be tested. I need to see what happens to bitcoin when markets fall.

If we have a 10% correction, if we have some significant pressure put on markets, I want to know: Does bitcoin fall? Because, as we saw in 2008, one of the things that got hit the hardest immediately was gold, because that was collateral, that was margin calls for people. They started liquidating their gold to make margin calls.

You've got people sitting on thousands of percent of gains of bitcoin that they're not going to want to give back. So if things get squirrelly, one of two things is going to happen. Either bitcoin is going to get pounded, because people think, I don't want to give up these massive gains. Everybody tries to sell their bitcoin, the processing can't handle it fast enough, the markets freeze up, which kind of feeds on itself. And so you get a big fall in bitcoin.

The other thing that might happen is the markets get really wobbly, and people dive into bitcoin because they see that as some sort of escape valve. Either way, to me, both of those are a buying opportunity. If the price gets cut in half because people are panicking, I would be a buyer of bitcoin.

And if it can survive that test, if it can survive those outside pressures, if it can survive panic in the broader financial markets and people run to it, then that to me says, okay, this price that right now I believed to be some kind of tulip-like bubble, I'm wrong.

If people will flock to buy this asset at $6,000 in a panic, again, that would be something that would encourage me to buy it rather than sell it. So I think it's got ahead of itself. I think blockchain technology is the future. AS someone said to me, it's triple-entry bookkeeping. Once you've got that you don't go backwards. But we're still very, very early in the piece.

The thing that I find saddest is just this: I guess it's a sign of the polarization of the society we live in, but you either love bitcoin or you hate bitcoin. And if you love it, then the haters hate you. And if you hate it, then the lovers hate you. And there's just no dialogue.

I've tried to talk to people about this, and try and talk to people who know an awful lot more about it than me. And I'm always fascinated to sit and talk to bitcoin guys. You know, the podcast you talked about, we spoke to Trace Meyer, who's a good friend of mine, and Bruce Kleinman, and these guys know a lot more about it than me. It was fascinating to get their take on this. Because the simple truth is, they all know a lot more about it than me.

So, while I have an opinion, it's based on the research I've done and the reading I've done and the understanding I've gained. But I would never hold that up as some kind of level, which it isn't. And so, for me, it's just a question of watching the price action and trying to understand the psychology around it.

And when I, as I said, when I game it out, that's what I want to see. I want to see how bitcoin reacts to the DOW down 5% in a day. Or the S&P down 3%. Or the dollar making a big, big move. And volatility returning.

Because I suspect the first move will be liquidation of bitcoin, and I would welcome that as a chance to get in.

Erik: I'm curious when you say that. I thought that interview was fascinating with Trace Meyer. I thought that his own argument, to me, was the best counterargument to his own argument. Which is, he said that bitcoin just does such a fantastically good job of being government-proof and not being traceable and trackable and sizeable and so forth. And, to me, that's just cementing in my mind that it'll eventually be outlawed.

So, when you say that if it were to succeed in a crisis you would buy bitcoin knowing that – I mean, I think that blockchain-based secure digital currency is definitely the way of the future, but I think governments are going to insist on something that allows them to have all of their controls and all the things that the bitcoin guys don't want them to have.

Do you see that as less of a risk than I do? And if so, why?

Grant: I definitely think it's a risk. I definitely think it's a risk. And, as you say, Trace addressed that in the podcast. But, unfortunately we didn't have a long – that was a very long conversation that we just didn't have time for.

My contention has been that if you make bitcoin illegal, you basically vaporize 98% of the demand for it. Because most people are law-abiding citizens and they won't touch it. But I suspect in a dislocation, people, regulators, officials will have a lot bigger things to worry about than the bitcoin price at that particular point in time.

I fully expect that at some point this thing to come under government control. And my friend Simon McCulloch makes a great point about the tax implications of bitcoin. Every bitcoin transaction, technically speaking, should be taxable. And how does all that work?

But I think it's still such a new technology, and I'm sure – just as you and I are trying to get our heads around it, and everybody else in the investment world is trying to get their heads around it – I'm sure that governments and the IRS and these guys are doing likewise.

Now, at some point, I suspect they will move towards doing something to capture this. But I don't think that's going to be out of the clear blue sky overnight. Trial balloons will be floated. Papers will be written. All kinds of things will be posited. So, I could be wrong, but I just don't think this is something that is going to be knocked over overnight. I just don't see – it's so complex and it's so misunderstood, even by the people who are building this thing. It's evolving and changing every day.

And we all know how slow governments and officials are at getting their hands around these things. So I'd like to think that you still have a reasonable amount of time before that becomes the biggest thing you have to worry about.

Erik: Let's move on to Jeff Gundlach's infamous call – that nobody believed at the time, but he's been right so far – when he called to the day what he said was the end of the bond bull market, last year. Expecting rates to only go up from there. At that point I think it was a one spot 34 print on the ten-year yield.

Raoul Pol has been one of the most outspoken to disagree and say that we're headed for 50 basis points.

What's your view?

Grant: It's funny, I was actually interviewing Jeff, I think, literally, the day after he made that call. And I remember saying to him at the time, look, you may well be right –

I was thinking about this the other day. If you are a portfolio manager, to have managed money in a rising interest rate environment – I don't mean a couple of hikes here and there, but a secular trend of rising interest rates – you have to be in your 60s. If you're not in your 60s, you haven't managed money in that kind of environment.

So if Jeff's right, we're all walking blind here. There aren't that many 60-year-old fund managers around anymore. The ones that made it that far are probably retired. And a lot of them have probably lost active funds to passive funds. So we're all walking blind.

Raoul's point, I think, is valid in that I suspect there will be one more panic into government debt. But next time it won't be "get me sovereign debt," it's going to be "get me US Treasuries." I think people won't want to buy Irish debt and Spanish sovereign debt, they will want US Treasuries.

Just, if this event that we've spoken about during this call – the 5% fall, maybe 10% fall, whatever it may be – if we get that event, as I feel is possible, then I think there will be one more panic into US Treasuries. I don't think it's any kind of trend. I think it'll be one panic and then I think we'll start to move higher in terms of yields. And that won't be a secular trend.

I don't want to sit on the fence. I kind of agree with both of them. I think in the long term, I think Jeff's right. But I think there could be a one- or two-week period where Raoul has the upper hand. Not to the extent of 50 basis points, unless the dislocation I'm talking about happens and it's major and people want to buy Treasuries at any cost. But I think we could see one more plunge in Treasury yields on the back of some kind of market dislocation.

Erik: Let's move on to Australian housing. A lot of people, of course, think Australia is in a property bubble. You live there, part of the year at least, when you're not traveling for Real Vision. What's your view? And, particularly, a big topic: In the US there was a securitization that – I think the unwind or the failings of securitization had as much to do with the 2007 crisis as the valuation of the real estate itself.

So is it apples to apples? Does the same kind of crash risk exist in Australia? Or is it really a different animal?

Grant: I just want to check, Erik, because I'm in Melbourne at the moment and I want to make sure that this talk is going out after I've left Australia, because if I say anything negative about the Australian housing market I'm going to have to lock my door.

One of the most amazing charts to look at is the chart – and you can find it on the Economist website – the housing index. If you plot the US against Canada – you know, everyone's talking about this bubble in Canadian real estate. And that seems to be pretty widely acknowledged, that the Canadian housing market is some kind of crazy, particularly in places like Toronto and Vancouver.

You plot the two of them and you see they go up pretty much in lockstep until '07-'08. And then the US has its correction, we all know all about that, and there's a tiny little dip in Canada and it goes on its merry way.

If you take those two and then you put the Australian index over the top of them, it's extraordinary. I mean, it's not even close to those two. And it's reached levels which Canadians and Americans couldn't even conceptualize.

The property market in Australia is a very unique beast. I was doing some work for my speech I gave down here in Melbourne. Melbourne property prices have increased 1,500% since 1980. In basically a straight line. And that's across all the major cities in Australia. Now, we've had a correction in Perth as the mining boom has slowed down – you've seen some real pressure on the housing market out in Perth. But Sydney and Melbourne have remained remarkably robust.

The problem, to me: We're seeing, if you look at the bank balance sheets, we're starting to see some pressure on loans at the tails. But Australia hasn't had a recession for 25 years or more. And when you talk to people in Australia they firmly believe that housing prices only ever go up. They've gotten used to the fact that this is a country that just doesn't have recessions.

And this is not to say that there's a recession coming. I mean, there is. But who knows? Maybe it's another 25 years – I doubt it. But there's one coming at some point. And the longer this goes on, and the higher Australian housing prices get, the more sensitivity there is going to be to even a mild recession.

And, if people start losing their jobs in Australia, housing prices are at levels that really make them unaffordable. If you don't have a job, you are going to be struggling to pay your mortgage. So it really doesn't take much at the margin here, with how sensitive this whole thing is to some kind of downturn, for things to cascade very, very quickly.

There's no arguing that the levels, if you look at them versus the rest of the world, are beyond just about anywhere you could think of. With the exception possibly of Hong Kong, possibly Singapore (but the Singapore housing market has cooled).

And we've just, as I said at the start of the show, seen the Kiwi housing market come to a screeching halt. We've seen downward pressure in places like Vancouver, and some of that come from government regulations.

But it's clear the Aussie housing market is a very perilous – how little it would take for this thing to fall over. And it's such a cornerstone of society and the wealth of the average Australian that I think it would feed on itself very, very quickly.

You know, Jonathan Tepper has done some fantastic work on this. And I have to give a heads-up to Pete Wargent, based in Sydney, he's a property advisory service. He's got some incredible data on this.

And if you look through the data – and you look at the work that Jon Tepper and John Hempton have done, particularly – you'll see that, because it hasn't happened, seems to be enough for the average Australian to believe it won't happen. But, if you're looking at it from afar, the argument thrown back at you is, well, you don't understand because you're not down here in Australia.

If you look at it from afar, you can see all the signs that we've seen in every other housing bust, certainly in my lifetime. They're all there. And they're lined up at a level that is materially higher than any of the others I've seen.

And so, at some point, this is going to fall over. And, given, as I say, what's happening in other parts of the world, I just have that feeling that we are getting close. And it's something that I'm watching very, very carefully.

Erik: We had Pete Wargent on the show a few weeks ago, and I agree with you. He's got some fantastic data.

I have to echo something you said that I think is so important for people to understand. This is a cultural thing.

Last time I was in Melbourne, I found people were extremely offended – just told you clearly to your face – do not suggest just because your country had a housing bubble that means we can have one here. And I said I didn't suggest it because my country had one, I suggested it because 47% of your GDP is iron ore exports to a country that's in really serious trouble with a credit expansion that's about to fall apart.

And people become indignant. They are very, very offended if you suggest that it's possible for Australian housing to crash. They're in complete denial.

Grant: Isn't that symptomatic of just about everything right now? Whether it's politics, whether it's investment positions, people don't want to hear the other side. Which I think is a real shame. You know, for me, if I'm long on a house in Melbourne that's skyrocketed over the last few years, I want somebody to come and say to me: You know what? It's heading for trouble.

And then I'll sit and ask them why. I want to know why. I want to know as a Republican what the Democrats' argument is. I want to know as a Democrat I want to know what the Republican argument is. But, for whatever reason, this polarization of society has become a real problem.

To your point, people won't listen if you have a different view to them. And, when trying to pick the top in markets, or in trying to figure out the best time to get into and out of investments, it's so important to challenge your own viewpoint. Because we're not all right all the time. And if you're right 55% of the time you're going to make a very nice living.

So, to dismiss the opposite side of any kind of stance you've taken, I think, is just short-term. It's naïve. And it's very, very dangerous right now.

Erik: Speaking of people taking strong stances, I want to go back to this sport of backing you into a corner and making you take a side on some of the subjects. You've interviewed Kyle Bass. And you've, of course, interviewed Hugh Hendry. Is Kyle ever going to be proven right on this China credit expansion collapse potential deflationary wave maybe even another global financial crisis argument that he's – I guess he's been saying it for a couple of years now.

Now recently, on Real Vision he came out and said now it's imminent, it's right around the corner. What's your take? You've heard Hugh's side of the story as well.

Grant: As you just said – you just talked about Australia's exposure to a country with a massive credit expansion that is going to fall over. And I think, again, we all know that what's happening in China is unsustainable. This unsustainability is just riddled through every corner of the markets. And a lot of that is down to the fact that everything has been done to try and keep the wheels on this thing.

So, is Kyle going to be right? Absolutely he's going to be right. Is it imminent? I don't know, Erik. And I think we all have to admit that we don't know. And China is arguably the place that we don't know the most, because it's so opaque.

And when you've got a country where 27 companies can be asked by the Party to delay their results during the Congress, because they were worried the results were going to be poor, how do you handicap that as an investor, as an outsider, who's trying to take a position and make a profit?

It's really, really difficult. So I think Kyle is absolutely going to be right. To me there's no question about it. But this could go on for a very, very long time. And, to me, is China the first thing that tips over? I doubt it. Because of the fact that they can keep doing this stuff for perhaps longer than some of the Western developed democracies can.

And, let's face it – I don't think I'm talking out of school here in terms of casting doubts about the veracity of some of the Chinese data that comes out – I said this in a presentation three years ago: If there ever was a meltdown in China, would we actually know about it? I don't know.

So I think it will happen, pretty sure it'll happen, but I suspect we may find out it's happened after the event. And so to take a big bet against it I just think is a really difficult thing to do. I think, if you see signs that it's starting to crack, you'll have plenty of time to get a trade on.

People say, you can say "what," you can say "when," but never say both. And I think, although you have to try and position yourself along a time horizon, coming out and saying okay it's going to happen now, or next month, or in the next three months, we're all guessing. It's the future. None of us really know about the future.

Erik: Well, since you mentioned that it might not happen first in China, let's move on to Europe. The last time we had you on the show you were very outspoken in saying Brexit was the nail in the coffin, it's a matter of time. It will probably take years to play out, but more countries are going to leave the EU. The EU is doomed.

Is that still your view? And how are things playing out compared to your original expectations?

Grant: It's absolutely still my view. And I think if you look at what's happening in Spain, the writing's on the wall. I mean, it's very clear what's happening there. And, whilst we still don't know how that's going to play out, this is, to me, way more serious than Brexit.

The UK, the Brits, we were never really – I don't think at the margin Brits felt European. We have this cultural identity that's borne of being born on an island, we just have that mentality. And I don't think the average Brit thinks of themselves as a European. They identify as British first and European second.

But Spain is very much in the heart of Europe. And to have what's essentially turning almost into a revolution is to me another nail in the coffin. And the way it's been handled by the EU, I think, has been appalling. Not that there's any easy way for them to handle it, but I think (Mariano) Rajoy overstepped his bounds with the police going in there when they had the ballot. The fact that the separatists haven't backed down, the fact that they are challenging Madrid overtly to try and put pressure on them, tells me that this runs very, very deep.

And if you look at what's happened in Austria. You know, we have a 31-year-old leading Austria. Again, a large country, the center of Europe, has a 31-year-old premier. And this guy is not a fan of increasing European-ness, for want of a better word.

So this tide is kind of spreading throughout Europe. You look at the youth unemployment rates right across the continent. They're still incredibly high. And there's a disaffection sitting beneath the EU that is too readily glossed over, in my opinion.

And, when you look at the way the negotiators are dealing with the Brits, with leaks about dinners between Jean-Claude Juncker and Theresa May, the British prime minister, pressure being put on in all the press, it's a very underhand and a very devious way of conducting business.

And I think that speaks a lot to the character of the European negotiators. This idea of a European super state is such an important central plank to how they see the world, that they really don't have any flexibility. And so they are going to keep pushing.

And when we get events like the Catalan independence movement, they are, instead of going to sit down and listen and try to negotiate and try to work out what is it exactly that you don't like? What is it that's causing the friction? Let's maybe come up with a compromise. For the European, the EU bureaucrats, there is one way and one way only. And that's more Europe, that's more integration, that's a European military, that's – it's just more and bigger Europe.

And, when Peter Atwater talks about this whole split in social mood and how people are now all about themselves instead of about the broader body, that is translating through into politics. And countries want to be themselves and not part of the wider body. And the wider body is starting to put pressure on them in ways that I just do not think, given the elevated tensions, are going to work in the way they think they would.

So I think Europe is doomed as it is. I think it's not finished, but it's doomed in its current form. And the sooner the people in charge of making these negotiations realize that, and start being sensible about their solutions to these problems, Catalonia's not going to be the last situation we're going to see.

So I'm watching very closely how they handle this. Because I suspect this is not the final blow-up in this wave of independence-seeking across the continent.

Erik: Unfortunately, I am absolutely convinced that you're right. And I just fear how much more – I mean, the business of the police coming in and beating unarmed women in the head until they were bloody, for the crime of trying to vote in an election that was sanctioned by the local government – the sitting local government if not the national government – Wow. That's just crazy stuff. And I fear that it's only going to get worse.

Unfortunately, we are running out of time. Before we close, though, I think, Grant, that your name has become so associated with the "Adventures in Finance" podcast a lot of listeners don't even realize that you write probably one of the most involved, longest, most interesting paid subscription newsletters in the marketplace, "Things That Make You Go Hmmm."

And, of course, out of respect for your paying subscribers, we were unable to share the latest edition with our listeners. But we do have a link in your Research Roundup email to a back issue from just a few weeks ago, October 10th, called "Never Say Never Again."

Give our listeners a sense of what they can expect to find there, and elsewhere. And if they like it, how do they sign up?

Grant: That's very kind of you. That particular piece, I was just looking at some of the declarative statements that people make about things that will never happen and could never happen. And I started with this idea of having (Irving) Fisher's permanently high, stock plateaus six days before the 1929 crash, and all the way up to Janet Yellen's "we'll never have another financial crisis in my lifetime."

People have this tendency to make absolute statements, which is never a wise thing to do at the best of times. But when you go through the history of these things, you realize just how deeply engrained they are. So I just tried to take a look at those and see where we are in relation to some of these declarative statements.

All the way down to the corporate level with the CEO of American Airlines talking about how his company would never lose money again, and the fact that airlines have basically reached a permanently high profit plateau.

And, generally speaking, these kind of statements happen right before the people saying them get proved to be very, very wrong. So that's what that piece is all about.

But recently, I have covered the Aussie property market, I've covered Tesla, I've covered all kinds of things. I just try and write about things that I find interesting and perhaps a little bit off the beaten track. And try and inject a little humor into them, because if I didn't do that I'd be banging my head on the desk.

Erik: Well, it certainly is one of the most thought-provoking and interesting newsletters out there. I certainly recommend it.

Grant, I can't thank you enough for another fantastic interview. It's great to have you back on the show. It's been too long. Patrick Ceresna and I will be back as MacroVoices continues, right here at macrovoices.com.