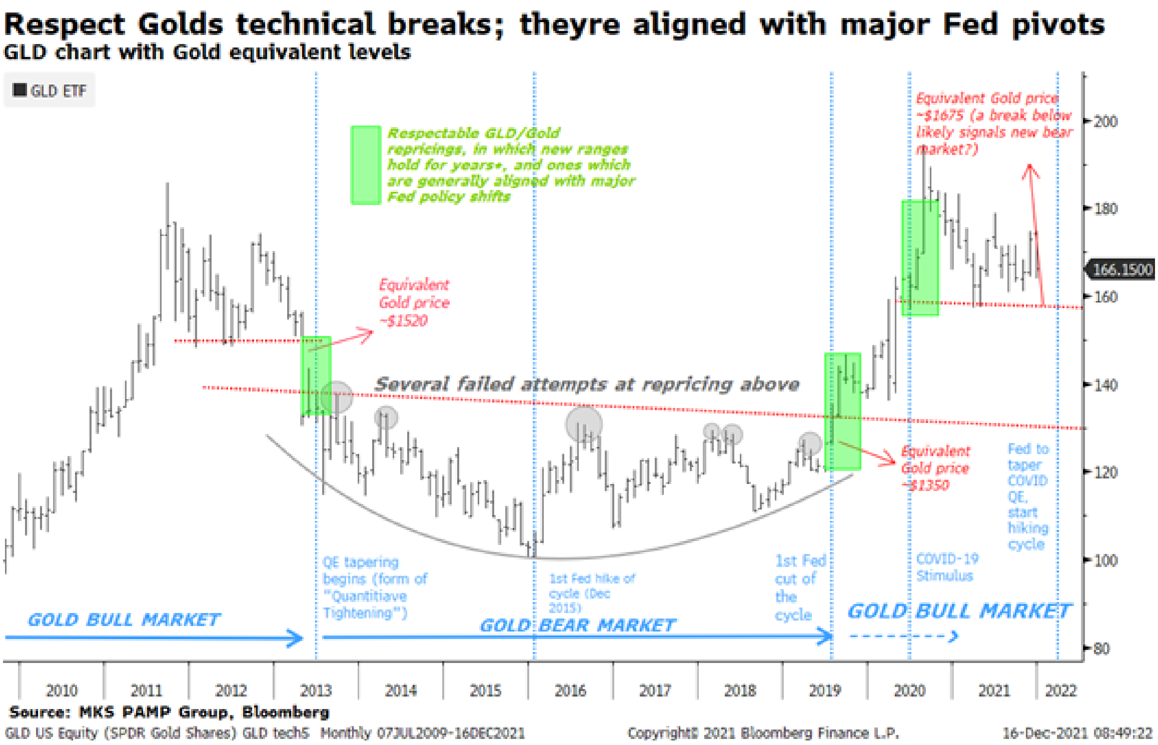
## Fed Review:


- Yesterdays FOMC went off without a bang, if most market reactions are anything to go by. The FOMC Committee “doubled” their monthly taper of QE from $15bn/mo to $3bn/mo (to start in January and end in March) which was expected; provided an increase in inflation forecasts and a hawkish dotplot in 2022 (3x 25bp hikes instead of market expectations of 2x) which was the hawkish pivot. **However, then Powell came out as the great communicator that he is and calmed any market fears, walked the tone back somewhat.**

- The kneejerk reaction across assets was stronger US stocks, a strong US$ (and lower Gold/Precious) and a flatter yield curve. Most of those outcomes didn’t last in the subsequent trading sessions with simply little (hawkishness) for Gold bears to sink their teeth into. Gold found support below $1760 and Silver below $21.50 before reverting higher, not not strongly reversing (which had been the case post NFP and CPI earlier this month). **Net Net, The Fed are hawkish but not hawkish enough given the "supply/demand imbalances" (as they put it) driving inflation.**

- US Stocks extended their gains (revolting against reversing the kneejerk reactions seen in other assets), cheering on the Feds intent to tackle inflation. That is unusual in the early stages of a tightening cycle (although the risk-on extension was likely because uncertainty has now been lifted and Powell wasn't as hawkish as some had feared). **Bull markets always find the bull case.**

- **Overall for gold, 2022 is shaping up to be interesting; its 2 core drivers – inflation and the Fed – are on the move, following yesterdays FOMC**. ON the one hand Gold is supposed to be a scorecard on the Fed (and their ability to control asset prices, the market and manufacture a soft landing). At the same, its still exposed to the movements in other markets, and especially with consensus growing around a stronger US$ in 2022 (as the Fed leads the pack, other CBs, in tightening), this would create a structural overhang.

- Chart 1 highlights the technical compression Golds adhered to. The 100/200 DMA in cash has acted as short-term trading resistance since Powells testimony to Congress (the hawkish pivot/the retiring of the word "transitory'). The trendline support (green) extends back to the 2018 gold price lows (when Fed Funds hit their terminal – max – rate of 2.5%), and provided crucial support (once again) after yesterdays FOMC. A **break below would open up the critical double bottom around ~$1675.**

- Graph 2 shows GLD* (and Gold equivalent prices) highlighting the recent gold cycles (bull market in 2010-2013, bear mkt 2013-2019, bull mkt 2019 onwards) which is not surprisingly aligned with pivotal Fed moments. **Yesterday is arguably one of the moments, with many looking for gold to enter a new bear market (through this thinking) akin to the 2013-2019 cycle of largely flatlined pricing and short-lived rallies. Gold will however remain in favor (ell hold in) so long as the extremely key double bottom around $1675 holds, negative real rates persist and that happens if the Fed remains behind the inflation curve.** We've expressed that **"Golds stimulus peak is in *(the >$2000 in August 2020*); Golds inflation peak is not yet in"; it has yet to respond to inflation and we are only 6 months in on stronger (single digit) prints with a Fed that has only just acknowledged they were wrong with inflation is now a concern.** Hang in and monitor as $1675 - $1850 comfort range

**approved for all external purposes*



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