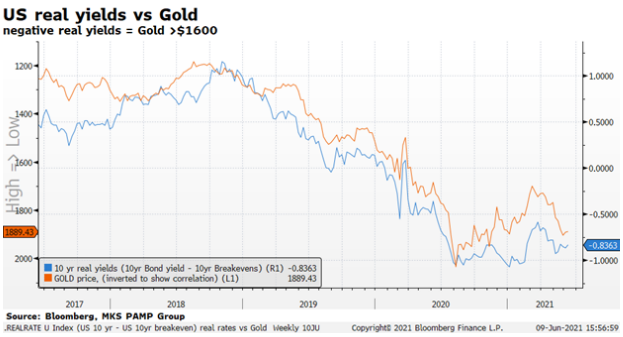
US CPI Preview & Daily U.S / European Metals Wrap



THOUGHTS ON US CPI:

· **US rates market isn't internalizing any tapering fears** showing confidence the Fed stays pat/behind the inflation curve.

· **Another "Goldilocks" CPI no** tomorrow, similar to the NFP report (i.e.: warm enough to sustain the inflation trade but not hot enough/repeat of last month to trigger taper fears & hikes) is the optimal outcome for upside precious. **A red hot no. will hit risk assets** (like last time) and trigger higher REAL rates which would hurt precious pricing, which is counterintuitive to some thinking.

· With expectations coming in at +4.7% YoY (+3.5% for core prices), vs the +4.2% YoY seen last month (considerably higher than the +3.6% expected), that is still a **rather high bar and internalizes the fact that the US consumer has roared back** while there's a shortage of everything from lumber to computer chips and labor. A single months data is no trend, making tomorrows number so tricky, but if suppliers adjusted to supply bottlenecks and sourced material amidst a pandemic and lockdowns in 2020, there's hope these price pressures are in fact transitory.

· The Chinese inflation no's overnight (a PPI rise of 9% YoY, its highest since 2008) indicates that there's **global inflation** (not just US inflation) to contend with. Additionally, this may lead to **US/China policy divergence** with a dovish-leaning Fed and relatively hawkish PBOC ; already China has vowed to control inflation and continued to curb & control commodities markets *(calling for price caps on thermal coal to tame inflation)*. Relatively looser US monetary policy vs China should lead to precious outperformance vs base & bulk metals in the medium term.

DAILY WRAP:

· **US 10 year yields** was todays highlight and dropped heavily before the 10yr auction to 1.47%, as the reflation trade takes a pause with growth expected to moderate leading to some repositioning. That didn't translate into a sizeable breakout in precious metals, given real yields remained flattish on a similar move lower in break-evens. Chart 1 shows the close correlation between US 10yr real yields (remaining rather trendless) and Gold.

· **Gold, Silver** remained in a holding pattern before tomorrows no, with both eating into heavy resistance littered around $1900/oz and $28/oz respectively. With overall positioning across both friendly and long but not overreaching, recent ranges need to break in order to entice in fresh interest. Lean long and play the ranges but respect the technicals (Chart 2 shows Silvers short-term technical backdrop).

· **PGMs**: both Platinum and Palladium continued to drift lower toward $1150/oz and $2770/oz after the US equity open in a dull day of trading a tight range. The sizeable weaker move in ZAR to ~13.75 vs the US$ likely contributed to the pressure.

· **U.S. stocks** closed lower after holding in a tight range recently near ATHs; the rally in commodities also stalled led by WTI which held the $70/bbl handle, while the USD regained most of its losses into the NY session, closing almost flat. Most major asset classes showcased some itchiness within ranges ahead of the ECB and US CPI.

· Recent talks have fallen short for an **Infrastructure Deal**, with Biden ending a weekslong effort with Senate Republicans on his expansive $1tn+ ("green new deal") plan. If revived, a potential new tailwind for EV-centric commodities like Copper

· **Bitcoin** participants keep talking up the fearful $30,000 handle; the recent unwind from $60,000+ in has not infected broader risk & sentiment as many expected, but a second leg lower is more likely to. El Salvador became the first nation to adopt bitcoin as legal tender, but this is unlikely a game-changing event…

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