Sean Foo: U.S. Allies Dumping Bonds - Is the Dollar Next?

Sean Foo is a financial analyst and a China expert. Foo discusses the intensifying crisis in the US bond market. Follow the excellent work of Sean Foo: https://m.youtube.com/@SeanFooGold Buy Diesen merchandise: https://diesen-shop.fourthwall.com/en-nok Follow Prof. Glenn Diesen: Substack: https://glenndiesen.substack.com/ X/Twitter: https://x.com/Glenn_Diesen Patreon: https://www.patreon.com/glenndiesen Support the research by Prof. Glenn Diesen: PayPal: https://www.paypal.com/paypalme/glenndiesen Buy me a Coffee: buymeacoffee.com/gdieseng Go Fund Me: https://gofund.me/09ea012f Books by Prof. Glenn Diesen: https://www.amazon.com/stores/author/B09FPQ4MDL

#Glenn

Welcome back. Sean Fu joins us today, a market analyst, a China expert, and also an important go-to contact for gold. I've left a link in the description. So thank you for coming back on the program.

#Sean Foo

Hey, Glenn. Great to be here again.

#Glenn

Well, I think it's not an exaggeration to say that the US Treasury bonds are the ones that are keeping the US economy alive. However, with $40 trillion in debt, I think two big concerns emerge for the rest of the world. The first concern being that this debt is not sustainable. The US will not pay back this in full. I mean, it will either default on its debt or just print the money and devalue the real value of it. The second concern, which is growing now as well, is that a declining US weaponizes its debt.

That is, the dollar and all other economic dependence becomes weaponized. And initially, I think this was primarily a concern for rival powers, if you're Iran, Russia, China, or others. But now it seems to be becoming a growing problem for allies as well, as the US keeps talking about being taken advantage of by its allies, but also has the secondary sanctions. We even see them sanctioning now Turkish banks over its economic ties with Iran. I was wondering, what are you seeing in the bond market these days? What is, I guess, the main source of instability?

#Sean Foo

Sure. I think we should take an overarching view of this entire bond market debacle. Right now, the U.S. is trying to accomplish too much too soon, right? We know that they're fighting a war in Iran. We know that they are trying to build back the economy, the industries, by getting other countries to reshore to the United States. Now, at the same time, they are trying to drive AI hyperscalers to keep building more data centers, right? Scott Bessent himself just famously said, if China were to win the AI race, it's game over for the United States. So there's always a lingering fear of China catching up.

Now, all these activities by Trump are really quite damaging to the U.S. bond market, right? It involves a lot of spending. It involves a lot of government deficits. But when you combine these three together, you get a tsunami, a perfect storm of spending. Now, there's one commonality that actually underpins the U.S. economy, right? A lot of people have said it, and it's quite true. The bond market leads the markets. It leads the economy as well. Because at the end of the day, the U.S., they have to spend over $1.8 to $1.9 trillion in deficits. That's how much money they have to borrow. At the same time, they are spending like $1.2 trillion, $1.3 trillion a year to service the debt.

And now they have to keep the big tech companies spending in order to build all those data centers. Now, the only way to do it is if the bond market is actually kept stable, the bond market is kept happy. But we are seeing yields rise anywhere from 4% all the way to 4.8% within this six-month range. And it's only going to get worse. It's only going to get more horrible. So at this point in time, we are seeing a lot of weird things coming out from the U.S. Now, you said it perfectly right. They are shooting their foot, right? They are sanctioning Turkish banks. Scott Bessent just came out with economic isolation, the big new global sanction blackout on Iran.

But that also, once again, reminds the whole world of what happened to Russia in 2022. We're going to tell the whole world not to trade with you, that if you do, we're going to start cutting you away from the U.S. dollar system. But right now, Scott Bessent is taking it a little further because he's now targeting more banks. He's targeting bigger institutions, as well as subtly hinting that one day Chinese banks will get implicated. So when we look at this whole situation, there's a lot of fear and mistrust in the U.S. bond market, and this is only going to escalate more and more, especially when the war in Iran keeps dragging on.

#Glenn

But Japan, though, this is a key bondholder. And while we see the Japanese selling their Treasuries, from what I understand, to defend their struggling currency, for one, but is there anything else behind this? How is this relationship shifting? Because this has kind of been a pillar of stability for the U.S. hegemony.

#Sean Foo

Right. Now, it's true that Japan has been a constant buyer of U.S. Treasuries. I think even today, after the dump, they easily hold more than $1 trillion. But things have really shifted. Over the past two months or one month, we can see the Treasury actually telling Japan to do quite a few things. Bessent himself, he dumped quite a bit of euros, I think 10 billion euros or so, sold the euros to buy yen to help Japan. At the same time, I'm sure Washington greenlighted Japan to save their own currency by dumping their own dollars. Now, the main idea of this, once again, is to protect the U.S. bond market.

We are now at a point that we see China, they are deteriorating. They are going to get rid of their bonds every single month. A lot of allies right now, they are a bit on the edge. They are considering, hmm, should we just stay with our U.S. bond holdings, or should we start to liquidate? We are seeing a lot of threats being thrown around. And most recently, we see the Norwegian Wealth Fund, right? They are considering divesting their U.S. bond holdings. And this is a trillion—more than $2 or $3 trillion fund—and they're looking to sell up to $60 to $80 billion if it really goes through.

So what Scott Bessent is trying to do is to get Japan to say, all right, you dump your dollars right now, but you hang on to the Treasuries, and we'll open this very weird window called the FIMA window, where you take your Treasuries, you pledge it to us, we'll give you cash in response. So the bonds don't really enter the open market; it enters a kind of prison, a kind of limbo, where it just sits inside the U.S. Treasury. And if everything goes well, Japan will swap back the cash, the U.S. Treasury will swap back the bonds, and no one's the wiser, right? It doesn't hit the market. But the issue right now is Japan is also facing a bit of a liquidation problem.

We know the war in Iran is going to last much longer. I think just a few hours ago—was it a day ago?—Trump made a joke that the war in Iran will be done by the end of the midterms, which is somewhere in November, December. Now, the thing is that we have four, five months to go from now to then. We don't know how bad the inflation crisis will be. Crude has obviously rebounded from $80 all the way to $95. I think we are flirting with triple-digit oil. Now, all this is very damaging for the entire Asian economies, especially Japan, when they are fighting everyone from the Koreans to the Chinese when it comes to manufacturing.

Now, the issue with Japan's $1 trillion stash is that every time yields go up, the value of their bonds goes down. So right now, they are in a very weird currency crisis where they need to spend. However, the value of the bonds is slowly depreciating. So they're kind of caught between a rock and a hard place. So I believe there are some people, maybe in Japan, the Bank of Japan or the government, that's thinking, let us just release some of our bonds right now before it erodes in value to protect our currency, the yen. And I think the U.S. right now, they don't really have much say over it because Japan itself is trying to protect their own industrial survival. And I think there's nothing wrong with that.

#Glenn

Yeah, but also if the Japanese economy—if they wouldn't do so and something would really crack in the Japanese economy—it's very hard to see this not impacting the United States, though. So again, even if you're in Washington, you only have self-interest, what do you do at this point? Because, well, isn't there a similar development, though, with the Gulf states? Because they're also running out of money. They can't export because of the war. That is, they can't get their oil out on the markets. So wouldn't they also have to sell their bonds? And what else can the U.S. do here to intervene? Yeah.

#Sean Foo

Sure. I think just recently, at least three to four months ago, I think there was this idea of Qatar—or was it the UAE? I think it was the UAE—asking Scott Bessent, asking the U.S. Treasury for a swap line. So this is something that I could conceivably see the U.S. actually do in order to stop some of the Gulf allies from dumping their Treasuries. Now, a swap line is quite simple, right? You swap 10 billion dirhams, and the U.S. Treasury will just give you the equivalent in dollars. Maybe that's 20 billion. Now, the thing about that is it just floods more money into the economy.

It just drives inflation even higher. It makes the money supply grow. And we are seeing this happen not only through the Gulf states; it's happening, you know, they're trying to help Japan. They're trying to flood money into the system with all their bond buybacks. I think most recently, the U.S. just announced they're not only going to double their bond buyback, they're going to triple it, right? And just the idea of it itself is spooking everyone out. So a bond buyback is basically just the Treasury buying back the existing bonds in the market, especially the longer-term bonds, right?

The 10-year, the 30-year, and they buy longer-dated bonds in order to prevent an economic crash, because everything in our lives, all our interest rates, our mortgage rates, our credit cards, they're all pegged to the 10-, 20-, 30-year bond. But this brings us to an even bigger quandary now: where are they going to get the money to buy all these 10-, 20-, 30-year bonds? The United States still needs to borrow it. At this moment, they just can't print the money, right? If they print the money, the dollar will just tank all the way to oblivion. So they're going to borrow it, and they need to borrow it from short-term bonds. So you're borrowing a bond that's going to mature in one month, one year, in order to redeem a bond that's going to mature in 10 years, but control the whole economy. Now, this is where the big Iran question comes into play as well.

Yes, maybe the bombings, the big strikes have stopped, but Hormuz is still shut down. We are seeing Iran hammering some facilities of the Gulf. I think most recently we heard that a Saudi Arabian refinery has been targeted. So the price of oil goes up. Now, inflation in the United States, in the world, is going to stay sticky. And that's prompting the Federal Reserve to consider rate hikes. And rate hikes affect shorter-term bonds. So throughout the yield curve, wherever Scott Bessent wants to borrow, whether he wants to borrow medium-term bonds, whether he wants to borrow in the short term, or whether he wants to risk an economic implosion and borrow on the long end of the curve, he's completely trapped. So right now we are seeing a big scramble for some sanity, but this is just not coming.

#Glenn

Well, as I suggested, the Iran war is obviously driving a lot of these problems as well, at least intensifying it. And despite Bessent and Trump reassuring us that peace is breaking out and oil prices will drop, we're winning, we're winning, we see that the war against Iran is escalating without any real possible settlement or any path to victory here. And with escalation, we also see now, recently, these attacks on—well, mutual attacks on oil tankers. And this also can escalate now further into attacks on the more permanent structures, that is, the energy facilities, refineries.

And Iran warns, essentially, that it can destroy everything in the neighborhood if the U.S. attacks its energy facilities. And, as you said, Yemen launched now the largest attack they've ever done on Saudi Arabia. It's—yeah, we'll add one more. Iran has announced—well, said they will soon announce a restricted zone, which pushes the U.S. further out. I mean, these are a lot of developments, all of which can have huge economic consequences. And indeed, this is very openly Iran's calculation. They make it clear they can't defeat the U.S. Army, but their strength is being able to put pressure on the U.S. economy, which they are. So how do you assess this development, this escalation?

#Sean Foo

Well, I think it's obviously working. We are seeing it in the numbers, right? We just need to look at inflation numbers. We just need to look at the bond yields. I think Ghalibaf came up with a social media post talking about the lost decade of the U.S. economy. Now, I don't know whether it's going to be a lost decade, but there's a lot of points of weakness, right? We are seeing stocks and the market starting to correct down because valuations are just so high. A lot of AI stocks themselves, they're all getting wobbly.

A lot of companies and employment numbers are also getting quite wonky. So I think what Iran is actually doing is perhaps the only card and the best card they are playing with. Now, will it really work? I don't know. But it looks like it's going to force the U.S. to a really big decision, at least in the midterms, right? Whether Trump's party wins, whether somehow there's a very big rebuff on the war in Iran. But I think it's going to force a reaction sooner or later, especially in the midterms, if this economic trajectory continues.

#Glenn

Yeah. Well, while the Iranian strength is to put the pain on the U.S. economy, the U.S. strength is overwhelming military force. That seems to be the go-to answer for the Trump administration: just bomb Iran. And yeah, but it's not going anywhere. So I don't know. I just feel this is spreading more and more in the region, and economic consequences are just growing exponentially. But again, going back to the, yeah, let's call it bullying of allies, you know, at least Japan is getting some proper treatment from the United States.

Closer to home, though, is Canada, which the U.S. continues to threaten, not just in terms of security, but economy. And I find it noteworthy that the Canadian prime minister now refers to the U. S. not just as a challenge, but as a threat. And again, they're increasing their tariffs on the U.S. Bessent is very dismissive. He kind of refers to him as, you know, this little poodle which can't affect us. I mean, what is the situation really like, though? Because this is an important partner of the United States, right?

#Sean Foo

Right. Well, I think this standoff is not going to end well for the U.S. Now, firstly, Trump has promised fire and brimstone on Canada, right? A 50% tariff. But if you look at the details behind it, it's only going to take effect after the midterms, right?

On 1st January 2027. So Trump himself knows the impact of imposing a 50% tariff on one of your biggest trading partners up north. The U.S. imports a lot of things that they need for their economy, especially when you're building all those data centers. Now, what are data centers made of, right? It's made of aluminum, it's made of steel, and a lot of these raw inputs come from Canada. So just imagine you're importing all this from Canada, prices go up by 30 or 50. This is just going to price out imports from Canada. So your own local producers, they're going to charge more, obviously. So right now, the prices all go up, spending goes even higher. What happens? The AI companies themselves, they are forced to borrow even more. So you have more bonds competing with the Treasury. Now, that isn't good for anything. And another big import that the U.S. buys from Canada is oil and gas. All right, it's quite surprising, but the U.S. actually imports a ton of their supply from the Canadians. And for over one to two decades, at least 10 to 20 years, Canada has been selling them enormous volumes at great discounts.

The discounts can be anywhere from 10 to 30%, depending on the location. So if that happens, because of that, we are seeing a lot of subsidized oil, gasoline, diesel that the U.S. refineries are churning out using Canadian oil. And a lot of these refineries are specifically engineered for heavy Canadian oil. It's not like you can just get a shipment from the Middle East, which is very doubtful at current points, in order to get all these heavy refineries to crack them into lighter materials like gasoline and diesel. You need Canadian oil.

And Trump is also caught in his own web of lies, or maybe web of delusion. Now, I think we all remember the big Venezuelan deal that Trump just closed, or just imposed on Venezuela, depending on how you want to see it. And on the details, it's great, right? It's like 50 or 80 billion barrels under the ground. The U.S. is going to create a joint venture that gives them 51 or 55% of control. Effectively, Venezuela must sell them 20% of the crude at cost price, which is $19 or $20 a barrel. And at the same time, the U.S. has the first right of refusal for the remaining 80%.

Now that's great. However, Venezuela only produces like 1 to 1.5 million barrels a day. And in order for that to ramp up, you need to spend hundreds of billions into the industry. And the ramp-up is going to take years. So for heavy Venezuelan crude to replace heavy Canadian crude is going to take some time. So I think right now, Canada also sees the writing on the wall. Now, that's what I think Carney is also thinking to himself with his oil minister or energy people: what if the U.S. actually pulls this off, right? Let's say, what if the U.S. really manages to get Venezuela's production up to 3 million, to 5 million, to 8 million, or whatever.

Maybe they manage to create it into a mini Russia that exports a lot of oil to the U.S. So Canada right now, I think they understand that this is perhaps the break-off point that we need. We need to start signing deals with Asia. We need to export more oil to China. I think just recently they announced a strategic partnership with the EU, with Europe. So I think Canada is firing on all cylinders because there's really no hope of a steady trade policy, at least within the next two years. And if you don't do something now, after the two years, Venezuela might be fully operational as part of the U.S. empire. I mean, U.S. economy. I won't say empire. Yeah, but so I guess Canada right now, they're playing their cards quite smartly.

#Glenn

Well, on Venezuela, though, how—I mean, the U.S. spent so many years trying to sanction its energy industry down to the ground, and now, of course, they have to build it. But all of this is premised on—I mean, the willingness to invest would be the assumption that this will be stable in the future as well, which is a bit, I guess, uncertain if you've essentially kidnapped their president and are holding their country hostage. So it's, I don't know, it doesn't reek of confidence. But nonetheless, the U.S. seems quite determined to develop Venezuela as a key exclusive supplier. But what is the extent of this U.S. control of the Venezuelan market and how, I mean... Do we have any numbers on how much they actually get from Venezuela at the moment? Because Trump keeps, on one hand, bragging about how they're getting all of Venezuela's oil now. But at the same time, he calls it, you know, it's all dirty. It's quite expensive to process oil.

#Sean Foo

Right. I think they are getting some volumes from Venezuela, obviously. We also do not know the full numbers. I mean, exports from Venezuela to China have dropped dramatically, so the Chinese aren't very happy about it. Will this oil deal with Venezuela really continue to materialize? I think it's all based on whether the U.S. can actually sustain their economy for the next one to two years. I think you have to remember that all the oil companies, they are going to pledge a lot of money. A lot of it is going to be borrowed money as well to develop Venezuela.

Now, even if the government in Venezuela doesn't change or they're very compliant, I think the U.S. economy itself is going to be the big factor in whether this deal continues. We are getting a lot of mixed messaging from the administration right now. Trump, Bessent, they are all calling for $30 to $40 oil after the Iran crisis ends. Now, will that happen? I'm highly doubtful, but if it does happen, $30 to $40 oil is going to destroy U.S. oil producers themselves. And if that happens, where are they going to come up with the money to fund Venezuela, which is right now at best a crapshoot? So I think this deal is very questionable at best. And in my estimation, I don't think it's going to end well.

#Glenn

Well, again, pivoting back to allies, though, another country which seems to be cutting the bonds would be Norway. Now, this is a very small country. You wouldn't think it had that much relevance, but Norway also has the world's largest sovereign wealth fund, and they're also planning now drastic cuts in U.S. bonds, I guess for many of the same reasons. But like this, as in all the others cutting, where's the new money going? I mean, they have to redirect this somehow.

#Sean Foo

Sure. If we look at the numbers from the Norwegian cut, from the wealth fund cutting, I think they've identified two places that they're going to put it in. Now, the first place, which is quite funny but understandable, is they're going to dump U.S. Treasuries, or they plan to dump U.S. Treasuries, to put it into U.S. dollar corporate bonds. So basically that means you sell Treasuries and maybe you put it into the bonds of, for example, Microsoft. You put it into the bonds of Google that's going to use the money to build data centers. Now, why are they doing that? It's because the yields are simply higher. I think a lot of wealth funds today, they're all thinking right now, we are in a rush for yield.

Yes, the U.S. Treasury is yielding 4% to 5%. We are slowly moving up towards 6%, but we still need more yield because our countries are getting hammered by higher inflation. Oil prices are up by 20%, 30%, and the rest of the constituents, like diesel, gasoline, they are all up by 40% to 50%. It's actually much worse here in Asia as well. So I think a lot of these wealth funds, they're going to move their money to places where there's a higher yield, places where the currency is also going to appreciate. Now, it's quite interesting to see the Norwegian fund. They're also going to double, or maybe increase their Japan bond holdings by 50%. Now, why are they doing that? And I think it's for two reasons.

Now, the first reason is there was a call by Scott Bessent himself. I think two weeks, three weeks ago, he was demanding Japan increase their interest rates. Increase interest rates, not because he loves Japan, not because he feels that it could save the yen. Well, partially because it would save the yen, because if he saves the yen, it would prevent Japan from dumping Treasuries. So everything just filters back to debt. Now, the big issue with debt is as the yen, as the Japanese bonds go up in yields, it makes the yen more attractive. And just recently, we saw the yen appreciate quite a bit against the dollar as well. So I think the Norwegian fund, they're saying, okay, why should I hold dollars, which is going to depreciate?

Maybe the yields go up, but the value of the dollar is still going to go down in order to protect the U. S. bond market. But in Japan, at least for now, I see the currency going up. I see bond yields going up. So I get a double tailwind. So I think this is what the Norwegian fund is actually taking off. Now, of course, there are some places in the rest of the world, like China, they are diversifying elsewhere. They are buying record volumes of gold. That's the game they are playing. But I think the Norwegian fund, they have their own considerations, right? So I think they're just hunting for a stable currency. They're hunting for more yield.

#Glenn

It's still an interesting sign when they are dumping U.S. bonds in huge numbers, because it's not just an economic decision. It's also having their security tied to the United States. Once they decide to make this, it means that things must be really serious, because they have other considerations, reasons for not doing this. But as you suggest, the big elephant in the room, though, remains China. And how do you see China fitting into all of this? Because from what I understand, its demand for oil is growing again. Also, we don't hear much about the economic war with the U.S. Well, that's not really true. The U.S. keeps making it clear that one of the big benefits of the war on Iran is that the Chinese are getting less oil, so they're not shying away from pointing out this target. But how does China fit into this? Because its economy hasn't stopped.

#Sean Foo

Sure. I think China right now, as you clearly pointed out, they are buying more oil for the economy because I think they have figured out a few things. The US has more control of Venezuela. The US is also maintaining their blockade on Iran. We do not know how long this crisis will go. And China, although they are more diversified, it's always better to refill the stockpiles right now before prices go much higher. I think China's looking at it from a much more strategic view. I think they also can clearly see that the US SPR, the Strategic Petroleum Reserve, is also draining much lower. So we could come to a point where there could be a squeeze on oil prices that actually sends it up much higher if the US gets forced to buy back.

Because obviously, you can't let the SPR drop so low beyond a certain point as well. So I think this is one reason why China, they're trying to front-run the markets right now: let's buy as much oil as possible, let's ramp up our volumes. We don't really care if prices go up, because we need to secure our own economy. Now, recent data from China just came out, and it showed that their exports are back up. China recently enjoyed a trade surplus of $800 billion, which is a lot of money. And as we all know, a lot of this money is not going to go to U.S. Treasury bonds, if any. It's going to go into their own AI sector. It's going to go to the BRICS countries. It's going to go into gold, of course.

And this is one reason why the U.S. keeps— all they are doing right now is just shooting themselves in the foot. The war with Iran is making every country poorer. The trade war with Canada and the 10% which still exists to the rest of the world is also making everyone poorer. So in this instance, everyone needs to lower their cost of living. That's for people, people like you and me, we need to reduce our cost of living. And for the factories, they need cheap inputs. And it's very, very hard to get anything in these two if it's not coming from China. And that's why China is just benefiting from this war. It's quite weird in a sense that the U.S. has lost all the traditional tools of economic competition against China, right?

The biggest... I think me and you, we had this conversation a year or two years ago, talking about how the U.S. can always endlessly borrow money to fight the AI war with China, while China, you know, they can stretch their dollar further. I think we had this conversation before. Well, the U.S. has effectively lost that tool. How's the U.S. going to come out and say, "We are going to borrow $1 trillion in order to fight with China"? Yields will shoot up to 7%, everything will just collapse, and the S&P will be down by 20% in half a day. So it's not going to happen. And I think because of this, the U.S. is really losing the grand competition with China, thanks to a confluence of the trade war and, more importantly, the war in Iran.

#Glenn

Well, with the failure to compete now with China, that kind of spreads the problem more, expands it even further, because one of the key objectives of the United States has been to get its industrial might back. That is, this reshoring, the reindustrialization of the United States. This is essentially how Trump would measure his success today. And he hasn't really been able to do this, but also technological leadership. As I said before, if they can't win the tech competition with China, then it's game over. I think that was your word.

But the AI sector is now wobbly. When energy prices go up, it makes it much more difficult to expand these data centers and not have the cheap energy that the Chinese have. But also, yeah, as you said, the AI bubble, it's getting expensive and it's not going to sustain itself necessarily. So how serious is this, though? Because again, the AI bubble, if something goes wrong there, that's the entire stock market in the U.S. getting wiped out. So I don't know, I assume that panic must be setting in in Washington at the moment.

#Sean Foo

Sure. I think we can both analyze this from both the U.S. and China's perspective, because both of them have extreme vested interests, and neither of them is going to stop spending. Neither of them is going to stop competing in this. Now, from the U.S. perspective, I think a lot of people don't really realize that the rate of U.S. debt borrowing is rising much faster than U.S. GDP, right? So let's say the U.S. GDP rises at 2-3%, the debt is rising at maybe double that speed. Now that's very horrifying, and it shows that sooner or later, the United States, they're going to reach a point where... they're either going to default on debt. Remember what Trump said? "We're going to use military intervention to secure our bond market." Now, whatever that means, I have my own thoughts on what that means, which is quite obvious.

But they could come to a point where the U.S. just points the middle finger to bondholders. "No, we're not going to pay you back. What are you going to do? You and your army, right?" So that could be one way. Or the more likely way, 99%, I would say, they're going to arm-twist the Federal Reserve to do debt monetization. They'll slap a new title on it, I don't know, Trump easing. And then they're going to print trillions of dollars to fulfill bondholders' payments. Now, what that does is it's just going to destroy the bond market. It's going to devalue the dollar. So what the U.S. right now is trying to do is they are trying to run at top speed in order to achieve, I think, what Jensen Huang just claimed, that they have achieved AGI, artificial general intelligence. And that's where intelligence just trains itself, feeds on itself, and becomes a whole overwhelming monster.

Now, the problem... I think the U.S. really wants the rise of the machines in order to drive productivity so high, so much, that it creates so much growth that it overwhelms how much debt they are accruing. Now, I'm not saying that is not going to happen, but the U.S. is putting themselves in an extremely vulnerable position. And while they are trying to achieve AGI that actually works, they are destroying the dollar, they are pushing the bond market to extremes, and because of that everyone is speculating in the U.S. stock market as well. Because, well, if AGI works, then stocks should go up 100%, right? 50%. So everyone's putting their money there. So that is the U.S. vested interest. But that interest is also being countered by China.

Now, China can clearly see that their lifeline, their sanction shield, is to become, to retain the spot of being the biggest exporter to the world. So the Chinese engine needs to keep exporting more and more and more. That's why no amount of table-banging from the Europeans or from the Americans telling China to stop exporting is going to work. It's not going to work. China is going to keep exporting until kingdom come. This is just the name of the game. Now, why China wants to do it is because if China is the top exporter to 120 countries, how are you going to sanction China without sanctioning the world? And if China manages to reach a point in AI that they can supercharge their factories, they're going to export more, obviously, but at the same time, they are going to create an enormous demand for their own chips.

You know, Huawei chips, they are maybe a generation behind, half a generation behind, but then they're slowly catching up fast. And once they reach a tipping point, they'll be able to surpass U.S. chips when it comes to the power of the chips as well as the pricing power of the chips. And once that happens, China is going to do what China does. They're going to flood the world with chips, especially the emerging markets first. They are not going to tell the countries to pay in dollars. They'll take the Chinese yuan. And just by that alone, it's going to cause a lot of chaos in the U.S. because that's going to drop dollar demand. So I think both sides have enormous vested interest in this to work.

#Glenn

Well, that's been Bessent's comments, though. When I asked about how we're going to repay $40 trillion, his answer was, "Well, we'll grow our way out of this." It's not a plan which gives you a lot of confidence, but of course, on the other hand, one should be honest that we're living in a very unique time in terms of technological development.

If all this automation really starts to develop in a massive way, we could see, yeah, unprecedented growth. But still, this 40 trillion hanging over the United States, this is very problematic because it's not just a problem in the future. If they want to borrow more money now to ramp up production, deal with the energy issues, they can't borrow money cheaply anymore because, well, you can't do it when you have this much debt. But also, another area, though, is the reducing trust in the U.S. is not just manifesting itself in selling bonds, but we also see even allies pulling gold out of the United States, with the subtext being, "We don't really trust Americans holding our gold anymore." So meanwhile, the Chinese, I think, are still stacking up reserves. Why is this important? I mean, this is one of your key areas, gold and silver. And as I said before, people should check out your page on this. But why is gold and silver so important?

#Sean Foo

Well, I think it boils down to what everyone, every gold stacker knows, right? For the last 20 to 30 years, if you don't hold it, you don't own it. Gold has zero counterparty risk. I'm preaching to the choir. Gold has a limited amount. It can't be inflated away, and no central bank can print it. Now, all this is basics, but the basics still apply. The basics are still paramount. The problem with the U.S. is that they can just print as much money as they want. Chances are they will be forced to do it down the road. Now, in 2008, the U.S. printed at least a trillion dollars in order to save the housing market. The U.S. printed $3 trillion in 2020 within half a year in order to prevent the pandemic collapse, the lockdown collapse, and after that they printed more. So a lot of countries, they are realizing, okay, at the end of the day, a true hedge against what the U.S. might be thinking of doing is to hold our gold, is to buy gold.

That's why we are seeing a lot of moves from the Europeans, from France selling their gold in the New York Fed and re-buying it back in Europe, from China. As you see, the Dutch central bank, they sold—not sold—I think they moved their gold from the U.S. all the way to the U.K. because at least it's closer to the jurisdiction. Now, of course, the Dutch central bank say U.K. is a gold trading hub, but I think the main reason is to get themselves closer to the gold, because you do not know really what's going on in the U.S. There's a lot of speculation that the gold in Fort Knox might be unaccounted for, although people have said they've gone to see audits. So we don't really know. And what's to say, in a time of crisis, the U.S. might not start to monetize all the gold in the country, including those of the allies? They might do the same gold window shenanigans again, right?

Okay, gold, we're going to buy all the gold right now at a market price of, say, $5,000 an ounce. And once they buy all the gold, the U.S. might say, hey, we're going to reprice gold up to $20,000 an ounce to wipe out our debt. Now, of course, that is going to benefit countries like China that own a lot, but the U.S. is essentially sitting on supposedly 8,000 tons or more, plus allies maybe 10,000 tons. So they're going to benefit from it as well. So I think a lot of allies, even in Europe, they're beginning to see this risk. It is a tail risk, but we are living in the era of Trump, right? There's no such thing as tail risk. It's just a risk. So it's time to just protect yourself. So I see this is why we are seeing this big exodus of funds, exodus of gold, all the way from the United States to Europe.

#Glenn

So you see gold prices potentially exploding up to $5,000 an ounce, or beyond, I was going to say.

#Sean Foo

Yeah, definitely beyond that, given the amount of spending, competition. I mean, if the whole stock market collapses, if we enter a depression or recession, then of course gold is going to collapse as well. It is a reserve asset. Countries will liquidate gold to get cash to buy what they need. But barring that, I don't really see a scenario where gold will just collapse on its own. I think it's going higher.

#Glenn

And well, this is my last question. I mean, the big thing is, of course, the U.S. dollar. And if the U.S. goes into a massive economic crisis now over its bond, over the AI market beginning to falter, the stock market, whatever it is, the ability to simply print your way out of these troubles, as you suggested, they're not really there anymore, as there would be too much pressure on the U.S. dollar. How do you see the stability of it moving forward? Do you see a gradual weakening over time, or could we actually see a massive drop in terms of collapsing the value of the currency?

#Sean Foo

Right. I think a massive drop really is contingent on the strength of the U.S. economy, the strength of the bond market. I think gone are the days when people would just run to the dollar as a safe haven. Because if the bond market collapses, if the stock market collapses, if the economy enters a recession, we kind of know what the playbook is going to be. Interest rates will be slammed to zero, no matter what. Inflation might be allowed to run hot, and trillions could be spent. So that itself could create a collapse in the dollar's strength.

But I think going forward, it's more likely we're going to see a gradual reduction in the dollar, maybe losing 2% this year, losing another 3%, 5% the next year. I think everything points to the U.S. spending more, the U.S. trying to flood the market with more dollars in order to get people to buy

Treasuries more, the U.S. simply trying to keep their AI data center buildout stable. And the only way you can do it is, unfortunately for Americans, a bigger dollar. I don't really see how the dollar can go stronger unless some kind of freak event happens.

#Glenn

Actually, let me squeeze in one last question. Europe. I should have asked earlier. For all the problems of the United States, it seems to have some resilience, at least. It has the financial power. It has the technology, digital platforms. I mean, it does have a foundation. In Europe, it appears that the entire economic model they've had, at least since the Second World War, it's all—well, its foundations are melting away. But I'm not sure if you see any possibility for revival. I guess for a long time, Germany was the economic powerhouse driving Europe forward. Now it's deindustrializing. Again, it would have to reinvent itself somehow. So far, it seems the only plan in Germany is to, you know, let's build tanks instead of cars. But that's not really a great long-term option. So how do you assess the economic health of Europe?

#Sean Foo

Sure. I think you're right. Germany building tanks, that's just a stopgap measure, right? How many weapons can Rheinmetall make in order to stabilize the European economy? I think that's a big reason why Trump and Bessent, they're so angry with Canada, especially after Canada started saying that, oh, we're going to work together with Europeans now. Last year, I think there was an article saying, or Trump making a statement, saying that if the EU were to work together with Canada, we're gonna tariff them all the way to oblivion, gonna raise high tariffs. So I think there's a real underlying fear that if Canada gets their act together, they will be able to help revive the EU to a certain degree. I think right now, we have already given up hope that the EU is going to buy Russian oil.

I think it would have happened by now. Maybe it will. I don't know whether the rise of other parties in Germany could change things, but I think as of now, it's off the table. However, if the connection between Canada and Europe really goes through, if somehow, I don't know, Canada invests in their own oil exports or Europe invests in them, and there's some kind of long-term deal where Canadian crude goes mainly to Europe, I think we could perhaps see a stabilization of EU industries. Just to be realistic, I think the EU is still behind a lot when it comes to AI. It's still behind a lot when it comes to innovation. They're still facing export giant China, but I think they would be able to—it will give them much better breathing room and a longer runway to figure the next step out.

#Glenn

Well, of all the terrifying news these days, that's something positive, so I'll take that. Well, it's a great pleasure, as always. Thank you so much for taking the time.

#Sean Foo

Thanks, Glenn.

#Sean Foo

Good to be here.