

## Delta—macro implications for risk and Gold

We have mostly covered the effect of the Delta variant in the dailies or individual thematic reports but have not dedicated a piece to it. That's changed because 1) the US—and thus financial markets—now cares as rates are spiking and its receiving ongoing (US) media coverage, 2) there's increasing more data of breakthrough cases where vaccinated people are getting infected (including key politicians), 3) lockdowns, masks and mandates are being brought back into the conversation. *Great*

The below summarize our thoughts around this and the macro implications for risk assets and precious metals

### Takeaways:

- Macro markets retain the “bad is good” mantra; the delta variant is simply a greenlight to inject more liquidity and is a net positive for risk assets. The ongoing spread will likely reduce the temptation for the Fed (and G-10) CBs to reduce their support as it arguably 1) pulls down (US) growth from explosive to less-explosive levels, 2) lowers inflation and growth expectations, 3) creates consumer anxiety depending on the spread and/or policy reactions
- A policy overstep could threaten a full recovery, because it impacts consumers mobility & thwarts a service sector ramp up. Policies are also increasingly politically divisive if vaccinated majorities are required to change lifestyles for the unvaccinated minority
- The vaccine is no silver bullet, expectations around the efficacy is waning, and a policy shift that makes life just as complicated for vaccinated persons as unvaccinated ones will not incentivize further vaccinations.
- US news cycle is expected to turn more negative as the case peak is ~1month behind the UKs. That is badly timed with when labor shortages should be alleviated (as workers return to jobs as UE benefits end) and most city workers return to the office once schools return. Wages may need to reprice much higher to entice in sidelined workers (Delta is just another excuse to remain at home) - another inflationary tailwind.
- UK as a test case, vs India: India cases plummeted with only 10% of the population vaccinated then (*and* without social distancing, enforced lockdowns, sanitizer etc etc) whereas the UKs peak started falling when a chunky 68% of the population was vaccinated. Herd immunity can take different forms - case counts can fall without the over-reaching grasp/controlling policies of big gov, in largely vaccinated states or countries
- **The excitement/risk-on exuberance behind the massive vaccine rollout globally is being walked back, which ultimately could be a positive catalyst for Gold. Not because of fear (risk markets are largely over & immune to the various waves & variants), but because of the post-Delta liquidity implications & expectations and potential policy missteps concentrating a bigger gov. Recall, Golds vaccine “discount” is ~\$150; it was never able to regain its peaks following the rollout, announced around the Biden inauguration.**

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### Thoughts on delta variant and macro implications

**Diminishing fears, good for risk, an excuse to print:** Like with any NEW exogenous macro shock, there's diminishing returns to every successive event. We saw it with QE (rising asset prices were increasingly less sensitive to every new round post GFC) to terrorism (subsequent global terrorist attacks post 9/11 had less of a negative impact on global risk). COVID-19 is no different and with each 2nd/3rd/4th wave and/or variant, financial markets are adapting because 1) extreme lockdowns are very unlikely, 2) the world & sentiment becomes immune (*pun intended*) to the ongoing negative news cycle of the virus spread, 3) a belief (hope?) that there'll be vaccines/boosters against future mutations. While Powell noted that the economic consequence of the delta variant is limited, the ongoing spread will likely reduce the temptation for the Fed (and G-10) CBs to reduce their support as it arguably 1) pulls down (US) growth from explosive to less-explosive levels, 2) lowers inflation and growth expectations, 3) creates consumer anxiety depending on the spread and/or policy reactions. **Thus, the irony is that macro markets retain the “bad is good” mantra as the delta variant is simply a greenlight to inject more liquidity (i.e.: delayed Fed taper / hiking trajectory, potential postponement of the end of UE benefits and/or stimulus checks brought back... Pre-midterms?) and thus is a net positive for risk assets**

**US facing 3 headwinds—Delta (and policymakers response!) is the largest one:** the US has arguably led a global growth rebound, but now it faces 3 headwinds 1) supply bottlenecks (of labor and goods), 2) a Fed taper, 3) the Delta variant. The Delta variant may be the largest headwind to near-term growth but it depends how consumers and policy makers react. LA and Bay area has brought back the mask mandate, NYC requires proof of vaccine for indoor restaurants/gyms; the irony is that largely vaccinated (and indebted) blue states are the ones responding most to the Delta spread. A policy overstep could threaten a full recovery, because it impacts consumers mobility (people become too anxious to go out and visit bars/restaurants—the service sector the economy requires to ramp up in order to maintain current strong growth). **Its simple, for the growth to continue, people need to mix and the economy needs to be open.**

**Expectations of the vaccine being a silver bullet is a let down:** it does not stop transmission — given plenty of new breakthrough examples—it prevents death/serious illness. Just recently the UK's new health minister and Senator Lindsay Graeme tested positive—both double vaccinated with presumably the finest vaccine (*if that's the thinking*); that shows up that the vaccines are not as bullet-proof as perhaps many had hoped for. Another example of broad-based skepticism is the fact that vaccine shares prices (Pfizer) are lagging the WFH stocks. If expectations around the efficacy of the vaccine is waning, a shift in policies that makes life just as complicated for vaccinated persons as unvaccinated ones (travel bans, masks, pseudo lockdowns), what is the incentive *now* to get vaccinated for those—especially the young/healthy—who are on the fence? Why do the vaccinated majority need to change lifestyles for the unvaccinated minority? **Questions being asked that surely deepen political tensions in an already divisive country**

#### Some background facts:

We know the facts: it's more transmissible than previous variants and has shown to “break through” the protection provided by vaccinations. However the vaccines largely remain effective at preventing severe disease and at preventing death.

It's the variant now responsible for the increase in US rates (Florida & Texas now the new epicenter where states like Mississippi and Louisiana—where only 3/5 are fully vaccinated—are seeing sudden outbreaks).

More worrisome, is that it's so infectious that EM countries or low vaccinated (DM) ones will struggle to vaccinate to the threshold of herd immunity, that stops its spread.

South East Asia was/is a hotspot—Indonesia was the “new India” (rates are now falling), Thailand just expanded its quasi-lockdown that covers 40% of the population, Wuhan is testing their entire population after the virus resurfaced, and Australia has gone on a totalitarian lockdown



The timing couldn't be worse: the US is about a month or 2 behind the UKs case trajectory while the UK launched 'Freedom Day' just as cases were spiking (peak case was mid July), they (correctly) focused on deaths & hospitalizations; that doesn't ensure the US follows the same outlook especially as markets needs to contend with the media in which the news cycle will become increasingly negative. This is timed with September—the largely consensual “back to school / back to office month” and a when enhanced UE benefits end (becomes universal the end of September) - read: the time when labor shortages should be alleviated as workers return to jobs with now, higher paying wages... However, the 'Delta spook' could just be another excuse to stay-at-home, and essentially implies that wages need to shift a lot higher to entice (anxious) workers back. Super inflationary.

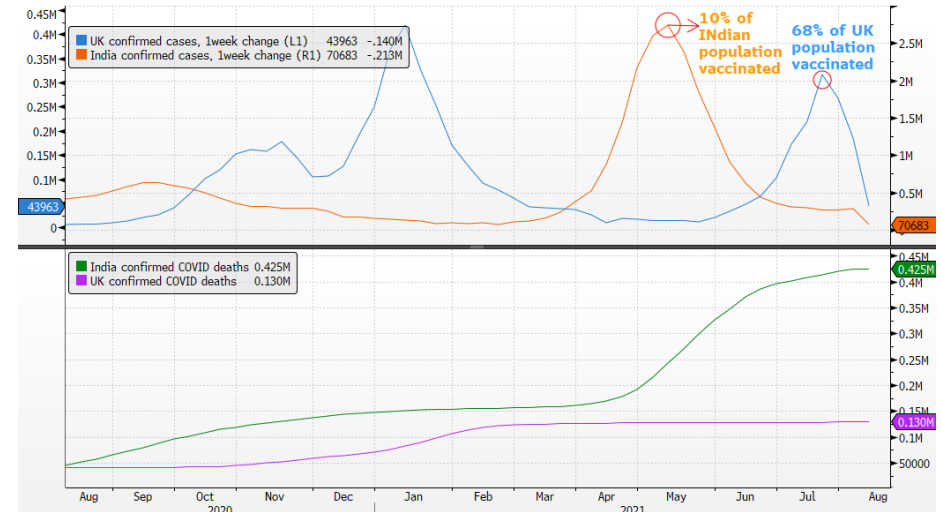
UK as a test case, vs India: The Delta variant spread in India was horrific in Q2 this year, with their case count peaking in early May. However their cases plummeted with only 10% of the population vaccinated then, and arguably without social distancing (its somewhat impossible in parts of India and other emerging countries), lockdowns, sanitizer etc etc and all the medical luxuries (such as easy/quick testing, access to healthcare) the West enjoys . By comparison, the UKs peak started falling in mid July when a chunky 68% of the population were vaccinated. Yes, vaccines drastically lower death rates, but the point made is that herd immunity can take different forms and case counts can fall without the over-reaching grasp & controlling policies of big gov, in largely vaccinated states/countries in which the vulnerable are protected.

Delta spread: COVID confirmed cases in US vs UK
US is 1-2months behind UK peak COVID



Source: MKS PAMP Group, Bloomberg
NCOVGBCA Index (Coronavirus (2019-nCoV) U.K. Confirmed Cases) Covid US vs UK Da
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Delta spread: COVID confirmed cases in India vs UK
2 peaks, 2 very different vaccination rates...



Source: MKS PAMP Group, Bloomberg
NCOVGBCA Index (Coronavirus (2019-nCoV) U.K. Confirmed Cases) Covid India vs UK
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