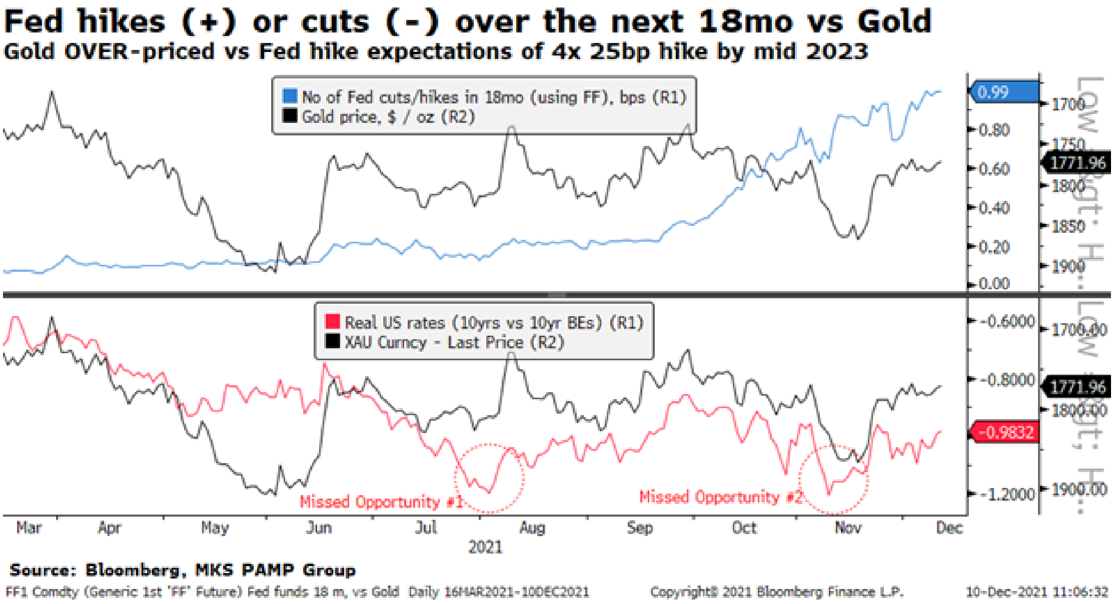
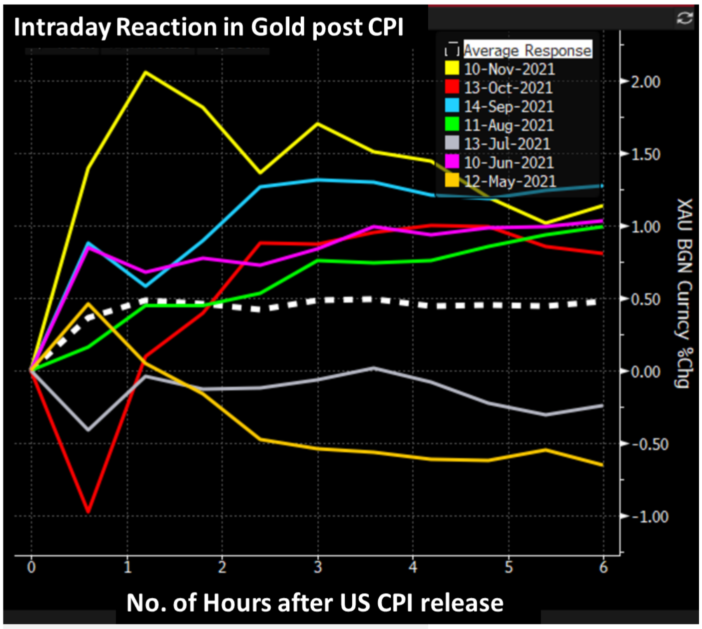
CPI & Gold





Source: Bloomberg, MKSPAMP

Gold is currently on track for its worst weekly run since 2009 (*credit to Bloomberg reporting*) before todays all important CPI data. Some would argue, what does gold know…. *(i.e: its going to be a big CPI beat which will further accelerate the growing hawkish narrative).* The news cycle around the vaccine remains rather mixed for gold; theres the view that its over 4x more transmissible than delta & countries are imposing further curbs (eg: UK, HK), vs continued evidence from S.A that despite case jumps, hospitalizations remain manageable.

We've argued, its mostly all about the Fed cycle & inflation, and this new variant has NOT given Powell reason to pause/lean dovish. That's translated into a massive pricing of rate hike expectations; already over the next 18 months, the market expects 4x rate hikes (and one can never rule out a surprise 50bp knock). Graph 1 highlights this together with the move in real 10year rates (Gold favorite influencer).

Expectations are for a 6.8% YoY increase (core 4.9% YoY) which is already much higher than last months 6.2% print. **However, the whisper no. and thus market positioning is arguable even higher** as October-November were months of broader inflationary pressures (higher energy prices, escalating supply-chain bottlenecks, higher rents, etc). Thats somewhat visible in gold positioning (200K oz was added to Agg Oi over the past 2days on price pressures suggesting fresh shorts, not long liquidation). **A much higher print ramps up political pressure on the Fed to end tapering sooner, and provides impetus for hawkish paper shorts to press gold into another event risk (FOMC next week) and yearend.** The structural bullish point that the Fed/Powell will face political pressure, is NOT playing out in Gold; very few structural drivers are relevant right now. Besides, Powell has shown he can stand up to criticism (to Trump!) very well, so certainly can face backlash from the Dems, while trying to uphold a reputation (he cant go down as the Fed Chair who did nothing in the face of persistent inflation) *But I digress…* So, **a goldilocks print - not too hot, but not too cool - VS expectations (so say 6-7%), is likely the best bullish backdrop for any Gold bulls to participate on dips; its just enough inflation for Gold to play its part as a hedge (especially now that crypto is seemingly at dangerous technical levels after the recent washout), while not enough to accelerate a Fed taper.**

Graph 2 highlights Golds past kneejerk/daily reactions to the monthly CPI print, since inflation starting its rear is head (May 2021). Theres been 7 CPI prints over 4%, and the number has decently beat expectations 5 out of these 7 times (Nov print of 6.2% vs 5.9%exp, Oct, July, June & May prints). Takeaways:

- ON average, Gold is up ~0.5% 6 hours on after these past 7 PCI prints. i.e.: there seems to be a lot of preemptive shorts/positioning that unwinds on the fact (CPI release).
- The kneekjerk reaction within 1hr after the most recent prints (Nov + Oct which saw decent beats off higher bases) was wrong and should be faded.
- The Sept & Aug prints which were pretty much on point, saw gold trade mildy positive/bid into the close
- Gold prices currently ($1770) are heading into this CPI at its 2nd cheapest level (the August 11th CPI print for July was when Gold was its cheapest at $1730). 5/7 of the last CPI prints

occurred when Gold was >$1800.

- After putting in massive technical failures recently (trendline resistance nicely broken across both futures & OTC), Golds now revisiting trend support (extending back to 2019) at a key moment/event risk. Graph 3.

Sooo… despite gold putting in its 4th week of declines and risk/reward not really in in its favor being short (eg: -$20/+$50 to $1750/$1820), I'm super respectful of 1) technicals *(what can't go up must go down)*, 2) lack of liquidity around event risk (CPI, FOMC), yearend and reduced physical demand (allowing paper shorts to push…), 3) growing hawkish Fed narrative, IF CPI 'allows' for that. It's a tactical view…. Stagflation (a core longer-term bull view) has yet to be fast tracked into asset classes at the moment

**Approved for all external purposes*

MKS PAMP GROUP B.V. | World Trade Center - B Tower, 867 Strawinskylaan, Amsterdam, 1077XX Netherlands