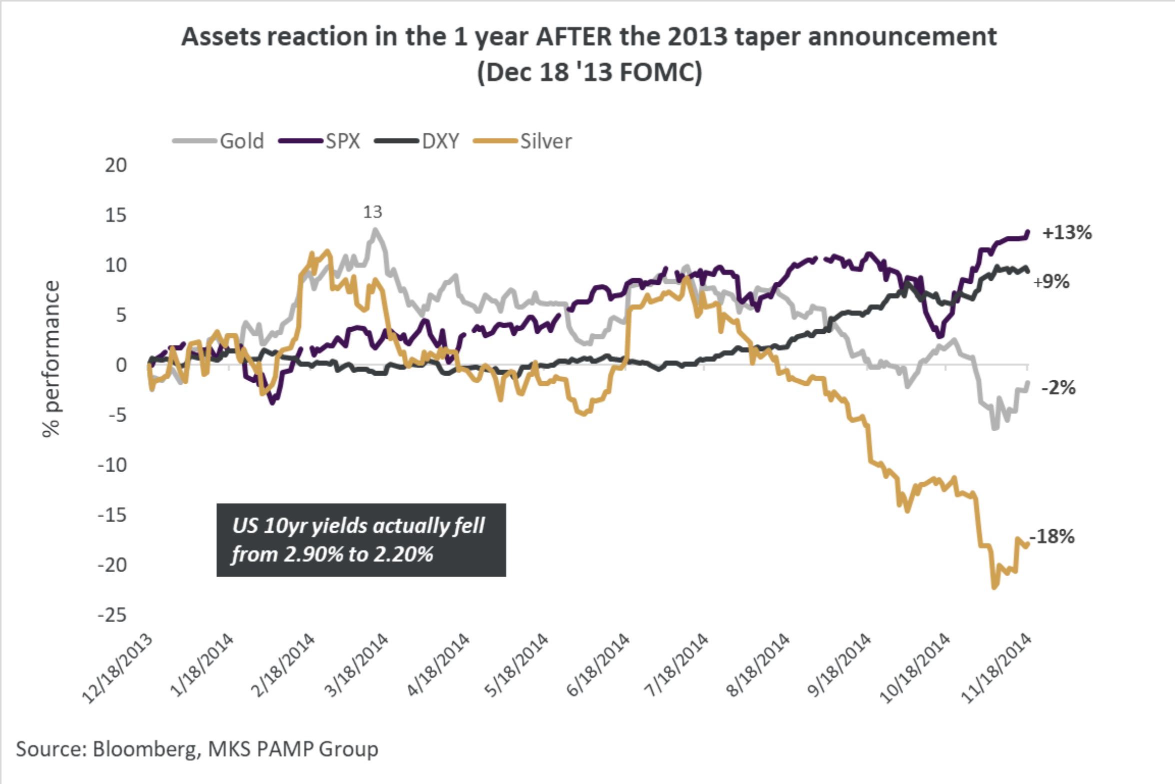
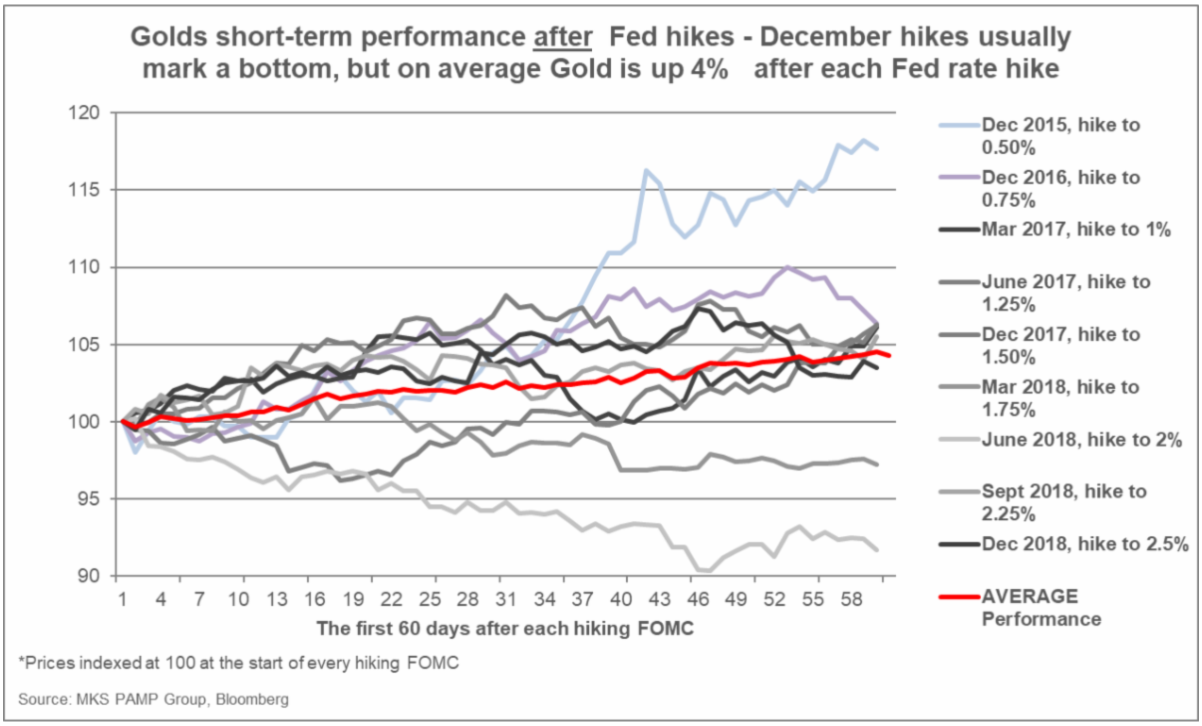
US/European Daily Wrap





- It was an eventful week, outside of monitoring the spread of Omicron worldwide and subsequent policy, medical & market reactions; there was the U-turn from the Fed on their inflation outlook (its now not transitory and thus expect a fast tapering/hiking cycle), the OPEC+ meet agreed to boost supply in January (creating another disinflationary force with WTI falling through $65), a very confusing US jobs report (see below*), major pain in Big Tech stocks (various reasons but DiDi's US delisting, hacked Apple iPhone). Overall, the crowded trades – big tech and high growth stocks – were the largest responders/losers in the face of Fed taper worries, losing from 10-20% over the past weeks. Honestly, all this was thrown at risk assets this week and while the Indices don't fully highlight some of severe losses / internal gyrations, the rollover from ~4700 (SPX) has been somewhat contained, in light of this weeks tape bombs.

- Gold actually rose today, bouncing off short-term support at $1765, but still settling down on the week. Gold was NOT the easy Fed policy darling (it was tech stocks and crypto) so it should avert some of the larger attacks or investor unwinds. Arguably it was 'smart enough' to reprice lower with recent longs exiting well before Powell's reversal this week, taking Aggregate OI down from a peak of 620K to 500K (positioning is still higher than the 2yr lows of 450K). The softer headline NFP (at 210K vs 550K expected) today but more likely the carnage within US equities/indices (VIX has now surged above 30) has provided a safehaven bid, for now.... Overall, Gold remains stuck, given that the market is divided on whether the Fed makes a policy mistake into a potential growing stagflationary event (hike too fast =recessionary, hike too slow = inflation escapes).

Given the upcoming taper and expected Fed hikes, lets review past rate hikes and taper stats for Gold:

- Graph 1 shows USD, Gold, Silver & S&P in the 1 year from actual taper announcement (Dec 2013) on. Gold at most rallied 13% (the 'threat of taper' was removed) before settling 2% lower 1 year on back then.
- Gold was overall down a chunky 14% from the announcement of taper (Dec 2013) until the first rate hike (Dec 2015); undoubtedly Powell will not wait 2years given the inflation backdrop, and the market is already trying to price in a hike before a taper has even kicked off.
- Graph 2 shows gold performances in the 60days following each rate hike in the previous cycle (2015-2018); on average rate hikes are not convincingly bearish (theres a wide range of outcomes) with it posting on average small gains (+4%) after each Fed hike

- *The November employment report showed job gains of just 210K, with UE falling nicely to 4.2%, wage growth at 4.8% YoY and the participation rate at 61.8% (UP from 61.6%). This was a head scratcher - the discrepancy between (soft) headline NFP and (strong) UE rate while ppl entered the workforce (higher participation rate) has been explained away by fact that there are two different surveys (NFP = "establishment survey", vs Unemployment Rate = "household survey" which assesses who doesn't have a job relative to the population that 'could'. Both are conducted differently – web, in-person vs telephone calls). Net net, the broader data showed a healthy employment picture, allowing the Fed to taper faster if need be; Omicron (and its effect on growth but also future employment trends) and inflation, are now the Fed's primary concern.

**Approved for all external purposes*