

The Great Simplification

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[00:00:00] **Michael Every:** What we continually see is deeply conflicting information. You can't just follow the headline and say, "Well, this is what's happening." You have to start understanding some of the dynamics that lie behind all of it. That is really the core to doing the best you can do towards predicting where this ends up.

[00:00:19] I'm gonna make that call that Hormuz is not gonna be reopening for months. When I share it with people, they generally think I'm just telling them it's the end of the world. Well, it's the end of the world as they knew it, but I don't think it means, like, a crippling belt-tightening where suddenly we don't live well.

[00:00:33] I think it means we live differently, but perhaps better

[00:00:41] **Nate Hagens:** Today I'm pleased to welcome back global financial analyst Michael Every to discuss with me the current state of the global game of power involving the Strait of Hormuz and a wide boundary analysis on which paths forward and which ultimate winners, if any, are most likely given the extremely high stakes of this situation.

[00:01:02] Michael Every is global strategist at Rabobank with over two decades of experience. He analyzes major financial developments and contributes to the bank's various economic research publications. Before Rabobank, he was a director at Silk Road Associates in Bangkok, senior economist and fixed income strategist at the Royal Bank of Canada in both London and Sydney, as well as economist for Dun & Bradstreet in London.

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[00:01:28] This was another phenomenal conversation with Michael. I'm a systems analyst a—and a citizen of the planet, but I cut my teeth on Wall Street, so I deeply appreciate the wisdom and acumen that Michael brings to this conversation on the pathways ahead. Just a note, as viewers here are aware, I care most about the biosphere and the living world, and I think his discussion in this conversation on hard versus soft power gives pretty strong evidence of how low of priority the ecological issues are going to take given what else is going on and at stake.

[00:02:08] The conclusion for me is ecologically minded humans need to understand and incorporate this into their work. and to me, there's two pathways in parallel to the great game of power that Michael describes so well: build and expand as many regenerative technologies and practices as possible, and infuse an awareness of the importance of the living world, a life ethic, if you will.

[00:02:30] That wasn't part of this awesome conversation because it's not Michael's job to also integrate that, but conversations like this one are what I hope pushes the thinking and action forward of our global community of viewers towards better futures than the default. With that, please welcome Michael Every.

[00:02:54] Michael Every, welcome back.

[00:02:56] **Michael Every:** Great to be here.

[00:02:57] **Nate Hagens:** Thank you for, coming on, especially, with all the events going on in the world and it being late night in Thailand. So, let's get right to it. You and your colleagues at Rabobank have recently written a piece framing the crisis in the Strait of Hormuz around Homer's Odyssey, and I saw a lot of, you know, inside references there that were kind of impressive, describing many twisted outcomes, to this situation.

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[00:03:25] For listeners, in addition to myself, who are getting whiplash from the hourly or daily headlines, give us the grounded picture right now. What is physically happening in the strait? And for timestamp, today is Tuesday, June ninth, eight AM Central Time. what's going on?

[00:03:46] **Michael Every:** I have to say that piece that we put out Began, as is often the case with my work, with a pun that came to me when I was thinking of the opening line of The Odyssey, which is, "Tell me, comma, muse."

[00:03:59] And I thought, "Tell me, comma, Hormuz," because it, just suddenly came to my mind. And I thought, actually, you know what? It really does work because the line continues, "Tell me of a complicated man." That's one of the, one of the modern translations. And this is a very complicated strait. In fact, you could say it's a strait of twists and turns, which is how Odysseus is also described.

[00:04:21] And if you look at the original Greek, he's called Polytropos, which is twisting and turning. he's also called Polymetis, which means very cunning or having many different characters. And all of this completely applies, as does the fact that Odysseus is, within the book, regarded as an unreliable narrator.

[00:04:38] We're not quite sure if anything that he tells us is actually happening or not. And the more I thought about it, the more I thought this, besides the fact that The Odyssey obviously is an arduous journey that we're all on, was the perfect kind of literary analogy for where we are and where we still are now as we speak, and as I'm sure where we will be when this actually goes to air, which is flip-flopping from one side to the other.

[00:05:01] Up is down, black is white, yes is no, is yes. Some things we can say and many things we cannot with any kind of certainty.

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[00:05:09] **Nate Hagens:** History rhymes and literature rhymes, and that's because humans are, similar, as individuals and as groups as we were when that book was written. so I- lay out the, thesis.

[00:05:24] **Michael Every:** Sure. Well, at the moment, what we continually see is deeply conflicting, almost bipolar information. you get one tweet saying something's gonna happen Five minutes later, you get another tweet from the other side, or sometimes the same side saying that the opposite is going to happen or qualifying it.

[00:05:43] So, you know, I feel sorry for algos trying to trade this within the financial markets, which are, you know, headline dependent because they are being pulled all over the place. And against that backdrop, you can't do what algos like to do and what traditional a- analysts, particularly those who don't know this region very well or don't know the Middle East in general or don't know geopolitics in general, but are now having to cover it because it's so determinative for so many things that you look at, whether it's bond yields or FX or the commodity complex, et cetera, stocks and bonds, all of them sucked into this.

[00:06:19] you can't just follow the headline and say, "Well, this is what's happening." You have to start understanding some of the real fundamental principles, and the dynamics that lie behind all of it. that is really the core, I think, to doing the best you can do towards predicting where this ends up. And, you know, when I put the piece out, the full disclosure, at that time in the background, you had a constant drum roll announcing, you know, for the umpteenth time, this time really any second now, there's going to be a deal and Hormuz is going to be re-reopened.

[00:06:57] And, you know, there was a lot of pressure on me. Do you really want to publish with a far different headline to that with a very different market call

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when you've got that in the background? And I had to really go over it again and I thought, no, my fundamental principles here are clear.

[00:07:12] I'm gonna make that call that Hormuz is not gonna be reopening for months, and I'm sticking to that. and we can, you know, unpack why that is the case now, I guess.

[00:07:21] **Nate Hagens:** Let's unpack why that is the case. But let me first ask you this. it's like kind of the art of deal, the art of the deal was applied to real estate, but now it's being applied to geopolitics and it doesn't work quite the same way.

[00:07:36] But are market participants or geopolitical participants or general citizenry starting to, feel the emotional whipsaw and cry wolf and starting to like really doubt everything?

[00:07:52] **Michael Every:** Very much so. I think there is a very justifiable degree of skepticism, cynicism, and just outright derision at the moment, in terms of the complete lack of reality in some statements that are coming through from all sides All the time.

[00:08:13] and on that basis, as I was saying to a colleague, just today, I said, and, this is a sidebar and a point that I'm sure we'll come back to later rather than address immediately here. Y- you've either got a White House team which just simply doesn't know what they're doing, which is extremely dangerous because that obviously implies that Hormuz is likely to be closed for a very long time, or the crisis ends very badly in a way that ensures that Hormuz is still closed in a different way.

[00:08:42] Or they do know what they're doing and they don't have a problem that Hormuz is closed, and actually they are being polymetis polytropos. And people who are showing that derision, actually it's misplaced because they're not

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realizing that they're the ones being played by this constant stringing along saying, "It's coming soon, it's coming soon, it's coming soon."

[00:08:59] And in fact, pivoting back to another energy-related thing from a few years ago, if I may, 'cause, it... When, Nord Stream 2 was blown up, if we, go back to that, immediately I was involved in conversations with people saying, "Who did it? Who did it? Who did it?" And my answer was, "I don't care." Now, it's very important who did it ultimately, but the fact of the matter is we now live in a world where someone will do it.

[00:09:22] And once you know someone will do it, it can be done again. That's the paradigm shift that's taken place. And here we are not sure if the paradigm shift, if this is being done deliberately or accidentally, but either way, the outcome is the same, notgood.com. And, you know, the rationality that people assume in markets that everything will be sorted out because markets can no longer be applied.

[00:09:44] **Nate Hagens:** yeah, you know I fully agree with you. And by the way, I could have invited a lot of people on to discuss this, but I know you. you've been on the show several times. I trust you, and you are wicked smart, and you have a wide boundary perspective on this. And we're gonna try to air this as soon as possible, probably on the, seventeenth of June, so who knows what'll happen between now and then.

[00:10:08] but lay it out for us. Why do you think it's gonna be, closed for longer, and, what else, can you share?

[00:10:15] **Michael Every:** Sure. So if we think of it in terms of the art of the deal, which is very clearly what the US is approaching this from, they are trying to be tough and, you know, use the Trump playbook, but ultimately be logical The other

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side is being theological, and those two twains are never going to meet, unfortunately.

[00:10:40] It's very, hard to strike a deal with a regime that is, driven by what they call, Mokowama, if I'm producing that correctly, which is just absolute religious refusal to give up, just complete defiance. A parallel to this, and one that was a clear predictor of where this could have ended up, it w- it wasn't a given that it was going to end up here, but it was a warning sign, is what we've seen in the Gaza conflict with Hamas, which is clearly, in military terms, been just destroyed in a particular war and yet refuses to admit defeat.

[00:11:15] It's still just sitting there in a pile of rubble and nothing is happening in terms of rebuilding or reconstruction or a clear end to the war and a peace phase on the other side because they won't give up. And Iran is showing that obviously they, they drink from the same ideological or theological well.

[00:11:32] and that means that if we are going to escape from this, it's going to have to be via a much more significant crisis which drags more players in to resolve it in different ways. For example, if all of NATO say, "Look, we have to get Hormuz reopened," assuming that's what the US actually wants. So here are 20 ships with, you know, anti-drone technology, anti-missile technology, which exist, and minesweepers, and we're going to physically clear this, even at the risk of physical damage.

[00:12:06] That's one route. Another one would be that the global crisis on the back of this, first of all, from an energy perspective, then an economic one, then a financial one, although that order can change, is so significant that you start seeing players like China saying backstage rather than in public, "This cannot continue."

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[00:12:25] We do not want to have this kind of crisis because it damages us, too. Ergo, much as we don't want to, we are going to have to step in one way or another with economic coercion or a diplomatic phone call or whatever to try and get this going in a direction that stabilizes things for everybody." and that's where I think we're heading, because the only other alternative, the only other one logically, other than this continued US blockade and where we are now, is if we get what the markets like to call a TACO, Trump Always Chickens Out.

[00:12:56] And I've made the point repeatedly, and I think it's now widely accepted, even though other people were making it later without listening to me, that if the US does do a TACO, it's actually the whole enchilada in that it's as damaging to the US's geostrategic position as the Suez Crisis was for the UK and France back in 1956.

[00:13:19] And the US cannot, I believe, wear that. So if you assume the US can't back off from that, and you assume that the Iranians are still using Mokowama, which is basically we are just not going to give in, then you have to have an extended blockade until eventually either NATO says, "Right, we're stepping up to fight to get this thing open regardless of what Iran's doing," and/or China in the background or others say, "We're going to step in even if you don't see it, to try to work with anyone we can in the country to basically push the ones we don't like out of the window until we get a deal done of some form, even if it's dressed up as an Iranian win."

[00:13:59] It doesn't matter what it looks like in public, it's what actually happens backstage that matters, and that's the fundamental principle I'm sticking to.

[00:14:05] **Nate Hagens:** Well, you mentioned a continued blockade, because the, the theology doesn't rhyme, and then you mentioned a TACO, but the third option would be, an accelerated military, attack on Iran, potentially using tactical nukes or something like that.

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[00:14:25] do you see that as possible?

[00:14:27] **Michael Every:** Well, logically it's there. The reason I haven't mentioned it is at least for the next few months, and that's the timeline I think we need to focus on most realistically, I think it's extremely unlikely to happen. If Trump wanted to do that, he's had a number of ideal windows to do it.

[00:14:47] We just had, at time of speaking, an Israeli ramp up, which could have led to something similar happening. And again, you know, Trump either trying to clip Israel's wings or good cop, bad cop, and there's a whole complex, very much misunderstood geopolitical dynamic going on there, actually wound that back.

[00:15:07] So at the moment, yes, that could that happen again? It could, but it doesn't appear the US has the appetite for that direct confrontation for, you know, good and bad reasons. So if we take that as read again, you're left with the blockade.

[00:15:18] **Nate Hagens:** One little additional pin in that, thread. If we do a TACO and spin it however, the US administration would spin it.

[00:15:31] Doesn't that leave Israel, like, completely isolated and desperate, and then they do something extreme?

[00:15:38] **Michael Every:** I kind of alluded to that earlier without, Okay ... mentioning it. And yes, you- Yeah ... you've picked up on it completely. Even if you get a whole enchilada taco, and even if in the worst case scenario for Israel, the US says, "That's it," you know, what was a fantastic alliance just a few months ago is now broken.

[00:15:56] And y- you're as aware as I am that there's a rising sentiment on the left and in parts of the right in the Republican Party to try and disentangle like that.

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Even if that were to happen, Israel and the UAE, by the way, cannot go home the way that the US has gone home. They are home. Yeah. And they are living alongside or very near to a country which has sworn to destroy one and basically vassalize the other, and they are not going to give up.

[00:16:21] So if you look at recent history in that region, which to be honest, most people don't, they look at very recent history rather than recent history. In 1948, Israel's War of Independence, the US did nothing to help. In 1967, which Israel of course won, you know, with the Six-Day War, a message was sent to Israel by the US, "Do not make a preemptive attack.

[00:16:41] If you do, you're on your own." They made a preemptive attack. They won spectacularly. Now, the US stepped up in 1973, but then again in the 1980s, particularly when the Israel struck against, the nuclear program in both Iraq and again in Syria. You've had huge fallings out between the US and Israel, where Israel has said, "We cannot allow this to happen, and we will have bad relations with the US for a year, for a presidential term, whatever.

[00:17:07] We're not playing games here." So yes, a US taco doesn't solve this issue. It just passes the buck to someone else with no rails then anymore.

[00:17:15] **Nate Hagens:** So part of the problem is, it's existential for Iran, it's existential for Israel. It's not yet existential for the US other than we're losing gravitas, credibility, dollar, economic sovereignty and things by the week.

[00:17:33] but that is kind of between a rock and a hard place.

[00:17:36] **Michael Every:** it is. I mean, the problem there, of course, is that you can't resolve that tension, from the Israeli side because the Israelis are not sworn to destroy Iran. They may be enemies of the Iranian regime. They're openly not enemies of the Iranian people.

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[00:17:55] There's a very big difference, as the Iranian people found out, you know, the hard way again in January when up to 30,000, 35,000 were massacred by their own government. the Iranian regime is sworn to destroy Israel, and so that dynamic, again, is only going to play over and over again in a loop until eventually you get a regime change one way or another.

[00:18:17] **Nate Hagens:** I'm kind of still shocked. This is three months plus in. we're, 100 days in, at the stability, from which I believe the, global ocean liner hit a, an iceberg, and some of the compartments are filling with water, and we just are still... the band is playing. Stock market just hit all-time highs.

[00:18:38] It's kind of bizarre to me, and part of that is because of floating inventory and, other things that we're drawing down. But I, I still am shocked at how critical this is to not only our future but our, you know, near term, next six to 12 months, and it, just feels surreal to me.

[00:19:00] **Michael Every:** I agree. I think the easiest analogy to draw, is that imagine you've got a, you know, an extremely expensive lifestyle But you've got a very high-paying job.

[00:19:16] You lose the job, and you decide you're so confident that you're gonna get an equivalent job a couple of months from now that you just put everything on the credit card and you just still keep going to the same restaurants. You know, you're still paying the school fees, of course, you're paying the mortgage, of course, and you've even booked a holiday because why wouldn't you?

[00:19:34] You're going to get that job. Nothing will go wrong until the market realizes, oops- Yeah ... maybe we don't get that job, and then things will adjust rapidly.

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[00:19:45] **Nate Hagens:** Yeah. we'll, get into that, a bit later. So, so back to the blockade, let me understand this. So Iran says the strait is open to anyone who cooperates with it, and the US says that they've cleared a workable corridor, except almost no ships are moving.

[00:20:04] So who actually closed the Strait of Hormuz, and does that ambiguity matter?

[00:20:10] **Michael Every:** It does. and again, it's one of the reasons why I leaned on The Odyssey, because when Odysseus blinds the Cyclops, you know, the Cyclops says, "What is your name?" And he says, "Nobody." And then, of course, when the Cyclops complains to the gods and says, you know, "Who did this?"

[00:20:24] They say, "Nobody did it." and that's some of the cunning that we're seeing here, in that Iran claims people can go through. Some are, but of course the US is sanctioning anybody who pays the fees that Iran is charging, and I believe have actually slashed the rate on recently, which shows that clearly there isn't as much interest as people thought.

[00:20:43] The US has tried Operation Freedom, did for 24 hours, gave up. We're now seeing suggestions from a couple of, you know, good sources that maybe more oil is getting out than we thought. Maybe they are quietly doing it and it's a hush-hush Operation Freedom, which, if it's true, is the kind of backstage win that I was alluding to earlier, that while Trump talks in bombastic terms about total victory all the time It doesn't really matter how silly he looks doing that if they are secretly, quietly, with transponders off, managing to get quite a lot of oil out, and we are doing better than we think we are because the data aren't real anymore.

[00:21:25] So it's a very nebulous state of play, and as I'm sure you're even better aware than I am, the very best people looking at this, like the very crème de la crème, are having to revise their views all the time. And in fact, I worry about the

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people who aren't, who work in markets looking at FX or macroeconomics and are now looking at oil as the latest kind of adventure or the latest meme of that guy saying, "I've given up being a..."

[00:21:51] Now I'm done being an expert on Russia-Ukraine, now I'm an expert on oil," which is exactly what we're seeing. And they're supremely confident it will all work out because markets adjust. yeah, maybe they do, but it's actually geopolitics that's adjusting here. It's not markets.

[00:22:06] **Nate Hagens:** Yeah. So, so this is really the core of, why I'm like, "We gotta get Evy on."

[00:22:14] so there are many credible people today, and you and I both know some of them, who differ substantially on what the oil implications of this situation are. Some think there's gonna be a return to full production after this crisis is over, and that's gonna happen quickly. And others point out that of the 30 some thousand well bores in the Middle East, that over 10,000 of them are shut in, and that there's gonna be permanent damage when those are turned back on.

[00:22:43] I've had Rory Johnston on and Art Berman, and Jeff Curry's coming on in a few weeks. But let's leave that aside, like the technology and the geology, let's leave that aside for the moment. What are the geopolitical implications, no matter how this crisis resolves, for the future of global oil production in the Middle East and where it goes and the contracts and trade agreements and all those things?

[00:23:08] **Michael Every:** Well, fundamentally, until the Iran issue is sorted out, there is going to be a risk premium, I believe now e-e-even if you look at the oil that's getting out through the Red Sea at the moment, which is around half of what, you know, Saudi, has managed to divert f-from what normally goes through Hormuz, which is a lifesaver, an absolute lifesaver.

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[00:23:29] You know, Iran, of course, still puppets the Houthis. They've threatened to close Bab el-Mandeb. They've done it in the past. If they do that, we're right back where we started in that particular regard. So far, they haven't. I'm not sure they will.

[00:23:41] **Nate Hagens:** Because the pipeline oil that's going across Saudi Arabia then also has no outlet, and that's like six, seven, eight million barrels a day?

[00:23:49] **Michael Every:** E-exactly. I think, it's seven and a half, but yeah. Yeah. But that's the point. So it's not as if, you build pipelines west, you avoid all of this because if, even if you did, and that would take years and you build them through, through Syria and Turkey or even through, you know, Haifa and Israel via Jordan, et cetera, which has been discussed for a very long time.

[00:24:09] We've just seen that with drone technology, you can still do serious damage even at that kind of distance. So the entire region could, I'm not saying it will, it could have a risk premium attached to it, and I think it will have one attached to it for quite some time, in J- particularly from the Iranian risk until we actually see a much, much clearer framework of who's won this.

[00:24:34] You need to have a decisive victor. Now, let's imagine it's the US side. Let's imagine they'd done a Venezuela, which is clearly what they were aiming for to begin with.

[00:24:42] **Nate Hagens:** It reminds me of the, Gilligan's Island, a three-hour tour. This was probably intended to be a three-day war, with the memories of Venezuela and no, that didn't happen.

[00:24:54] **Michael Every:** No, but if it had, your regional risk premium would have disappeared, and the US' geopolitical, geostrategic position would have been cemented because they would have been top dog in the entire region and

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basically together with Venezuela and what you've got in North America and South America, pretty much everything that matters apart from Russia and a bit of Central Asia is effectively in US hands and US dollars.

[00:25:17] So that's a very powerful position to be in. Having failed to do that, and I'm not trying to segue to a different answer to a different question, the logical thing to do, if you think of it from a very cynical perspective, is to say, "Well, okay, if I failed there, I can't let Iran/Russia/China at that triangle take control of the region, because if they do, all of that energy flips into team red rather than team blue, if you wanna define it like that.

[00:25:48] Ergo, it's actually better to have a long-running crisis where nobody gets very much, and those who do, which is the US and allies, are in a position to start deciding who does and who doesn't get energy.

[00:26:00] **Nate Hagens:** So it's a little bit of, evolutionary game theory example of spite, where it's hurting us, but it's hurting others more.

[00:26:08] So the game theory would suggest k- keep it constrained for the time being.

[00:26:15] **Michael Every:** a- absolutely. I-- It's not what they wanted, I'm quite sure of that. I mean, I flagged in advance that they were gonna go into Venezuela and would probably win easily. They did. That wasn't the hardest geopolitical call that some didn't see it coming.

[00:26:27] And earlier than that, I'd said, yeah, look, Iran with the, IMEC, the India-Middle East Economic Corridor, alongside the energy, that's the goal. That's what they're really looking at. And of course, that got blown up literally on October the 7th when that was close to happening. So this was a second attempt to use violence to flip it back the other way.

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[00:26:45] That can still happen. That can still be the outcome, but it's not anywhere close to happening right now. And if not, then yes, your fallback option is, "I'm doing better than you. You have to come to me for terms because there's nothing else on the table." And everything that we're doing in, you know, in the next couple of months is just killing time until we get to that point of praxis, where, as I said, Europe and China really realize, "My God, there's a brick wall right in front of us and we need to do something."

[00:27:11] **Nate Hagens:** But even if the example you mentioned earlier of a taco that basically gives up Team Blue's, control and access and influence over all the Middle Eastern resources.

[00:27:25] **Michael Every:** I agree. it's one of the reasons why I don't think it's going to happen. I think there are many dynamics happening domestically around the midterms in the US that would suit Trump trying to get something like that, at least temporarily. But that's the absolute best case because once that November vote is done, particularly if Trump emerges okay on the other side, what's to say this doesn't kick off all over again?

[00:27:52] And if I'm Iranian, that's exactly what I would be expecting. Why wouldn't it? And again, even if they don't do it, Israel would be incentivized together with the UAE to say, "Right, what can we do to try and make sure that we don't end up in a, you know, a losing position here?" So that's all a very important part of it.

[00:28:09] One other thing I just wanna throw in that we've kind of tiptoed around indirectly, but I think is very important, is that one of the big adaptations that we've seen in markets, which is proving a lot of people who don't know anything about oil correct for the wrong reasons, which is really annoying.

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[00:28:26] Like who knew China was going to cut imports of oil so aggressively? And the answer is no one, because no one knew how high their inventories were 'cause they're a state secret. It's all guesswork

[00:28:40] **Nate Hagens:** we knew they were pretty large though

[00:28:42] **Michael Every:** Yeah, we knew they were large, but we didn't know how large. And, you know, there are always wild rumors that, you know, when you go and check in the tanks, it's just rainwater or sewage or something.

[00:28:50] I'm not saying we give them credence, but there are some people saying that, right? And we've had that with copper in the past. So it's not as if there hasn't been form for, you know, for raw materials in warehouses in China, which aren't there when you need them, which are important. But let's say they're large.

[00:29:06] We have seen the dynamic that, you know, they're trying to keep consumer prices of refined products low, as anybody would. But of course, import prices have gone up and therefore people aren't importing. The refineries aren't importing. They're just running down inventory, first of all, which is why the imports have dried up.

[00:29:22] That I think is a logical, Sherlock Holmes way of looking at it when you don't have any transparency. But of course, that's a very short road. By, you know, by late summer, they would need to start importing again, just as potentially everyone else has a problem. At which point then that leads back to the September timeframe that I was floating in this Hormuz Odyssey note as when things really start to get real.

[00:29:50] **Nate Hagens:** So what is China's angle here? Because, my understanding is they're, they and Russia are helping Iran with technology. There's

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no way that Iran could shoot down the drones. And this morning, Tuesday, June 9th, there's reports of an Apache helicopter being shot down, and the crew is, okay. But, like, China's he- helping with their, their missile technology and such.

[00:30:16] So in some way they're behind the scenes, you know, intervening here.

[00:30:21] **Michael Every:** Well, I think they are. I'm gonna just throw in a, geopolitical joke here, which is relevant, and then I'll give a more serious response. One of my favorite early Woody Allen films is Bananas, where he becomes the, you know, the, dictator of a, left-wing kinda Cuba-style republic with a fake red beard.

[00:30:39] it's a fantastic film for a nu- for a number of scenes. but in one of them, American forces are flying in by, plane to, to intervene in the country, and one of the soldiers says to the commanding officer, "Whose side are we on?" And he says, "We're not taking any chances this time. Half of you are gonna be on one side, half of you are gonna be on the other."

[00:30:57] whi- you know, which is funny 'cause it's got a grain of truth if you know anything about geopolitics. And there's an element of that in terms of what China is doing, obviously, because any player with these kind of stakes I mean, let's get, let's be clear. This is the great game, two capital Gs Yeah. Yeah You are going to try and see how far you can push in one direction while you're playing the other direction at the same time.

[00:31:20] But while they have potentially done those kind of things, either state-sanctioned or looking the other way, you have seen, for example, this drop in imports. Now, has that been coordinated with the US 'cause it's been super helpful? Is it completely coincidence? We don't know. But what's important is this is not the only part of the great game that's happening.

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[00:31:42] You've got Russia-Ukraine, where, you know, people don't talk about it anymore. Guess what? That war's still going on.

[00:31:48] **Nate Hagens:** And you've got Russia-Europe suddenly.

[00:31:51] **Michael Every:** You've got Russia-Europe. You know, Europe is waking up and saying, "We wanna be involved in negotiations without any weapons." Great, good luck. And you've got East Asia, where lots of stuff is going on.

[00:32:01] Lots of stuff is going on between Japan and the Philippines, and Japan in particular talking about revising its constitution and becoming an exporter of arms. you've got, you know, Taiwan in the mix, and you have a deal maker in Trump. You have a potential deal maker in Xi. You have a, you know, a very stuff negotia- tough negotiator and stubborn one in Putin, who has been offered deals and keeps turning them down.

[00:32:24] But the simple fact here is I don't think we get that deal with China until we get a deal with Russia, Ukraine, and we get a deal with what China wants in East Asia at the same time. I don't give that card up short of a catastrophic energy crisis right in front of me if I'm China and/or something on the table where we all walk away, like in a game of Monopoly where everyone swaps the set, then you think, okay, now it's down to the dice after this, right?

[00:32:52] Now I've got a set, you've got a set, they've got a set. Let's just see what the dice bring us. We're not there yet.

[00:32:58] **Nate Hagens:** So on the merging Monopoly and the game of Risk and maybe Stratego and some others, there's energy, there's money, there's military capacity, there's inventories and all the things.

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[00:33:10] There's technology. But if Hormuz stays closed for three more months, like September, like you say, or longer, which countries or regions in the world would hit their breaking point first? and does that change the geopolitical calculus for how this ends?

[00:33:26] **Michael Every:** In generic terms, it's first of all Asia, then Europe.

[00:33:30] It's poorer countries than richer ones, so... And it's by different types of fuel. It's refined products and then general gasoline. And that matters a lot because when you're working as a macroeconomist with a spreadsheet, you talk about the price of oil because you're thinking about CPI. Because to be blunt, you're normally thinking about bond prices, a couple of yields here, or, you know, moves in stock markets that are correlated with them or FX.

[00:33:57] You're thinking of the generic product. They're not generic products. I mean, imagine a world, and I'm hypothesizing here, it's kind of close to where we are, but it's not a specific, and I'm drawing on energy experts here. I'm not an energy expert. I don't pretend to be. I just try and draw from expert views and, plug it into what I see from other expert views to, you know, to be a melange of all of it.

[00:34:18] Anyway, imagine a world in which you've got all the gasoline that you want, but you don't have any bunker fuel. There's just no bunker fuel available. Well, no ships move from A to B. There's no international cargo. If there's no international cargo, after a while you don't have gasoline because that moves via ship.

[00:34:37] So you get this cascading domino effect of, onward flowing multiplicative problems which become exponential. and you will see them, as I said, in Asia first and in poorer countries first, then Europe and in poorer countries first, and starting from there and flowing on.

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[00:34:54] **Nate Hagens:** That's been my, one of my four horsemen of the 2020s for a long time, is the complexity built into this just-in-time six continent supply chain and, the things that we don't see.

[00:35:05] What are the, black paint for Ford trucks from Fukushima earthquake, equivalent now? And we'll get to that in a second, but let me just personally ask you, you live in Thailand. what are you seeing in the streets, in, in the towns, with the communities there, with respect to the shortages or, sacrifices from this situation?

[00:35:28] **Michael Every:** Well, initially there was real panic. There was some form of hoarding that was happening in a rather, opaque manner. We're still not quite sure exactly what happened. But anyway, the fuel supplies came back online. But there was initially genuine panic. You had anecdotes like, for example, big trucks laden down with strawberries from the north of Thailand unable to fill up at the gas station heading south towards Bangkok where people have more money, and just having to park by the side of the road and just sell every punnet of strawberries for whatever they could get just to try and cover their costs.

[00:36:03] So that was already happening. Now things are a lot better now because of the reasons we've, you know, alluded to, which is China's not importing as much. The US and Japan are drawing down their inventories, which is papering over cracks, because when they're gone. And, you know, we've found some other supply in the interim, but it doesn't solve the problem as time goes by, and we've had a warning shot for what it will look like.

[00:36:29] What we are already seeing alongside that is higher inflation. That's true almost everywhere where this is impacting upstream, moving downstream in plastics, in packaging, et cetera, et cetera, which are not sexy. They're not things that the average re-- the average, retail consumer understands, but the producer does.

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[00:36:51] And if you don't have the plastic bag to put rice in, guess what? It's, you're not gonna get rice or it's gonna be much more expensive to try and source limited supplies of naphtha, which is again being squeezed in the region from somebody else. So Right now, life feels normal. But again, that just tells you that we're not dealing with the underlying crisis yet, a–above and beyond the fact that we're not dealing with it in Hormuz.

[00:37:16] **Nate Hagens:** Yeah. So the headlines fixate on, on crude oil and to a lesser extent gas, but your, recent report flags a much longer list of pressure points, diesel, jet fuel, naphtha for plastics, fertilizer, bitumen, helium and, and– Yeah ... others. So, so walk us through, Michael, why crude is the wrong single unit to watch.

[00:37:41] and then take it past the next three months. Does a crisis like this pull forward structural repricing, that depletion was gonna ultimately deliver anyways? And if so, what does a decade of that feel like for, the supply chains that, we became used to as opposed to a financial trading desk?

[00:38:02] what do you think that all looks like?

[00:38:04] **Michael Every:** Well, in terms of the products that are related to this Hormuz crisis, either as a distilled or processed product from that crude or a byproduct of it, you know, from helium through to sulfur, which is another one that was on that list. Each and every one of them is critical as an input into another production area, which is critical for another production area.

[00:38:29] Again, we're back to that cascading effect. So, for example, no sulfur, well, good luck trying to get any aluminum or copper, for example, 'cause you need the sulfuric acid. You need it for lots of things, but that's two critical ones. Without helium, good luck trying to make MRI scanners or microchips.

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[00:38:46] It's gonna be very hard. Doesn't make any difference how advanced you are, how rich you are, how ostensibly powerful you are on the supply chain, you know, ladder. If you don't have helium, you're not making chips. so all of these things are going to get more and more real over time. In terms of the pricing component of that question, I think we're, we've already seen basically a breakdown of pricing by different kinds of category and different kinds of products.

[00:39:13] So some things are still generically available, other things are really short. And, crucially, but very crucially for economists and for macro strategists It's no longer about price. It's about do you actually have any supply? Because I've been talking, you know, this year about Trump being an analogy to Gorbachev, a reverse Gorbachev trying to do a reverse perestroika and move from consumption back towards production, and towards a more militarized US economy that can actually make things again rather than just having consumers with blue jeans and Coca-Cola and swinging grooviness, right?

[00:39:49] So that's kind of what he's trying to do. But alongside that, you have to understand that we are moving back in a way in two different parallel tracks towards a more Soviet-style economy. One of them is that we're going to have to control pricing, and that's going to have to happen, and I think that's gonna happen in lots of different ways.

[00:40:08] And the other one is that the system that isn't controlling pricing, which is how we do things now, where we still look at a screen and you say, "Brent's trading at 91 today," or whatever. "Great. Can I have some?" "There isn't any." And that's exactly like a Soviet supermarket. "How much is the bread?" "Three rubles."

[00:40:23] "Do you have any?" "No, but it's three rubles." And so what's the point in having a price if you don't have any bloody product?

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[00:40:29] **Nate Hagens:** Yeah. we're headed to that world. I just thought about it. It's so obvious, but I didn't think about it till just now. In the previous times you've been on this platform in prior years, you've talked about, the coming mercantilism and this Hormuz situation has accelerated your story there, because now we're definitely gonna head in that direction.

[00:40:53] **Michael Every:** 100%. I had no idea that the Hormuz crisis would be the final accelerant that gets us there. I mean, I've, To be blunt, I've had a pretty good call on these things. I'm not gonna pretend I saw every twist and turn. no one can. But you are right, I'm sure. On the other side of this supply chain security, thinking from a supply side rather than a demand side.

[00:41:17] So again, I'm going back to talking about macroeconomics because people watching may be in that field. If not, you are living a life that's dictated to by both business people and politicians who are advised by macroeconomists. So at some point, you are in the loop on this thinking. They don't look at supply.

[00:41:35] They have no idea how many widgets are made in the country involving what components and where they go. Yeah. They look at abstract things like consumer demand, government spending, gross fixed capital formation. They're easy to map, they're easy to model, they're easy, quote-unquote, to forecast, and they're absolutely, totally, utterly irrelevant.

[00:41:56] You need to know what physical stuff you do and don't make using what, where it goes, and what you import from people. That's what you need. We don't have the data set up to do it. No one is tracking it.

[00:42:07] **Nate Hagens:** But if we did have the data set up to do it, could you imagine the institutional response to the recognition that all these things that we assume will always be there will either, A, be three rubles per loaf or, and, or none available?

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[00:42:25] **Michael Every:** Completely. I mean, I think we're already in that position now. I think, you know, the man on the street, you know, Joe Sixpack, who, to be blunt, has got a better view of these than, a view of things than the experts. That often happens. You become so overly specialized in what you do that just common sense has more sense than the, you know, received wisdom that you, bring to the conversation.

[00:42:46] They get that, that you can't be overly reliant. We saw that during COVID, didn't learn our lesson. Said build back better, didn't build back better. Then we had Russia, Ukraine, didn't learn the lesson, not properly. Said build back better, didn't build back better. Well, here we are now. We're gonna build back differently, I'm quite sure.

[00:43:02] And while we don't have that data set yet, I would be very surprised if there aren't men and women in uniform telling the civil servants and the central banks of the world, "You need this data set." I'm, f- you know, I don't wanna hear any more ec- economic papers talking about some abstract, almost theological, you know, detailed econometric theory about X, Y, Z.

[00:43:25] Tell me, how much of this have we got? How much of that? When does it run out? Yeah. Who do we get it from? How reliable are they? Put it in some kind of metric so I can understand it.

[00:43:34] **Nate Hagens:** How likely, and/or how soon do you see, rationing as a response, either in the West or, in Asia, any part of that question?

[00:43:48] **Michael Every:** Well, traditionally how we would do that is rationing by price.

[00:43:52] **Nate Hagens:** Right.

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[00:43:52] **Michael Every:** And there has been some of that happening already. The problem is, as we've already spoken to here, if pricing doesn't work as a mechanism, you have only rationing by quantity, by the government literally saying, "You get it, you don't."

[00:44:06] Yeah. Now, I don't want to make a forecast of when, and I don't even want to make a forecast of yes or no, because nothing is avoidable or unavoidable. everything can or cannot happen depending on how things play out between now and then. But if it does get to the state where things run short, what I think we will see is very radical action.

[00:44:28] And let me just talk you through what I mean by that. let's presume that the US knows what it's doing and is happy with a long blockade of Hormuz because it wanted to topple the regime, can't topple the regime, is waiting for other people to help topple it, and it will, wait as long as it takes.

[00:44:47] Let's presume equally that the US doesn't want to see very high energy prices and to suffer the consequences of an integrated global energy system whereby prices move up and down together generally, apart from areas where they've just completely broken. Within that particular model I don't believe that it's logical to presume the US will just sit there and say, "Well, markets, what can we do?"

[00:45:17] I think in that environment, if they've made the conscious decision that this is gonna stay locked down for significantly longer, you start looking at rationing geopolitically. Now, that doesn't mean that you say you get energy and you don't within your economy. That's too much of a command economy. I don't think anyone wants to go there, even with the economic statecraft that we've seen emerging, which I was flagging as you remember, a few years ago, and that's so obviously the game now we don't even need to talk about it.

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[00:45:45] What I think you will get instead, because it's geostrategically more advantageous, is to look at the energy map of who has energy, of what different kinds, who can refine it, who consumes it, and what nexus of those countries together balance supply and demand if they don't export to people outside that block.

[00:46:08] Ergo, how do we have a free market with \$50 oil and those guys over there have a free market or whatever they wanna do with \$250 oil, and good luck to you.

[00:46:21] **Nate Hagens:** Well, this, is one of my themes I've been thinking a lot about is this, Hormuz situation. However it plays out, splintered the economic Superorganism that I often, refer to into two smaller Superorganisms.

[00:46:37] It could be an east and a west that have different supply chains and different partners and different metabolisms maybe. what, do you think about that?

[00:46:45] **Michael Every:** Well, I've been expecting it from a more traditional perspective, looking at downstream goods. So that's, you know, to be blunt, that was my original focus.

[00:46:55] I wasn't looking so upstream. You know, no one's perfect, and you can't be looking at everything everywhere all the time. But I've spoken a great length about my expectation that you would see that happening downstream, starting with goods that had national security implications. So- Yeah ... your military industrial complex, your AI complex, your chips, et cetera.

[00:47:12] And that's, like, that's so clearly happening again. We don't even have to talk to that. Yeah. But if we're now going to have to start going upstream to get the inputs to make the chips, which is happening, to get the energy to do XYZ,

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you are... And it's literally happening around us right now. if you wanna go into the long grass and look for it, you will see it happening.

[00:47:31] That fragmentation is starting to occur.

[00:47:34] **Nate Hagens:** But the fragmentation,

[00:47:38] to put on the macroeconomist hat of the comparative advantage that a system gets from specialization, guns and butter in the textbooks, that fragmentation almost by definition means a smaller total aggregate Because of the loss in the comparative advantage that we had on the upslope

[00:47:59] **Michael Every:** Well, on the downside, that's true mathematically, logically.

[00:48:05] However, one of the reasons why I don't share this news with complete gloom, because when I share it with people, they generally think I'm just telling them it's the end of the world. Well, it's the end of the world as they knew it. It's not the end of the world, full stop.

[00:48:19] **Nate Hagens:** Right. No, that's-- Well, there's the core summary of my podcast, but keep going.

[00:48:24] **Michael Every:** Yeah. So you're going to lose some of that efficiency. You're going to gain a shed load of productive investment rather than financialization. So instead of making money from money, you're going to have to invest your money in making things from upstream to downstream, which can only be good in terms of resilience and, you know, particularly if you can recycle things and, you know, you can do things the right way.

[00:48:47] Not saying we will, but if you can, this is a much more healthy way to be rather than all about numbers on a screen, and you don't even know what you

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make or consume in your economy. Excuse me. You don't know what you consume. You don't know what you make that you're consuming, et cetera.

[00:49:00] **Nate Hagens:** So that might also bring us closer to answering the question: what is GDP for?

[00:49:06] **Michael Every:** It absolutely brings in what is GDP for, because if you don't have that, you don't know what you're doing. So we start with that envelope. But what I find exciting about this too, and I think you can see some of my passion for this coming through, is if you look at how balance sheets work, if you look at how you're going to get a nexus of countries, within that new nexus, when we're breaking away from a globalization of this is the system, it is what it is, you can't change it.

[00:49:31] Anyone who wants to change it is a lunatic or a fascist or whatever. If this is changing You are very unlikely to get countries which are running huge surpluses in terms of trade and huge deficits in terms of trade within these new emerging blocs. They will be almost definitionally because you're building them up again from scratch on a more genuinely Ricardian comparative advantage basis, which is what am I better at?

[00:49:56] What are you better at? Rather than let's take all the capital from this country and put it in that country 'cause they're cheap, and then they'll have the surplus and we have the deficit, which is how the system works now, which is not how David Ricardo said economic trade would work. It's not. It's something new and mutated that we assume is Ricardian.

[00:50:14] It would be actual Ricardian. So if you do that, the corollary is the domestic balance sheets between winners and losers narrow. The rich don't get richer and the poor don't keep getting poorer. You actually theoretically can end

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up with boom times for the working and middle class. Yes, some rich people will get rich, but not all of them.

[00:50:36] And that's a fantastic transition that if it's available, if that's there in front of me and someone says, "Guys, look, this is a logical glide path and can get you to a more equal society, a more stable international equilibrium within one bloc and another bloc, and then you've just got to find a modus vivendi between the two."

[00:50:54] That's all that's left. Or you have to solve everything everywhere globally all at once when we know that's much harder. Which one's more logical?

[00:51:03] **Nate Hagens:** The first one is more logical. Can you give us a couple, three, first steps, for those potential, people, decision-makers listening that might wanna go in that direction?

[00:51:16] what should they be thinking about or looking at?

[00:51:19] **Michael Every:** Okay, well, I, I wanna do that in two ways, if I may. First of all, I want to describe something that I think will happen just to get a pun in, because I love puns. And I'm sorry, you get dad jokes with me. they come as part of the pack. and then secondly, I'll address that.

[00:51:33] The first one is this. in that report, if you remember, I said what is likely to happen is we will move from talking about NAFTA, which of course no longer exists. It's now the USMCA, which is tied up with this process. But we'll move from NAFTA to NAPFA The North American Petroleum Hub of Petroleum and Hydrocarbons Trading Hub Association.

[00:51:55] In other words, Canada, Mexico, US, and then down into Latin America, Venezuela, Colombia, if they decide to start pumping oil again, Argentina, Brazil,

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if they get the right election result right from a US perspective in October. All of North America and South America, that's a fantastic energy block. You have that, you are net energy exporters, but you have all the cheap energy you need domestically, and then the rest of the world you can start talking terms with them.

[00:52:21] So that's one I expect to see. But of course, then you can't leave behind Japan, you can't leave behind South Korea, et cetera, et cetera. You start stapling people on for their refining capacity, their industrial capacity. But while you're doing that, and this is the second half of the answer, you're looking at the geopolitics of it.

[00:52:36] What's sustainable geopolitically? What's really gonna be easy to cement and stay together as a system that binds together as Europe tried to do post-World War II, but really starting from first principles rather than putting the har- the cart before the horse. And where is it too far? Where is someone asking for more than they contribute, and what do you need to shift so that everyone understands, "Well, I have to give this to get that"?

[00:53:00] So it's genuinely a buy-in with compromise rather than just a diktat. That would be ideal. It may just be the diktat, but ideally, you want to try and widen the net as far as possible without weakening it and getting the, mesh so wide that a lot can get through.

[00:53:19] **Nate Hagens:** Of course, as you're doing that Asia is doing the same thing, and creating their own block of refiners and energy and, so there's a blue team, red team wider boundary Cold War, that, that starts then.

[00:53:37] **Michael Every:** Well, it's been underway for- Yeah ... quite some time.

[00:53:41] **Nate Hagens:** Yeah.

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[00:53:41] **Michael Every:** It's, going to get worse, absolutely. But the key issue is if you look at Asia as a whole, they're short of food and they're short of energy, period. So you can slice and dice elements of Asia, and if you're taking out Japan and South Korea, for example, and you're taking out the Philippines, 'cause that's clearly aligned with them for now.

[00:54:01] So you start, you know, bolting them on. That breaks Asia down into smaller units. You're effectively talking about India, which is gonna need a lot of energy and a lot of food. Where do they sit? Great question. They've now got a defense and energy relationship with the UAE. That looks to me like they sit with Israel and the UAE potentially.

[00:54:19] Is that enough for them energy-wise? No. They may need one or more, one or two more. Okay. Is that gonna be LNG from the US? Potentially. Is it gonna be someone else in the Middle East? You, start seeing how this bolts on together bit by bit. But then China is the issue. Who's gonna be providing energy to China?

[00:54:35] And let's presume, as I said, that Brazil as a pivot point goes one way or the other in October. That can change that particular dynamic. you've got a couple of other key producers in the Middle East. That's why we come back to the Iran situation. That's why it's so important. How are we going to emerge from it?

[00:54:52] and I'm not trying to go in a closed loop without answering the questions. I'm trying to point out the answer to the question is it isn't a closed loop or it's a larger loop where you have to be looking at everything. You can't be an expert on Iran and not understand what's happening in China. You cannot be an expert on China and not understand what's happening in Brazil, vis-a-vis America.

[00:55:08] You h- you can't be an expert on energy and not understand defense. You can't understand defense and not understand AI, and you can't understand AI

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without doing economics, and you can't do economics without geopolitics. And all of it comes together, and I'm tired just saying it

[00:55:21] **Nate Hagens:** And we've left out planetary boundaries and ecology and global heating and human neuroscience and anthropology and, and all the other things as well.

[00:55:32] It is a complex Rube Goldberg machine, with 8.1 billion of us and growing, but at a smaller rate. So if this Hormuz situation marks a turn, what does it do over the long run to the role of the US dollar? Because all the things you just mentioned, there's a financial overlay to it. our energy and materials have been going up, but our financial claims on that amount have been going up at a much higher rate.

[00:56:03] So what happens to the dollar, the huge amounts of dollar-denominated debt, and to the assumption, that financial claims can always be cashed out against real energy and, materials and goods?

[00:56:18] **Michael Every:** I think that will start happening soon too.

[00:56:21] **Nate Hagens:** Yeah.

[00:56:22] **Michael Every:** Because the easiest summary is the king is dead, long live the king.

[00:56:27] the dollar as was is in real trouble because, you know, the Triffin dilemma is absolutely real. a- an argument I made for a long time in which, you know, our joint friend Craig Tindall has brilliantly summarized, I think it's the Tindall dilemma he's calling it now.

[00:56:46] I may be misquoting that, but he's, he wrote a brilliant piece on it recently. It, effectively, you know, makes it in mathematical terms, which is what it

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needed so economists will understand it, what I was arguing more verbally, which is that the, global system, the rules-based order is backed by the US dollar.

[00:57:04] If you don't have the US dollar, you don't have a rules-based order because you don't have a lowest common denominator to transact in and to price in. Or, you know, if you say what's GDP, you know, in which currency? It doesn't work. So you need that So the US dollar ultimately is backed by the US military.

[00:57:19] **Nate Hagens:** Mm-hmm.

[00:57:20] **Michael Every:** Let's be real. That's the way the world works. The US military is backed by US industry, and US industry is killed by the US dollar. That's the Triffin dilemma, because everybody wants US financial assets, not US goods. Ergo, you have to run a trade deficit. Ergo, you have to de-industrialize so other people can build up financial claims on the US.

[00:57:38] Ergo, the US dollar destroys the rules-based order. So that logic has been clear to me for decades that we would ultimately end up there, and we are heading towards it, but that doesn't mean there isn't kind of a plan B. I think there is a plan B.

[00:57:53] **Nate Hagens:** The dollar backed by military destroys the rules-based order.

[00:57:58] **Michael Every:** Well, the dollar has to be backed by the military at the end of the day- Right ... because otherwise, some people will always push back and say, "Why are we doing this?" Right. The same way that if you don't have a police force, you can't generally find a society which polices itself particularly well, no matter how lovely and hippie the community or how bourgeois.

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[00:58:18] You know that if you dial nine nine nine or nine one one or whatever, someone comes along and tries to arbitrate, like who's the good guy, who's the bad guy, who gets locked up and who doesn't. And we're kind of experimenting with not doing that again at the moment, and it's not going too well, surprise, But what I would say is that would be true for anyone. So it's true for the dollar. It would be true for anyone in that position. It was true- Yep ... for sterling before the dollar. But what I think the game plan is now from the US, and this is where, for example, my analysis differs from some other joint friends of ours who have very cogent views that I agree with all the way up until this, particular step, is that I think that the US can use legacy financial power, which I call fart craft, sometimes being cheeky, to try and transition the economy to a world of Warcraft because, Keynes described finance as bubbles basically rather than the actual liquidity that you need.

[00:59:05] And so that was the kind of, you know, farting in the bath that I'm thinking of with that fart craft. You can still actually use that. So, for example, an exa-- I, look, I gave this one, I think maybe even on this show two years back, and it's kind of circling at the moment again in a different form, which is the US can take a piece of land in North Dakota, say this is worth six billion dollars, just give it an arbitrary value.

[00:59:26] Go to Wall Street and say, "I want to borrow ten to one against that asset." You know, it's US collateral. It can't go wrong. Sixty billion, you buy Greenland. Which has got all the resources in the world and, you know, fantastic geostrategic location. Now, that's oversimplifying. We're not gonna see that actually play out, but that's how you can use financial power to actually try and get hold of physical assets and choke points in the global economy, which strengthen your military in terms of what the inputs are to them, and at the same time make sure that you physically control supply chains.

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[00:59:57] So if people are trying to get through a gap and you don't want them to, like Hormuz, they can't get through and you do better than them relatively. You have bullets left and they don't, even if you've got fewer. So that's part of the game that we see playing out here in the Middle East potentially.

[01:00:13] **Nate Hagens:** Do you think people in the administration sh- share that view?

[01:00:18] or, is that just your own kind of unique angle on things? Or, is that a, real plan, do you think?

[01:00:25] **Michael Every:** Well, I'm sure they don't call it fart craft, but I'm, But I'm, I'm absolutely convinced from, you know, conversations that I've had that most of them absolutely get this in their, bones, that a pivot away from the dollar as was is necessary.

[01:00:45] The dollar as is can help smooth that transition, but the dollar that will be is going to be based more on stable coins, which are going to be part of that transition. So for example, alongside the shakeup of everything I'm describing, if everyone's suddenly desperately searching for energy and only NAPFA or NAPFA plus friends have it, and you turn around and say, "Yeah, well, you know, we wanna be paid in stable coins rather than euro dollars That changes the entire global dynamic because then everyone who needs energy or food, which will come from the same block, or defense, because they'll offer defense, you need that, fine, we want you to trade in stablecoins.

[01:01:24] And stablecoins, we could have a whole separate conversation, but for the US, they lower interest rates, they're buy one, get one free, and everyone else is being paid in something that isn't even money. It's a digital token backed by a debt held within the US. But if you force them to take it, they'll take it.

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[01:01:41] **Nate Hagens:** Yeah, let's table that for another discussion. but put simply, you think stablecoins, are coming and are inevitable and play an important role in this story?

[01:01:53] **Michael Every:** Absolutely. I think they are coming. just as we know that gas comes off that eating a lot of eggs. this is, absolutely on the way.

[01:02:02] **Nate Hagens:** The thing that it feels like we're skipping over, other than the environment, and I don't expect you to, weigh in on the environmental implications of all this unless you'd like to-

[01:02:14] **Michael Every:** I don't go in that area because I don't have enough hands to spin enough plates. So I understand how important it is- Yeah, no.

[01:02:20] Yeah ... but I don't ever wanna get in front of my skis and say, you know, I'm talking that too.

[01:02:26] **Nate Hagens:** The other thing is what is the scale of throughput, in these future scenarios? And we talk about, yeah, the naphtha countries, as you point out, relatively do have quite a lot of energy, but the US is still a crude oil importer.

[01:02:48] and we export refined products, but net, net, net, we, we still import five or six million barrels a day. So what is the scale of all this, and what is it, what is the ordinary economic life look like relative to today? I know that's an impossible question, but just directionally, I assume that on a consumption material goods and services side, it's going to be less than we're used to for most people.

[01:03:19] But I-- But what do you think?

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[01:03:21] **Michael Every:** I'm really not sure, that it's gonna be quite as bad as perhaps that sounds because the flight or the glide path that we're on is this. We have a global system or an organism, as you would call it, which we've built for the last forty-five years, which makes the rich richer, the poor poorer.

[01:03:41] This is undeniable. you know, some countries run vast surpluses, others run vast deficits. So it's laden with imbalances everywhere you look, even if it's quote unquote "efficient." The logical opposite of that is every country pursuing autarky If you don't make it locally, it doesn't exist. I don't believe for a moment we're going back to that.

[01:04:03] I don't think anyone does. Where is the midpoint in between? And it's the sweet spot politically, geopolitically, economically, financially, militarily to make sure that you have as many countries which you trust, really have long-term relationships with, and you have, as I said, that more balanced political trading and security relationship with to make sure that you can get as large an economy of scale as possible, whilst at the same time having a model which is sustainable enough that it can deal with the legacy debts of the system that wasn't sustainable, gradually deal with them, and end up with something that doesn't just produce the same debts all over and again like, like we just have.

[01:04:44] And that geography is highly variable, but I don't think it means like a crippling belt-tightening where suddenly we don't live well. I think it means we live differently, but perhaps better.

[01:04:54] **Nate Hagens:** There's a key logic in there that, I wanna, double-click on. You mentioned, trust and geopolitics and collaboration and partners.

[01:05:08] and we've talked in this show about the long arc of declining trust in US institutions domestically and the US as a nation globally. So does a messy, drawn-out Hormuz crisis lasting into September or beyond, as, you're, you know,

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opening, does that do damage to the US credibility as a guarantor of global energy flows, even if we label it eventually as a win?

[01:05:36] And, so how does that force and the relationship change the trust that has been built since post-World War II that's dissipating? Or does that matter? because once we get to mercantilism and energy security and supply chains in your region of the world, m- maybe you have no choice. The-- What do you think?

[01:06:00] **Michael Every:** Well, more the latter. I fully recognize that there is a negative reputational, effect vis-a-vis what the US has been doing under this administration. You'd have to be blind not to see that. And soft power does matter. But as I always say to people, particularly in Europe when discussing this, soft power doesn't matter as much as hard power.

[01:06:24] So if we were talking about two hard power blocks and one of them had marginally better soft power, great, there's the winner. If you're talking about rival blocks which don't have hard power in all the areas they need it or on- you know, only have soft power- It doesn't actually matter. It would be nice to have it.

[01:06:42] I wish it did have it. I hope it will have it. But from a game player perspective, it's not the winning hand that you need.

[01:06:50] **Nate Hagens:** That's well said, Michael. I, understand that, and I, actually agree with you on that. So what's the-- what would Iran do? What would they accept here? Is there a group of decision-makers that could agree on something?

[01:07:08] **Michael Every:** First of all, I don't think so. Secondly, if there were, the only way that would be enforceable is if they killed all the others. That's how the system would have to work. This is not a democracy. You know, let's be really

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blunt about it. That's the way the system would have to work, or other people would have to help kill, you know, those who are resisting.

[01:07:25] But it's gonna be a very hard sell to a deeply, ideological system. And, you know, we're coming full circle in a way to where I started, that people who don't understand the power of ideology will be wrong in terms of practicality again and again. I, used to have conversations all the time when I was covering China, for example, with people telling me China's gonna pivot to consumption. Every quarter I'd see a new research note from someone saying, "This quarter we expect China to pivot c- to consumption."

[01:07:55] And I'd always say, "No, they won't for ideological reasons." The logic tells you that they should. Of course it does. But the ideology involved with that pivot towards it will always get a pushback. And then of course, we ended up with common prosperity and everything happening in China in recent years whereby, you know, the consumer has been crushed in many respects, and yet they are out producing everybody with physical goods.

[01:08:18] And which one's gonna matter more if push comes to shove geopolitically? It's not gonna be how happy or h- consumers are or how much they're welcomed globally as big spenders. That's not how it works. So that's one example. The same thing's true in America. I remember years ago, I mean, this shows how far back now, in Hong Kong having a, a, lunch with someone from the US Treasury, and I said, "You realize, you know, at the end of the day, the only way you're gonna get out of the slump you're in is to just monetize an awful amount of debt," you know, which we now call QE, you know, e- effectively, and, just pump liquidity into the economy.

[01:08:52] Although of course, you know that's gonna end up with protectionism, et cetera, et cetera, to make sure you lock it all in. And they said, "Well, of course we know that, but you can't do that. That's socialism." Now, that's now openly on

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the agenda now. You know, the Overton window has moved, and we've had Bernie Sanders last week saying 50% of AI shares should be state-owned, and we've had Trump saying the same thing.

[01:09:13] **Nate Hagens:** For different reasons, yeah.

[01:09:15] **Michael Every:** So, you know, the left and the right meet in the middle. The Overton window no longer exists. But in the case of Iran and, Hamas, it's hardcore Islamist theology you're dealing with. So the one key point that I look at, if there's someone who's pragmatic enough to say that we can have like a long-term truce, which they call a hudnah in Arabic, basically that, you know, for 20 years we'll pretend to be friends.

[01:09:41] We have no intention of being friends. The revolution will go on. At some point you will stumble, and I will be on your neck. But, you know, this, can last for a considerable period of time if necessary. It would be if they hand over the uranium. So that's the litmus test. If they don't hand over the uranium, the only fallback option that the US has, which they're already starting to teeter towards the edge of, is to say, "We know where it is.

[01:10:07] We're watching it by satellite. As soon as anyone goes towards it, we'll bomb it Which actually isn't the worst option in the world, but then what deal is there? There is, there's no deal going to be made if that's what you're doing with the uranium. At which point, the only way Hormuz opens is either ATACCO, and I've explained why that is very bad for everybody, or it's going to be NATO saying, "We've got that energy crisis in front of us.

[01:10:30] We're gonna fight our way through Hormuz," while other people build pipelines wherever they can so that 18 months from now it's not the same issue that it is today.

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[01:10:39] **Nate Hagens:** At what point does this become a potential humanitarian disaster n- in addition to the people it's already affecting for the people of Iran?

[01:10:48] I read yesterday that they're in a drought, and the water reservoirs are drying up and other kinds of things. I mean, with the economic strangulation and all the other things, is that something that is part of your calculus?

[01:11:02] **Michael Every:** Only-- Well, from a human perspective, of course. How can it not be? but the sad fact of the matter is the Iranian government doesn't give a damn about their own people.

[01:11:10] If they did, they wouldn't have killed 30 to 35,000 of them in January. they wouldn't also have allowed themselves to stumble into the crippling water crisis, which they are in, because, they diverted funds to Hezbollah, Hamas, the Houthis, et cetera, et cetera, and, their own defense systems rather than actually trying to look after their people.

[01:11:30] You know, they're not the first bad regime in history to not care about their people. there will be others, and there are others at the moment. But it's not as if these are a benign government that, you know, as some people naively in the West like to see it, if they're anti the US or anti-Trump, they must be the good guys.

[01:11:45] Life isn't like that, a-as you know. But we- Yeah ... we may get to a point ahead where people are so desperate they rise up again, and then potentially there might be another window, as there was in January, but before everyone was ready to act, to try to take down the regime. But of course, the other side of that can easily be a destabilized Iran that fractures, falls apart.

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[01:12:06] Everyone's worse off. And again, that doesn't leave Hormuz a very nice place to try and trade oil through. and it doesn't leave the region particularly stable. So there's no easy out even there.

[01:12:17] **Nate Hagens:** Yeah, there's... I mean, no matter how this ends, even ATACCO, even they give up the uranium, the game pieces in the Middle East, where half to two-thirds of the recoverable oil in the world, still resides, at a reasonable price, it-- that whole thing has been destabilized for a long time.

[01:12:41] so if you... I, wanna be respectful of your jet lag and, your evening, late evening hours in, Thailand. If you had to identify the one thing that most analysts and financial markets are getting most wrong about this situation right now, what might it be? One or, one or two things.

[01:13:03] **Michael Every:** Well, the first one, just to repeat What I said is that you have to deal with ideology, and people are uncomfortable doing that, therefore they don't, therefore they don't understand where things can move and where they can't.

[01:13:16] When you can get into a situation where neither side backs down, 'cause everyone talks about Nash equilibriums and, you know, we're gonna find a way. No That's not always the way. Often the way, not always the way. The other one is making the error, which is very easy to do, of not listening to the best people on energy.

[01:13:34] And obviously you and I have a common friend in the likes of Art Berman, et cetera, you know, who really know their onions in this particular regard. And you have to listen to the people who know their stuff, who have worked in the oil industry, who, you know, who understand the physical side of the business, and also those who have traded it.

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[01:13:53] So if you're just talking to an economist who's never traded oil, never drilled oil, never sold oil, never prospected for oil, what makes you think someone who just deals with a spreadsheet is gonna have the same granular view as those who deal with molecules? Go to the source. And that's true for this, but it's true for other things in other regions.

[01:14:11] Like if it's a war, speak to a military man. Don't speak to an economist.

[01:14:15] **Nate Hagens:** That, that's also kind of a microcosm of our whole global disconnect right now because economists have kind of been the shaman, telling the stories of our current civilizational pulse, and there are other things that are the floor under- underneath it.

[01:14:36] Technology's wonderful. That's the ceiling, although ecology is the real ceiling. Energy is the floor, and we've taken it for granted, and I think a lot of people on Wall Street still don't understand that.

[01:14:48] **Michael Every:** Oh, com- completely, and I, do genuinely think thinking like an economist, 'cause I, was one for years, is a very useful mental toolkit to have if you are cross-disciplinary.

[01:15:00] If you can take that and apply it to other things rather than saying, "This is the truth. Everything else is a secondary discipline that I shouldn't really pay attention to," then you have something.

[01:15:09] **Nate Hagens:** what do you mean you were one for years? I thought you were an economist right now. What, I mean, what do you mean by that?

[01:15:15] **Michael Every:** Well, no, well, that's why it's not my job title.

[01:15:17] **Nate Hagens:** Oh.

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[01:15:17] **Michael Every:** I'm glo- I'm global strategist, but I mean, I am- Okay ... between you and me, and it's no great secret, I mean, in the old days as an economist, I would spend all my time looking at spreadsheets, looking at GDP, looking at CPI, et cetera, et cetera. Then as I became a strategist, you'd start applying that to the bond market, for example, or the FX market.

[01:15:36] But you know, you were initially starting looking at the macroeconomy. I still look at all those 'cause I know how they work. I'm not in spreadsheets very much at all. I'm constantly trying to talk at this kind of meta level to link up the different disciplines we've been talking about, talking to people like yourself, joining dots, putting together logical frameworks in terms of, well, if they do this, what would be the logical tell that I'm correct?

[01:16:00] And it's not gonna be numerical. It's gonna be an action I might expect to see here. That's a very different job.

[01:16:05] **Nate Hagens:** So flipping it back, which I told myself a year ago I was gonna always do on my interviews, but I always forget to do it, what do you think you might be getting most wrong about this situation, or at least, y- you know, potentially?

[01:16:23] **Michael Every:** First of all, it's hard to be wrong if you don't make a definitive call, and I've made one in saying I don't think Hormuz reopens until September, and at that point we'll reassess. But I'm being genuinely humble rather than trying to caveat and saying one hand, the other hand. That there are many things I'm adamant will happen.

[01:16:41] For example, calling the collapse of the rules-based order, kind of a big one. And I th- I did that one, I said, "This will happen," years ago. That's happening. I'm not afraid of making big calls. But in this particular one, I'm trying

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to point out there's a matrix of different outcomes, but they're all bad at this point.

[01:16:59] I know. Yeah. bad and bad and bad, but I'm not trying to say one will. So therefore, it's hard to be wrong when you're not giving a definitive call, but maybe the matrix is wrong.

[01:17:08] **Nate Hagens:** Well, I will say this, if you are right and that Hormuz does not open until September, unless there is back traded oil that, fills up the 17 million barrels a day that we're unaware of, it will be catastrophic for the global, system, I think, if that is true.

[01:17:31] we'll see.

[01:17:32] **Michael Every:** Well, I would agree, and again, the energy experts who understand the molecules to a man and woman say the same thing. So then the issue becomes, you know, to tie it all back again, what happens as we start to move towards that crisis? And that's where I think the immovable object, the irresistible force, the geopolitics kicks in, and you look at who's more likely to pr- who's more likely to blink.

[01:17:57] Who is ideological versus who's theological, and I would say the ideological can bend more than the theological. So we may get that kind of thing happening, but it remains to be seen. That's my working methodology anyway. I've given a very rough outline, which doesn't really do it justice, but, it, it's not just trying to predict w- if GDP will be 2 or 2.1.

[01:18:18] It's, you know, more, more big picture.

[01:18:21] **Nate Hagens:** The whole job of Wall Street and of predicting just got a huge error bands thrown on it in, all directions. I mean, it's very difficult other than

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what we're saying is no matter which is the taco or a military option or, you know, whatever happens, it's gonna have lasting, repercussions once the inventories get drawn down and we're all assuming we can get that higher paying job.

[01:18:53] So, so let me ask you this, for viewers watching this who agree with you and feel the weight of it and are w- viewing the headlines and, feeling this-- the gravity of this situation, what's the difference between, you know, your usual clients that you talk to financial positioning and actually orienting towards this scenario?

[01:19:18] What would you point them toward that has nothing to do with their portfolio?

[01:19:23] **Michael Every:** Well, if we're not talking portfolios, and, thank you for that because I can't give financial advice over, you know, over this kind of chat. And I don't give financial advice at all, to be clear. strategy is not about that.

[01:19:34] When you're talking to, you know, a CEO or a powerful individual, part of the job is to flesh out how you think the world operates because our Heath Robinson or Rube Goldberg machines vary, and you have to work out if you understand together how you think things do work. Explain your version and say, "If I'm right, you know, the mousetrap is gonna work like this, and you wanna be over there if you're gonna get the cheese.

[01:20:01] You're in the wrong place if you agree with me." As an individual, obviously you're not gonna be in a position to move supply chains. You're not in the position to say, "Right, we're closing down a branch in this country and opening two there and there." You've just got your own individual day-to-day life to try and deal with.

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[01:20:18] But I think the wisest thing that you can do, whether you're a high net worth individual or, you know, just as I said, just an ordinary person like myself, is to think, "Okay, what's my plan B?" You know, for example, how can I try and reduce my energy footprint slightly without, you know, sitting in the garden being a, complete hippie?

[01:20:39] Like, what's a realistic phase shift that you can see that gives me a little bit of a buffer in terms of a lifestyle? can I do a bit more walking perhaps? can I try and just bring other things which are better for my health at the same time into my lifestyle? That's the energy side. And in terms of food, Again, you know, and there are health benefits to this as well.

[01:21:01] Look local, look seasonal, look at things that are not maybe gonna travel quite so far. you know, any great producers near you? Any farmers markets? What can you do to try and get into the loops for where you're gonna get good produce that doesn't have to travel across an ocean that may not be on the shelf regardless of what the price is?

[01:21:19] **Nate Hagens:** Ration first and beat the rush.

[01:21:22] **Michael Every:** Well, I mean, I'm hoping there doesn't have to be rationing. I'm just hoping that you understand where your other supply chain choices are so that you're not suddenly in shock were we to get, you know, something unpleasant happening in a supermarket, which I'm not forecasting, but, you know, hypothesizing.

[01:21:37] **Nate Hagens:** Yeah, you... it's part of the distribution. it's a possibility.
Yeah,

[01:21:42] **Michael Every:** yeah.

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[01:21:44] **Nate Hagens:** how do you stay abreast of all this? Like, what is your routine? because I know how busy you are, and then you find time to read Homer, and o- and, watch Woody Allen movies and, all the things. What's your routine?

[01:21:59] **Michael Every:** Well, I grew up watching Woody Allen movies, so I haven't done that for a while. and Homer, one of my secrets is I'm a speed reader- Ah ... which is actually not great fun because you don't get any enjoyment from reading things, unfortunately.

[01:22:11] **Nate Hagens:** Now that makes sense. Okay.

[01:22:13] **Michael Every:** But you, absorb the key elements from them, and again, you, don't get the full flavor of the meal.

[01:22:19] Yeah, You get two or three bites of the burger. That's meat, cheese, pickles, bun, and you move on to something else, right? unfortunately, I'm not the polymath to actually have the time to go into all the detail to read everything without savoring that I would love. When I was younger I could, not now.

[01:22:33] But there's an awful lot of reading involved, and doing it cross-disciplinary, cross-geography, cross-asset, constantly looking for the dots that you might manage to join into a picture. Because the more knowledge you have, the more you start to see connections between things, and sometimes they're wrong, and you have to abandon that path and go a different way.

[01:22:54] And, you have to combine that with theory. So you ha- You know, I think we've spoken about this before. I try and read, you know, a lot of the old classics, and I think we were on the show, with the Isabella Kaminska, and it turned out, you know, she's a great fan of Anacyclosis. and I remember thinking that I'd misread that as Anaconda Psychosis and, you know, but I'd just read

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Polybius, you know, relatively recently before, before coming on the show, and we, you know, we bonded over that.

[01:23:21] These kind of great thinkers of the past matter. If you read them as a foundation and then you just join the dots with other little infotainment news snippets and articles, that for me is a good methodology. But hey, everyone's different. Everyone has to do themselves.

[01:23:38] **Nate Hagens:** Well, you're a real gem, and I appreciate your time, and we'll have to have you back after September and see how things shake out.

[01:23:46] And, good luck with everything, and I appreciate your work, and sawasdee khrap, my friend.

[01:23:52] **Michael Every:** Thank you very much. Sawasdee khrap. All, I would say is not trying to get the last word, but the last time we were on, we were actually trying to look ahead, and the war started just after we,

[01:24:00] **Nate Hagens:** Yeah ...

[01:24:01] **Michael Every:** we finished recording.

[01:24:02] So-

[01:24:02] **Nate Hagens:** Yep ...

[01:24:02] **Michael Every:** this time let's hope there's something positive suddenly turns up.

[01:24:05] **Nate Hagens:** Yes. Okay. Thanks so much, Michael.

[01:24:08] **Michael Every:** Thank you. Bye-bye.

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[01:24:10] **Nate Hagens:** If you'd like to learn more about this episode, please visit thegreatsimplification.com for references and show notes. From there, you can also join our Hilo community and subscribe to our Substack newsletter.

[01:24:23] This show is hosted by me, Nate Hagens, edited by No Troublemakers Media, and produced by Misty Stinnett and Lizzie Sirianni. Our production team also includes Leslie Batlutz, Brady Heine, Julia Maxwell, Gabriela Sleiman, and Grace Brunfeld. Thank you for listening, and we'll see you on the next episode