



U.S. Global Investors

Investor Alert



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Gold and Bitcoin Surge on North Korea Fears

By Frank Holmes

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U.S. Global Investors



If you're familiar with ABC's popular reality show *Shark Tank*, you should already be familiar with the concept behind the [San Antonio Angel Network \(SAAN\)](#). Select entrepreneurs and innovators pitch their startup ideas to accredited investors, who can choose to make early-stage investments in a potentially successful company.

I attended a meeting this week at Ferrari of San Antonio, and what struck me the most was how fluid and seamless the whole thing is. Other professionals in attendance, including lawyers and CPAs, had a similar opinion, with some of them saying it was because there wasn't any bureaucracy or red tape to hamstring the presenters. This is unlike the world of mutual funds, which I believe has become excessively regulated.

As I've said numerous times before, regulation is essential, just as referees are essential to a basketball game. No one disputes that because otherwise it would be chaos, like the new world of cryptocurrencies which has grown dramatically, beyond bitcoin and ethereum. Did you know there are over 800 cryptocurrencies? These new initial coin offerings, called ICOs, are like initial public offerings (IPOs) but with little regulation or accountability. As I've commented before, if the refs get too powerful or too numerous, and the rules too complex, the game becomes nearly unplayable.

Cryptocurrencies Still Draw Investor Attention Following China Crackdown

Bitcoin, ethereum and other cryptocurrencies have had a meteoric year, with more than \$2 billion raised in ICOs so far in 2017, according to Bloomberg. Approximately \$155 billion in cryptocurrencies are in circulation around the world right now. Bitcoin by itself is at \$78 billion, which is close to the \$90 billion invested in all gold ETFs.

Cryptocurrencies Have Made Red-Hot Moves this Past Year

12-Month Period as of September 7



Past performance does not guarantee future results.

Source: CoinDesk, U.S. Global Investors

[click to enlarge](#)

Like gold, cryptos are favored by those who have a deep distrust of fiat currency, or paper money. Money, after all, is built on trust, and the blockchain technology that bitcoin is built on top of automates trust through an electronic ledger that cannot be altered. Every transaction is anonymous and peer-to-peer. The system is entirely decentralized and democratic. No monetary authority can see who owns what and where money is flowing.

This, of course, is a huge reason why some world governments want to crack down on the Wild West of virtual currencies, especially with bitcoin surging close to \$5,000 this month.

China did just that this week, putting a halt to new ICOs and crypto transactions. In response, ethereum tumbled as much as 15.8 percent on Monday, or \$55 a unit. Bitcoin lost \$394 a unit.

China's decision comes a little more than a month after [the SEC said cryptocurrencies are securities](#) and therefore should probably be regulated as such. At this point, though, the implications are unclear.

What's clear to me—after seeing firsthand how easily and quickly transactions are made—is that there's no going back. It's possible cryptocurrencies will one day be regulated. But I'm confident bitcoin, ethereum and some other virtual currencies offer enough value to weather such a potential roadblock.

I also believe there has to be a happy medium between the excessively regulated fund industry, and the potential chaos of the cryptocurrency. This is what I witnessed at the investing event I mentioned, which allowed the professionals in attendance to gain information, ask questions, and make informed decisions.

Gold Trading Above \$1,350 an Ounce

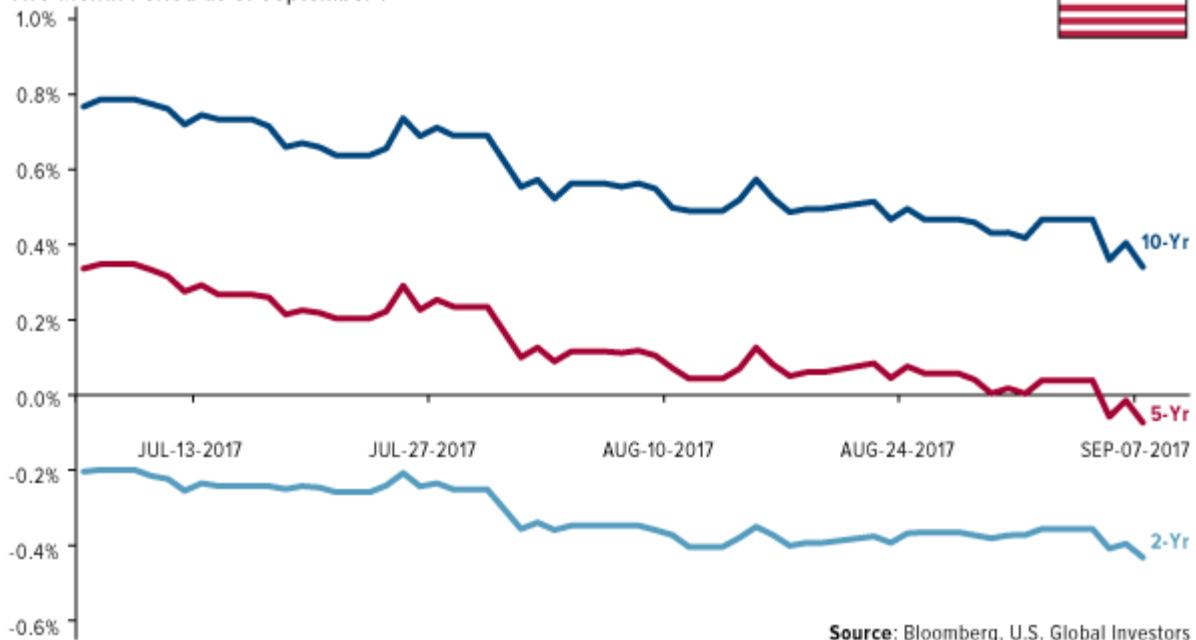
Speaking on cryptocurrencies this week, Mark Mobius, executive chairman of Templeton Emerging Markets Group, said gold could be a beneficiary of China's decision to clamp down on ICOs. As more governments and central banks turn their attention to virtual currencies, investors could move back into the yellow metal as a store of value.

That's a possibility, but I think gold's price action right now is being driven by negative real Treasury yields and

fears over a potential conflict with North Korea. Adjusted for inflation, the two-year and five-year Treasuries are both currently yielding negative amounts, and the 10-year continues to fall closer to 0 percent.

Real Treasury Yields Fall Further

Two-Month Period as of September 7



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

As I've explained numerous times before, gold and real interest rates share an inverse relationship. It makes little sense to invest in an asset that's guaranteed to cost you money—which is the case with the two-year and five-year government bond right now. Investors seeking a “safe haven” might therefore add to their weighting in gold, especially with North Korea's Kim Jong-Un raising tensions.

The yellow metal closed above \$1,350 an ounce, more than a one-year high.

Gold Price Up More Than 15% Year-to-Date

As of September 6



Past performance does not guarantee future results.

Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

Despite Efforts to Control Spending, National Debt Expected to Continue Growing: CBO

Similarly driving the gold Fear Trade are concerns over the national debt. This week President Donald Trump sided with Congressional Democrats in raising the federal borrowing limit to allow Hurricane Harvey recovery aid to pass. An initial package of \$7.85 billion for Harvey victims was agreed upon, but with total costs **expected to be as high as \$190 billion**—more than the combined costs of Hurricanes Katrina and Sandy—and with Hurricane Irma

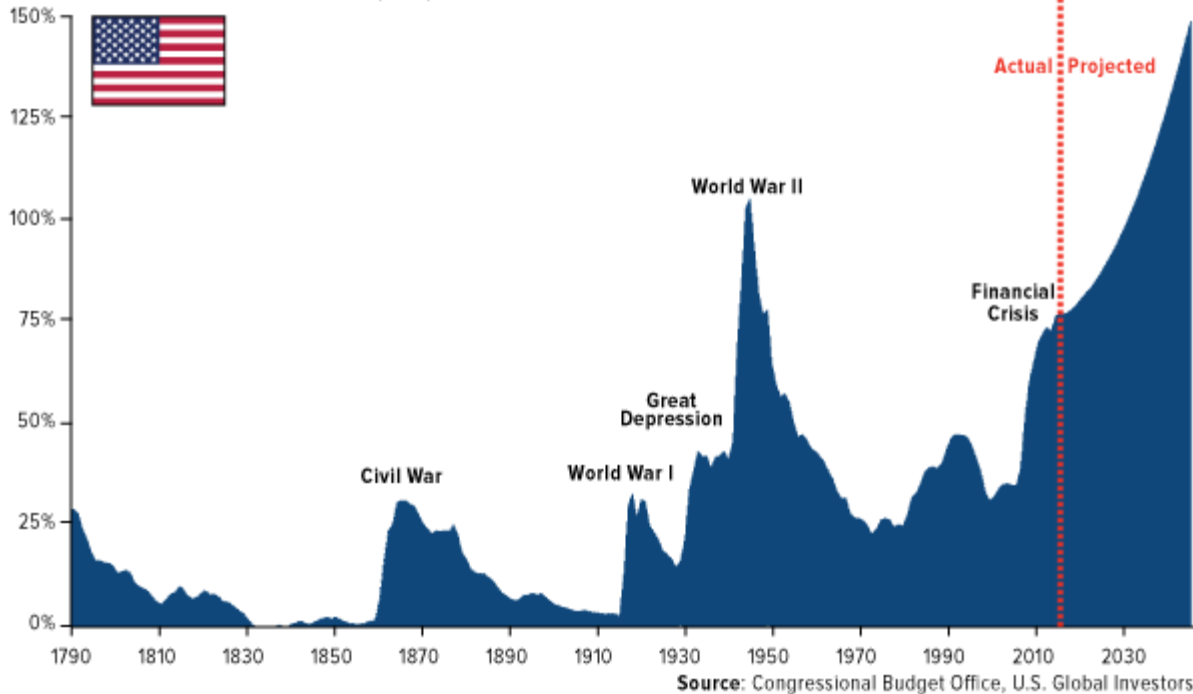
yet to make landfall in Florida, the federal aid amount could eventually run even higher.

Trump partially ran on reigning in government spending, which I and many others would like to see. Even so, this might not be enough to control our runaway debt. According to an August report by the [Congressional Budget Office \(CBO\)](#), debt will likely continue to grow as spending for large federal benefit programs—Social Security, Medicare and the like—outpaces revenue. Interest payments on the debt will only continue to accelerate as well.

Below is a chart showing national debt as a percentage of GDP going back to the founding of the U.S. Although we've seen periodic spikes in response to national crises, the debt could soar to unprecedented levels within the next 10 years.

Federal Debt Expected to Continue Rising

Percent of Gross Domestic Product (GDP)



[click to enlarge](#)

Financial writer Alex Green, the Oxford Club's chief strategist, told me during my interview with him that he thought out-of-control spending [posed a greater threat to our country](#) than even North Korea.

I tend to agree with him, and that's why I believe that investors should have a 10 percent allocation in gold, with 5 percent in bullion and 5 percent in gold stocks, mutual funds and ETFs.

I urge you to watch this brief video on investing opportunities in gold miners!

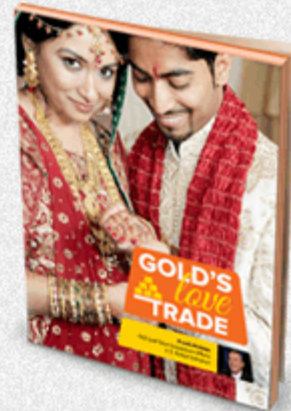
[Watch the video!](#)

Also, be sure to read the Gold SWOT below to learn about China's plans to launch a crude oil futures contract denominated in Chinese yuan and convertible into gold! This is already being called a "game-changer" and would allow oil exporters such as Russia to bypass the U.S. dollar-denominated benchmarks (Brent and West Texas Intermediate) by trading in yuan.



WHAT IS **FRANK HOLMES'** OUTLOOK FOR **GOLD?**

**DOWNLOAD THE NEW
WHITEPAPER TODAY!**



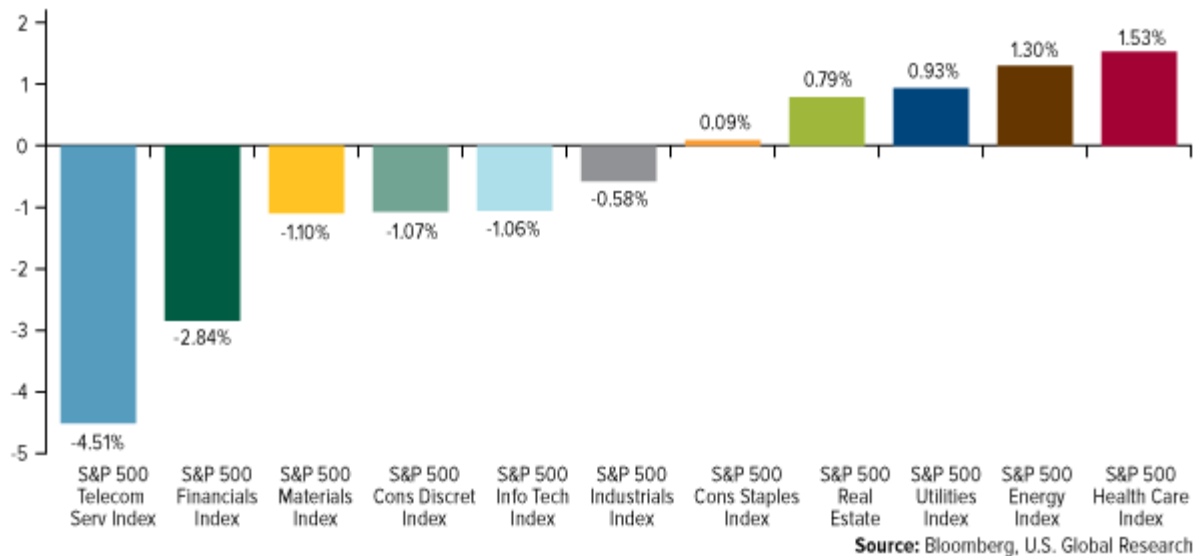
Index Summary

- The major market indices finished down this week. The Dow Jones Industrial Average lost 0.86 percent. The S&P 500 Stock Index fell 0.61 percent, while the Nasdaq Composite fell 1.17 percent. The Russell 2000 small capitalization index lost 1.00 percent this week.
- The Hang Seng Composite lost 0.57 percent this week; while Taiwan was up 0.14 percent and the KOSPI lost 0.59 percent.
- The 10-year Treasury bond yield fell 11 basis points to 2.05 percent

Domestic Equity Market

S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, September 1, 2017 – September 8, 2017)



[click to enlarge](#)

Strengths

- Health care was the best performing sector of the week, increasing by 1.53 percent versus an overall decrease of 0.60 percent for the S&P 500.
- AbbVie was the best performing stock for the week, increasing 13.15 percent.
- Shares of AbbVie soared after announcing successful results from a Phase 2 trial of its eczema treatment.

Weaknesses

- Telecommunications was the worst performing sector for the week, falling 4.51 percent versus an overall decrease of 0.60 percent for the S&P 500.
- Equifax was the worst performing stock for the week, falling 12.97 percent.
- Equifax was slammed this week after the company revealed a massive data breach. Following Thursday's closing bell, the company announced that personal details, including names and Social Security numbers, of more than 143 million customers were potentially accessed by hackers from mid-May to July. Equifax said credit card numbers for about 209,000 people and certain documents for another 182,000 were also accessed.

Opportunities

- Restoration Hardware on Wednesday announced its third quarter forecast and full year adjusted earnings that were much higher than previous expectations.
- GoPro announced it expects gross revenue and margins to be at the high end of guidance, meaning the company expects to be profitable on a non-GAAP basis. The company previously announced a guidance range of \$290 million to \$310 million and margins of 36 to 38 percent.
- Microsoft is planning to announce at least one new Surface device at its annual "Future Decoded" event in London at the end of October.


Threats

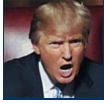
- Hedge funds currently have near-record exposure to momentum trades. Among funds' top 100 long positions, 45 percent are IT stocks, according to Credit Suisse data. That compares to the S&P 500's 23 percent technology weighting and is a threat to the sector if there is a turn in sentiment or growth.
- Kroger reported a 7.8 percent fall in quarterly profit on Friday as it discounted aggressively to fend off competition from Walmart Stores and other retailers. The stock has fallen about 25 percent since mid-June


as Kroger cut its yearly earnings forecast and following Amazon's deal to buy Whole Foods Market, which added to concerns about an intensifying price war stoked by discounters such as Lidl and Aldi.

- Hurricane Irma is gunning toward Florida and is expected to cause major damage, including to Walt Disney World. Disney World generates about \$30 million in revenue a day for its parent company, so shutting down for even half a day means millions of lost dollars, according to John Janedis, an analyst at Jefferies.

Frank Talk Insight for Investors

 September 5, 2017
We Looked into the Effects of Hurricane Harvey and Here's What We Found

 August 30, 2017
Got a Bully Problem?
Send in a Bully

 August 28, 2017
Are You Prepared for These Potentially Disruptive Economic Storms?

A blog by Frank Holmes, CEO and Chief Investment Officer

The Economy and Bond Market

Strengths

- The Bank of Canada unexpectedly hiked its key interest rate by 25 basis points to 1.00 percent on Wednesday, citing stronger-than-expected economic data.
- The municipal market continues to reward Illinois for pushing through tax increases and resolving its record stalemate over the budget. Yields on Illinois bonds have tumbled and the gap to benchmark debt is at the lowest since October.
- The House of Representatives passed a package on Friday to provide relief for Hurricane Harvey, suspend the debt ceiling and fund the government for three months. The legislation came out of a deal cut on Wednesday between President Donald Trump and Democratic leaders Chuck Schumer and Nancy Pelosi.

Weaknesses

- Durable goods orders for July fell 6.8 percent versus the expectation for a 2.9 percent decline.
- The August Markit U.S. Composite PMI declined slightly to 55.3 from the previous month's reading of 56.0.
- Japan's GDP saw big downward revisions as the economy grew at an annualized rate of 2.5 percent in the second quarter, down from a previous estimate of 4 percent, according to data released by the Cabinet Office.

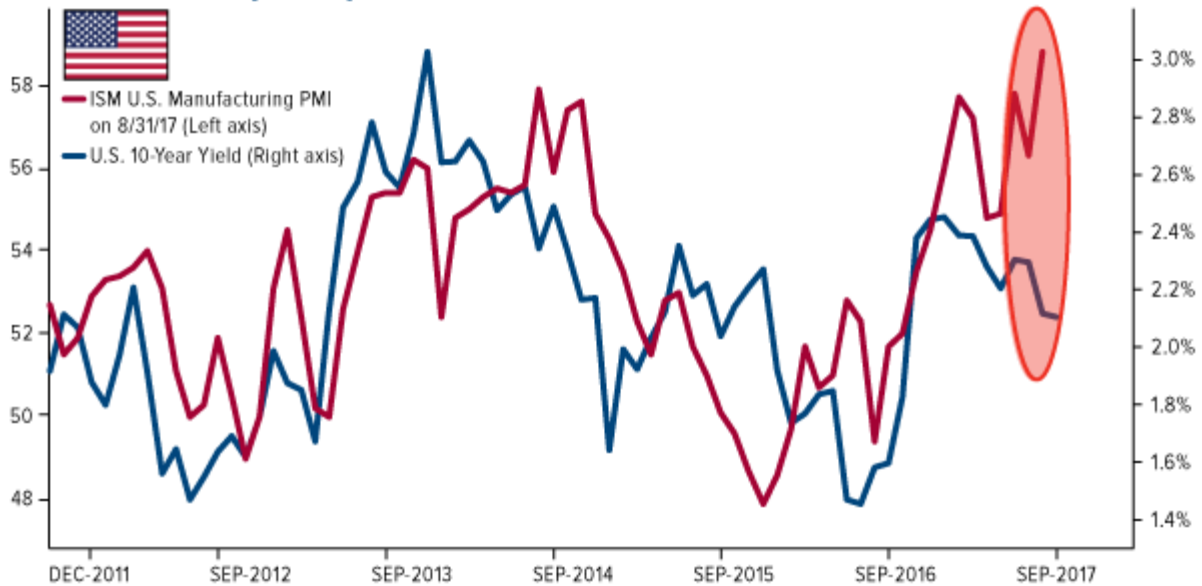
Opportunities

- The inflation readings next week will be very important for the Federal Reserve, which is considering another rate hike later this year.
- Retail sales for August released next Friday will provide an update on the health of the consumer.
- Industrial production figures for August should show continued economic resiliency.

Threats

- U.S. manufacturing purchasing managers' surveys and government bond yields have diverged, and while the PMI is suggesting a bullish view on the economy, bonds are giving a dreary picture. According to Pictet Asset Management, bonds will take the hit when the divide closes as they see nothing in the medium term to derail economic growth.

Is the U.S. Economy Too Optimistic, or the Bond Market Too Bearish?



Source: Institute for Supply Management, Bloomberg, U.S. Global Investors
[click to enlarge](#)

- Connecticut is projected to have a deficit of \$93.9 million in the 2018 fiscal year because the legislature remains gridlocked over the budget, according to comptroller Kevin Lembo. He also said the inability to pass a budget will slow economic growth and ultimately lead the state and its municipalities to receive downgrades in credit ratings that will cost taxpayers even more.
- Trump is reportedly unlikely to consider Gary Cohn for Fed chairman because of his public rebuke of Trump following the president's response to the deadly protests in Charlottesville last month, according to The Wall Street Journal. That could be a serious threat to tax reform since Cohn was seen as spearheading the push.

Gold Market

This week spot gold closed at \$1,346.71 up \$21.81 per ounce, or 1.65 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week higher by 1.93 percent. Junior-tiered stocks underperformed seniors for the week, as the S&P/TSX Venture Index came in down 0.83 percent. The U.S. Trade-Weighted Dollar finished the week slightly lower by 1.62 percent.

Date	Event	Survey	Actual	Prior
Sep-5	Durable Goods Orders	-2.9%	-6.8%	-6.8%
Sep-7	ECB Main Refinancing Rate	0.000%	0.000%	0.000%
Sep-7	Initial Jobless Claims	245k	298k	236k
Sep-13	Germany CPI YoY	1.8%	--	1.8%
Sep-13	PPI Final Demand YoY	2.5%	--	1.9%
Sep-13	China Retail Sales	10.5%	--	10.4%
Sep-14	Initial jobless Claims	300k	--	298k
Sep-14	CPI YoY	1.8%	--	1.7%

Strengths

- The best performing precious metal for the week was gold, followed by silver. Gold traders and analysts are bullish for a 12th straight week, reports Bloomberg, as the yellow metal is on its way to the highest price in a year. With tensions from North Korea, coupled with a weaker U.S. dollar, volume on the COMEX in New

York hit a record in August. Some 6.55 million contracts, worth nearly \$900 billion now, changed hands last month. Bob Savage, CEO of Track Research, cites North Korea as the biggest investor worry right now and believes that “the safe-haven to watch into this mess remains gold.” In addition, last week investors poured \$1 billion into the largest ETF backed by bullion, Bloomberg reports.

Demand For Haven Assets Spurs Gold Rally

Gold Futures, Price Per Ounce



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

- U.S. jobless claims jumped by the most since 2012, reports Bloomberg, and in combination with dollar weakness, sent gold surging to a one-year high. Mid-week, the yellow metal remained little changed as President Trump agreed to a three-month debt limit extension, along with Federal Reserve Vice Chairman Stanley Fischer resigning.
- India is planning for a new spot gold exchange in November, reports Scrap Register and Sharps Pixley. The new exchange should boost transparency, help measure inspection and repair a fragmented jewelry industry. Currently in India, gold is traded on exchanges as futures only. According to the article, earlier in 2013, authorities halted trading on the National Spot Exchange, and since then spot gold hasn't been trading in the spot market.

Weaknesses

- The worst performing precious metal for the week was palladium, off 2.45 percent on little news. On the prior Friday, palladium jumped 4.77 percent, so the losses that started earlier this week may have been some profit taking post the strong surge in prices the prior week.
- China's gold reserves at the end of August were 59.24m fine troy ounces, reports Bloomberg, unchanged from July's reserves of 59.24m fine troy ounces. The People's Bank of China reported the latest numbers on its website this week.
- In a budget briefing this week, state Treasurer Ben Wyatt announced that Western Australia will increase the royalty rate on gold producers to 3.75 percent from 2.5 percent, reports Bloomberg. Wyatt says higher royalties will help repair the state's budget. According to the article, the new rate will apply when the gold price is above \$1,200 an ounce. Based on the current gold price, producers will pay additional royalty of ~A\$20. Miners are calling this a “baffling cash grab” with serious and unintended consequences.

Opportunities

- More than \$2 billion has been raised this year through initial coin offerings (ICOs), reports Bloomberg, and nearly 200 other ICOs are planned in the next four months. Mark Mobius is sensing danger in the explosive growth of cryptocurrencies, saying that digital currencies are beginning to get “out of control.” According to Mobius, however, a crackdown on this sector could mean a rush to gold. Just this week, bitcoin prices plummeted in the U.S. when Chinese regulators announced the closure of domestic trading platforms of cryptocurrencies and deemed ICOs and related activity illegal.
- Mike McGlone of Bloomberg Intelligence writes this week that the gold rally we are experiencing now is quite tame based on similar historical conditions. He comments that if this is a gold bull market, so far it is underwhelming. One of the key macro drivers of the yellow metal is the changing value of the U.S. dollar, so unless the greenback sustains a reversal of its 2017 direction soon, history indicates that gold prices have

plenty of room to increase.

- About two years ago, the fear of a lithium shortage nearly tripled the price of the metal to over \$20,000 a ton in just 10 months, reports Bloomberg Businessweek. All of a sudden, a spike in the market for electric vehicles caused competition with laptops and smartphones for lithium ion batteries. In fact, electric car production is expected to increase more than thirtyfold by 2030. While the miners struggle to increase supply, another company that has a patented process delivering a better internal structure to the lithium cathode material for batteries, may have the edge on supply chain. This is where Nano One comes in. According to a note from the company, “its technology could reduce costs by up to 50 percent (\$/kWh) delivering robustly structured cathode materials that last two to three times longer, store more energy and deliver more power. Earlier this year Nano One’s updated the market on its proprietary process of producing high voltage spinel structured lithium cathode, without adding costly cobalt to the mixture, which could be the next generation of high powered batteries. For electric vehicles, this could translate into fewer battery cells, less weight, less cost extended range, longer lifetime or better warranties.”

Threats

- China is preparing to launch a crude oil futures contract denominated in Chinese yuan and convertible into gold, the Nikkei Asian Review reports. This could potentially create the most important Asian oil benchmark and allow oil exporters to bypass the U.S.-dollar denominated benchmarks by trading in yuan. “To make the yuan-denominated contract more attractive, China plans the yuan to be fully convertible in gold on the Shanghai and Hong Kong exchanges,” the article continues.
- With the rise of cryptocurrencies, wealth could take on an entirely new meaning for many young investors. According to one Bloomberg article this week, bitcoin is the new gold for Indian millennials. Saurabh Agrawal, co-founder of Zebpay, said over the phone: “How gold was considered wealth by grandparents, similarly bitcoin is now considered wealth for my sons.” It is the “new virtual gold of young Indians,” Agrawal explained, as the cryptocurrency’s impact is only just beginning to show.
- Analysts at Bank of America Merrill Lynch are warning that asset prices are getting “more bubbly” than in past periods of effervescence, reports Bloomberg. Central banks have plied markets with nearly \$14 trillion of stimulus and pushed investors further out the risk spectrum to generate returns, the article continues. Alan Greenspan has said there’s a bubble growing across fixed-income markets and Remi Olu-Pitan of Schroder Investment Management agrees. She said the most dangerous spot is high-grade credit because that is where funds turn to for returns when they can’t make them in sovereign debt.



Energy and Natural Resources Market

Strengths

- The U.S. dollar slumped to its weakest level since the start of 2015, breaking below key technical levels and providing a tailwind for the entire commodity space. The dollar was under pressure from multiple fronts this week, with the North Korea situation appearing to escalate, while domestically, the economic damage from multiple hurricanes could delay any further Federal Reserve interest rate hikes.

U.S. Dollar at 33-Month Lows

U.S. Trade Weighted Dollar Index



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

- The best-performing sector this week was the S&P 1500 Integrated Oil & Gas Index. The index of major integrated producers rose 2.4 percent as crude oil prices strengthened in the aftermath of Hurricane Harvey.
- Centerra Gold Inc., a Canadian producer of gold and base metals, was the best-performing stock in the broader resource market this week. The stock rallied 19.6 percent to a 52-week high, after revealing it has advanced settlement talks with the Kyrgyz government – where it operates the Kumtor mine – to fully settle mutual environmental lawsuits.

Weaknesses

- Gasoline was the worst-performing commodity this week, dropping 5.7 percent. After two consecutive weeks of major gains in anticipation of Hurricane Harvey, the price of gasoline dropped once gulf refineries began to restart operations, noting that major infrastructure was left undamaged and production should be able to ramp up rapidly.
- The worst-performing sector this week was the TSX Diversified Metals and Mining Index. The index fell 6.9 percent following a sharp drop in copper and industrial metals prices on Friday, after China announced changes to its currency reserve requirement policy.
- The worst-performing stock for the week was First Quantum Minerals Limited. The Canadian copper producer, which generally serves as a bellwether for base metals exposure in the Canadian market, dropped 7.8 percent following a sharp drop in copper prices.

Opportunities

- Gold reached a 52-week high this week and may continue to shine as the Fed is seen as unlikely to raise rates in the aftermath of Hurricanes Harvey and Irma. The Wall Street Journal, in an article published this week, suggests the economic slowdown caused by Harvey and Irma will be enough to keep central bank from raising rates in December.
- U.S. gasoline prices may be set to rise, and could drag crude oil prices higher as the Financial Times discusses the potential for the U.S. to build a greater inventory of refined fuels set aside for emergencies. According to the story, the U.S. only holds 2 million barrels of refined product reserves in the U.S. northeast, enough to meet about 2.5 hours of total U.S. demand. Conversely, the Strategic Petroleum Reserve, which stores crude oil, could cover a complete shutdown of U.S. crude imports for roughly three months.
- The paper and forest sector continues to outperform on expectations that demand will continue to rise in the aftermath of the hurricane season. With Irma nearing the coast of Florida, and Hurricane Jose strengthening over the Atlantic, it is expected that reconstruction efforts in part of the country may take months, and provide increased and stable demand for lumber, plywood, and other paper and forest-based commodities.

Threats

- On Friday, the People's Bank of China announced it would cut the Chinese yuan reserve requirement to zero from 20 percent, leading to a dramatic drop in the currency as speculators moved to short the currency. The price action in the Asian nation sparked a sharp correction in commodity prices, mainly those which are

largely imported by China, on speculation that a weaker currency may lead to lower import demand for such commodities. With the Chinese yuan still among the top performing commodities globally over the past month, there is risk that this unwind could continue to affect base metals and energy commodity prices in the days and weeks to come.

- Crude prices gave back most of the week's gains on Friday following reports that Chinese demand may weaken on lower refining capacity. A story in The Financial Times this Friday suggests that China is striving to reduce capacity of its "teapot" oil refineries - thus cutting demand notably. The move is aimed to correct an industry that has grown "out of control" as the industry faces pressures from overcapacity.
- Hurricane Irma could destroy oil demand according to portal Oilprice.com. Contrary to Harvey's effects on the U.S. energy supply, Irma's effects on the energy sector would be felt pretty much only on the demand side of the equation. This is because Florida has little-to-no supply-side infrastructure and negligible levels of oil production and refining capacity. However, it ranks near the top in terms of miles driven and overall oil consumption, which would be severely affected by Irma's landfall this weekend.

China Region

Strengths

- Thailand's SET Index was the top performer in the region for the week, rising 1.19 percent in the last five trading days.
- Property developer China Aoyuan Property Group climbed 24.48 percent for the week, the top gainer in the Hang Seng Composite Index during that time. The company is issuing bonds and saw strong demand for the financing.
- China's import growth remained robust in August, rising 13.3 percent year-over-year, reports Bloomberg. According to Raymond Yeung, chief economist at Australia & New Zealand Banking Group, "strong imports reflect the momentum of domestic demand."

Weaknesses

- Singapore's Straits Times Total Return Index declined 1.49 percent since August 31. The city-state was closed on September 1 for holiday; the Philippines and Indonesia also closed the 1st; Malaysia was closed the 31st, 1st and the 4th as well.
- The People's Bank of China (PBOC) announced that initial coin offerings (ICOs) are now illegal in the Asian nation and asked all related fundraising activity to be halted immediately, reports Bloomberg. On Monday, the bank's website said that it had completed investigations into ICOs, and will strictly punish offerings in the future while penalizing legal violations in ones already completed, the article continues. Bitcoin tumbled on the news.
- China's import growth remained robust in August, rising 13.3 percent, reports Bloomberg. According to Raymond Yeung, chief economist at Australia & New Zealand Banking Group, "strong imports reflect the momentum of domestic demand."

Opportunities

- Reuters reports this week that China's military is "preparing a sweeping leadership reshuffle, dropping top generals, including two that sources say are under investigation for corruption." Such changes would allow President Xi Jinping to install trusted allies in key positions at the upcoming party congress that begins October 18, the article continues.
- In China, the liquid natural gas (LNG) price rose by 2 percent last week, reports Morgan Stanley. According to the report, domestic supply increased, partly due to the gradually resumed LNG supply at Tianjin Terminal by CNOOC. As you can see in map below, prices increased in Shandong and East, Central and South China, while declining in Northwest, North and Northeast China, the article continues.

China: LNG Weekly Price Movements by Region



Source: Morgan Stanley, U.S. Global Investors

[click to enlarge](#)

- Over the course of the next week China-watchers will receive a host of new data. Consumer price index, producer price index, foreign direct investment, money supply, new yuan loans, aggregate financing, retail sales and fixed asset investment will all come rolling in over the course of the next several days, providing investors with additional insights into the state of the Chinese economy.

Threats

- President Trump intends to keep up the pressure on North Korea, noting though that the use of force is not “inevitable” and that he prefers other options. China and Russia are said to resist imposing more sanctions upon North Korea.
- The strengthening yuan thus far appears to have had limited impact, and actually seems to have acted something like a haven over the last few weeks of North Korea tension. A seventh-straight-month of higher foreign exchange reserves in China also helped the yuan, as have higher fixings by the PBOC, but investors will keep careful watch for any policy missteps.
- According to press reports the Philippines’ Rodrigo Duterte reiterated his stance against open-pit mining in the island nation and said that it “has to stop some time.”

Emerging Europe

Strengths

- Russia was the best performing country this week, gaining 1 percent. Bilateral trade between Russia and China is expected to reach \$80 billion by the end of this year. Trade stood at \$69.5 billion in 2016, according to Russia Insider. On Friday, CEFC China Energy Co. agreed to buy a minority stake in Rosneft, the largest state-owned oil producer in Russia. The transaction is valued around \$9.1 billion.
- The Polish zloty was the best performing currency this week, gaining 1.7 percent against the U.S. dollar. Poland’s currency is highly correlated with the euro, which gained 1.4 percent after the European Central Bank (ECB) announced no change to its quantitative easing plan on Thursday. Policy makers were in

agreement that their next step will be to reduce bond purchases.

- Telecommunication services was the best performing sector among eastern European markets this week.

Weaknesses

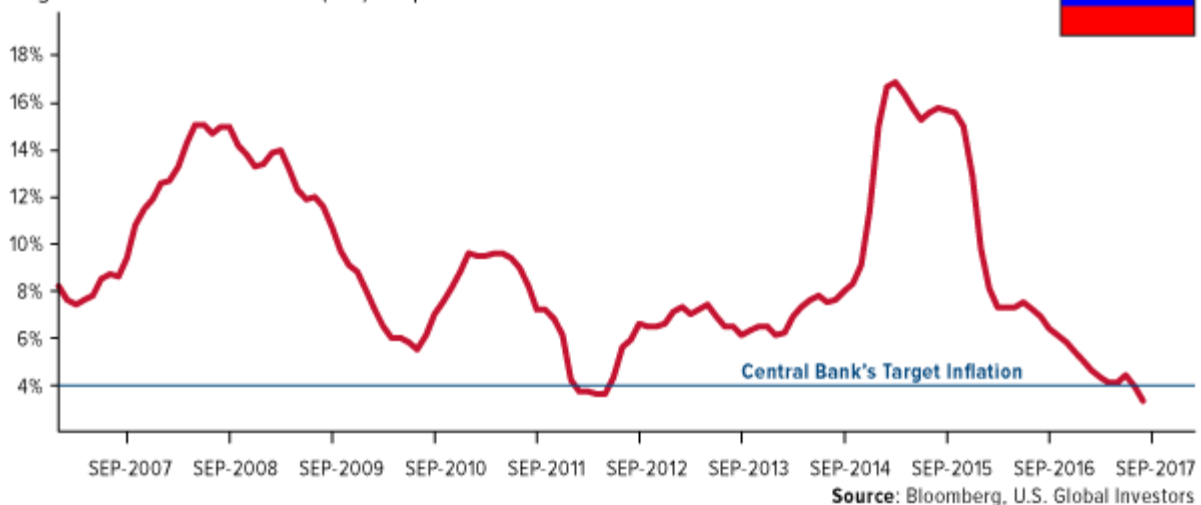
- Romania was the worst performing country this week, losing 3.1 percent. Once again, banks were the biggest losers trading on the Bucharest exchange after the opposition party proposed a tax on banks' assets last week. Bank Transilvaania declined by 4.5 percent and BRD Groupe Societe Generale lost 4.9 percent.
- The Russian ruble was the worst relative performing currency this week, gaining 23 basis points against the U.S. dollar. Governor Elvira Nabiullina said on Thursday that Russia's central bank is set to discuss a reduction in its key rate by as much as half a percentage point at its September 15 meeting, after a pause in July.
- The real estate sector was the worst performing sector among eastern European markets this week.

Opportunities

- The ECB left all its key interest rates unchanged and said it would continue to buy 60 billion euros (\$71.5 billion) a month of bonds, at least through December. Mario Draghi, the president of the ECB, said that the central bank is monitoring the strength of the euro and how it is affecting inflation and growth in the euro area. More discussions about winding down the stimulus may take place later in the fall. For now, European economies will be supported by the quantitative easing program. Equities reacted positively to the bank's decision.
- The headline IHS Markit Eurozone PMI held steady at 55.7 in August. Service sector growth eased in August to the lowest since January, while manufacturing growth revived to one of the fastest seen over the past six years. Strong PMI data suggests further strength in the euro area's gross domestic product. On Thursday, the final second-quarter GDP was revised up to 2.3 percent from 2.2 percent year-over-year.
- Russian inflation unexpectedly slowed to a record, staying below the central bank's target of 4 percent for a second month and setting the stage for policy makers to resume monetary easing next week. Consumer prices rose an annual 3.3 percent in August, compared with 3.9 percent a month earlier, the Federal Statistics Service said. Core inflation also slowed more than projected, reaching a historic low of 3 percent from a year earlier.

Russian Inflation Falls to Post-Communist Low

August Consumer Price Index (CPI) Drops to 3.3 Percent Year-Over-Year



[click to enlarge](#)

Threats

- Turkey's core inflation surged in August, increasing pressure on the central bank after its recent tightening failed to tame price gains. Core inflation, which excludes the impact of volatile items such as food and energy, accelerated to 10.2 percent last month, the highest since June 2005 and significantly more than the 9.8 percent prediction in a Bloomberg survey of economists. Annual headline inflation was 10.7 percent, up

from 9.8 percent in July.

- Russian companies could have significantly lower profits due to a stronger ruble, Deputy Finance Minister Alexey Moiseev said in an interview. Gazprom PJSC's profit plunged 80 percent last quarter from a year earlier as record gas exports to Europe failed to offset the foreign exchange losses. Net income of Alrosa PJSC, Russia's biggest diamond miner, shrank 35 percent in the first six months from a year earlier due to a stronger ruble and a decline in average diamond price. Russia's budget is falling 180 billion rubles short of this year's plan to collect higher payouts, as lower profits do not allow companies to pay higher dividends.
- The European Union's top court has dismissed complaints by Slovakia and Hungary over mandatory relocation of refugees. The EU aims to relocate 120,000 asylum seekers around the bloc. The EU has taken in more than 1.7 million people from the Middle East and Africa since 2014. Hungary and Poland have not relocated a single person from these regions and the Czech Republic has not made any offers for more than a year. Poland is accepting migrants from Ukraine, but still may face further pressure along with Hungary and the Czech Republic to welcome asylum seekers from the Middle East and Africa.



Leaders and Laggards

Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
Russell 2000	1,399.43	-14.14	-1.00%
S&P Basic Materials	343.03	-3.82	-1.10%
Nasdaq	6,360.19	-75.14	-1.17%
Hang Seng Composite Index	3,803.55	-21.65	-0.57%
S&P 500	2,461.43	-15.12	-0.61%
Gold Futures	1,350.90	+20.50	+1.54%
Korean KOSPI Index	2,343.72	-13.97	-0.59%
DJIA	21,797.79	-189.77	-0.86%
S&P/TSX Global Gold Index	208.64	-0.15	-0.07%
SS&P/TSX Venture Index	772.02	-6.43	-0.83%
XAU	91.65	+1.11	+1.23%
S&P Energy	471.43	+6.07	+1.30%
Oil Futures	47.54	+0.25	+0.53%
10-Yr Treasury Bond	2.06	-0.11	-5.17%
Natural Gas Futures	2.90	-0.18	-5.70%

Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
Korean KOSPI Index	2,343.72	-24.67	-1.04%

Hang Seng Composite Index	3,803.55	+8.26	+0.22%
Nasdaq	6,360.19	+7.86	+0.12%
XAU	91.65	+8.81	+10.63%
S&P/TSX Global Gold Index	208.64	+13.32	+6.82%
Gold Futures	1,350.90	+71.60	+5.60%
S&P 500	2,461.43	-12.59	-0.51%
S&P Basic Materials	343.03	+3.40	+1.00%
DJIA	21,797.79	-250.91	-1.14%
Russell 2000	1,399.43	+2.48	+0.18%
SS&P/TSX Venture Index	772.02	+9.29	+1.22%
Oil Futures	47.54	-2.02	-4.08%
S&P Energy	471.43	-7.80	-1.63%
Natural Gas Futures	2.90	+0.01	+0.42%
10-Yr Treasury Bond	2.06	-0.19	-8.63%

Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
Korean KOSPI Index	2,343.72	-37.97	-1.59%
Hang Seng Composite Index	3,803.55	+263.44	+7.44%
Nasdaq	6,360.19	+152.27	+2.45%
Natural Gas Futures	2.90	-0.14	-4.74%
Gold Futures	1,350.90	+72.50	+5.67%
S&P 500	2,461.43	+29.66	+1.22%
S&P Basic Materials	343.03	+1.10	+0.32%
S&P/TSX Global Gold Index	208.64	-0.64	-0.31%
XAU	91.65	+7.28	+8.63%
DJIA	21,797.79	+525.82	+2.47%
Russell 2000	1,399.43	-22.28	-1.57%
SS&P/TSX Venture Index	772.02	-19.18	-2.42%
S&P Energy	471.43	-15.06	-3.10%
Oil Futures	47.54	+1.71	+3.73%
10-Yr Treasury Bond	2.06	-0.15	-6.63%

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Gazprom PJSC
Nano One Materials Corp

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 ISM New Orders Index is prepared by the Institute of Supply Management and is an indicator of the levels of new orders from customers. The U.S. Trade Weighted Dollar Index provides a general indication of the international value of the U.S. dollar.

The Bangkok SET Index is a capitalization-weighted index of all the stocks traded on the Stock Exchange of Thailand.

The Straits Times Index comprises the top 30 SGX Mainboard listed companies on the Singapore Exchange selected by full market capitalization. The S&P Supercomposite Integrated Oil & Gas Sub Industry Index is a capitalization-weighted index.

The index was developed with a base value of 100 as of December 30, 1994. The S&P/TSX Composite Diversified Metals & Mining Sub Industry Index is a subset of the constituents of the S&P/TSX Composite Index.

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