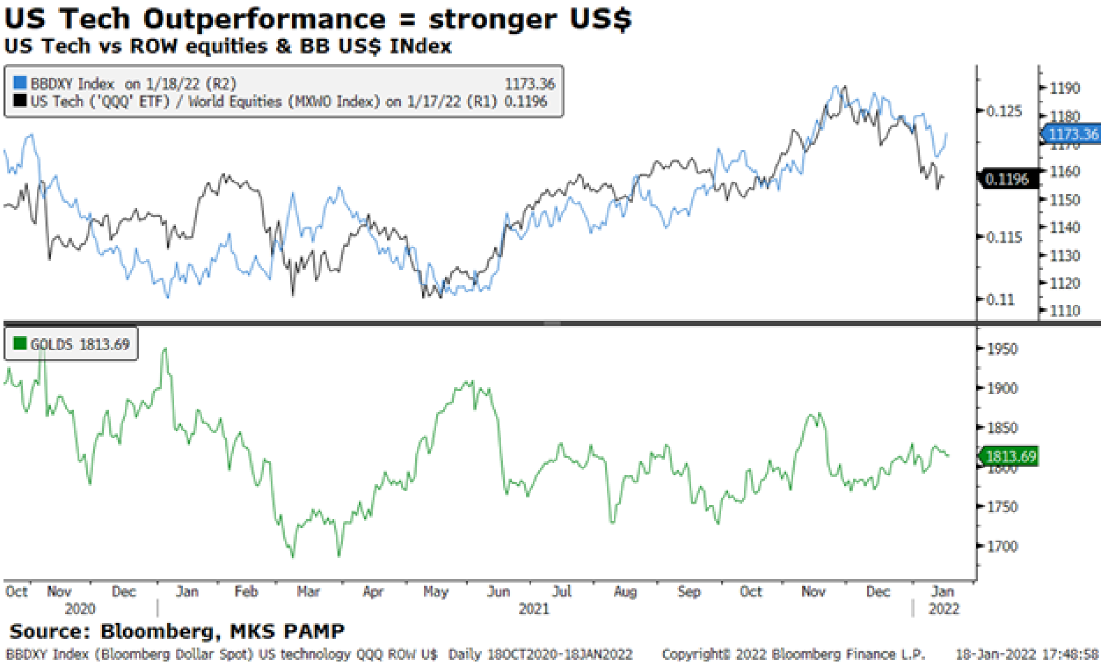
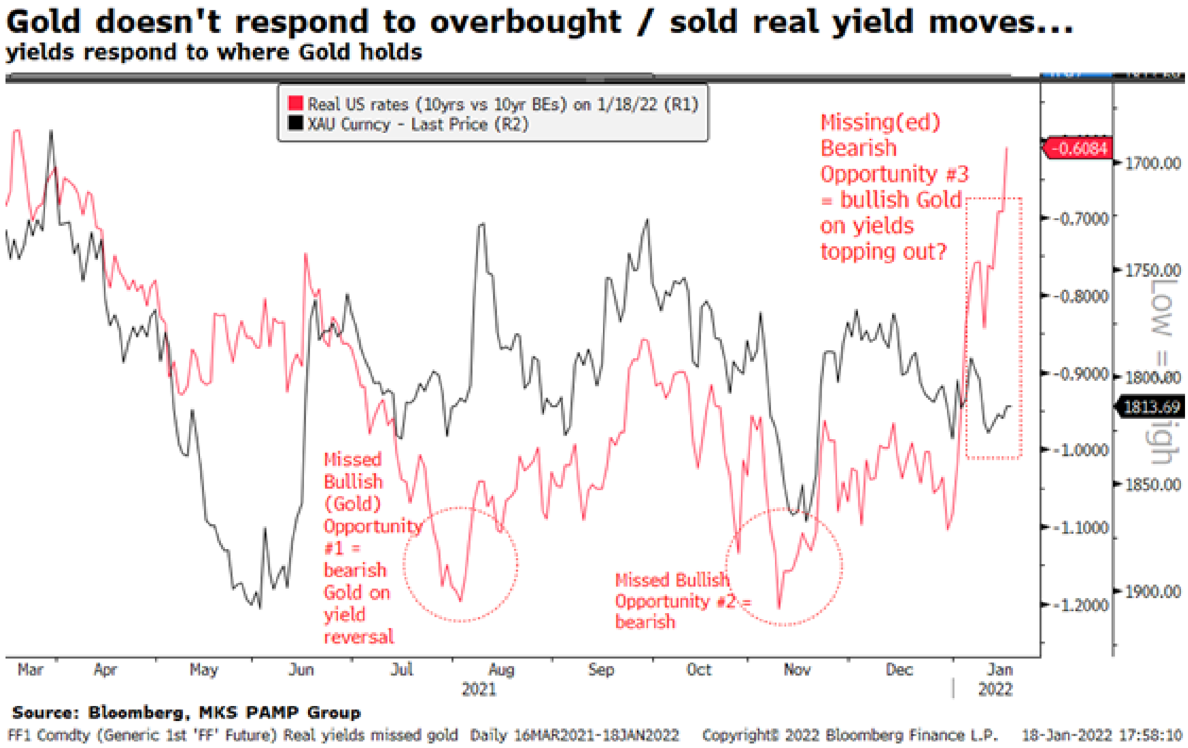
US/European Daily wrap





The rerating in real yields higher is really baffling short-term gold traders where model implied prices (with 10yr real yields at -0.64) puts Gold at $1680, more than $130 lower! A few reasons explain the relative strength in Gold vs yields:

1. **Undisclosed OTC / physical demand** (CB-related on slower growth/higher inflation outlook, China demand pre-Chinese NY or on PBOC cuts etc)
2. **Inflation hedge from Oil trade:** the commodities boat is rising with BCOM up 5% YTD, 10% since Dec '21 low. Gold is still a commodity to some.
3. **Recession hedge from yield curve** --> 'Gold is smart' & forward looking; the yield curve flattening + gold + PBOC cutting (*what do they know when the West is hiking?)* is essentially highlighting a recession is sooner than expected.
4. **US tech unwind = lower USD/higher gold**. Inflation + slow Fed + macro complacency = buy tech. Inflation + macro fear + faster Fed = buy traditional inflation hedges like Oil/Gold. The

unwind of tech has triggered a rotation of large amounts of liquidity with Gold an in/unintended beneficiary (graph 1)

Continued Fed taper talk shouldn't knock Gold, *now*, off it pedestal. Much more hawkish rhetoric *(think increased fear over an intermeeting hike, a shock 50bp hike etc)* could reestablish the weakened Gold:real yields correlation and force a short-term correction lower. However, a shock Fed hike, at the same time, will also pull policy mistake risk forward and with it recession predictions. **Recall, Gold was "correct" in Aug 2021 (when real yields hit AllTimeLows) and again in Nov 2021 (when real yields hit another ATL) by not adhering to the trends in the bond market and not rallying as much as it could've back then. Markets deemed them 'missed bullish opportunities' but Gold was correct in staying put - graph 1; Fixed Income/yields reverted quickly from their oversold territory which provided the catalyst for lower Gold (back then)**. **A similar (but inverse) situation is likely playing out; interest rate bets have gotten too hawkish and Gold is holding in arguing for real yields to top out and fall back down (only then will todays perceived missed bearish opportunity actually be quite bullish);** for now the the struggle continues….

Overall, US stocks fell across the board with US yields surging (10yrs extending through the 1.80% ceiling toward 2%, with 2yr yields just galloping over the 1% handle) as markets collectively ramp up bets that global / Western CBs will switch from being behind, to ahead of the inflation curve. THE DJIA is at its lowest level this year, at a time when most banks remain friendly to stocks, continuing to channel retail funds into lows.

T**he risk-off mood & declines in stocks contrasts with the collective rally in most commodities, with Oil surging to its highest level in 7 years and providing an 'inflation overflow' into other commodities (from Gold to base metals) underscoring the inflation challenges facing the Fed.** GS now have a $96/bbl forecast in 2022 ($105/bbl in 2023) highlighting that the best solution for higher prices… is higher prices (in order to rebalance markets and incentivize supply response). With the commodities poster child in a bull market since the Nov'21 lows, and a strong correlation between energy and some subsectors, the model implied prices* with WTI at $100 is: for 2yrs to push higher to 1.27% (Gold to be lower at $1350), Platinum to be at $1600 and Silver at $24.70. **Until we see those 4 Fed hikes in 2022 (3x on 2023), markets are trading the early 2000s commodities/inflation playbook, attracting inflows from other painful sectors (tech, crypto) as money "hides outs" in either Oil/base as an inflation hedge or precious as a safehaven hedge.**

**correlation / regression between WTI and metals/US yields since 2001, using a single variate OLS regression model.*

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