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Setting Course | Episode 1
Jeff Currie, Partner Alumnus, Goldman Sachs

We kick off the new year with our new series, *Setting Course*, in which our guests will help orient us on what they see coming – and where we'll be going in the new year.

For the first installment of *Setting Course*, we welcome back into the SmarterMarkets™ studio Jeff Currie, Partner Alumnus, Goldman Sachs. Host David Greely sits down with Jeff to discuss his views on the big picture in commodities markets – and where he sees the opportunities and the challenges in the year ahead.

Jeff Currie (00s):
If we are ever going to solve the climate change problem, information on commodities is absolutely key. So you need to be able to go, hey, is this smart copper. That's why we call this Smarter Markets. You know, I think about when you and I were doing the super cycle in the 2000s, it was always about the atoms businesses, supply and demand of the physical commodities. So let's call them atoms. The 2010s was all about the bits, that was the clouds and everything like that. The next decade is gonna be combining the atoms and the bits together. We're gonna have to use the bits to determine if the atom is green or brown.

Announcer (35s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?
This episode is brought to you in part by Abaxx Exchange, bringing you better benchmarks, better technology, and better tools for risk management.

David Greely (01m 14s):
Welcome to a New Year on SmarterMarkets. We're starting off 2024 with a new podcast series Setting Course, in which our guests will help orient us on what they see coming and where we'll be going in the New Year. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Jeff Currie, former Global Head of Commodities Research at Goldman Sachs. We'll be discussing with Jeff his views on the big picture in commodities markets and where he sees the opportunities and the challenges in the year ahead. Hello, Jeff. Welcome back to SmarterMarkets.

Jeff Currie (01m 48s):
Hey Dave, thanks for having me. It's great to be back.

David Greely (01m 51s):
Oh, it's always good to have you here and so good to have you to start off a New Year with us. Many of us now find ourselves back in the office, trying to get our heads straight and prepared for the coming year and hearing your commodity views has always been a big part of that process for many of us each year. So thanks for being with us on Smarter Markets this morning.

Jeff Currie (02m 10s):
Right, well, lots to talk about over the course of the last year and what's in store for us this year.

David Greely (02m 16s):
I figure there would because I thought, you know, you've been out of the office a little while, yourself having retired last year as the Global Head of Commodities research at Goldman Sachs after 25 years, I believe so, you know, presuming that you have had some time to step back from the day-to-day of the markets I am curious how you are seeing the big picture in the commodities markets right now, and in particular, as you said, looking back to 2023, we saw crude oil prices that were roughly flat over the course of the year with, of course some vol in between and equity markets that rallied pretty strongly. So I'm curious if you have some views on what drove that market action in 2023 and what it might mean for what's coming at us in 2024?

Jeff Currie (02m 59s):
Alright, well, by the way, it wasn't 25 years, it was 27 years at Goldman. By the way, you and I shared about 12 or 13 of those?

David Greely (03m 07s):
Yeah, about halfway.

Jeff Currie (02m 59s):
Yeah, I think the peculiarity when I look back at last year is when you look at tech and crypto acted like interest rates went back to zero. But you look at, you know, green investments and other interest rate sensitive parts of the market, it didn't, which tells you that really what it was is expectations a lower interest rates playing out. I mean, there when you look at the balance sheet of the Fed, there was an on net, a small amount of QE, something, you know, like something like $150 billion. So there was, you know, some liquidity injections. So there was a return to the heady days of pre-COVID of the 2010s.

Jeff Currie (03m 52s):
But I wouldn't argue that that's really at what play. You know, that bucket of froth is really being driven by expectations of rate, cuts rate you know, decline in interest rates. So what's driving those expectations it's the immaculate disinflation commodity prices. And you're probably the next question is like, God, you were really wrong last year. You were super bullish commodities and they all came off. So, so what gives, so why don't we start with what's behind the immaculate disinflation for, first of all, I wouldn't call it immaculate whatsoever. There's nothing immaculate about it. It was governments turning a blind eye to issues around oil sanctions, environmental policy and immigration. Let's go back to those three points in a minute, but I want to start with some broader observations about the immaculate disinflation. First observation is it was globally synchronized correlated around the world, which tells you, it's pretty hard to argue it was monetary policy in any of these different countries.

Jeff Currie (05m 14s):
Second of all, and this point seems to get lost. US economy's booming and, you know, oil demands all time, high copper demands an all time high coal demands an all time high and the list goes on and on. Even China, it's growing, growing in excess of 4%. So the world's clearly not falling behind. You know, Europe took a hit with the energy crisis and the ECB probably over tightened. So, you know, there's some weakness there, but net global economy and global demand is hanging in there. So therefore you can't argue it was weak demand monetary policy or even fiscal policy that created this immaculate disinflation had to be an increase in underlying supply. Alright, so what could create new supply. Now let's go back to these three points. I was saying, ignoring sanctions, ignoring environmental policy and ignoring immigration policy. You know, all three of those are the core of our commodity supercycle thesis.

Jeff Currie (06m 15s):
Remember that we called it red redlining commodity demand. RED, R stands for redistribution of policies, E stands for environmental policies, and D stands for de-globalization. Okay, so what happened, what does immigration do. It undermines redistribution policies, kept labor supply high and wages relatively weak. That's why it was like a downward shift in the Phillips curve and so you got new labor through the immigration that reverses the redistribution policies that were critical to our, you know, our supercycle thesis. By the way, I'm not trying to make a value judgment here or anything. I think that the increase in immigrants, it's, I mean there were a lot of them were Ukrainians, particularly into places like Germany and in the UK and I think, you know, it's a good thing. I'm not trying to make a value judgment here. What I'm trying to point is that immigration was massive in the developed markets in the west over the course of the last year.

Jeff Currie (07m 17s):
You know, it was 50% higher in places like the US and other parts of Europe and in places like Canada, UK and Germany, it was in 2x what it was. Normally, that's a lot of people and there were some catch up factors in places like the US. So you dampened wage growth. Okay, so that's your r being reversed by the way. That's temporary. You're not gonna see another surge in immigrants or anything like that. But it was a regulatory easy and part of it, again, I'm gonna say it was appropriate because it was Ukrainian refugees in many cases. Okay, the E environmental policy, I'm not gonna be as kind here. You know, we look at governments around the world, they flip flop on environmental policy. We look at places like China record coal consumption and production, similarly in Indonesia, India.

Jeff Currie (08m 11s):
And you know, the surge in EVs in places like China are being accommodated by 106 gigawatts of new coal fired generation capacity. You know, you'd argue those EVs are not for decarbonization, but rather for deglobalization, a different kind of D because actually, here is an important point we've made on this podcast before, is electrons and decarbonization imply deglobalization electrons don't move molecules, oil and carbon move. You can put them on cars and boats and airplanes and everything like that, electrons, unless you're fine, you're playing around with a cord attached to it. It's hard for it to be very mobile. And so if you have China investing enormous amounts in EVs electrons, but creating coal-fired capacity farm, they're doing it more for de-globalization to protect themselves in the case of a, of an invasion or the case of a, you know, a situation with Taiwan heating up.

Jeff Currie (09m 11s):
In fact, I'll couple that 106 gigawatts of coal fire generation capacity with 17 combat shelters, the world's largest combat hospital and a lot of other different investments that you got to question why they happen. But the bottom line is whether if it's record coal consumption, record oil consumption, cutting down mangroves trees in the Philippines for palm oil deforestation for soy, we saw a substantial amount of reversal in environmental policy to create new commodity supply. So that's your E, Let's go to the D de-globalization. Boy, this is a big one. You know, there we saw reversal of the sanctions. In fact, I would say if we look at really what drove most of that commodity supply for both energy and food, it was the lack of enforcement of sanctions. So we closed the year in Russia, Russian oil exports reached the high of the year, and you're pretty close to the previous peaks in output, Iran, 800,000 barrels per day.

Jeff Currie (10m 20s):
I look at the market, I'm out, you know, I was on gardening leave, I hear everybody's talking about squabbling. Over a few hundred thousand barrels per day of excess US oil production. Iran 800,000 barrels a day of new oil production, Venezuela, another a hundred thousand plus barrels per day of new oil production, over a million barrels per day of excess oil production due to ignoring sanctions and then they ignored secondary sanctions. Then that frees up the, the supply chain bottlenecks, more fertilizers, more wheat, more food. So what did we get out of this regulatory easing more energy, more food, and more labor. So if you're, if you're wondering why that's, if Phillips curve is as flat as it is, it was a big shift in it driven by these regulatory shifts. That's your immaculate disinflation that created the expectations of the rate cuts. By the way, I mean, you, they're a very good chance they're gonna hit their target. Most economists agree sometime in 2024 you're gonna get us, you know, a significant cut in rates and by the way, what do commodity prices do historically at this point in the cycle and rate cuts. They go straight up. Dave, you and I lived through that in oh seven, I think it was September oh seven. They cut rates and just oil went straight up. It went up like 10 bucks.

David Greely (11m 36s):
And that brings me to the next question I want to ask you because you know, as you talk about the not so immaculate disinflation, on the one hand, the theme that keeps coming out in these examples over and over is that governments can't make hard choices or governments won't make hard choices. So they'll, they'll relent on immigration, they'll relent on energy transition, environmental commitments, they'll relent on sanctions. But I guess the question is then, well, how often can they do this? Can they go back to that well again or was that a short term fix. Should we interpret governments not being able to make hard choices as meaning they'll continue to find ways to keep inflation low by this regulatory easing or can they only go to that well so many times and we should expect higher prices from here. Maybe more specifically, where do you think we are in the commodity supercycle. Where do you think we go next when you look at commodity prices.

Jeff Currie (12m 30s):
It was definitely a one trick pony show. The SPR there's not much left of that. That was your first of your political oil. You go be much further beyond that. You're starting to, you know, your insurance policy for a rainy day is gone. You look at Iran, Iran's at capacity. Venezuela needs enormous amount of investment, not much left in Russia without substantial investment, you can't debottleneck the supply chains anymore. So that trick is over, you know, environmental destruction, you know, on coal, that's one way you can get, but I don't know if, you know, we, we get inflation back down to 2%. I had, as you know, even 3% I'd say, you know, everybody's green attitude will shift again. You know, when it doesn't cost much. Everybody's willing to be green. I think though, your point here is we radically overestimated the willingness of politicians and people to pay for their political beliefs.

Jeff Currie (13m 24s):
But when push came to shove, they wouldn't pay for it. But I think, you know, they can only do that so long. The bottom line is on climate change, you know, odds are with the El Nino this year we're gonna see the hottest year ever on record. You know, what kind of destruction does that do. The crops people are gonna start to really question, hey, yeah, it's painful. We're gonna have to pay for this and then you know, we look at ignoring of the sanctions, the cost there is huge and there is, there is no free lunch. You know, you look at, you know, what have you, you, so you've given all, you know, 800,000 barrels per day of production to a rant. They back the hoodies and the hoodies are taking big shots at us warships in the Red Sea. Now you've had to redirect container traffic around Africa.

Jeff Currie (14m 09s):
That creates more supply chain bottlenecks, more pressure on prices. It's inflationary. Okay, so what, what, what's your alternative. Well, if you want to open the straight back, you need to start spending on, on military to protect it. I like to point out that Europe and the rest of the world, if they go back to the old share of GDP of, of military spend, it'd be three and a half percent of NATO GDP. That's another $500 billion a year. That's like, you know, IRA, you know, it's COVID level type of stimulus and it goes into battle's demand copper alley and you'd have to do that. So you're trading, okay, you're gonna have to spend the money or you're gonna suffer from the inflationary pressures. So just simply no free lunch here, or you got to put the sanctions on these countries and cut back on the oil production to make prices go back up.

Jeff Currie (15m 02s):
So I, you know, I would say, you know, at this point right now, the ability to pull these levers, you know, it really was a, was a one trick pony. And e even with the immigration, it'd be really difficult to replicate that. I actually, one of the drivers also behind the immigration was the high rates in the US forced the, a lot of the emerging markets to hike their rates, you know, living conditions became too expensive in many of the emerging markets. And they moved into the developed markets in Europe, in the United States. As interest rates start to come down, their, their homes start looking better, the situation gets better, they move home. And so all of these dynamics are, are likely set to reverse as we look out into 2024. And then you put on top of that, you know, so you reverse these dynamics when you get to lower in, you know, inflation and then the fed cuts rates, which is then stepping on the, putting the foot on the accelerator, you could really open this thing up to the upside.

Jeff Currie (15m 59s):
When we think about rate hikes, this is the one thing I've been thinking about is what is the implications of them. Do they create the inflation. Well, if it's all correlated around the world and it's supply side driven it, the cuts really never created inflation as we saw in the 2010s. Did the height ray hikes kill the inflation probably not. So what do rate hikes do and rate cuts. All they do really do is increase liquidity in and outta these markets is a conclusion I would come to. Yeah, they hit housing and some more capital intensity stuff at the margin. But you know, all of that's relatively small in the modern economy. So I don't know, you know, you and I went to Chicago, the Monet terrorists and the believers in in in monetary policy. But I'm, I'm, I think the evidence over the last several years pretty questionable is, you know, does it do anything other than create asset price inflation or disinflation.

David Greely (16m 56s):
And I I wanted to ask you the, the billion dollar question because if the levers for the one trick pony have been pulled, and we can't go back to that again. Sounds like you see the supercycle, the rising commodity prices, more inflation sitting out there on the horizon somewhere. How long do you think it takes us to eat through some of the slack that's been created with this regulatory easing? Do you think this is a 2024 story or a little longer to start to see upward pressure on commodity prices?

Jeff Currie (17m 25s):
In the metals market it's any day, particularly aluminum and copper. So, you know, you've lost you know, Anglo-American couldn't hit its production decline by 300,000 tons on copper. You've lost what, 450,000 tons outta Panama, you put it all together, that's a lot of metal that has been impacted low inventories. Even the demand in China is booming. So I would put, you know, metals as the first one outta the gate. China, what's the view on China? This is the way I like to think about it. They're de-levering on one side, part of that immaculate disinflation, I don't want to dismiss. China is coming out of China and when we think about what China is doing, is de-levering and deflating at the same time? Is that a good idea absolutely not. They can delever if they're reflating or they can relever if they're deflating. But you can't delever and deflate at the same time.

Jeff Currie (18m 23s):
They can't, they got to stop this either way they approach it here, it means they're gonna stimulate and then if you stimulate, you go into your question on the slack in the system and where does the most of that slack all reside? It resides in China. Europe doesn't have any slack. They killed it all off with the energy crisis combined with high rate hikes that created permanent scarring on the old economy capacity in Europe. So if China hits the stimulus button, same time you see the US cut rates, woo, we're gonna burn through much of that slack rather quickly and then what about energy you know, people go, oh, there's 4 million barrels per day plus, or whatever. The huge number is a spare capacity in oil these days. Where does it all reside? Saudi Arabia, UAE, the last time I checked, they have more market power than any other point in time.

Jeff Currie (19m 13s):
So am I worried about the spare capacity sitting in the, the dominant firms of the, of the, the industrial structure of the oil industry no, I'm not and if demand really begins to rebound with the rate cuts in the, you know, the US and the west and then stimulus in China, it won't take long to eat through that. Also, just quickly on the US surprise to the upside in production. Now everybody likes to focus on shale. If you look at the carryout production numbers in the US at the end of this year, Goldman's expectation was in December for $500,000 year over year growth between December of 2022 and December of 2023. So $500,000 ended up being $900,000 talking crude, not the NGLs added here. So $400,000 off, $200,000 of that was in the Gulf of Mexico, $100,000 of it's in Permian and the $100,000 was in Baching.

Jeff Currie (20m 08s):
Baching can't be repeated. The Permian probably is. That's where Chevron, Exxon, the big guys are there, they're making real investments. That thing, that thing is, but you know, let's say they're just able to offset the declines elsewhere allure for it. Let's focus on the Gulf of Mexico. What happened there, why the big surprise who operates in there, the European majors. What happened to all the renewable investments with high interest rates killed off, where do they put all their money into the Gulf of Mexico tiebacks and that helped a lot. If we lower rates what's happened to that money, it's probably gonna go find other investments elsewhere in the world. So this rate story is tied to a lot of different parts of the supply and demand channel of commodities. But going back to your core question, bottom line is higher rates led to depletion of inventories financially, physically spare capacity outside of oil exhausted.

Jeff Currie (21m 06s):
And you know, bottom line is, here's why. It's just like, are these interest rates really doing that much, you've got a booming US economy record demand across many of these different commodities and everybody seems, and I do not understand where the bearishness is coming because I've been gone, I've not been out in these markets. But the sentiment, the positioning, it would, you'd think that we're about ready to run off a cliff but the reality is and debut used this term the other day, good old classic mid-cycle pause, we just took our breath, big rate hikes inventory depleted, 'cause spare capacity, exhausted demand levels, super high demand levels. Remember it's demand levels that matter growth beginning to start to recover again. Isn't that the classic end of cycle playbook to be long commodities I think so, but I can tell you, you and I are the minority here believe that. But you know, so I think 2024 we're gonna see it happen rather quickly.

David Greely (22m 02s):
And you've always been a strong proponent of the fact the need that it's really investment in infrastructure that's key to reducing the volatility of these cycles that trying to manipulate demand or some short-term fixes like regulatory easing doesn't change the underlying structural issue and so you brought this up a little bit with the European majors in the Gulf. I was curious, you know, how is the incentive to invest being affected by the larger role that governments and you know, say ESG oriented investors are playing in markets in recent years?

Jeff Currie (22m 35s):
Yeah, I mean when you look at a world today is we're long capital and short opportunities. What did ESG do. It prevented all of that excess capital going into some of these key markets, particularly the carbon ones and now because everybody got sued and ESG and ESG has such a bad day, people are afraid to even go near the green. So I like to point out, I don't care what color the investment is, is it brown, is it green, is it pink, is it yellow, pick your choice. Nobody wants it. Everything in the commodity space is now open game because everybody is fearful of it. So why do they all plow their money into the magnificent seven you are not gonna get sued and so we've got a, a world where we have excess capital still, we haven't gotten it all out of it. It's out there. We got a dearth of opportunities.

Jeff Currie (23m 23s):
What's the most investible space out in the planet earth right now it's commodities. Whether if it is green, brown, pink, yellow, pick your, pick your color, whichever one you want. I guess there's so many different shades of natural gas and hydrogen anymore. I can't, I can't count. I think the point here is these sectors are the ones have been ignored, green and brown and by the way, the two hedge each other when interest rates are high because of high oil prices. Yeah, renewables are gonna get hit like what we saw with Ted this last year. But when interest rates are low and commodity prices are weak, like what we saw in 2020, you know, the renewables do really well. They hedge you in the bad part of the cycle. You put them together, you know, you don't shut them and go, ah, I want to be brown and not green, or I want to be green and not brown.

Jeff Currie (24m 11s):
You put the two together, they hedge you across the duration cycle and they work great together. Now you won't, don't want to be a company like a total or one of them specializing in this stuff. It just doesn't go down. Well why is that? It's entirely different mindset. You know, you look at a, at a company that specializes in oil production, what do they do? They take equity-based risk, go into risky parts of the world with equity drilling 11 kilometers underneath the side. The dealing with the politics of West Africa and the most sophisticated technology in the world to get the oil out and get it to market again using equity. What are renewables? No technological challenge, low returning. You use lots of debt and you take no political risk. It's just an entirely different mindset. But from a portfolio perspective, it does make sense to put the two together because they're hedging that duration risk.

Jeff Currie (25m 07s):
But you got to think of it and the problem is that why the majors not do well at this is they're good at equity and not loading up on debt. You're gonna do renewables. You better get good at loading up on debt because really that's what the, what killed these companies in this thing is when interest rates went up. These are like bonds, but they're good in that, looking at that, they're like a seesaw between the, the oil and you know, the, the brown and the grain. So, you know, I'm, you know, a big proponent of putting the two together. And I think that the opportunity set for investors is, is in this space, you know, you look at oil, yeah, it didn't have a great year in terms of the prices you pointed out is relatively flat. But the return on capital employed at 70, whatever we are today is near 20%.

Jeff Currie (25m 50s):
Find me another industry at the bottom of the cycle that's giving you a 20% return on capital employee. That's not bad at all, which tells you the capital has ignored these spaces. But you know, the other one would be AI. But look at Nvidia, I don't even know where the, the multiple on that thing is trading. But you know, that one is, you know, they pumped as much capital as they possibly can towards, towards those markets. Markets. But energy is the other one that, that, that has good opportunity, but you haven't pumped the capital into it yet.

David Greely (26m 19s):
And you may have answered the question I was thinking about asking you next, which is where is that biggest need for investment right now and it, it sounds from your perspective that it's pretty broad based in the commodity markets, but is there like a particular market region or technology or infrastructure that you see as, okay, this is an area where there's a, a bottleneck where we need really need some investment to, to move the needle?

Jeff Currie (26m 42s):
Copper. No, there's no if ands or buts and I, you know, it baffles me why it won't move. I mean, what you have to do just take the inventory to absolute zero on the planet, no more excess capacity. I mean Chinese are consider it you cannot decarbonize, you cannot electrify the world without carbon. We simply don't have enough of it. I really believe this story and I think it's really essential to it along the metals and here's what I've really been thinking about lately is people make the argument that the global economy is no longer resource intensive as it used to be. That's because what we don't put into the GDP statistics is all the waste used to produce the commodities and as we move to metals, the amount of ore that is produced to get this copper that's on my bracelet is enormous.

Jeff Currie (27m 38s):
And I think that point is missed and as you move into markets like lithium and cobalt, it just becomes, the amount of earth that is being moved to generate a small amount of metal is it is extraordinarily large in the energy associated with it and so when I think of investment opportunities thinking how do we deal with that we are moving more amounts of the planet on earth than we have ever moved to any other point in time. But it doesn't even show up in the GDP statistics, something for you to think about. But I think as we

move into more of a metals dominated commodity space, me to start thinking about trailing ponds, thinking about, you know, the or content of metals. By the way, on that point, I know Dave, you spent a lot of time thinking about gold. Actually, I was reading, it was a piece by John Cochran the other day, was Chicago person that you and I had when we were at Chicago.

Jeff Currie (28m 35s):
He actually was making the point, and I've been doing commodities my whole life and it's fairly obvious is why is gold trade so much more than copper you have to mine what a thousand times more than you do for, for the gold and you know, the copper content, he was using like 1% for copper and 0.1% for gold. The reality is you're lucky if you're finding 1% copper, probably about 0.3 and you're lucky if you're finding gold at, you know, 0.01, you're probably getting it lower than that. And so just think about just the amount of earth that needs to be moved to generate that. So that's where I was thinking.

David Greely (29m 12s):
Sounds good and I wanted to come back, you know, you corrected me. You spent 27 years in commodities research at Goldman, a really singular career for someone to spend that amount of time and have the amount of insight you had over those years. And I I was hoping we might be able to get you to put some of those years in perspective in particular, you know, what was the biggest change you saw in markets, say over the last few years relative to the prior 27? What are some of the big challenges that you see coming, taking in that somewhat historical sweep and context?

Jeff Currie (29m 47s):
Yeah, my first day was tax day of 1996, April 15 1996. And if I think about when modern financial markets, the thick businesses, the macro markets started, it was in January, December that year when the Asian financial crisis really began to take hold really in early 97. Why because when you finally pulled the plugs on those or the pegs on those Asian currencies, and if you think about the world leading up through Reagan, there was no fixed income markets before Reagan. Reagan created the modern bond market and by the way, I people on this point, I'm gonna say as people go, oh, the US is a big debtor and you know, the dollar's done everything like that, but, and they go, oh, the US needs to own all this stuff. No, the dollar is secure because of all that debt and you know, I'd rather have everybody in the world owing me than my capital sitting in their land.

Jeff Currie (30m 55s):
You know, you're in a better position. But what that did and what Reagan did by deficit spending at the rate he did with those bond markets, he's, he developed modern day fixed income markets, the treasury markets, then late eighties, he deregulates the commodity markets you know, we think about these things have been around for a real long time. They haven't and then it was like 91, you know, you know, you created the, the Henry hub index, the WTI was 83, Brent was 89. These things were all deregulated by Reagan and Thatcher during that time period and then you think about the FX markets, the FX markets, you began in 71, the end of kind of the Bretton woods end of it. Yeah, yeah when Nixon took the currencies, you know, off of the gold standard, but they were all still relatively in all the emerging markets were pegs.

Jeff Currie (31m 51s):
So it wasn't until that Asian financial crisis that you pulled the plugs and the pegs off of those emerging markets that voila there it was the thick businesses they started and I remember at Goldman the first ones we did were, it was borrowing aluminum from Alcoa and lending it to Ford. That was the very first contract that was done. How we doing low cost of capital. It was around 95, 96. But that, so you ask where did my career began. In fact, you even see it like when I started was all those trader markets started. That's when modern businesses, we think about these macro businesses have been around forever. They haven't and I do think that, you know, as we, as I leave, you know, the ability for them to survive is gonna be questionable just because of the highest cost of capital. The high cost of capital.

Jeff Currie (32m 42s):
Right now I call it the two R's, the regulatory backdrop and the, the higher rates makes them very difficult. You know, particularly the regulations around leverage, leverage ratios make it really difficult and are we gonna go back into another period like we did pre 96, 97 and also you got to go, okay, it was easy to CR by the way, when I think of these thick markets, the rates are your cost of capital. So that's your R the FX markets are your cost of labor. That's your W and the energy markets are your cost of materials. Those are your macro markets. Cost of capital, cost of labor, and cost of materials rates, commod and FX and another way to think about it, the risk capital, what else did I take? I'm trying to ramble, but I, what I really have started to think about putting it together because, you know, Dave, you wrote a lot of papers about commodities as an asset class. What I'm gonna say is, you know, you may find it offensive, but

I'm looking back at it and I go, was it really an asset class? No, it wasn't and Steve, I know you're probably, you've outrated to have a word with me on this, but here's what I became.

David Greely (33m 53s):
Lucky it's not a call in show.

Jeff Currie (33m 55s):
Yeah, you have equity bonds, that's it, that's your asset class. You can either own it or you can owe it, you know, there's nothing else left. There's only two options and then there's cash and so you think about equity, you have public equity or private equity, and then in bonds you have private credit or public credit and then in the cash markets, that's risk capital and you can either keep it in, you know, that's the cash version, the policy rate that is at the core of the cost of capital or you can manage your risk through commodity markets to deal with your energy exposures and your material exposures. You can deal with your wage exposures with the FX markets and you can deal with your cost of capital exposure with the rates, markets in the policy markets around, they're all futures by the way, which is important.

Jeff Currie (34m 47s):
There's zero sum games, there's no SEC that's regulating and telling you how much the supply you can bring the bond markets in the, in the other markets are there. So when I look at that, at that world that way, there's only really two asset classes, debt and equity, and you have private and public versions of them and by the way, I'm gonna go back to private in public in a minute, but I think the key point is that that cash, that is the risk capital, and that's what I did at Goldman and that those risk capital markets started with Reagan with inventing the bond markets and modern fixed businesses. But that cash management, that risk capital that sits in that cash bucket is really a function of the ability to trade off of the cost of capital one R and then the regulatory backdrop of the other.

Jeff Currie (35m 32s):
So we'll see if it, it survives. One last point. Why do I think that, you know, this brings it to the commodity supercycle story. What did that period of, you know, the late eighties, early nineties through 2020 represent? That was the period of globalization. And those are two very, very distinct periods in the history of mankind. One that lasted from 1870 to 1920, so call it 50 years. And that was the British Empire, one hedge man that could, could, you know, monitor the world seas and then the other one lasted from let's say 1980 to 2020, about 40 years when the US the seas, why am I bringing that up today is because with this Red Sea event, it was absolutely critical that the Americans stand up and keep those shipping lanes free to move traffic through the Red Sea. The fact that Mars twice has had to redirect ships says that, hey, that period of globalization and free-trade in a hedge men dominating the world seas such that you can move traffic is likely over. So it really does say that we're probably on the cusp at that period of 1980 to 2020, like 1870 to 1920. Those are the anomalies in the world. And you know that globalization, low cost of capital, free trading arrow, Dave, you not talk about that before we could trade any and everything. That period is probably behind us. I know that was a long answer to your question, but I've really been thinking a lot about it and I think that period while I worked at Goldman was fascinated anomaly of history.

David Greely (37m 05s):
Absolutely and I'm glad to say that, you know, you and I are colleagues once again with you joining the board of directors here at Abaxx, which will give us a lot of time to talk about and argue some of these points, maybe some of the asset class points and the finer distinctions of financial assets, physical assets and futures on physicals. In the meantime, maybe I'll ask you, what made you want to join the board?

Jeff Currie (37m 27s):
You know, one, I really believe in the technology and I, and I really believe that when we think about market clearing mechanisms, that Blockchains are gonna be absolutely critical here and one thing their great is because they can bring all the information to the market without anybody. The problem is people that have edges in trading won't like it because the Blockchains smart enough to be able to match everybody. It won't be the same type of bid asset you see on your screen. It's a way that you can bring in the information. Now why is that critical? Because if we're ever going to solve the climate change problem, information on commodities is absolutely key. You have to know if the commodity is green or brown and a Blockchain is, remember it's called crypto for a reason because it, the, the information is cryptic, you can trust it.

Jeff Currie (38m 17s):
I could point out any failure in crypto ever has been human failure, not failure of the system itself. The systems are trustworthy. That's what they're, they create trustworthy information and we need that information to solve climate change. And so you need to be able to go, Hey, is this smart copper? That's why we call this smarter markets is because in the end, whether if it's smart, smart copper, smart oil, whatever it might be, it's gonna be able to know if that underlying commodity is green or not. It'll have the entire history of that commodity embedded in that Blockchain ledger. And then you can use AI to learn from people we know that are right and wrong and so forth to be able to extend it to the rest of the market. And in fact, the other important point is you look at now information gatherers trying to do this to get information to com my foot, the only way to monetize it will be on that exchange.

Jeff Currie (39m 11s):
And there is no other type of technology can do it. You know, you know, I think about when you and I were doing the supercycle in the two thousands, it was always about the atoms businesses, the supply and demand of the physical commodities, so let's call them atoms. The 2000 tens was all about the bits that was, that the, the clouds and everything like that. The next decade is gonna be combining the atoms and the bits together. And so we're gonna have to be, use the bits in term if the atom is green or brown. So I absolutely love the technology for that. One last point. What is the highest value part of the financial supply chain It is the exchange. It has all the information, all that information. The public exchange sits at the top. You look at ice, you look at CME, they get the highest multiples, like tech relative the rest of the industry.

Jeff Currie (40m 03s):
So yeah, you know, I'm running out of time here, but as you can see, I, I really like the idea and also I wanna point out to all the listeners, it's a first exchange that has had regulatory approval since Dodd-Frank. It's got a regulatory mode around it that, you know, I'm very supportive of. I think it's in a great position to start launching contracts, Dave, that you're involved in, like LNG, battery, metals and so forth. So yeah, I'm really excited about it. Think it's gonna be critical to solving climate change as we look forward.

David Greely (40m 32s):
And I'm excited to have you back on smarter Markets. I'm excited that you'll be on our board here at Abaxx and looking forward to the, the combinations of the bits and the atoms being the, the next thing for markets for the future. So you, we'll have started with the rise of FIC and you know, maybe the next chapter of your career will be the, the rise of the combining bits and atoms and in some sense de commoditizing commodities and letting people understand where they came from and what their history is. But maybe I'm getting ahead of myself, but I kind of wanted to come back to where we started. We're all getting ourselves oriented for the year. You've been getting yourself oriented and setting a course for the next chapter in your life and your career. And I think you've shared some of what's got you excited, but I thought we would just end up with, you know, what are you excited about now, Jeff, and how do you want to participate in these markets next?

Jeff Currie (41m 19s):
Well, I, you know, I'm gonna go back to, you know, I being a commodity guy and Dave, you know, you where you're, you're your focus on indirectly on, on change. I think the most important thing that we all can do as commodity people is focus on trying to solve, I think the biggest challenge world has ever faced and I think that knowledge of these carbon markets is critical and one thing I really, truly believe, unless you control the carbon, you really do not have any ability to reduce the emissions. And I really want to be involved with, you know, how do we do, you know, what I like to call C two G carbon to green investing where you take the carbon and morph it into some type of green cash flow and I think, you know, that's where I'm gonna be spending most of my time.

Jeff Currie (42m 08s):
By the way, one last point when I was talking about the British in that, that period of 1870 to 1920, and then the Americans from 1980 to 2020, it's really important to think of what happened with, you know, what, what made the British Empire? It was carbon, you know, it defeated Napoleon in 1820 and it did it with coal. Those empires were built on carbon and they were, you know, used carbon to industrialize the world and everything and then let's remember, I mean, that's 200 plus years of investment in infrastructure that have created the world that we live in today and we're gonna have to decarbonize this infrastructure. It's a challenge. I think that is gonna absorb the rest of our lifetimes, and it's gonna be one which I think is gonna be super exciting and very fruitful. So that's where I'm gonna be spending my time. Hopefully next time we're sitting here having these discussions, we'll have a, I'll have a clear read on, on what that new chapter in my life's gonna look like. But I really appreciate you having me on and being able to share my thoughts.

David Greely (43m 12s):
Anytime. Fantastic, love talking with you, love having you back out here, out there, out in public talking about your thoughts. Really appreciate it. Thanks Jeff.

Jeff Currie (43m 20s):
Thanks for having me.

David Greely (43m 25s):
Thanks again to Jeff Currie, former Global Head of Commodities research at Goldman Sachs. We hope you enjoyed the episode. We'll be back next week with more on Setting Course. We hope you'll join us.

Announcer (43m 49s):
This episode was brought to you in part by Abaxx Exchange. Market participants need the confidence and ability to secure funding for resource development, production, processing, refining, and transportation of commodities across the globe. With markets for LNG, battery metals, and emissions offsets at the core of the transition to sustainability, Abaxx Exchange is building solutions to manage risk in these rapidly changing global markets. Facilitating futures and options contracts designed to offer market participants clear price signals and hedging capabilities in those markets is essential to our sustainable energy transition. Abaxx Exchange: bringing you better benchmarks, better technology, and better tools for risk management.

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