



Gold flash crash – toast or opportunity?

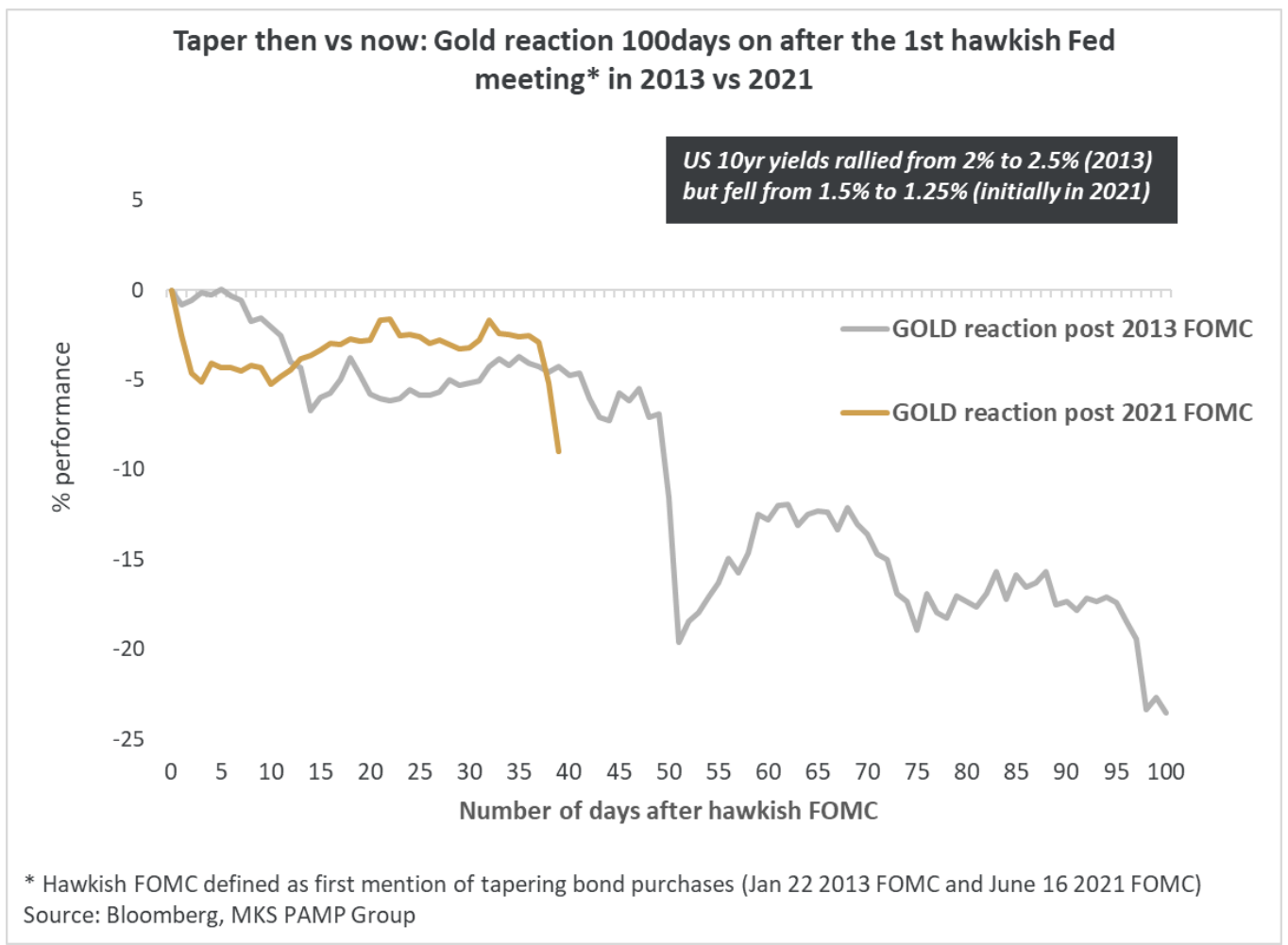
A few quick points on the overnight 5% Gold and 8% flash crash in gold.

- Dec Gold futures hit a low of \$1677.90, about an hour after CME 6PM open. The majority of the sweep through \$1700 and through \$23 (SIU1) was actually on low volumes (~3200 lots & 1300 lots respectively), which highlights the lack of physical support and participation since, as well advertised, both Singapore and Tokyo are on holidays today, creating illiquid backdrop.
- This was targeted Gold & Silver selling (PGMs remain largely unchanged, but on the backfoot), as repricings were concurrent. I imagine a fresh CTA program, with little appreciation for overnight liquidity standards, is the culprit, over an discretionary (and respectable) account/fund given the overhang and threat of spoofing and /or market manipulation fines in today's era.
- The size and scale of the moves, don't provide any favors for gold and any sidelined bull or bearish activity. Choppy illiquid and unexplained moves, make gold 'bitcoin-like' and it loses some of its safehavens appeal. Speaking of which, its no coincident Bitcoin hit a new cycle high though \$45,000 and seems that the inverse correlation between Gold /XBT has rekindled.
- Gold's overnight move has led the commodity complex. Crude is down almost 4% (with the spread of the Delta variant in Asia blamed) which has impacted commodity currencies. There is a persistent unwind of inflation/commodity exposure, ahead of the key CPI this Wednesday; there is also high conviction & confidence that the Fed will be successful in containing inflation and leaning hawkish, after the NFP print.
- We initially thought we would not encounter a repeat of the 2013 taper tantrum where Gold plummeted \$300 in days, but given the disappointment around its inability to rally on real rates, it likely needed a washout of sentiment/hope and some positioning (see attachment). *Just not this glaring!* Graph 1 highlights Gold performance in the 100 days after the 1st hawkish 2013 FOMC and the June 15 2021 FOMC (which was the 1st hint at taper); this post NFP move looks and feels eerily similar to the April 2013 repricing. We still believe a repeat of 2013 is unlikely but conviction is waning as Gold is now technically toast and requires some resilience to stave off some key levels. There is a triple bottom at \$1675/80, and a break of that opens up \$1550, and then \$1450 (\$1450 is the end 2019 low and initial COVID low in March 2020). On the topside, a retaking of \$1750 would help install confidence (and hold off a move lower). It should remain relatively quiet into Wednesday's CPI.
- The Dec EFP shifted from \$1.40 to \$3 on the overnight move which some suggest implies OTC selling was the lead lower. There's also been an overreach for put exposure with the vol curve shifting into a (short-lived) back also indicating the market was caught off-guard and not factoring in such a vicious move lower.

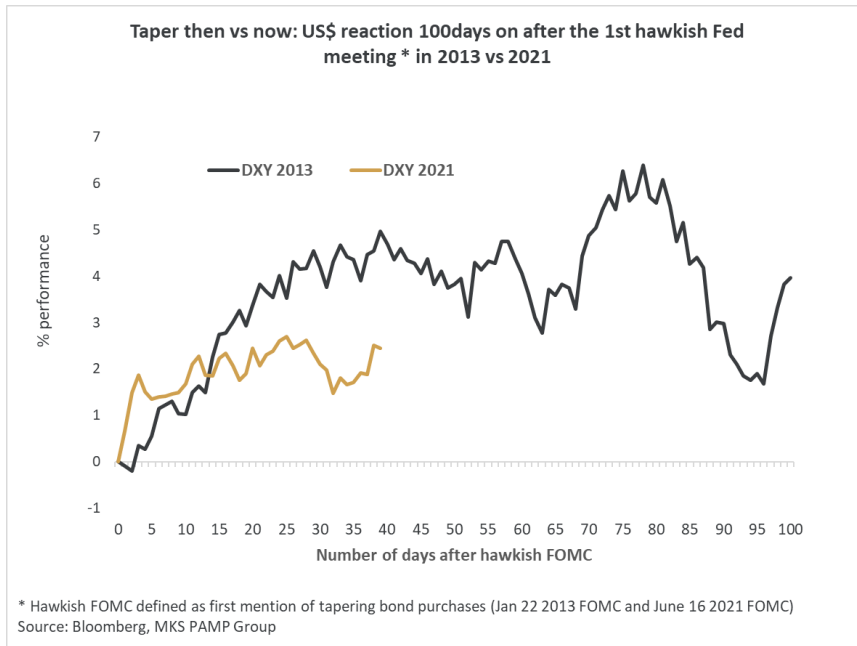
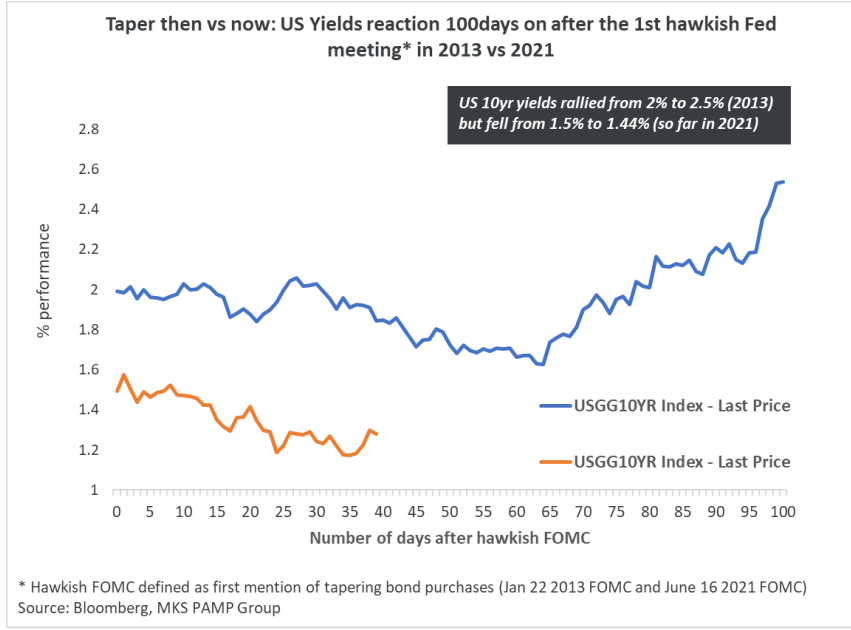
Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.



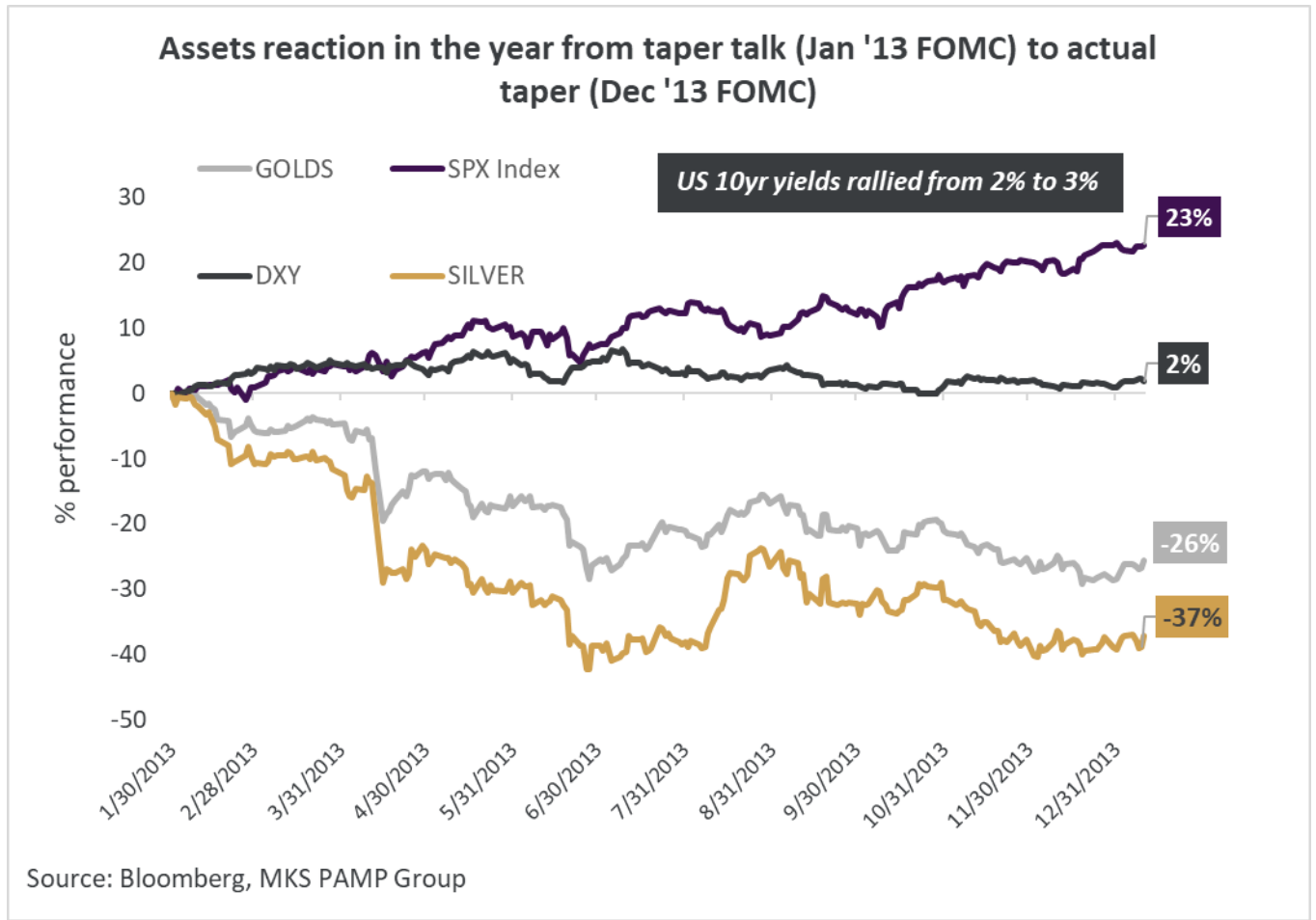
- Sentiment around the trajectory of yields (consensus is for notably higher US yields across most banking research analysts) has grown louder after the strong NFP report; its mimicking the narrative seen post June 2021 FOMC. Through this lens, its little wonder the least illiquid, rate sensitive assets (Gold & Silver) are hit first. It takes some muscle to get the big blob of Fixed income to decidedly shift and gain momentum; it doesn't take much (*clearly*) for gold to reprice.



Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.



Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.



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

Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.



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 Fed's 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 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 people (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?)

GOLD, PRECIOUS METALS:

- **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.

Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.

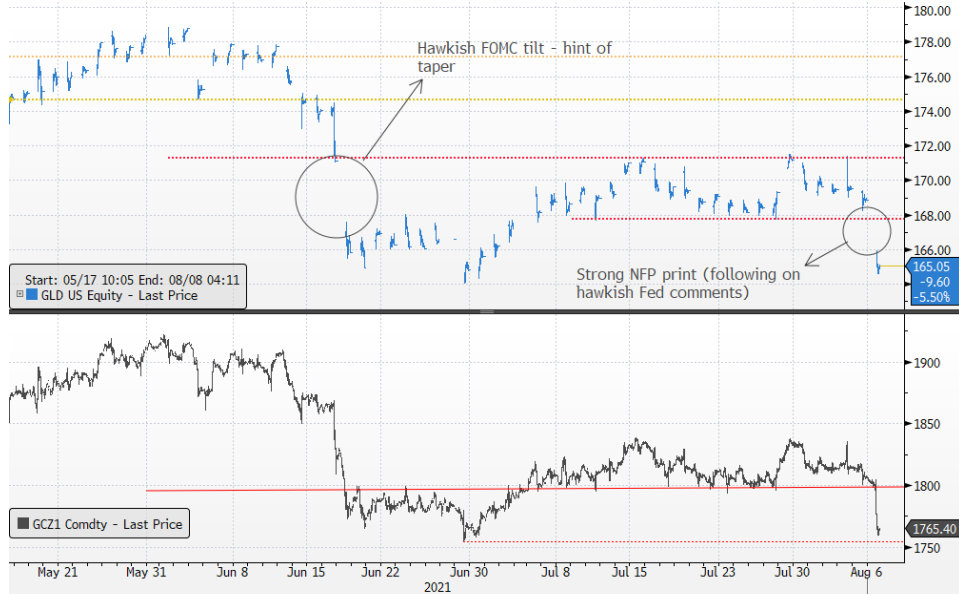


- **Sentiment & technicals (less so positioning) overdue a cleanup:** Gold finally broke through its \$1790-1830 safety range - targets well known - with heavy volumes pushing prices to \$1760; compressed assets usually burst 1way or the other. The next level of support is \$1750, which should provide 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 trading 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.
- **The macro overhang of a convincing repricing in Gold below \$1790, could ensure a reset for all white metals.** Industrial metals are battling with renewed lockdowns in Asia which is expected to impact 2H physical demand (Copper & Crude is down 3 / % 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.

Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.

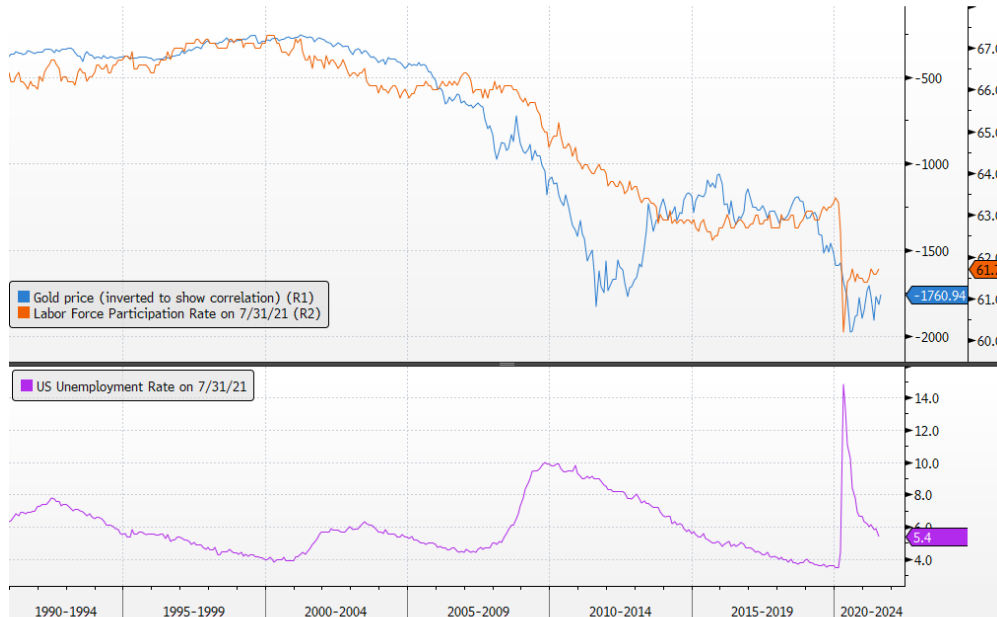


Pre vs Post FOMC (Gold/GLD) ranges
GLD technically respecting the trading gaps



Source: MKS PAMP Group, Bloomberg
GLD US Equity (SPDR Gold Shares) GLD intraday tech 180 Days 30 Minutes Copyright© 2021 Bloomberg Finance L.P. 06-Aug-2021 14:03:09

US labor force participation vs Gold
UE stronger at 5.4% but many have just left the labor force, for good

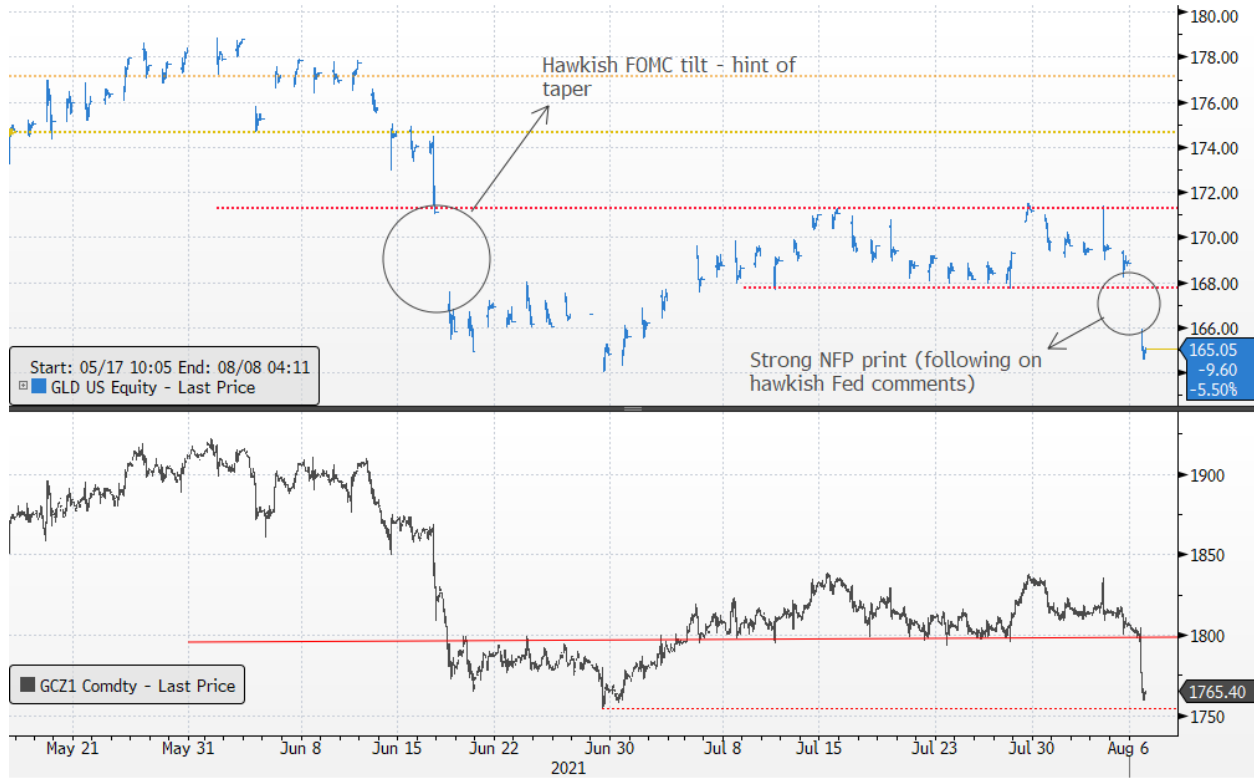


Source: MKS PAMP Group
GOLDS Comdty (GOLD SPOT \$/OZ) US participationrate GC Monthly 31DEC1990-06AUG20 Copyright© 2021 Bloomberg Finance L.P. 06-Aug-2021 13:01:44

Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.



Pre vs Post FOMC (Gold/GLD) ranges GLD technically respecting the trading gaps



Source: MKS PAMP Group, Bloomberg

GLD US Equity (SPDR Gold Shares) GLD intraday tech 180 Days 30 Minutes

Copyright© 2021 Bloomberg Finance L.P.

06-Aug-2021 14:03:09

Although the information in this report has been obtained from and is based upon sources MKS believes to be reliable, we do not guarantee its accuracy and it may be incomplete or condensed. All opinions and estimates constitute MKS' judgment as of the date of this report and are subject to change without notice. This report is for informational purposes only and is not intended as investment advice, offer or solicitation for the purchase or sale of an investment. This report does not consider or take into account the investment objectives or financial situation of a particular party.