



## ***Brent Johnson: The Genius of Stablecoin's***

### **Erik**

Joining me now is Santiago capital founder, Brent Johnson. Brent prepared a slide deck to accompany today's interview. Registered users will find the download link in your research roundup email. If you don't have a research roundup email, it means you haven't registered yet@macrovoices.com Just go to our homepage macrovoices.com click the red button above Brent's picture that says, looking for the downloads, Brent, it's great to get you back on the show. You know, I've noticed a trend in the finance podcasting industry. Here's what you do. You're a podcaster. You go in the air, you make shit up in your head about what you think Brent Johnson and Luke Roman each said about the US dollar. You set the context that way. Then you bring one of those guys on and ask them questions that don't make sense because you didn't get the story right. I'm going to resist that temptation. Dollar milkshake theory is your explanation for why you think, even though the dollar system might be in big trouble, it's more likely to be upside risk to the dollar relative to other currencies than other people think. You call that the dollar milkshake theory. Give us an update on that, because, boy, it's starting to look I certainly think you already were proven right on that. We saw that unexpected rally up to 116 on the Dixie, holy cow. But wait a minute now it's looking a little bit shaky for the dollar. Let's get an update from the slide deck on the dollar milkshake theory, sure.

### **Brent**

Well, first thing I'll say is thanks for having me back again, Eric. You were one of the first persons to interview me when I first started talking about this, and you were actually your conference in Vancouver, was the first time I ever spoke about it live. So you've been a great supporter of me over the years, and I appreciate you having me back, or having me originally, and having me back so many times since then, you know. So as the dollar milkshake theory goes, what it really is is it was a framework for me to understand what I thought would happen, should we get into a sovereign debt crisis as a result of all this crazy debt that the world has taken out. And I called it the dollar milkshake theory, because the dollar underlies the entire global economy. You can't really understand what's going on in the world if you don't understand what's going on with the dollar. And I thought that the if we got into a crisis and the system came into some kind of an event that would force it to change, it would be as a result of the dollar going higher. But the idea was never to just sit in dollars and wait for this big implosion. My point was that the dollar was going to rise. And I thought that would have a knock on effect for several different things. And I'm not going to spend too much time going through the whole theory again, but, you know, people can look at the slide decks, and the first, you know, 10 or 12 pages kind of summarize it. But if you look at page four, what I really said was, I thought six things would happen. I thought, you know, because of all the debt in the world, interest rates would finally start to rise after a 40 years of going down. I thought that would cause bonds to break. I thought the higher interest rates would pull capital into the dollar and make it rise versus foreign currencies. That pulling of capital into the dollar and into the United States, I thought would also cause US equities to rise. I thought gold would rise as well, both because Fiat loses value over time, but also the uncertainty surrounding the monetary system itself. And I said I thought the United States would continue to outperform the rest of the world on kind of an asset appreciation basis. And we did not get the sovereign debt crisis that I thought that we would, but all of the six things that I thought would happen as a result of that sovereign debt crisis have kind of played out. You know, the dollar has kind of from

the time I first said it, it's, it's up about 10% but from from covid, which is when things really kind of got interesting. It's basically flat. But I would point out it's flat despite all the bailouts, despite all the money printing, despite the money printer go bird, despite the, you know, expansion of the Fed balance sheet, and so, you know, we've just kind of kicked the can down the road. But, you know, the framework has helped me understand what's going on in the world and why it's happening the way it has been happening. And so where I think we're at now today, Eric, is we're kind of at the same place we were five years ago. There's a lot of people out there who thinks the dollar's days are numbered. There's a lot of people calling for its imminent demise. There's a lot of people who think that American Exceptionalism is now over and it's the rest of the world's going to outperform the United States. I just don't think that's the case. I think, if anything, over the last five years, the United States dollar has become more entrenched in the world, despite the great desire to get away from it. I just don't think it's that easy to do. And I think, you know, with with the ratcheting up of the trade tensions between the United States and China, and the geopolitical tensions between the United States and Europe against Russia, you know, I don't, I don't think the next four or five years are going to be smooth and calm, and I think when things get crazy, I think the dollar will still rise versus foreign currencies. And I think the dollar will become. More entrenched than it ever has been. So that's kind of a little bit of an alternative theory than most people have. But you know, I have, I haven't changed my story in seven years, and I'm not changing it now.

### **Erik**

Okay, that's perfect context, because I'm changing my story. Brett, what I would have said until maybe six months ago is, look, first of all, you've already been proven right on this. As far as I'm concerned, yeah, we haven't had a full on sovereign debt crisis, but we really are, in my opinion, having at least a an awareness, finally, of how bad the sovereign debt situation is, and I think it's driving these, these rises in the dollar and the bonds, breaking the interest rates, everything you said, the gold. I think it is all happening for those reasons. But what I would have said until about six months ago is, look, Brent, there's so many people around the world that agree that the dollar is the world's reserve currency because there's no viable alternative, and they're working hard to build that viable alternative, and once they do, I think it's toast for The dollar, because I couldn't see any smoking gun that could possibly preserve or salvage that that US dollar reserve currency status long term. Until recently, and I've been looking for somebody to talk about this. You just wrote a 30 page paper about it. So what is the smoking gun that might extend the dollar's hegemony over the global financial system longer than a lot of us thought possible, at least, certainly longer than I thought possible.

### **Brent**

Well, you know, it's really, really interesting, because when this first came out a couple years ago, I didn't think it was that big a deal, but I've changed my mind on that, having done a bunch of research on it. And that is the rise of US dollar stable coins. And I think perhaps it's been missed by most for the same reasons I missed it is that it was, you know, it kind of came up in the world of crypto and these digital assets. And, you know, for many people, perhaps they understood the monetary side of it, but they didn't understand the technological side of it. And for many people, when you don't understand something, you just kind of stay away from it and don't really dig into it and and as a result, and I think there were some shady companies that were involved in the stable coin market, and that kind of, you know, probably kept me and perhaps some other people from from embracing it too much. But what really got

### **Erik**

me hang on a second, Brent, let's just do a definition before we go on of for that audience. And it's definitely part of our audience. For the people, okay, stable coins, that's one of those crypto, whatever

the heck things, for people who are not interested in crypto. Why the hell should you care about a stable coin? Why should I even care what it is?

**Brent**

Sure, well, what a stable coin is essentially a digital token that is then tied to something else that's tangible, so as an example, or something that exists in another form. So rather than a new meme coin, you know, like Doge or something coming out that that really gets its value from either some perceived use or speculation it. The stable coins derive their value from the underlying assets that it's tied to. So you could the, you know, you could have a US dollar stable coin, in which case it's tied in a price manner to the US dollar. You could have a gold stable coin, in which, you know, you have this digital asset that is tied to the value of gold. And there's kind of different kinds, you know, some of them.

**Erik**

Let's define that word tied Brent. What do we mean by tide? Do we mean backed by like, for every stable coin, there is a US dollar behind it someplace in a bank that hopefully is not in the Bahamas. That's

**Brent**

that's the idea. And I think for a long time, people were very skeptical of whether there actually was enough backing those stable coins, and if there was enough assets backing it to where, if you wanted to return your stable coin for the dollar itself, or the piece of gold or whatever, whatever it was tied to, that the backing was not there. And I think, I think what really kind of changed this for me was when they passed the genius Act. Now I started hearing about the genius act a couple years ago, but it was still kind of in, you know, legislative creation form. It wasn't really an official thing, and it was still kind of on the fringe, but then they literally passed it earlier this year, and Scott Besant has spoken about stable coins quite a bit. And so it's kind of getting official sanctioning or backing from the US government that it is going to be a thing. And that's what really got me thinking about it in a bigger way. And as I started thinking about it in a bigger way, I think the government is going to mandate in some way or another, that these stable coins are backed, and I think transparency is going to need to be more forthcoming than it has been, and I think audits are going to be more stringent than they have been. But the idea, as you suggest, is that, you know, these are backed, and. You know, in the past, there have been some stable coins whose backing fell apart, and then the price of those stable coins fell apart. I think that's going to be much more stringent oversight going forward, and that oversight is again, part of the reason why I think this could be a much bigger deal than than people perhaps have realized so far.

**Erik**

Okay, now let's talk about the stable coins role here. Because what I said years ago when I wrote my book in 2018 is, look the US government. Once they figure out what all this crypto stuff really is, and they realize that it really is a threat to the US Dollars role as global reserve currency, they're going to outlaw it. They're going to do whatever they can. Of it. They're going to make it difficult for crypto people. What I never saw coming is that actually there's a way for some crypto assets to kind of be the salvation that saves the dollar from being displaced as the reserve currency. How does that work? And how does stable coins play into that?

**Brent**

Well, I think you've just hit the nail on the head. And that's, that's kind of the realization I came to. And that is what I would say, is that what is emerging here as a result of the genius act. And listen, I have to

say that this is, I say this somewhat tongue in cheek, but I'm also serious, is that usually when I see the name of a law come out, I laugh, because the name is usually the exact opposite of what's going to happen in this case. I actually think it's appropriate. I think this is a rather ingenious idea by the US government, perhaps saying Machiavellian is a better way of describing it. But essentially, what's emerging is not a decentralized alternative to the global financial order, but rather a deeper centralization, which may be disguised as efficiency and freedom, but is actually, you know, it quietly reinforces the US Dollar as the global reserve currency, and it reinforces the United States government's control over the global monetary system.

### **Erik**

So the essence of it is, if you wanted to go digital, and you were kind of thinking about ditching the dollar and going with Bitcoin, okay, there's a lot of volatility in that. But if you go not with Bitcoin, but with a stable coin that might be cleared on the Bitcoin Blockchain, but it's a stable coin tied to the US dollar. Now, all of that demand for US dollars is still there, and you don't have the competition from other Euro stable coins and New Zealand dollar stable coins, because all the stable coins are dollar based, for the most part,

### **Brent**

that's correct. 99% of stable coins in existence are already tied to the US dollar. Now, I have no doubt at all that other countries are going to launch their own stable coins as a way to kind of compete against the US dollar. But I would say countries around the world that are worried about the US dollar stable coin should be worried about the US dollar stable coin. And the reason is, and I'm going to take a step back here, and because I think it's important to understand the argument that we're making, and I think the mistake that a lot of people make is that they think that stable coins are competing with perfection, but they're not. They're not competing with perfection, they're competing with other fiat, right? This is a Fiat versus Fiat argument. This has nothing to do with Bitcoin. This has nothing to do with gold. It's nothing to do with diamonds or other tangible assets that increase in value over time as Fiat loses value. This is a Fiat versus Fiat battle, and for most countries around the world and most individuals and even kind of small and medium sized institutions, the US dollar is a much more stable currency than the local currencies in which they transact. And typically in an emerging country or a newly developing country, the government of that jurisdiction has a way to control the monetary flow. The capital controls what kind of a bank account you can open, what you can hold in the bank account, and so they can protect against an outside monetary influence coming in and disrupting them. But in this case, the technology is allowing citizens, individuals, and you know, again, small and medium sized institutions, to skip those capital controls or those banking laws or those regulations, because anybody that has a phone, a smartphone and a connection to the internet can download a wallet, and now all of a sudden, hold a US dollar balance. Previously, you had to have a bank, and then that bank, you had to have a bank account, and then that bank where you had your bank account had to allow you to own to hold us dollar balances. And then, not only that, that bank had to allow you to withdraw US dollar balances in perhaps physical form. And if that didn't work, then you had to go to some local merchant or some bazaar or some money changer, and, you know, pay a big spread in order to get out of your local currency and get into dollars. Dollars. And this has a way to, kind of, you know, immediately bypass that entire infrastructure, both regulatory and financial, to to allow, you know, the people in these jurisdictions, to immediately circumvent those controls and hold the US dollar. And what this ultimately gets to, what it ultimately gets to is the sovereignty of a country. And this is where, you know, understanding the definition of terms, I think, is pretty important here, because sovereignty basically means ultimate power. And every government wants to have ultimate power over their jurisdiction. But if you are beholden to a country or to another country, or if you are beholden to another currency which you cannot control, then you are no longer truly sovereign. And as I think these other countries start to become more quote, unquote, dollarized, it starts to eat away at the sovereignty of those local jurisdictions. And it's not an accident. If you look back through history, whenever there's been a

currency crisis or a currency has failed, it's not very long after that that the government of that jurisdiction typically fails. And again, the reason is a loss of sovereignty. Once you lose control. Once you lose power, you're out and, you know, a new form takes its place. And I really think this, this, this is the genius of the genius Act, is it? It's a way for the US and the US dollar to kind of infiltrate foreign countries, foreign economies, and use the US Dollar as a weapon to a greater extent than they already have. And not only that, they don't even have to do it themselves. The market will do 99% of the work for them. And again, it's because the US dollar is a better currency than 99% of the other fiat currencies out there. And so I think a lot of people have focused on the fact that these new stable coins will be a source of demand for the Treasury, and that's true, it will be a source of demand, but I think that is a secondary benefit. I think the primary benefit is a more of a geopolitical and strategic currency as a weapon, that I think will, quite honestly, change monetary architecture of the entire world. Let's

### **Erik**

talk more about that currency as a weapon aspect. Because it seems to me that, you know, the genius Act is a mechanism or an invention of the US government. But wait a minute, one of the US government's favorite sanctions is to withhold access to the SWIFT system to prevent people from being able to transact international transactions in US dollars, basically kind of cutting people off from the global or cutting entire countries off in in the context of sanctions from the global monetary system. But wait a minute, don't US dollar stable coins kind of create a better way to completely bypass and obviate the need for the SWIFT system? And doesn't that undermine the US ability to use that as a sanction tool?

### **Brent**

Well, I think it actually enhances it, and I'll tell you why. Is because the SWIFT system is not a US institution. The SWIFT system is actually a European institution. Now, after 911, 25 years ago, the US government went to Swift the US Treasury, more specifically, went to the went to the SWIFT system, and by using the political pressure of the United States government, was able to, quote, unquote, sort of infiltrate swift and get more information from Swift. But they still don't have perfect control over it. They have more control than perhaps any other group, but they don't have perfect control. And again, when you go back to sovereignty, every sovereign wants to have total control. They don't like a little bit of control, and they have some visibility, and they have better visibility than anybody else, but they still don't have perfect visibility. These stable coins are basically a new digital architecture that would give them perfect visibility, because it's all on the blockchain, or a blockchain, you know, I'm not sure which blockchain they would use. Perhaps they could use a couple different ones. But the point is, is it's it's not only gives them more visibility, it gives them more control, and it allows them to even better a sanction or remove somebody or cut them off. And so what I think happens over time is they're building this parallel system of you can call it plumbing or rails, however you want to describe this. And it will I think this new system will cannibalize the traditional Euro, dollar rails and create this. New us, dollar stable coin, Euro, dollar rail, which gives them more visibility, more control and more more a greater ability to use it as a weapon. Should they decide to do so? And I don't think this will happen right away. I don't think they're just going to flip a switch and happen. But the example I've used of how this could possibly go is the LIBOR so you brought up the Euro dollar system for those are not familiar, there's an entire system of dollar based transactions that exists outside the United States, and that system is called the Euro dollar system, and that Euro dollar system is orders of magnitude larger than the US dollar system within the United States. And for many, many years, the interest rate, which was kind of the standard interest rate that was used for the Euro dollar market, was called LIBOR that was set in London. It's called The London Interbank Offered Rate, and it was basically set by a committee of bankers in London. And again, the United States had a little bit of control over that, because it was essentially \$1 based loaning system, but they didn't have perfect control, and they didn't like that. And over time, they got LIBOR shut down, and they got it transferred over to what's now called sofr, which is now a US based rate and one that they have control over. Now, that process took 567, years, but they

eventually got it done. And so now LIBOR no longer exists, and now it's sofr, and you know, the US has more control over it. I could see the same thing happening with these Euro dollar rails and these new, you know, US dollar stable coin rails. I don't think it's just going to happen by a flip of a switch, but I think it will happen over time. And if you think about it, all the US would have to do, would say, Hey, this is our new preferred way of doing business. So any vendors they do business with, any any payments that they have to receive from other other partners or or companies or governments, you know, they could say, we want to now use this new system. And you know, it wouldn't take that long for the traditional rails to be cannibalized into the new rails. Imagine if the United States were to be able to get a partner like Saudi Arabia to say, we are still pricing our oil in dollars, but now, rather than sending us a Fed wire over the SWIFT system, we would like you to use this new, more efficient, quicker, cheaper system that the US Treasury has blessed, and then all of a sudden that gives it legitimacy. And for anybody saying, Well, no, Saudi Arabia is not going to do that. They want to sell their oil in yuan or rubles, or they're going to join the BRICs. I would just say, you know, keep an open mind. A lot of people didn't think that, you know, in 1972 that Saudi Arabia was going to price all their oil in dollars, but it happened. And so, you know, I think the US has a lot more tricks that it can still play, and more power and influence that it can use to make this happen, and especially if the market starts to adopt it on its own, it will make it even easier to do something

### **Erik**

like this. Okay, let's go back to the theme of weaponization of currency systems, the goal or one of the principal benefits of the genius act stable coin, as I understand it, is you're describing it is basically it gives the us a way to, very quickly, almost immediately, bypass all the engineering that would have gone into a so called fed coin, a digital dollar, and just say, look, we'll keep us dollars as US dollars. We'll provide the the crypto rails, if you will, the digital currency rails on the US dollar by using stable coins. And that allows you to transact stable coins that are backed by dollars. Very efficient internationally. Don't need the SWIFT system. It's got all these great features, and it does have, I think, a weapon like aspect to it, which is that it potentially perpetuates the life of the US Dollar as the world's global reserve currency. Okay, well, generally, when somebody's got a weapon, whoever their enemy is, observes that carefully and copies it, or does something and tries to come up with a better weapon. So if I put myself in the shoes of Sergei glazyev, the Russian scholar who was the architect of the de dollarization campaign, imagine he's going and meeting with his counterpart in China. I don't know the name of that individual, but whoever the guy is in China, who's, you know, the weaponization of currency guy and the Chinese government. There's probably lots of those. Probably lots of those guys. And they sit down and they say, okay, what are we going to do? We got to design something. It seems to me, we've got the whole world is going to like this digital currency idea. They're going to start using stable coins that are tied to the US dollar for everything. That's going to potentially perpetuate our. Enemy's currency system. How can we design an even more attractive stable coin than a US, dollar backed stable coin that everybody's gonna say, Oh, well, since we're already on stable coins, it's easy to switch to a different stable coin, and we're gonna go use this other one instead. What would they do? And is there a risk that they come up with something better.

### **Brent**

Well, they will no doubt do something, because if they don't do anything again, they are going to get their economy is going to get hollowed out and dollarized. So the countries that have the ability to fight back will no doubt fight back. And I think the countries that you mentioned, China and Russia, are probably best positioned to fight back. So it, but there's a number of countries out there who won't have that ability and don't have the power or perhaps even the technology or the know how to do it. And so I think what happens is even countries like Russia and China, you know, will still probably use the dollar stable coin to a certain extent, but I fully expect there to be a ruble stable coin, probably a yuan stable coin. If you look back over the last couple years, or last several years, our last 20 years, how many times have we heard about the EU on or the new digital this, or the new Libra system? There's been

innumerable attempts to come up with a system that is anti dollar, that has been launched by a competitor, that is going to be the new standard of currency issuance and usage, et cetera, et cetera, et cetera. And it just never, ever comes to anything. And it's not to say that there's not great desire there, but again, you're fighting against the biggest network that has ever existed in the history of the world, and that's the US dollar network. Now it's not to say that nothing can happen. It's not to say that the US dollar can never be replaced. You always have to keep an open mind to that possibility. But I think my point is, is that with the network that already exists, the need for dollars that already exists, the desire for dollars that already exists in many of these countries. If now all you're doing is handing them the ability that with a with a with a smartphone, they can, they can now not only hold dollars, but transact in them. It's kind of like, you know, taking candy from a baby, I would argue. And so, you know, none the parents of those babies may not want, may not want the, you know, the US dollar, to be in there. And so they will put controls in place and stuff to try to prevent it, but I think it's going to be an uphill battle for them.

### **Erik Townsend**

Let's go back to the question of the blockchain and how this all works. Because what you said earlier is I was questioning, wait a minute, could this undermine the us's ability to withhold access to Swift as a sanction? And you said, Oh, but they'll have even better abilities. Well, hang on, if we're talking about surveillance abilities, definitely the fact that it's all on a blockchain gives visibility to all the transactions. There's an audit trail there that has to be followed. But if we were talking about a cryptocurrency style of blockchain where there is no owner, you know, the US government would not have any ability to prevent a transaction. So are you imagining that this is a different style of blockchain that the US does have control over, and is there a risk that maybe somebody else says, Well, wait a minute, you know, you don't want to use this thing for that exact reason, and instead we've got, you know, that's the competitive advantage of something new.

### **Brent**

I'm the first to admit that I am not an expert on all this technology, to say exactly how this would work. And the other thing I would say is, even if I was an expert on the technology, I still wouldn't know exactly how this was all going to get rolled out. But I do know that there is ways that bond these different crypto assets, or these cryptocurrencies or these different blockchains to basically make it programmable money, right? And one of the things I've been debating myself with and talking to a bunch of other smart people is, is this going to be a system where the US Treasury rolls out their own stable coin or on their own system? Or will it be something where they just let everybody you know do it? Or will it be something where they, perhaps they grant a license, and they, perhaps they grant 20 licenses to a handful of different multinational banks and, you know, financial entities who then issue them. And I don't have a perfect answer that I don't know, but what I do know is that part of the reason for doing this is to have more control. Right? Governments are not in the business of giving up control, whatever you think of the genius act, I promise you that is not so that they are losing control of the money. It is, it is an attempt to get more control of the money. Now, how exactly they do that, I don't know. But to your point, could somebody else come along? Long and say, this is a way to get out from underneath the state's evil intentions. And I have no doubt that that will continue to proliferate, right? That's one reason to own gold. That's one reason to own Bitcoin. It's perhaps a reason to own some of these other crypto assets that gains, that provides an exit from the system. What I think is rather ironic about this, though, is that this new technology and this new innovations that was developed by the private market as a way to exit state control is now, at least from the way I see it, is being co opted by the state and perhaps implemented on a bigger scale by the state than the free market would prefer to see happening. And so this is where, this is where I don't have it worked out perfectly, but I can see the where it's headed. And it's, it's, again, I go back to the very beginning. It's whether you want to call it genius or Machiavellian. It is, it is rather clever, Brent.

## **Erik**

Let's come back to what's going on with reserve assets, because central banks around the world watched what happened when the US sanctioned Russia by basically saying, hey, all those treasury bonds that you guys all own, we had the serial numbers and we just canceled them. See you later. Other central banks said, Wait a minute, we don't want that to happen to us. They started buying gold. So I guess my question will be in two parts, seems like there's already a trend going on with central banks. Is there any reason to think that it's going to change? Which is, they're starting to favor gold over US Treasuries as a central bank reserve asset, but maybe more importantly, is there an angle for some clever maybe Russia and China to come in and say, look, we've got a better stable coin that's not just backed by US dollars, but it's backed by gold, and it's audited gold, and they're really, you know, it's basically a gold coin. So you can use the digital currency convenience of instantaneous transactions, but it's all based it's all backed by gold, and it's in a vault in Switzerland. Seems to me like if you were a central banker and you wanted to get some of these digital assets, and you had a choice between US dollar genius act, stable coins, versus some other kind of stable coin that's on a completely ownerless blockchain that's backed by gold in a neutral country's vault. It's starting to look kind of challenging for that us, dollar stable coin, isn't

## **Brent**

it? Well, I don't think so, and I'll tell you why, because I think we get back to the Dollar versus perfection, or the dollar stable coin versus perfection, rather than dollar versus other fiat. Now, I think there's a place for gold backed stable coins, and perhaps some of these other countries will try to do something with gold. But again, you have to remember, most people in the world do not want to hold gold. If they did, they would already hold gold. There's nothing to keep them from already doing it. And the other thing is, if they do want to hold gold as an asset, that's different than holding gold for liquidity, for business reasons, or for, you know, your daily operational needs. And so I don't think this is a gold versus dollar or a gold versus Bitcoin argument. One is a longer term store of value and one is a day to day liquidity needs. And I think we still live in a Fiat world. And I think that is going to continue. The other thing I would say is that to the extent that the rest of the world does try to do something with gold, the United States has a lot of gold. So if the dollar gets or if gold gets repriced higher, and therefore that makes China and Russia, who own gold, in a better position. Well, then how does that not also make the United States in a better position? Because they have more gold than anybody. Now I know some people will come back and say, well, the US gold hasn't been audited in 70 years, to which I would say, well, when's the last time you saw China's gold audit? And when's the last time you saw Russia's gold audit? And did you actually get confirmation of it, or did they just tell you they had it? And so the other thing I would say is I can't imagine Russia storing their gold in Switzerland. I can't imagine the PBOC shipping their gold back to the west after spending so much money to buy gold and ship it east. And so the last thing I would say is you have to remember the whole way that a gold backed stable coin would be given value is the gold that backs it. And the idea is that you could then turn in that stable coin for the gold. Now, do you think that China is going to give you the gold if you turn into stable coin. I don't think they're going to do that, but it does. It doesn't mean that it can't happen. I just, I think it's a lab, or rather lower probability event. But, you know, as it gets but, but I think as it gets back to the US dollar stable coin argument, you just have to remember that there are absolutely 100% Be countries that fight against it, and some countries will be more successful than other countries, but there's a lot of countries out there, and there's a lot of people out there, and a lot of small and medium sized institutions out there who already hold dollar balances or want to hold dollar balances, and the easier that that is made available to them. I think the more they will do it, and it is a way as, again, a Fiat versus Fiat battle. It's a totally different battle than the Fiat versus hard assets. The other thing, I would say, the last The other thing is, you mentioned central banks looking to hold more gold as reserves and treasuries. And listen, I think that is the case again. If we go back to the original the origins of the milkshake, one of my thoughts was that interest rates were going to rise, bond prices were going to fall, and we'd get into a

sovereign debt crisis where sovereign bonds, including us, treasuries, are repudiated. And that was one of the reasons why I thought gold would rise, because I said the gold's rise would be, you know, driven primarily by foreign buyers, which I think is what has happened. The other thing I would say, though, is, if you look, if you look at a lot of these charts, there's a chart I have in here. I can't remember which slide it is off the top of my head, but I think it's slide 13. It's a fairly popular slide that's been going around, and it shows treasuries as a as a percent of reserves falling, and gold as a percent of reserves rising. Now that's not to say that nobody has sold US Treasuries, and it's not to say that nobody has bought gold, but this chart is largely explained by price. Treasury bonds have come down 20 or 30% and gold has more than doubled. That is partly why, as a percent of reserves, gold has risen and bonds have fallen. That said, I do expect that probably continues in the years ahead. Again. I think we're still going to get into one of these sovereign debt crisis where sovereign bonds will be repudiated, and I think in exchange, people will want to own hard assets, whether that's gold, whether it's Bitcoin, whether it's us, companies that have property, plant and equipment. I think we're going to continue to see Fiat lose purchasing power. But I don't necessarily think this is going to be necessarily just bad for the dollar and not bad for the rest of the world currencies.

### **Erik**

Brent, I want to skip ahead here in the interest of time to let's see. It's page 21 in your slide deck. You've got the Table of Contents here, and I guess just the executive summary page for a 30 page paper, which I quite enjoyed reading myself. It is behind your paywall, understandably. How about hooking macro voices listeners up with the verbal executive summary of what's in this paper and what it's about? Sure.

### **Brent**

So you know, the paper is titled Empire by code, and we titled it that because, again, I was actually surprised myself when I started doing the research on this. I enjoyed doing the research. I enjoyed learning about it, and I enjoyed writing the paper, because I think it is a rather big deal. And you know, I started the paper off with a quote by von Clausewitz, who was a military general, and he said something to the effect that in war, you know, you have to think of all parts of a whole. You can't just think of the individual parts alone. And the point we made, that's the same thing with money, you know, I'm going to tell you a story, and I'm going to tell you about a number of different pieces, but you have to think about it as a whole. And that's what we tried to do with the paper. And so, you know, the different things that we talked about in the papers, what are stable coins? What is money? How sovereignty plays a role in money, how the Euro dollar market developed, and how that plays a role in global monetary architecture, as well as sovereignty. We then went in to explain the SWIFT system and how that has traditionally been used to kind of regulate and and use the Euro dollar system, and how and the not only that, but the ways the US has tried to gain a little bit of control on it. We actually did a special section on the US dollar stable coin as a weapon. And the point I would make here. I don't know if many people realize it, saying money is going to be used as a weapon this, it may sound like a controversial statement, but it should not be. Money has been used as a weapon for centuries. Perhaps all of history, and the United States has actually used this as a as used money as a weapon in several wars, battles and different military theaters over the years. So this is not, this is not some new idea that I've come up with of a way they could do it. This is, this is already doctrine in which they have used it. We then go into the genius act, and how that how we think the United States is using the genius act. Ali to then use all the things we previously wrote about to embed US dollar hegemony to an even greater extent than it, than they, than many people realize. And then we just kind of go through why it all matters, and why we think this is important. And you know, we and we come to our conclusions. And so, you know, from a very big perspective, we think that this is a very big deal, and perhaps as big a deal as when the United States, you know, severed the dollar from gold and left the Bretton Woods system. The point I would make with the paper is we tried to break it up into easily understandable different sections, and the details matter, but the overall structure matters more, because what we think

is emerging is not just a currency system, but a new form of global control. And the one, one thing I would I'll just, I'll just read you this one paragraph from the executive summary, I won't read the entire thing, but we say, make no mistake, something profound is shifting in the geometry of global money. Quiet code and public ledgers are no longer just symbols of rebellion against the state. They are becoming extensions of it, and the very tools once imagined to escape central authority are now being absorbed by the most powerful monetary authority the world has ever known through digital tokens that settle in real time and travel across borders without friction, the United States may be transforming the architecture of control itself. And so, you know, like I said this, I don't want to come across as hyperbolic, but we just think this is a very, very big deal. We've actually this is so we've got on our research service. We've got two levels of service. We've got a premium service, which costs 399 a year, and we've got a pro level service that costs 2399 a year. We thought that this report was important enough that we're making it available to both levels of subscribers. If you subscribe to the 399 level between now and next Wednesday, which is November 5, even though this is a pro level report, you will get a copy of this pro level report that can be found at research dot Santiago, capital.com, I think this is a pretty big deal. I wouldn't be out talking about it if I didn't, and if nothing else, if nothing else, it's just an incredibly interesting time to be analyzing what's going on in the world, because if you think about it, this US dollar stable coin is or as an idea, it kind of sits at the center of both capital markets, global geopolitics and the madness of crowds. And if that isn't interesting to you, I don't know why you're looking listening to macro voices.

### **Erik Townsend**

Brent, I couldn't possibly agree with you more, and I definitely want to eat some crow on this one myself. My prediction going back to my book in 2018 as I said, Look, at some point the US government is going to figure out how much of a threat the whole crypto asset, digital asset infrastructure that's being built, how much it poses a threat to dollar hegemony. And once they figure that out, they're going to do everything they can to stop it. What I didn't see coming is, no, actually, they're going to figure out how to use it to their advantage, and stable coins are the mechanism to do that. And I agree with you, it's a game changer. Patrick, sureshna and I will be back as macro voices continues right here at macro voices.com