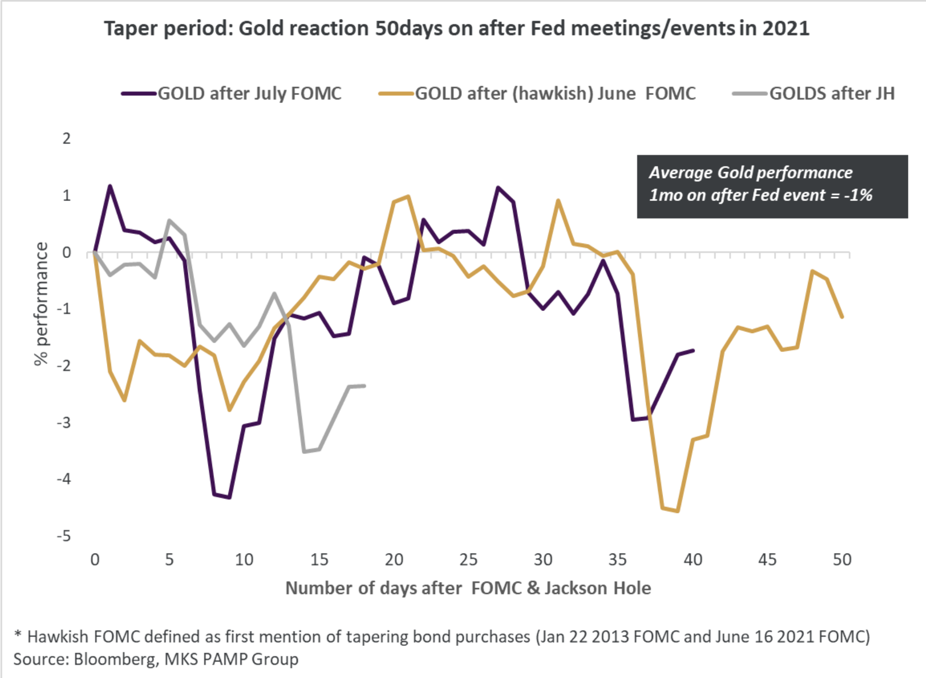
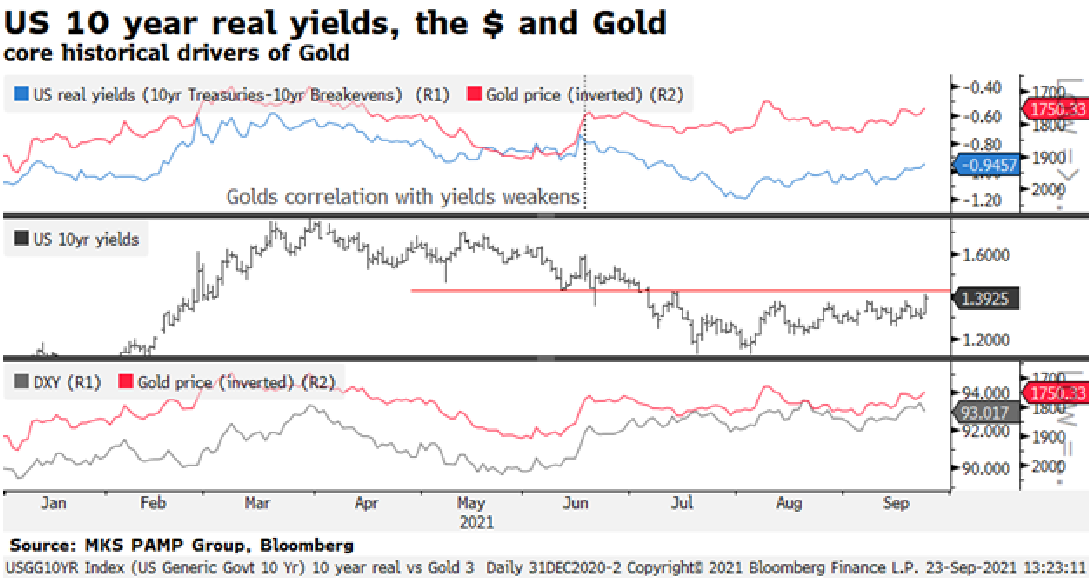
US/European Daily Wrap





- Its all about the other markets which are driving Gold. In particular, today, **the takeaway was a global repricing higher in yields (led by UK gilts) which topped 0.90% for the first time since May after the BOE opened the door to a 2021 rate hike to contain inflation.** That trickled over with US 10yrs reclaiming ~1.40% (amongst other drivers), driving real rates up and simultaneously pressuring Gold as volumes on autopilot grind it lower.

- Gold is doing what it should in the short term – falling, due to: 1) past history following a Fed event (recall yesterdays graph showing its on average down 1% 20days on following a Fed event in '21, but the trend clearly shows any rallies should be capitalized on), 2) higher yields. The correlation between long-term real yields (10yrs yields – 10 yr BreakEvens) is +0.86 but that has waned since the June FOMC when tapering was initially flaunted (chart 2). **The model implied gold price with current real 10yr yields, is $1810, but in reality Gold has been trading at approximately a ~$50 discount to where it "should be" (vs real yields) all summer. Thus the comfort level into Q4, with prices closer to $1750 is somewhat fair (all things equal).** The bigger threat is if 10yr yields, which are hitting up against some resistance/inflection area, break up & out and the market shifts from a 1.20-1.4% range (associated with Gold $1730-1830) to a 1.4-1.6% range (which could imply lower gold ranges). For now, Gold remains a correlation play contingent on other markets.

- Contagion fears around Evergrande have subsided *(it's a Chinese, not global problem, and losses will likely be socialized)* even as Chinese authorities signaled reluctance to bail out Evergrande. Beijing has injected more cash into the financial system and regulators instructed the property developer to avoid a near-term default. That, as well the follow-through from the hawkish Fed is playing out positively for US stocks as its confirmation that "substantial progress" has been made (good news is now good for risk assets). **Macro fear continues to be incredibly short-lived...**

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