Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

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Gold Money

Date Aired: December 26, 2021

Produced by:

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Dennis Tubbergen
Welcome back to RLA Radio. I'm your host, Dennis Tubbergen. Joining me once again on today's program is returning guest. Mr. Alasdair Macleod, many of you who are longtime listeners will recognize Alasdair as the head of Research at Gold Money. He is a prolific author, and you can learn more about his work at goldmoney.com. And he has all his work posted on the insights portion of the website. So, check it out as I do and Alasdair, welcome back to the program.

Alasdair Macleod
That's my pleasure Dennis.

Dennis Tubbergen
So, Alasdair, the big news here in the United States, as far as the Fed is concerned, is that they're going to turbo taper, they're going to stop quantitative easing, and by March or so the whole program will have stopped. I did a little back of the napkin math, very crude math. And it seems to me that in order for them to do that, someone else has to step up and buy US government debt. Is that flawed reasoning?

Alasdair Macleod
No, I think that's absolutely spot on. I mean, QE isn't exactly the Fed going out and buying newly issued government debt. But what it is, is the Fed buying debt off pension funds and insurance companies, and they in turn, have to go out and reinvest the cash proceeds, which are literally run off the printing press for them to pay for the government and agency debt, which the Fed then puts onto his balance sheet. So, in a roundabout way, yes, you're right. The cutting back on the monthly QE is going to make it more difficult for the US government to raise the necessary funds to fund the budget deficit and the budget deficit. Seems to me to be an increasing problem every month.

Dennis Tubbergen
So, Alasdair, when you were on the program, almost four months ago, you talked about the fact that the United States was really tracking the hyperinflation that was experienced in France in the early 1700s. Under John Law. Has anything happened since we last talk to make you change your opinion?

Alasdair Macleod
No, nothing at all. If anything, the developments since have rather confirmed my opinion. To me anyway, I think that we can see the dilemma that the authorities the monetary authorities now have and it's an increasing dilemma. And you touched on the subject of QE. I mean, the fact of the

matter is that if we enter a bear market in financial assets, which rising interest rates will certainly trigger, then the Fed, in order to maintain economic confidence will probably have to increase its taper sorry, increase its QE in order to support the market. And this is exactly what John Law did in 1720. He supported the share price of his Mississippi venture, basically, to ensure the price didn't fall as sellers appeared in the market. And this printing of in that case, it was livre, his unbacked livre, is exactly the same as what the Fed is doing today. And I think that, okay, in the short term, they say that they're going to taper but that I think is an intention rather than a fact, we'll have to see how that transpires. And I think it will change I think their view will change. If, as I suspect, we enter a bear market as interest rates rise. So no, it is exactly the same dynamic. And it seems, it seems to me very difficult to see how the Fed can get out of this trap.

Alasdair Macleod
And of course, the other thing is that the Fed has, if you like, it's got a policy of supporting financial assets in order to keep economic confidence going. I mean, this goes all the way back to Alan Greenspan, who stated that as a bald fact, and by keeping if you'd like confidence going, they can't afford to let it slip. So, if you know the idea that they just stand back and let a bear market proceed, because they are powerless to do anything about it, I don't think is an option. They're going to go in and try and support it. We've already seen that the other central banks around the world are in exactly the same bind on interest rates. I mean, look at the statements coming out of the ECB and out of the Bank of England, for example, we don't hear very much out of the Bank of Japan. But I would think if they do say anything, it will be very similar. They want to sit on interest rates. And with all the central banks sitting on interest rates, refusing to raise them, perhaps bar a few basis points, you can see that the hope is that there will be a degree of stability in the foreign exchanges. But that, of course, does not stop the purchasing power of these currencies sliding as central banks resist the temptation to raise rates and therefore support the currencies.

Dennis Tubbergen
So, Alasdair, it seems that the Fed has two options here. I mean, if they continue with the taper, the budget deficit issue aside, you know, you just brought up the fact that we'll see financial markets react negatively. And then assuming they reengage in QE at the same level, or perhaps even a higher level. We're looking at a hyperinflationary outcome. So how do you see this ultimately playing out? And do you have a sense as to timeframes? And I understand that's a very difficult thing to ask.

Alasdair Macleod
Well, yes, I mean, timeframe, is, is almost it, that is always impossible, I think, other than maybe some broad guidance. But I think, you know, the sort of the underlying problems that the Fed faces is actually very different from what we saw in Germany in the early 1920s. I mean, in the early 1920s, they printed paper marks for exactly the same reason as central banks are printing them today. But you didn't have a central bank intervening in financial markets trying to support share prices. So that I think is the fundamental difference. And this is why I think the John Law comparison is more apt.

Alasdair Macleod
Now, that being the case, you can see that the financial crisis could actually be a lot more sudden and sharp than what Germany experienced in the early 1920s. So, this gives us a little bit of a clue, I think on timing. Once it starts once interest rates start rising and undermining financial asset values. I think the slide could be really quite quick. In the case of John Law, the Mississippi venture was priced at around about 11,000 livre at the end of February 1720. By the middle of that year, it had fallen to around about three or 4000 livre. And a few months later, any quotation for the livre on foreign exchanges in London and Amsterdam, just went absent. I mean, there was no quote for livre. So, it was effectively worthless. So, if you had Mississippi shares, which were worth a notional, 4000 livre, then it was worth 4000 livre, which were in turn completely worthless. So, you can see how rapidly the situation can disintegrate. And I think that gives us a very broad indication of the likely timing of this situation.

Alasdair Macleod
So, I think we could find that by the end of next year 2022. We're living in a remarkably different world, with a real crisis in currencies, which I think will envelop certainly the banking system, because the banks are horribly over leveraged, particularly in the Eurozone, also in Japan, and also in the UK. America is not quite so bad on the leverage basis, but you can see that with an international banking, systemic problem, the American banks will not escape it. It's, the problem, which the Fed again, will probably have to come in and throw money at in order to try and save the banking system. And that of course, will further undermine the purchasing power of the dollar. It really is, I think, situation, which could deteriorate quite rapidly. Once it starts.

Dennis Tubbergen
Alasdair, arguably, when you take a look at, you know, the real inflation rate versus, you know, the reported inflation rate using the Consumer Price Index, which is obviously very manipulated very flawed. You know, John

Williams says, we're seeing in the United States here, you know, inflation pushing 15%. So, are we not already solid Are we on that path?

Well, yes, I think we are. Because the important point behind your comment is that that puts US Treasuries on a record negative real yield. It's just absolutely extraordinary. If you look at the 10-year treasury, it currently yields about 1.45%. If prices are indeed rising by a rate close to 15%, then we're looking at a negative yield in real terms indicated, what sort of 13 and a half percent I mean, this is This is unheard of. And I don't know that one can say that the rate of price inflation is sort of, you know, 15%, any more than you can say it is the current 6.8%, which I think was the last figure that was reported by the Bureau of Labor Statistics. But there is no doubt about it, that government bonds are on massively negative yields, in real terms, higher than we have ever seen in history. And it's not just confined to the United States. I mean, this is a bond market crisis in the making, which is global.

Dennis Tubbergen
Well we're going to have to leave it there for this segment, Alasdair. We do have about a minute and a half left. For our listeners, maybe they aren't familiar with Gold Money. Can you fill them in as to what you do?

Alasdair Macleod
Yes, Dennis, I'd love to. Basically, we offer the general public the ability to buy physical, gold and silver and store it in LBMA member vaults. These are fully insured vaults. It is effectively a low-cost alternative to owning it securitized, say in ETFs, such as SLV or GLD. And not only that, but you have clear title to the metal, which basically means that the metal is yours. It's there's nothing between you and the ownership of that metal, which of course is the situation with ETFs. And you know, you don't you can deal with any amount you want, though, it's a very cost-effective way of protecting yourself against the problems, which I think are becoming increasingly evident in the global financial system.

Dennis Tubbergen
Well, again, my guest today is Mr. Alasdair Macleod. You can read more of his work at goldmoney.com. I'll continue my conversation with Allister when our la radio returns, stay with us.

Dennis Tubbergen
I'm Dennis Tubbergen, you are listening to RLA radio. I am joined on today's program with Mr. Alasdair Macleod. If you missed the first segment, I would encourage you to go to goldmoney.com to read Alasdair's work. And

Alasdair, you know, we're seeing inflation, inflation is accelerating no matter what measure we use. Yet, it seems that the price of gold and silver is not reacting as a lot of investors would expect or anticipate it to react. What what's the explanation for that, in your view?

Alasdair Macleod
I think I think that it's the Well, there's several explanations, but so let's just try and isolate the ones which are important. I think the overarching explanation is that we live in a world of Keynesian economics. I don't know whether any of your listeners have noticed, but every time there's a statement from the SM, from the FOMC, or from the ECB or whatever, they never actually mentioned money supply. I mean, these are meant to be statements about monetary policy, but money supply is never ever mentioned. And so consequently, it's a completely Keynesian approach. And the whole of the investment community has really bought into it, because I never hear any investment managers talking about money supply either. It seems we've dismissed it from if you'd like the economics of of inflation, I think that's the first thing.

Alasdair Macleod
So, we've got, we've got a problem of people not understanding it. I think subsidiaries is that is a further problem. And that is that, of course physical gold and physical silver are not regulated investments. So that means that investment managers won't look at buying physical gold and physical silver on behalf of the money they manage. So, it doesn't really enter into anyone's conversation, or it doesn't appear as an investment alternative to the more mainstream equities and bonds. I think that that's the first problem. I think the second problem is there's been a change in banking regulations, which involve something called the net stable funding ratio. Now, this is introduced under Basel three. And basically, it makes it more difficult for a bullion bank to run an uneven position in gold or silver or any other commodity for that matter. It makes it more difficult because it is more expensive to fund. Then what this has led to is, these banks have tried to extricate themselves from derivative markets. And in doing so, they have tried to make sure that nobody is bullish about gold or silver.

Alasdair Macleod
And, of course, once this in terms of timing on the Basel three regulations, London in particular will start applying these regulations from January, January coming up, and that's literally in about two or three weeks time. So, I think we've we're coming to an end of suppression for that reason. And I suspect that therefore, on that basis, it will be rather 2022 will be rather like letting the brakes off if you'd like. And so, I would hope that the opening and the sort of derivative markets will start contracting a bit more. And that of

course, will release demand, which is at the moment, tied up in paper gold and paper silver to go and buy the physical metals.

Alasdair Macleod
So, they have been very successful in managing prices downward with to close down open interest, particularly on regulated exchanges, such as COMEX. And so, we've got the situation where both gold and silver have fallen over this year, admittedly, the previous year, they had reasonable performance, but they've fallen from January. And I think silver is done roughly 16% on the year, something like that. And this is a time when money supply has increased really very, very dramatically. And it's been increasing for two years. So, it's all a bit counterintuitive, but I think those are the principal reasons why gold and silver have underperformed.

Dennis Tubbergen
Alasdair, when you take a look at gold and silver, that gold, silver ratio now is about 80. And for our listeners that maybe aren't familiar with that it takes about 80 ounces of silver to equal one ounce of gold price wise. What's your outlook for both gold and silver? And do you have a favorite? And do you have a forecast?

Alasdair Macleod
Well, I never make forecast is the short answer because what we're looking at is not too much the prices of gold and silver rising. But what we're seeing is the purchasing power of the currencies, which we measure them in falling. And that of course, is a very difficult thing, the rate of that fall is a very difficult thing to forecast. All I will say is I do expect the prices of both gold and silver reflected in declining currencies to be significantly higher by the end of 2022. Now that said the Gold Silver ratio, at at your right to point out is exceptionally high. If we returned to a situation where both gold and silver were accepted as money, we'll be returning to the situation, the middle of the 19th century, where the Gold Silver ratio was more in line with around about 15 to 20 to one rather than 80 to one.

Alasdair Macleod
Now, what this means is that as fiat currencies lose their credibility, we're likely to see the price of silver move up more rapidly than gold in order to close that Gold Silver ratio down from 80 towards a sort of, perhaps initially something like a 20 to 30 times level. Now that implies a significant outperformance of silver relative to gold. So, I think in terms of preference, I would certainly have some silver and I would have it not only because of the Gold Silver ratio being I think completely wrongly pricing silver. But I think I think also from the point of view of it being useful as physical money. Now while central banks don't have silver, I have no doubt that the demise of

paper currencies means that they will have to reintroduce gold into the system. And then silver I think will have a subsidiary role to gold, which is why I'm looking at the Gold Silver ratio perhaps between 20 and 30 rather than between 15 and 20.

Alasdair Macleod
So, I think there is a lot of potential in silver, there is another argument for silver, which I think is well worth putting forward and that is that with the attack on fossil fuels, things, metals which are important to electricity such as uranium, and also copper, have performed exceptionally well this year. Now, silver hasn't Silver has gone down because it has been treated if you like, not as a as industrial metal, but as a quasi-monetary metal which needs pressing. The situation on silver is such the demand for it, I think is going to go become extremely strong from a commercial point of view, in the absence of a currency collapse. So, silver to me looks like a good two way bet. I think commercial demand over the next three or four years is likely to be extremely strong. And if we have a situation where that doesn't actually come through, because we have an economic and monetary collapse, you have got the benefit of it being restored as a monetary metal.

Dennis Tubbergen
Alasdair, as you were talking, you know, when we talked a bit before we started recording as well, there are central banks around the world that have been accumulating precious metals. Is that kind of a preview of things to come in your view?

Alasdair Macleod
Yes, it is very definitely. I think it's a very clear indication from many, many central banks, that they are concerned that the way if you like the international currency situation is developing, some central banks have moving away from the dollar to an even greater extent. I mean, if you look at the Russian Central Bank, they almost get rid of dollars as soon as they come in. And one of the things they go for, of course, is gold, and they have been accumulating gold for some time now. China doesn't declare her gold, she just sort of sits there. But I, I know from when the regulations appointing the People's Bank of China, to manage the state's gold acquisition program, back in 1983, the Bank of China, the People's Bank of China, actually has accumulated an awful lot of gold, which as it were, is off balance sheet. Now you have got an alliance between both Russia and China, who look to control the whole of the Asian continent, and as much the European end a bit as possible. This is what the Silk Roads are about, and so on and so forth. And this is something which is you're sort of moving the world away from American imperialism, if I can put it that way.

Alasdair Macleod
So, we are seeing, I think, huge changes. And it revolves round energy as well. So, there is this extra problem, I think that we face that the worst relations developed between America and China, America and Russia, Europe and Russia, perhaps, the more destabilizing in monetary terms the whole situation could become, because we can look at the acquisition of gold, both by China and Russia, as their insurance policy against the actions they may take, which will destabilize the West. So, this is an interesting geopolitical situation. And at the moment, Russia's approach to the whole situation is to try and drive a wedge between America and her NATO partners in Europe. And she is using energy to this end. I mean, even today, we heard that gas going into Europe through one of the pipelines has been completely shut off. So, you can see the pressure is being built on Germany in particular, but also the other East European states with Russian energy. It will be withheld increasingly, to drive a wedge between America and allies in Europe. And this particularly involves the Ukraine and I think that the saber rattling was going along the Ukrainian border is all part of this geopolitical battle.

Dennis Tubbergen
Well, my guest today has been Mr. Alasdair Macleod, you can read his work at gold money.com Alasdair, always a pleasure to catch up with you very much appreciate your work. I know the listeners do as well and would love to have you back down the road. Thanks for joining us today.

Alasdair Macleod
Thank you very much for having me. Dennis.

Dennis Tubbergen
We will return after these words.