PLACE YOUR TRADES

KEY TAKEAWAYS

Special Guests: Andy Constan, Lyn Alden and Lawrence Lepard

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CHIGRL'S KEY TAKEAWAYS

Lyn Alden

1. On her new book Broken Money: The topic is about the past, present, and future of money, and why the current financial system is letting a lot of people down lately.

Focuses on the history of money and the current space of money through the lens of technology, which is not a common lens applied to this area. Many money books focus on the history of political decisions and how certain things came to be. Her book however, focuses on the technology itself and how it changes the ways in which we use money. Her book catalogs from the beginning to present day and on to the future in the way technology shapes money and focuses on the local maximums that we've fallen into.

2. On her comment about the Federal Reserve operating at a loss.

Central banks have assets and liabilities, the Fed's liabilities are primarily physical banks notes, bank reserves, and reverse repos. These things yield short term and rise quickly as these are tools to control interest rates. Their asset side is mostly longer duration securities such as treasuries, mortgage backed securities, which are generally fixed rate and longer duration assets. Raising interest rates this sharply has for the first time put them in a position where their liabilities pay more than they earn on their assets. What makes the central bank different is that no one can really do a bank run on a central bank, unless you are running from currency itself therefore they treat their losses differently and have an ongoing IOU to the treasury. Is there an increased risk for banks? Lyn expects to see more bank consolidation.

3. On the friendshoring in regards to renewable resources and commodities and how China will be involved and where it leaves the West.

China has a bigger share of the solar supply chain than all of OPEC combined has on oil. China is a very energy intensive industry and one of the factors that kept solar prices going down was that we were in an energy bar market for most of the past decade shifting a lot from North America to China. Going forward there is an effort to reshore. She believes that a lot of the marginal gains in energy are behind us and that more development is expensive and can be capital intensive going forward.

4. On battery metals.

Copper is an attractive metal for investment long term. The challenge with it is that it is a very capex intensive metal. If you look at the Gold to Copper ratio, it is very similar to the PMI chart, if the global economy is accelerating, Copper is doing better than Gold and if the global economy is decelerating, Gold is doing better than Copper. It is a difficult metal to replace in battery production.

CHIGRL'S KEY TAKEAWAYS

Lawrence (Larry) Lepard

1. On the characteristics of “good money” and Larry's chart grading bitcoin, gold, and fiat.

Money is the most liquid good. Until bitcoin came along, gold was the best source of money in the world, however it had several flaws. Money needs to be sound, the stock has to be much larger than the flow. He believes the supply of gold will double in the next 40 odd years. Bitcoin has become the digital gold making it superior in its ability to be used and transferred much easier than gold has been, as well as its accountability aspect. He believes bitcoin is a better form of money than gold for two reasons. Firstly being that it will ultimately be a lower stock flow and secondly that it has three level accounting through a credit, debit, and verifiability making it more difficult to manipulate. Money is something that needs to be scarce and sound. Bitcoin has an adoption curve as more people understand gold as currency over bitcoin.

2. On inflation and the 3 camps deflationests, inflationistas and staglationista. Can the Fed bring inflation down to 2%?

The period of zero interest rates policy between 2008 and 2015 really distorted the financial markets through Covid. He believes stocks could fall 80% and he believes the prices of things today are wrong due to the money being broken. He believes we could see a situation where the price of all assets goes down, deflationary, and the reasoning for this is that money is not free and the credit cycle isn’t continuing to grow. However, at the same point in time, he believes we could see the prices of everything we need rising a great deal. He believes we will have incredibly high inflation in essentials and a great deflation in assets.

3. On the commodity sector and inflation pertaining to oil prices and renewable assets.

Looking at the S&P to commodity ratio, we see that for the past 20 years all the money has gone into the S&P and there has been no capital going into this area. He believes it will be an easy trade to be low on commodities and short stocks and bonds.

4. On the recession and whether he sits in the soft landing, hard landing or no landing camp.

He is in the hard landing camp. He believes that in the next several quarters, we will hit the wall so hard that people will freak out as the free money has masked it. With interest expenses continuing to ramp up, the Fed will have to decide what to save, the bond market or the dollar. If the decision is the dollar, the economy will go right into the ground. However, he believes this decision is unlikely.

5. Thoughts on Gold's recent rise.

We have increasing interest rates for Gold, it hasn’t been bad so far but it cannot continue like this for long. The Fed is going to be forced to become more accommodative. He believes that Gold is right on the launchpad and is about to go into a multi year bull market.

CHIGRL'S KEY TAKEAWAYS

6. Thoughts on Silver.

He is very bullish on silver. It is a tricky metal, because of the stock to flow it doesn't have quite the same monetary properties as Gold but it is also used in a lot of things. If we are going to go towards solar, 50% of silver production will be absorbed by solar in the next five years. Silver is an industrial metal as well as a monetary metal.

Andy Constan

1. On fiscal policy vs monetary policy butting heads particularly leading up to the election and how government spending affects the Fed.

We have the western world inflation problem that has yet to be solved, it is well above target and coming down rapidly. The forces that are the root causes of inflation are not fully dealt with including the money that was printed for the stimulus. We also have continued deficit spending. Most of the spending is on things that neither party can do anything about so the spending will happen regardless of which party gets or pays the spending, keeping the deficits high. We also have a very tight labor market. He doesn't see any political will to do anything to address the fiscal side. If the Republicans get in line they’re gonna cut taxes and increase the deficit, if the democrats have their way they would spend more and tax more but the deficit would still rise. The Fed has two tools, interest rate hikes which affect the short term rate and they have their balance sheet which they have seeded the effectiveness to the treasury, meaning that the treasury chooses how to finance the money they pay back to the Fed. The only way you cut demand is if you withdraw money from the private sector, which they are doing in a small way through quantitative tightening, and you cause asset prices to fall which impacts the wealth effect which reduces demand. We have heard from members of the Fed that the increase in long-term interest rates has allowed the Fed to pause on the front end because long-term interests were doing the tightening of financial conditions.

2. On his script of five acts.

The issue is how do you solve inflation. The way to solve inflation is you withdraw stimulus that's excess reserves are floating through the system, which is done through quantitative tightening, and you hit demand. The way you hit demand is you get people fired and get asset prices down. The first thing the Fed does is they increase interest rates, keeping them higher for longer. To get a recession you have to have firing and demand destruction.

3. On the health of the consumer.

He doesn't believe that we are anywhere close to a systemic credit crisis that would impact the biggest lenders. The important thing is to hit demand and there will be some pain in certain sectors and individuals that have taken on too much debt at low rates and failed to lock the rates in.

4. On Treasury buybacks.

The treasury decided to issue significantly less bonds than markets expected which will take some of the bearish pressure on assets off. Expect a decent bounce. As it relates to treasury buybacks, they have been used before when the treasury market has off-the-run treasuries that are trading at substantial premiums and yield to on the run treasuries. The treasury department goes in and issues on-the-run bonds at the same maturity as they buy off-the-run bonds which has a small positive effect for some dealers liquidity who hold them but isn't quantitative easing in terms of yield curve control or any form of aggregate treasury buying by the treasury.

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