



U.S. Global Investors

Investor Alert



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Surprise! Buffett Books a Flight on Airline Stocks

By Frank Holmes

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U.S. Global Investors

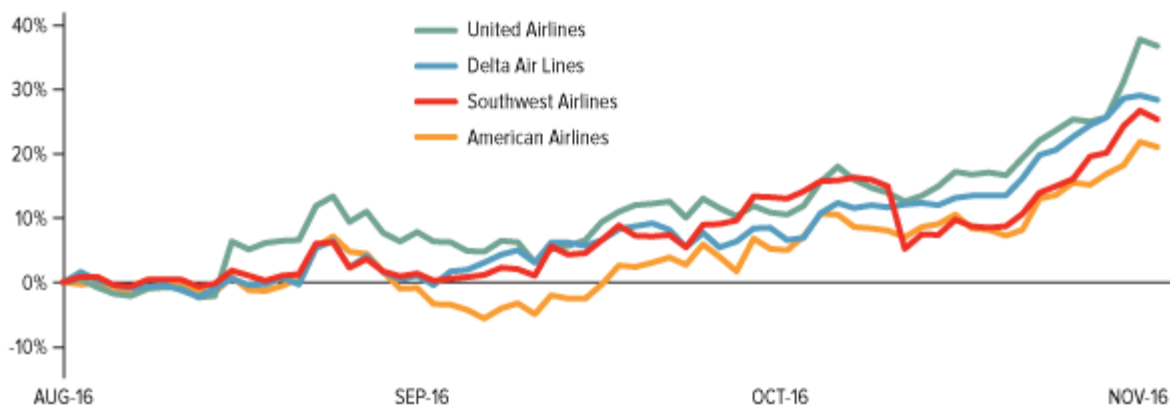


It's never too late to change your mind.

After years of deriding the airline industry, Warren Buffett confirmed this week that his holding company, Berkshire Hathaway, has invested nearly \$1.3 billion in four big-name domestic carriers: American, Delta, United and Southwest.

Domestic Airlines Surge on Buffett Investment News

As of November 16, 2016



Past performance does not guarantee future results.

Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

The stake is a dramatic reversal for the 86-year-old investing wizard, who previously called the industry a capital “death trap” and once joked that investors would have been served well had Orville Wright’s plane been shot down at Kitty Hawk.

The thing is, Buffett held these opinions long before airlines began making the fundamental changes that would flip their fortunes from bankruptcy to record profitability. When Buffett first tried his hand at making money in the aviation industry in 1989, airlines were still struggling in a fiercely competitive marketplace. Many carriers called it quits, including President-elect Donald Trump’s Trump Shuttle, which ceased operations in 1992. Others spent years in bankruptcy court.

But following the massive wave of industry consolidation between 2005 and 2010, a new business environment emerged, one characterized by disciplined capacity growth, new sources of revenue, greater efficiency and a commitment to repairing balance sheets. I’ve written about these changes for the past 18 months, all of which are summarized in [this brief five-minute video](#).

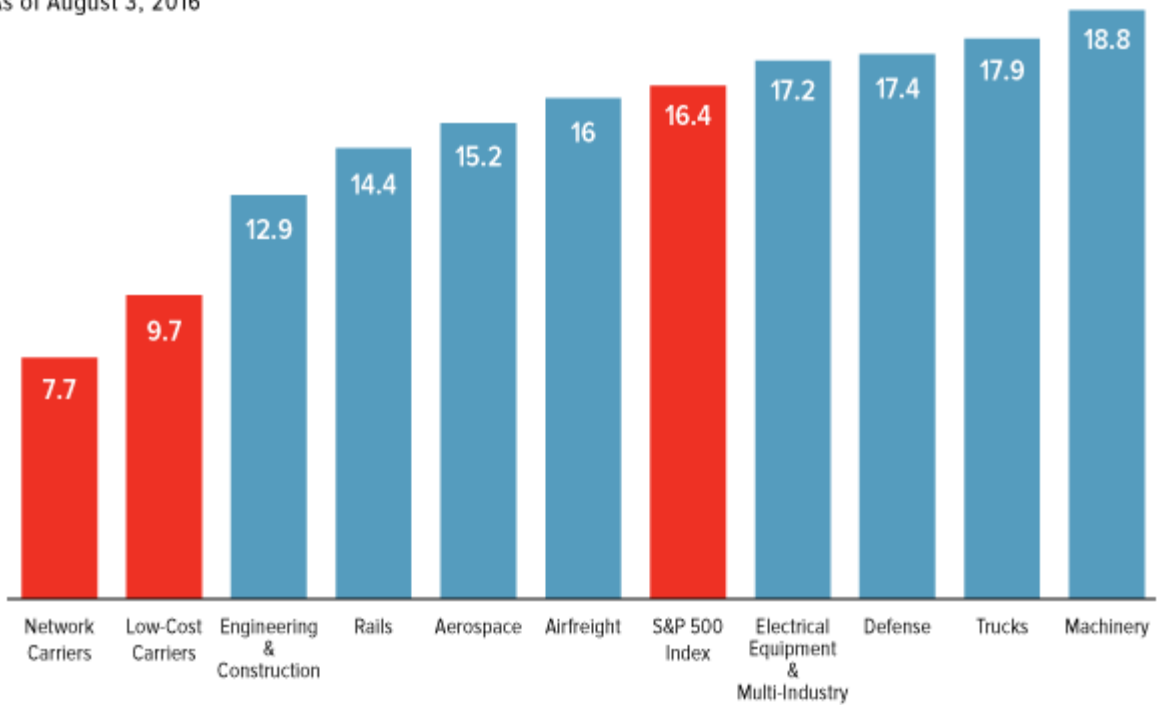


Buffett also likes airlines now for the same reason he’s long been a fan of railroads—namely, the barriers to entry are extremely high if not entirely impenetrable to new competitors. This is the “moat” Buffett refers to when talking about rail.

As a value investor, he prefers inexpensive stocks, and among industrials, airlines are cheapest of all, based on price-to-earnings and cash flow.

Airlines Least Expensive Among Industrials Based On Price-to-Earnings Ratio

As of August 3, 2016



Source: Credit Suisse, U.S. Global Investors

[click to enlarge](#)

Buffett's bullish rotation into airlines was followed by news this week that Citi also made fresh buys of Southwest, Delta, American and Allegiant shares, on the "broad theme that sector consolidation and an improved economy will reap benefits," according to [Seeking Alpha's Clark Shultz](#).

Challenges still remain, of course, but domestic airlines today are profit-making, dividend-paying machines. In the first nine months of 2016, the top nine U.S. carriers—Alaska, Allegiant, American, Delta, Hawaiian, JetBlue, Southwest, Spirit and United—reported combined net income of \$18.3 billion. That's quite an improvement from the \$11.2 billion they pocketed for the entire year in 2014.



Over the same nine-month period, airlines returned \$11.4 billion to shareholders via stock buybacks (\$10.5 billion) and dividends (\$912 million), according to industry trade group Airlines for America (A4A).

Here's Why Blue Skies Could Last

In the near-term and long-term, airlines continue to look very attractive. Air travel demand is rising as incomes grow and the size of the global middle class expands.

This Thanksgiving travel season, more than 27 million passengers are expected to fly on U.S. airlines, an increase of 2.5 percent over the previous year, according to A4A. Much of the demand is being driven by affordable airfare, which is at its lowest in seven years.

The picture looks just as optimistic further down the road. The International Air Transport Association (IATA) sees global passenger demand nearly doubling over the next 20 years. The group expects 7.2 billion people to fly in 2035, up dramatically from 3.8 billion last year.



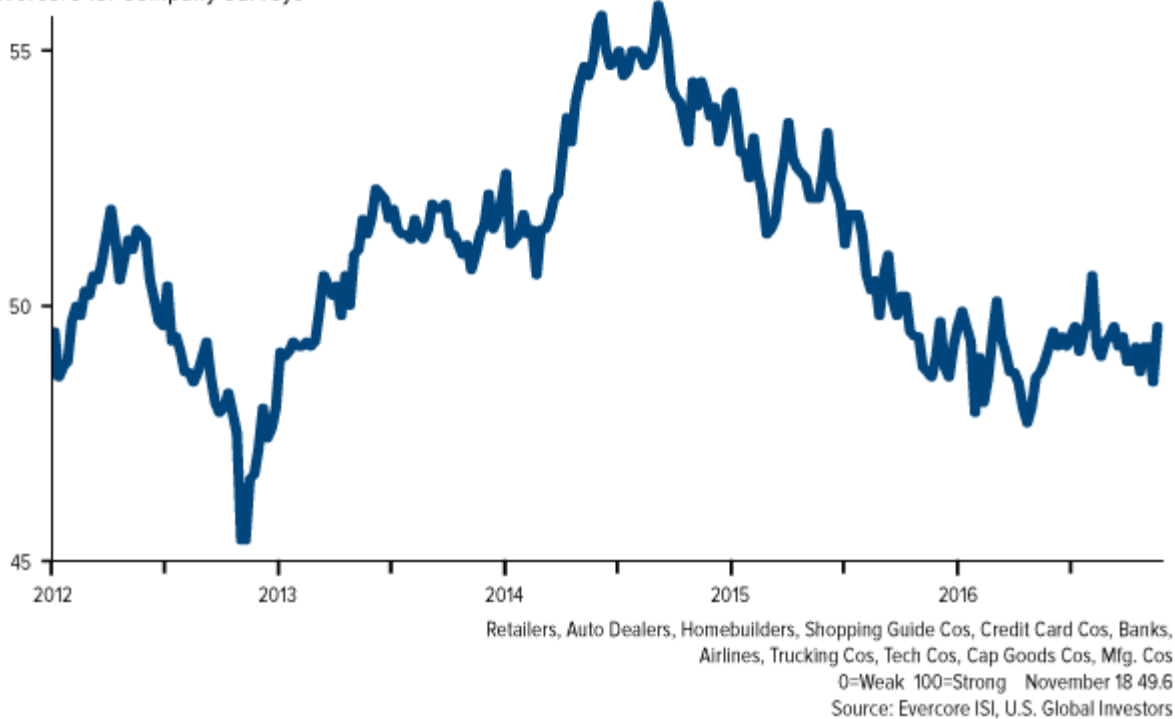
The Asia-Pacific region should be the biggest demand driver, with China displacing the U.S. as the world's largest aviation market. As I've written about before, the U.S. and China **both agreed to extend visas** for business travelers, tourists and students, which has already led to increased travel between the two nations. When I last visited the New York Stock Exchange, I noticed that half of the tourists appeared to be from China.

What Effect Might President Trump Have on Airlines?

In the week following the presidential election, we saw modest gains in several sectors, including airlines. Evercore ISI's proprietary Company Surveys, designed to monitor the economy on a weekly basis, showed a post-election bounce, rising 1.1 points to 49.6.

Steady Improvement in the Week Following the Election

Evercore ISI Company Surveys



[click to enlarge](#)

In many more ways than one, Donald Trump is unlike any other person ever to occupy the White House, bringing with him a unique set of skills and experiences that no other president can claim. As I mentioned earlier, he will become the first U.S. president who was formerly an airline executive. He also boasts an extensive background in tourism and hospitality, having built and managed everything from hotels to resorts to golf courses.



Donald Trump will be the first U.S. president with experience as an airline executive.

Source: CC Image courtesy of Evan Guest on Flickr

Industry leaders, therefore, hope Trump will prove to be a powerful ally and take their side on several key issues. For starters, many are encouraged that the president-elect has proposed as much as \$1 trillion in infrastructure spending on “our highways, bridges, tunnels, airports, schools, hospitals,” as he announced [the day following last week’s election](#).

Trump has also promised to swing the pendulum away from monetary policy toward fiscal policy—cutting taxes and relaxing regulations—which has put Federal Reserve Chair Janet Yellen on the defensive. Just today she

defended the Dodd-Frank Act, which Trump has vowed to dismantle, stating a repeal would increase the likelihood of another financial crisis.

As for the aviation industry, U.S. carriers have been pushing Congress for years to reform air traffic control so that the steering wheel is in the hands not of the Federal Aviation Administration (FAA) but a private, not-for-profit entity. Canada made a similar transition in 1996 when it turned authority of its civil air navigation service over to the privately-run Nav Canada, which today manages approximately 12 million aircraft movements a year.

The industry also would like to see open talks with several state-owned Middle Eastern carriers, whose governments provide tens of billions of dollars in “unfair” subsidies every year.

Jill Zuckman, chief spokesperson for Partnership for Open & Fair Skies, an airline lobby group, has urged Trump, a harsh critic of international trade agreements, to protect the interests of American airlines and workers.

“The Gulf carrier subsidies threaten the jobs of 300,000 U.S. aviation workers and the American aviation industry as a whole,” [Zuckman alleged](#), “and we are optimistic that the Trump administration will stand up to the United Arab Emirates and Qatar, enforce our trade agreements and fight for American jobs.”

Other leaders see headwinds in some of Trump’s more isolationist and nativist rhetoric, particularly his tough stance on immigration from Mexico—currently the number two market for travel and tourism to the U.S.—and Arabic-speaking countries.

Arrivals into the U.S. by Country, 2013

Rank	Country	Number of Visitors, in Millions	Percent Share
#1	 Canada	23.39	33.5%
#2	 Mexico	14.34	20.6%
#3	 United Kingdom	3.84	5.5%
#4	 Japan	3.73	5.3%
#5	 Brazil	2.06	3.0%
#6	 Germany	1.92	2.7%
#7	 China	1.81	2.6%
#8	 France	1.50	2.2%
#9	 South Korea	1.36	1.9%
#10	 Australia	1.21	1.7%

According to the Council on Foreign Relations, a travel ban on Muslims entering the U.S.—a controversial proposal Trump has since softened—could cost the U.S. economy [as much as \\$71 billion a year](#) and up to 132,000 American jobs. As *The Economist* pointed out in [a recent article](#), travelers from the Middle East tend to be big spenders, spending 50 percent more per trip than Europeans on average.

Trump has also expressed interest in reversing current diplomatic relations with Cuba, favoring a reinstatement of old travel and trade embargos. (“The people of Cuba have struggled too long,” [he tweeted](#) in October. “Will reverse

Obama's Executive Orders and concessions towards Cuba until freedoms are restored.") Many U.S. airlines have already begun [scheduled flights to Havana](#), including United, American and Southwest, with others soon to follow (JetBlue, Alaska, Delta and Spirit, among others).

As for whom Trump might name as head of the Transportation Department—which oversees the FAA, Federal Highway Administration, Federal Railroad Administration and other agencies—rumors are circulating that it's come down to either Rep. John Mica (R-Fla.), former House Transportation Committee chairman; or James Simpson, former commissioner of New Jersey's Department of Transportation.

The airline industry has proven itself resilient time and again, emerging stronger from a decade ago. For investors, the group is relatively inexpensive and generous with its dividends and stock buybacks. Changes might very well be in the cards, but I remain bullish on airlines, just as Warren Buffett is.

[CLICK HERE FOR ADDITIONAL RESEARCH ON THE AIRLINE INDUSTRY!](#)



WHAT'S DRIVING GOLD?

[FIND OUT!](#)

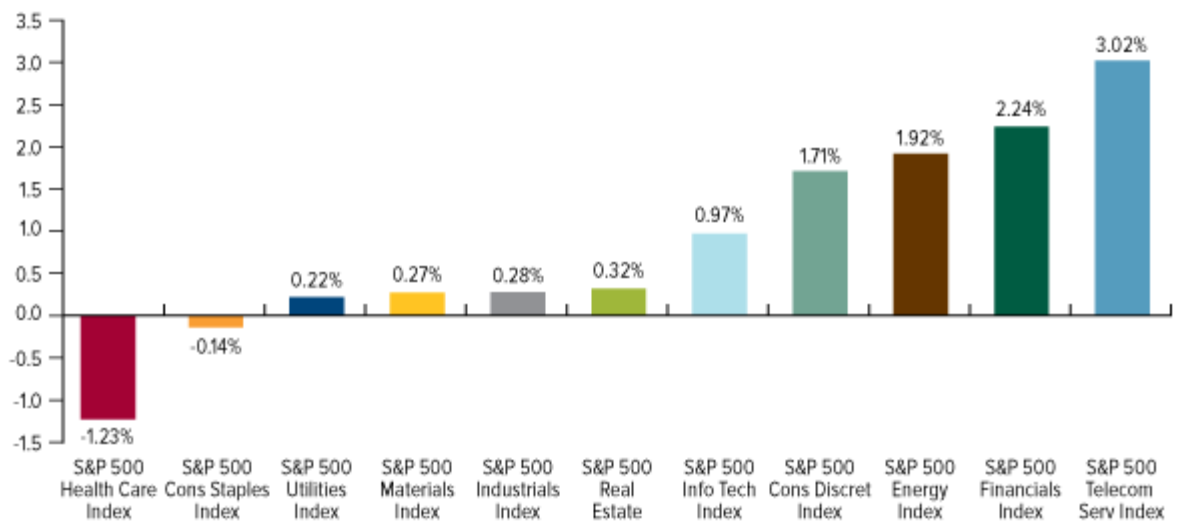
Index Summary

- The major market indices finished up this week. The Dow Jones Industrial Average 0.13 percent. The S&P 500 Stock Index rose 0.94 percent, while the Nasdaq Composite climbed 1.64 percent. The Russell 2000 small capitalization index gained 2.33 percent this week.
- The Hang Seng Composite lost 0.66 percent this week; while Taiwan was up 0.57 percent and the KOSPI fell 0.50 percent.
- The 10-year Treasury bond yield rose 16 basis points to 2.31 percent.

Domestic Equity Market

S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, November 11, 2016 – November 18, 2016)



Source: Bloomberg, U.S. Global Research

[click to enlarge](#)

Strengths

- Telecommunications was the best-performing sector for the week, increasing by 3.02 percent vs an overall increase of 0.82 percent for the S&P 500 Index.
- Harman International was the best-performing stock for the week, increasing 24.76 percent. The automotive technology company is being bought out by Samsung for \$8 billion.
- Salesforce.com beat on both the top and bottom lines, earning \$0.24 a share on revenue of \$2.14 billion. "I'm delighted to announce that we expect to deliver our first \$10 billion year during our fiscal year 2018, which puts us well on the path to reach \$20 billion faster than any other enterprise software company," CEO Marc Benioff said in the earnings release.

Weaknesses

- Health care was the worst-performing sector for the week, falling by 1.23 percent vs an overall increase of 0.82 percent for the S&P 500.
- Mallinckrodt was the worst-performing stock for the week, falling 17.17 percent. The company fell on a report from famed short seller Citron Research, which gave a \$20 price target and cited increased reliance on Medicare as a source of revenue for the company's top-selling drug Acthar, while insurers have clamped down on reimbursement.
- Cisco warned next quarter will be weak. The company beat on the top and bottom lines, earning an adjusted \$0.61 a share on revenue of \$12.4 billion, but it said revenue would fall by 2 percent to 4 percent versus a year ago (+2 percent expected).

Opportunities

- Warren Buffett is loading up on airlines. A 13-F filed on Monday showed Buffett's Berkshire Hathaway amassed holdings in American Airlines, Delta Air Lines, and United Continental.
- Snapchat parent company Snap Inc. has confidentially filed for its rumored initial public offering (IPO), Reuters reported after the market close. That sets the wheels in motion for the largest tech IPO in several years. A source previously told Business Insider that Snap planned to IPO by late March at around a \$25 billion valuation. Bloomberg later reported that its valuation could swell as high as \$40 billion.
- Siemens is buying the semiconductor-design software company Mentor Graphics for \$37.25 a share in cash, or about \$4 billion. That's a 21 percent premium to Mentor's closing price Friday, and it values the Oregon-based company at about \$4.5 billion, including debt. "It's a perfect portfolio fit to further expand our digital leadership and set the pace in the industry," said Siemens CEO Joe Kaeser a statement.

Threats

- Wells Fargo has seen a dramatic decrease in the number of new accounts opened at the bank in the aftermath of its fake-accounts scandal. In a release Thursday, the bank announced that the number of new accounts opened in October fell by 27 percent from September and by 44 percent from October 2015.
- LinkedIn has become the first major social network blocked in Russia. Russia's communications watchdog, Roskommadzor, has added the social network to its list of blacklisted websites, the Financial Times reports.
- Cyclically-oriented U.S. equities have surged on the back of the Trump victory. However, BCA cautions that it is premature to position portfolios aggressively for a pro-growth global outlook.

Frank Talk Insight for Investors

 <p>November 16, 2016 Muni Bonds a Key to Making America Great Again</p>	 <p>November 14, 2016 What Trump's Stunning Upset Means for Markets</p>	 <p>November 7, 2016 Manufacturing Activity in China Just Shifted into Overdrive</p>
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A blog by Frank Holmes, CEO and Chief Investment Officer

The Economy and Bond Market

Strengths

- Retail sales unexpectedly soared in September. Year-on-year, sales climbed 4.3 percent to a two-year high, and rose by 0.8 percent month-on-month. Excluding automobile and gasoline sales, which tend to be volatile, so-called core retail sales rose 0.6 percent (0.3 percent expected.) This report could bode well for a strong holiday shopping season. The Atlanta Fed's GDPNow model raised its forecast for fourth-quarter growth to 3.3 percent from 3.1 percent after the report.
- Groundbreaking on houses in the U.S. increased more than expected in October and to a nine-year high. Housing starts rose by 25.5 percent at a seasonally adjusted annual rate of 1.323 million, the biggest increase in nine years. Building-permit issuance rose 0.3 percent at a rate of 1.229 million.
- Initial jobless claims unexpectedly dropped to the lowest level since 1973. Claims, which count people applying for unemployment insurance for the first time, fell to 235,000. The number has not been more than 300,000 for 89 straight weeks. This trend reflects a relatively low number of layoffs.

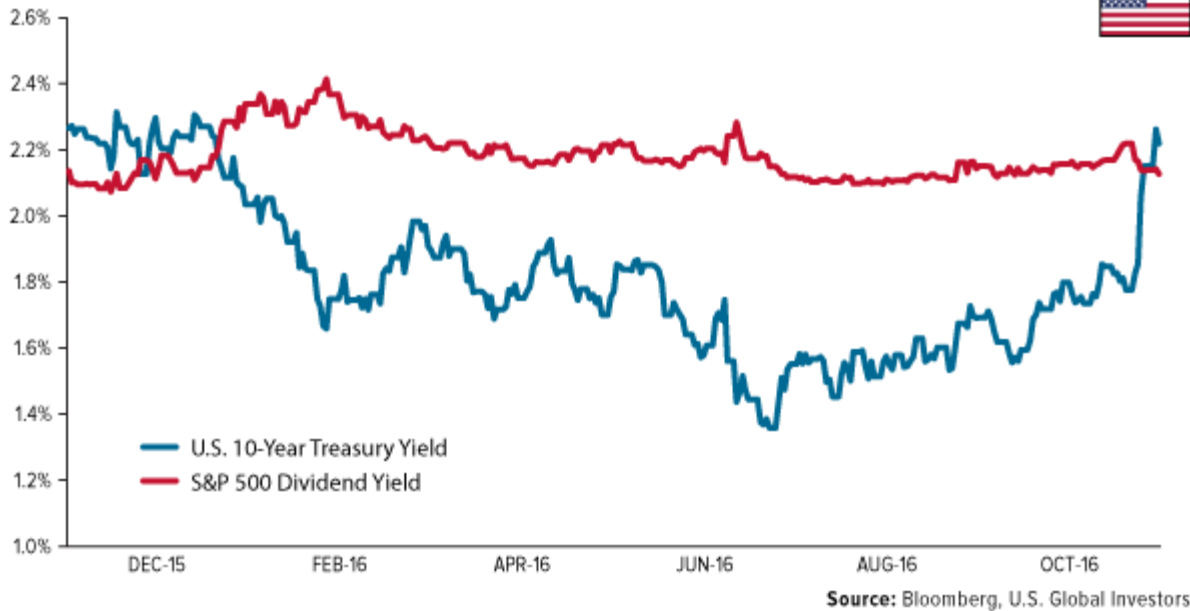
Weaknesses

- Manufacturing activity in and near Philadelphia fell more than expected in November amid weak labor-market conditions. The Philly Fed's monthly index of current activity came in at 7.6, compared to the prior month's reading of 9.7.
- Inflation rose slower than expected in October. The core consumer price index (CPI) excluding the volatile food and energy categories rose 0.1 percent from the month before, less than the 0.2 percent expected by economists. Gas accounted for half of the increase in non-core CPI. Compared to October 2015, core CPI rose 2.1 percent (2.2 percent projected.) Surprisingly, the index for medical care — which has been a substantial driver of inflation over the past year — was flat month-over-month.
- Producer prices were unchanged in October, according to the Department of Labor. Economists had forecast that the producer price index (PPI) for final demand — sold to consumers — would rise 0.3 percent from September. A 5.7 percent plunge in the cost of securities brokerage, dealing, investment advice, and related services was a major factor that dragged down services prices.

Opportunities

- The recent bond market sell-off lifted Treasury yields to the highest levels in a year. That jump pushed the benchmark 10-year Treasury note's yield above the dividend yield on the S&P 500 for the first time since last year. Before this reversal, investors who were seeking higher yields flocked to the stock market as global bond yields continued to fall and even turned negative in some countries. Bond yields surged to levels most forecasters didn't see coming as investors bet that Trump's fiscal-spending plans would boost domestic demand and inflation. However, there's still considerable uncertainty about when and how infrastructure spending will rise, and some strategists cautioned that traders were getting ahead of themselves with their bets on higher inflation. With treasury yields now higher than stock dividend yields, bonds could become attractive to yield seeking investors.

Stock Dividends Vs. Treasury Yields



[click to enlarge](#)

- Markets are almost certain the Federal Reserve is hiking interest rates in December. Bloomberg's World Interest Rate Probability (WIRP) function, a market-based tracker of the likelihood of different interest rate corridors, now shows investors are pricing in a 98-percent chance the Fed raises its key interest rate 25 basis points to a range of 0.50 percent to 0.75 percent at its December 13-14 meeting. The probability jumped as bond-market yields rose after the election.
- Manufacturing in New York State improved more than expected in November. The Empire manufacturing index came in at 1.50, above economists' expectations of -2.50. This was the first time the headline number pulled out of negative territory in four months.

Threats

- Bond markets everywhere are getting smoked. Selling continues in bond markets all over the world as a President-elect Donald Trump has brought out the vigilantes. In the U.S., the 10-year is above 2.30 percent, its highest level since the beginning of the year. And bonds elsewhere are getting hit hard too. In Asia, South Korea's 10-year spiked above 2.10 percent, and Italy's 10-year leads the advance in Europe, above 2.15 percent.
- The impact of a stronger U.S. dollar on emerging markets is a serious risk. A rebound in emerging markets growth has contributed significantly to the strength in the overall global PMI since earlier this year. A strengthening dollar correlates with weaker emerging markets PMI, and weakness on this front could weigh on global growth.
- The German central bank this week issued a financial stability report in which it found that, while the country's banks are robust, they suffer from weak profitability and may be underestimating the risks of falling asset prices and rising interest rates.

Gold Market

This week spot gold closed at \$1,207.63, down \$20.22 per ounce, or 1.65 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week down by 1.01 percent. Junior miners outperformed seniors for the week, as the S&P/TSX Venture Index fell rose 2.58 percent. The U.S. Trade-Weighted Dollar Index surged 2.21 percent for the week.

Date	Event	Survey	Actual	Prior
Nov-13	China Retail Sales YoY	10.7%	10.0%	10.7%
Nov-15	Germany ZEW Survey Current Situation	61.6	58.8	59.5
Nov-15	Germany ZEW Survey Expectations	8.1	13.8	6.2
Nov-16	U.S. PPI Final Demand YoY	1.2%	0.8%	0.7%
Nov-17	Eurozone CPI Core YoY	0.8%	0.8%	0.8%
Nov-17	U.S. Housing Starts	1156k	1323k	1054kk
Nov-17	U.S. Initial Jobless Claims	257k	235k	254k
Nov-17	U.S. CPI YoY	1.6%	1.6%	1.5%
Nov-23	U.S. Durable Goods Orders	1.2%	--	-0.3%
Nov-23	U.S. Initial Jobless Claims	250k	--	235k
Nov-23	U.S. New Home Sales	590k	--	593k
Nov-24	H.K. Exports YoY	1.5%	--	3.6%

Strengths

- The best performing precious metal for the week was palladium with a 7.14 percent gain. Bloomberg highlighted that automotive production in China grew 34 percent in September and 18 percent in October. As other gold investors are heading for the exit, billionaire hedge fund manager John Paulson has maintained his holding in the world's biggest ETF backed by gold, reports Bloomberg. Even as gold prices posted their first quarterly loss this year, Paulson & Co. kept its holdings unchanged from June through the end of September.
- According to Bloomberg calculations, mine supply may fall about a third in the 10 years to 2025, with the number of newly discovered primary gold deposits already falling to three in 2014 from 37 in 1987, writes Mark O'Byrne. CEO of Randgold Resources, Mark Bristow, says gold production may peak in the next three years as miners fail to replace their reserves. The silver market is in the same boat, reports Reuters, with 2016 marking the fourth consecutive year in which the market has realized a physical shortfall. In Russia, in fact, silver production fell 9.4 percent year-over-year from January to September, and gold output declined 1.4 percent.
- BonTerra Resources announced this week that it has significantly extended its Gladiator Gold Zones by over 250 meters with "multiple intersections of high grades and meaningful widths." The Drill Hole BA-16-39 generated gold bearing horizons including an intersection of 70 g/t over 5.5 meters at the eastern extent of the deposit and over 600 meters in depth below surface.

Weaknesses

- The worst performing precious metal for the week was silver with a loss of 4.47 percent. Bloomberg notes that holdings in all silver-backed ETFs they track fell 2.9 million ounces, set for the first monthly decline in 10 months.
- Total ETF gold fund holdings slid for a sixth straight day through Thursday, reports Bloomberg, making it the longest stretch in a year. The outlook for higher U.S. interest rates has dented the metal's appeal as a store of value, even to billionaire investors George Soros and Stanley Druckenmiller. Naeem Aslam of Think Markets in London says investors are abandoning ship and jumping into risk trade. He believes now the clear trade is to go long the dollar index given that the odds of a rate hike are 91 percent in December. It's hard to say, however, what "clear trades" to follow, since many analysts also believed a Clinton win was just as "clear."
- MarketWatch writer Nigam Arora believes the real reason behind the crash in gold price is India, not Trump. India's Prime Minister Narendra Modi has directed that 500 and 1,000 rupee notes be banned; these represent 20 percent of the cash value in circulation and 80 percent of cash outstanding. "The most common method to convert black money into white money over the past 50 years has been to slowly buy gold by paying cash in large bills," Arora writes. "Now that large bills used to buy gold are worthless, demand for physical gold will decline." Market observers in India say demand for gold is at the rock bottom even though marriage season has started in the country, reports the Business Standard.

Opportunities

- In its November 14 report, RBC Capital Markets says that now is the time to meaningfully reposition portfolios following the election of Donald Trump. The report examines the presidency's impact on markets, how to best position portfolios and risks associated with Trump. RBC states clearly that an increase in inflation and interest rates should accompany a Trump presidency. It notes that within the materials sector, gold stocks should be among the greatest beneficiaries. In another report from the group on its 15th Annual Senior Gold Conference, RBC notes that careful capital allocation continues to be a theme going into 2017 despite a constructive outlook for gold. Companies continue to focus on maximizing free cash flow from assets and dividends are a primary focus which should translate to higher share prices. As shown in the chart below, the valuation of gold stocks relative to gold prices today are much more depressed than the gold price.

Gold Miners Are Attractive

Gold Spot Price per Ounce



*Rebased to 100 in 2000

Source: BCA Research, U.S. Global Investors

[click to enlarge](#)

- Ray Dalio of Bridgewater Associates sees a "major reversal" in store for the global economy, reports HSBC.

The reversal will involve things like falling globalization and free trade, quicker U.S. growth and aggressive government spending. Although gold was not mentioned, the main points of his statement are more likely than not to boost gold, the report continues. Dalio also commented on bonds, saying there's a significant likelihood that we have made the 30-year low in bond yield and inflation and both have nowhere to go but up.

- In response to Stanley Druckenmiller's bearish comments on gold, St. Joseph Partners noted in its latest Trading Update what the slightest change in interest rates could mean for investors. "If rates increase 1 percent on 30-year bonds from recent levels, investors would endure an 18 percent loss," the group writes. They leave their readers with this question, particularly in regards to emerging markets: What assets thrive alongside currency weakness and rising inflation? A consistent answer, they believe, is gold and silver.

Threats

- Concerns over the potential for a gold import ban are prompting some Indian gold traders to place bulk, short-term orders of gold. The Indian Bullion and Jewellers Association has circulated messages to its members that the government may enact such a ban through the end of the fiscal year. The uncertainty in the Indian gold market, after the ban on high-denomination banknotes last week, is exacerbated by the threat of an import ban, and wild swings in the gold price are likely.
- Commerzbank AG noted on Monday that "Gold is still facing considerable headwind." The bank cited the strong dollar, rising bond yields and declining gold fund holdings, and also noted that speculative investors have withdrawn from gold, which is also putting pressure on prices.
- GFMS analysts at Thomson Reuters this week noted that physical silver demand hit a four-year low this year. Purchases in jewelry, coins and bars have declined. Johann Weibe said in the report that "a decline in discretionary spending, thrifting, lower economic growth and a higher silver price have all contributed to the overall decline." In 2015, sales of silver coins and bars were at a record high of 292.4 million ounces, while they have fallen to 222 million ounces in 2016.



Energy and Natural Resources Market

Strengths

- Natural gas was the best performing commodity this week rallying 8.6 percent as early winter in China drove prices. Natural gas prices have had a very tough month with the lack of cold weather this fall; however, power plants in North Asia are currently operating at full capacity.
- The best performing sector for the week was the S&P 500 Paper and Forest Products Index. The index rose 7.2 percent on the back of record high housing starts. Residential housing starts surged 25.5 percent this month, the fastest rate since 2007.
- Weyerhaeuser Co., a U.S. integrated forest products company, was the best performing stock this week finishing up 8.5 percent. The stock rallied on the back of positive housing data and Trump's reflation trade which is favorable for U.S. paper and forest companies due to import protection and expedient environmental regulation.

Weaknesses

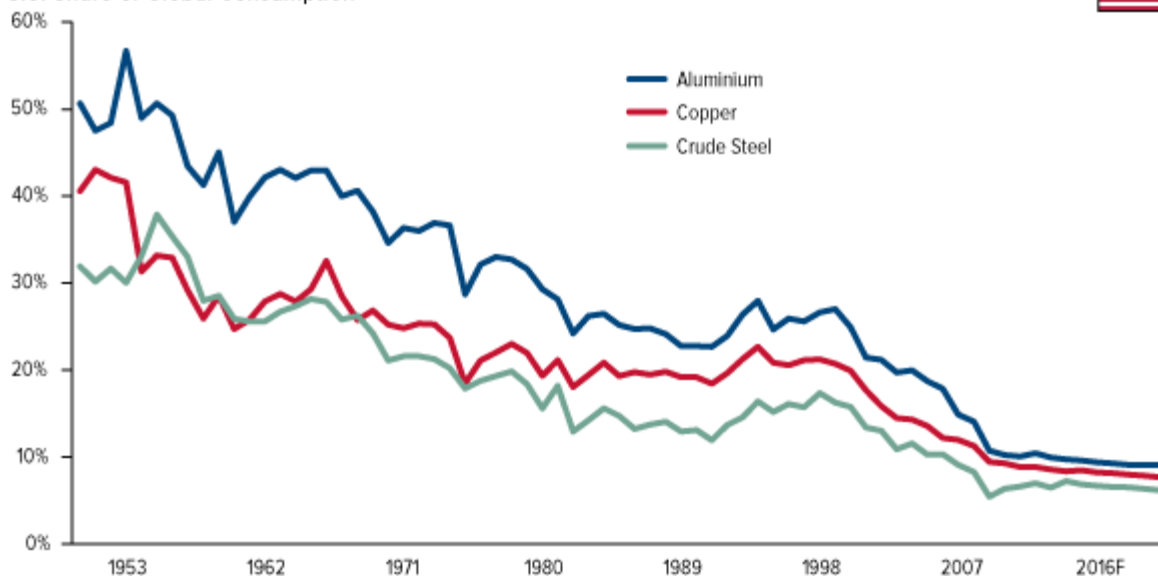
- Thermal coal was the worst performing commodity this week falling 14.1 percent as China's shift in coal production policies take effect. Coal for next year delivery in Western Europe is heading for its biggest weekly decline since 2008 as China allowed mines to increase the number of production days.
- The worst performing sector this week was the FTSE 350 Mining Index. The index of major global miners fell 6.7 percent as the U.S. dollar took away from the rally in both precious and base metals. Nickel declined while copper headed for its first weekly drop in a month on this week's dollar strength.
- The worst performing stock for the week was Fresnillo PLC, a gold and silver miner with assets in Mexico. The company fell 12 percent on the back of weaker silver prices due to the current rally in the U.S. dollar.

Opportunities

- Industrial production increased 0.2 percent for a second straight month. Evidence for a secular bull market in U.S. industrial metal demand may be supported given the current sentiment surrounding infrastructure policies proposed by president elect Donald Trump. As the chart shows, U.S. consumption has been declining for the past 50 years. The Trump-based reflation trade has tremendous potential to reverse this negative secular trend.

The U.S. Has Steadily Lost Metals Consumption Share Since 1950

U.S. Share of Global Consumption



Source: Worldsteel, ICSG, IAI, Macquarie Research, Nov 2016, U.S. Global Investors

[click to enlarge](#)

- Russia, the world's largest exporter of crude oil outside of the OPEC block, stated this week that the country sees a "big chance" of OPEC securing a deal on its November 30 meeting. If the organization can reach a deal, the country has indicated that it will freeze production. A very positive read through for oil.
- The Baker Hughes rig count added 19 rigs this week, the largest weekly increase since July 2015, bringing the total active rig count to 471. The increase suggests that current U.S. oil production is resilient and can resume growth at these prices. This is a positive signal for the struggling oil services sector as they continue to increase activity and lease rigs.

Threats

- Codelco, the world's largest copper producer, plans to cut its premium. It will charge for deliveries of the metal to Europe by 11 percent and to China by 27 percent. This is the lowest premium the company has charged since 2003, which suggests demand may be weaker on both regions.
- Physical deliveries of iron ore and met coal are slowing down to steel mills in China. On Monday, iron ore futures fell by their daily lower limit. With Chinese futures exchanges raising margin requirements and fees, a short-term correction in iron ore, met coal and steel is a possibility in the months ahead.
- The global seaborne oil market may collapse if Trump acts on his campaign promise to block oil imports from "foes and the oil cartels." A recent FT article suggests Trump's pledge to create complete independence

in the American energy sector may backfire, both for U.S. growth, and the global oil market.

China Region

Strengths

- Third-quarter gross domestic product in the Philippines came in at a year-over-year growth rate of 7.1 percent, ahead of the second quarter's 7.0 print and well ahead of expectations for a pace of 6.7 percent.
- Indonesian exports rose to a year-over-year growth rate of 4.59 percent, ahead of expectations for a 3.60 percent print for October and up from last month's year-over-year decline of 0.59 percent.
- The Hong Kong dollar—with its U.S. dollar peg—made out well in a week marked by continued strength in and attention to the U.S. dollar.

Weaknesses

- Retail sales in China fell to 10 percent year-over-year gains from a 10.7 percent rate in September. Expectations were for a flat print of 10.7 in the October period.
- Recent steps by a number of local governments in China may be starting to take a bite out of the pace of price appreciation in the seventy cities for which new home sales are tracked. While prices are still up month-over-month, the pace dropped significantly in first-tier cities—from 3.1 to 0.5 percent. Lower tiered cities fared better, with third-tier cities, for example, falling only from 0.9 to 0.7 percent.

China's First, Second and Third Tier Home Price Appreciation

Five-Year Appreciation, Month-Over-Month



[click to enlarge](#)

- The Chinese yuan hit new 52-week and multi-year lows

Opportunities

- This week Samsung announced an acquisition of Harman International Industries—its largest ever international acquisition, according to Bloomberg—as it seeks to secure a place in the growing automotive technology industry.
- The Securities and Futures Commission of Hong Kong is reportedly preparing to authorize leveraged and inverse exchange-traded funds, which could increase the trading volumes for Hong Kong-listed securities.
- Next week investors will get third-quarter GDP prints for Singapore, Thailand and Taiwan.

Threats

- Bloomberg notes that there could already be costs to aspects of Philippine President Rodrigo Duterte's

heated rhetoric: Some in the semiconductor and electronics industry are reporting lower investments and canceled orders.

- The status of global trade and trade agreements following the conclusion of the U.S. elections remains uncertain. The outlook for the Trans-Pacific Partnership, in particular, is left on shaky ground.
- The weakening yuan—which rose above 6.89 on Friday, once again making new highs (lows) on the year—could force more potential outflows of capital from China.

Emerging Europe

Strengths

- Greece was the best performing country this week, gaining 5 percent. The banking sector drove the rally after Piraeus and Eurobank reported good third quarter results. Non-performing loan formation was negative for the second consecutive quarter in Eurobank and for the third consecutive quarter in Piraeus. Investors are becoming more optimistic about a swift second review conclusion.
- The Russian ruble was the best relative performing currency this week, gaining 1.7 percent against the U.S. dollar. The ruble is highly correlated with the price of Brent crude oil, which gained 4.7 percent. Also, Trump's victory supports the ruble as we may see normalization of the ties between the U.S. and Russia when the new president takes office.
- Consumer staples was the best performing sector among eastern European markets this week.

Weaknesses

- Poland was the worst performing country this week, losing 3.2 percent. Preliminary third-quarter GDP was reported at 2.5 percent versus a year ago at 3.1 percent. The Ministry of Labor and Family proposed all pension fund assets be transferred to the state fund, rather than 25 percent as was originally proposed by Deputy Prime Minister Morawiecki earlier this year.
- The Turkish lira was the worst performing currency this week, losing 3.7 percent against the U.S. dollar. The currency fell to a new record low every day this week as traders and investors speculate that policymakers won't increase rates next week (in order to defend the falling currency).
- Health care was the worst performing sector among eastern European markets this week.

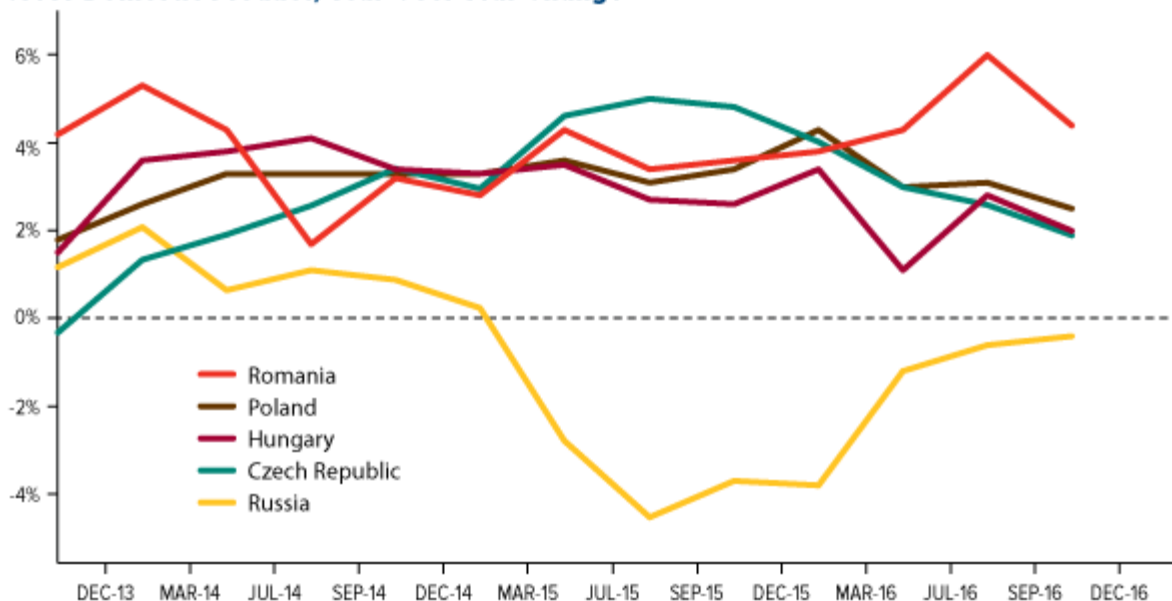
Opportunities

- Hungary will cut the corporate income tax to 9 percent next year. Currently the country has two brackets of 10 percent for profits up to 500 million forint (\$1.74 million) and 19 percent above that. This move will push the rate below a 12.5 percent levy in Ireland and Cyprus to become the lowest in the 28-nation bloc.
- Russia opened a criminal case against economy minister Alezei Ulyukayev for receiving a \$2 million bribe related to his ministry's approval of the sale of a 50-percent stake in Bashneft purchased by Rosneft in October. Kirill Kabanov, who leads the National Anti-Corruption Committee, says it was the first time Russia has had to slap handcuffs on a minister and that the case could draw in other people, possibly even higher-ranked officials. The arrest could be a step forward in the fight against corruption.
- Deutsche Bank AG and Renaissance Capital recommend buying Russian bonds after Donald Trump's presidential election victory in the U.S. Russia has "very limited" trade links with the U.S. and high local borrowing costs make investing in ruble assets an attractive carry trade. The yield on 10-year Russian government bonds jumped following Trump's win last week to the highest since June.

Threats

- Poland, the Czech Republic, Romania and Hungary reported slowing GDP growth in the third quarter. Oxford Economics says the region's growth model, based on cheap labor and foreign direct investments, is largely coming to an end. Russian GDP growth decreased by 0.4 percent year-over-year in the third quarter, surprising the market slightly positively. Russian GDP growth could record a positive year-over-year print in the last quarter of this year, which would mark the end of a recession for Russia.

Gross Domestic Product, Year-Over-Year Change



Source: Bloomberg, U.S. Global Investors

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- Italian Prime Minister Matteo Renzi said that he would resign if he loses the referendum on December 4. The referendum will ask voters to back the approval by parliament of Renzi's ambitious reforms which could boost growth. Opinion polls show Italians will narrowly reject his proposed reforms.
- Also on December 4, Austria will re-run the presidential election between the far-right Freedom Party's Norbert Hofer and former Green's leader Alexander Van der Bellen. Hofer narrowly lost back in May and now he could become the European Union's first far-right head of state.

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Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
DJIA	18,874.85	+27.19	+0.14%
S&P 500	2,185.46	+21.01	+0.97%
S&P Energy	518.75	+7.54	+1.47%
S&P Basic Materials	302.00	+0.42	+0.14%
Nasdaq	5,324.23	+87.12	+1.66%
Russell 2000	1,312.70	+30.30	+2.36%
Hang Seng Composite Index	3,048.21	-20.15	-0.66%
Korean KOSPI Index	1,974.58	-9.85	-0.50%

S&P/TSX Global Gold Index	193.19	+2.06	+1.08%
XAU	78.55	+0.50	+0.64%
Gold Futures	1,208.80	-15.50	-1.27%
Oil Futures	45.13	+1.72	+3.96%
Natural Gas Futures	2.83	+0.21	+8.02%
SS&P/TSX Venture Index	747.47	+19.56	+2.69%
10-Yr Treasury Bond	2.31	+0.16	+7.44%

Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
DJIA	18,874.85	+672.23	+3.69%
S&P 500	2,185.46	+41.17	+1.92%
S&P Energy	518.75	-2.14	-0.41%
S&P Basic Materials	302.00	+6.21	+2.10%
Nasdaq	5,324.23	+77.82	+1.48%
Russell 2000	1,312.70	+90.05	+7.37%
Hang Seng Composite Index	3,048.21	-107.07	-3.39%
Korean KOSPI Index	1,974.58	-66.36	-3.25%
S&P/TSX Global Gold Index	193.19	-28.51	-12.86%
XAU	78.55	-9.04	-10.32%
Gold Futures	1,208.80	-61.10	-4.81%
Oil Futures	45.13	-6.47	-12.54%
Natural Gas Futures	2.83	-0.34	-10.76%
SS&P/TSX Venture Index	747.47	-41.93	-5.31%
10-Yr Treasury Bond	2.31	+0.57	+32.51%

Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
DJIA	18,874.85	+322.28	+1.74%
S&P 500	2,185.46	+1.59	+0.07%
S&P Energy	518.75	+0.60	+0.12%
S&P Basic Materials	302.00	-4.72	-1.54%
Nasdaq	5,324.23	+85.85	+1.64%
Russell 2000	1,312.70	+75.93	+6.14%
Hang Seng Composite Index	3,048.21	-48.78	-1.58%
Korean KOSPI Index	1,974.58	-81.66	-3.97%
S&P/TSX Global Gold Index	193.19	-71.34	-26.97%
XAU	78.55	-29.14	-27.06%
Gold Futures	1,208.80	-137.40	-10.21%
Oil Futures	45.13	-3.39	-6.99%
Natural Gas Futures	2.83	+0.25	+9.48%
SS&P/TSX Venture Index	747.47	-85.64	-10.28%
10-Yr Treasury Bond	2.31	+0.73	+46.36%

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The Dow Jones Industrial Average is a price-weighted average of 30 blue chip stocks that are generally leaders in their industry.

The S&P 500 Stock Index is a widely recognized capitalization-weighted index of 500 common stock prices in U.S. companies.

The Nasdaq Composite Index is a capitalization-weighted index of all Nasdaq National Market and SmallCap stocks.

The Russell 2000 Index® is a U.S. equity index measuring the performance of the 2,000 smallest companies in the Russell 3000®, a widely recognized small-cap index.

The Hang Seng Composite Index is a market capitalization-weighted index that comprises the top 200 companies listed on Stock Exchange of Hong Kong, based on average market cap for the 12 months.

The Taiwan Stock Exchange Index is a capitalization-weighted index of all listed common shares traded on the Taiwan Stock Exchange.

The Korea Stock Price Index is a capitalization-weighted index of all common shares and preferred shares on the Korean Stock Exchanges.

The Philadelphia Stock Exchange Gold and Silver Index (XAU) is a capitalization-weighted index that includes the leading companies involved in the mining of gold and silver.

The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.

The S&P/TSX Canadian Gold Capped Sector Index is a modified capitalization-weighted index, whose equity weights are capped 25 percent and index constituents are derived from a subset stock pool of S&P/TSX Composite Index stocks.

The S&P 500 Energy Index is a capitalization-weighted index that tracks the companies in the energy sector as a subset of the S&P 500.

The S&P 500 Materials Index is a capitalization-weighted index that tracks the companies in the material sector as a subset of the S&P 500.

The S&P 500 Financials Index is a capitalization-weighted index. The index was developed with a base level of 10 for the 1941-43 base period.

The S&P 500 Industrials Index is a Materials Index is a capitalization-weighted index that tracks the companies in the industrial sector as a subset of the S&P 500.

The S&P 500 Consumer Discretionary Index is a capitalization-weighted index that tracks the companies in the consumer discretionary sector as a subset of the S&P 500.

The S&P 500 Information Technology Index is a capitalization-weighted index that tracks the companies in the information technology sector as a subset of the S&P 500.

The S&P 500 Consumer Staples Index is a Materials Index is a capitalization-weighted index that tracks the companies in the consumer staples sector as a subset of the S&P 500.

The S&P 500 Utilities Index is a capitalization-weighted index that tracks the companies in the utilities sector as a subset of the S&P 500.

The S&P 500 Healthcare Index is a capitalization-weighted index that tracks the companies in the healthcare sector as a subset of the S&P 500.

The S&P 500 Telecom Index is a Materials Index is a capitalization-weighted index that tracks the companies in the telecom sector as a subset of the S&P 500.

The NYSE Arca Gold Miners Index is a modified market capitalization weighted index comprised of publicly traded companies involved primarily in the mining for gold and silver.

The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.

The Purchasing Manager's Index is an indicator of the economic health of the manufacturing sector. The PMI index is based

on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. The S&P/TSX Venture Composite Index is a broad market indicator for the Canadian venture capital market. The index is market capitalization weighted and, at its inception, included 531 companies. A quarterly revision process is used to remove companies that comprise less than 0.05% of the weight of the index, and add companies whose weight, when included, will be greater than 0.05% of the index.

Price-Earnings Ratio (P/E Ratio) is determined by dividing the price of the stock by the company's forecasted earnings per share.

Dividend yield is a financial ratio that indicates how much a company pays out in dividends each year relative to its share price.

There is no guarantee that the issuers of any securities will declare dividends in the future or that, if declared, will remain at current levels or increase over time.

The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.

The Consumer Price Index (CPI) is one of the most widely recognized price measures for tracking the price of a market basket of goods and services purchased by individuals. The weights of components are based on consumer spending patterns.

The Producer Price Index (PPI) measures prices received by producers at the first commercial sale. The index measures goods at three stages of production: finished, intermediate and crude.

A basis point, or bp, is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001).

The Empire State Manufacturing Index is an index based on the monthly survey of manufacturers in New York State conducted by the Federal Reserve Bank of New York. The index summarizes general business conditions in New York State.

The S&P 500 Paper and Forest Product Index is a capitalization-weighted index developed with a base value of 100 as of December 30, 1994.

The FTSE 350 Mining Index is a capitalization-weighted index of all stocks designed to measure the performance of the mining sector of the FTSE 350 Index. The index was developed with a base value of 1000 as of December 31, 1985.

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