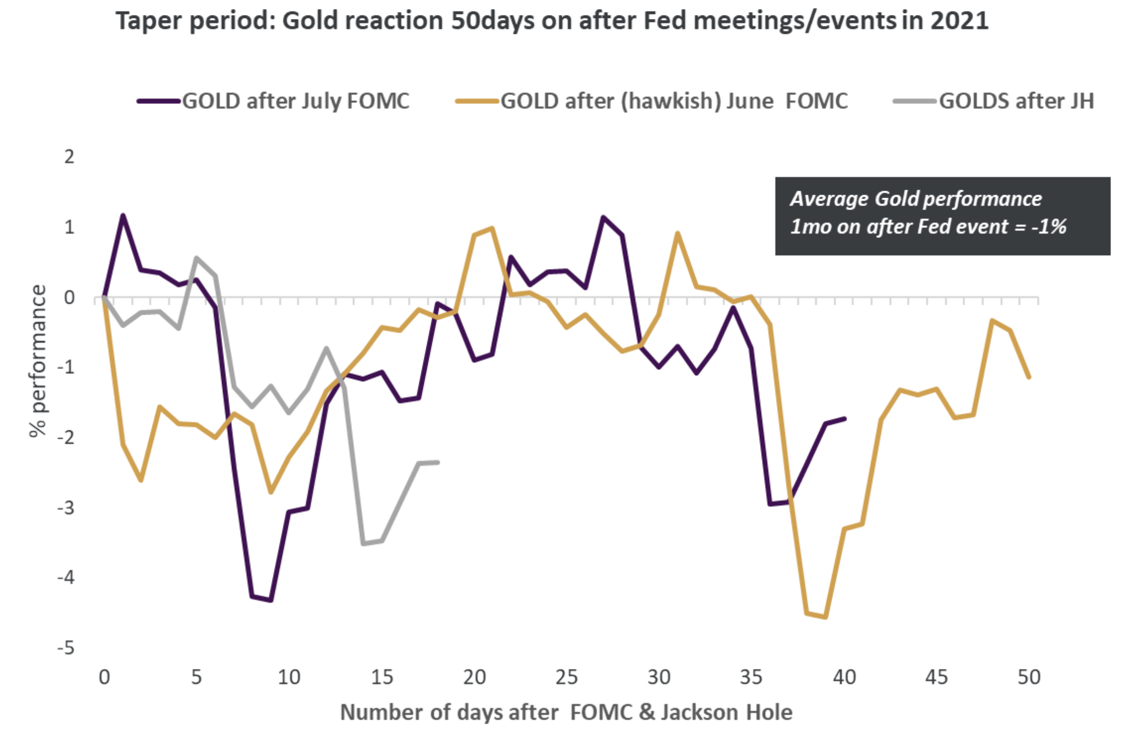
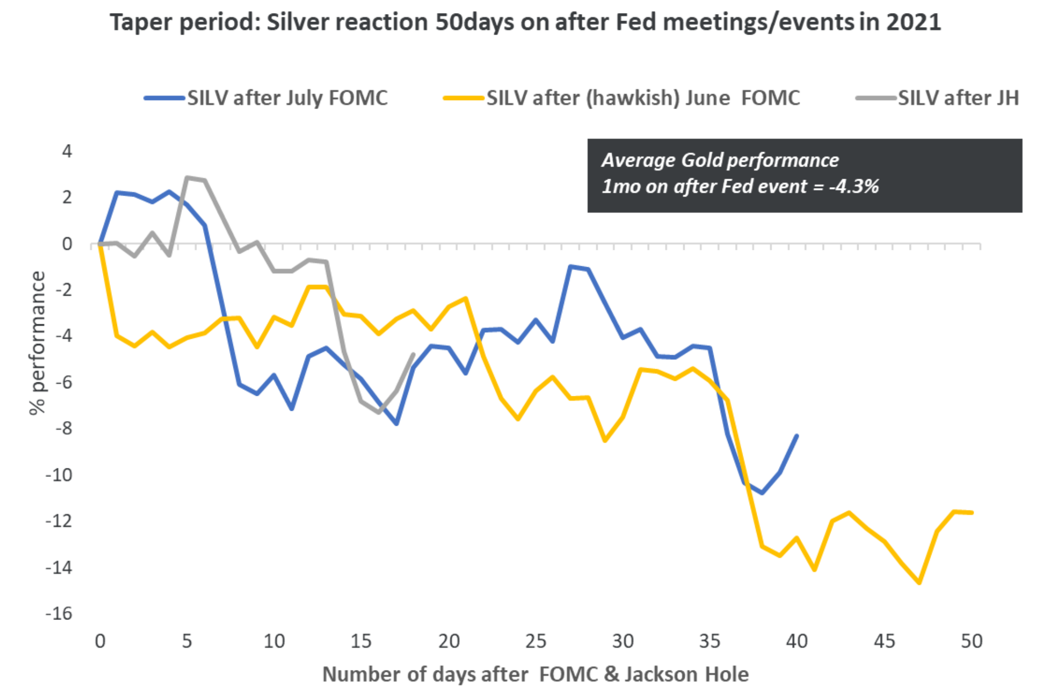
US/European Daily Wrap



* Hawkish FOMC defined as first mention of tapering bond purchases (Jan 22 2013 FOMC and June 16 2021 FOMC)
Source: Bloomberg, MKS PAMP Group



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1. A taper this year is largely priced into markets, almost fully digested. Consensus has also centered on the pace & composition – *markets love to lead* 😉 (i.e.: a taper over an 8-9 month period at a rate of $15bn/mo, split $10bn Tsy / $5bn MBS)
2. This September FOMC will likely signal tapering by yearend (market consensus leaning on a Nov kickoff date), but they won't formally announce a specific date.
3. Focus is on when hiking cycle begins (despite Powell delinking taper and hiking schedule)

4. Median Dot plot: if 2022 rate hike (dots) are shifted, (i.e.: 2 hikes in 2022 not just 1) that will be hawkish surprise. Likewise, 4 or more rate hikes in 2023 is a hawkish surprise.
5. A dovish surprise seems to be an unpopular view, given markets are positioned for and talking about a hawkish tilt. That could be anything from a language change (a taper could start in "upcoming meetings" which could imply a 2022 taper start), no change in language (consensus hasn't been reached) or in the Powell press conference (he tends to walk back the committees views)
6. They will likely still note upside inflation risks (given the last CPI print which remained >5%), be cautiously optimistic that the recent Delta wave / impact is largely behind us, and highlight labor labor market strength (although supply constraints are an issue).
7. We get a 2024 dot plot, but that should not move the needle; markets are short-termism
8. The Fed cant really afford to derail the (equity) recovery, given recent macro nervousness & cautions following Evergrande & China slowdown/US debt ceiling & ongoing US fiscal discussions especially around tax reform/other CB tapering decisions etc
9. Golds largely priced in an end 2021 taper (its trending higher into this FOMC…) but risks lie in other market moves especially since it's correlations with the USD & US yields are now firming up
10. Graph below highlights Gold & Silver performance in the 50days following major Fed events (2x FOMC + JH) since tapering became topical (June FOMC); clearly both are trading on the defensive and neither can really rally beyond 1-2% above the levels at each Fed event

Approved for all external purposes

MKS PAMP GROUP B.V. | World Trade Center - B Tower, 867 Strawinskylaan, Amsterdam, 1077XX Netherlands