MACRO Voices
with hosts Erik Townsend and Patrick Ceresna

Daniel Lacalle: Is The Trump Trade Over?

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Erik: Joining me now is Tressis Chief Economist and fund manager, and of course, best-selling author, Daniel Lacalle. Daniel, it feels to me like maybe the various trades, whether it be dollar north or gold south, the things that happened in reaction to the election of President Elect Donald Trump, feels to me, like maybe those trades are running out of steam. What do you think?

Daniel: I think it's probably run too fast, and we need to at least take a little bit of time to analyze whether the strength of the US dollar is going to continue, and particularly the very complacent view of equities, considering that the earnings season is coming and that there may be some challenges, particularly in the Russell 2000 which has had a phenomenal bounce thanks to the election trade, I understand that there's a strong element of fund flows. I witnessed in different competitors and friends that there was a conscious decision to get into bonds with higher duration, reduce exposure to the United States, increase exposure to Asia and maybe to the Euro area, and that obviously has worked horribly. So, there is certainly a double whammy, right now, happening. On the one side, people are re-balancing their portfolios to an overweight in the United States and reducing those exposures that I just mentioned, and at the same time, the sort of buy in case anyone misses out, the fear of missing out of a very aggressive change in the economy, I don't think we can expect a very aggressive change in the economy, let alone in the earnings profile short term, and therefore we need to be a little bit cautious about that. Maybe the dollar, which has been a huge underweight among investors, is the one that probably has some room to go from where we are today, and we may see some, at least, calming down in the equity and more sort of cyclical stocks.

Erik: Let's talk a little bit more about the US dollar in specific. It touched 107, it looks like, on Wednesday. Clearly, it's taken a breather here. Does that mean we're just catching our breath before the next push higher? Are we going all the way back to 116 or whatever that previous cycle high was? Or do you think that was it at 107?

Daniel: Well, I think that it's reflecting a couple of things, and not just the Trump trade. It's certainly one of the main drivers. But we must also remember that the dollar started to recover quite fast already when what we were seeing in the Euro area and in Japan was the evidence of persistent inflation and weakening economic growth. The DXY ultimately is 70% Euro and Yen, but what I'm interested in is the strength of the US dollar, the trade weighted nominal basket, because what that has shown is that the strengthening has been significantly higher and that there's been an immediately opening of the gap between the DXY and the basket of the nominal trade weighted US Dollar Index, and that shows basically that the Dollar is strengthening relative to the currencies with which it trades the most, and strengthening faster than relative to the Euro and the Yen. So, I think that that probably shows that there is more room to go in the DXY, remember that there was a big-short in the market against the DXY based on the idea that the Euro area was bottoming down, and therefore things were going to start getting better, that the Japanese weakness of the Yen was over because of the Central Bank of Japan policies. So, there was a lot of, let's say, more desire than reality in the trade on the side of the Euro and the Yen. However, what has happened is actually the opposite. What has happened is that the demand for US dollars globally has started to go up instead of down, and that the challenges of the of the Central Bank of Japan with the Yen continue, despite the sale of billions of US dollars. And the Euro area economy is a disaster, just an unmitigated disaster, and there's nothing that can be done quickly short term.

Erik: Geopolitics heated up over the weekend, with President Biden announcing that the US would authorize the use of us ATACMS missile systems to strike targets deep inside of Russia. Now, of course, the red line that Putin drew was not so much Biden making that statement, but what Biden has just authorized Ukraine to do would be crossing that red line. Putin specifically said, I don't have the date that he said it in front of me unfortunately, he said, if Ukraine were to launch American missiles into Russia, which is something that Biden has just authorized them to do over the weekend, that would mean, as far as Russia is concerned, that the US and Russia are at war and that Russia would respond with the use of nuclear weapons. So, Putin laid a very clear red line in the sand saying we're going to respond with nuclear weapons if we get hit with these kinds of strikes. Biden has just authorized Zelenskyy, if he wants to go ahead and do that, he can do it, at least that's my understanding of the news. And I should also mention for our listeners, we're recording just before the European open on Monday. So, Daniel and I don't have any news as to how the markets have reacted to any of this yet, we only have the news flow over the weekend. What do you think? This seems like a big deal, Gold is definitely bouncing in reaction to it. Where is this headed?

Daniel: Well, I think that it's a very dangerous move, because it's certainly not advisable for an administration that is on the way out to make drastic decisions about its position in a war that has been going on for a prolonged period of time. Furthermore, it's not the most logical decision when the policies of the French and the German are actually to try to find some level of common ground that will allow negotiations. So I think that that is, in itself quite concerning. I think that the other concerning element here is why accelerate the geopolitical tensions when elections have passed? It's basically almost like trying to trip over and make decisions that will affect the next administration, even though there's not been a transition of power. So, that is dangerous in itself, because also, if the Russian Government and the Ukraine Government perceive that there is a window of opportunity because there is a transition period, and the Ukraine Government perceives that this is an opportunity to do things that prior seem to be very difficult. And the Russian government sees that this is a window of opportunity because in a transition period, the US government is doing things that they were not doing before the election, then it can get really heated, and that's why I think I'm seeing the futures this morning, markets are quite choppy, and at the same time, gold is coming back, it's logical, no? It does not make any sense whatsoever for the Biden administration to make such a leap in terms of the escalation of the conflict that basically contradict everything that they had been doing and that NATO had been doing, and that the European countries had been doing in the past seven months. It's really staggering. It seems like, it almost seems if we were to be suspicious, like Biden wants to make a final decision that is going to escalate the conflict to a full blown war. Hopefully it will not happen. But I think it is certainly very, very dangerous.

Erik: I'm very concerned about that too. Daniel, I would love to hear the counter argument. Of course, the right wing of the online discussion about this is saying that Biden has intentionally done this for no reason other than to sabotage President Elect Trump's promise that he would end the war within the first few weeks by escalating it to a major military, potentially nuclear conflict during the lame duck session before Inauguration Day. That's the kind of thing that having been born in the United States, I really don't like that kind of talk unless it's true. And I really, really like to hear the counter argument to say, no, that's nonsense because ____. Can you fill in the because ____?

Daniel: I think it's difficult, but let me try to make the case of why I don't think it is that. I think that Biden wants to end his tenure a with a geopolitical decision that will place him in history as somebody that sort of advanced the position to end the conflict in the way in which he and the Democratic Party and the Biden administration in general perceive that it should be done. I think that it's basically a sort of last-hurrah type of decision, not basically trying to sabotage, or maybe not trying to sabotage, but try to sort of make very clear that the Biden administration did see the war and the conflict, as it is right now, as the only solution, i.e. there is no possibility of negotiation. But I think it's more likely that what we are seeing basically is, President Biden trying to make something, let's say, that is going to be perceived by the future voters of the Democratic Party as the right thing to do at the right time, no matter what. In other words, try to present himself as somebody that continues, as he tends to say, to do the job.

Erik: Okay, it's difficult for me to understand how doing this decision at this time…

Daniel: I tried.

Erik: Let's do our job and stay focused on financial markets and out of taking sides in the politics. Let's assume that what you just said is right. This is not a sabotage effort, but rather, this is a case of President Biden feeling very strongly that his patriotic duty to his country is to see through what he started and to do the right thing, which he believes is to empower Ukraine. Perhaps what he sees is he feels that Ukraine is about to be abandoned by President Elect Trump, and he wants to come to Ukraine's aid before that happens. That's about the nicest spin I can manage to put on it myself. Let's assume that that's the case. And what would it mean for financial markets? Presumably, gold looks… does it mean gold has bottomed? Does it mean it's time to pile back into gold here? What other consequences and implications will this have on markets?

Daniel: I would certainly unwind the long Euro trade, predicated on the idea that the ECB is going to be dovish and the economy is bottoming out. I would certainly take positions in gold now that investors can take the opportunity of the recent small correction to purchase some gold, which works very well as a sort of cushion to challenging geopolitical environments. And certainly, the other element that I would be interested in looking at is the energy spectrum. I think that this is going to be very positive in terms of stocks for the energy complex, both on the renewable side and on the fossil fuel side. Certainly, that is what I would be looking at. I would certainly be very aware and reducing exposure to European banks, and certainly reducing exposure to European industrials.

Erik: Now, what about oil itself?

Daniel: Well, I think that the great thing that we have now is a tremendous understanding of how oil has been reacting to geopolitical events, and I think that what we can see is that the fight between oversupply and geopolitical tensions, what it does certainly is to leave a comfortable bottom at which oil prices sort of settle, even in an environment of weakness of demand or weakening economic growth in China, etc. So ,I think that geopolitical tensions have been generating this sort of support level for oil prices that help investors at least understand that it's very unlikely that we are going to see a prolonged bounce in oil prices because of geopolitical tensions. Geopolitical tensions set a bottom, but not a ceiling, considering the oversupply and the level of weakness of the manufacturing sector globally that is certainly hurting demand growth, and that's why OPEC reacted that way in the past meeting. So therefore, I think that it's a very good trading opportunity for oil, no? You certainly can set a sort of a bottom around $73 Brent, and move between $80 and that level and take short term bets, according to news flow coming on the geopolitical side. I don't think it's going to rise to $90, $95, $100 a barrel, because, even if the geopolitical tensions increase, we also must remember that the already very, very weak manufacturing sector and industrial sector globally would get even weaker. So, demand is playing a very significant role in the price formation these days. So, I would say that it's more of a trading opportunity. But certainly, if things escalate the way that we have been talking about, I would see oil prices moving back to the resistance level that was set with the 7th of October attacks.

Erik: Now, the stage appears to be set that, if you put yourself in Zelenskyy's shoes, presumably, he knows that once President Trump takes office in January, that likely Zelenskyy is going to get a lot less support from the United States. So he's presumably going to want to do whatever he's going to do as quickly as possible, while he still can, while he's still able to use US weapons to his advantage and so forth. That could mean a rapid escalation of whatever happens next, and it's happening at the same time of year, which in past years, Europe's economy in particular, was extremely vulnerable to an energy price shock. How is that true again this year? Or is Europe more resilient because people saw this coming?

Daniel: I don't know, not because people saw this coming or because Europe has taken important preemptive policies to reduce it, but because mild weather and storage are going to come back to help the Euro area and the European Union, instead of policy. Storage is very,

very strong, and right now, the level of storage in the in European countries is reaching record levels. So that is going to mitigate the impact. Obviously, storage doesn't solve everything, but the other thing that is certainly helping is that it's already an exceedingly mild winter, and it is expected to be a mild winter throughout. Therefore, just like in the energy crisis of 2021/2022, where we probably will not see a significant disruptions in terms of supply because of those factors. However, the European Union has done nothing to really strengthen its energy supply chain, it's basically just relied on the fact that US LNG, liquefied natural gas, was going to continue to come, that the Nigerian, Algerian gas was going to continue to flow into Europe without a problem. But tensions like this, and certainly what you've just mentioned, if Ukraine decides that they need to do everything quickly and as much as they can, then the likelihood of challenges to the supply of gas, are likely to increase very, very quickly. And obviously, the European Union is not prepared for another energy crisis. Germany is already suffering from the misguided decision of shutting down the nuclear terminals, and it's going to be quite a problem, certainly an economic problem. So maybe the supply problem may not arise because of the storage levels. However, the economic problem is certainly going to arise because what has happened in the last four years is that we have seen gas prices, natural gas prices go through the roof because of the Ukraine war and then come down very, very quickly because of the supply of liquefied natural gas from the United States and other countries, and the very weak demand from the industrial sector. However, what's interesting is that in that period, what we are talking about is the spot price, that we see in markets, however, what industries, what citizens are paying, has basically remained very, very elevated. So, the economic problem is piling up. The European Union is basically almost giving up to the fact that it is going to pay a significantly higher price for energy and that is going to continue to erode competitiveness and disposable income of families. So, the problem, I think, is not going to be one of a sort of short term, abrupt crisis, but a prolonged crisis, which is what we are living right now.

Erik: Now, the official statement from the White House was that this was in reaction to North Korea sending troops to Russia. I'm not even familiar with North Korea's military capability. They certainly don't have any aircraft carriers. How significant is the North Korean participation? North Korea is rumored to be, at least mostly a nuclear state, we know they have nuclear weapons. We don't know how capable they are of delivering them long range with missiles. Is this a major destabilizing event where we need to worry about the US ending up at war with North Korea as well?

Daniel: I don't think it's going to be the US ending up at war with North Korea, but I think the Biden administration is sort of analyzing, and at least concluding is that if North Korea is sending troops to the Ukraine to support Russia, that means that China is entering in the conflict full blown, because North Korea is a subsidized state by the Chinese government, no? It’s completely inviable as an independent state. So, nobody can believe that North Korea is sending troops because they have just decided to. They have certainly received the okay from China, so I think that maybe the position of the Biden administration is that this is a sort of indirect way of stating that China is entering the Ukraine war in a sort of roundabout way, in terms of the change for Russia and its availability of equipment, technology, forces, etc. North Korea, to be fairly honest, means nothing. It is ludicrous to think that North Korean troops or

North Korean military equipment are going to make a significant impact for Russia that has one of the strongest, if not one of the most diversified military equipment and systems in the world. So I don't think that bringing North Korea to the picture makes a big difference in terms of the of Russia's capability, because they already have more than strong capability, and it's proven to be that way. And I think that it is probably the understanding that this has been approved by China. I think that that is probably what has sort of changed the position of the administration.

Erik: I think that that connection that you just made to China approving of this is a perfect segue to the topic of trade wars. Because President Trump, needless to say, has had a very colorful campaign talking about how the word tariff is his favorite word in the English language, to the point where some of his followers have even suggested that he ought to abolish the income tax and in favor of a new system where we replace taxes with tariffs. Needless to say, that was really setting the stage for what I thought, before all of this happened, would be a pretty darn tense moment when Trump took office. Had to sit down with Xi Jinping soon thereafter, after having campaigned on a platform that was all about tariff is the best word in the English language. I thought Trump really had a tough job ahead of him to smooth things over with Xi Jinping, didn't get any easier just now. Where is this headed? What is it going to mean for markets?

Daniel: I think that it's likely to continue to drive markets in a very different way, depending on the indices. I would not want to be overweight the Emerging Market Index. I certainly would not want to be overweight the European index, and banks in particular, and the bifurcation between the United States and Chinese indices are going to likely persist. You've mentioned something that I think is very important. Trump is a negotiator, but it's going to be very difficult to negotiate with this added sort of barrier on the table. So, I think that what this means is, the idea that tariffs don't have an economic impact in the world is basically impossible to defend. Tariffs do have negative implications for trade, for economic growth and for productivity and for productivity growth. Tariffs are not inflationary because they don't imply more units of currency being issued, and they certainly mean more demand for US dollars. But tariffs are not a sort of a magic wand that is going to solve everything and allow the US to abolish all taxes. The fiscal problem of the United States is significantly larger than that, and it comes from spending, mostly. So, what I think is that Trump is going to use tariffs as a negotiation tool or as a revenue generating tool. If negotiations work in favor of the United States and mutually beneficial agreements, then tariffs will be limited. But what is very unlikely to happen, in my view, and considering what is going on the geopolitical front is, that there is going to be any way in which tariffs are not going to be implemented, in the case of China. Negotiations may happen with of some of the trading partners, but I don't think that there's enough room in terms of confidence in each other, in terms of support for free trade between both countries that will avoid tariffs against China. So, I think that that is likely to escalate the trade war as we know it. The trade war didn't disappear, and nobody has talked about the trade war with the Biden administration, but the trade war has continued. So, I think that that tension between the United States and China is going to continue, considering that the world, that the financial market is, if you want to summarize the financial market in a couple of words, is a long everything short dollar trade. Well, that means that there's going to be a short squeeze on the US dollar.

Erik: You mentioned inflation a couple of times there. I want to come back to that, because we've talked about inflation in several of your past interviews. Needless to say, President-elect Trump is inheriting an inflation problem, which I would say the general populace, the masses of American citizens, are probably more in touch with than some of these esoteric geopolitical conflicts that you and I pay attention to. So, it seems to me like President Trump has a stronger impetus to do something about inflation, than he needs to do something about anything else. But I don't hear him talking about austerity. Daniel, so what is he going to do to tame inflation while still fulfilling the other promises that he's making?

Daniel: Well, it's going to be a tough job if he does not implement budget cuts. And there is plenty in the budget that can be cut. Remember that the budget has just been ballooning for four years, non-stop, and that he needs to address the fact that discretionary spending needs to be cut significantly, because, and this is the most important thing in the US budget, no matter who wins, mandatory spending is going to increase. So, knowing that mandatory spending is going to increase, that the deficit is a spending problem, and that he needs to cut taxes in order to spur growth, while at the same time, reducing inflation. His entire administration, and from day one, his policies need to be about strengthening the US dollar, which is deflationary, strengthening the competition and open landscape internally, i.e., eliminating regulatory burdens that make some of those prices rise faster than they probably should, particularly in healthcare. For example, we know that in the United States there are some regulations that limit the number of healthcare providers to a very short number, and therefore, the benefits of competition don't transfer to premiums. So reducing regulatory burdens and reducing the barriers to investment do help, but you need to cut discretionary spending. We need to see what's going to come out of the office that Elon Musk is going to lead, that is a very, very important factor. The other important factor, obviously, is that he needs to pay significant attention to the demand for US dollars globally. That's why he is so focused on the tariff side, because he knows that tariffs, albeit having a negative impact on trade, are certainly going to mean massive increase in the demand for US dollars globally, and that is deflationary. What I think, is that it's going to have to be a combination of deregulation, budget cuts and certainly strengthening the demand for US dollars, and with it, obviously increasing the productive growth of the US economy. Not GDP growth, which is irrelevant when it's bloated by government spending, but productive growth of the private sector.

Erik: Let's talk a little bit more about this DOGE department that Elon and Vivek Ramaswamy are going to hit up. On the surface, the announcement that they made is that they're very aggressively going to fire half of the government employees in the first month, or something like that. That does not sound to me like something that would just happen without a whole lot of opposition, legal challenges and so forth. Is this just political grandstanding? Is this really happening? Do you expect that Elon and Vivek are really going to end entire agencies and do this kind of surgery on the government as they're advertising?

Daniel: We need to understand that their department is going to be an advisory department. It doesn't have power to do those things. It will advise those things, and then it will be the

President and the government that implements them. The legal challenges are quite limited. We have seen very aggressive increase in government jobs. It's been about 40,000 - 43,000 a month, every month, for the past four years, and most of those government jobs are not the ones that are going to generate a legal challenge, if they decide to let them go because they were mostly discretionary, they're not processes for like we see, for example, in the police or things like that. So that's one thing that maybe they can do quickly. But to be fairly honest, the reduction in headcount is part of the solution, but it's not the solution at all. You need to look at the budget. And the problem of the budget is that interest expense is running completely out of control, and mandatory spending is rising no matter what the Musk and Ramaswamy office do. Therefore, what they certainly need to do is to convince Trump that there have to be very significant items of the budget in which the cuts need to be implemented surgically and rapidly. And that is up to debate. A lot of people say that they will not achieve anything because Trump increased expenditure in 2016. That was a different way of looking at the economy from his side. In 2016, what he was looking for was a sort of immediate, radical impact on economic growth, i.e., more government spending, lower taxes, higher deficits, using the deficit to spur growth. What we have seen in 2021 is that the deficit was used to increase the size of government in the economy, regardless of the previous increase coming from 2020. Therefore, I think that they have plenty of room to cut. What we need to see is how those recommendations sit with members of the cabinet that are going to be having to deal with both the reduction in the budget and maintaining essential services.

The recent meeting that Trump and Elon Musk had with Javier Milei should give them some examples and some lessons of what you can actually do in a government that, on the one hand, brings it quickly to budget surplus, and at the same time, doesn't reduce the essential services for families and for businesses coming from the public sector. So, the way to do it is, instead of looking at the large items and thinking, oh my God, this is way too large, and I cannot cut it because, you know, defense, interest expense, Medicare, Medicaid, instead of doing that, and that's why I like the idea of auditing, you need to go granularly and look at all those $100,000 bills coming from the public sector that when you look at such a large budget, you say, well, that's irrelevant. But if you start cutting on all those small items that allegedly mean nothing, but when you put them all together, they actually start building up to billions and trillions. Then, you can do something. So, if you think about it, if the Biden administration, without improving the services for the population in the United States, has increased spending by almost half a trillion. That half a trillion can easily go and what you need to do, and if you reduce the budget by half a trillion, and at the same time, you let the Inflation Reduction Act, which has been the inflation perpetuation act, die its own death, not spending any more money. That is almost another $250 billion in the next three years. So little by little, if you let the Inflation Reduction Act, if you let the Build Back Better Act, which was the Keynesian dig-holes-and-fill-them-up-again act, if you let all of those programs sort of die down, and you cut back the increase in public jobs and in public expenditure that the Biden administration implemented in a growth period 2021 to 2024, you can actually make a very significant dent, and you could actually bring the deficit to $1 trillion, which is still large, but it's not something that is going to be A) inflationary, B) detrimental to the demand for US Treasuries globally.

Erik: Daniel, one of the announcements President-elect Trump has yet to make is who's going to be the next Treasury Secretary. And I find it fascinating. There's a basically a brawl breaking out, where on one side, Elon Musk and Bobby Kennedy Jr are pushing for Howard Lutnick. That's a crypto currency guy, the Cantor Fitzgerald CEO. Well, meanwhile, you've got Kyle Bass and some other people pushing Scott Bessent. I think it's fascinating that we're even considering the idea for the job, which is all about being in charge of the US government's currency system, the US dollar. What people are pushing for is the guy who might be inclined to say, hey, maybe we should take that global reserve currency role that the US dollar is in and divide it up between the Dollar and Bitcoin. Let's have a strategic Bitcoin reserve so that our central bank assets are not just Treasury bonds, but also Bitcoin. The guy who's got that view in the role of US Treasury Secretary, I will admit, is something that I not only never saw coming, but I made very bold predictions in my book, in 2018, that no government would ever allow that to happen. It seems like President-elect Trump might be inclined toward allowing it to happen. What do you think?

Daniel: I think it's incredibly interesting and fascinating, and I agree with you, because I would not imagine in a million years-time, if you had asked me a few years ago that there would be a government talking about having reserves of Bitcoin at the federal reserve balance sheet. And I think that what is interesting about the idea, the way that it's presented, is that it's both positive for the US dollar and positive for Bitcoin, but it's negative for everybody else's fiat currency. Therefore, on the one hand, in the fiat currency world, it strengthens the role of the US dollar as a world reserve currency. And in the crypto world, it strengthens Bitcoin relative to all other crypto assets or cryptocurrencies. So, I think that it sort of makes sense if you know that, on the one hand, the US fiscal problem is very challenging in that there's going to be a competition globally to issue more units of fiat currency, i.e., more debt. And that you want to maintain the world reserve currency in the fiat world, but at the same time you know that there is a fiscal problem, then the only way in which you can achieve that is obviously, first significantly reducing the fiscal problem, as we mentioned before, but also by conducting monetary policy the way that it has always been in the fiat world, which is not about who wins but who loses. Monetary policy is not about who wins but who loses. So, if you, as the world reserve currency, strengthen the balance sheet of the Federal Reserve with a decorrelated asset like Bitcoin, and you add some gold, it would be more than advisable, etc. It immediately becomes evident that other competing reserve currencies, the Yen, the Pound, the Euro, are going to be not just weaker, but significantly weaker. And therefore, you increase the demand for US dollars, and you increase the demand for Bitcoin. So, it's sort of how El Salvador's Bukele thought. How are we going to strengthen our position on both sides, without trying to put barriers to innovation and to anti-echnology, which is what the Federal Reserve economists and the ECB economists have been writing about all day. Ah, ban Bitcoin, abolish all crypto currencies. No, that's never going to work. What you need to do is actually embrace it. So I find it very, very interesting. I particularly think that Bessent would be a tremendous choice, but either are going to be a completely different approach to the job than we have seen in the past. What we have seen in the past are basically Yellen, even Mnuchin, were all the good things that he did and etc., but what we have seen are basically Treasury Secretaries that are basically receiving, they're sort of passive. They're receiving the fiscal imbalances and trying to sort of manage their way with the already pre-existing fiscal imbalances. I think that both Bessent and Lutnik are candidates that may actually take an active role in something that has not been discussed throughout the campaign, but that was a key part of the economic plan of Trump, which is to maintain the US dollar as the world reserve currency. So, we may have, for once, Treasury Secretary that is going to have as a key objective to defend the purchasing power of the currency instead of defending the small erosion of the purchasing power of the currency. And that's a big difference between Mnuchin or Yellen and these two candidates. I think that both are really good, but I don't think that Kyle bass is going to be the candidate, but I would be very, very happy if it was so.

Erik: We talked earlier about geopolitics. Let's talk about what I'll call geomonatics, by which I mean, the monetary policy of the European Union, as you say, is very much not favoring crypto assets and so forth. What would it mean if we saw a further division, where there's a fair amount of cooperation that has to occur in order to keep the machinery of the global monetary system working, where the Fed and the ECB work closely together. What if you had a Treasury Secretary and an overall Trump administration that decided, hey, let's go ahead and take this populist agenda all the way to where I thought it could never go, which is, let's go ahead and really embrace Bitcoin as an alternative to government money, democratize money itself. It seems to me that the close collaboration between the ECB and the Fed might be subject to the same kind of political breakdown that you have when there's a breakdown of negotiations between countries, is that the right way to think about it? And what would it mean if the ECB stopped talking to the Fed and stopped collaborating on swap lines and so forth in reaction to monetary events?

Daniel: I completely agree, and I think that it's a bad position for the ECB, because the ECB does not have the luxury that the Federal Reserve has, in terms of liquidity and in terms of the demand for Euros. So one of the big mistakes of the Euro and the ECB in the past years, and I wrote extensively about it at the time, was to believe that they could play the Fed without paying attention to the global demand of Euros. So, if the Fed stops collaborating with the ECB, the way that they're doing today, in which basically they just mirror each other, and they continue to do things, and I'm not saying that they would not collaborate, but let's say, align themselves in monetary policy, that's where I think that there would be a disruption. They would not align themselves in monetary policy if the Fed starts going for Bitcoin as an asset that was worth having in the balance sheet, and if the Fed started to really defend the purchasing power of the US dollar, the ECB has no way of counteracting that. It's impossible. On a political level, because the ECB is, if we criticize sometimes the Fed for being too politicized, imagine the ECB. The ECB does not have the possibility of telling governments to stop spending, stop entering into these enormous fiscal imbalances. Furthermore, the ECB has started moving into uncharted territory by talking about including climate change in their monetary policy and things like this. So ultimately, the problem for the ECB is that, if the Fed decides to disconnect its monetary policy from the ECB and the BOJ, neither the ECB or the BOJ have an option to counteract that in a way that strengthens their position. That is, to me, the key part, will they continue to contribute and to collaborate on all other aspects, the technical aspects that you mentioned, swap lines, etc.? Absolutely, they would. But the idea that if the ECB cuts 50 basis points, the Fed cuts 50 basis points, and they are basically almost mirroring each other all the time, so that the Euro doesn't go below parity, and the Euro doesn't go too high and the Dollar is the same? No, that is probably gone. I think that it's going to be very important when we see changes at the Federal Reserve in March, but I would pay a lot of attention to that, because I would not like to be in an overweight Euro position, in an overweight European Union financial assets and financial sector into that challenge that we're talking about.

Erik: Daniel, I can't thank you enough for a terrific interview. But before I let you go, I want to talk a little bit more about what you do at Tressis. You are a fund manager there, in addition to being chief economist, how can qualified institutional investors and accredited investors contact you if they want a Tear Sheet? And you're also a published author, you got a big twitter feed that's very popular. How can people follow your work?

Daniel: Thank you. I think that the easiest way is to contact us at daniel.lacalle@tressis.com and we will certainly give them all the information that they need. That's my work email. My team would attend that email, I don't respond personally. And in order to follow me, I would suggest my website, www.dlacalle.com/en, my Twitter feed is, or X feed, @dlacalle_IA, and my YouTube channel, Daniel Lacalle in English, I always say that it's easier to find me than to avoid me. Usually, if you put Daniel Lacalle on Google, you will find both my Twitter feed, my website, my YouTube channel. And remember that English speaking people that there's always an English version in both. and

Erik: Thank you so much, Daniel. Patrick Ceresna and I will be back as MacroVoices continues right here at macrovoices.com.