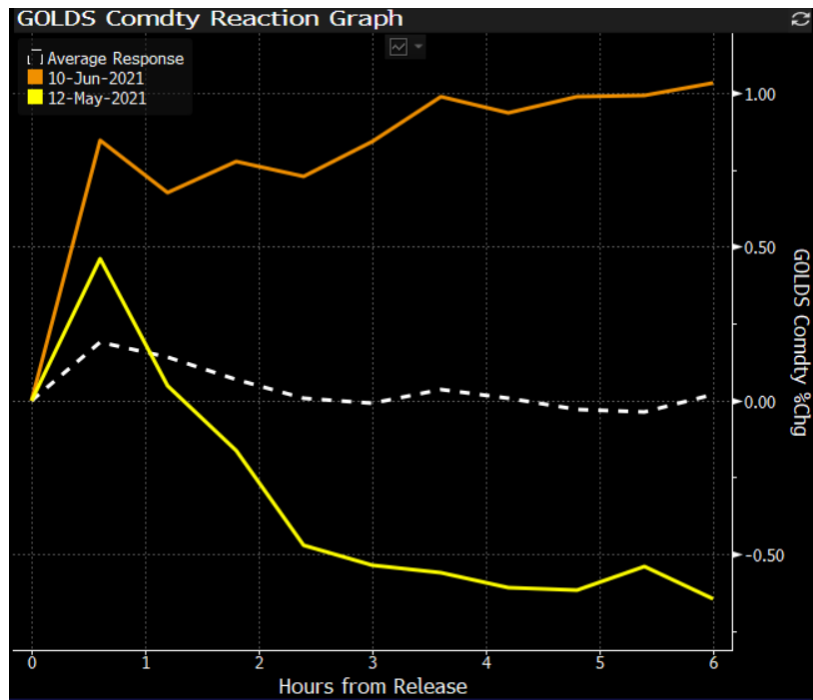
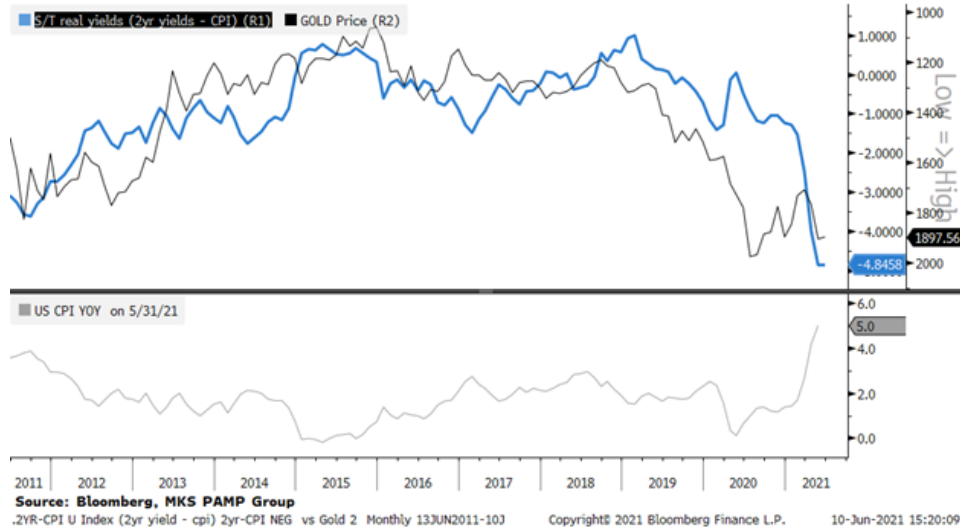


Daily U.S / European Metals Wrap

Short-term real rates vs Gold

steeply negative real rates arguing for much higher Gold prices



- Another month and yet another **upside inflation surprise** with both headline (0.6%) and core (0.7%) beating the 0.5% monthly forecast, with the headline hitting 5% on a YoY basis. But with only 2 data sets of beats and the Fed saying they're comfortable letting the economy run a little hot, the “transitory” argument should win out as the market chalks it up to base effects, temporary bottlenecks and supply shocks.
- More importantly, the **muted but lower reaction in 10yr yields** back below 1.5% and decline in breakeven rates implies investors have committed to the Fed’s transitory inflation tone where inflation concerns take a backseat to the labor market – **this creates an optimal backdrop for upside precious and the Asia open tonight and weekly close, as Gold & Silver remain elevated at technical inflection points, should be closely monitored.** Graph 1
- Golds kneejerk reaction toward \$1870 post report was very short-lived as it strongly rebounded \$25; Silver put in similar moves as it remains compressed below \$28/oz. That’s in stark contrast to the intraday reaction to the previous CPI report as depicted in graph 2. **The**

trend – a grind higher, notwithstanding some ugly washouts on any taper-fears - remains in place for precious.

- Fundamentally, the SGE/London Gold arb narrowing to \$5 discount overnight, while peak Indian demand weakness is likely behind us (given declining daily cases, phased unlocking of businesses, and a pick up in vaccinations) which should **provide mild tailwinds for prices.**
- While Gold & Silver are holding near weekly highs, both Platinum & Palladium carved out weekly lows today, having to contend with likely destocking
- Overall, the macro markets are certainly more accustomed to upside inflation surprises this time around, vs the last CPI report (on May 12th) where stocks plummeted 2%. US stocks climbed toward record with the S&P 500 breaking new territory. Volatility only reared its head in meme stocks and cryptocurrencies, indicating **larger markets remain rather complacent ahead of the key Fed meeting next week.**

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