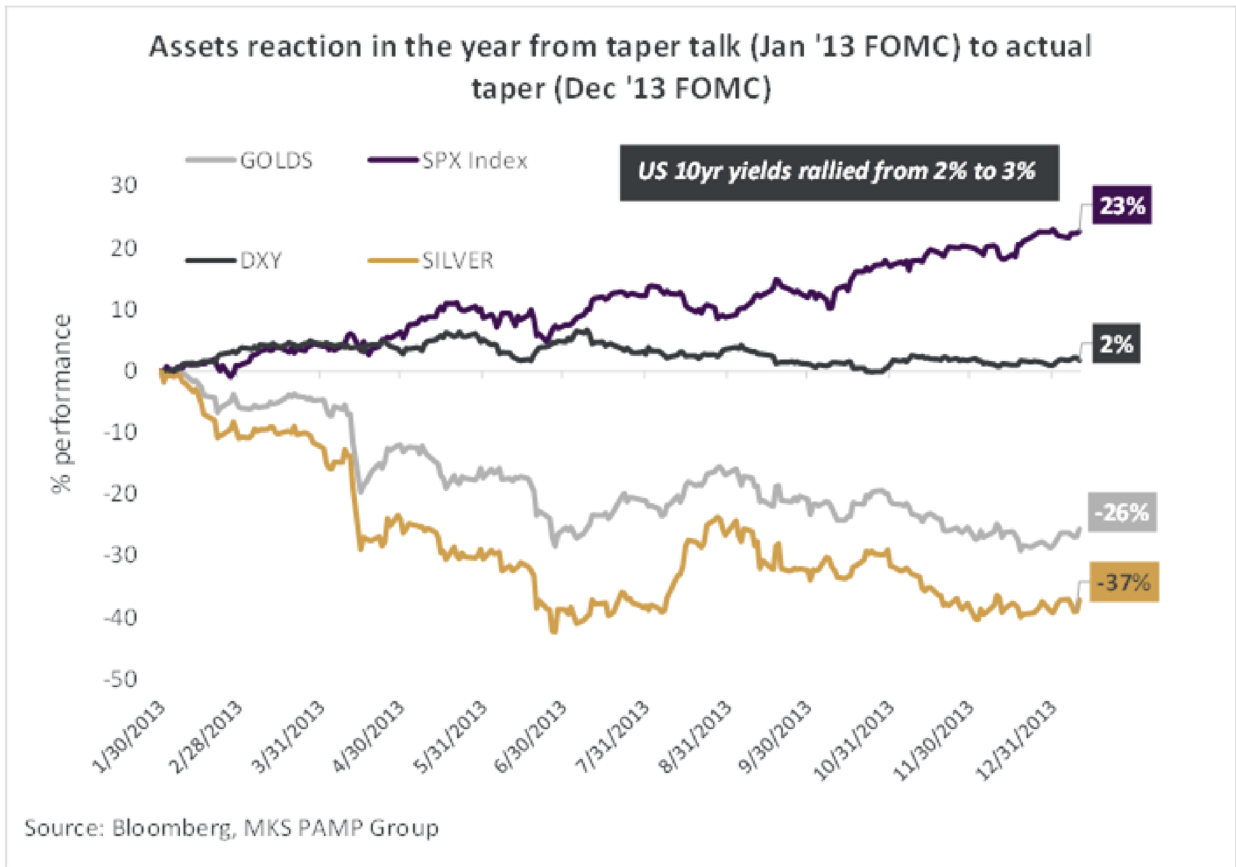
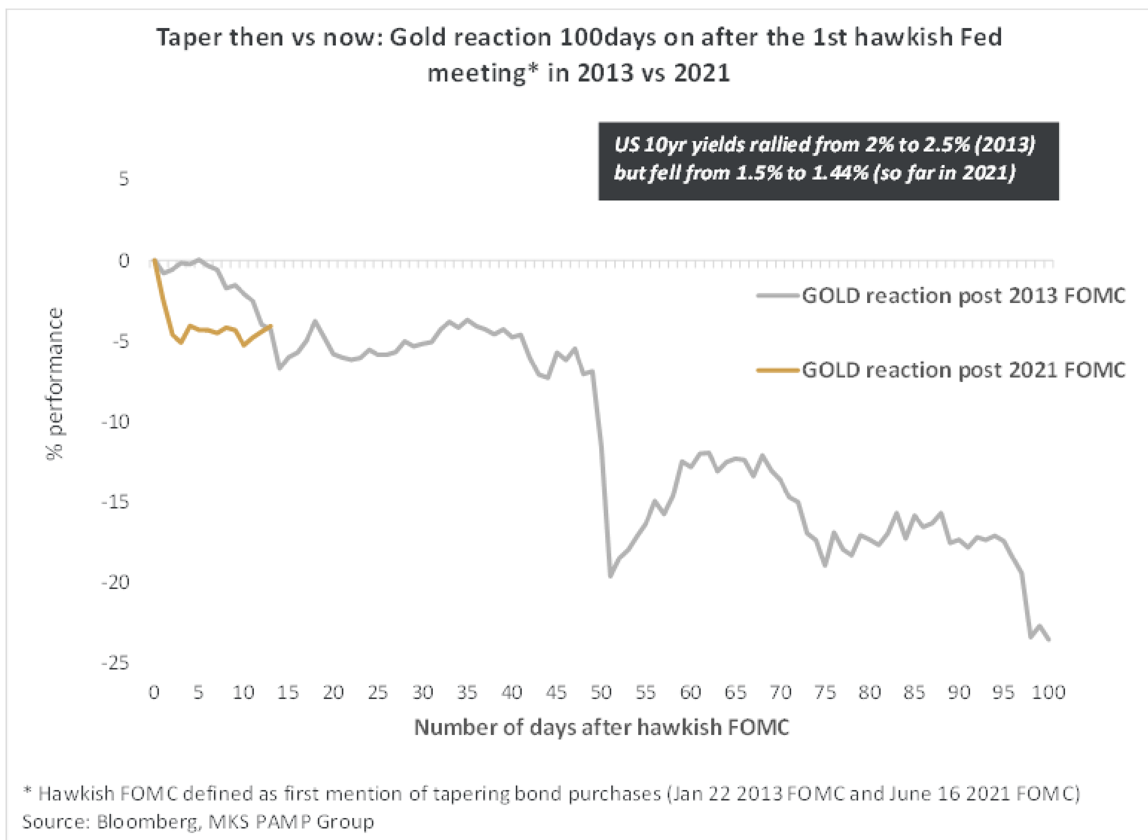
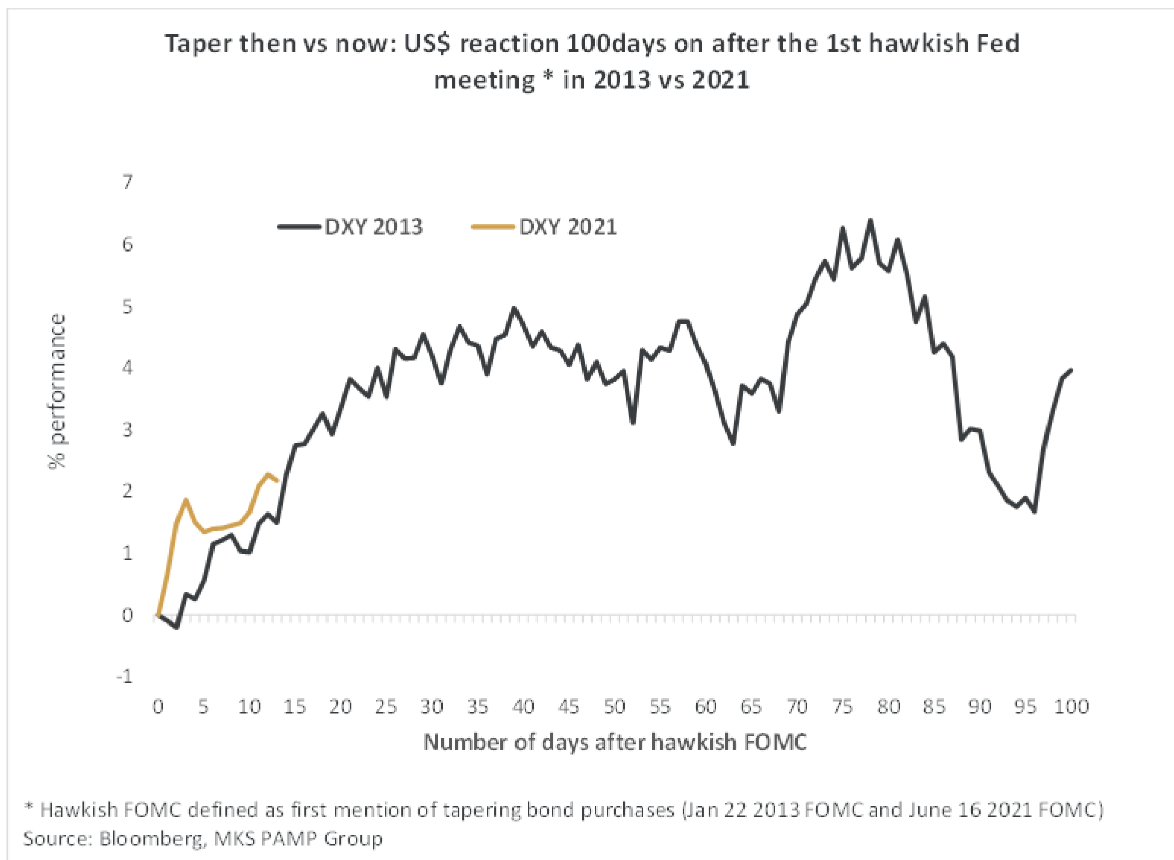
Macro Report: Taper then vs Now







Taper now vs then

There has been numerous comparisons between Golds reaction now to the June 16 FOMC, versus the taper tantrum in 2013 (when it fell $300+ in less than a month). Its then a useful exercise to outline the main differences & similarities then vs now, as it relates to the macro & political backdrop, positioning, technicals & fundamentals. Gold doesn't like the 'fear' of hikes and tapering; its this persistent threat from the Fed that keeps it on the defense. But is another similar washout likely (golds already down $150 from pre FOMC peak) as we contend with stronger US economic data and a newly hawkish Powell into 2H, in the same way 2013 was defined as the year the Fed threatened to taper in January and only started in December 2013.

Full Report:
MKS Macro Report: taper then vs now

Similarities: then (2013) vs now (June FOMC onwards)

Hawkish and unexpected Fed pivot

- Future of bond purchases under the microscope at Jan 29 2013 FOMC as costs/benefits debated with wanting to end QE "before yearend; talks about normalizing the BS occurs all year with Bernanke congressional appearance in May 2013 kickstarting the bond /EM tantrum that occurred all summer.
- 2021 Fed brings forward the dot plot/rate hike expectations and with it sooner-than-expected tapering fears which derail the inflation trade somewhat

Lofty Gold prices:

- Gold was hovering $1600-1800 then (2011-2013), vs ~$1700-2000 now. In both instances, prices were somewhat off their peak/ATH levels, but were consistently in an accepted bull trend with the asset class back in vogue…

Macro stability:

- There was very little macro fear (VIX was ranging 12-14 in Q1'13, complacency was high as there was ample liquidity and strong financial conditions were reflected with ATH US equities

both hen & now

Similar nominal US yields (eerily):

- US 10yr yields were around 1.50% then and rallied to 3% during the 2013 taper tantrum
- Current 10yr yields are pinned around 1.50%. Real rates were also at similar negative levels (real 10yrs hovering between -1% & -0.5% then & now)

Aggregate COT + ETF investment/positioning both at/near ATHs

- Golds sticky investment—ETFs—was similarly lofty back then (holdings near ATHs) as is the case now.
- Fast money—COT—was lying neutral-short
- Cumulatively (ETF + COT), holdings are at 110mn oz (pre 2021 FOMC), just off peak of 122mn oz vs 2013 holdings at 90mn oz (a peak then).

Politically early in the election cycle:

- The hawkish Fed turn in 2013 and now both occurred in the early days of a new (Democratic) president… (Obama then, Biden now). If the belief is that the Fed is (increasingly) politicized, then the thinking is that the Fed has time to talk tough/hawkish in the initial presidency (knowing very well that they have 3yrs to reverse any action). Recall taper talk lasted a year in 2013 and was only a tiny adjustment (bond purchases only fell from $85bn/mo to $75bn/mo).

Differences: then (2013) vs now (June FOMC onwards)

The Fed is currently careful & wary to not trigger another tantrum

- Theres is caution both from the Fed (who has primed the market with ample communication & will advertise intent) and the markets (they are well tapering will begin soon and will likely be smoother vs the initial shock in 2013)

The pace/level of the Feds Balance Sheet

- Both the pace of increase in the BS and the aggregate levels is different and incomparable then vs now
- The Fed had tripled its Balance Sheet post GFC ($1tn to $3tn) in 5 years while this time, the Fed has more than doubled its BS from <$4tn to >$8tn in only 18 months. The base is also much higher and the aggregate level of money/liquidity in the system drastically different.

Inflation

- It is running hot now (CPI 5%, PCE 3.4% YoY) vs cool then (CPI ranged 1-2% and PCE was ~1.6%)
- Oil prices were elevated then ($90—$110/bbl) but not contributing inflationary tailwinds, while they are relatively lower now (~$60-75/bbl), the aggressive rate of change is creating global inflation

Commodity bear/bull market

- China was decelerating (from a much higher/stronger growth base) and the 2012 European crisis put commodities on the backfoot in a bear market this. Currently, theres a well defined new commodity bull market due to a strong US & Chinese economic rebound

Central Bank demand

- Gold demand from this important sector is more of support now (2019-2021* annualized purchases range 19-22mn oz vs 2012-2013 period CB purchases ranged only ~6-9mn oz)

Physical / jewelry demand

- Jewelry demand was close to 90mn oz (a record high) in FY 2013 but driven by a rampup only after the Gold flush. Physical demand is less of a support now vs 2013 given relatively higher prices and COVID restrictions hampering demand (gold prices are $100 higher in USD terms and 50% more expensive in INR terms vs then)

SUMMARY: it is way too early in the economic cycle to *aggressively* own Gold as taper and hike expectations have been brought forward and many believe the Fed will stay ahead of the inflation curve. While gold is on the defense recently, given this view and the "inflation is transitory" belief, prices are unlikely to mimic the strong washout in 2013, because of 1) the split in

participation rates*, 2) inflation is likely not transitory (see inflation report), 3) politics, 4) a cautious Fed, 5) aggregate system liquidity

***This time around there's strong CB demand, ETF resiliency and structural OTC longs (who continue to allocate to gold as a hedge to equity market inflation), providing a much larger supportive force vs 2013. Current COT shorts / fast money are coming up against these larger stickier players. That showed up on Fridays NFP report which should've been a greenlight for key floors ($1750) to give way. Any gold dump should be transitory, especially if the belief is the current hawkish Fed stance will likely also prove transitory…**

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