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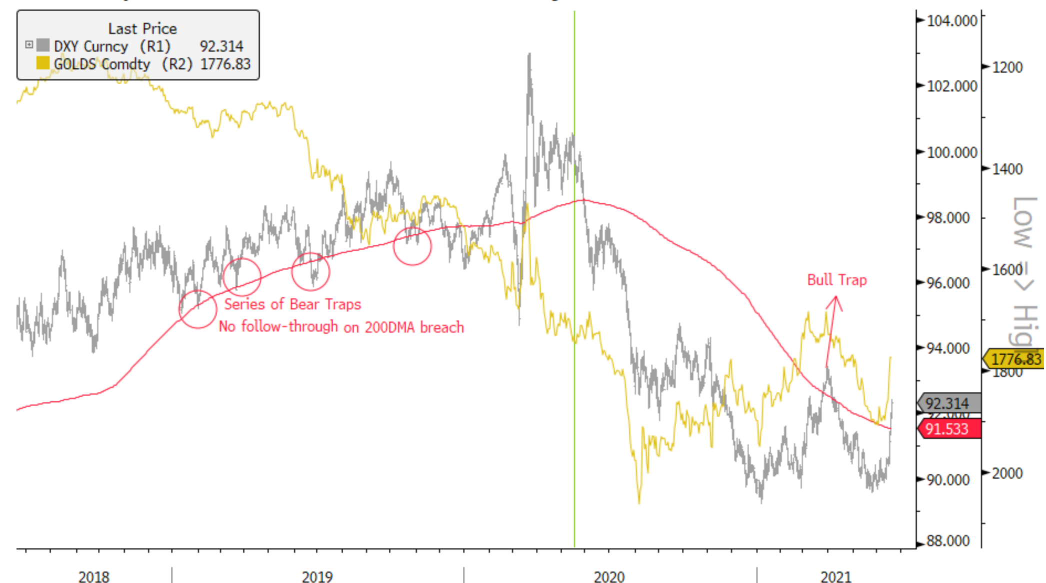
Given the outsized and pivotal repricing across metals, global currencies and rates this week, following the hawkish Fed tilt, its worthwhile to outline our thinking and framework for a range of asset classes and precious metals, as we head into the summer.

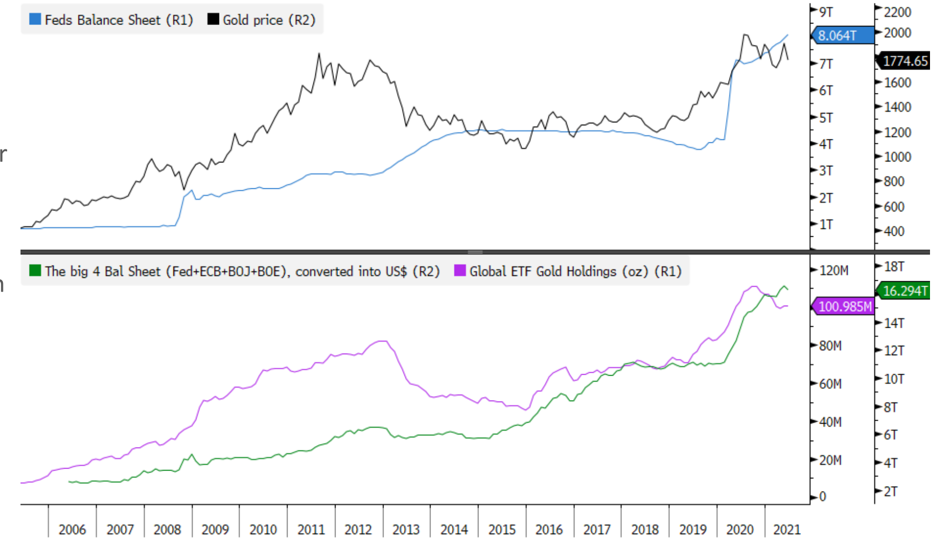
Macro & geopolitical thinking: Watch upcoming summer data (labor and inflation stats), Fed speak, and the dollar & break evens for hints to get back into inflation / hard asset trade.

- **Macro market reactions asymmetrically channeled into FX repricing (strong USD), because the Feds influence of ample and predictable bond purchases ($120bn/mo) is keeping yields pinned low.** The massive disconnect remains between what 'should be' (high rates to reflect red-hot US economic growth, inflation beats, a reflation/ commodity boom, high vaccination rates/strong consumer spending) and 'what is'. Thus the USD (and Gold) shouldered most of the blame post Fed

- **USD needs more from the Fed to really break 2021 range:** The DXY saw daily 3 sigma rallies, catapulting from 90 (last week) to 92.30 with major G-10 losses largely in the commodity sensitive currencies (WoW, AUD –3% , NOK –4%, CAD –2.3%) ,as the reflation theme unwinds. However, the DXY has historically been technically tricky and resilient to trade especially around the pivotal 200dma with plenty of false breaks (bears traps in 2019 despite CB easing measures to the US/China trade war) and the more recent bull trap in March/April up at 93/93.40 (Graph 1). While short-USD has been the over positioned consensus trade, its unlikely, *without* further acknowledgement of tapering from the Fed, that theres a repeat of this weeks massive unwind.



- **Is it about aggregate liquidity or the pace of liquidity growth? TBD:** The Fed has confirmed they will allow ample time for the market to react to tapering (advertising intent?), which the market may not wait for. Currently, the markets are still digesting the most powerful monetary (+ fiscal) response in history , that has ensured easier financial conditions, an enormous amount of liquidity leading to the resurgence of the retail investor, among other phenomenons. Graph 2 shows the supply of money— Feds Balance Sheet (at $8.1tn) vs Gold and vs other CB Balance Sheets. That helps showcase that even with the pace of liquidity growth slowing/tapering, the total availability of cash, liquidity and money in the macro system remains unrivaled by any historical metric. Rates and Gold pricing going forward will provide insight on whether they are past the point of no return (i.e.: tapering has no sizeable effect on pricing) or not.



- **US politics —> never underestimate the influence on monetary policy in medium term:** While the narrative now is that the Fed will commit to tapering soon, and wont be behind the inflation curve, that becomes a lot trickier down the line, if /when any further fiscal stimulus (i.e.: the infrastructure bill) doesn't pass. There is every incentive for Democrats (given conventional wisdom & history pointing to losses for newly elected presidents) to maintain 2021 economic outperformance into the midterms in 2022. On the flipside, any Fed taper in the face of a fiscal drawdown could trigger a similar taper tantrum in 2013.

- **Inflation, reflation & stagflation —> commodities not 1 basket anymore**: the Feds rhetoric was enough to tame inflation itself this week, with the collapse in breakevens and other inflation hedges. Powell also reminded us that deflationary forces ($28tn in debt, technology deflationary forces) are still in effect. So while precious hasn't really kept pace with the broader commodities bull run (naturally, given the overly eager risk-on/growth-on/liquidity-on narrative pushing outperformance in typical growth commodities like oil/base), some subsector rotation (away from growth- to haven-commodities like precious) is possible if the narrative shifts from reflation to stagflation (well at very least, the idea that peak growth & peak liquidity is being behind us)

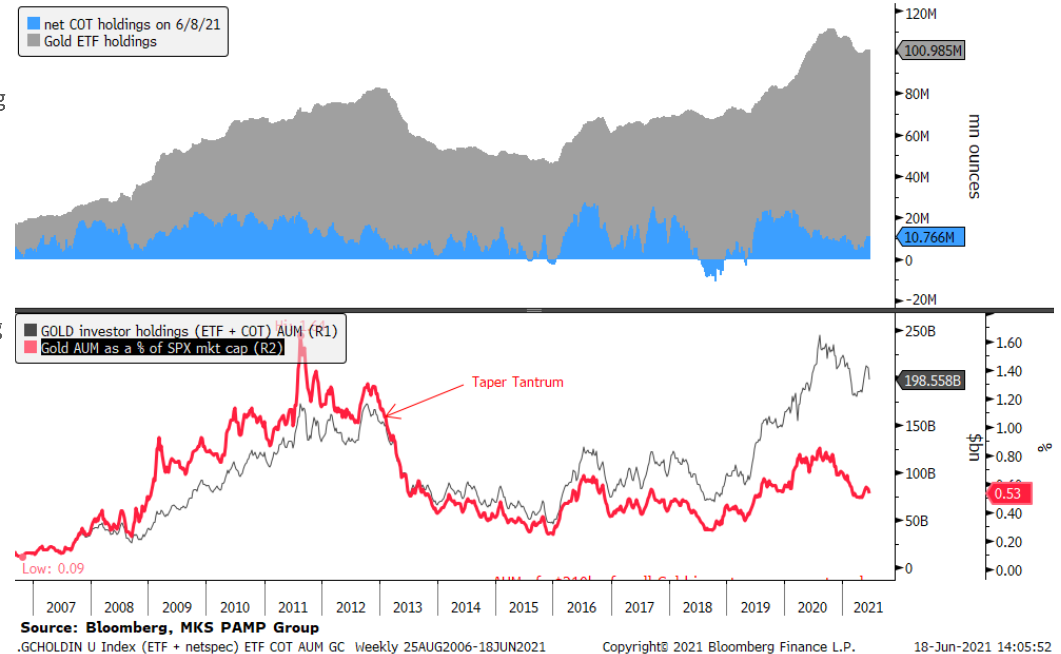
- **COVID, vaccination rates/reponing's should begin to impact European assets/ EUR strength:** the gap between US and European growth rates should begin to narrow as the market begins to position for an upgrade to European growth/reopening theme (this week Europe opened borders to US residents), just US peak liquidity/ growth begins to fade. That should drive upside in Euro assets and the EUR, ultimately supporting commodities once the dust from this week settles.

- **Geopolitics remains a non event / mute-driving force of markets:** the Trump era, with massive headline risk that consistently drove market action, is well behind us. As such, the bar has been set rather high, so despite recent tremors (Iran, Israel-Palestine conflict, Russian cyberattacks), risk markets remain undeterred. Bidens reasonably successful week (G-7, EU summit, Nato, Putin meeting) enforces the renewal of multilateralism and simply provides tailwinds to equities.

GOLD:

- Gold has shifted from playing offense (looking for bullish catalysts to escape $1900+) to defense, post-FOMC; its now fighting plenty of headwinds (potentially further USD squeeze, higher real yields, shifting equity flows, a commodity rollover, prospect of stronger US data).

- In addition, the **bearish case** is growing around the following:
    1. The risk reward for upside is not in its favor at these ranges & levels given the newfound headwinds (i.e.: -$100/+$50)
    2. Strong US data will likely now trigger price sell-offs vs pushing the inflation trade
    3. If rates remains pinned & low and lackluster data supports a put Fed, the continued convergence of risk-on and stimulus drives outperformance in other higher beta sectors (gold does well but doesn't outperform)
    4. The Fed is driving the narrative that they will be proactive & not be behind the inflation curve. Plus they have just proven that they can simply talk inflation down with rhetoric.

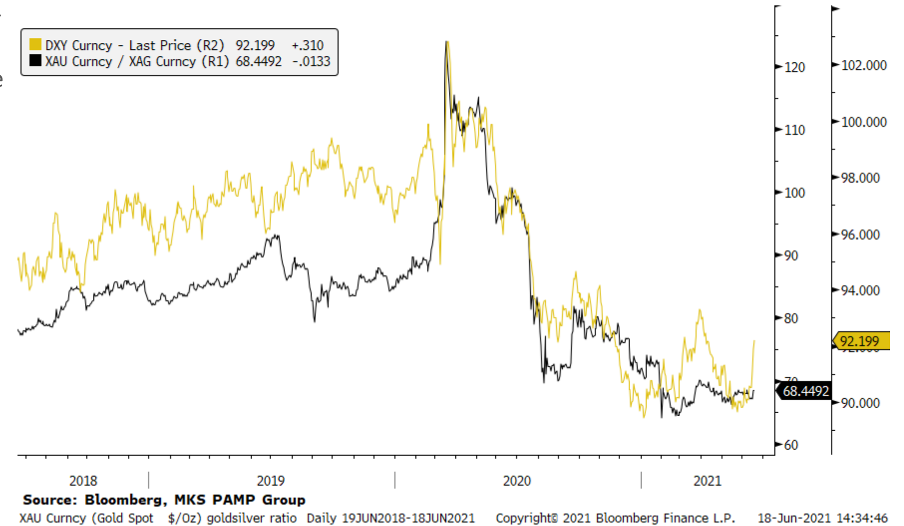


- The drivers for Golds **neutral-bullish case** are:
    1. Gold is already down over 7% since the peak last week. It has also already overshot versus both USD trends ($1760 is the regression implied fair price even if DXY extends to YTD high of 93.40) and US real rates
    2. Positioning has been cleaned out & Gold is not nearly as overweight/heavy as previous price peaks and taper tantrum episodes (2011, 2013), and especially *relative* to the amount of liquidity/money sloshing around. Even though a full set of data (ETF, COT & Agg OI) isn't available, the recent changes in OI is abnormally small (Agg Oi –3800 over 2days) suggesting its move was driven by fresh shorts (OI +) offsetting longs exiting (OI-). In addition, theres $200bn invested in Gold (known ETF + COT length), which is only ~0.53% of equity portfolios (on AUM basis), or half to 1/3rd as much as levels seen in 2011 and 2013.
    3. Its the *aggregate* level of liquidity in the system (not the pace of growth) that continues to drive an appetite for real assets.
    4. De-dollarization policies of many CBs driving growing reserves (see previous note on June 15th here)
    5. Peak Indian demand weakness is likely behind us (declining daily cases, phased unlocking of businesses, and a pick up in vaccinations) which should provide tailwinds for prices. Asia is also returning at these attractive levels.

—> Golds floor remains nearby as Gold-specific outflows are largely behind us. Remain vigilant/neutral as prices are now more sensitive to how US data unfolds in the leadup to Jackson Hole, Fed speak, and where real yields and the USD trend to.

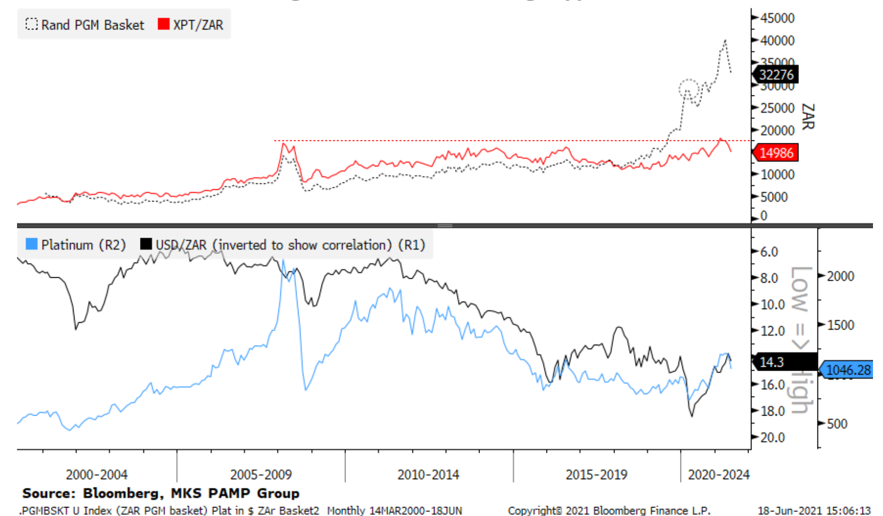
Silver:

- Silvers thinking largely mimics Gold, and this hawkish regime shift has Silver on the back-foot. Much has changed since our call outlining the growing bullish case for Silver (note sent on June 10th), and while most fundamental drivers still persist, Silver can't outshine Gold too much when the macro backdrop is this dominant.
- Given the persistent hemorrhaging in Gold, with it posting > 5% 5day declines, and the repricing in Copper, there was certainly capacity for Silver to put in even larger declines (as its historically done), which it hasn't. That highlights strong fundamental and physical support emerging at lower prices, which has kept the Gold/Silver ratio rather low and contained below 70.
- ETFS have remained unchanged (~940mn oz) and OI has seen a notable drawdown of ~11.5K lots (as July longs exit, preferring not to roll/lend into September) so far. Positioning remains clean.
- Silver settled on the week at $25.969, just above the weekly 50DMA which has held since June 2020. With 1) Fundamental demand remain mixed (strong NA demand, weak but turning Indian & Asian demand). 2) Macro headwinds stemming from Gold & the Fed, 3) no sign of a global Silver shortage (though there are pockets of shortages and dislocations), the outlook remains largely neutral from here, until further catalysts arise.



PGMs

- Platinum closed the week at $1041/oz, almost a YTD low and underperforming Gold with its discount widening to -$722. Palladium closed the week out at $2469 as it posted steep losses yesterday once a respected technical floor gave way. The sizeable move in ZAR through 14 vs the USD contributed to the pressure, as well as investor deleveraging. The PGM Rand Basket seems to have really rolled over but still remains at appetizing levels for producers…
- Given half year and the summer is a traditional seasonal weak period for PGMs (fabricators reduce demand for metals, autos retool for new model releases in Q3, producers downsize stockpiles / pipelines), PGM prices may continue to trade heavy into July.
- However, both dips are potentially medium term buying opportunities as Platinum's longer term hydrogen story continues to build momentum (although it requires a spark) and Palladium is running structurally short (with recent producer shutdowns likely to negatively affect balances in 2H) .



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