Luke Gromen: Trump Tariff Policy Will Drive Gold Even Higher

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Erik: Joining me now is Forest for the Trees founder, Luke Gromen. Luke, I've been particularly looking forward to getting you on the show. It seems to me, this might be the year when all of those crazy nutcase things that only Luke Gromen thinks could ever come true came true, at least that's the way it's starting to feel to me. Why don't we start with President Trump and the tariffs, and talk about what's going on, where it's headed. Seems like President Trump's not unwilling to break things. Is he going to break this market more than he has already?

Luke: Thanks for having me back on. I think the Trump tariffs — or the snowflake that triggered the avalanche on some level — the old metaphor of 'you never know which snowflake is going to trigger the avalanche,' I think maybe we're starting to get some idea that that might be the avalanche. I think the tariffs are super interesting on a number of fronts, when paired with, when he came in late January, was inaugurated, immediately, both he and Bessent started talking about the tariffs and talking about fundamentally reversing the trade flows and capital flows that had defined the dollar centric system as we know it for the past 50 years. So, when we wrote a report about it for clients at the end of January, we said, look, with Trump saying we're going to fund more based on tariffs and cut income taxes and Bessent saying we're going to ramp up tariffs, that was very much a fundamental reversal of flows. In other words, it used to be, we send our factories and jobs to China. China sends stuff here. We send China dollars. China recycles those dollars into our capital markets. And that's sort of the virtuous cycle of trade and that's sort of what's defined certainly the last 20 years. And replace China with any number of, you know, Europe and Japan and others, and that's kind of been how the broad stroke flows, capital flows of the dollar centric system have really happened over the last 40 years or so. And late January, Trump says, okay, we're going to do more with tariffs, and we're going to try to cut income taxes. And that is, starts to be a reversal of that, and then Bessent talks about tariffs, and both of those comments in late January, early February, noteworthy, but markets didn't really pay attention. And I think that, the thing to me that really grabbed my attention in a big way, was the America First Investment Policy memo that the Trump administration put out late on Friday night, February 21, we wrote a report about it for clients on February 25 highlighting that, essentially what this report was doing was saying, China, take your money and go home. We don't want you recycling your dollars into US capital markets anymore. And more broadly, the deal appeared to be, the goal appeared to be raising the cost of carry for holding treasury bonds and for reinvesting dollar surpluses back into US capital markets, with the goal of trying to redirect those flows into real assets, Main Street, not Wall Street, as Bessent has said repeatedly.

The next clue to our eyes about what the Trump administration is trying to accomplish came when White House Council of Economic Advisors Chairman Stephen Miran gave a speech at the Hudson Institute where he reiterated, essentially the goal of the America First Investment Policy memo, which is, look, if you do trade with us, you're going to end up with dollars, and you're welcome to reinvest those dollars into our physical infrastructure, property, plant, equipment. You are welcome to cut us a check for tariffs. Cut a check to Treasury, buy some weapons from us. The other thing that Miran didn't say, and I don't know if he was thinking it, I certainly understand why he wouldn't have said anything about it. But the final clue, I think, in everything that has really grabbed our attention most about this whole tariff episode over the last month has been that Trump put tariffs on, on basically everybody and everything draconian, higher than expected, certainly higher than we thought. I mean, he tariffed an island full of penguins, if I remember reading properly. But the one thing he didn't put tariffs on, that everybody was sure he was going to put tariffs on was gold. No tariffs on gold. Tariffs on everything and everyone else, but no tariffs on gold. Which was very curious, because when put together with higher cost of carry on treasuries and US financial assets, and what Miran said, it starts to look when you paint with broad strokes like, hey, the old deal is off. We no longer want you recycling your dollar surpluses into our financial asset markets. You're welcome to invest them in US factories. You're welcome to buy US weapons. You're welcome to cut the US Treasury a check. You're welcome to pay the tariffs, or there's no tariffs on gold either, and so you can buy gold to your heart's delight. That works for us too, because that's going to bid up gold relentlessly. And as gold rises, it's going to effectively drive more of a settlement and a neutral reserve asset dynamic that we've been discussing for years and years and years together, Erik. And as gold gets higher, the dollar will weaken over time against creditor currencies that are “manipulating their currencies,” like the Chinese Yuan, like the Japanese Yen, and lo and behold, over the last month, look what's happened. Dollar is down against the Yuan a little bit. It's down against the Yen, fairly notably. And it's down big against gold. So I think we are in, I can see in broad strokes what the Trump administration is trying to do here, which is, what we termed it, closing the financial asset window, in a nod to Nixon closing the gold window in ’71. Well, we wrote for clients about a month ago, we said Trump just closed the financial asset dollar window, which is to say, take your dollar surpluses. We don't want them in the NASDAQ. We don't want you bidding Mag7 from 50 times sales to 75 times sales anymore. Build factories here, buy our weapons, pay our tariffs, or buy gold. And so that's the kind of price action we've seen in markets over the last month, last week and a half, except that there's been a lot of confusion on Wall Street. We've never seen this before, most of us in our careers, even those of us that have been doing it for a long time, which is dollar down, stocks down, bonds down. That's capital outflow, price action. And that is precisely what you'd expect to see, especially when married with gold up big that, based on what I just laid out. So that's what I think the Trump administration is trying to do in all of this, basically Main Street, not Wall Street, making America more competitive again, reshoring and weakening the dollar. But they are admittedly blunt instruments with high degrees of difficulty and very high degrees of executional risk, and what it appears they are trying to accomplish, in my opinion.

Erik: Let's go a little bit deeper on gold, Luke, since you brought that up, one of the things that several analysts have said is, this is mostly about China doing the buying for its own central bank purposes. They've analyzed the daily capital flows and so forth, and they're saying, look, the action is going on in the Shanghai market. We should be taking this as a signal that's all about that. Now, what you just said is, maybe Shanghai is buying it, but they're buying it perhaps at the behest of Trump, from a policy perspective. Is it one of those two things? Is it both of those things? Is it something else, and particularly given the incredible price action that we saw with that near parabolic rise up to $3500 on the price of gold? Are we just getting started? Is it over? What inning are we in, do you think in this gold market?

Luke: I think we're still in the early innings of the gold market. Because I am not hearing, basically anybody, other than a small cadre of people, suggest that the catalyst, the ultimate catalyst, for what has happening to gold is that it is coming back into the CIT system as a neutral reserve asset to replace treasuries. That's what's happening. And the US is not just fine with that. It's the goal. And I think by virtue of that, absolutely, I wouldn't be surprised at all if China's driving it. There was a very interesting, ended up on my X feed the other day, Shanghai gold premiums were at 2% and rising last week, on Thursday. And post COVID, anytime Shanghai gold premiums are 2% and rising, it's usually a really bad time to try to short gold. And yet, sort of like ever, a lot of traders out there were saying, oh, it's, you know…now, technically it was, I think 60% above its 200-day moving average or something crazy like that, I get it on sort of the pullbacks. With that said, those short term traders were not focusing, in my opinion, on something really important that it happened, which is, not only was Shanghai gold premiums around 2% and still rising. But historically, post COVID, when you've seen 2% plus premiums on gold in Shanghai, it has been, it has happened with a decline in the gold price, or at best, a flat gold price, right? So, you get some sort of paper selling in the West. And then the Chinese feel like, wow, there's a great deal to be had here. And structurally, maybe there's some limits to how much the PBOC is letting people bring in. And so, you get a premium that builds up in China. And so, you see these premiums, but it's always been a premium in China of 2% plus when the price of gold is flat to down, and sometimes been down pretty notably. Except for this instance, we're seeing the price of gold, as you just noted, rising rapidly in dollars. And yet the Shanghai gold premium is also rising rapidly.

And so to me, when you get these kind of correlation breaks, these pattern breaks, there's informational value there. Why is that happening? I think it ultimately speaks to, I think it speaks to the shift that I described before. And look, I also think it's an important piece of data, from the standpoint of the narrative we're getting in these markets, which is from some people, which is the Chinese are running out of dollars, and all we need to do is just squeeze them a little harder and they're going to just come crumbling down. And the problem with that narrative as it relates to gold, and what we just discussed, is that historically, nations that are running out of dollars are selling their gold to get dollars. We saw that in the late 90s, when you saw Korea and Indonesia and the Southeast Asian crisis, they were selling gold very rapidly to get dollars. Russia, '98, '99, 2000, selling gold to get dollars. 2008 when oil prices collapsed, Russia sold gold to get dollars. You saw it elsewhere, in currency crisis, sell gold, get dollar. You've seen it in America over the last 20 years. You know, you can go the mall and see, we have cash for gold, right? Americans have been selling gold for dollars. And so I think there's just, when you take a step back, when you see the flows into China, it's a pretty big fly in the ointment for ‘the Chinese are running out of dollars, and they're about to collapse’ crowd, if the Chinese are buying so much gold that they have now basically taken control of the gold price from the West, which is what that dynamic of rising Shanghai premiums with a rapidly rising price in the West. That's what that tells you. It tells you China's got control via the physical market, and the fact that they're doing that suggests that, I'm sure they are hurting with the tariffs, but they're not about to tip over. Because if they're about to tip over, they'd be selling gold to get dollars or etc. So, I do think there's a number of very interesting threads to pull or tease out of the gold flows into China.

Erik: If it is what you think it is, that is to say, if China is doing a lot of this buying for strategic reasons, just confirm my assumption here, I'm guessing that means they've got plenty of room to keep doing more of this and to drive the price quite a lot higher up.

Luke: I would think so. I think, when you're hearing when somebody tells you they want to choke you out and use their currency to choke you out, I'd believe them, and what they're hearing from US officials is that, hey, we want to use the dollar system to choke you out. And the Chinese government is another one of these paradoxes. The Communist Chinese government has been encouraging its people to buy the currency of freedom for over 20 years, gold, right? Warren Buffett's father, Howard Buffet, congressman from Nebraska, wrote a paper, and in 1948 says human freedom rests on gold convertible money. And so, here you have the autocratic Chinese Communist Party encouraging its citizens to buy gold for the last 20 plus years, and presumably continuing to do so, because we're seeing the flows. If they didn't want those flows coming in, they wouldn't be coming in, presumably. So, yeah, I would think those flows are likely going to continue, especially because I don't think it's against the US’ interests. I think the US, one of the, you know, we keep hearing over and over, and it's been from the Trump administration, the Biden administration, Obama administration, China needs to stop being a currency manipulator. China needs to strengthen its currency. Well, China is not going to strengthen their currency the way the Japanese did, which was just straight against the dollar, render themselves much less competitive against the dollar. China is, forget about it is likely, they are devaluing the Yuan against gold. If you look at a price of gold in Chinese Yuan, it's down 50% in the last, I want to say, year. So, which is to say the price of gold in Chinese Yuan is doubled. Maybe it's in the last two years. But the point is, is that I think gold is being used as the pivot, and I think the US government, by their actions, is saying, that's fine. That works for us. You know, we want a stronger Yuan. We want a weaker dollar. Great. Let the price of gold go up in Yuan and let it go up faster in dollars. And look, right now, the Chinese Yuan — I was looking at the other day — I think it's 24,000 yuan per ounce, and it's whatever, $3,400 in dollars. Let's get crazy here. Let's say Trump really wants a stronger Yuan and a weaker dollar to balance China being a currency manipulator. Well, if gold in China goes from 24,000 yuan to say, 30,000 yuan, and gold goes to 7,500 in dollars through the gold pivot, 30,000 yuan, $7,500 that's 4 yuan/dollar cross rate. That's a much stronger Yuan, but it is a much stronger Yuan that isn't just straight devaluing against the dollar. It's a compensated devaluation. From the standpoint that gold has gone up in Yuan terms, it has gone up a ton in gold terms, and that allows a recapitalization via the gold holdings of the Chinese populace. All of a sudden, they're going to have a lot more money in their pockets. It will help compensate them or recapitalize the consumer balance sheet from what has happened with their property crisis, or the property sell-off over the last several years. It helps recapitalize their banks, and obviously helps recapitalize, or further capitalize, their sovereign balance sheet. And so, I think there's a deal to be had between the two nations using gold as a pivot to rebalance currencies and go from there. And to my eyes, both sides have been taking steps to facilitate that.

Erik: Luke, it seems to me that if what you describe is what's going on, then if you want to be a gold speculator, the best way to analyze this is to put yourself in China's shoes and say, either what are their policy objectives that they're trying to accomplish, or if you want to look at it maybe from a more realistic perspective, what are their policy objectives that they're being forced by the Trump administration to take on, and what is their target likely to be? Where are their targets likely to be and what they need to do with their currency, and start watching gold in Chinese Yuan as your benchmark, and say, well, I'm waiting for this target, because I think that's what China needs to do in order to accomplish its goals. Is it possible to do that kind of analysis and figure out what the magic number is to watch? And if so, who's doing that?

Luke: I think, in broad strokes, that's, if not the right approach, I think a very valid approach. I mean, I think it's a part of the approach, part of a mosaic. For a long time, you and I've talked about it. I've talked about it ad nauseam. For me, China's goal regarding gold has always been about a defensive nature. In other words, China has long understood the dollar sensitivity it has, the oil and food sensitivity it has. And what I mean by that is, famously, Kyle Bass went on, I think, CNBC or something, and he said — this was probably 2019 — he said, the Chinese import whatever X million barrels of oil per day, and oil goes up every year. And, they have a finite number of dollars. And so, as they keep growing their economy to support their debt, they're going to have to import more oil and other commodities and food, and all of those are only priced in dollars. And so at some point, presumably, oil prices keep rising over time, and when they do, they're going to eventually run out of dollars. And when they run out of dollars, they're going to have a currency crisis like Southeast Asia, and the Yuan is going to fall sharply, and they're going to devalue it, and it's going to be a big mess like it was in Southeast Asia in the 1990s. And I think China's goal with gold has long been avoiding that outcome and using gold to gain the ability to buy oil and commodities on the margin in Yuan rather than in dollars, and they've been successful in doing that, and I'm not speculating about that. That's the goal with gold. That is specifically what PBOC officials said at a Singapore LBMA meeting – I've got the receipts – back in 2015, said the goal of the of China is to internationalize the Yuan. What does that mean that an internationalized currency has the ability to invoice oil and gas in its own currency? We're using gold to internationalize the Renminbi. And so, I think the goal has always been with gold, with China, has been the ability to buy oil and gas in their own currency, to a lesser extent, copper and other commodities. On the margin, people say, well, it's going to take them forever, and you get the majority. That's not the goal here. The goal here is to give themselves another lever to be able to manage the Yuan/Dollar cross rate, to ensure that they cannot run out of dollars. Because an extremist, they can always buy in Yuan and adjust the gold rate in Yuan to do that. And there are times on charts over the last five years, in particular, where you can see that China looks like they used gold effectively to defend the Yuan.

And so I think, tying this all back to your question about what is the right number, I don't think the focal point necessarily is the price of gold in Yuan over time, as much as it is the gold to oil ratio over time. Because ultimately, with oil being priced in both Yuan and in dollars, and at least China offering gold net settlement of any offshore Yuan balances that build as a result of them buying some of their oil in yuan, what you end up with over time, is a rise in the gold to oil ratio. And so, it's fascinating that, you know, in 2008, Putin starts buying more, adding more gold reserves. The gold to oil ratio in 2008 was, I think, 7 barrels an ounce, something like that. So, 7 barrels of oil per ounce of gold. Well, last week it was 55 barrels per ounce of gold. So, the gold to oil ratio in the last 15, 16 years, it was 8x, which is an enormous move. And I think ultimately, as long as you continue to have this multi-currency energy pricing with net gold settlement being provided for by China, as they've been talking about for 10 years, you're going to continue to see a rise in the gold to oil ratio for a simple reason. And that is that even though the gold to oil ratio has gone from 7 barrels to 55 barrels over the last 15 years, oil is still like 8 times bigger than gold, with annual production of oil in physical dollar terms versus annual production of gold in physical dollar terms, oil is still about 8 times bigger than gold. So, my view has long been the gold to oil ratio would rise and rise and rise, as multi-currency oil pricing with net gold settlement gain traction. That's exactly what's happened. And so, I think that price target, or that price movement, one of the gauges of this is that gold-oil ratio. I think ultimately, the gold-oil ratio is going to continue to rise. It's 55 now, I think it's going to 100 over time. It might go to 200 over time, maybe even higher. And because US shale can't produce much below 60 bucks, and US shale has been 80%, 90% of global oil production growth over the last 10 years. I don't think the gold-oil ratio as it rises toward 100 or more in coming years. Again, this isn't like by Christmas kind of thing. I think it's just over time. I think the gold-oil ratio going to those numbers is mostly going to happen via a rise in gold prices relative to oil, because oil dropping much below 60 bucks is going to start taking US shale offline, and that's counterproductive for global growth, global financial stability, et cetera. So, kind of a long winded answer through the past there, but that's what I think China has always been trying with gold. Its goal is not about gold or trying to tip over the dollar. It's about trying to defend the Yuan from being tipped over by the dollar, and by giving themselves national sovereignty over their energy bill, which they've been able to do.

Erik: Luke, it appears to me that one of the goals of the Trump administration, with respect to tariffs, is they want to eliminate income tax, not for everybody, but I'll say for everybody that matters from a voting electorate standpoint. In other words, you're going to completely eliminate taxes on the wealthiest Americans, because that's who pays 90% of the taxes to start with. But if you can, for the most part, eliminate income taxes for all the people that are making less than a quarter million dollars a year, that pretty much is everybody, when you're counting the votes in terms of who gets elected to office and so forth, although it certainly is not everybody from a capital base standpoint. Do you think that's what they're trying to do? And if that is what they're trying to do, it seems like it would make the president incredibly popular. You know, if you're the guy who eliminated income tax by getting rid of it, by, in the public's perception, some genius tariff thing that most people don't understand, but it seems to have worked. It's hard to ask for a bigger win than that. What worries me about this is, boy, you've done a lot more work than I have, Luke, on analyzing balance of payments and tax receipts and so forth. But it seems to me that to achieve that goal through tariffs, doesn't seem terribly realistic, although I haven't done any work to…it's just a hunch.

Luke: Yeah, it was interesting, because I saw him say that the other day, and my initial – I guess yesterday he was tweeting it, or Truth social posting it – my initial reaction was like, yeah, right, everyone under $200,000? Come on. And so, then I started noodling around. And we have data, IRS data, and it shows the top 1% of US tax payers…so let me back up. Individual income taxes payments cover about half of total federal receipts, come from individual income taxes. So, of that half that comes from individual income taxes, the top 1% pay about 42%, the top 5% pay about 62%, top 10% pay 74%, and the top 25% of taxpayers pay 89% of individual income taxes, which is then half of overall receipts, roughly. And so, it was kind of interesting to me when I compare that to, say, let's say the top 10% are 74%, so top 10% pay 74% that means the bottom 90% are only 26% of total individual income taxes. And so, the bottom 90%, if you assume $5.2 trillion of federal receipts last year, again, roughly half for individual income taxes. That's a very blunt but that's good enough for government work. So that's roughly $2.6 trillion, right? Half of $5.2 trillion, $2.6 trillion individual income tax receipts, 26% of that are the bottom 90%. So bottom 26%, only like $676 billion. And so, what that tells you is, if he can raise $676 billion— assume from tariffs, assuming no other counter tariffs, and no slowdown in the economy. And those are huge, huge, huge caveats, make no mistake, but just trying to keep it overly simple – if he can come up with $676 billion in tariffs, he can cut income taxes for the bottom 90% of people to 0 and be revenue neutral again, assuming no hit to the economy from the tariffs, and no counter tariffs, etc. So, when you start looking at those numbers again, I wouldn't take those as absolute, concrete numbers, but what they tell you is, he's not crazy on this like those are in the neighborhood. It is not out of the realm of possibility for him to get $676 billion in tariffs. I think that's more than what I've seen, but it's not a ton more than some of the upside cases I've seen. I mean, that's what, $55-$56 billion a month in tariffs. That's not crazy. And in the meantime, holy cow, can you imagine being able to go to the bottom 90% of the voters in this country and say, hey, you don't pay income tax anymore. It's all on tariffs. And so, it really, actually, is very much a Main Street, not Wall Street, let's rebalance things. It's, to my eyes, it's a very, very populist move. It may have issues, political issues down the line, in terms of but it could work. The math could work, looked at simplistically.

Erik: It's fascinating, because it really does appear to me that at least with the rhetoric that he's using on this issue, President Trump seems to be, as you say, really vying for that electoral influence to get himself reelected. The thing is, this is his second term. So either, you know, you think he's going to, somehow bring about a constitutional amendment to allow the third term. I don't think even President Trump is foolish enough to think that's possible. I know he's said that a couple of times. I think when he says those things, he's just trying to cause some commotion, just to upset the Democrats. But I don't think he really believes that. So why would he be doing things that seem to be very much focused on securing votes for the next election, when he's not eligible for the next election?

Luke: You know, to me, the Occam's Razor explanation – and some of this is based on people I know that have spent a lot of time with him, as I think he really wants to do right by his electorate, the people – I think he really means what he says about rebalancing things and this would be a huge step in that direction. And I think, for him, it's legacy building, like there's a way that all of this could go. And I think it's a narrow needle to thread with a lot of executional risk. But if this goes well and is managed fairly well, he could end up being like, and I'm sure people are going to laugh at this, but he could end up being on the pantheon of sort of loved presidents of US history, and I think that for him is a huge deal, I think that is what is motivating him in this case. And it reminds me of a of a joke that FDR used to tell. So, FDR used to tell a joke and revel in it. He said there was a paper boy in New York City, and every day this wealthy Wall Street tycoon would stop on his way up to his skyscraper office. And he would stop by the paper boy's papers. He'd pick up a paper, he'd look at the front page. He'd grunt to say, huh, put the paper back down, walk on. Next day, repeats the same routine. This routine goes on for a few weeks at a time, or a few weeks more. And finally, the paper boy summons up the nerve to ask the Wall Street titan and say, sir, every day you come to my stand, you pick up a paper, you look at the paper, you look at it for a second. You say, huh. You put it back down, and then you leave. What are you looking for in the paper? I might be able to help you. And the Wall Street titan says, son, I'm looking for an obituary. And paper boy says, oh, well, sir, obituaries aren't going to be on the front page. They're in the back pages, is where all the obituaries are. And the Wall Street titan says, son, obituary for the son of a bitch I'm looking for would be on the front page. And FDR would tell the story and laugh and laugh and laugh and laugh. And so, my point is that a big chunk of American society and some of the wealthiest and most powerful people in America hated him. Hated him, but he was loved by the deplorables of today, by the bottom 50%, 60% obviously, we were in a depression at the time. And so, again, by way of background, I just think that, I think may very well be what the goal is here is this not about a third term. I think it's about doing what he said he would do for the people that put him in that office twice, and potentially establishing a legacy that, again, if it goes well, boy, it could go really, really well, and he will go down very, very favorably, remembered, paradoxically relative to what a lot of people think about him today.

Erik: Luke, let's go back to China and the US relationship to China, and where that's all headed. Something that, I just sometimes, I feel like I'm the only person paying attention in all of finance markets to what's going on with Chinese nuclear energy policy. They just announced another 10 reactors that they're building today. Now, admittedly, Luke, nuclear reactors get built over a course of years to decades, and by the time that the policy changes that I see going on in China really start to take effect, we're talking 20 years out. But I see China moving to an energy dominance that could easily conquer the world, and it scares the hell out of me, and I feel like nobody else is noticing it. To what extent do you think people are noticing it? And when does that start to matter? Is it really just, well, if it takes 20 years to build all the reactors, it doesn't matter until then. Or, is it when the US figures out that China has a strategy that's going to make it completely energy independent, where it can no longer be blockaded for energy imports, because it doesn't need any more energy imports. When they figure that all out, oh boy, that's when things start to get wild. How does this work? What should we expect? And do you have any thoughts on Chinese nuclear energy strategy? Because, to me, they're just kicking ass, both on conventional and advanced nuclear, and it seems like nobody's noticing.

Luke: I mean, some of what I've read on China, one of the things culturally they have always done really well, going back centuries under the Emperors, is building infrastructure and sort of realizing, okay, we have a problem, you know, we have too much water here, and not enough water there. Let's build the infrastructure to move the water from where we don't want it to where we want it to improve the lives of our people. And this is a tradition going back a long time. I think that moving water from where they don't want it to where they want it to improve the lives of people is a metaphor for what they are doing with energy policy. And I think it's a counter metaphor for what the US has done with energy policy, which is to say, I think they are making allowance for, hey, look at what we're using in AI. Look how much the growth of energy is in AI and electric vehicles, etc. And we're just going to plan forward. That means we need this many by this year, this many by that year, and so on and so forth. And that's, I think, they're basically sticking with the plant. And in contrast, the US is saying, look, we can see the growth in AI electric consumption. We can see what we're trying to do with electric cars. And maybe the tooth fairy will show up and build nukes for us on a compressed time scale, because capitalism and #America. And as an American, it's very frustrating to watch domestically. You know, Josh (Wolfe), he gave a testimony to Congress two years ago — I've to try to find it offline — he laid out, look, Chinese are building nuclear power plants way faster. They cost 1/6 the cost of ours, and they're going to start exporting the technology, which will then also loop in economically and via energy and component dependence and expertise, a lot of the world.

And so, I think there's two components of what the Chinese are doing. It's many components, right? It's the energy dependent side that you talk about, which is they are going to reduce their liquid fuels dependence through it. I think it's AI, I mean, you can't be AI dominant if you don't have the grid, and you don't have the generation. And the US, from some of the stuff I've seen, is in a position where our grid, barring some miracle technology, is not… I mean forget if we want to, forget if we have the scientists. Forget how well we compete versus the Chinese on these AI type models. We may not have the generation capacity in 5 to 7 years. And problem with that is like, if we, you know, I'm an investor in a private equity electrical distribution company. And so when I talk to these execs, hey, how long does it take if I wanted to build a new power plant in America now? When's it going to go live? Like 10 years minimum, but like in 5 to 7 years, we may be bumping up against the constraints of our grid, barring some sort of productivity miracle. So, you can see a different sort of, there's actually an order of operations being put in place by the Chinese that so far, we're not seeing with the US, where it's, hey, we've got the dollar, we've got the dollar rails. And so, we can just print money. And it's like, great, but you can't print electricity, you can't print nuclear power plants. You've got to make them. I mean, you can print the money to do it. That creates a separate issue for your bond market, but at some point, you actually have to do that. So, it is troubling to me from the competitive standpoint. Because when I see, hey, we're going to reshore and we're going to bring all this back, and then I see, you know, we wrote about it for clients several weeks ago in on March 25 of this year, the heads of the seven different regions of the of the US electrical grid had a hearing in Congress, and they said, we are getting critical. We are in a critical stage now.

We are going to have shortages in a few years. We need to do something if we continue on this growth of AI. And yet, like, what are we talking about? It reminds me so much of when it was February of ‘08 and I knew the financial system was coming unhinged. As we speak, I was seeing it in the research in our firm, the economy was coming unhinged, and I'm watching Congress hold hearings about steroids in baseball with Roger Clemens. And it's the same kind of thing where you can see how fast the technology is moving. You can see we are in a competition regarding it, and you can see the installed base now, and forecast going forward and the forecast usage of those installed bases. And where we are is like the US is going to lose because we're not building the stuff we're going to need, and we're going to bump up against our ceiling. So, there should be a lot more sense of urgency than there is. And look, maybe there's some miracle technology that I'm unaware of, and we're going to declassify it imminently. And when we do, hey, we're fine, great. But like, if we're going to flop that trump card, and you know, pun intended, we're starting to get late in the game to flop it. We need to flop it soon, because, you know, unless we don't need wires and infrastructure and etc. to move the electricity or the energy that's generated, then, there's this order book that has to happen. And it's a long lead time process with massive capital needs, and there's just, I'm not seeing the serious discussion around it in America, like you're seeing, what you're highlighting in China.

Erik: Well, it does seem that Chris Wright, our new Energy Secretary, gets it, but I'm not sure how much they can realistically do to compete with China. I mean, China is ahead on the technology, and we are a country that, unfortunately, is not as good at large, bespoke public works projects as we used to be. And I think people just don't want to admit that reality.

Luke: No, I think that's right. And that's one of the things, to me, it's one of the biggest variant perceptions I see, and sort of tie it back to the trade war, which is like, if you ask anyone in New York or Washington who's going to win, who's going to lose, like, oh, America's going to win. We always win. And it's almost like unpatriotic to say anything else. And yet, when I sit down with people out here in flyover country USA and the rust belt, you know, like we wrote about for clients a few weeks ago, is a very big marquee industrial project here in Ohio, the sponsor of it, or the builder of it, basically has an unlimited budget. The cost is not an issue. And so, recently, a major portion of this industrial project showed up. We're talking hundreds of millions of dollars of equipment showed up, and it didn't have a right part. And so, okay, there's a scramble get it figured out. Like, okay, well, who's the supplier, who's their supplier that supplied the supplier. And so, they find a few suppliers down the supplier, and the supplier is like, oh, yeah, that was Joe. Joe died of a heart attack last week suddenly, he was 70. We don't know the password to get into his computer to figure out how to fix what you need fixed. And Joe was only here at age 70 because we brought him out of retirement, because he does something in the sort of skilled trade/engineering world that we don't really train people anymore, and so we don't know what to do to help you. And this is where the rubber meets the road, where you get away from the sort of ‘rah, rah #America, we're going to win’ stuff. When you get down to the nitty gritty and start going, great, who's going to weld it? Great, who's going to build it? Great, who are the engineers? And, you know, Mike Rowe, the Dirty Jobs guy, right? Who's been harping on this for years and years and decades. He's like, listen, I know exactly where all the welders are. We need to do all this reshoring. And someone said, where are they? He goes, they're in eighth grade. They're in eighth grade. If you teach them well, they'll be ready in six years. And so that's this variant perception. It's like a splinter in my brain around sort of this whole trade war reshoring thing. And remember, this is not like some little, sort of marginal project with sort of a poorly financed or capital, you know capital can constrain the builder. This is somebody who can afford to spend whatever they need to spend, and they're getting held up by, sadly, Joe dying of a heart attack, and now, the whole project gets held up and there's no other Joes. Because, you know what? Who needs Joe for the past 40 years, we have the dollar. Who needs to be in engineering, we can create mortgage derivatives. And this is when you do this for a long period of time, you end up with dollar Dutch disease. And this is, this is Dollar Dutch disease. And so not only is it, there are real physical constraints at the ground level that are simply not being discussed by people in Wall Street, on Wall Street and in Washington, because in their world, the answer is always, well, just print the dollars. And you can't print Joe, you can't print Joe's password. You can't print the welders. And so, when you look at this competition, there is a massive gap between perception and reality, and perception and reality are going to close, probably in the next few months. And when that happens, it's going to be really interesting. But I agree with you that there is, there's a really big fundamental problem that can only be fixed with hard work and time. You know, this is not 2009 where you can have Ben Bernanke wave a wand and hit a few keystrokes and everything's okay. Or 2020, kind of same thing. If we are going to do this, there's no amount of money printing, per se, that can fix it. Yes, some money printing, because you're going to need to put the bond market under yield curve control. But then after that, it's going to need to be hard work and time. It's like Shawshank Redemption, right? Pressure and time. That's what is needed to be done here. And the first step to doing that is having an adult conversation with the adults in the room about that, and I'm not hearing the “adults in the room” even broach the subject at this point.

Erik: Well, Luke, on that note, I can't thank you enough for another terrific interview. Before I let you go, though, please tell our listeners a little bit more about what you do at Forest for the Trees and what they can expect to find at fftt-llc.com.

Luke: Thanks, Erik. We connect dots, we aggregate a large amount of publicly available information in an unconventional manner, trying to identify developing economic bottlenecks, and we put out a number of different reports. If people would like to learn more about our mass market institutional research products, they can check us out at fftt-llc.com. And as you know, I also have a fairly active X feed at @LukeGromen.

Erik: Patrick Ceresna and I will be back as MacroVoices continues right here, at macrovoices.com.