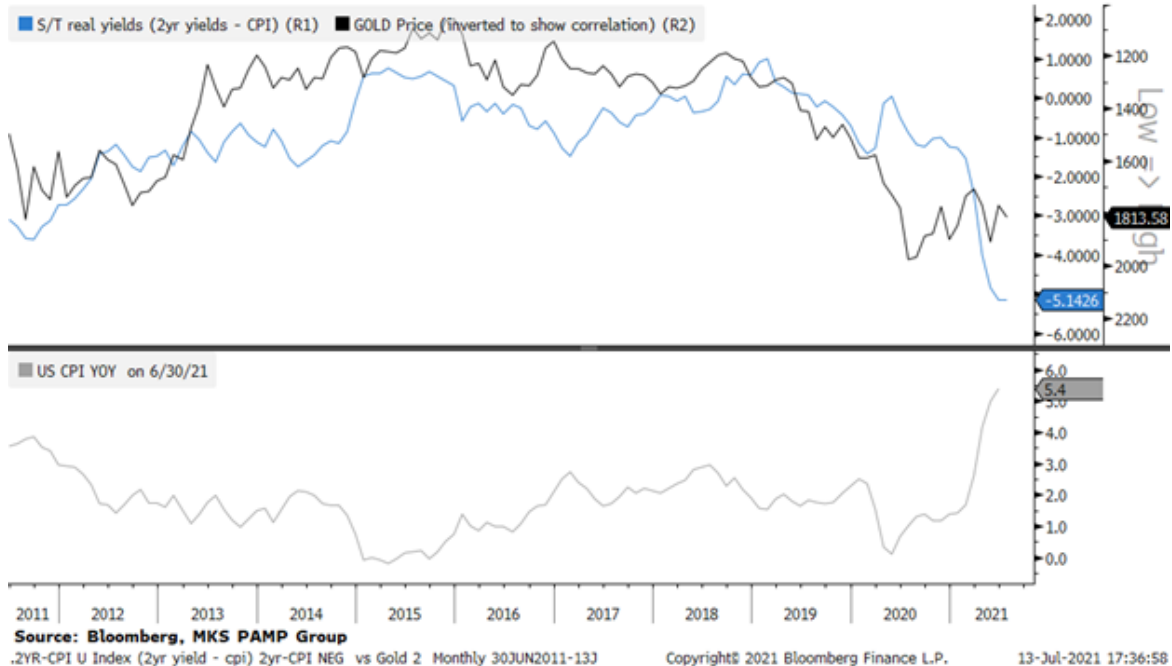


Daily European Wrap

Short-term real rates vs Gold

steeply negative real rates arguing for much higher Gold prices



- Macro sentiment remained buoyed with US stocks climbing post CPI print and after some mixed Q2 results from US banks. Precious metals remained steady and contained into the number, which was the first “fresh” reading we got post hawkish FOMC tilt. The pace of US inflation picked up again AND exceeded expectations, challenging the Fed’s case that inflation is transitory/temporary. CPI YoY came in at 5.4% (vs 4.9% expected) and now is the 2nd month of over 5% CPI prints. Base-effect distortions, which was the excuse for high prints recently, is losing its potency starting with this report. However, the market reaction – across Fixed Income, equities, commodities and USD – looked through the noise into the details and the fact that the majority of the CPI came from “transitory” contributors (like air fares, used cars, lodging/travel away from home), which supports the Fed’s transitory view.
- Gold and Silver saw extremely choppy price reaction after the print, with Gold swinging \$1800-\$1815, showcasing that dips are very short-lived. Silver saw similar price action with dips below \$26 capitalized on. The series of higher lows is constructive. **Overall, with sustainably lower real yields, given US treasuries failed to really breakup/out, the bullish argument is firming up even more for gold.**
- Graph above shows real short term yields (i.e.: CPI - 2yrs yields) vs Gold pricing, and the close correlation they’ve enjoyed the past 10 years. **The current model implied gold price with short term real yields here (CPI at 5.4% & real yields at -5.1% as per graph) is \$1945...** Niggling USD strength (or the fear that the relatively hawkish Fed will induce further squeeze), explains away only some of the discount where Gold “should be”. That and the fact it’s technically in no-man’s-land (i.e.: there’ll likely be more buyers at \$1900 than \$1800).
- PGMS remains well bid (Rhodium – the physicals leader - is up \$1100) as protests/unrest continues in South Africa with the military now brought in. Disruption risk is however small as protests are centered in KZN (Jacob Zuma’s home province) and the cities (not where the mines are located but where refineries are based). Despite that, the N3 – the main artery/highway linking Johannesburg to Durban/ports is closed and is likely the main priority for the government to reopen. Still, PGMs can act as a proxy for overall ZAR/SA risk, there may be some fear buying, while there’s probably less inventory selling around given the tailwinds in rand based PGM prices.

METALS	GCQ1 Comdty	SIU1 Comdty	PLV1 Comdty	PAU1 Comdty	HGU1 Comdty
Active contract	Gold - GCQ1 (\$/oz)	Silver - SIU1 (\$/oz)	Platinum - PLV1 (\$/oz)	Palladium - PAU1 (\$/oz)	HG Copper (\$/lbs)
Open	\$ 1,806.70	\$ 26.32	\$ 1,120.40	\$ 2,850.00	\$ 4.33
High	\$ 1,818.00	\$ 26.44	\$ 1,122.00	\$ 2,858.00	\$ 4.34
Low	\$ 1,798.70	\$ 26.01	\$ 1,100.20	\$ 2,831.00	\$ 4.26
Settlement	\$ 1,805.90	\$ 26.24	\$ 1,123.00	\$ 2,859.30	\$ 4.32
Price range	\$ 19.30	\$ 0.44	\$ 21.80	\$ 27.00	\$ 0.09
1day net change	\$ 8.40	\$ 0.01	\$ (8.40)	\$ (22.80)	\$ (1.90)
1day % change	0.5%	0.0%	-0.7%	-0.8%	-0.4%
5 day % change	1.1%	0.3%	2.8%	1.4%	1.1%

MACRO	SPX	DXY	EUR	10yr yields	WTI
Last Price	4390.31	92.53	1.18	1.35	74.69
1day % change	0.1%	0.3%	-0.4%	-0.9%	0.8%
5 day % change	1.1%	0.0%	-0.1%	0.3%	1.8%

PRECIOUS FLOWS	ETF HOLDINGS & FLOWS (oz)			FUTURES HOLDINGS & FLOWS (# of contracts)		
Flows (oz)	Lastest ETF Holdings	1day change	5day change	Aggregate Open Interest	1 day O.I change in active contract	Aggregate Futures Volume
Gold	100,525,118	(12,074)	47,545	483,541	(14,571)	181,807
Silver	918,034,185	(798,328)	(2,414,079)	154,260	312	41,302
Platinum	3,974,566	761	9,348	56,392	767	8,893
Palladium	555,192	(2)	4,183	10,516	31	739

Source: Bloomberg, CME, MKS PAMP Group

Last Updated: 12:00PM E.T

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