

# THE FRENCH CANARY IN THE COAL MINE

By Egon Von Greyerz.

On August 25th, 2025, the Prime Minister of France, François Bayrou, delivered one of the most important political speeches in recent times. Important because of its honesty about the perilous reality that France now faces. It's worth reminding readers exactly what he said:

*The great empires have now chosen to impose their laws by force. Military force with Russia's never-ending assault on Ukraine. Commercial showdown with an unbalanced and unfair competition on hundreds of products from powerful China. The domination of the customs duty policies unilaterally imposed by Mr. Trump's United States.*

Europe is not doing well, either. She should speak with one voice, but is too often divided, with everyone trying to seek their own advantage first.

Mario Draghi, this weekend in Rimini, pronounced a phrase that I believe we can all make our own - he said this summer that the dream of a Europe that counts in the world has vanished. **An immediate danger weighs upon us, which we must face not tomorrow or the day after tomorrow, but today without delay of any kind - otherwise the future will be forbidden to us...**

As you become less and less salvageable, you become more and more expensive. This is the vicious circle, and there is no way out of it if we do not become aware of the seriousness of the risk and this inevitability. So I know that it is easier to ignore all of this, to continue to act as if we can continue without changing anything... And if the path we choose is to pretend, to pretend that the problem does not exist, then I tell you, as I believe it from the bottom of my heart, we will not get out of this.

We, France, together will not get out of this. As a state and as a society, because it is our freedom that is at stake, it is our sovereignty and our independence, because, as we all know, if you are financially dependent as a state. It is as if you are militarily subjugated; it is the same thing.

Very few politicians these days are prepared to say it as it is. So to have a Prime Minister in a country the size of France effectively say that the European 'project' is over and (ultimately) at risk of bankruptcy was remarkable.

One can perhaps imagine this honesty about a country's debt coming from a small Latin American country or some other emerging market. But from a developed nation like France, pivotal to the cohesion of Europe, it is altogether something new. Our country is in danger because of the risk of over-indebtedness... Debt dependence has become

chronic in France, and this money borrowed, in the hundreds of billions, has not been used as it should to invest, to provide our country with the best equipment - it was used for current expenses.

## **WHY IS FRANCE IN SO MUCH TROUBLE?**

Debt, of course. Russell Napier sums it up well:

***French government debt amounts to USD3,252bn at the end of 2024, and the country's total debt burden, which includes the government, households and non-financial corporations, totals USD9,792bn. France's government bond market is the fourth largest in the world, and its total debt burden is also the fourth largest in the world - only the USA, Japan, and China have larger nominal debt burdens.***

Bayrou recognises that no such EU/ECB backstop for France's debt can now be relied upon. Its sheer size meant it never could have been, and that France is left stranded amongst 'great empires' with a debt burden it cannot sustain.

Germany has already shown that it will act to break free of the baggage of collective decision-making by the 27 EU members. It has little option given the use of force by 'the great empires', Bayrou describes in his speech. Germany might still become a 'great empire', and it will certainly try to become one, but that involves recognising that it is time to move on from the failed 'project'. Germany's increasing independence of action is yet another problem for France.

According to the Bank of France, foreigners own 59% of all French debt securities with a maturity of over one year. Foreigners own 70% of all long - term debt issued by French banks and 53% of such securities issued by the French government.

**Napier argues that markets are now hostage to how France, the fourth - biggest debtor in the world, decides to default on its debt obligations. Its decision will have consequences for political stability in France and possibly trigger the end of the European Union. No surprise that political extremism is on the rise.**

**The truth is, France is too big to fail but also too big to save.**

My colleagues Egon von Greyerz and Matthew Piepenburg have been warning about the risk of capital controls for years. They have long argued that debt-soaked nations won't be able to force through the austerity that's required because such drastic cuts would mean they are certain to be voted out. They argue that bond markets, not central banks, will set interest rates, taxes will rise further, but, eventually, capital controls will come to the most indebted countries in Europe and probably the US too.

**Should France follow the playbooks of Greece and Cyprus and prevent capital exiting France, EUR 4,414bn of French long-term debt would become stranded. This would have knock-on consequences for liquidity globally. Things can start to move quickly and suddenly. Only time will tell what happens in France, but one suspects that Rachel Reeves, Scott Bessent, and many other finance ministers are watching closely and nervously. Meanwhile, governments, mainly in the East, aren't hanging around to find out:**

***Chinese insurance companies are piling more pressure on the gold market. In February this year, the Chinese government, via their insurance regulatory authority, issued a new regulation that the country's largest insurance companies should hold at least 1% of their assets in physical gold. The new news is that this regulation may be broadened out to include all insurers, and that 1% could rise to 5%.***

***India's pension regulator is now considering lifting the 5% cap on gold ETFs. This matters as India is already one of the largest gold markets in the world, where gold ETFs grew 96%YoY. If this regulation is passed, it's obviously not just about materially higher gold demand; it's just more evidence of the structural shift in institutional money treating gold as a core asset allocation, just like equities and bonds. When pensions start moving, retail follows.***

***Thailand's \$4.5 billion Government Pension Fund has publicly stated that it's adding to its holdings of gold. And finally, in the US, the US Government (Department of the Interior) has just added silver to its draft list of Strategic Minerals. This is the first time silver has been included.***

Silver is, of course, essential to many US industries, including electronics, defence, EV cars, and solar panels, etc. Could we see the US start to stockpile silver? At VON GREYERZ, we are in touch with the Swiss refiners every day, and we can assure readers that the silver market is getting tighter and tighter by the week. It wouldn't take much for another big buyer in that market to cause prices to increase dramatically from here.

It's easy to forget that the silver price peaked in 2011 during the Eurozone debt crisis at \$48oz. So, at \$39oz today, it's still way below the prior peak vs gold, which peaked in 2011 at \$1,920oz but trades far higher today at \$3,400. Silver remains extremely cheap vs gold, in our view. Little wonder that after months of consolidation, gold on Friday made an all-time high and looks set to significantly break out of its range to the upside. Silver too.