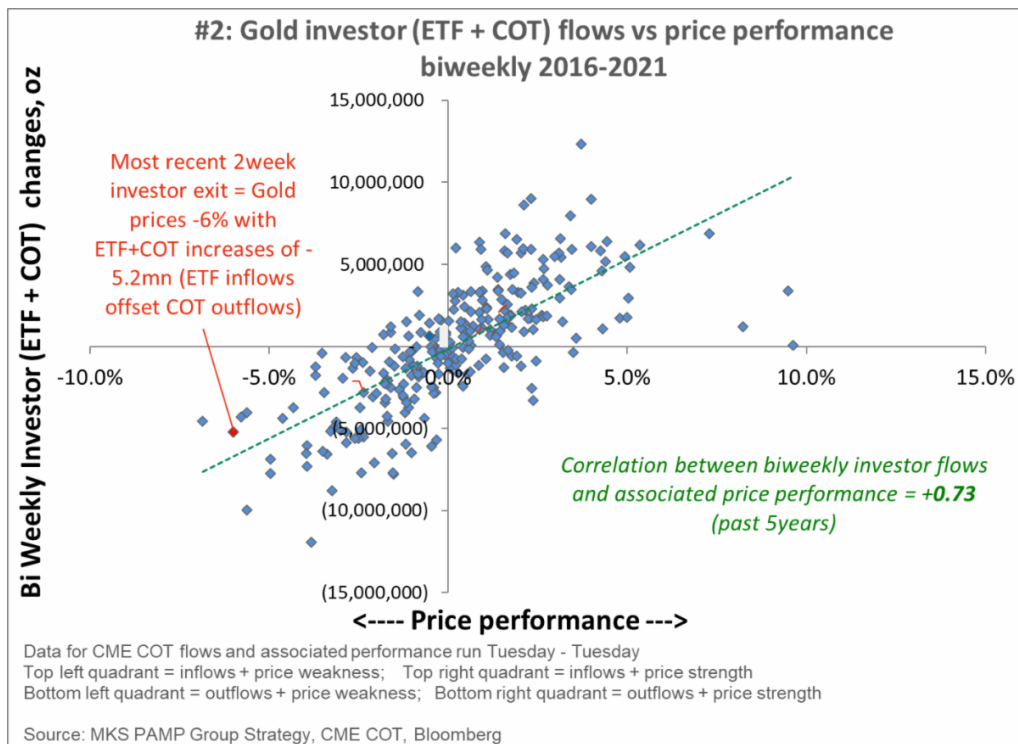


**Geopolitical risks good for gold? – conceptually yes, practically no.**

- **The market is now adding the evolving/escalating situation in Afghanistan to their list of global concerns** - including a growth slowdown in Asia (due to “zero-COVID” policy lockdowns) and a Fed taper - to monitor. The vacuum, left by departing US and NATO forces, allowed for the Taliban surprising (and historic) quick control of the country. In a speech, Biden “stood squarely” by the decision to withdraw US troops and blamed the Afghan military. US stocks reversed earlier declines, while Treasuries pared some gains with 10yrs around 1.27%
- Gold floated up toward \$1790, prompted NOT by rising geopolitical risks, but by weaker US data (Empire State Mfg), showcasing how consensual/short the market is. **Overall, the escalation of events in Afghanistan should not really impact the Gold prices; historically and on average, any rally (in oil or Gold) on geopolitical risk provides a better risk-reward opportunity in being short (on de-escalation) vs being long (on escalation); theres an asymmetric response.** However, given that the current tactical positioning is running quite short (after the release of COT data), the events could provide tailwinds. This impact - unless tensions spread regionally! – should not inject a notable rally like the ones seen during the Arab Spring of 2011, or escalations between US/Iran and US/North Korea (which were quickly erased and some more). **The macros -- the Fed taper -- is still the dominant driver of price action.**
- Thus, the short-term/immediate effect should be muted across geopolitical hedges (risk, Gold & Oil) given Afghanistans macro/economic connection to the broader markets is tiny. The chaos should not impact the key market drivers, the Fed taper program and the impact of the Delta spread/policies on global growth. **It can however, have political implications, and could derail the infrastructure and stimulus bills as alarm in Congress grows. Biden already faces obstacles and this weakens him; any endangerment of the stimulus bills would be risk-negative, and provide some tailwinds to Gold (macro volatility)**
- In addition, market participants will attempt to assess the longer term, and more nuanced outcome (Afghanistan reasserting itself as a breeding ground for terrorism, the perception of the US post Trump, East vs West politics and the role of China). **Its too early to outlines scenarios, but as whole this is undeniably a negative hit to US credibility and its role as a global super power, which would only add to a growing list of structural US\$ bearish arguments.**
- Also note that Afghanistan does own Gold – a little over 700K oz. Given past crises in Libya and Venezuela, **there is no surety that the countrys gold holdings are not financed and lent to shore up cash, or worse yet, actually sold; that would be a net negative for gold.**



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