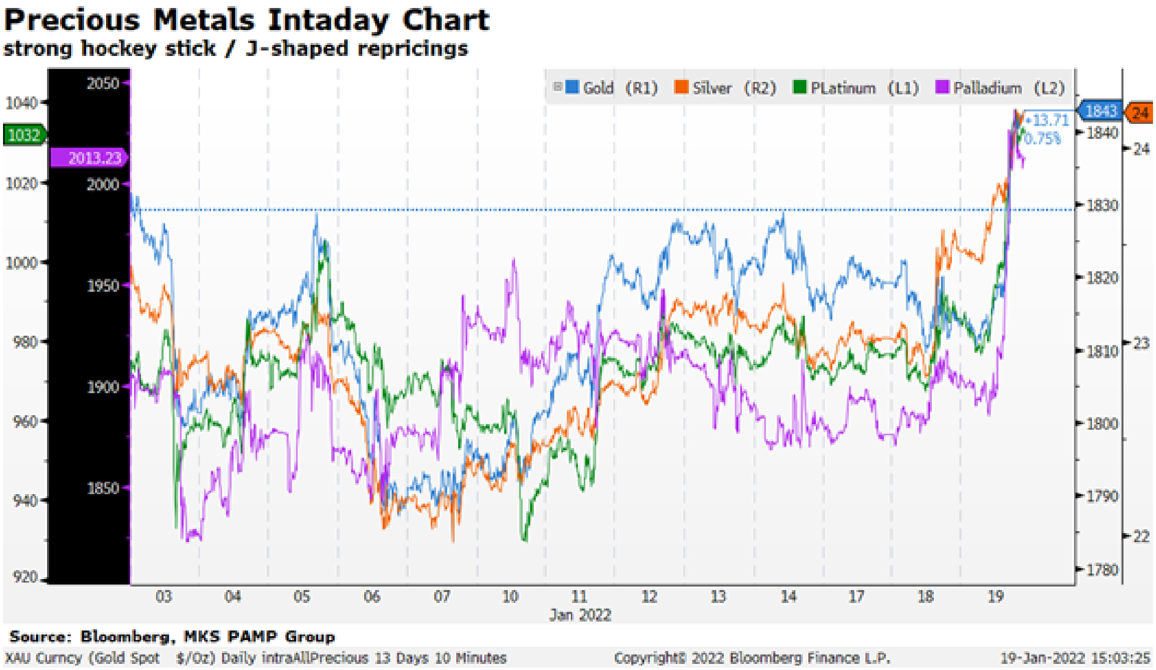
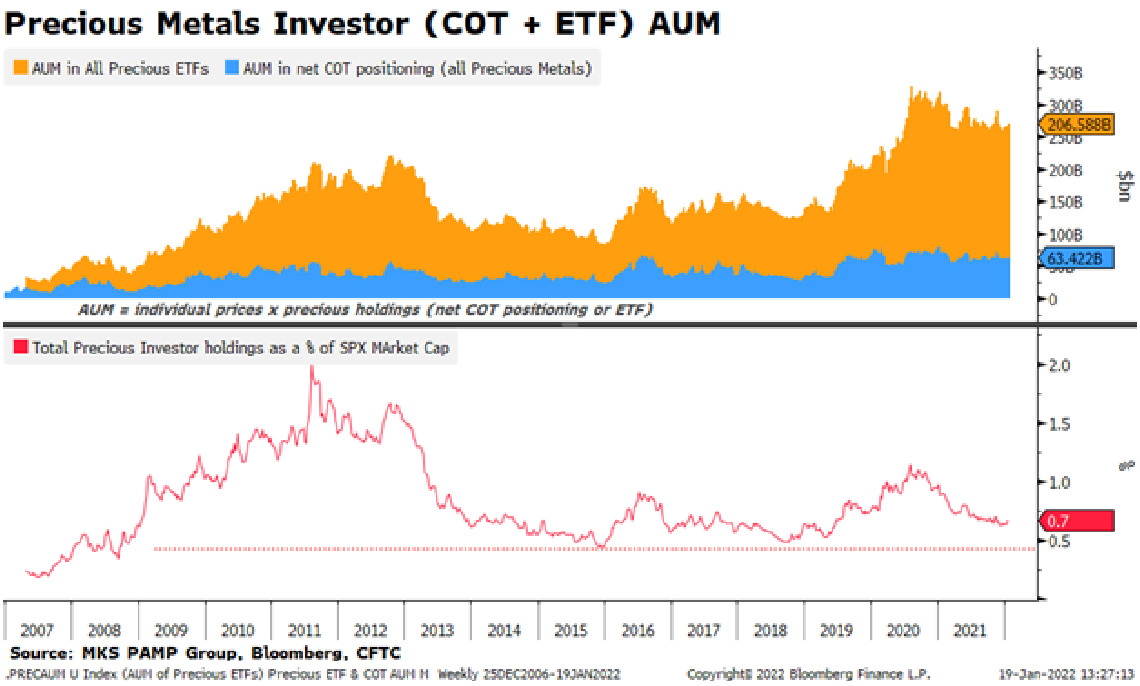
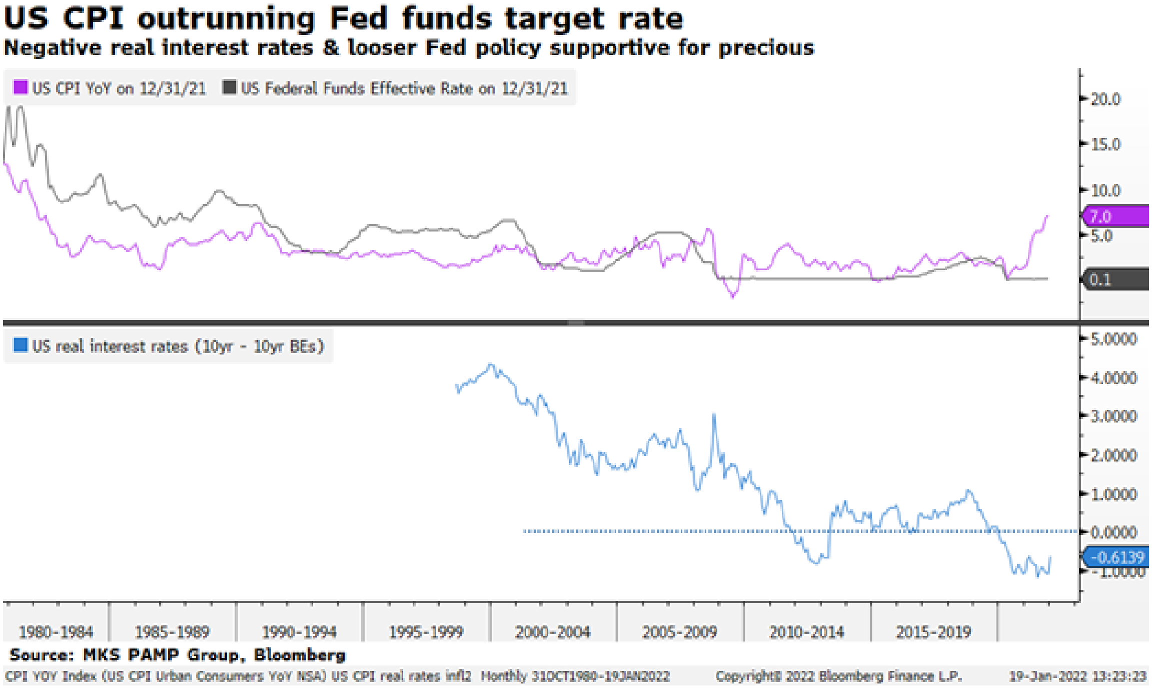
Thoughts on todays J-shaped precious metals repricings







- All precious metals posted new YTD highs *(yes its only been ~3weeks): DoD* Pall +5.6%, Platinum +4.6%, Silver +2.7%, Gold +1.5% (at 1:30PM CME close). T**hese intraday hockey stick reratings are simply indicative of when 1) commodity supercycle calls, 2) inflation, 3) equity market volatility & 4) positive physical seasonality collide, they inject indiscriminate buying into the precious space.** *Chart 1*

- Put another way, this year - the market has aggressively sold bonds/stocks/tech/USD/crypto, and buying ?? (besides value stocks)? The QE/low rates darling – Nasdaq/tech – is now officially in correction territory (from November highs); **the pain selling in other sectors YTD reinforces this idea of "too much liquidity" being squeezed out of known bubbles (cryptos, tech, bonds) and into all commodities, including precious**

- **The thesis that 'gold is smart/right' (vs real yields) proved correct, today** (see yesterdays note). Nominal yields reversed lower today, providing the catalyst for Gold to rerate through $1835 congestion. Real yields slowed their ascent. This was not a missed bearish opportunity (similarly, Aug '12 and Nov '21 were not missed bullish opportunities on ATL real yields) – **this recent divergence with soaring real yields was a hidden bullish opportunity, as hawkish bets overextended, reversed and provided the greenlight for higher Gold pricing.**

- However, gold lagged the white metals (which is standard) and **although it's a solid daily performance, it remains at the topend of the ~$1750-$1850 comfort zone.** There will, however, be more futures buyers (not sellers) above $1850, who have currently been flat/sidelined. $1820 is the new floor for now, and interest should follow, keep supportive for prices to sniff what lies above.

- Silver was the leader this week with its large breakout yesterday and follow-through today; **when a (fundamentally) saturated asset class, with little fundamental story outperforms/leads, its indicative of positioning being offsides (Silver was grossly a sidelined / short market).** If both Gold and Silvers rerating was *purely* due to shorts buying back, then the mantra is one should never chase shortcovering deadcat bounces and the risk/reward at these levels indicates they are up for sale here. **However, we believe there is more to the rerating given the precarious macro situation 2022 is tee'ing up to be.**

- **Policy normalization aint bad for gold if theres 2 schools of thought which keeps gold in play (for different reasons).** The Fed is either, 1) currently behind the inflation curve – graph 3 vividly highlights that it is – providing a window to kick underowned inflation hedges higher, 2) the Fed will erroneously hike into an imminent bubble burst/recession. **Both cases are supportive gold and precious at a time when relative market positioning in the sector is underweight (graph 2 shows ETF+net COT positioning in all listed Precious products is 1/3rd of their 2011 peak, currently only 0.7% of SPX Market Cap).**

- **Equity market volatility is good/supportive for gold if its mild;** if theres a washout/crash/more than a correction, Gold and other safe havens get swept up in the "sell-everything/ask-questions-later" derisking episode. **The current mild macro volatility is a goldilocks backdrop.** Social media put it well: yesterday, US stocks sold off as yields rose; today, US stocks sold off as yields fall. **A little ominous and speaks to the narrative that a tremendous amount of liquidity is on the move and rotating & looking for alternative assets.**

- Geopolitics, Politics & Russia/Ukraine: a few responses came in yesterday arguing that Gold is bid because of escalating tensions between Russia/Ukraine/US…. That could be true and it certainly fits the bullish/bid price action, but gold has performed unreliably as a true geopolitical hedge. **Its likely higher because geopolitical tensions is driving higher energy prices, which is driving the inflation narrative and thus Gold/precious.** Some also argue its simply the loss of faith in (Western) governments, t**hat strategic underpinning being "short governments / long gold" which is driving persistent inflows;** from the UK leaders throwing garden parties during lockdown in a "1 rule for them, 1 for us" attitude, to the US administration today announcing the release of N95 masks from their Strategic National Stockpile (*no, not oil when gas prices are are sitting at 8yrs highs)*, 2years *after* the pandemic, is just baffling to some. **Global faith in global leadership** *(and I'm still looking for a proxy/index besides approval ratings)* **has to be at modern-day all-time lows.**

Approved for all external purposes

2022 Precious Metals Outlook:
Full Presentation here,
Summary version here

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