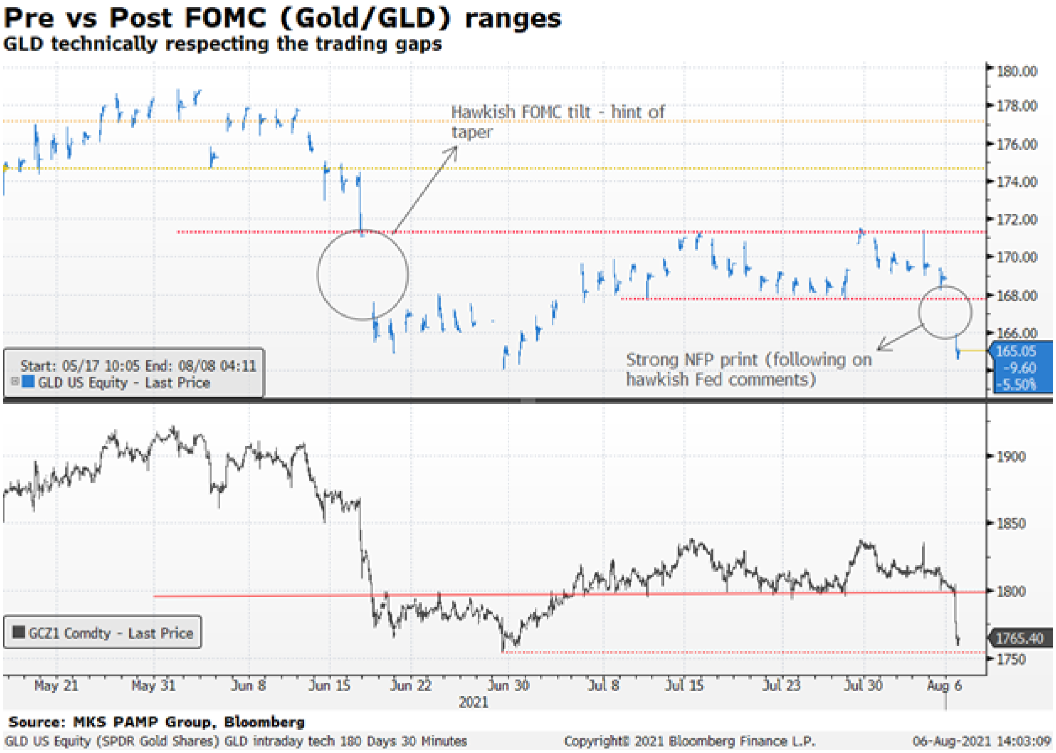
Daily US/European Wrap



FULL REPORT HERE

GOLD_ TRADING, TECHNICAL & MACRO THOUGHTS

- **The NFP proved to be the binary/live event** we thought, despite a modest beat. Initially all the action was channeled into US yields which saw 10yrs recalibrate up toward 1.30% (when it was just 1.13% earlier this week!); that spurred complimentary moves in Precious metals and the USD.
- **Sentiment & technicals (less so positioning) overdue a cleanup**: Gold finally broke through its $1790-1830 safety range - targets well known - with heavy volumes pushing prices to $1760; compressed assets usually burst 1way or the other. The next level of support is $1750, which should provide a credible floor, given the past appetite from a range of players (strategic long-term participants, Central Bank activity and potential resurgence in Indian and/or physical pent-up demand). IF Gold couldn't rally with FI rates in deep negative territory, it shows it requires a much larger event / shock to get it higher, versus a relatively smaller shock to topple it lower; we got the latter. The Delta outbreak could spur prices in time, but Gold required this cleanout of hopeful bulls before it responds to the post-Delta liquidity program.
- **Technically, a death cross & trade gaps to navigate with a weak close**: the death cross (50 x 200 DMA) printed in GCZ1 yesterday and its also quite visible in GLD, with plenty of trading gaps to contend with (the equity opens have instilled some cheeky gaps – the last was after the hawkish FOMC, which Gold has technically failed to reclaim since mid June (gold at $1830). GLD 166-168 is the new trade gap, which roughly translates into GCZ1 respecting $1775 as the new ceiling in the immediate term. GCZ1 closed the week off at $1763.10, a rather weak settlement and just a fraction below low print in June post FOMC.

THOUGHTS ON THE LABOR MARKET & NFP REPORT:

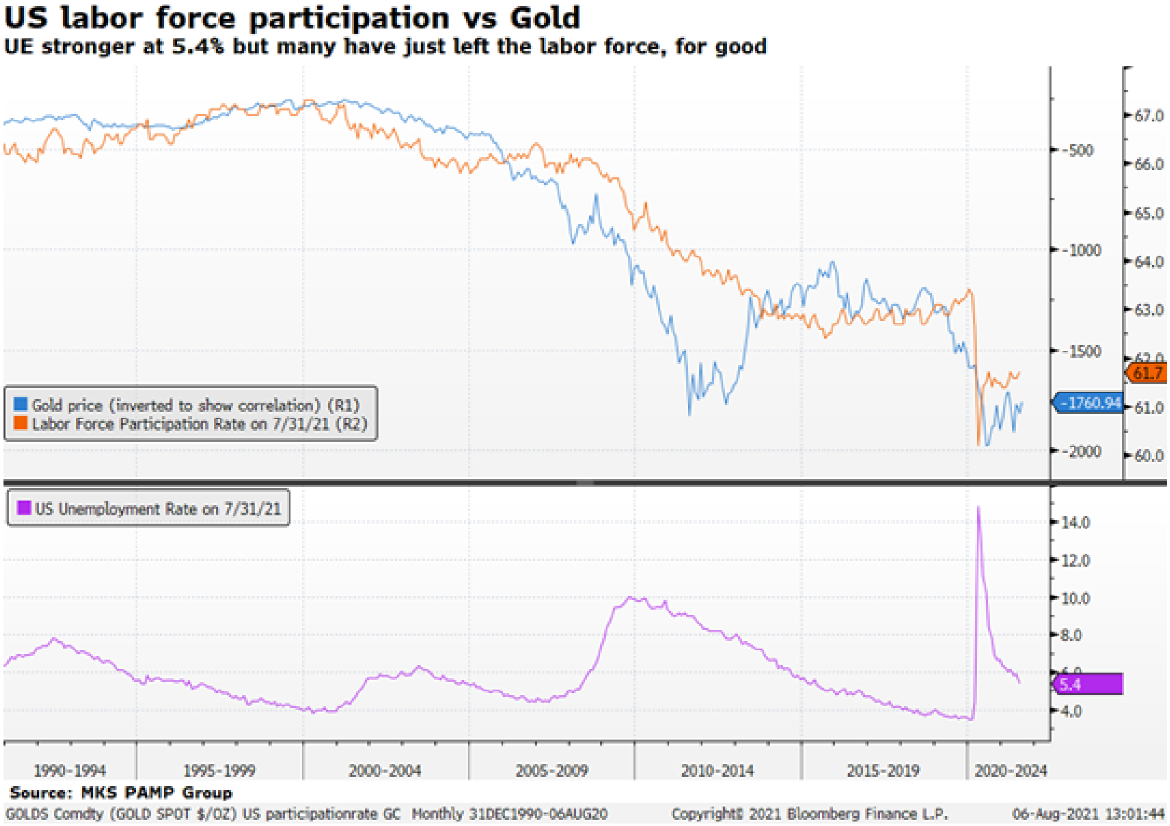
- **The NFP was a clear beat** of expectations across the board. Headline (+943K), UE (5.4%), revisions (higher) and AHE (4% YoY) surpassed expectations – there is more money, more hours (worked) and more people working, so surely the Fed can taper this year?
- **The September-Dec FOMC timeline is solidifying**, especially after this weeks Feds comments from Vice Chair Clarida (who's a Powell influencer). Powell will most likely use Jackson Hole to lay the groundwork (a mention that "substantial progress has been made" given 2 strong jobs reports in June & July), which will put September in play as the FOMC to officially announce taper details, with actual tapering beginning at the Dec FOMC/end of the year. Markets will

now trade the remainder of 2H'21 anticipating a cautious taper (Gold on the defensive, risk assets bid, USD$ bid and US yields higher > lower).

- **Good data is good for risk_Fed confidence:** It doesn't matter, for now, that this may be a 'token taper' (insignificant to really derail the inflation trade), or that the Delta variant may push out taper expectations (we have yet to see peak rates and/or that impact growth & inflation expectations which is coming). Good news is good (for risk) again, as markets have confidence that a taper tantrum repeat is highly unlikely, and the Fed has this under control…
- **Some dovish angles:** The short & longer term dovish interpretations in the labor report are 1) payrolls remain 5.7mn short of pre-pandemic levels (with many having simply left the workforce given participation rates), 2) a pickup in Delta cases is a risk to the pace of job growth in 2H, 3) the BLS warned of large distortions related to education-related government jobs ("staffing fluctuations" "challenging to discern the current employment trends"), 4) Most of Julys job gains were in the leisure and hospitality sectors – key, but fickle (sensitive to seasonal/Delta factors) service sectors, in which the next leg of the strong recovery rests on, 5) The Fed make up is due to change in October, where Biden can change 1 (but up to 4) vacancies, allowing the Feds mandate to expand (to labor market inclusivity, racial inequality, 2% AIT, climate change initiatives, etc etc).
- **Wages aren't high enough:** The RTO (Return To Office) has been complicated (by Delta) just as similarly the return to jobs is complicated by 1) Childcare issues/expenses, 2) enhanced UE benefits (which are lower than they used to be AND expiring soon), 3) concerns about catching COVID, 4) an extension of the eviction moratorium in some high transmission areas (providing rent relief); all cited reasons that have deterred Americans from filling record vacancies and alleviating the labor shortage. What is confounding is that there are still persistent labor shortages (the labor force participation rate is at decades+ low of ~62%) *even with wages rising*. People are not coming off the sidelines as fast as one would think, and money isn't incentive (i.e.: high) enough. Wages will likely need to go lot higher (inflation prints higher...) in order for UE to break the 5-6% range and entice those sidelined back to the labor force. Also equally confounding are how these out of the labor force (who aren't working by choice) are getting the means to survive (savings? Credit card debt? UE benefits & the eviction moratorium will end soon, Child tax credits? etc)

WHITE METALS:

- **The macro overhang of a convincing repricing in Gold below $1790, could ensure a reset for all white metals, without core demand**. Industrial metals are battling with renewed lockdowns in Asia which is expected to impact 2H physical demand (Copper & Crude is down 3 / 5% in 5days), although robust US & European data should ultimately alleviate some global concerns. Despite the pledge by Biden to ensure half of autos are emission free by 2030, that should not be a negative PGM catalyst in the short term (read: that does NOT imply electric only; hybrids will play a large part which arguably contain more PGMs than the current loadings). However, sentiment has turned weak (in Platinum's case) as CTAs/paper shorts ramp up (net spec positioning is now net short) into weaker auto demand (prolonged chip shortage), and a supply of PT sponge hits the markets as SA production recovers.



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