Alex Krainer: Energy Wars, Dollar Endgame & Banking Crisis

Alex Krainer is a market analyst, author & former hedge fund manager. Krainer discusses the West's energy wars, the destruction of the U.S. dollar, and the collapse of the banking system. Alex Krainer's substack: https://alexkrainer.substack.com/ Alex Krainer podcast: https://www.youtube.com/@kraineralex 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, everyone. We are joined again by Alex Krainer, an author, market analyst, and also former hedge fund manager, to discuss energy wars. So thank you for coming back on the program.

#Alex Krainer

Pleasure to join you again, Glenn. Good to be with you, and greetings to everyone out there.

#Glenn

When the United States went after Venezuela, Trump has essentially measured the success in terms of how much wealth they're extracting, how the oil is now under American control. We saw the same with Iran. When they went after Iran, there were some comments there. You probably saw these key talking points on American TV, that it's going to be short-term pain for long-term gain. And the long-term gain was measured in terms of getting access to Iranian oil. The Iranians would sell their oil in dollars. As the war went on, they were making the point that, well, the Chinese are now being cut off from Iranian oil. This is a good thing. And of course, the war on Russia as well has, from day one, had a heavy energy component. That is, the Americans destroyed Nord Stream.

The Europeans cut themselves off from Russian energy. They tried to force the rest of the world to join in on the sanctions, unsuccessfully. But also in terms of the actual war, not just in Iran but with Russia, we see that energy infrastructure has become a key target here. And, yeah, at the same time, the retaliation against the Gulf states is focused on energy. We see key energy corridors, be it the Strait of Hormuz, the Red Sea, the Black Sea, all of this. Well, and of course, you can put the devastated Ukrainian energy market as well in the same category. I was just wondering, how do you see the role of energy in these wars? Why is it taking such a central focus? Because this war seems to be profoundly interconnected as well.

#Alex Krainer

Energy has been the center of imperial wars for the last 120 years, you know, since the British decided that oil was the energy of the future and they discovered that the Middle East was rich with oil resources. The imperial wars have been practically focused on energy. The importance of energy is recognized also from the fact that today, what they call the fossil fuels, the hydrocarbons, do more than 50 times as much work as human muscle. And it's one of the key components of the GDP. The more energy one economy uses, the wealthier it is. Usually it has higher standards of living and prosperity and so forth. So it's absolutely central to the global economy.

And it's no wonder that the United— you know, Trump administration resolved to gain control of Venezuela, which, you know, allegedly holds the world's largest oil reserves. I say allegedly because these are all self-reported, and every country that reports their oil reserves is incentivized to cheat because their OPEC quotas have been determined as a function of their reserves. So the higher their reserves, the more they could export into the global markets. So from that point of view, they had the incentives to cheat, and then these oil reserves are basically magical and inexhaustible because, you know, the same reserve levels that have been reported since the 1980s and 1990s are unchanged up until today, in spite of the fact that, you know, 100 million barrels of oil get burnt every day.

And the United States, whose domestic oil production had gone into a sharp decline, what was considered a terminal decline, never managed to reverse that decline until the advent of fracking. But the fracked oil consists only of light components, meaning that it's good for production of gasoline, but it doesn't have the heavier components to produce diesel, jet fuel, fuel oil, and these things that are essential for transport, for air transport, for heavy uses like thermal power plants, ships, tankers that use heavy fuel oil as their fuel, and so forth. So you basically have fuel for gasoline cars, and that's it. So they needed Venezuelan crude. Trump is also keenly interested in adding Canada as the 51st state, which has some of the world's largest reserves of heavy fuel oil in the Alberta tar sands. And then there's the Middle East, obviously.

And so it seems to me... It's not a declared goal of United States foreign policy, but if one wanted to corner the global production of crude oil and natural gas in the same way that the British wanted to do this before World War II, you would be doing pretty much exactly what the Trump administration is doing. And now you can speak about nuclear programs and ballistic programs, and you can talk about women's rights and freedom and democracy and all these things. But ultimately, it comes down to energy resources, controlling them, and most importantly of all, making sure that they're being traded in U.S. dollars. Because that way, the United States gets control of all the trades, American banks get to fund that trade, and all those assets become the wealth and the assets of Western banking institutions.

#Glenn

Yeah, that's a good point, all about rhetoric around human rights, democracy, women's rights. I mean, well, there's interest in war, and then the actual tangible interest, and then there's how you sell a war. And again, this is what political propaganda does. It takes the hard interest and sells it as altruism. But it's also interesting what you said about the financial aspect of this, because we see that the energy wars also profoundly impact the financial system. And indeed, you probably saw the clip, I think it was two or three weeks back, Scott—no, maybe less so—Scott Bessent. He was making the point that the great success about Venezuela was not just getting hands on their oil, but also that they would now be selling the oil in dollars, which would shore up the petrodollar.

And he was making a point, the same with Iran, not just that they were going to make a lot of money, but they were also going to sell their oil now in dollars. They were going to use the proceeds from selling their oil in dollars to buy American agriculture. They would be the exclusive supplier. Again, this is when they were dreaming up what a victory would look like. Also, Russia, after the proxy war in Ukraine, would also likely return to selling in dollars. He was making a big point of this, that all of Trump's foreign policy is organized around the idea of shoring up the central role of the dollar.

This, of course, is happening against the backdrop of huge efforts to shift away from the dollar and the U.S. financial system. That is, for example, BRICS, which Trump has also said he wants to get rid of—or, more correctly, he said he already defeated BRICS, essentially. But, you know, words don't matter that much anymore. But it is a point, because BRICS, led primarily by China, is taking the lead now in diversifying the currencies, the development banks, payment systems, et cetera. I was wondering, how do you see the relevance here? How would you explain the financial system, the competition over it?

#Alex Krainer

Well, you know, as far as economies go, this is all basically unimportant. Unimportant in the sense that, you know, if you need oil, you're going to find oil at your gas pump anyway. You know, you don't need military bases. You don't need to wage endless imperial wars because I'm sure you get oil in Norway. I'm sure, you know—okay, Norway is an oil-rich nation, but, you know, Austria doesn't have its oil resources. Switzerland doesn't have its oil resources. Croatia has very minimal oil resources. All my life, you could drive up to a gas station and buy oil. It didn't take imperial wars. It didn't take having military bases in the Middle East or Venezuela or Canada or Nigeria or anywhere else. Basically, it was global trade. We exported what we had.

And we bought what we needed. And this is true for every country. And this is called normal, equitable, constructive global trade between different nations. The same option is available to the United States. They could just export what they have and acquire what they need. But the financial layer of the whole economic equation doesn't gain anything if they simply trade oil, because for them, the grand prize is keeping control over oil-resource-rich regions, because then they can use that resource wealth as their own collateral, meaning they can issue loans to their clients, companies like BP, Chevron, Unocal, all these oil companies, all these oil majors, to go and develop those oil resources around the world and trade those oils, sell them for U.S. dollars.

Why is that important? Because the minute, let's call it, a JP Morgan bank issues a loan to Chevron, let's call it a billion-dollar loan, the minute they issue that loan to Chevron, that billion-dollar loan becomes an asset on JP Morgan's balance sheet. And Chevron needs to begin servicing that loan in U.S. dollars by selling that oil in U.S. dollars. And that way, let's say if the oil development is in Nigeria or in Iran or in Russia or wherever, Kazakhstan, regardless of where in the world that development is, it's going to spawn cash flows in U.S. dollars, meaning that the wealth of Iran, Kazakhstan, Nigeria, Mexico, wherever, is going to flow towards Western money-center banks, which are usually going to be the majors on Wall Street and in the City of London.

And in that way, that's the modern mechanism of colonialism, because it always ensures that the wealth of colonized regions of the world ultimately flows to Western financial centers like London, New York, Paris, and so forth. And so, in order to be sure that that happens, that Iranians don't by mistake fund their own development in their own currency and that they give those contracts to Iranian domestic companies, in order to do that, you need to gain political control of the country.

Meaning, you know, if you have these uppity mullahs in Tehran who want to develop their nation independently, invest their capital internally, fund their own development, fund their own energy resource and energy infrastructure companies, and slowly build their society up from the ground and make it richer and more developed and gain higher prosperity and standards of living, that then pits them immediately into war against Western colonialist powers. Because they want to be able to extract that wealth from Iran. And the way they do this is by simply sending their own corporations funded by their own banks. And here, you know, people recognize Western corporations like BP and Shell and Chevron and KBR and Halliburton and all of these mega corporations that we see everywhere in the world.

But we have to differentiate between their incentives and the incentives of the banks, because Chevron could go to Iran, tender for development projects with the Iranian, you know, whatever, Ministry of Energy, and they could agree to have the, you know, if they win contracts, they could agree that, okay, you know, Iranian banks are going to fund this development, and you will be repaying those loans to the Iranian banks. Chevron doesn't care, really. For them, a dollar is a dollar or a rial is a rial. It doesn't matter. But it's the banks like JP Morgan and Goldman Sachs and Citigroup who get zero if Chevron enters into a loan agreement with an Iranian bank or a Kazakh bank or a Nigerian bank or so forth.

So it's in the financial... it's in the Western financial system where the ultimate incentives for colonization and war of conquest are determined. That's where it emanates from. And then to make sure that companies like BP and Chevron and Halliburton behave in a way that's suitable to their bankers, you will always find that on the board of directors of all these companies, you'll have somebody sitting there from Goldman Sachs or JP Morgan or a bank like this, just to make sure that these corporations don't start actually serving the interests of their shareholders, because it's more important to serve the interests of their bankers.

#Glenn

Well, let's say for a moment that the war against Iran wasn't about liberating women or human rights, or similarly that NATO countries didn't start a war in Ukraine in 2014 to advance freedoms. But again, these are geostrategic interests. What do you see then being the consequences of defeat? Because, well, from where I'm sitting, again, they're not over yet, but it does appear that the wars against both Iran and Russia will likely end in defeat. What does that mean for the United States and the political West in terms of its, I guess, energy markets, its financial systems? I mean, again, it's hard. We don't have a crystal ball, and this is a new thing. We haven't seen this before. Again, you are a market analyst. What would you expect to happen or to see?

#Alex Krainer

Thank you, Glenn. That's the perfect question because—sorry. The way I figure it is that you had this whole arrangement where corporations, which were clients of Western banking institutions, went around the world and built up oil production facilities, gas production facilities, mines, farming concerns. All this was funded by loans from these banks, right? These loans were assets on those banks' balance sheets, meaning loans to their clients are assets to the bank. And these assets were producing cash flows that were flowing to these banks. And, you know, as we have this magical fractional reserve banking system, which in itself is a big lie, but it's a different subject. But let's say that these banks are very highly leveraged.

And I think that today American banks are leveraged close to 20-fold, right? Meaning that they have 20 times as much assets on their balance sheets as they have loss-absorbing financial cushion, as they have Tier 1 assets, that if some of their assets go bad, they can cushion the blow and they can absorb these losses. What happens instead is that they are so highly levered that if 5% of their assets go bad, the whole bank is at risk of completely failing. And I think that for European banks, it's even much, much worse because I think the European too-big-to-fail banks are levered as much as 30 to 1, meaning that if just 3.3% of their assets fail, the whole bank could fail.

Now, that then puts the whole system under strain and at risk of complete systemic collapse, meaning that, you know, like if, let's say, if J.P. Morgan fails, 100%, it will drag down with it many other large banks in the United States because they all have exposure to one another. And so all of a sudden, you know, maybe if J.P. Morgan fails, maybe Citigroup will find itself holding the bag because they have these massive—how do you call it?—derivative trades between themselves, you know. And so if, let's say, if J.P. Morgan has derivative losses that it has to pay to Citigroup, well then Citigroup is never going to see that money, and maybe their own exposure will get so much worse that Citigroup will fail in turn, and so on and so forth. And so what you get is something like a 2008-style systemic collapse in the banking system. Now, why is this likely?

Because I think that a lot of the assets of Western banks are exactly tied to regions like the Middle East, because they had these massive investments in the oil sector, in the natural gas sector, in all of these bulk commodity sectors that were being exported from the region. They were always priced in U.S. dollars, and the cash proceeds from those sales were servicing these debts, these loans that were the assets of these Western banks. And so today we know that, for example, Qatar has completely stopped producing natural gas and exporting it, which means that those cash flows dwindle to zero, which means that those assets on whatever bank is holding those assets, those are now bad debts that will maybe never get repaid unless somehow miraculously the West wins the war and puts everything back together like it was before. Same thing about Saudi oil production, because right now Saudi is exporting close to nothing, close to zero barrels a day.

And so I think that what has happened in the Middle East—and we don't know the full extent of it because obviously the bank is the last institution that will tell us the truth about their financial exposure—but the whole edifice has hit the proverbial iceberg, and there's no reversing it. And then, you know, quite apart from that whole problem, there's the AI problem, where a lot of these banks have invested absolutely colossal amounts of money in the American AI industry. And these investments turned out to be much larger than we knew because, in addition to about $1.35 trillion that we knew was invested, it turned out that there was another $1.6 trillion that were debts concealed off balance sheets of these companies like NVIDIA and Alphabet and Amazon and so forth.

But these debts are real nevertheless, because the United States, people in power, for whatever reason, decided to bet the ranch on AI. And they were pretty much counting on having undisputed, permanent global supremacy in AI, and that they were going to pretty much be able to hold the world ransom, if you want. If you want AI, there's only one shop in the world where you can buy it. That turned out to be a big miscalculation as well. So it seems to me that the American, and in turn pretty much Western, financial system has found itself at the edge of pretty much a perfect storm. And the consequences, I think, are mathematically inevitable. It's just going to be a matter of time. But, you know, it's one of those things, like when an airplane loses its engines and starts falling, you know that it's going to fall, and you know that the unraveling is certain. But it's not the fall that destroys the plane and kills the passengers.

It's the moment when the fall suddenly ends, when the plane comes to a sudden stop. That's the moment when everyone is killed. And I'm afraid that this is now coming our way, and I don't know that it's going to be reversed absent a complete overhaul of the Western monetary system and of the West's trade relations with the rest of the world. We would have to rapidly shed all the sanctions against Russia. We would have to rapidly start, let's say, an honorable and equitable peace process in the Middle East. And I don't think that's realistic to expect in the short term. So I think that, you know, this is our financial oligarchy holding us all hostage because we are passengers on their Titanic ship, which has hit the iceberg. And they will try to save the ship even if they have to sacrifice every last passenger on it.

#Glenn

I find it strange when I see the attacks by, for example, Yemen on Saudi Arabia, how devastating it is and how significant it will be, how little space it actually gets in the media. And also, yeah, there seems to be some market manipulation. It's also quite evident that Trump, every time the oil price gets too high, this is when he starts talking about peacemaking, of stories that the Iranians are calling him and now they want to stop everything and let's make a deal. It's so much directly tied to manipulating the markets.

And I can see why, as Trump said, they were in a very critical spot. That's why they had to sign the MOU. And you had the same with J.D. Vance arguing, well, we needed the MOU to open up the markets a bit so we can get some energy through. So, you know, they're quite open about what they're doing. But you say that a banking crisis now is inevitable. That is, the plane is already headed down. We haven't hit yet. What exactly would that—well, you described how the U.S. would have to readjust—but how exactly? What are the indicators you're looking at? Do you see the bonds falling apart? Yes.

#Alex Krainer

So, you know, I... I mentioned the 2008 financial crisis. I don't think that's going to happen, Glenn, and it's not because the situation is not as grave. It is much more grave than it was then. But the banking oligarchy has meanwhile staged a coup, and they have taken political control of the economic systems in the West. What I mean by that is that back in 2008, you'll remember that Henry Paulson had to beg Congress on his knees to give them a $700 billion bailout for the banking system, because otherwise everything was going to crash. At that time, the bankers had to go to Congress and seek approval for bailout funds. They have completely done away with that.

So Japanese banks, American banks, British banks, Western European banks—I mean, central banks can now provide liquidity with no restrictions to their banking systems. So what does this mean? That when, let's say, if JP Morgan's assets in the Middle East collapse, if they're no longer being serviced, their clients are no longer servicing their debts, this would risk to capsize JP Morgan. Except, so let's say that JP Morgan goes to the Fed and they say, like, well, look, we have all these assets, and they're good assets because, you know, all that whole situation there in the Middle East, it's, you know, Trump's going to win. We're going to defeat the Iranians, and all of this is going to be fine. So these are good assets. But right now they're impaired.

So why don't you, you know, issue us, give us cash, and we'll issue bonds for you. We'll issue JP Morgan bonds, and you're going to loan us this money. And so we're going to be financially liquid. But these assets are just going to be temporarily impaired until we, you know, until we win back our colonial possessions in the Middle East. And so the Fed, obviously, because they cannot risk a collapse of the banking system, the Fed's going to just simply be printing money out of thin air to plug up all these holes for JP Morgan, for Citigroup, Goldman Sachs, whoever needs it. Because any large systemically important bank in the system, in the United States, in Britain, in Europe, wherever, if it failed, it could start a domino effect that would wipe out a large proportion of the financial system in the West.

Which would usher in a depression, economic collapse, mass bankruptcies, massive unemployment, and so forth. So to avoid that, the central banks will just print money and conduct the quantitative easing program without any limitation to plug up all these holes, because they can, because it's all—it all takes is just printing up paper, which is, you know, it doesn't even take printing up paper. They just digitally create the currency that they give to their clients, that they give to their banks, you know, banks who are members of the Federal Reserve System. And then the banks will be liquid infinitely, and they will not fail. But all this printing of money out of thin air will ultimately create hyperinflation.

So this is exactly the same syndrome that practically every hyperinflation that we had in the 20th century was caused by. Basically, a system in Venezuela or in Argentina or in Zimbabwe, the system starts failing. The corporate debts become unpayable. The banks are on the hook. Banks are going to fail, meaning the whole economic system is going to collapse. There's going to be bankruptcy. People are going to be losing jobs en masse. And so what the monetary authorities always resort to is printing money out of thin air. And so this happened in the Soviet Union and Zimbabwe and Argentina and so forth.

You get hyperinflation. You get economic stagnation, basically. You get the destruction of the middle classes. And ultimately, you get an inflationary unraveling. And basically, inflation is rescuing the system by robbing everybody else in society. And you don't rob them by going into their bank account and stealing their money, because that would be too obvious. The way you rob them is you dilute their money's purchasing power by giving it first to your banks. And so people find themselves, maybe they have money in the bank, but maybe the money that they were counting on for their retirement is now enough to maybe fill up a tank of gas.

So this is probably going to be the way the crisis unravels, because the alternative, meaning a financial and economic collapse, is politically too risky for the ruling establishment. Because if you destroy the economy and you end up having tens of millions unemployed in the street, then you risk losing control of the whole system. You risk a revolution or a civil war or something like that. That would be the style of collapse that we saw in the Soviet Union. And the Soviet Union itself completely collapsed on the back of that financial crisis. And so did, you know, Weimar Germany.

And, you know, Germany up until World War I was the world's most rapidly rising economic power. Between, let's say, 1875 and 1914, Germany was tremendously prosperous. Its industries were growing by leaps and bounds. Everything seemed to be going in the right direction for Germany until, you know, World War I was imposed on Germany. They lied to us about that in history. It wasn't how they told us. Basically, war was imposed on Germany through similar manipulation as war was imposed on Russia in 2022. And then, you know, Germany started to slowly, gradually implode. And again, it was unrestrained money printing that caused the 1922 Weimar hyperinflation, and everybody's savings were depleted to zero, basically.

#Glenn

Well, you mentioned why it's important to, I guess, keep the illusion going that Iran can still be defeated if you want to keep the money going. Do you see the same logic in terms of the economic logic, in terms of why the Europeans are so reluctant to accept defeat in Ukraine, even reluctant to start any negotiations? Because they seized a lot of Russian assets. They're giving a lot of money to Ukraine, which they call loans. And a lot of these loans are premised on the idea that Russia will pay reparations one day, which is a very strange assumption to make if the Russians are winning the war. But overall, they need to keep the money flowing into Ukraine in order to have a chance of defeating the Russians. But is this part of the economic logic? Because I keep thinking, I don't know how much of the seized assets of Russia they have dipped into, but at least they're stealing the proceeds. I'm just wondering how much economic logic there is to the inability of the Europeans to accept peace at some point.

#Alex Krainer

I think that the economic logic is absolutely central, you know, because a lot of this money that has changed hands was in the form of loans. That is, you know, Ukraine was given loans by Western powers. And so, among other things, Ukraine also sold a lot of bonds to Western private investors, tens of billions of dollars' worth. And now, you know, if you hold this loan, if you're an owner of this bond, and let's say it costs 50 cents on the dollar, if tomorrow the mainstream media in the West acknowledge that the war is lost, and this fighting should stop because Ukrainian men are dying for no good reason, these bonds would probably go close to zero. So the bondholders would face a complete wipeout. And then another thing is that they wouldn't be able to turn to the Bank of England and say, these bonds are going to be good as money in the bank.

They're temporarily impaired because Ukraine is suffering a crisis. But these are good bonds, and so we would like to obtain a loan in exchange for these bonds. And so you should be recognizing them dollar for dollar, because this is what actually happened in the summer of 2024. The Bank of England announced that it was stepping into the repo market, and they said that, you know, normally in the repo markets, the central bank would accept very, very low-risk collateral in exchange for loans, for cash, right, for currency. So you would have to have either British government bonds or U.S. government bonds or French government bonds on your balance sheet in order for the Bank of England to say, like, okay, these are good assets, and we'll recognize them as collateral, and we'll give you the loan.

And so, you know, a lot of bondholders in the West had a lot of these Ukrainian bonds, which were, at that time, I think, trading in the 60s, meaning about 60 cents on the dollar. And so the Bank of England came out without naming Ukraine, but they said, well, you know, we need to step into the repo markets, but we should also be a bit more open-minded about what we accept as collateral to, you know, enter into these repo repurchase agreements with other financial institutions, which meant basically we should accept, you know, very questionable, risky assets as good collateral. Never mentioned Ukrainian bonds, but if you knew what was going on and if you knew to read between the lines, it was pretty much, if you own Ukrainian bonds, don't worry, we have your back.

You can turn around to the Bank of England, and you'll be offered liquidity dollar for dollar, and you're not going to fail over this, which means that there's a very high-level political decision to say, we're going to treat all these assets as good assets because we intend to win this war, and we're never going to stop trying to win the war, and we're never going to allow Ukraine to stop fighting or to declare capitulation or to negotiate a peace with Russia because then it would make the impairment of all these assets permanent, and all these hundreds of billions of dollars of people's—of, you know, bondholders' wealth would evaporate overnight. So it's the people at the top of the financial pyramid who will never allow the war to end. And, you know, you could say the very same thing about Iran, the war in Iran.

#Glenn

But the war with Iran has a different dimension as well, though. Just to circle back to what you said earlier about the AI race, why this is quite important, it does seem that the whole energy war—that is, the petrodollar system—is a key component of this. That is, the Gulf states, they get their security from the United States, and in return, they're selling their oil in U.S. dollars. They're taking these U. S. dollars and investing them back in America. And I'm wondering how much of that is being used to fuel that AI bubble, because if the Gulf states feel that their alliance with the United States invites disaster instead of keeping them secure, they might be very tempted to decouple from the security arrangements with the U.S., make a deal possibly with the Iranians, the Chinese, or others.

And anyways, if they just have their economies completely destroyed, their energy fields destroyed, they wouldn't have any money to invest in the U.S. overall. How much could that, I guess, defeat—pop—that entire AI bubble in the United States? Because from my understanding, this is one of the key problems in the U.S. That is, they don't really have... their ability to monetize on their AI, it hasn't really been successful. So it keeps, you know, depending on—not subsidies—but this bubble is key to keeping the whole thing alive. It looks like it can collapse, is what I'm trying to say. Do you see the attack—do you see the Gulf states, their vulnerable position, having an impact on the AI market and the whole bubble existing there now in the U.S.?

#Alex Krainer

Yes, but you see, the difficulty in answering this question, Glenn, is that markets are—at the moment, markets are being a little bit schizophrenic. It's very difficult to interpret. It's very difficult to understand how markets are interpreting geopolitical events these days. So what you just laid out makes absolutely perfect sense. But markets don't have to acknowledge it, and they don't have to agree with you. This is very mysterious to me. Just to give you an example, I think it was on Saturday, 14th September 2019, that the Houthis launched a missile attack on Saudi Aramco facilities in Abqaiq, Saudi Arabia, which is close to the Persian Gulf. And the next day, the next trading day, which was on Monday, oil prices surged.

It had the largest surge in terms of dollars per barrel in history, ever. It went up by, I think, something between $8.50 and $9 a barrel. Okay? It was just one Houthi attack on Abqaiq Aramco facilities. Okay? And everything else was pretty much normal. There was no war in Ukraine. There was no war in the Middle East either, in Lebanon, Syria. Syria pretty much wrapped up by that time. And there was no war between the United States and Iran. Iran was still—they were still in those, you know, JCPOA back-and-forth. Yesterday—so we are today, 28th July—on 27th July, yesterday, it wasn't maybe Houthis; it was maybe Iraq-based militias, which are also allied with Iran.

They struck the same Abqaiq Aramco facilities in Saudi Arabia. How did the market react this morning? The market is down, I don't know, 2%, 3%, the oil price, after it fell about 7% on Monday, right? So you had basically, between the beginning of those attacks on Sunday and today, which is Tuesday, oil price fell by more than 10%. It fell by about 12%. In spite of the fact that we are still dealing with an unresolved disruption to the oil market, namely closure of the Strait of Hormuz, which before the war was pretty much 20% of global oil supplies were passing every day through the Strait of Hormuz. Saudis reoriented a lot of their exports through the Red Sea and Bab al-Mandeb, right?

Ansar Allah closed Bab al-Mandeb to Saudi oil traffic. They struck their facilities on the Red Sea, the Yanbu and Jazan, I forget the name, basically, but they inflicted enormous damage on their Red Sea oil export facilities. And then on Sunday, they struck the pipeline that goes from the east to Yanbu, to the export terminals in Yanbu, and then some militia from Iraq struck Abqaiq. So the situation is completely disastrous, orders of magnitude worse than what happened in 2019. But in 2019, the markets reacted by oil price spiking very sharply. And today, oil price, for some reason, is collapsing. Now the markets are responding exactly in the opposite direction that you would expect that they should.

The situation is orders of magnitude worse than what we experienced in 2019, when there was the last attack on these Abqaiq facilities in Saudi Arabia. Exactly, exactly the opposite reaction. So, you know, the market is reacting as if there was a flood of good news coming into the market. You know, oil production is rising through the roof. There's an oil glut. Everything is fantastic. And I think that this is simply not true. And I think it's achieved through market manipulations in whichever way.

I mean, I saw market commentaries saying that somebody dumped something like 100,000 contracts of Brent crude oil into the market before the regular session on Brent crude oil opened on Monday morning, which I don't know if this is true or not, but it probably is—

#Alex Krainer

Close to truth, because somehow these things happen. And then the Trump administration is trying to reassure the markets with this constant wash, rinse, repeat cycle of, "Oh, we're bombing the Iranians. Oh, they're calling us. They're asking us to please stop. You know, they want to negotiate. There's going to be an end. We're going to open the Strait of Hormuz." Somebody counted, and it's more than 20 times that Trump has announced that the Iranians want to negotiate, that they want to open the Strait of Hormuz. And the market swallows it every time, every time without exception, which... You know, markets can be slow and they can react to psychological manipulation.

But, you know, fool me once, fool me twice. After 20 more times, sometimes, you know, you would think that they would say, like, well, we no longer believe you. So then, you know, there will have to be also dumping of naked shorts, right? And this is taking us to extremely dangerous territory because now you're talking destruction of the integrity of Western markets, integrity which they never had, but at least on the facade, it was there. Most people believed that Western markets, where the trading was above board, the price discovery process was valid, and all this. But now it's becoming hard for even schoolchildren not to notice that something is very, very wrong.

And I'll just say this, you know, I rolled into my hometown last night, on Monday night. And normally I just drive straight home when I arrive. This time I thought, I don't know what's going to be happening over these coming days. I'll just go to the gas station and I'll fill up my tank so that I'm sure that I have a full tank of gas in case I need to go somewhere. And so I went to the gas station before going home. And for the first time in 30 years, I came to the gas station and the guy tells me, "We're out of fuel. There's not a drop. Keep on driving." Thankfully, I found gas at the next one. But once people see that gas stations are turning away cars because they have no fuel, their next reaction is to drive to the first next.

People panic-buy. And once that starts to happen, then you start getting shortages and you start getting long lines at gas stations. And then it's very difficult to justify why the oil prices would be going down when we have a shortage. And so I think eventually there is going to be a reckoning. And as I wrote in my report this morning, every empire on its way down has tried to bend the laws of economics to their will. And every single one of them failed eventually. And so that's going to be the case this time as well. And we're going to go into a period of high inflation and economic stagnation. And I think there's no way to reverse that at this point anymore. It's only a matter of time.

#Glenn

Well, if we are watching this kind of market manipulation, I guess the smart money would be buying oil now, given that it's being artificially kept low. By the way, before we wrap up, do you have any advice where to put smart money at the moment? What do you do when you're facing these kinds of troubles?

#Alex Krainer

Well, you know, we are all very, very vulnerable to the banking system. You know, if the banking system collapses, then people will find themselves with no money, kind of like what happened in Greece and Cyprus in 2008, 2009. And so I would advise people to take some cash out of their banks and to have it simply on them in cash. And I would also advise them to see about acquiring some physical gold and silver. And then I also want to say, you know, these are not solutions to the crisis. These are buffers. It's temporary cash and gold and silver. These are passive assets. They are, how do you call it, a temporary refuge.

You still need to participate in the economic system. And I think that one great idea is to try to find share farming arrangements. And basically, you know, our farmers are also going bankrupt in droves because they need money to fund their operations. And they usually go to the banks. And banks usually make it in a thousand ways to push farmers towards failure. And then people on the other side, they have some money, some savings. They need to invest in something. But again, if banks fail, you're going to lose all that. So share farming would be an arrangement where people basically come together with farmers.

And farmers get funding from people, but instead of it being a bank loan, it's either a loan with citizens or it's a share. So saying that, okay, let's say if a farmer needs 100,000 euros and I have 5,000 euros to invest, I can come together with other people and say we'll put together 100,000 euros for you, and if you can't pay us money, you can pay us in kind. You produce milk, eggs, meat, sausages, whatever, potatoes, and you're going to give us that as a repayment for this funding. And so it can be good for the farmers because you're not going to repossess their farm, right? And it can be good for people.

And the best part of all is that this whole arrangement can be done outside of the banking system, meaning if the banking system fails and you have this arrangement with the farmer, you can still get your payment in eggs and chickens and potatoes or whatever the farm produces. So I think, you know, this is very creative, but we need creative solutions at this moment. And I think that if it's a win-win for both sides, then that's probably one of the arrangements to consider because we're going to need food when things get bad, and the farmers are going to need funding. And so, you know, this would be one of the ways that would make communities much, much more resilient than they are if we all depend on banks and the supermarkets.

#Glenn

Alex, thank you so much for your time. You're just back in Croatia, so I'm going to leave you some time to actually spend with your family. So thanks again.

#Alex Krainer

Thank you, Glenn. Good to see you again.

#Alex Krainer

And until next time.