



# Myrmikan Research

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## Correction

Foremost on investors' mind is June and the first major correction in gold since the price broke out in February of 2024. Gold peaked on January 29 at \$5,502 per ounce and closed on June 12 at \$4,219, a 23% pullback. The HUI gold miners index declined 30% during this same period, and everyone wants to know: was \$5,502/oz the blow-off top? has the gold bubble burst, and now we have a 2011–2015 period to contend with? (when many junior mining companies fell 90% or more), or, worse, a repeat of the two-decade consolidation from 1980 to 2000?

The chart certainly suggests that bubbly spike peak and now collapse.



But conditions now are completely contrary to the times of these previous gold bear markets. The famous 1980 top in gold took place when Volcker had jacked the fed funds rate up to 19% while inflation had reduced total federal debt to 31% of GDP (compared to 123% currently).

The credit system then began the decades-long process of building the largest debt pyramid the world has ever seen. Debt and equity markets soared while gold was crushed.

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We note that while only federal debt affects the gold price directly—it is the state’s inability to repay its debts that necessitates money printing—ever since the 1930s, the government has in effect guaranteed private debts, or at least the larger debts held in the financial system—and since 1980 total debt soared from 160% of GDP to 340% currently. Interest rates at 19% would cause the entire global financial system to implode.

As in 1980, the 2008 panic also sent gold tumbling, but it was a very different dynamic. The eurodollar system had made the U.S. dollar the numeraire for a substantial portion of debt contracts globally. The growing debt bubble demanded additional dollars to provide for growing payment obligations at the same time that the Fed was trying to decelerate the production of dollars. This mismatch between the supply of and demand for cash sparked the greatest margin call the world has ever seen. Everything tumbled together: real estate, bonds, stocks, gold, even collectibles were thrown on the market to raise scarce cash, which displayed an important lesson: a credit bubble sends gold and stocks/bonds/real estate in opposite directions; whereas, gold and assets falling together is a symptom of dollar scarcity: not 1980 but 2008. And 2008 brought wholesale money printing.

Money printing is actually a misnomer: Bernanke did not print up dollars and drop them from helicopters (as Powell would later during COVID), he injected artificial capital into the banks to lower interest rates, making ever more marginal economic projects seem to be profitable, launching an investment boom. Recall Bernanke’s argument that “if the real interest rate were expected to be negative indefinitely, almost any investment is profitable. For example, at a negative (or even zero) interest rate, it would pay to level the Rocky Mountains to save even the small amount of fuel expended by trains and cars that currently must climb steep grades” because zero interest rates forever would allow an infinite amount of time to recoup the investment (no mention made he that society would run out of resources long before such projects were finished, leaving the wreckage of half-constructed malinvestments).

So, while gold leapt during QE when the short-squeeze on the dollar was relieved, once the market realized that the credit bubble was back on, gold got clobbered 1980s-style and rightfully so.

The COVID crisis was another notable gold crash similar to 2008: the authorities shut down the economy, which threatened another global dollar margin call. Gold had closed at \$1,687/oz on March 6, 2020 and dropped 12% to \$1,472 eleven days later. The HUI large-cap gold miners index plunged 42% over that same time period. Then Powell flooded the system with money—gold loved it, jumping by over a third in just a few months.

Had Powell followed Bernanke’s playbook, we would have expected a similar reaction—a prolonged bear market in gold as the recapitalized banks launched a new credit cycle. But there were some major differences: First, much of the funds went straight to individuals to fund consumption instead of investment, debasement not credit inflation. Second, the reason gold falls in a credit bubble is because the new money lowers interest/discount rates, which makes higher capex project appear to be more profitable, which increases share prices and encourages demand for commodities, raising their prices relative to gold.

But, under Biden, rampant green new deal nonsense prompted executives to use credit money to repurchase shares (boosting the value of their options) instead of overinvesting in capital. Private equity enhanced this business model by using private debt to strip out the equity from target businesses: every dollar the target earns must go to debt service instead of funding innovation and leaves no buffer capital to respond to shocks.

If the threat to the gold bull market is yet another credit boom, how much would the Fed need to print? How low do rates have to go to prompt investors to build more houses in hot spots such as Dallas, where housing prices are collapsing, or to fund additional investment in commercial real estate? The traditional centers of overinvestment are already well over capacity. Lower rates to private equity would merely allow them to strip out more equity from their captive companies, not invest additional productive capital. And that leaves A.I., the current bubble, which is attracting trillions of hard-to-measure off-balance-sheet debt.

After consuming \$767 billion of capital in 2026, the A.I. buildout will absorb another \$1 trillion in 2027, or just shy of 3% of GDP. The problem is that: either A.I. turns out not to work as advertised, as we predicted in our letter from September 9, 2025, making much of that debt impaired, or it does and throws millions of white collar employees out of work, a group that tends to have large mortgage balances and that drives consumer spending. Either the A.I. debt is going to have problems, or the mortgage/credit card industry is. If the Fed lowers rates, as Kevin Warsh has promised, it would merely fund more A.I., exacerbating this tension, not launch a new credit cycle.

There is also the possibility of both bad outcomes simultaneously. Credit bubbles flooding capital into financial assets also increase employment in stock jobbing, banking, accounting, lawyering, all paper professions. As a commentator wrote during the 1960s bubble: “Paperwork and office workers proliferated, as they did in Germany [during the Weimar hyperinflation]. The Xerox machine and the IBM machine, both paperwork machines, were the twin monuments of the decade. Bank buildings and office buildings were the most conspicuous form of construction.” The paperwork is not productive—it is parasitical to a process that misallocates capital.

If A.I. throws the paper pushers out of work, by being better at producing even more paper, there would be cost savings to certain paper-based businesses but no gains to productivity narrowly defined—productivity would come later in the form of the bright students going into industry instead of finance and its derivatives (most current white collar workers are likely too old to retrain). In this scenario, the displaced workers cut their spending and default on their mortgages while the A.I. companies discover there is little value to capture to repay their enormous debts. At least when the railroad bubble popped the country was full of useful railroads, and when the internet bubble popped there was nearly free communications, and when housing bubbles pop there are more places to live. It is not clear that specialized A.I. GPUs have any utility for any other purpose—even the wreckage of the A.I. may offer no temporarily under-priced utility nor, therefore, any material collateral.

If historical analogies dispute the thesis that gold is entering a long-term bear market, current events provide support for the alternate proposition that gold is in a correction. We have argued in these pages that it is the eurodollar market—the propensity for non-U.S. to be denominated in dollar—that makes the dollar the

reserve currency, not the petrodollar. But the petrodollar has helped keep inflation in check.

In the early 1970s, the Arabs realized that they were selling oil for a depreciating currency. In 1973, shortly after Nixon severed the remaining link between gold and the dollar, the prime minister of Libya explained: “Oil is considered as black gold, and I must sell oil for a currency which has a real value in relation to gold and which we can change into gold at any time. This is inescapably clear.” The Kuwaiti oil minister similarly pondered: “what is the point of producing more oil and selling it for an unguaranteed paper currency?”

After defaulting on the Bretton Woods commitment to convert dollars into gold at a set price, Kissinger agreed to sell enormous quantities of military hardware to Arab countries (helping America’s balance of trade) as long as they agreed to sell oil only in terms of U.S. dollars and then to recycle those dollars into Treasury bonds and deposits at American banks. This arrangement has kept interest rates artificially low and supplied American banks with a surplus of capital, though the Arabs did continue to hoard gold.

With the Strait of Hormuz closed, the Arab countries suddenly had a severe interruption of their primary revenue. Not satisfied with the enormous cash flow from natural resources, many of these countries have funded massive public works with debt, and tax burdens are light so as to assuage the citizens’ jealousy of ruling class profligacy. The rest of the world is drawing down their oil stockpiles, and the Arabs must turn from buyers to sellers of reserve assets (including gold) to preserve both economic and political legitimacy. While the Arabs clearly desire a U.S. victory over Iran, and while Trump sorely wants to avenge the 1979 hostage crisis and cement his international legacy, the members of the Western alliance are staring into the economic and political abyss and may soon choose to abandon their objectives in order to allow the oil to flow.



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We have already written two letters on the Iran crisis, which conclude that a U.S. victory had the potential to be gold negative if a reemerging U.S. empire became better able to stuff Treasury bonds down the throats of defeated enemies and subservient allies. It is not easy to construct a narrative of how a U.S. loss would be gold negative.

We have never claimed to know the future, only to identify and quantify certain risks to the credit/financial system and to offer gold and Myrmikan as an insurance policy against the collapse of these systems. While the pull back in the gold price is jarring, viewed on a log chart (previous page) the correction is barely visible.

We think that the financial system is more precarious than ever, not just the stock and bond markets but especially the sovereign debt markets. We expect that volatility will continue to increase; we think trading through that volatility will become increasingly difficult; and we think all realistic roads lead to a much higher gold price, which gives us the fortitude to ignore sharp dislocations in price.



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