Retirement Lifestyle Advocates

RADIO PROGRAM

Expert Interview Series

Guest Expert: Alasdair McLeod
Goldmoney.com

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Retirement Lifestyle Advocates
961 Four Mile Road, NW
Grand Rapids, MI 49544

Phone: (866) 921-3613
Email: info@plplanners.com
Website: www.RetirementLifestyleAdvocates.com

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 McLeod. Alasdair, I think is the hardest working researcher that I interview. I always enjoy my conversations with him. I get terrific feedback when he's on the program. Alasdair is the head of research at GoldMoney. You can learn more about his work and read his articles at goldmoney.com. I'd encourage you to do that. Alasdair, welcome back to the program.

Alasdair McLeod:

Thank you for having me, Dennis.

Dennis Tubbergen:

Well, very much my pleasure. As I said, I get terrific feedback when you're on the program and there's no shortage of things to talk about. So, if I could, I'd like to start by chatting a little bit about the developments that we're going to see here coming up the first of the year with the BRICS Coalition. There are new countries being added, many of them oil producing countries. How does this affect long-term or even short term, the US dollar as an international reserve currency?

Alasdair McLeod:

Yeah, an interesting question. I think actually, the US is already fighting back to an extent, through Argentina because Argentina, you may remember, is due to join BRICS along with, I think it's another five others on the 1st of January. But the new president is backing off China very, very hard and talking about getting rid of the Central Bank and adopting the dollar as the currency in effect replacing the Argentinian one. But I suspect there's a bit of US politics behind that. He will get the support of the US because I think they'll do anything to try and scupper this BRICS expansion. And I mean, on the other side of it, of course, Russia is becoming president of BRICS. It's its turn again from January the 1st. So, I think what you're likely to see, and I'm sure that the American administration expects this, you're likely to see an increased emphasis on allowing countries to join in and de-dollarize. So, this I think is a major, major event. I mean, we're likely to see a small upset in the case of Argentina, but again, Argentina can be lent on by the Chinese because the Chinese bailed them out from an IMF loan. Oh, what, three months ago?

So, this is an interesting situation if you like, that sort of side act with Argentina. But generally, other than that disruption, short-term disruption, it looks like BRICS is going to continue to expand and the influence of the

Asian hegemons, Russia and China looks like continuing to spread. And yes, it means that the dollar will be used less, and I mean the dollar is still going to be used a lot. I mean, let's not get this wrong, but I think the problem with it is that as more and more countries decide to accept, say Chinese Yuan in payment for commodities and so on and so forth, I suspect that dollars will, if you like, dollar credit will start coming back home. So this, I think, potentially, particularly with other factors, which I'm sure we can discuss, is likely to lead to the dollar entering a period of substantial weakness over the next few years.

Dennis Tubbergen:

So, Alasdair, but before we get to some of those other implications to use that word, the BRICS countries have openly stated they're looking to develop a reserve currency or a trading currency, I should say, potentially backed by gold. I think it was the Brazilian president that mentioned that in August, the Chinese Central Bank, according to some of the research I've been doing, the articles I've been reading has really been accumulating gold. So, what is your take? Is there a gold backed currencies somewhere on the horizon in the near future?

Alasdair McLeod:

Yes, I think there is. I mean, unless things change from our side, I don't see this being an easy introduction because India is dead against it. China doesn't want to disrupt the international trading scene unduly. Her approach to international affairs has always been to let other people make the mistake and she merely, if you like, reacts to the mistakes. She's not an aggressive intervener, if you like in international monetary affairs. So, I think that she will continue to sit on the fence. I think that the reason that she is accumulating gold is partly because she's been doing this for an awful long time anyway. I think it might be just a little bit too much to say that she actually thinks that the dollar's going to collapse immediately, and you've got to have gold, or you are dead sort of thing. I think a better indicator of that is probably the way Singapore has been acting.

Singapore has been an aggressive buyer of gold, topping up her reserves, and I think that that indicates with her connections into China, the rest of Asia and all the rest of it. It indicates I think an evolving concern about the outlook for the dollar. So, I think that's the way I would look at it rather than let's say taking what Chinese is, China's relatively minor additions to her official gold reserves. I mean they're very small in the overall context of Chinese gold already owned by the state, which I believe is well in excess of 30,000 tons now. I mean this is secret. We're not talking about just the official gold reserves. We're talking about gold held in other government accounts like the youth wing of the Communist Party, the Army and so on and so forth.

So, China is already a major holder of gold, and I don't really think that she has the need to top up her Central Bank gold reserves because she's already protected. But I think she's quite interested in taking any loose stock as it were, off the market. So, I think no harm done in terms of her acquiring gold from her point of view, but I don't see it as a major policy indication. I think that the Singaporean accumulation of gold, however, does indicate there is a growing concern in Asian circles about the outlook for the dollar. So that's what I would concentrate on.

Dennis Tubbergen:

Terrific. Well, I'm chatting today with Mr. Alasdair McLeod. He is the head of research at GoldMoney. The website to check out his work is goldmoney.com. I do it frequently. I would encourage you to do so as well. Alasdair, you wrote a piece that I found extremely interesting. I'm going to try to set up this question in such a way that I accurately convey what it is you talked about in your article. So, you can correct me if I don't get it exactly right. But you commented on the amount, the level of US dollar holdings that are held internationally outside the United States, and in the event that there was a rush or a move to liquidate a lot of these assets, that would be a situation that would be very difficult, if not impossible for the US to handle or absorb. So, if I stated that reasonably well, could you expand on that?

Alasdair McLeod:

Yes, you have, but I can give you a bit more detail, which might help. There are three elements of dollar holdings in foreign hands. The one which I think everybody who looks into these things is familiar with are the US Treasury tick figures, which between long-term investments including US treasuries, short-term investments including UST bills and the like and equities, and also on top of that bank deposits. In the US banking system, all that amounts to about $33 trillion. On top of that, you have got derivative markets and the derivative market which we really need to be concerned with is the foreign exchange derivatives. Now there, according to the Bank of International Settlements, they reckoned, and we're going back to I think June last year. So, these figures are a little out to date, but nevertheless, to give you a pretty good indication of the importance of it, according to them, non-US banks have liabilities, dollar liabilities through the foreign exchanges amounting to an extra $85 trillion.

On top of that, you need to add the Eurodollar market in the sense that not of dollar deposits, but dollar bonds held and financed outside the American financial system. And that's a further $10 trillion. So, if you take all those together, you get over $125 trillion worth of dollars, if you like, in foreign hands. So, if foreigners decide on mass that they don't like the dollar, I mean the dollar has got a real problem.

So far, and this actually ties in with I think the point behind your question about BRICS so far, of course, everybody has been happy to export to America and hang onto the dollars which they get paid for their exports to America. And that is the difference, if you like, between the trade deficit and the balance of payments. We can see that's been diminishing a bit recently evidenced for example with China and Japan turning net sellers of US treasuries. This situation is I think very, very dangerous for the dollar.

If let us say you've got over half the world, we're talking about BRICS, BRICS+ and all the rest of it moving in the direction of reducing the use of the dollar and accepting other currencies for trade settlement. Then given the overhang of dollars both in America and outside the American banking system in the hands of foreigners, this could lead to a very significant unwinding.

Now, I don't expect this significant unwinding to necessarily occur just on these grounds alone, but as the situation deteriorates, the financial situation deteriorates within America, with the budget deficit, which I think in this current fiscal year is likely to be around about $3 trillion, half of which will be interest. You can see that the inflationary implications on that, and by that, I mean the effect on domestic prices, I mean it is likely to scare off foreigners from retaining their holdings. So, we've got a combination of things coming together rather like a perfect storm. So that, I think, is the importance of understanding that it's not just $33 trillion recorded in the US Treasury tick figures, but also foreign exchange derivatives, by which I mean forwards and swaps in the foreign exchanges where the dollar is on one side of the transaction. This is a major, major, major situation and I think it's one of these things which very, very few people really understand.

Dennis Tubbergen:

Well, I appreciate that explanation. My guest today is Mr. Alasdair McLeod, the head of research at GoldMoney. The website is goldmoney.com. I'll continue my conversation with Alasdair when RLA radio returns, stay with us.

I'm Dennis Tubbergen, you're listening to RLA Radio. I have the pleasure today of having a conversation with Mr. Alasdair McLeod. He is the head of research at GoldMoney. The website is goldmoney.com. And Alasdair, we've had a lot of new listeners added to our audience since you've been on the program, and I'm sure many of them at this point are wondering what it is that GoldMoney does. Would you be so kind as to share what your purpose is?

Alasdair McLeod:

Yes, absolutely. It was founded, I think in 2002 by James Turk, which is a name which I'm sure many of your listeners will be familiar with because going all the way back to those days, James could see that the trend of the fiat currencies and the way in which they were being expanded, if you like by governments, would lead to an increasing demand for ownership of physical gold. And basically, what GoldMoney does is it provides a service whereby members of the public can hold gold in fully insured vaults around the world regulated if you like, by the London Bullion Market Association. So these are the proper insured, proper vaults, all up to the standards you would expect. And gold, silver, platinum group metals can be bought through GoldMoney and held on a custodial basis. In other words, it's not on GoldMoney's balance sheet at all. The ownership of the gold is very, very definitely the individuals who have bought gold, silver, platinum group metals through GoldMoney and had them stored in vaults of their choice.

So that's basically what we do. And my mission in this really is to educate the wider public about the situation which is likely to lead to, well, the way you would look at it is the gold price rising significantly. But the correct way to look at it is actually it's not the gold price rising, but it's the value of credit, whether that credit be dollars, euros, yen, sterling, whatever, it's the value of that credit becoming detached from gold, which is legally real money and effectively entering into a death spiral. We are seeing the conditions beginning whereby that's likely to happen, and the importance of understanding the global credit situation and the dollar's role in it has now become central to the argument as to why people should consider holding gold and that's the facility that we provide people.

Dennis Tubbergen:

Well, thank you for that, Alasdair. And when you look at what the performance has been of gold since the end of October, gold has made now new all-time highs. We now are experiencing a bit of a pullback here over the past couple of weeks as one might expect after I think it was almost a 15% rise. You can correct me if I'm wrong, but do you think this is the beginning of that devaluation that we'll be reflected in much higher gold prices from this point on?

Alasdair McLeod:

The indications are that that is actually what's happening. Yes. I mean from a chartist or a technical analysis point of view, the gold price, if you like it, it managed to breach that 2000 level fairly significantly. It's come back to try and find support. It's finding support I believe around about the moving averages which are rising underneath it in good old Dow theory basis. And I think at the moment, the 200-day moving average is looking roundabout 1950 as this is being recorded, it's ahead of the FOMC announcement on interest rates. It could be that that's maybe a little bit bearish and that would drive down gold to that sort of 1950 level. I would expect it to find some sort of stability there before really breaking through that 2000 level convincingly.

That's the technical aspect. But the important thing always to understand Dennis, is it's not gold rising, it's the dollar falling. And when you look at it that way, you begin to appreciate that the gold, dollar relationship, the idea that it might run to say 2,200 or 2,300 or 2,500 and so on and so forth might seem outlandish. But when you turn the equation upside down and you think what's going to happen to the dollar? With the prospects for inflation, with the prospects for interest rates and all the rest of it. With the prospects of a potential failure of the banking system. I mean, you've got mal-investments throughout the economy, you've got government spending completely out of control. You sort of think, "Well, it is not impossible, but the value of the dollar, particularly if the foreigners start selling it hand over fist, could fall very, very materially."

Now under those circumstances, a gold, dollar relationship of say 2,300, 2,500 seems eminently possible. So that's why I think it's terribly important to look at this from the right way round. It's not the value of legal money, which is physical gold rising. I mean over the centuries it's been more or less constant. I mean there is some fluctuation obviously, but we're talking about if you like, running towards the end game for fiat currencies. And I think that's the very, very important point. And of course, as soon as people realize that this is the end game for fiat currencies, then this situation could accelerate very, very quickly.

Dennis Tubbergen:

Alasdair along those lines, and I appreciate that explanation, but along the lines of things accelerating very quickly, I think in the first segment you used the words, "Perfect storm," to describe the environment or the climate that exists around this particular situation. And looking at the US next year being an election year, I certainly think your estimation that the deficit could reach $3 trillion, I think is very realistic. And that doesn't even account for all the US government debt that now has to be refinanced at much higher interest rates. Not to mention the fact that the economic data is not looking all that strong, and I'd like your opinion, do you think that will force the Fed back into quantitative easing into easy money? And then secondly, do you think that that could be the beginning of this really slippery slope and that 2024 could be the year that we really see dollar devaluation accelerate in earnest?

Alasdair McLeod:

Well, the Fed is an extremely difficult position, and I think the movers and shakers in the Fed really do understand this. There's lots and lots of talk because they're trying to talk the dollar up in the sense that have faith in its purchasing power, if you like, which more conventionally we talk about being inflation. They want this inflation problem to go away and then at least they can begin to ease off on interest rates. And this is the general expectation, I think throughout, if you like, the investment management establishment, the banking establishment and so on and so forth. But when it comes to a perfect storm, our starting point in dealing with what is obviously a recession and forget the numbers, the numbers are, they don't actually tell you the story like what's GDP going to grow next year? And all this sort of stuff. Forget that. That is very, very misleading.

But if you go and talk to anyone in industry around America, the small and medium-sized businesses, you'll find that conditions are very tough and there's very, very little optimism anywhere and very much the larger corporations, they were borrowing like crazy because money was so cheap two, three years ago, cheap in the sense that interest rates were 0 or by the time the market took its say 1% or 2% cut. I mean, what was not to like about borrowing huge amounts of money, leveraging up your earnings and all the rest of it. Of course, now that interest rates have risen, not only is that game over, but my God, the legacy of it, well, we saw this with Silicon Bank. I mean it actually took out a regional bank or two, and the problems are still there. And of course, the banks aren't going to come to the rescue of businesses which they now see as potentially non-performing loans.

So, what are they doing? They're de-risking their balance sheets. They can't actually contract their balance sheets because you can't destroy deposits. What you can do is maybe may be destroy loans by not renewing them. And what they're tending to do is redeploy their balance sheets away from the risky private sector economy towards government. And we see, for example, the money market funds have been switching from the reverse repos, which rose to roughly $2.5 trillion I think about a year ago. That's now fallen to something like $680 billion. I don't know the figures of something like that. What they've done is they've just taken the money out of the reverse repo market, and they've pushed it into the US treasury bill market. So, the US government is having to pay 5.25%, 5.4% for six-month money up to one year money.

And has it got the resources to do this? Well, no, because if you look at the interest bill in the last fiscal year to September, it was $980 billion. That's very nearly $ trillion dollars and it was very nearly half the total deficit for that year. So, we've got a debt trap here, Dennis, and this is getting a lot worse.

What are the obligations that the government has? Well, the obligation is they must rescue the banking system. You cannot afford to have any banks go bust. I mean other than the minor ones maybe, but even then, you have to arrange for their rescue.

On top of that, you have got all the mal-investments in otherwise stable businesses, which are now lossmaking because of the rise in interest costs. How are they going to deal with that? All this stuff has got to be rescued in an election year, as you quite rightly pointed out, when votes have got to be bought, they're not going to be bought if a government stands aside and just lets the whole thing fall apart. No, the commitment from the government is that they're going to have to effectively print money to rescue the whole system, and that is the problem the Fed has. They're sitting there rather like rabbits in the headlight of an oncoming car and thinking, "Oh my goodness, how on earth do we deal with this?" I have great sympathy for their predicament. I don't have sympathy with the policies that put them there, but I certainly sympathize with their predicament.

Dennis Tubbergen:

Well, we're going to have to leave it there. My guest today is men, Mr. Alasdair McLeod. He is the head of research at GoldMoney. Please check out his articles at goldmoney.com. I do whenever they pop up. And Alasdair, always appreciates your time. I know the listeners do as well. Thank you for joining us and happy holidays and happy New Year to you and your family.

Alasdair McLeod:

That's very much my pleasure, Dennis. And I'd like to wish all your listeners a happy Christmas. Nowadays, you don't talk about Christmas, do you? Because of all the different religions and all the rest of it. I like to say happy Christmas to everyone.

Dennis Tubbergen:

And it's perfectly acceptable on this program, Alasdair. So, thank you for saying it, and thank you for joining us.

Alasdair McLeod:

My pleasure.

Dennis Tubbergen:

We will return after these words.