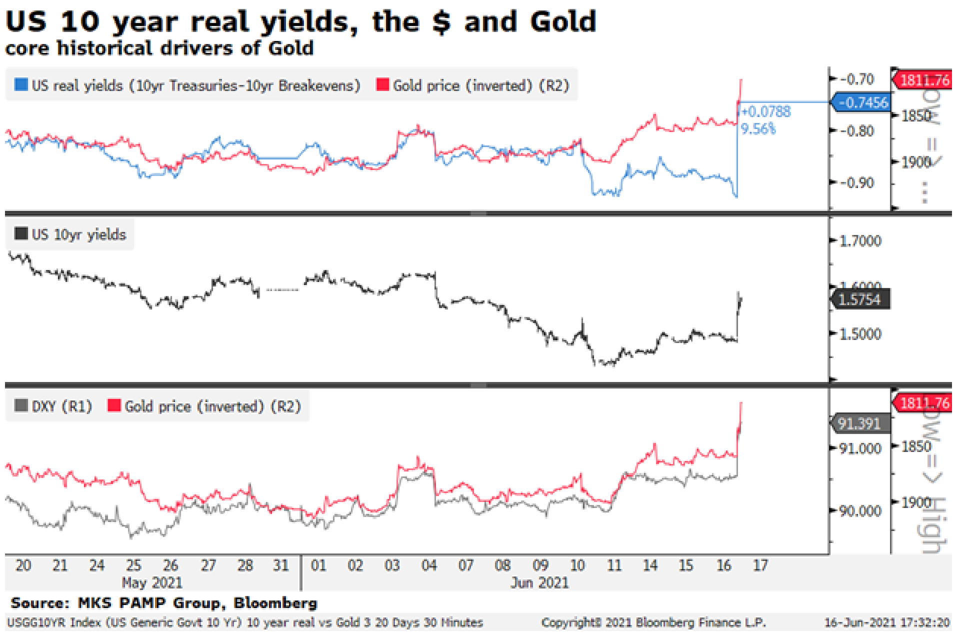
Daily U.S / European Wrap - FOMC Focus



- Gold remained very contained above $1850 support during the European session and into the FOMC with Silver & Platinum following suit with sideways price action. Palladium rallied $70 to $2840 during NY session, after what looks like stops triggered through $2780.

- **It was the pivotal FOMC (see takeaways below) where the Feds statement (2 hikes in 2023) was interpreted as hawkish, and Powells statement and presser largely leaned mixed-hawkish as he didn't do much to walk that message back.** That triggered largescale moves in both FX and rates with a strong kneejerk rally in USD (across many crosses as short covering gained momentum), and a hit to breakevens which forced real yields decently higher outside of recent ranges. There was a clear stubbornness in Gold and Silver which had held above support at $1830/oz and Silver at $27.40, perplexing many, and partly due to some preemptive positioning ahead of the FOMC. **However, it took some patience as the complex (ex Palladium) internalized the hawkish message in strong repricings lower after the US equity close. Gold was down 2.4% (-$44) falling to $1804. Silver -2.3% (-63c) hitting a low of $26.63 and Platinum -2.5% (-$28) down to $1120.**

- **Overall, if the structural short USD trade remains buoyed (driven by short covering bouts like today), as imminent tapering / normalization continues to be priced in, it implies Gold will have a tough time really rallying**. There is still a window where economic data can surprise and/or inflation likely to overshoot in 2021, leaving the Fed behind the curve, in which inflation hedges like precious metals would attract fresh investment. 2023 is still a long way until rate hikes 'hit', which allows the economy to run a little hot until then, which Powell outlined (*"Inflation Could Turn out to Be Higher and More Persistent Than Expected"*). **The inflation argument for Gold/Silver could attract some subscription even if the Feds taper them still 'allows' for stronger USD, but it boils down to inflation and labor data ahead of the next important Fed meeting (Jackson Hole).**

FOMC & Powell Presser Takeaways:

1. 13 of the 18 officials saw at least one rate hike by the end of 2023 (vs was 7 in March), with median Fed Projections showing 2 rate increases by end-2023. Thats the headline triggering large kneejerk reactions in SPX (declines of 1%), rates (10yrs up through 1.54%, but importantly 2yr yields at 1yr highs of +0.19%) and in FX (EUR close to 1mo lows of 1.20). There was limited follow-through reaction in precious, initially.
2. No change in guidance on asset purchases. Central bank maintains $120 billion pace for bond buying

3. No change in the take on inflation, in the policy
4. Statement: "Inflation has risen, largely reflecting transitory factors."
5. *POWELL: UNEMPLOYMENT RATE UNDERSTATES SHORTFALL IN EMPLOYMENT
6. *POWELL: TAPERING START WILL BE ORDERLY, METHODICAL, TRANSPARENT
7. *POWELL: DOTS TO BE TAKEN `WITH A BIG GRAIN OF SALT'