

Daily European Wrap

US 10 year real yields, the \$ and Gold core historical drivers of Gold



Its perhaps worthwhile to revisit the near-term and new bull/bear augments for Gold given the sizeable weeks long move lower in US yields, updates from the Fed minutes & ECB, a crackdown on tech by China yet a surprising hint at PBOC easing, and the continuing risk that the Delta variant spread has on global growth

Bullish

- 1. Technicals - what can't go down must go up.** The solid NFP was the greenlight for macro short to really reengage and critical floors to fail. That didn't occur. The minutes could've been parsed for hawkish titbits, but it was largely a nonevent for the market as they remain cautious to taper.
- 2. Seasonals:** Precious metals are historically solid outperformers into Labor Day with Silver (+7.4%) & Gold (+4.8%) as macro investors take a step back from typical assets (DM equities & SPX put in flat performances) and the USD\$ traditionally falls (- 0.8%) Day. See seasonal report published [here](#)
- 3. CB demand:** New players are entering the space which his arguably more supportive/bullish than current players merely ramping up buying programs. Aggregate buying was a driving force in April & May (as inflation trade took off) in helping Gold toward \$1900
- 4. Macro risk-off/equity vol up:** the US equity markets are taking a breather, perceivably topping out as the delta variant spreads & scares and questions over efficacy vs vaccinations emerge. Together with a China tech crackdown, a tapering Fed and small fears over 'secular stagnation', risk has been hit. That should spur further stimulus or at the very least – as confirmed today wider policy mandates. The **ECB** has adopted a symmetric 2% inflation goal AND they've included climate change in monetary policy (!). Any inflation undershoots below 2% (which is the issue Europe notoriously contends with) will be reacted to equally given the symmetric goal (i.e.: more stimulus); the expanded policy framework with arguably immeasurable goalposts, simply provides a rather open mandate...
- 5. Gold is very cheap vs rates; stagflation:** Gold should be \$1880 given 10yr real yields currently sitting at -0.96 (simple regression model). The correlation between Gold & 10yr real yields, over the past year is a strong -0.74, which far outweighs the correlation vs DXY over the same period (it's surprising positive at +0.15) . *Formula: Gold = 1439 - 460(real 10yr yields price).*

Given the rates move lower (which has bucked every trend this year), talk of stagflation is picking up.

6. **Underpriced geopolitical risk emerging in the summer, dovish PBOC:** China has banned crypto, then base metals, very recently gold, and now onto clamping down on the largest tech IPO... In just a couple of weeks. There is coordination, at some level, at a time when seasonally (summer) the PBOC has made some statement moves... News that China could cut RRR to help the economy, and is planning new monetary-policy instruments to encourage lending for clean energy projects, emerged today.

Bearish:

1. **Physical is still mute but improving:** Chinas clampdown on commodities and more recently on retail gold accounts removes an accepted physical interest/floor in the market.
2. **Fed tapering overhang:** Why fight the Fed... They are the largest player, are traditionally FIFO (First In – to simulate & first to vaccinate – First Out) and are going to taper, given inflation & economic stats, which is structurally bullish the USD
3. **Risk reward:** The failure at \$1900 was large letdown for bulls, and late buyers. The risk reward favors the downside on any rally toward \$1900 unless a new & convincing catalyst reemerges (i.e.: until the Fed really tapers, or a large macro/geopolitical shock emerges)
4. **Positioning:** The slow but consistent bleed lower in ETF holdings provides caution (-374K oz in 5days). While OTC longs, CB demand and ETF resiliency had provided support, the recent turn of a large sticky player can accelerate downside risks.

SUMMARY: its been way too early in the economic cycle to *aggressively* own Gold as taper and hike expectations have been brought forward and many believe the Fed will stay ahead of the inflation curve. While gold has been on the defense recently, given this view and the “inflation is transitory” belief, prices are unlikely to mimic the strong washout in 2013. BUT with macro/delta risks reemerging, new developments from ECB & PBOC, a switch up in players (new CB buyers), s/t upside gold risks have grown within the rather neutral \$1750-\$1850 zone. Any gold dump should be transitory, especially if the belief is the current hawkish Fed stance will likely also prove transitory, as global (not US!) growth wobbles...

METALS	GCQ1.Comdty	SIU1.Comdty	PLV1.Comdty	PAU1.Comdty	HGU1.Comdty
Active contract	Gold - GCQ1 (\$/oz)	Silver - SIU1 (\$/oz)	Platinum - PLV1 (\$/oz)	Palladium - PAU1 (\$/oz)	HG Copper (\$/lbs)
Open	\$ 1,803.80	\$ 26.27	\$ 1,085.40	\$ 2,853.50	\$ 4.31
High	\$ 1,819.50	\$ 26.31	\$ 1,086.30	\$ 2,864.00	\$ 4.32
Low	\$ 1,796.30	\$ 25.94	\$ 1,063.20	\$ 2,780.50	\$ 4.23
Settlement	\$ 1,802.10	\$ 26.13	\$ 1,081.90	\$ 2,848.30	\$ 4.32
Price range	\$ 23.20	\$ 0.38	\$ 23.10	\$ 83.50	\$ 0.09
1day net change	\$ 3.70	\$ (0.05)	\$ (15.30)	\$ (43.30)	\$ (7.05)
1day % change	0.2%	-0.2%	-1.4%	-1.5%	-1.6%
5 day % change	1.9%	-0.4%	-0.6%	0.9%	-0.9%

MACRO	SPX	DXY	EUR	10yr yields	WTI
Last Price	4295.69	92.26	1.19	1.27	71.68
1day % change	-1.4%	-0.4%	0.6%	-3.2%	-0.7%
5 day % change	0.0%	-0.4%	0.1%	-12.6%	-2.4%

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 contract	Aggregate Futures Volume
Silver	919,976,540	(684,943)	(3,698,721)	156,113	(1,405)	43,113
Platinum	3,964,489	1,421	(5,363)	55,448	(143)	9,483
Palladium	554,994	4,332	4,178	10,311	193	1,114

Source: Bloomberg, CME, MKS PAMP Group
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