U.S. Global Investors
Investor Alert

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Venezuela on the Brink—An Opportunity for Oil Investors?

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Venezuela is sliding closer and closer toward the brink, and things look as if they'll get worse, unfortunately, before they improve.

A country that boasts the largest proven oilfield in the world should not be facing such dire food and medicine shortages, not to mention rampant protests and violence in the streets. But that's what happens when far-left, authoritarian socialist regimes threaten to dissolve economic freedom, the rule of law and democracy itself.

As you might have heard, Venezuelans will be participating in an election this Sunday that could permanently amend the country's constitution for the worse. Depending on the outcome, President Nicolas Maduro is poised to become the world's next absolute dictator.

On Wednesday, the U.S. Treasury Department issued economic sanctions on 13 current and former Venezuela government officials in an effort to encourage Maduro to drop the election, which—let's be honest—is likely rigged in his favor. According to Transparency

International, Venezuela is among the most corrupt countries on the planet, ranking 166 out of 176 in 2016.

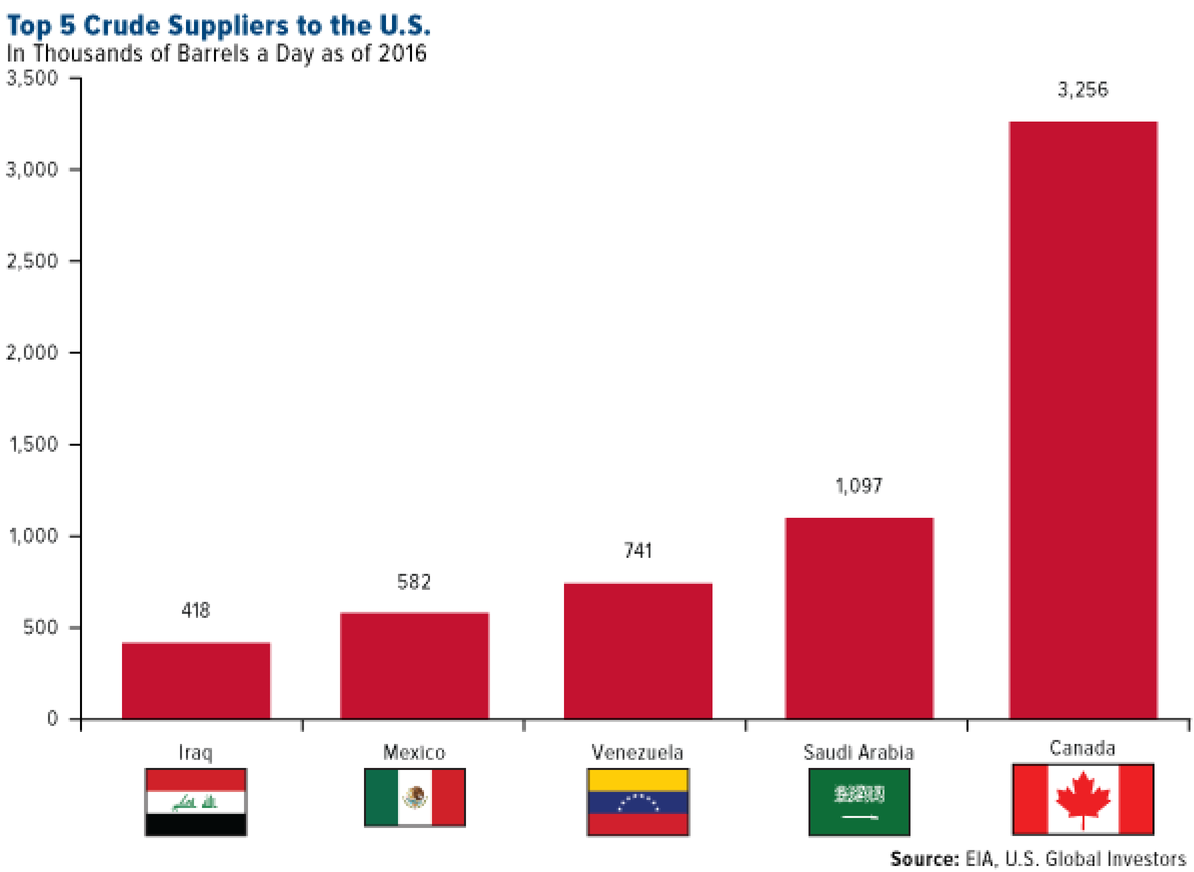
Venezuela President
Nicolas Maduro
Photo: Flickr/newsonline

So why am I telling you this? Again, Venezuela sits atop the world's largest proven oil patch. Crude accounts for roughly 95 percent of its export earnings. If Maduro does not relent, the U.S. could very possibly target the country's oil industry next.

As Evercore ISI put it this week, the Treasury Department's decision is "the first step toward comprehensive sectoral sanctions, including crude oil imports into the U.S."

This would be phenomenally disruptive to Venezuela's already fragile economy. Right now, the U.S. is the country's top cash-generating market. Unlike most other markets, the U.S. pays its oil import invoices in full and on time. Venezuela could always boost exports to other existing clients, but the cash would dry up.

To be fair, such a move wouldn't be exactly painless for the U.S. either. Venezuela is currently its third-largest supplier of crude, following Canada and Saudi Arabia. Several large American producers, including Chevron, Halliburton and Schlumberger, have joint-venture contracts with Petroleos de Venezuela (PDVSA), the South American country's state-run oil company. And a number of oil refineries in the U.S. are equipped specifically to handle Venezuela's notoriously extra-heavy crude.



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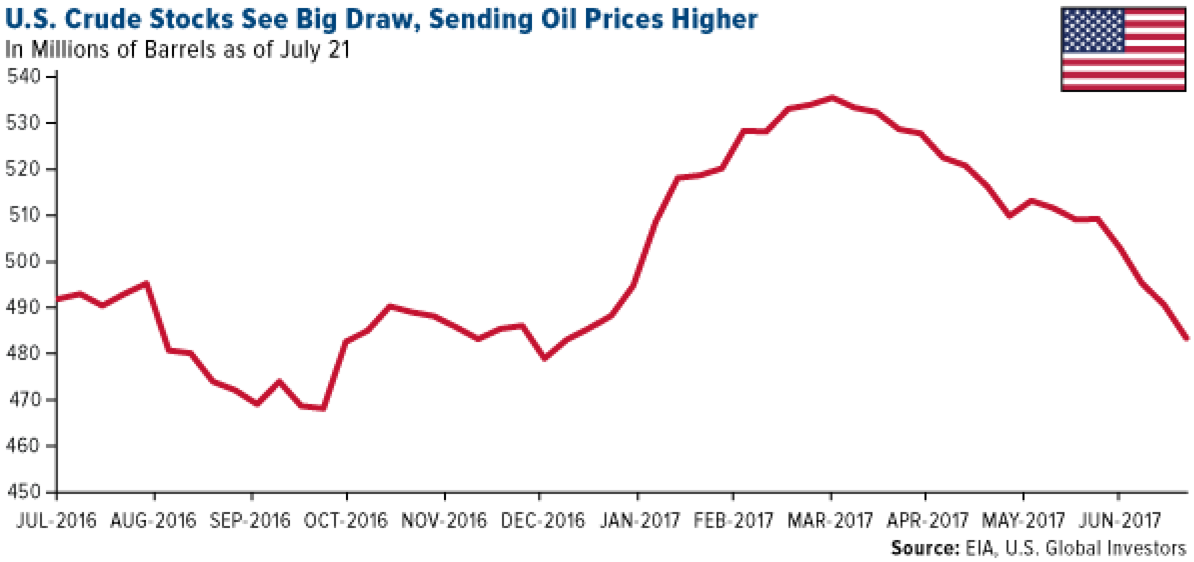
Speaking to MarketWatch this week, Oil Price Information Service energy analyst Tom Kloza said the "possibility of chaos" in Venezuela could adequately spur an oil rally that the most recent global production cuts have failed to achieve. Despite the Organization of Petroleum Exporting Countries' (OPEC) December agreement to trim output in an effort lift prices, crude fell more than 14 percent in the first six months of 2017 and is currently underperforming its price action of the past four years.

Venezuela's vote this weekend, followed closely by fresh U.S. Treasury Department sanctions, could be the “only true element that would change the dynamic for crude,” Kloza says.

Crude Gains on Inventory Draw

West Texas Intermediate (WTI) crude climbed to a nearly two-month high this week—but not entirely in response to the upcoming Venezuela vote. The U.S. Energy Information Administration (EIA) reported that crude oil inventories, not including those in the Strategic Petroleum Reserve (SPR), sharply fell 7.2 million barrels in the week ended July 21. Stocks now stand at slightly more than 483 million barrels. Although still historically high, inventories have now decreased for four straight weeks.



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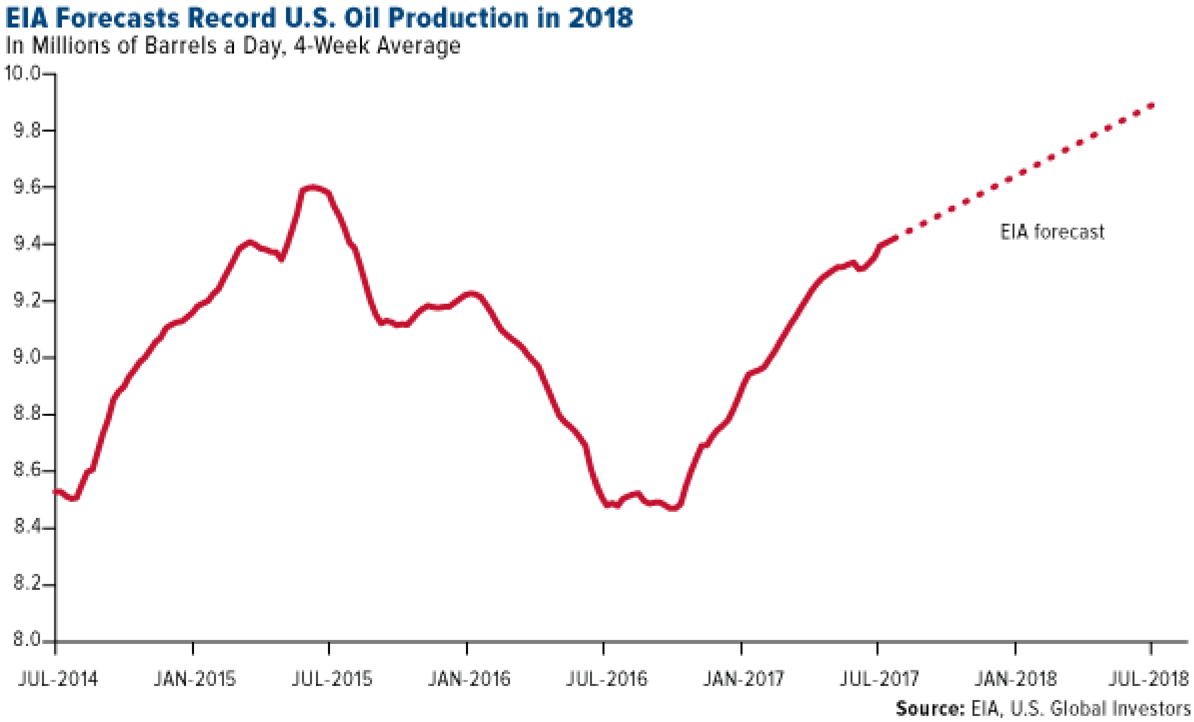
On Tuesday, oil jumped 3.34 percent, its biggest one-day gain since November 2016. And with only one more trading day left in July, the commodity is on track to have its first positive month since February.

Also supporting oil right now is speculation that domestic producers could soon start slashing capital budgets after months of depressed prices. Anadarko Petroleum made headlines this week after becoming the first major U.S. producer to announce cuts. The Texas-based company plans to trim $300 million from its 2017 budget.

But don’t expect domestic output to slacken anytime soon. In its Short-Term Energy Outlook, released this week, the EIA forecasts crude production to reach a record high of 9.9 million barrels a day on average in 2018. That would push it over the previous record of 9.6 million barrels a day, set way back in 1970.



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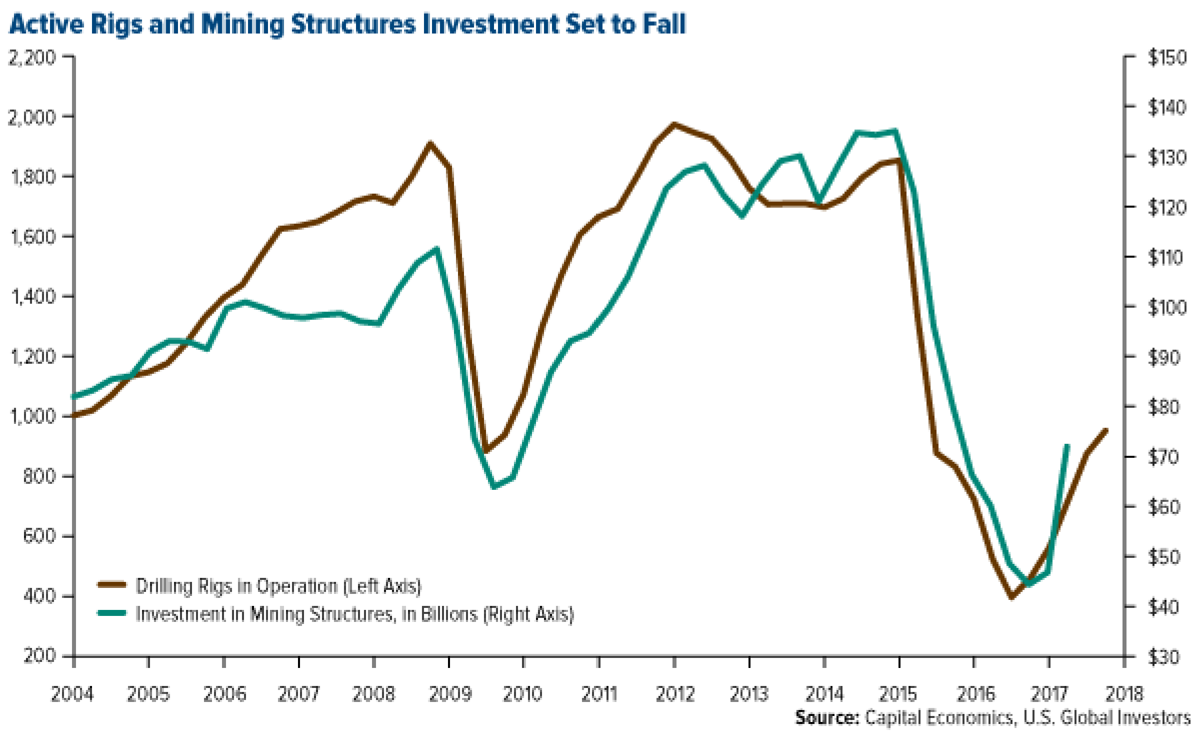
Not everyone agrees with this assessment. In a report this week, Capital Economics writes that "after more than a year of steady gains, the number of active drilling rigs will decline in the second half of the year. Accordingly, while mining structures investment probably posted another rise in the second quarter, these gains won't be repeated in the second half of the year."



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It's important to remember, though, that a common theme among American frackers is that operations have become exceedingly more efficient than ever before. When oil prices collapsed more than two years ago and rigs were mothballed, output remained strong. So it's possible that even with fewer rigs actively pumping crude, and less capital going into mining structures, we could still see domestic production reach 10 million barrels a day by next year.

OPEC Compliance at Six-Month Low

Obstructing price appreciation right now is news that a number of OPEC countries are not complying with production guidance laid out earlier in the year. The compliance rate fell from 95 percent in May to a six-month low of 78 percent in June, with monthly output from Algeria, Ecuador, Gabon, Iraq, the United Arab Emirates and Venezuela totaling more than what should be allowed.

Meanwhile, Libya and Nigeria—which are exempt from the OPEC agreement because recent political instability in those countries knocked out months' worth of production—dramatically increased output that reportedly has Saudi Arabia worried.

Peak Oil Demand in 10 Years?

Looking ahead on the demand side, we could see global oil consumption peak as soon as the late 2020s or early 2030s.

That's according to Ben van Beurden, CEO of Royal Dutch Shell. Speaking to CNBC yesterday, van Beurden cited growth in electric vehicle sales as well as countries switching from fossil fuels to renewables as major catalysts that would trigger peak demand much sooner than previous estimates. Back in November, the International Energy Agency (IEA) said it didn't expect demand to peak before 2040.

Shell CEO Ben van Beurden
Photo: Flickr/fotosagenciabrasil

But things are changing more rapidly every day. Last month, Volkswagen—the world's number one manufacturer by sales—announced it would cease selling fossil fuel-burning automobiles by 2020. Both France and the United Kingdom recently said gas and diesel cars would be banned by 2040. India, the fastest growing automobile market, set a similar target for 2030.

Even when oil demand peaks—whether in 2030 or 2040—it won't "go out of fashion overnight," van Beurden said. Planes, ships and heavy trucks will continue using fossil fuels all around the globe, and smaller emerging markets will not be able to make the transition to renewables so easily as larger economies such as Western Europe, China and India.

"Supply will shrink faster than demand can shrink," he explained, "and therefore, working on oil and gas projects will remain relevant for many decades to come."

Shell reported knockout second-quarter earnings as cash generation rose sharply. The Anglo-Dutch producer's earnings attributable to shareholders rose to $1.9 billion in the June quarter, a whopping 703 percent increase over the same period last year. Free cash flow stood at an incredible $12.1 billion, up from negative $3.1 billion during the same quarter in 2016.

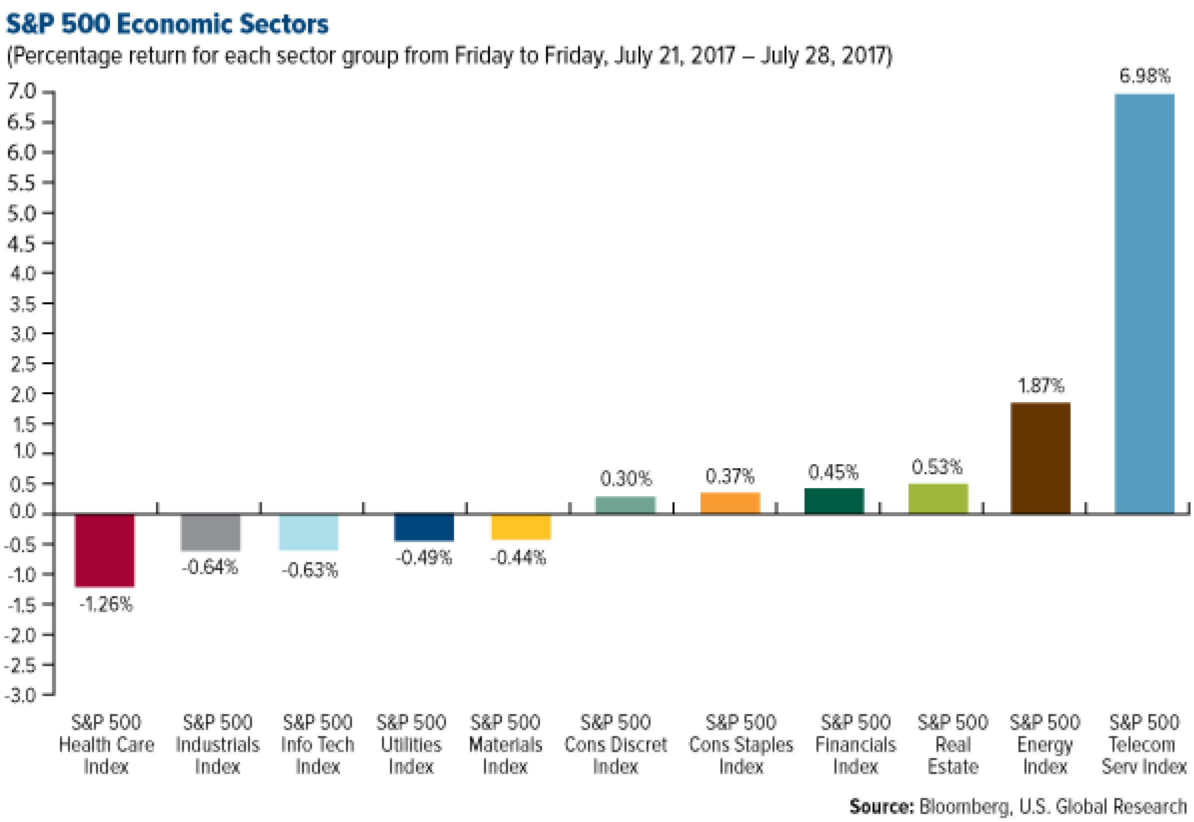
With the price of oil having averaged $45 a barrel for the past two years, Shell will remain "very disciplined" going forward, van Beurden said.

Explore investment opportunities in natural resources, including materials and energy!

Index Summary

- The major market indices finished mixed this week. The Dow Jones Industrial Average gained 1.16 percent. The S&P 500 Stock Index fell 0.02 percent, while the Nasdaq Composite fell 0.20 percent. The Russell 2000 small capitalization index lost 0.46 percent this week.
- The Hang Seng Composite gained 0.67 percent this week; while Taiwan was down 0.13 percent and the KOSPI fell 2.00 percent.
- The 10-year Treasury bond yield rose 5 basis points to 2.29 percent.

Domestic Equity Market



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Strengths

- Telecommunication was the best performing sector of the week, increasing by 6.98 percent versus an overall flat reading of 0.00 percent for the S&P 500.
- Boeing was the best performing stock for the week, increasing 13.73 percent.

Facebook beat estimates across the board. It reported earnings of $1.32 a share on revenue of $9.32 billion as the number of both daily and monthly active users increased.

Weaknesses

- Health care was the worst performing sector for the week, falling 1.26 percent versus an overall flat reading of 0.00 percent for the S&P 500.
- Seagate Technology was the worst performing stock for the week, falling 17.61 percent.
- Twitter's second quarter earnings report mentioned that the company added zero new users over the last quarter. The stock plunged 10 percent as a result.

Opportunities

- In the latest earnings conference call, Hershey’s CEO listed online retail as a major focus and potential growth area for the company. She also discussed collaboration with brick-and-mortar retailers as well as efforts to better accommodate the needs of online shoppers.
- Samsung reported its earnings results for the latest quarter, posting a strong 89 percent year-over-year growth in net profit. It grew revenue by 19.8 percent year-over-year, primarily driven by strong sales of semiconductors, display panels and the firm's high-end smartphone.
- Coca-Cola’s strategy to diversify into healthier beverages is working as it beat estimates in its latest earnings report, mainly as a result of demand for healthier non-carbonated beverages.

Threats

- Since the start of the economic recovery, stock prices have closely tracked the size of the Federal Reserve's balance sheet. However, while the Fed's balance sheet has stayed mostly unchanged in 2017, the S&P 500 has continued to rise, with an almost 12 percent year-to-date return. According to Byron Wien, the vice chairman of Blackstone's private wealth solutions group, this is a troublesome development. "This divergence is disturbing, particularly since the Fed is contemplating a balance sheet shrinkage starting in September," he wrote in a client note. The role of central bank liquidity is "receiving inadequate attention," he said.
- The Senate probe into big pharma's impact in the opioid crisis is expanding. Senator Claire McCaskill called for adding drug makers Mallinckrodt, Endo, Teva, and Allergan to the probe, as well as distributors AmerisourceBergen Corporation, and Cardinal Health, Inc.
- Tobacco stocks plunged after the FDA announced it plans to cut nicotine in cigarettes to non-addictive levels.

The Economy and Bond Market

Strengths

- After a lackluster start to 2017, U.S. gross domestic product (GDP) grew at an annual rate of 2.6 percent in the second quarter, more than double than pace of the first quarter. The economy is now expected to advance 2.7 percent this quarter. Much of this growth came as a result of increased spending, which rose 2.8 percent compared to the same period last year. Exports of durable goods rose for the fifth straight month in June.

- Consumer confidence in the United States jumped sharply from 117.3 in June to 121.1 in July, the Conference Board reported this week. That figure represents a 16-year high and underscores American consumers' confidence that the U.S. economy is strengthening, with the labor market near full employment.

- U.S. preliminary durable goods orders for June came in at 6.5 percent, ahead of the expected growth of 3.9 percent.

Weaknesses

- New home sales for June increased to 610,000, which was an increase over the previous month, but lower than expectations. The weak housing market is impacted by lower housing inventory, and housing starts are below average.

- The Brexit slowdown is taking hold as the U.K.'s economy grew at a 0.3 percent pace in the second quarter, according to preliminary data provided by the Office for National Statistics. This was the second-slowest growth since the beginning of 2016, trailing only the first quarter of this year.

- The second quarter U.S. GDP Price Index came in at 1 percent, below the consensus 1.3 percent, demonstrating continued weakness in prices.

Opportunities

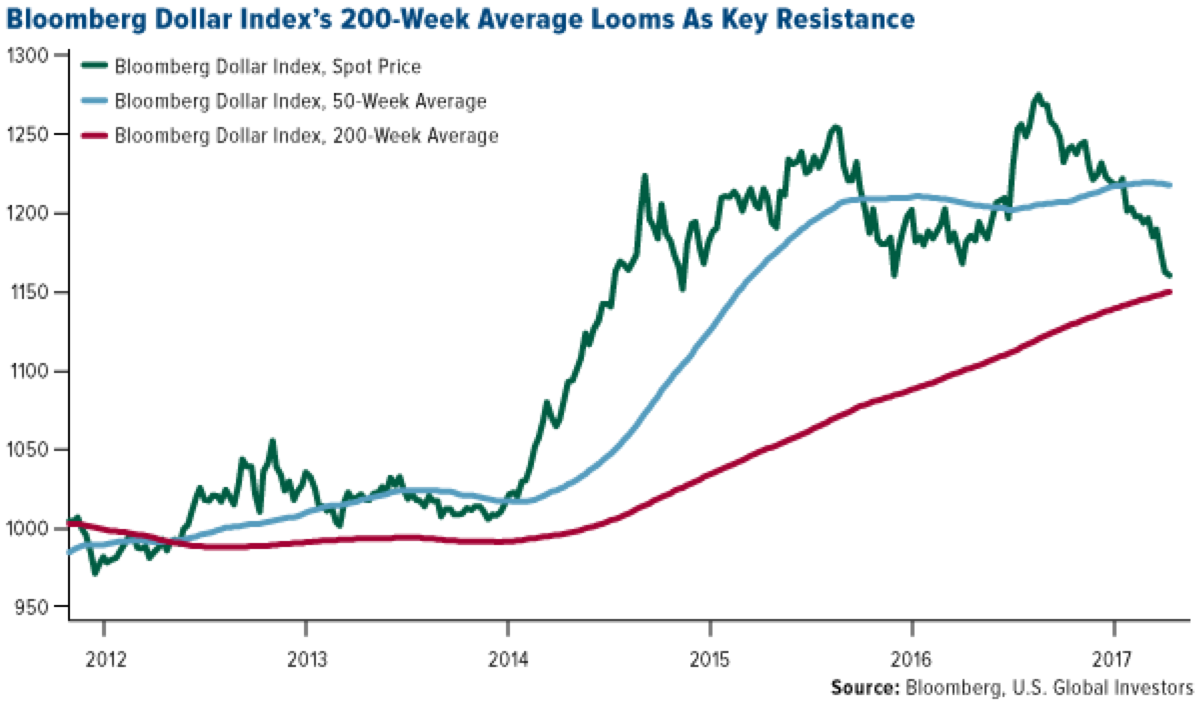
- A confirmation of firm jobs growth and accelerating wages in next Friday's employment report would keep the Fed on a tightening path.

- According to the head of U.S. multi-sector fixed income for Schroders, shorting duration will provide a significant cushion against rate rises.

- The Bay Area Toll Authority plans to sell $1.1 billion of San Francisco Bay Area Toll Bridge revenue bonds. This marks the largest bond deal to come to the U.S. municipal market next week, according to preliminary Thomson Reuters data. The authority's traffic and toll revenue has seen steady gains since 2010, according to bond documents.

Threats

- The dollar's slump has pushed it to the edge of a technical cascade, as it falls toward key levels based around weekly and monthly moving averages. The Bloomberg Dollar Spot Index has fallen on the Federal Reserve's dovish turn and President Donald Trump's struggles with Congress. The weakness could end up being part of a broader correction if the gauge closes July below 1,150, allowing for a deeper retracement to the 1,050 area that would erase the bulk of the spike that started in June 2014.



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- According to municipal strategists at Bank of American Merrill Lynch, it is likely to take two or more years to complete tax reform.
- Alaska's bonds have been downgraded twice in the past two weeks, falling victim to lower oil prices and structural imbalances. Kentucky was also lowered on notch, primarily because of pension payments.

Gold Market

This week spot gold closed at $1,269.93, up $14.88 per ounce, or 1.19 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week higher by 2.02 percent. Junior-tiered stocks underperformed seniors for the week, as the S&P/TSX Venture Index rose just 1.53 percent. The U.S. Trade-Weighted Dollar Index continued lower this week by 0.59 percent.

Date	Event	Survey	Actual	Prior
Jul-25	Conf. Board Consumer Confidence	116.0	121.1	117.3
Jul-26	New Home Sales	615k	610k	605k
Jul-26	FOMC Rate Decision (Upper Bound)	1.25%	1.25%	1.25%
Jul-27	Hong Kong Exports YoY	6.4%	11.1%	4.0%
Jul-27	Durable Goods Orders	3.9%	6.5%	-0.1%
Jul-27	Initial Jobless Claims	240k	244k	234k
Jul-28	Germany CPI YoY	1.5%	1.7%	1.6%
Jul-28	GDP Annualized QoQ	2.5%	2.6%	1.2%
Jul-31	Eurozone CPI Core YoY	1.1%	--	1.1%
Jul-31	Caixin China PMI Mfg	50.4	--	50.4
Aug-1	ISM Manufacturing	56.4	--	57.8
Aug-2	ADP Employment Change	190k	--	158k

Aug-3	Initial Jobless Claims	240k	--	244k
Aug-3	Durable Goods Orders	6.0%	--	6.5%
Aug-4	Change in Nonfarm Payrolls	180k	--	222k

Strengths

- The best performing precious metal for the week was palladium, up 4.29 percent on hedge fund managers increasing their bullish positioning on the metal as expectations of increased usage in automotive catalyst to curb pollution. China's purchase of bullion bars in the first half of the year rose 51 percent, reports Bloomberg, setting gold up for a sixth monthly gain in seven. China gold demand rose 545.23 tons, including gold bars to 158.40 tons. And as global gold prices retreat, China purchased more bullion from Hong Kong in June.

- The dollar dropped as gold rose this week following signals from the Federal Reserve that inflation remains below target, reports Bloomberg, fueling speculation that the central bank will not rush to raise rates. The Fed commented that the balance sheet unwind will start "relatively soon."

- The dollar held near the lowest in more than a year, with gold futures reaching the highest since mid-June. "Dollar weakness and U.S. political concerns are lending support to gold," said Guotai Junan Futures, a Chinese brokerage. The widening investigation into President Donald Trump, threatening to derail his economic agenda, has also spurred haven demand for the yellow metal, Bloomberg writes.

Weaknesses

- The worst performing precious metal for the week was platinum, essentially flat by the end of the week. Part of the weakness related to weaker diesel engine demand. In addition, The U.K. became the latest European country to mark the end of the line for diesel and gasoline fueled cars, reports Bloomberg, as the government said it will ban sales of the vehicles by 2040. "The global shift toward electric vehicles will create upheaval across a number of sectors, from oil majors harmed by reduced gasoline demand to spark plug and fuel injection makers whose products aren't needed by plug-in cars," the article reads.

- Tanzania President John Magufuli is demanding Barrick Gold's Chairman John Thornton to honor his pledge regarding how the company will compensate Tanzania over mineral concentrates, reports All Africa Global Media. If Thornton doesn't come to the negotiation table with the government, Barrick could risk closure of its mines or losing the mines to locals so that they can pay tax revenue. Acacia Mining was recently handed a $190 billion tax bill and fine from the Tanzanian government. According to Bloomberg, that is 70 times the record penalty that the EU dished out to Google last month and would take centuries to pay.

- Gold's 120-day volatility is at the lowest since 2005, reports Bloomberg, and in the past four months gold prices moved in a 7.6 percent range, the least in 10 years. "While irritating for traders who make a living betting on strong moves, the sleepy gold market also reflects stability in other assets, with measures of global shares at record highs," the article reads.

Opportunities

- According to Bloomberg, bankers and accomplished financiers are leaving lucrative careers and salaries to get into one of the hottest financial instruments around right now: initial coin offerings (ICOs). As resentment mounts over central bank policies and negative interest rates, interest in untraditional investment vehicles has mounted – such as precious metals and cryptocurrencies (recently sparking comparisons of bitcoin to gold). Interestingly enough, due to the increased popularity of ICOs, U.S. regulators are now stepping in. The Securities and Exchange Commission's Report of Investigation found that tokens offered and sold by a certain virtual organization were indeed securities and therefore subject to federal laws. With people moving their money into electronic currencies outside of the purview of regulators and their ability to collect taxes, this has given gold a run for its ability to attract investors. If regulators can force tax IDs to be attached to cryptocurrency accounts, that could portend a run on such speculation.

- In a note to clients dated July 20, J.P. Morgan analysts commented that gold is set to benefit from slow U.S. inflation, a weaker dollar and "political wrangling in Washington," reports Bloomberg. And if the yellow metal manages to break out from between two decade-old trend lines that are getting closer together, it could get a lot less boring, notes another Bloomberg article. "Since late 2015, the triangle pattern has kept prices between about $1,050 and $1,380 an ounce," the article reads. Strategist Jonathan Butler adds that once these long-term trends get broken, it usually marks a turning point for the market.

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- India's trade ministry sees scope for lowering the import tax on gold, reports Bloomberg, as the current account deficit improves. "It will be one of the strong recommendations on the budgetary side from the ministry," said Manoj Dwivedi, joint secretary at the trade ministry. More encouraging news on the gold front comes from Kirkland Lake Gold and its Fosterville mine. As Macquarie reports, the underground reserves at Fosterville increased 110 percent to over 1 million ounces at 17.9 grams per ton, and well above expectations. Macquarie also put out a positive note on AuRico Metals, which has two high-quality royalties on Fosterville and Young-Davidson. AuRico's target is up again on more production and a longer life at Fosterville.

Threats

- "If trillions of dollars of asset purchases under quantitative easing helped ease financial conditions, will the reversal tighten financial conditions, and by how much?" This question from the Financial Times, and highlighted by MacroStrategy Partnership this week, puts quantitative tightening (QT) in the spotlight. The same way quantitative easing (QE) expanded money supply and nominal GDP, QT could gradually shrink money supply, a move that is "unlikely to be frictionless" in a vulnerable economy, writes MacroStrategy. The Fed hasn't been waiting around for this topic to come up, since it has been experimenting with reverse repos to see the impact of QT. Unfortunately, the answer to the above question isn't very pretty. One implication involves the collapse of first quarter 2017 U.S. bank annualized quarterly loan growth to 0.8 percent, from a robust 6.2 percent in the second quarter of 2016, the report continues.

- Russia threatened to retaliate against new sanctions passed by the U.S. House of Representatives, reports Bloomberg, claiming it made it all but impossible to achieve the Trump administration's goal of improved relations. According to Vladimir Dzhabarov, deputy chairman of the international affairs committee in the upper house, Russia has prepared "economic and political measures that will be adopted if the Senate and Trump support the bill," reports RIA Novosti news. Relations between the two countries "are at such a low level that we have nothing to lose," by retaliating, he said.

- Looking to shore up government finances, Brazil has unveiled plans to raise revenue from mining royalties by 80 percent, Reuters reports. "This new condition will increase the risk of loss of competitiveness in the international market for ores," mining industry body IBRAM said in a statement. A slow economic recovery in Brazil has forced the government to find new sources of revenue, Reuters continues. Other dim news in the mining sector comes from South Africa, where a handful of companies are preparing a multimillion dollar settlement with as many as 100,000 former workers who suffer from debilitating and deadly lung disease, reports Bloomberg.

Energy and Natural Resources Market

Strengths

- Brent oil was the best performing commodity this week, rising 9.5 percent. The commodity benefited from news suggesting China oil demand may grow at a 2.5 percent rate over the next four years, according to Sinopec. In addition, oil services firm Halliburton suggested the surge in U.S. shale output could stall as prices continue to trade range-bound.
- The best performing sector this week was the S&P/TSX Diversified Metals and Mining Index. The index rose 9.1 percent owing to the surge in copper prices, which posted its best weekly advance since at least November last year on news that China may soon ban the import of scrap copper metal.
- Anglo American PLC, the London-based diversified miner, was the best performing stock this week finishing up 14.1 percent. The company posted strong quarterly and semi-annual results, and surprised market participants by announcing an early resumption to its dividend, which had been discontinued in 2015 as a result of low commodity prices.

Weaknesses

- Lumber was the worst performing commodity this week dropping 2.3 percent. The commodity dropped after numerous Canadian producers announced they would resume operations at their B.C. mills, which had been threatened by wild fires over the previous weeks.
- The worst performing sector this week was the S&P 1500 Construction Materials Index. The index fell 0.6 percent despite positive quarterly reports from its constituents. The sector has lagged the S&P 500 Index as well as resource-focused indices as the political deadlock in Washington continues to delay the much anticipated fiscal spending and infrastructure bill.
- The worst performing stock for the week was CVR Refining LP. The Texan refiner dropped 16.9 percent after reporting a quarterly loss due to lower than expected refining margins.

Opportunities

- China's GDP may grow at a faster pace in 2017 than initially anticipated. After a strong start to the year with GDP growth beats in both the first and second quarters, supported by a government infrastructure spending spree and a buoyant housing market, China's State Information Center has said it now expects full-year GDP to grow at 6.8 percent, ahead of the initial 6.7 percent forecast.
- Copper prices hit a two-year high this week as supplies dwindle while China threatens to ban scrap imports. The copper market has seen renewed interest as numerous labor and technical issues threaten

to affect supply out of Chile, Peru and the DRC. Simultaneously, China has threatened to completely phase out imports of scrap metal, which would result in greater demand for raw and refined metal from global producers.

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- The sharp recovery in U.S. shale oil production may be about to stall, a move that should support prices according to oil services firm Halliburton Co. As crude prices continue to trade range-bound between $45 and $55 a barrel, producers have threatened to slash capital expenditures until prices recover further, a statement that has been interpreted by Halliburton. This, as shale activity shows signs of "plateauing" unless prices move higher to incentivize further capital deployment.

Threats

- U.S. GDP growth for the second quarter posted a strong 2.6 percent advance; however, it disappointed investor analyst expectations of 2.7 percent growth. Further to that, GDP growth rates for the previous three quarters were revised lower, suggesting the strength in the U.S. economy may have been overstated. The negative revisions provide a negative read-through for the resource markets as the U.S. remains one of the top two consumers of most major commodities.

- U.S. steel manufacturers may not get a favorable steel imports duty ruling this month after the Trump administration is signaling it will slow-walk the Section 232 probe into steel dumping. The administration missed a self-imposed June 2017 deadline for the review, and President Donald Trump indicated to the Wall Street Journal that he wants to finalize other efforts including tax reform first.

- Outflows from U.S.-listed commodity ETFs totaled $1.31 billion in the week ended July 27, led lower by sizeable redemptions from precious metals funds. Energy focused funds also saw sizeable redemptions, while industrial metals funds were flat week-on-week.

China Region

Strengths

- China Evergrande Group (3333 HK) soared 21.53 percent this week, the strongest stock in the Hang Seng Composite Index (HSCI). The integrated property developer announced a positive outlook for first-half earnings, and even after some selling on Friday, the stock still closed out the week as the index's strongest.

- In a $1.3 billion transaction, Starbucks Corp. announced that it will be buying the rest of its East China joint venture, reports Bloomberg. This would mark the biggest deal ever for the popular coffee chain that sees the Asian nation as a huge growth opportunity.

- Vietnam's Ho Chi Minh Stock Index rose 2.06 percent in the last five trading days.

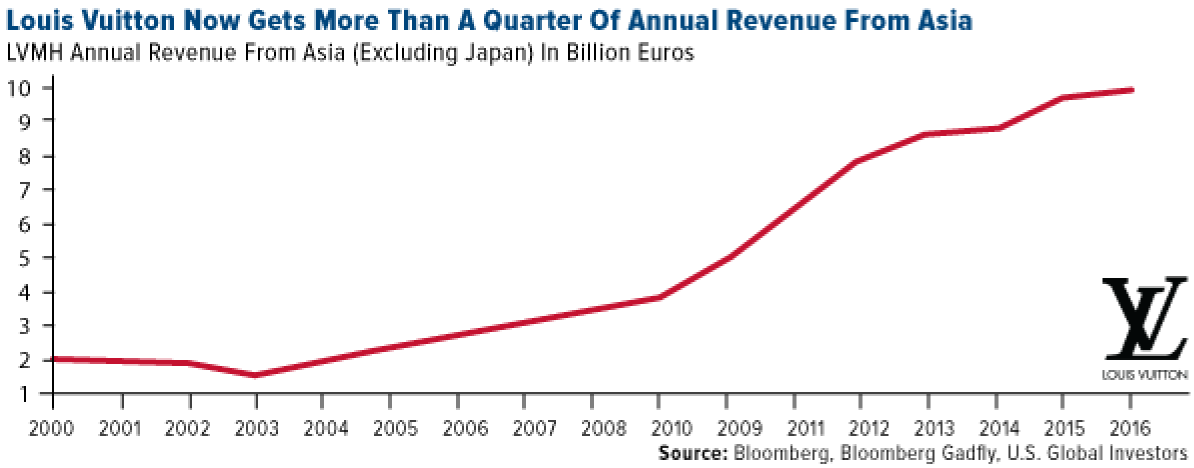
Weaknesses

- South Korea's KOSPI Index fell 2.00 percent for the week.

- South Korea's preliminary second quarter GDP reading came in at 2.7 percent for the second quarter, in line with expectations but behind the first-quarter 2.9 percent reading.
- Taiwan's preliminary second-quarter GDP reading, at 2.1 percent, also came in a little lighter than expected and down from 2.6 percent the prior quarter. Expectations were 2.2 percent.

Opportunities

- Louis Vuitton announced it will "go in alone" to China's expanding e-commerce market, reports Bloomberg, in a bet that consumers will value relationships with the actual seller over big Internet names like Alibaba. In fact, according to data from Euromonitor, China is set to overtake the U.S. as the world's largest luxury-goods market in the next four years.



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- Tencent is in talks to invest $400 million in India's biggest ride-hailing app Ola, reports Barron's, whose story sourced four people familiar with the discussions. The investment would push Ola's valuation to more than $4 billion, the article continues, giving it more cash to compete with Uber locally. Shares in Tencent were up again in Hong Kong trading on Thursday.
- According to a forecast of 26 economists polled by Reuters, China's official purchasing managers' index (PMI) is expected at 51.6 for July, down very slightly from June's 51.7. The group also predicts the Caixin manufacturing PMI to be unchanged in July from June's 50.4. Official PMI will be released July 31, while the Caixin PMI will be posted on August 1.

Threats

- Answering a question during a security conference in Australia on Thursday, the U.S. Pacific Fleet commander said that he would be prepared to launch a nuclear strike on China if President Trump so ordered, reports Reuters. Admiral Scott Swift later commented that the question asked was an "outrageous hypothetical," but explained that all members of the U.S. military had sworn an oath to obey officers and the U.S. president as commander in chief.
- McDonald's and Yum Brands Inc. have been hit hard in the past by food safety scares, which can spread rapidly online in China and have "an outsized impact on sales," writes Reuters. Perhaps this is why the McDonald's China unit responded promptly to viral photos in the U.S. allegedly showing a moldy ice cream maker at one of the U.S. restaurants. Chinese media picked up on the reports, with some posting that it would put them off eating at the chain while others defended the well-known restaurant.
- As part of new North Korea sanctions, the U.S. could target Chinese companies, reports CNN, "even as diplomats are working with Beijing at the UN to reach a new international agreement." As the article points out, although China is a key ally for bringing pressure to bar on Pyongyang, the Asian nation is also a "major potential target" for sanctions that would limit North Korean trade and imports. Another reported missile launch late in the week may further complicate matters.

Emerging Europe

Strengths

- Turkey was the best performing country this week, gaining 80 basis points. The government continues to support the country's growth after the failed coup attempt last July. The Finance Ministry is working on decreasing the corporate tax. The cut will happen on a sector-by-sector basis, and the tax rate could be cut to 5 percent depending on the sector.
- The Polish zloty was the best performing currency this week, gaining 1.1 percent against the dollar. The zloty rebounded after the Polish president vetoed two out of three bills supporting judicial reform. His decision followed eight days of nationwide protests by Poles in defense of court independence and European Union (EU) threats of sanctions.
- The materials sector was the best performing sector among eastern European markets this week.

Weaknesses

- Greece was the worst performing country this week, losing 3 percent. On the positive side, Greece returned to the markets with a new five-year bond issue accepting EUR 3 billion with a final yield at 4.625 percent. Going forward focus will shift to the third review which will start in September.
- The Russian ruble was the worst performing currency this week, losing 60 basis points against the dollar. More talk in the U.S. about imposing additional sanctions on Russia for meddling in the 2016 presidential elections and its support for separatists in Ukraine has created negative sentiment.
- The health care sector was the worst performing sector among eastern European markets this week.

Opportunities

- The International Monetary Fund (IMF) left its global growth forecast for 2017 and 2018 unchanged at 3.5 percent and 3.6 percent respectively. Underneath the surface, the IMF downgraded its forecast for U.S. growth by 0.2 percent and 0.4 percent for 2017 and 2018, due to less expansionary fiscal stance than previously anticipated. Offsetting the IMF's downward revisions to U.S. growth were upward revisions to the eurozone and China.
- The central bank of Turkey kept its rates unchanged as expected, leaving the one-week repo rate at 8 percent, the overnight rate at 9.25 percent and the liquidity rate at 12.25 percent. Capital Economics' research team believes that this hawkish stance will not last for too much longer, predicting the central bank's average cost of funding to be reduced from 12 percent to11.5 percent by year end and then to 9 percent in 2018.
- Economic sentiment in the eurozone has hit a fresh decade high this month, pointing to rising momentum in the single currency area. Economic confidence nudged up 0.1 points to 111.2 in July, the best level since before the financial crisis hit in 2007, driven higher by a bump in confidence in Germany and the Netherlands.

Threats

- Big brokers are warning investors that a stronger euro may put pressure on European earnings. More than half the revenue of the top European firms are generated outside the eurozone, according to Thomson Reuters, meaning the strengthening euro has an adverse impact on those revenues once they are brought home. The euro trades at a two-year high, and for strategists at Deutsche Bank the relatively weak start to European earnings season is partly due to the euro's strength.

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- The European Court of Justice rejected a legal challenge mounted by Hungary and Slovakia against the EU decision to relocate refugees. According to Berenberg's research, this increases the likelihood that Poland, Czech Republic and Hungary will have to pay a big fine for not accepting refugees. There are about 160,000 refugees to be relocated; Poland would need to take 7.5 percent of those, and Hungary and Czech around 2 percent. Last year the European Commission suggested a fine of EUR 250,000 per refugee not taken. The combined fine could add up to EUR 4.6 billion for the three central European countries, or around 0.7 percent of GDP.
- The U.S. House of Representative and Senate passed a bill that would let Congress block any effort by Donald Trump to unilaterally weaken sanctions imposed on Russia by the Obama administration. If Trumps signed this measure it would dilute his power. But rejecting it could lead to a veto override, as the bill cleared both chambers by wide margins, and lead to criticism that he is seeking to protect Russia. Russia is the worst performing emerging Europe market, losing 13 percent year to date.

Leaders and Laggards

Weekly Performance

Index	Close	Weekly Change($)	Weekly Change(%)
Russell 2000	1,429.26	-6.58	-0.46%
S&P Basic Materials	344.73	-1.51	-0.44%
Nasdaq	6,374.68	-13.08	-0.20%
Hang Seng Composite Index	3,695.88	+24.75	+0.67%
S&P 500	2,472.10	-0.44	-0.02%
Gold Futures	1,275.80	+14.80	+1.17%
Korean KOSPI Index	2,400.99	-49.07	-2.00%

DJIA	21,830.31	+250.24	+1.16%
S&P/TSX Global Gold Index	194.58	+2.37	+1.23%
SS&P/TSX Venture Index	772.57	+11.62	+1.53%
XAU	85.56	+1.93	+2.31%
S&P Energy	488.44	+8.99	+1.88%
Oil Futures	49.78	+4.01	+8.76%
10-Yr Treasury Bond	2.29	+0.05	+2.32%
Natural Gas Futures	2.93	-0.04	-1.21%

Monthly Performance

Index	Close	Monthly Change($)	Monthly Change(%)
Korean KOSPI Index	2,400.99	+18.43	+0.77%
Hang Seng Composite Index	3,695.88	+190.45	+5.43%
Nasdaq	6,374.68	+140.26	+2.25%
XAU	85.56	+3.29	+4.00%
S&P/TSX Global Gold Index	194.58	-5.18	-2.59%
Gold Futures	1,275.80	+19.30	+1.54%
S&P 500	2,472.10	+31.41	+1.29%
S&P Basic Materials	344.73	+5.04	+1.48%
DJIA	21,830.31	+375.70	+1.75%
Russell 2000	1,429.26	+3.99	+0.28%
SS&P/TSX Venture Index	772.57	+3.07	+0.40%
Oil Futures	49.78	+5.04	+11.27%
S&P Energy	488.44	+12.87	+2.71%
Natural Gas Futures	2.93	-0.13	-4.34%
10-Yr Treasury Bond	2.29	+0.06	+2.74%

Quarterly Performance

Index	Close	Quarterly Change($)	Quarterly Change(%)
Korean KOSPI Index	2,400.99	+195.55	+8.87%
Hang Seng Composite Index	3,695.88	+328.44	+9.75%
Nasdaq	6,374.68	+327.07	+5.41%
Natural Gas Futures	2.93	-0.34	-10.44%
Gold Futures	1,275.80	-2.50	-0.20%
S&P 500	2,472.10	+87.90	+3.69%
S&P Basic Materials	344.73	+11.56	+3.47%
S&P/TSX Global Gold Index	194.58	-13.14	-6.33%
XAU	85.56	+2.46	+2.96%
DJIA	21,830.31	+889.80	+4.25%
Russell 2000	1,429.26	+28.83	+2.06%
SS&P/TSX Venture Index	772.57	-34.20	-4.24%
S&P Energy	488.44	-10.51	-2.11%
Oil Futures	49.78	+0.45	+0.91%
10-Yr Treasury Bond	2.29	+0.01	+0.39%

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Sinopec Corp
CVR Refining LP

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.

The S&P 500 Total Return Index is the total return version of the S&P 500 Index with dividends reinvested. The Bloomberg Dollar Spot Index (BBDXY) tracks the performance of a basket of 10 leading global currencies versus the U.S. Dollar. Free Cash Flow (FCF) represents the cash that a company is able to generate after laying out the money required to maintain or expand its asset base. The Ho Chi Minh VSE is a major stock market index which tracks the performance of 303 equities listed on the Ho Chi Min and Hanoi Stock Exchange in Vietnam. It is a capitalization-weighted index. The S&P/TSX Composite Diversified Metals & Mining Sub Industry Index is a subset of the constituents of the S&P/TSX Composite Index. The S&P 500 Construction Materials Index is a capitalization-weighted index that tracks the companies in the construction materials industry as a subset of the S&P 500.

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