Daily Wrap

METALS	GCZ1 Comdty	SIZ1 Comdty	PLF2 Comdty	PAZ1 Comdty	HGZ1 Comdty
Active contract	Gold - GCZ1 ($/oz)	Silver - SIZ1 ($/oz)	Platinum - PLF2 ($/oz)	Palladium - PAZ1 ($/oz)	HG Copper ($/lbs)
Open	$ 1,760.40	$ 22.57	$ 1,008.00	$ 2,045.50	$ 4.32
High	$ 1,797.40	$ 23.29	$ 1,033.80	$ 2,147.50	$ 4.53
Low	$ 1,757.90	$ 22.48	$ 1,003.00	$ 2,035.50	$ 4.31
Settlement	$ 1,794.70	$ 23.17	$ 1,024.20	$ 2,106.10	$ 4.52
Price range	$ 39.50	$ 0.81	$ 30.80	$ 112.00	$ 0.22
1day net change	$ 34.90	$ 0.60	$ 9.20	$ 62.20	$ 16.75
1day % change	2.0%	2.6%	0.9%	3.0%	3.9%
5 day % change	1.8%	2.6%	4.5%	13.0%	8.3%

MACRO	SPX	DXY	EUR	10yr yields	WTI
Last Price	4363.80	94.03	1.16	1.54	80.56
1day % change	0.3%	-0.5%	0.6%	-0.024	-0.1%
5 day % change	0.0%	-0.3%	0.3%	0.01	4.0%

PRECIOUS FLOWS	ETF HOLDINGS & FLOWS (oz)			FUTURES HOLDINGS & FLOWS (# of contracts)		
Flows (oz)	Lastest ETF Holdings	1day change	5day change	Aggregate Open Interest	1 day O.I change in active	Aggregate Futures Volume
Gold	98,953,260	53,753	(122,247)	484,382	(1,079)	304,685
Silver	909,530,959	450,139	(4,311,763)	139,403	(1,333)	72,252
Platinum	3,738,924	(1,828)	(14,256)	59,344	(678)	12,961
Palladium	520,154	1,907	1,497	9,296	(225)	1,918

Source: Bloomberg, CME, MKS PAMP Group
Last Updated: 4:30PM ET

- The CPI print came in slightly hotter than expected as delta continues to wreak havoc on supply-chains globally. The markets also digested the Feds FOMC Minutes with officials broadly agreeing they should start reducing stimulus in mid-November or mid-December due to inflation, and mulled slowing Treasury buys by $10bn/mo and MBS by $5bn/mo (largely in line with $15bn combined tapering expectations).

- Gold, Silver and Treasuries saw kneejerk selling after the CPI print, on the basis that any data that is supportive of a faster taper is negative precious *(see yesterdays note, posted again below)*. **However, the subsequent strong v-shaped recovery/reversal across both Gold (from $1760 through past $$1790) and in Silver (from $22.60 through to $23.25) was both unexpected, large enough and a break from its past reactions to CPI data, that it does mark a (early) shift in confidence about whether the Fed can keep head of the inflation curve.**

- Theres also been notable physical demand around $1750-$1770 which was no match for any systematic selling post CPI, which likely contributed to the choppy unwind. While there is something somewhat constructive in golds compressed trading, holding well above support and being able to capitalize on the inflation print *(adapting the traditional school of thought that it's a decent inflation hedge),* todays move was not a gold-specific one; it was still a correlation trade hinging on 10yrs reverting back down toward 1.52% and the DXY unwinding gains back down to 94, with a little more firepower

- Platinum is finding support above $1000, with some help from golds bounce, while Palladium is holding onto most of its gains put in last week/early this week.

A few thoughts on stagflation/inflation, the energy crisis, and why Gold remains stagnant ahead of CPI tomorrow

Full report

- Despite the growing narrative of stagflation, mostly accelerated by the recent energy crisis, Gold has failed to regain $1800 or react in any meaningful way. **There's macro *concern* over inflation trends, theres no macro fear* and theres been a range of other asset classes from cryptos to US Equity Indices, and commodities (Oil & Copper) which are vying for the same inflation hedge label & competing with Gold.**

- To be clear, theres not much 'stagflation' in the explicit definitional sense; **there's merely upside risks to inflation (as tapering hasn't kicked off and supply chains remain clogged) which is getting to the point that its driving downside risks in growth.** US growth of >6% in 2021, recalibrating down to 3-4% in 2022 is hardly stagnating, but we/financial markets/media, tend to talk in extremes in order to get points across.

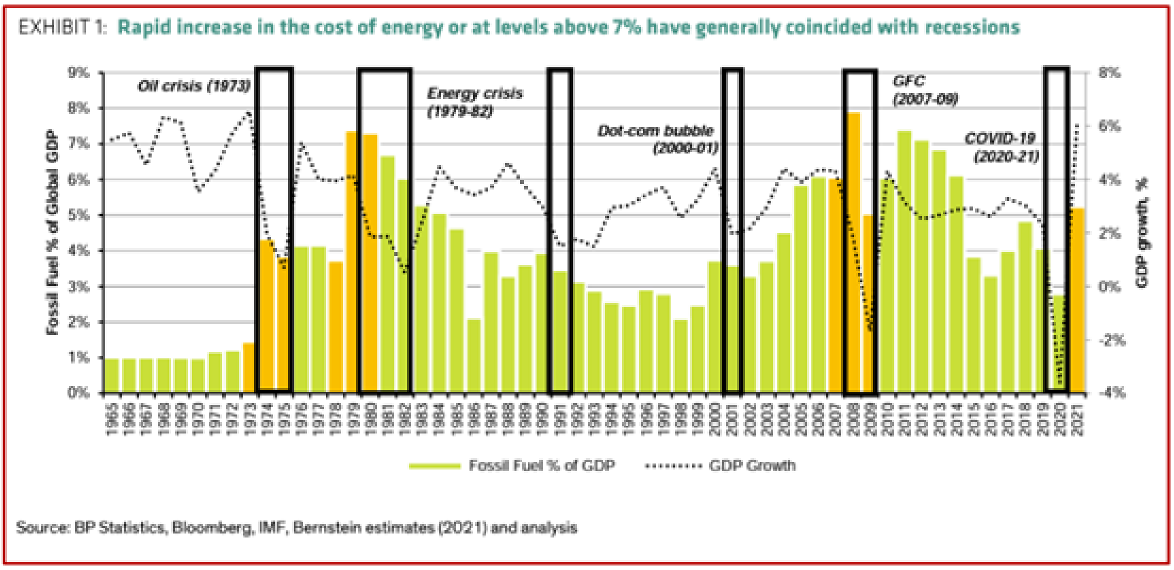
- Two major asset classes are buying the idea that inflation is transitory; US bond yields have remained relatively low by historical means, and Gold has failed to regain its post COVID highs, despite US putting in 4 CPI prints of >5%. **If Gold is right, this is only transitory inflation. Period.**

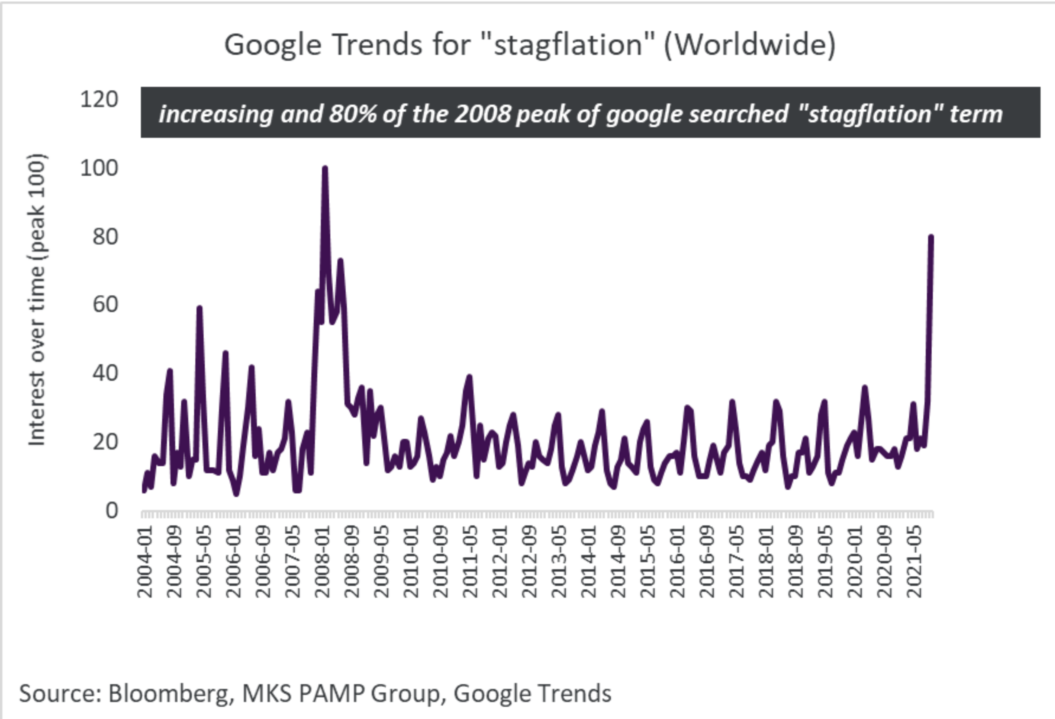
- Theres good inflation and bad inflation… The former is inflation + growth where reflation assets rise steadily *and* theres a belief the Fed will be ahead of the inflation curve. **That's the current thinking and Gold – being the emotional asset as well a scorecard on the Fed – is internalizing a broad-based acceptance that Powell will seamlessly navigate a tough exit of their extraordinary measures.**

- Then theres bad inflation – **the statement inflation headline across newspapers, gas lines/energy shortages, but generally its when prices eat notably into growth & earnings.** The recent downgrades in US growth forecasts hinges on a "decline in consumer goods spending" (i.e.: things are either simply not available, or too expensive). Ironically, the well advertised shortages of goods (and subsequent advice from US media pundits to buy their holiday goods *now*) fuels an overreach that will only accelerate price rises; inflation will accelerate if the consumer hits offers, as that implies theres a belief that prices will be more expensive tomorrow than today. Inflation expectations are already rising (consumer inflation expectations hit a new high – over 8year history - in todays N.Y. Fed Survey). In addition, energy has repriced (NG prices in Europe/UK are at the oil equivalent of >$200/bbl!) to the point where its share of GDP (and thus influence on US stocks), is back up at 7% of GDP. Bernstein stated that "Energy costs as a percentage of GDP increased to 7% this month. History shows that the probability of a recession increases when energy costs exceed 7% of GDP for a prolonged period of time (>1 year)". **Its too early for recession calls, given this energy rally is still so new/early, but its requires monitoring, and any sustained equity volatility/macro fear from the impact of energy prices, is supportive gold**. See chart 2 below.

- Theres equity inflation, on top of headline inflation (CPI), and inflation expectations that all together impact gold**. Gold is a decent equity inflation hedge (as proxied by ETF holdings), and thus given the sideways price movement in US equities, theres no additional impulse to add to Gold holdings and thus theres been some (ETF) leakage**. Headline (CPI) inflation hasn't remained elevated for long enough to really jumpstart a fear of inflation in Main Street (yet alone Wall Street), given stupendous consumer savings. And inflation expectations, while up, aren't running away. ***Theres a concern for niggling inflation but that's brought forward Fed tapering and/or hiking expectations, which negates any positive tailwind. If theres a FEAR of inflation, that's likely associated with little confidence in the Feds ability to control it and only then (aka 1970s/80s) do we see runaway Gold/Silver pricing.**

- Short-term trading CPI tomorrow: the market is lying neutral to short, and there is confidence in the Feds exit plan. Until those 2 core underpinning change, the thinking is that any data print (Jobs or CPI) that drastically brings forward rate hike & taper expectations, is negative Gold (ie: a CPI print that is too hot/high will lure in the persistent macro selling). **IF that is *not* the case, then it would be a change in sentiment that is worth respecting, marking Golds newfound sensitivity to inflation.** A goldilocks (*not to hot not too cold*) CPI print ensures some inflation and a slow Fed taper, which is mildly supportive Gold. The risk is a low print (transitory inflation, no taper?), which theoretically should be positive gold, but given its preference for short-lived rallies and finding any reason to sell off, not rally, that's unlikely the case. **The confusion in how to interpret Golds response during this Fed transition period is palpable making for messy trading; no wonder that confusion in and of itself, is enough to deter investment/participation.**





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