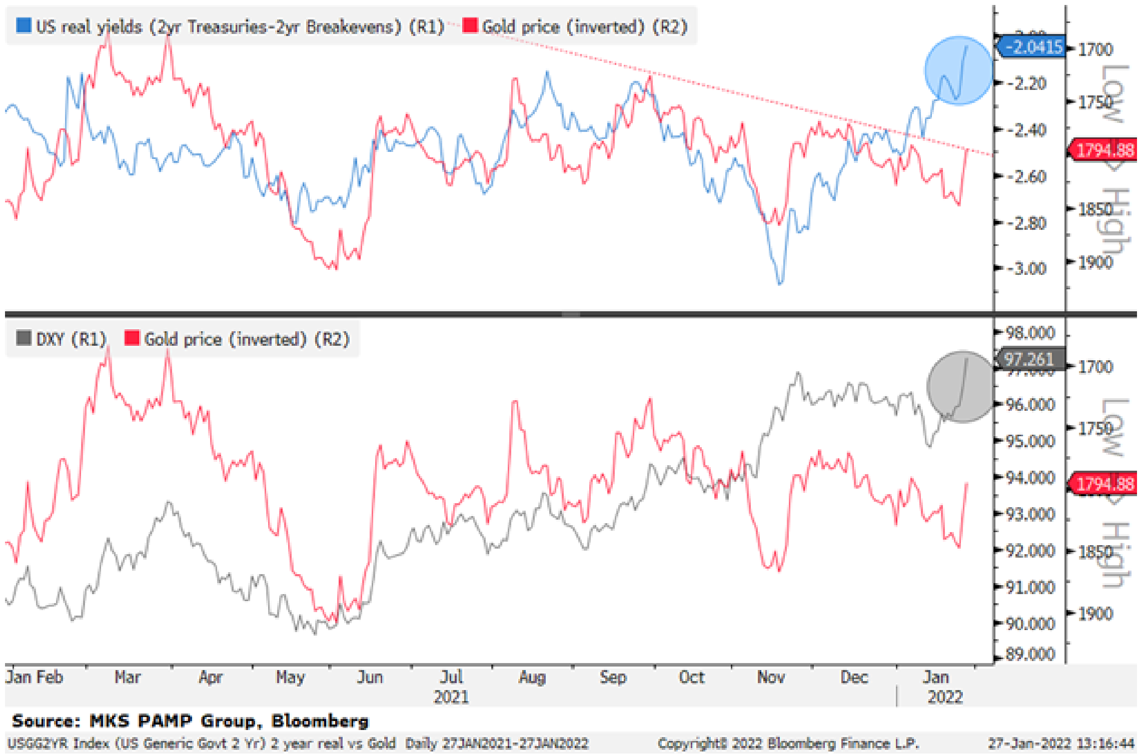
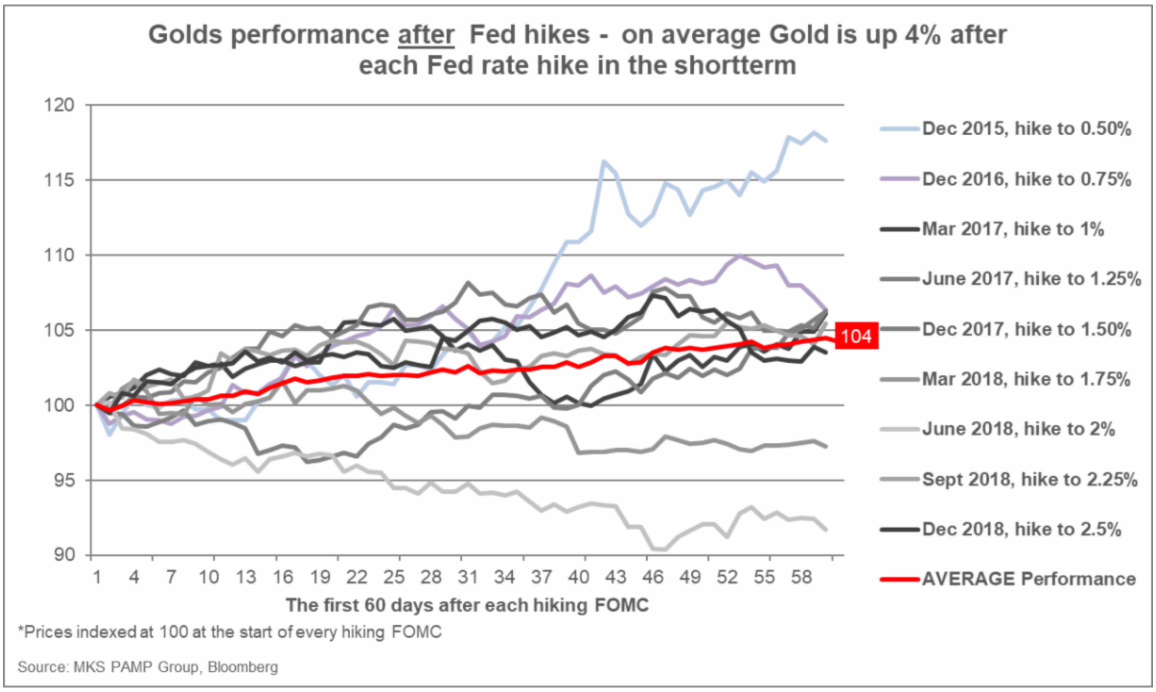
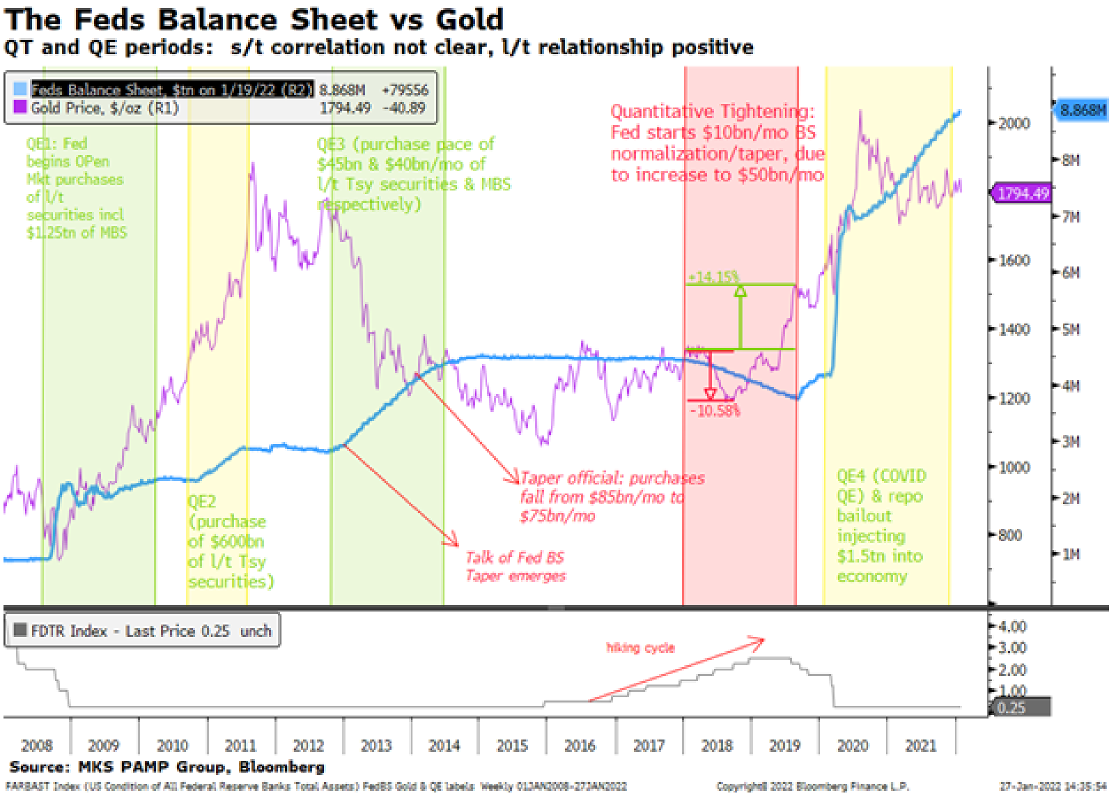
European / US Daily Wrap

US 2 year real yields, the $ and Gold
core historical drivers of Gold







3 telling charts around Gold, the Feds BS, QE/QT, and rate hikes.

- Further pressure across all precious metals, excluding Palladium (which is in a league of its own), following yesterdays hawkish Powell presser.

- The $50+ retracement lower in Gold through key levels ($1800 and series of moving averages) is creating some technical damage. T**here is just no alternative (other than to sell) with the twin repricings in the US$ and real short-term yields as the markets price in close to 5 rate hikes this year**. Graph 1 shows the relentless rally in US$ and shortterm real yields (2yrs soaring AND holding near 1.2%, pre-pandemic levels)

- The combination of an 'inflation fighting Powell' and the threat AND uncertainty over the number of rates hikes remain a headwind for Gold & precious pricing. F**or now, the threat - Powells "bark" (of hikes, QT etc) is worse than the "bite" (of actual hikes, QT).** Once that threat is removed (with March Fed hike), Gold historically (and surprisingly to most) tends to rise marginally during Fed hiking cycles. Graph 2 highlights that Gold is up on average 4% 60days on from each rate hiking FOMC in the most recent past.

- Another question is how Gold has performed during BOTH a rate hiking cycle and QT. Well, the markets have never seen that in the truest sense. In 2015-2019, there was a hiking cycle to a terminal rate of 2.5%, while the Fed allowed assets to roll off their Balance Sheet in 2018/19 (it was termed QT but they never sold down assets, they merely allowed the BS to shrink with initially $10bn/mo of assets to runoff, accelerating to a max cap of $50bn/mo). That was halted in 2019 as it had adverse effects on financial conditions.

- Graph 3 highlight the Feds BS (blue line) which fell from ~$4.5tn to ~$3.7tn in 2018-2019 during this "QT" period, just as rates were hiked from 1.25% to 2.5%. H**owever, contrary to most thinking, that period was associated with Gold rallying 15% (after an initial max drawdown of 11%).** The Fed, its Balance Sheet (liquidity), inflation and interest rates all infer on the gold price, but it isn't as simple as whether they are easing or tightening; **it matters whether they are ahead or behind the inflation curve as determined by where real rates trade.**

Approved for all external purposes

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

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