



MACRO Voices

with hosts Erik Townsend and Patrick Ceresna

Jeff Currie: The Joule Order

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Erik: Joining me now is [Carlyle](#)'s Chief Strategist for Energy Pathways investment, Jeff Currie. Jeff, it's great to get you back on the show. It's been way too long. You just penned a great article that is all about capital rotation and why you think we're in one now, and Europe is going to be the big benefactor. Tell us more.

Jeff: It's a pleasure to be back. And the piece was focused on European defense, in the sense that it's going to create a need for a large-scale investment in old economy, asset heavy type industries, and the real catalyst to this was the lifting of the debt break in Germany. Now, this piece that we put out is a follow up to [The New Joule Order](#) that we put out a few months ago. And in [The New Joule Order](#), we made the argument that the Bretton Woods system is breaking down, the US is retreating, and this is going to have a significant impact on the dollar, energy and military investment. And this piece we put out yesterday was really about the military investment component, but I want to talk about this breaking down of the Bretton Woods system and the retrenching the US. And the way I like to think about it is, if the dollar was the heart of the system and the oil was the blood going through the veins of the system, the US Navy was the muscle of the system. In other words, for the last 75 years, the US has used its military might to protect global sea lanes for global trade. The dollar was used as the medium of the exchange. And when you think about if you had protected sea lanes, you will start importing oil as your primary energy source. It is the most portable, the most storable. And as a result, we had supply chains that stretched all around the world with previous adversaries, and the biggest commodity being shipped was energy. That's your strategically most important commodity. And as the US retreats, it brings all of these into play, and I like to call it bonds, barrels and bombs. The bonds of the dollar, the barrels are the oil, and the bombs are the US military, all three of these are under pressure.

And talking about this now in the context of the capital rotation is, as the US retreats, Russia is getting more aggressive, and as a result, the situation in Europe, it is now existential that they need to make these kinds of investments, and when we look at the potential return in old economy, they're undervalued tremendously. Europe specifically is undervalued by about 40%, and all the complaints about Europe being the superpower of regulation, what did it get out of it? The lowest debt to GDP ratio. It has the highest level of income and wealth equality of the major regions in the world. And instead of having crippling market concentration, like most parts of the world, it has consumer surplus. So, it has all of the requirements, and plus, a steep value discount to track that capital. And I'd argue, what we saw going into the events in Iran and in Israel on Friday is the dollar was weakening tremendously. Part of that is, we saw the

outperformance of Europe. I like to point out, since ChatGPT was first announced in November of 2022, Europe has outperformed the US by 20%, meaning what's going on in Europe right now is likely bigger than AI. In fact, AI's CapEx since that announcement, has been 500 billion. German defense alone is going to be more than 1.5 trillion, already announced. So, this is big. And one last point I want to make here is that when we think about Silicon Valley and AI, they are simply an extension of the US military industrial complex. It started out with DARPA, creating the internet that created AI. Think about Silicon Valley. Where does the name come from? It comes from, they needed to come up with a material that would not melt in a B-70 bomber in a Minuteman missile. And they had, they came up, Fairfield semiconductors came up with the silicon chip, and that's where it came from. So thinking about it, why does Europe not have a Silicon Valley? It never had military industrial complex. So, this is huge, and we think it's going to create a productivity a boost there. And again, going back to the steep valuation discounts, and I think, the point being is, I think this rotation is all underway. And if you put it in context of previous rotations, we saw one in 2000 to 2003, when capital left the dot-com boom and went to bricks again. You know, you had overvalued tech and undervalued commodities in heavy asset, heavy sectors. And then the next one was 2014, 2015, when money left bricks and went back to Silicon Valley for the MagSeven. And again, it was overvalued commodity, heavy asset plays in China, and undervalued tech in the US. Now, we're kind of in the same, in a point here where you have undervalued heavy asset commodity sectors against relatively steeply valued tech sector. So, this is probably a process that's going to go on for a while, and it's pretty consistent with things we've said in the past. But I think the catalyst here is, really, European defense, and the potential there with the lifting of the debt break, they have the spare fiscal capacity. They have industrial capacity. All the ingredients are there.

Erik: Jeff, I'm absolutely fascinated by your attribution of the German debt break as causation for this, because everything you're saying makes perfect sense to me. I was expecting you to say this was all because of President Trump's unusual personality, bold policy initiatives and style issues, which some politicians in Europe have taken exception to. I've perceived this capital rotation as a lot of institutional capital rotating out of the US and into Europe, because they're becoming uncomfortable with the US government leadership and its policies. You're saying it's a totally different cause.

Jeff: Actually, I'm not. I don't want to attribute it all to the German debt break. That was the culmination of the events recently occurred. But it's not, you can't attribute it to any president in any foreign capital anywhere. These are long standing trends that have been in place now for decades. And in fact, I would argue that the 0% interest rate environment masks the severity of the imbalances. And I think the surprise here is not that the US is retreating, is that, why did it take so long for the US to retreat? And the way I like to think about it is, the world was considered, two things characterized the world over the last 35 years. And I would argue even 75 years, the world was safe, and capital was abundant, and it was cheap. Those two assumptions are out the door right now. This is my point. It doesn't matter who really was in power. I have to even point out, going back to Obama, threatened this retreat, Trump 1.0 threatened this retreat. Biden threatened this retreat, Trump is finally executing on it, and why is he finally executing on it? It's not a coincidence that he steps into office with nearly a 5% 30-

year yield. It's too expensive to maintain the status quo, and I think that reality has stuck. But the bottom line is, Europe has a better debt to GDP ratio. Europe has better income and wealth equality, in terms of, it's got room to run. And so, I would argue it's these long-standing trends of higher cost to capital, the retreating, forcing a retreat of the US, which makes the world a more dangerous and more expensive place. So, it's now existential that Europe does something about. So that's, I would say, Trump is being really the agent of the change. The trends were put in place long ago.

Erik: Jeff, let's talk about all of this in the context of commodities, which is your specialty, and what it's going to mean. As you said earlier, energy is the most important commodity to the economy. What is all of this going to mean? It seems to me like we're talking about this conversation in the context of a capital rotation in equity markets out of US and into Europe. But it seems like the related conversation is the question of, is the petrodollar system either breaking down or being replaced, or being re-architected? Or, what's happening there, with respect to the US needing to persuade foreign countries to invest in this Treasury market?

Jeff: I think that this is probably the single most important question. That's why I call it, "bombs, barrels and bombs," all three of them are extremely interconnected. The question you're pointing out, let's just start that is the petrodollar system. As you point out, "bombs, barrels and bombs," that's the way the system worked basically from 1971 until now. When we think about, let's start with the bonds is, I think one of the biggest shifts here is your marginal buyer of US Treasuries has shifted tremendously. It was the Chinese and the Japanese. They're both done. The Germans are now going to have to spend on their own defense, so you lost your foreign bid. Then when you look at the big US commercial banks, they're not really interested in owning bonds, because they're afraid of the capital depreciation that could occur, if the interest rates go up. So that's really going to leave you with pretty much US retail as that new bid, because, and I don't think we completely understand what the implications of this are, because that foreign bid that you're referring to as being, you know, that the petrodollar system that has been there for 75 years. It's now gone, and we're going to find out where that new bid is going to be. But at the same time, when we think about global trade, there's going to be less flow of goods moving around, as dollar terms that are going to be creating those foreign dollars to buy those, that was the petrodollars, to create those foreign dollars to buy those treasuries. And I think this goes to a point, you and I'll probably talk about nuclear energy and energy transition is, everybody's pronouncing the energy transition as dead, or whatever. I want to emphasize the energy transition started in 1973 with the first oil crisis, and it went lightning fast when people were scared. And I like to point out, when security is put above affordability and put above the environment and compassion, you end up with really good outcomes, higher returns, faster transition. And that was when France built all that nuclear power because they were terrified of the security of their energy. In fact, I like to point out, France has the lowest carbon footprint and carbon intensity of any major industrialized country in the world, and it didn't get there because it wanted to save the planet. It got there because it was scared. It was driven by security and by fear. So, this transition to security is going to limit the interest in owning oil. Why didn't you want to own oil in the 70s, in the 80's? It's because you were scared of being exposed to supply chains in the vagaries of moving oil around the world. If you built

nukes, and by the way, solar was built during this time period, it was innovated in that time period because you wanted to be self-sufficient, not moving big tankers of oil around the world. And so, I think this is going to accelerate the energy transition. And you know, you and I have talked in the past, Erik, nuclear power is the solution here, because you don't have to move, moving a small amount of uranium around is a lot safer than moving a lot of oil. So, the oil is going to get hurt in this process for the same reasons as it did in the 70s and in the 80s. And then finally, going to your point on bombs is, the US is not going to be sitting there protecting these global sea lanes. And so, when we think about the world, we've got war, conquest, war is a conquest, weaponization of global supply chains. We saw the Chinese do it with rare earth metals last week, which forced the US administration's hands in that trade war very quickly. So as the US retreats, you know your point about this Bretton Woods system or the petrodollar system, we got to come up with a new solution to replace it. And I think that, again, Europe's going to be an essential position to be able to develop that new global framework that we're moving into.

Erik: Jeff, I want to drill down on this need you're describing for Europe to, I'll say essentially, to architect a replacement for the petrodollar system, which everyone has grown frustrated with. It seems to me like we used to have a system, and we don't have a replacement yet. There is no existing alternative. I agree with you that Europe has to create one. Seems to me like we used to have an old system before the new system that was called gold. The way it used to work is, exporters of crude oil and other commodities would sell their stuff to the rest of the world, essentially in exchange for gold. They keep the gold at the end of the day, they get richer. It was the US that sort of changed that and said, no, we'd really like it much better if you were to treat US treasury bills as being better than gold. And they kind of talked him into it. Seems to me like there's an argument to be made here that we could be on the cusp of gold, maybe initially, just getting called up as a stand in, if you will, until that new system comes about, but maybe that ends up fomenting a return to a gold standard.

Jeff: Yeah. I mean, to your point here is, it was the Nixon shock in 1971 that forced that transition off of the gold standard into the petrodollar system that we've been in now for quite some time. And I'd like to point out those three legs of the stool, "the bombs, the bonds and the barrels," all three of them are interconnected. One of the legs falls off, the other two also fall, which is why it's critical to replace it. Now, to answer your question, gold was already being replaced, replacing all of this going back to the Russian invasion of Ukraine, when the US seized the Russian Central Bank assets, because that became very clear to everyone, that those US Treasuries and those US denominated assets were no longer sacred. And if you were an EM central bank at that point in time, you started moving out of US Treasuries, out of US dollars and into gold. And that's essentially what environment we've been in since 2022. And the fact of the matter is, I don't see where the end in gold is in terms of the upside. It doesn't have a natural price elasticity demand, yeah, that exists in the jewelry market. But for monetary ownership of gold, there is not that price elasticity, and we're seeing that dynamic play out. So, to answer your question, I don't see us ever going back on the gold standard or anything like that. But as we, as the US retreat and you lose that balancing system of US Treasuries and energy and trade, gold is going to, and I put crypto into that mix as well, and that's part of the

reason why the two have performed so extremely well. I'm not going to go out on a limb and talk about what the new environment is going to look like, I would actually argue it'll probably be a bunch of pockets of different types of treasuries. And by the way, when you think about how well German bunds have traded through this, they're acting like they have the exorbitant privilege right now. I mean, Germany just announced a €1.5 trillion plus spending package, and their bonds didn't even move. The US attempts to pass a new budget and the 30-year yield soared above 5%, which tells you that passing of the torch or the moving into that new world, we're probably heading that direction already, but I think it'll probably be a more balanced world where you see the potential for cross border bond issuance in Europe. Let me remind everybody here, Europe did this last week. They've issued those safe bonds for military investment. So, we're moving in that direction. I mean, we got long ways to go, but in the meantime, I think gold is going to be the biggest benefactor. I mean, you've already crossed \$3500, I don't know, \$4000, \$5000? I don't know where we're going to go on gold. All I know is I want to be long, hang on for the ride until we start to get more information.

Erik: Jeff, as we talk about where gold is headed and where it can go and so forth, it seems to me like the obvious question is, well, wait a minute, digital currency is kind of a big deal right now, for a lot of good reasons. Nicolas Maduro had the crazy idea of creating a oil backed digital currency. Frankly, it was a great idea. It was not credible coming from Venezuela and Nicolas Maduro. But imagine if that had been the Gulf Alliance, and that was Saudi Arabia and UAE and Qatar that were jointly basically saying, look, our replacement that we're creating for the petrodollar system is the petrocurrency system. It's a digital currency that the Gulf Alliance is going to manage, and it's going to be what we're going to replace the US Treasury with. That's what we're going to be investing all of our oil profits in. We're going to create a new digital currency for that purpose. Seems to me like something along those lines would be the smartest way for those Gulf countries to kind of assert power and negotiate with the United States in this new world order that we're forging. Does that make sense?

Jeff: Absolutely makes sense. And I think one of the biggest issues facing crypto, or whatever store of value we see as being the dominant one, is the issue around custody. I mean, bottom line, you try to move dollars from Singapore to Vietnam, be my guest. That's really difficult to do right now. And things like, stablecoin or something like that, they're a lot easier to move. So, the question is, whatever type of store of value, whether you know, and I also agree with this idea of somebody like group like the GCC countries in the Gulf creating that oil backed coin is, the question is, who's your counterparty? What's your custody risk? Do they have a really high credit rating, something of that nature? Because a lot of this is going to be corporates wanting to move balances around the world. And so, having that security to know that your capital is in a very safe custodian, I think, is going to be critical here.

And so, you know, is it a JP Morgan type entity that could launch something like this, I think that question around the custodial relationship, I think is going to be, and that's always been my view on crypto and even gold, is it's got long standing custodial relationships in your ability to move it around and trust the entities that are involved. And that took decades, if not centuries, to develop. And I think that that's probably the biggest open question here. And here's the other

point, too, if you end up with an asset that's got restrictions around, you know, all of you know the different central banks around the world, you're into the same difficulty of trying to move the crypto, or whatever coin, or whatever it might be, as you had previously with the dollar. So, I agree with you, and I think that the idea is clever, but I think the issue is, what kind of custodial relationship would be installed around whatever dominant crypto or coin ends up being the store of value.

Erik: And let's talk about how that process would work. Jeff, is it possible for the Gulf Alliance, say, to come up with a system design something? Is this about designing a custody system that works and meets the needs of a custody system? Or, is this really more about a geopolitical negotiation with the United States for, we're changing the game here.

Jeff: I think you need to have both, and they go hand in hand. The reason why the US dollar was in such a strong position post World War II, one was, there was no other alternative than the US. It was the only region of the world with buildings still standing in industrial capacity. And by the way, a lot of the tariffs and the GATT and everything was put in place to help the rest of the world rebuild, force those dollars through New York to create, you know, the World Bank was the development bank for this, and the IMF was the monetary policy around it. And that was the environment we lived in for four generations. So, you need to create the type of trust in the system that then leads to that custodial relationship. So, we're definitely on the cusp of having to find this, but I don't think we're in any place to say that we can talk about what the new replacement will look like. That's why I think, moving back to, and I think anybody listening go, Jeff, that's impossible about Europe issuing European cross border bonds as being one of these substitutes. They're going to, they have moved toward a few weeks ago, likely. And I think the right answer here, it's going to be a basket. Think about what is a stablecoin. It's just a basket, a bunch of different types of risk in assets. And it ends up being some US dollar bonds, some European bonds, a GCC type coin, and they end up being something that is more diversified. And that was among the key conclusions we came from our New Joule Order piece, where we talked about security driving the energy transition. You want to own a basket of different types of energies. And I think here, when we think about what's going to replace the dollar, it's probably going to be a basket of a bunch of different assets, so that you diversify that credit risk, and you diversify the financial risk that they're embedded in these different parts of the world. So most likely, it'd probably be a basket of these different solutions.

Erik: Or, it's a digital currency which is backed, hard backed by a basket of different assets, both crude oil and gold, potentially. It seems to me, I mean, digital currency, for so many reasons, is superior. It is the right thing to do next. I thought governments were going to usurp the crypto boys and essentially steal their idea and take it over and say, no, this is going to be US government controlled. Didn't work out that way. I was surprised. They didn't do that, but it didn't.

Jeff: I was surprised too. I was 100% believer in that view. And by the way, I've still got to go back to it.

Erik: Well, it seems to me like the next obvious thing is it's a fait accompli, that China and Russia are new global strategic partners. I think that's going to last for decades. They need a new non-dollar currency they've been struggling with. Sergei Glazyev has been trying to figure out how to make that happen for 20 years. So, they're working hard on this. All of a sudden, you've got this changing oil landscape. All it takes is for Xi and Putin to call MBS and the UAE boys up on the phone and just say, hey guys, look, let's do an asset backed digital currency that has both gold and oil behind it. It's going to be invincible. That's the only way anybody's ever going to take on the US dollar, which has had the hegemony over the global financial system for almost 100 years. Now, the only way we're ever going to take it on is a really strong digital currency that's backed by both gold and oil. Let's do it together. I mean, it's the perfect team of people. It's the perfect solution. But why wouldn't that work? And it seems to me like once the US government figures out that that's a real risk, that they're really going to do that, all of a sudden, I think the priority of Fed coin goes up a lot.

Jeff: Yep, and I think you're going exactly the logic why I think we'll go back to our original thesis, that the government, particularly the US government, usurps all of this. And I think once they start to see a legitimate, very large scale, trillions of dollars of market cap challenger, they'll get really serious about it.

Erik: Well, let's take that exact concept and apply it to energy policy, because I see the exact same thing happening there. I think what's going to happen is energy is kind of the most important thing for the reasons that you cited earlier. China is developing an absolutely fantastic nuclear energy policy, which is going to give them energy dominance in the future. I'm absolutely convinced of that. The question is going to be, okay, where does it leave them with respect to the rest of the world? And I think we're forging a new world order, which is going to be defined by energy policy. And it makes perfect sense if you think about China's need to assert itself as saying, look, we're going to have more power than the US, more economic power, we want that power. All it takes is the combination of a digital currency system that is backed by a combination of gold and oil and a policy from China that just says we're going to continue to focus on peacefully, being smart about energy policy and getting a better, stronger economy as a result. I hate to say it, Jeff, but the way I see this going is it keeps going. We keep screwing up, we keep botching this and not noticing that we're not competing like we should in energy policy. Then we eventually realize how big of a risk it is, and we nuke them just because we can't chance letting them get ahead. It doesn't make me feel like we're the good guys in this story. Is that where it's headed?

Jeff: I think you highlighted, I think the most critical development is China's focus on energy security. When we look at the US, it has energy dominance, and it does that because it's endowed with enormous amounts of oil and gas reserves. And by the way, I like to point out, at some place like Texas has got a lot of solar, sun and wind. So it's got everything out there, kind of like what the Middle East has as well, and it's now exporting oil. By the way, for the first time, and after World War II in 1946 is when the US became energy dependent, and the whole world became dependent upon oil, sitting in boats, traveling around the world. By the way, pre-World War II, everybody was energy independent. So that dependency started with the Bretton Woods

agreements in 1947-48, and by the way, when did the Bretton Woods kind of end was when they became energy dominant and exported it, which really occurred right after COVID. So, we're clearly in a new environment. But I think one is China, as you pointed out, they have been driven by energy security for 25 years. They didn't develop cutting edge EV technologies, nuclear technologies, solar and wind because they wanted to save the climate. They did because they were focused on energy security. So, everybody understands that is when you look at the energy transition story, it started in '73, was driven by the fear of running out of oil. Peak Oil was, you know, supply is going to peak and come off. They were concerned about climate back then, but they thought it wouldn't matter, because you're going to run out of oil. That happened up until the shale revolution there, because, uh oh, now we have too much of it. We better come up with an idea of peak oil being peak demand. And that's when you got the Paris agreements. And then it became, we're going to run out of oil. And the environment drove that decision. Now, we'd argue it's peak oil being driven by, I'm not going to, I won't be able to get it in trades, too dangerous. But I think the key point there is the Chinese were driven by that security decision going way back, and they're light years ahead of the West in these different technologies. You look at, whether it's BYD, by the way, here in London, there's BYDs all over the roads now. So, it's growing quickly, and I think that dominance is going to be critical.

Now, let's bring it to your point. Okay, so they get the energy dominance, and that's kind of going back to the old Bretton Woods system, and you had the barrels and the commodities driving that global trade. Now, the one caveat about China ever being in US' position, to be able to create that dynamic of owning that reserve currency is, you need to be an importer. That's what made the US special in this, it was importing all those goods being produced by other players in the world. It was willing to take them in. It was critical and that's what created that exorbitant privilege in that US consumer, to be able to consume, unlike any consumer ever in the history of mankind. China, in the more isolated world we're moving in, I'm not so sure China can ever be in that kind of dominant position that the US was, because you got to import everything. And for the most part, the US was the primary consumer of all that. That's part of the reason why, you know, the motivation behind the these tariffs and everything else is those imbalances were by design. They weren't a flaw. And can China ever create that same type of imbalance in the modern world? I think it'd be really, really difficult. Which goes back that point, I think it's got to be, you know, your idea, does the Federal Reserve launch something that is hybrid of a bunch of different ones? I don't know, but I would be really suspect, if China could ever, they can dominate in energy. And, by the way, the other point—you and I'll probably get to nuclear technology—if the rest of the world doesn't wake up to this, they have a serious, this is like the railroads in the United States in the 1800s when they connected the Pacific with the Atlantic, it was game over for the rest of the world. If China gets to the point they can install all this nuclear capacity plus renewables, their marginal cost of energy goes to zero, it's game over for the rest of the world, until they can catch up. So, this is existential for the rest of the world. But I think my main point here is, even if they get to that point, the world can't really look the same in that reserve currency of being like the dollar, because they aren't going to be taking everything in and balancing a current account deficit via a goods trade account imbalance with a current account imbalance and the capital account going the other direction. That's what the Americans did in a very unique environment.

Erik: I want to challenge this a little bit, Jeff, because I don't think it's a question of will China or could China. I think it's a done deal. I think China has already succeeded at doing the research and the planning, from everything I can see, they've got the energy strategy figured out in spades. It's going to take them a good solid decade plus from here to implement that before this is realized. But I think it's a done deal. I think this is a zombie story that China has already set irreversibly. I wouldn't say irreversibly, you can always have a nuclear war. But barring some profound outside changing force, I think China has already done the good work that they need to do in order to put themselves into a position of economic dominance over the rest of the world for the next 100 years. I think it's just about 10 years away.

Jeff: The one caveat I get to this, let's go back to Europe. They've had a lot of stumbles recently. But you know, places like Germany, they're at 60% renewable capacity. France was a global leader in nuclear power for so long, they were up to 80% of their grid being nuclear power. They get their acts together, create a more favorable regulatory environment, they could start to play catch up rather quickly. So, I agree with you 100%, China is light years ahead of the West on all of this. And it's a warning shot, should be a warning shot to every Western government. They really need to focus on this. But I would say Europe is, they got really far in this. You know, they got all that installed capacity. They got problems because they can't store it. The grid is inadequate. But I think that the basic ingredients are there, and the core capacities there, the knowledge is there. So again, I think they would be in a good position to be able to start to challenge. China is, I like to point out, when we look at security driving everything, energy security is driving that decline in petroleum imports in China. Energy Security is what got Europe to where it is. The fact that the US is endowed with all of this, they're probably going to be the last one to realize the importance of being self-sufficient with these low-cost marginal technologies like nuclear and renewables. But yeah, in general, I agree with your point, if they don't realize this, how far along China is, they got serious problems in the future.

Erik: Jeff, before we close, let's tie all of this together and just talk about your outlook and forecast for various different commodities. We haven't even talked about copper and other base metals, like iron ore as yet. Why don't we start with the energy commodities, oil and gas and so forth, precious metals, based metals. It just, just should run through the list. Where do you see all this stuff headed?

Jeff: Let's start with oil. The consensus view. Remember when, I think it was like six months ago, we were doing this, the consensus view then was a mega surplus coming. Six months later, it's still not here. And six months before that was, the consensus view was we're going to be swimming in oil. And the market had even priced in a contango on the back of the curve, where it had priced in a huge surplus. The bottom line, inventories are really tight. Demand surprises to the upside, the "drill, baby drill," has turned into cut in CapEx because of the emphasis on lower prices. So, drilling is off in the US, production looks to be rolling over in the US. Russia has not been spending on Greenfield, just Brownfield. They probably have a few 100,000 barrels per day of capacity left, and then they're likely to fly, even their own government says they're likely to go into decline. Non-OPEC has disappointed. So, the supply is not there.

Demand surprising to the upside. Inventories are tight. Backwardation is on the front end of the curve, extremely tight, and the market's short. And now, you have potential for a disruption in the Middle East, given everything that's going on in Iran. I'll take the upside on oil from here, and because you got to get a point to where you start drilling again. And you know, at this point, we're just not there. And then finally, on the OPEC spare production capacity point, I want to remind everybody, nobody's ever seen that 6 million barrels per day. It's all speculation. And you look at places like Saudi Arabia, they've cut rigs tremendously. You know, one of my favorite points about Aramco, and this was in first quarter, was they had a \$31 billion dividend that they were paying the government against \$9 billion dollars of cash flow. That's not sustainable. So, they took the dividend down to like \$19 billion against \$7 billion of cash flow. That's not sustainable ever. And so, when we look at the environment on the spare production capacity, one other point here is, despite the fact that we've seen the increases from OPEC+, announced now, it's going back to April. Exports have remained subdued. It's not translating into new inventory. Yeah, people can go, oh, there's floating storage out there. Yes, yes, there is floating storage out there, but it doesn't offset the tightness that we're seeing on onshore out there. And I would be very cautious of that bearish view in oil right here.

And on copper, I've been saying that this thing's going to go to the upside. One of the biggest headwinds has been the dollar. That's no longer a headwind anymore. You've moved a lot of material into the US for the tariffs protect. Once the copper tariffs go into place after the Section 232 investigation, you see it in alley, it means the rest of the world doesn't have a lot of inventory. And as a result, as you start to see recovery and demand. And the one caveat, not only was it the weakness in the dollar or the strength in the dollar, it was a headwind to copper. Also, you had the property markets in China. No way I'm going to say that the outlook is clear right now on Chinese property, but the bottom line is, Chinese development has fallen behind demand. You're going to need those properties again. It's probably too extreme. The CapEx, global CapEx, green CapEx, demand for copper, it hasn't gone away. So, there I'm quite positive, goes to this whole idea of an asset rotation, back that to asset heavy, commodity intensive, old economy type industries and copper is evident to that. One last point on copper is, even the data center AI demand in the US, what's the biggest constraint on the hyperscalers growing more is that they need to have access to transformers. Two thirds of the transformers are imported from copper elsewhere in the world. All transformers, just one big chunk of copper, you get the point there.

And then finally, on the precious metal side, on gold there. Nothing has changed. You still have a lot more upside driven by diversification out of the dollar into some other type of asset that's less exposed to the vagaries of the US political system, and it's going to be coming from Central Banks. That's why, when you look at spec positioning in gold, it's not the specs are not super long in gold, but the price keeps going up. These are institutional buyers of gold, things like central banks that need to diversify the reserves. I don't see that stopping either. So, I want to be long commodities here. And if you just look at relative valuations, everything else, monies are cheap. Old economy, asset heavy sectors are cheap. So, that's part of our view of an asset rotation. All of these groups are going to be the big benefactors here.

Erik: Jeff, I can't thank you enough for another terrific interview. Before I let you go, please tell our listeners a little bit more about what you do at [Carlyle](#). Everybody kind of knows you as the Goldman Sachs commodities chief from way back when. So, tell us about the new role, what services are on offer and how people can follow your work.

Jeff: Great. Well, I mean, we put out the piece [The New Joule Order](#), where we talked about security being the primary driver of the next, the third stage of the energy transition, where peak oil is peak trade. And you can find that on the [Carlyle](#) website. We published a piece yesterday about the asset rotation in the [Carlyle Compass](#), and we'll be putting out a piece more, you know, future that the new Marshall plan that is focused on this idea of European defense as being that next leg that we need to focus on. Going back to "bombs, barrels and bonds," the neutral order was about the new energy system that's going to replace oil, the new Marshall Plan is going to be about the need for a new bombs related hierarchy. And obviously, there's a story about bonds here that you and I were hinting at, Erik, and that's going to be one of the next. But I think the key point here is, I think these three sectors are going to be the biggest investment opportunities going forward, because we know we need to replace them. And that's really a focus that we put our attention here in energy pathways at Carlyle on. And again, most of the research and work that we do here, you can find on the [Carlyle](#) website. So really appreciate that, Erik.

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