European Daily wrap

- Risk markets had a tough time overnight during Asian/European session and the expected Santa rally in US stocks took on some pain with S&P futures down >1% before opening. The weekends news is adding to the fear that the US will face another wave/variant but with less help from both the Fed and the government. That was after Joe Manchin rejected Bidens $2tn bill leading some banks to already downgrade US growth forecasts; already, the withdrawal of emergency-level fiscal stimulus was shaping up as a challenge for 2022, and essentially we're shifting to coordinated monetary & fiscal 'tightening' faster than markets would like. In addition, Europe (Germany, France and Netherlands etc) added more virus and/or travel curbs, while the World Economic Forum said it will delay Davos, given uncertainty over omicron, and now plans to host the conference in "early summer" (vs January). That was offset by some positive news from Moderna's that its booster vaccine increases antibodies 37x against omicron.

- Gold should come under the blanket ("sell everything") pressure, before finding its feet, as physical support remains red hot. The weekly Gold close on Friday was somewhat disappointing but not terrible (given its more recent letdowns, the bar for bulls is still so low). A close >$1800 (and therefore above the 50/100/200 lurking below) is constructive. The white metals rallies should continue to be faded, in the current risk off environment especially with liquidity thin.

- In other key CB news, Joachim Nagel was named to replace Jens Weidmann at the Bundesbank. He's largely also seen as an inflation hawk at a time when the ECB attempts to move away from its ultra-easy-money policies amid surging inflation, but his tenure is unlikely to really change ECB policy in the short-term since Weidmanns hawkish stance was already in the minority. Mr. Nagel, was a Bundesbank board member 2010 - 2016, then worked for the state-owned bank KfW and currently is deputy head of the banking division at the BIS (Bank for International Settlements). His tenure starts Jan 1st.

- Chiles election was won by a former student protest leader, Gabriel Boric. The new leftwing president plans to raise taxes and oppose mines that "destroy the environment", underscoring the very tricky geopolitics around the energy transition

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COT Update: the numbers don't cover the FOMC last Wednesday but it provides a view of repositioning into the "turbo taper" Fed decision

- GOLD: net COT fell 1.7mn oz driven mostly by fresh shorts as hawkish bets around Fed sensitive assets ramped up in the leadup to the meeting. Shorts have taken positioning up to 5.8mn oz (short) which is still well beneath 1year peak short of ~9mn oz. It helps to explain the $60+ move after the FOMC, which are presumably buybacks, not fresh length. Net managed money is now at 6.3mn oz, low but not depressed (the 1yr lows have been <3mn oz).

- SILVER: 42mn oz of new outflows is not huge but trend of shorts ramping up in the most industrial white metals is showing up. Silver is v underweight and unbalanced through the lens of no of longs / short; there's 1.2 longs for every short, a 2.5yr low.

- PGMs: Palladium shorts are now at ~500K oz, a 3yr high, which helps to explain the monumental $300 repricing higher from the $1550 base last week, as presumably fast money exited and took profit before waiting around until the medium term fundamentals really play out. Theres a similar breakdown in platinum with shorts > longs and extending, but they are short 1.1mn oz (only a 3month high). The COT matters less in Platinum if the ETFs continue with their 20-40K oz/day unwinds; we haven't seen any unwinds since the 15th

*approved for all external purposes
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