



U.S. Global Investors

# Investor Alert



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**Press Release:** U.S. Global Investors Continues GROW Dividends

## Here's Why Bitcoin Won't Replace Gold So Easily

By Frank Holmes

*CEO and Chief Investment Officer*

*U.S. Global Investors*



What a week it's been.

First and foremost, I'd like to acknowledge the horrific mass shooting that occurred in Las Vegas, the deadliest in modern American history. On behalf of everyone at U.S. Global Investors, I extend my sincerest and most heartfelt condolences to the victims and their families.

The memory of the shooting was still fresh in people's minds during Tuesday's Hollywood premiere of *Blade Runner 2049*, which nixed the usual red carpet and other glitz in light of the tragedy. Before the film, producers shared poignant words, saying that in times such as these, the arts are crucial now more than ever.

I had the distinct privilege to attend the premiere. My good friend Frank Giustra, whose production company Thunderbird Entertainment owns a stake in the *Blade Runner* franchise, was kind enough to invite me along. Despite the somber mood, I thought the film was spectacular. Even if you're not a fan of the original 1982 film, it's still worth experiencing in theaters. Hans Zimmer and Benjamin Wallfisch's synth-heavy score is especially haunting.

CNET recently published an interesting piece examining the accuracy of future tech as depicted in the original

Blade Runner, from androids to flying cars to off-world travel [read the article here](#).

## Still in the Early Innings of Cryptocurrencies

Speaking of the future, I spoke on the topic of the blockchain this week at the Subscriber Investment Summit in Vancouver. My presentation focused on the future of mining—not just of gold and precious metals but also cryptocurrencies.

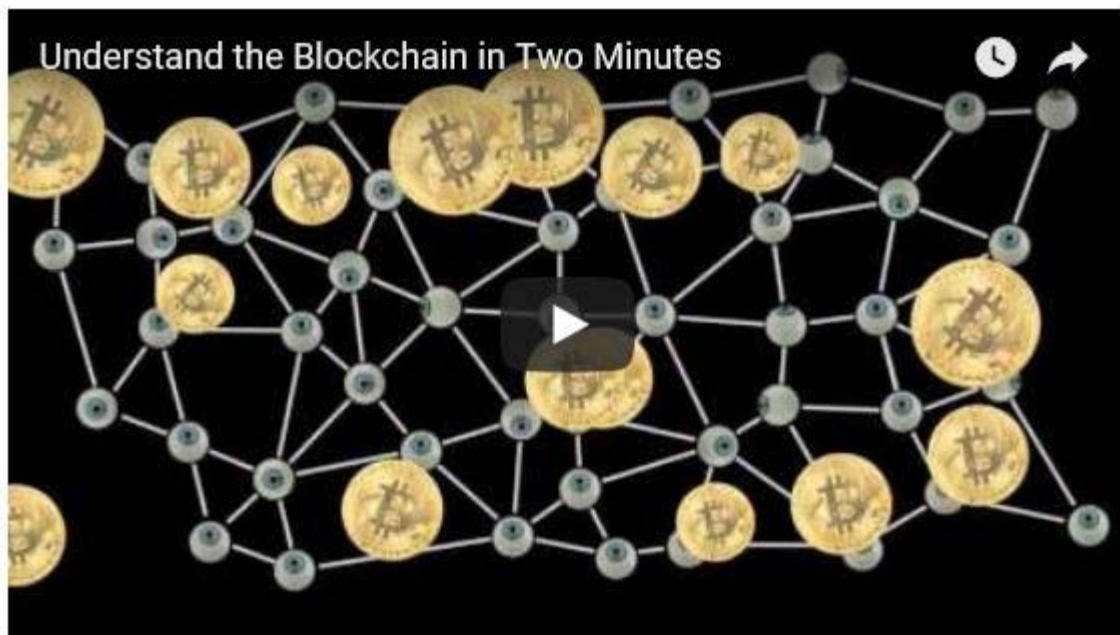
Believe it or not, there are upwards of 2,100 digital currencies being traded in the world right now, with a combined market cap of nearly \$150 billion, according to [Coinranking.com](#).

Obviously not all of these cryptos will survive. We're still in the early innings. Last month I compared this exciting new digital world to the [earliest days of the dotcom era](#), and just as there were winners and losers then, so too will there be winners and losers today. Although bitcoin and Ethereum appear to be the frontrunners right now, recall that only 20 years ago AOL and Yahoo! were poised to dominate the internet. How times have changed!

It will be interesting to see which coins emerge as the “Amazon” and “Google” of cryptocurrencies.

For now, Ethereum has some huge backers. The Enterprise Ethereum Alliance (EEA), according to its [website](#), seeks to “learn from and build upon the only smart contract supporting blockchain currently running in real-world production—Ethereum.” The EEA includes several big-name financial and tech firms such as Credit Suisse, Intel, Microsoft and JPMorgan Chase, whose own CEO, Jamie Dimon, knocked cryptos a couple of weeks ago.

To learn more about the blockchain and cryptocurrencies, [watch this engaging two-minute video](#).



## Will Bitcoin Replace Gold?

Lately I've been seeing more and more headlines asking whether cryptos are “killing” gold. Would the gold price be higher today if massive amounts of money weren't flowing into bitcoin? Both assets, after all, are sometimes favored as safe havens. They're decentralized and accepted all over the world, 24 hours a day. Transactions are anonymous. Supply is limited.

## Have Gold and Bitcoin Peaked for 2017?



But I don't think for a second that cryptocurrencies will ever replace gold, for a number of reasons. For one, cryptos are strictly forms of currency, whereas gold has many other time-tested applications, from jewelry to dentistry to electronics.

Unlike cryptos, gold doesn't require electricity to trade. This makes it especially useful in situations such as hurricane-ravished Puerto Rico, where 95 percent of people are reportedly still without power. Right now the island's economy is cash-only. If you have gold jewelry or coins, they can be converted into cash—all without electricity or WiFi.

Finally, gold remains one of the most liquid assets, traded daily in well-established exchanges all around the globe. Every day, some £13.8 billion, or \$18 billion, worth of physical gold are traded in London alone, according to the London Bullion Market Association (LBMA). The cryptocurrency market, although expanding rapidly, is not quite there yet.

I will admit, though, that bitcoin is energizing some investors, especially millennials, in ways that gold might have a hard time doing. The proof is all over the internet. You can find a number of TED Talks on bitcoin, cryptocurrencies and the blockchain, but to my knowledge, none is available on gold investing. YouTube is likewise bursting at the seams with videos on cryptos.

Bitcoin is up 350 percent for the year, Ethereum an unbelievable 3,600 percent. Gold, meanwhile, is up around 10 percent. Producers, as measured by the NYSE Arca Gold Miners Index, have gained 11.5 percent in 2017, 23 percent since its 52-week low in December 2016.

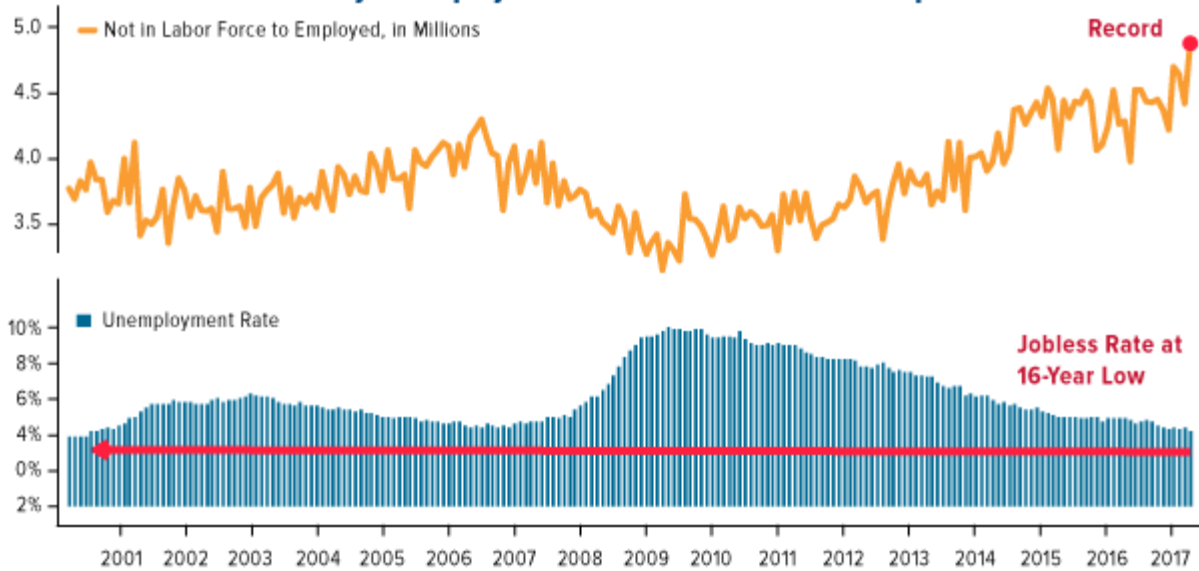
[Discover investing opportunities in high-quality gold miners!](#)

## Look Past the Negativity to Find the Good News

The news is filled with negative headlines, and sometimes it's challenging to stay positive. Take today's jobs report. It showed that the U.S. lost 33,000 jobs in September, the first month in seven years that this happened. A weak report was expected because of Hurricane Irma, but no one could have guessed the losses would be this deep.

The jobs report wasn't all bad news, however. For one, the decline is very likely temporary. Beyond that, a record 4.88 million Americans who were previously sitting out of the labor force found work last month. This helped the unemployment rate fall to 4.2 percent, a 16-year low.

## Record Number of Formerly Unemployed Americans Found Work in September



Source: Bureau of Labor Statistics, Bloomberg, U.S. Global Investors

[click to enlarge](#)

There's more that supports a stronger U.S. economy. As I shared with you this week, the Manufacturing ISM Purchasing Managers' Index (PMI) [rose to a 13-year high in September](#), indicating rapid expansion in the manufacturing industry. Factory orders were up during the month. Auto sales were up. Oil has stayed in the relatively low \$50-a-barrel range, which is good for transportation and industrials, especially airlines. Small-cap stocks, as measured by the Russell 2000 Index, continue to climb above their 50-day and 200-day moving averages as [excitement over tax reform intensifies](#).

These are among the reasons why I remain bullish.

One final note: Speaking on tax reform, Warren Buffett told CNBC this week that he's waiting to sell assets [until he knows the plan will go through](#). "I would feel kind of silly if I realized \$1 billion worth of gains and paid \$350 million in tax on it if I just waited a few months and would have paid \$250 million," he said.

It's a fair comment, and I imagine other like-minded, forward-thinking investors, buyers and sellers will also wait to make huge transactions if they can help it. Tax reform isn't a done deal, but I think it has a much better chance of being signed into law than a health care overhaul.

## Upcoming Event

Later this month I'll be in Barcelona attending and speaking at the 18th annual LBMA/LPPM Precious Metals Conference, where I'll be speaking on quant investing. If you're in the area between October 15 and 17, I'd be thrilled to see you! You can [register here](#).



## Index Summary

- The major market indices finished up this week. The Dow Jones Industrial Average gained 1.65 percent.

The S&P 500 Stock Index rose 1.19 percent, while the Nasdaq Composite climbed 1.45 percent. The Russell 2000 small capitalization index gained 1.30 percent this week.

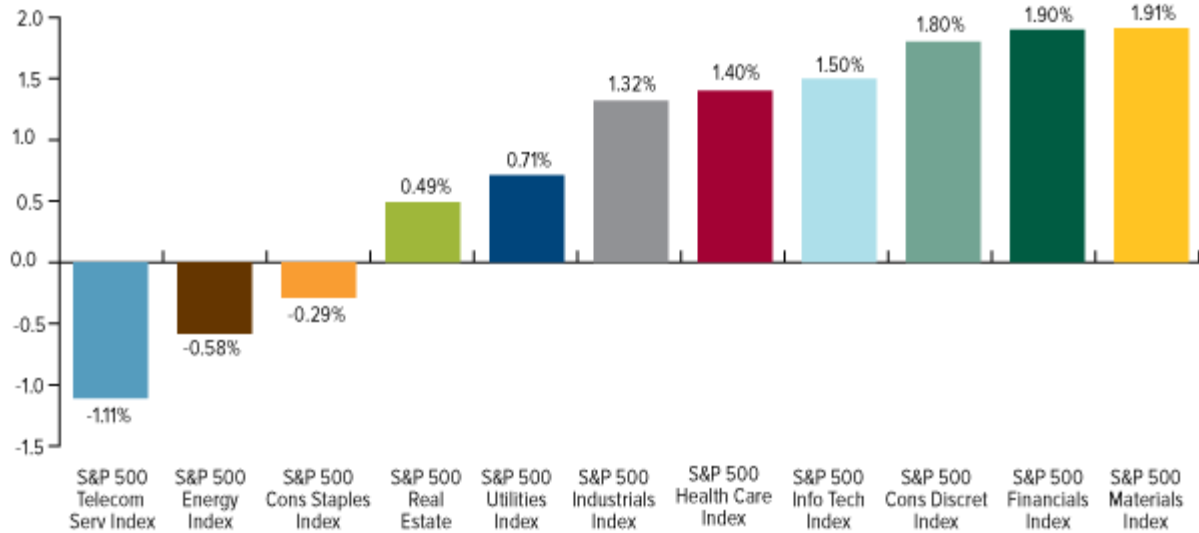
- The Hang Seng Composite gained 3.46 percent this week; while Taiwan was up 1.96 percent and the KOSPI remained flat.
- The 10-year Treasury bond yield rose 2 basis points to 2.36 percent.

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## Domestic Equity Market

### S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, September 29, 2017 – October 06, 2017)



Source: Bloomberg, U.S. Global Research

[click to enlarge](#)

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## Strengths

- Materials was the best performing sector of the week, increasing by 1.91 percent versus an overall increase of 1.11 for the S&P 500.
- Mylan was the best performing stock for the week, increasing 22.06 percent.
- Mylan shares soared after it said the FDA approved its generic version of Teva Pharmaceutical's multiple sclerosis treatment Copaxone.

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## Weaknesses

- Utilities was the worst performing sector for the week, falling 0.47 percent versus an overall increase of 1.11 percent for the S&P 500.
- Navient was the worst performing stock for the week, falling 16.11 percent.
- Navient shares dropped after it announced a dilutive acquisition, and yet another state filed suit against the company over deceptive lending practices.

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## Opportunities

- JPMorgan's bank deposits grew by \$96 billion, or 7.9 percent, over the past year to \$1.31 trillion as of June 30, according to data released this week by the Federal Deposit Insurance Corporation. It is the largest U.S. bank by assets and market cap.
- The FDA approved a "complex generic drug" — which sent one stock soaring and another crashing. Shares of Teva Pharmaceuticals, which makes the branded version of Copaxone, fell by 11 percent on Wednesday, while Mylan, which makes the new generic version, was up as much as 18 percent.
- Costco is stepping up its grocery battle with new delivery services. Reuters reported that the company

announced two new services to fend off mounting competition from Amazon and Walmart.

## Threats

- Wall Street analysts showed "extreme bullishness" on stocks at the end of September, based on a monthly survey conducted by Bank of America Merrill Lynch (BAML). As such, the firm's proprietary "Sell Side Indicator" — which monitors investor exuberance — is now nearly two standard deviations above its four-year average. The firm pointed out that it's historically been a bearish signal when Wall Street gets extremely bullish. On prior occasions in which the indicator has been one standard deviation above the four-year rolling average, the S&P 500 has returned less than 1 percent over the following 12 months, and it has declined almost half of the time.
- The attempt to take Nordstrom private is in danger of falling apart. According to New York Post reports, the Nordstrom family is struggling to get financing for a deal to take the retailer private.
- eMarketer cut Snapchat's projected revenue for 2017 by \$128 million. The advertising research firm lowered its 2017 U.S. ad revenue forecast for Snap from \$770 million to \$642.5 million.

# Frank Talk Insight for Investors

 <p>October 5, 2017 <b>Manufacturers Just Had a Gangbuster Month</b></p>	 <p>October 2, 2017 <b>This Could Be a No-Brainer Gold Buying Opportunity</b></p>	 <p>September 29, 2017 <b>Here's Why China Region Stocks Are in the Spotlight Right Now</b></p>
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A blog by Frank Holmes, CEO and Chief Investment Officer

## The Economy and Bond Market

### Strengths

- The ISM non-manufacturing index jumped to 59.8 in September, the fastest pace in 12 years and above the 55.5 forecast.
- New orders for U.S.-made goods rose in August and orders for core capital goods were stronger than previously reported, suggesting robust business spending could help offset some of the economic drag of Hurricanes Harvey and Irma. Factory goods orders increased 1.2 percent as demand for a range of goods rose, the Commerce Department said on Thursday. Economists had forecast factory orders increasing 1.0 percent in August.
- U.S. construction spending rebounded 0.5 percent in August after two months of contraction, helped by strength in home building, and commercial and government construction.

### Weaknesses

- Hurricanes Harvey and Irma damaged not only Texas and Florida but also the U.S. jobs picture, as payrolls fell by 33,000 in September. Economists surveyed by Reuters expected payroll growth of 90,000.
- Municipal bond mutual funds saw an outflow of about \$140 million for the week ended Wednesday October 4, according to Lipper U.S. Fund Flows data, putting a stop to what would have been 12 consecutive weeks of inflows.
- A flare-up of tension on the Korean peninsula dampened demand for risk assets ahead of the weekend, offsetting fresh signs of strength. The S&P 500 Index halted an eight-day rally on Friday, paring a weekly gain to 1.2 percent.

### Opportunities

- A holiday shortened week in the U.S. kicks off with the NFIB survey on Tuesday. Renewed speculation of tax cuts should lift the sentiment of small businesses. On Wednesday, the minutes of last month's FOMC meeting could shed some more light on the Fed's thinking about the economy and policy.
- The long-end of the municipal curve remains attractive given the Federal Reserve's posture, according to Bank of America. The analyst said that current levels on the 10-30 year part of the muni curve appear to be reasonable entries.
- After five months of downside surprises, U.S. core consumer price index (CPI) rose 0.2 percent month-over-month in August. The September CPI report on Friday will tell whether August was just a temporary blip or something more sustainable.

## Threats

- Puerto Rico's general-obligation bonds due in 2035 found a new low on Wednesday, falling to 32 cents on the dollar. The benchmark bond has been on the decline since Hurricane Maria slammed into the island last month and raised creditor concerns over debt recovery rates. Furthermore, President Donald Trump suggested the island's debt could be wiped out to help it recover from the devastation.

### Going Zero? Puerto Rico's Benchmark Bonds Due in 2035 Hit All-Time Low

Puerto Rico General Obligation Bonds Due In 2035



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

- Friday's retail sales report will be important to watch. Recent hurricanes are likely to have dented core retail sales in September. With the weakness already seen in July and August, real consumer spending should be a drag on third-quarter GDP growth.
- JPMorgan has coined the term "Great Liquidity Crisis" for the next recession, and while the firm isn't sure when it will strike, it predicts that tensions will start to intensify in 2018 once the Federal Reserve starts to unwind its massive balance sheet.

## Gold Market

This week spot gold closed at \$1,275.24, down \$4.91 per ounce, or 0.38 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week higher by 2.34 percent. Junior-tiered stocks underperformed seniors for the week, as the S&P/TSX Venture Index came in up 0.91 percent. The U.S. Trade-Weighted Dollar finished the week higher by 0.77 percent.

Date	Event	Survey	Actual	Prior
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Sep-29	Caixin China PMI Mfg	51.5	51.0	51.6
Oct-2	ISM Manufacturing	58.1	60.8	58.8
Oct-4	ADP Employment Change	135k	135k	228k
Oct-5	Initial Jobless Claims	265k	260k	272k
Oct-5	Durable Goods Orders	1.7%	2.0%	1.7%
Oct-6	Change in Nonfarm payrolls	80k	-33k	169k
Oct-12	PPI Final Demand YoY	51.5	--	51.6
Oct-12	Initial Jobless Claims	252k	--	260k
Oct-13	Germany CPI YoY	1.8%	--	1..8%
Oct-13	CPI YoY	2.3%	--	1.9%

## Strengths

- The best performing precious metal for the week was silver up 1.07 percent. Precious metals rallied to mid-day highs on Friday as it was rumored North Korea will test a missile this weekend that is capable of reaching the U.S. West Coast. Gold traders and analysts surveyed by Bloomberg on Thursday were equally split between bulls and bears this week, reports Bloomberg, after saying gold prices will go down three weeks in a row. According to data released by the Perth Mint this week, gold coin and minted bar sales increased to 46,415 ounces in September. This is up from sales of 23,130 ounces in August.
- In the week ended September 28, inflows into U.S.-listed commodity ETFs totaled \$644 million, reports Bloomberg, a 27-percent expansion. Precious-metals funds had \$782 million of gains, the article continues, compared with \$589 million the week prior.
- Since Vladimir Putin went on a geopolitical offensive in the Ukraine in 2014, gold had its first annual gain in four years in 2016, writes Bloomberg, and is now on track for another gain in 2017. In addition, the Bank of Russia has more than doubled the pace of gold purchases, accounting for 38 percent of all gold purchased by central banks in the second quarter alone. According to the World Gold Council, this brings the share of bullion in Russia's international reserves to the highest of Putin's 17 years in power, the article continues.

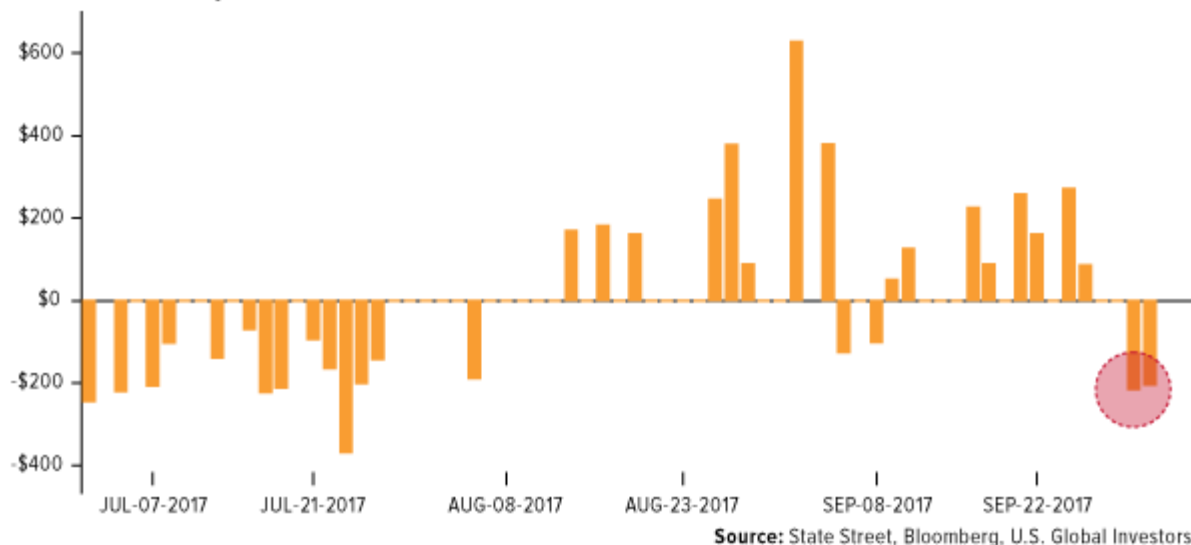
## Weaknesses

- The worst performing precious metal for the week was palladium down 1.46 percent. Palladium prices overtook platinum prices last week for the first time in 16 years, perhaps triggering some profit taking as the metal traded more than \$25 lower to start the week. On Monday, investors pulled the most money in more than two months out of the SPDR Gold Shares ETF, reports Bloomberg, meaning that perhaps they are "growing immune to the war of words between Donald Trump and Kim Jong Un." Similarly, coin sales are shrinking in the U.S., down by two-thirds in the first nine months of the year from the same period in 2016, reports the U.S. Mint. Amid increasing odds that the Federal Reserve will hike interest rates by year-end, bullion has slumped more than 6 percent since trading at the highest in a year in early September, the article continues.



## Shunning Bullion: Investors Exit Largest Gold ETF At Fastest Pace Since July

SPDR Gold ETF, Daily Fund Flows



Source: State Street, Bloomberg, U.S. Global Investors

[click to enlarge](#)

- Bank of America only sees limited upside to gold into year-end. Michael Widmer, analyst with BofAML wrote in a report on October 2, “the Fed has recently reinforced intentions to normalize monetary policy and a rate hike in December is now increasingly priced in.” Brian Lan of Singapore-based GoldSilver Central adds that gold is also floundering on lack of support from Chinese markets during the week-long national holiday and dollar strength, reports Bloomberg.
- BullionValut’s Gold Investor Index, which measures the balance of client buyers against sellers, is climbing back from a 14-month low in September, as prices touched a one-year high prior to retreating. Increasing expectations of a rate hike have also affected gold open interest, a tally of outstanding futures contracts, which dropped to the lowest in more than five weeks, reports Bloomberg. Another movement in the gold market is seen in the ratio of Comex paper claims to physical gold, which continues to creep higher at 93:1 currently, versus the average of 50:1 year-to-date. According to Desjardins, Comex-registered (deliverable) gold is now down to 588,000 troy ounces – down 62 percent since the beginning of the year.

## Opportunities

- Christopher Woods of CLSA, in a report titled “A Question of Contraction,” writes that the commencement of quantitative tightening (QT) represents the biggest risk to still presumably Wall Street correlated world stock markets. Woods says that gold remains “essential insurance” despite obvious risks posed by QT, and that the more the Fed tightens, the more likely it will trigger a renewed deflationary reality check. This could lead, again, to some form of unconventional monetary policy. It is the central banks’ (and the Fed’s) inability to exit from unconventional monetary policy, that the team at CLSA maintains its long-term bullish view on gold bullion. The ultimate price target remains at \$4,200 an ounce, Woods continues.
- According to Barclays, one question that the group has been asked by investors recently is whether mining companies are under-capitalizing their businesses. According to the Report dated October 5, Barclays writes, “We believe under-capitalization is not substantial on balance. But conditions are ripe for further capex increases given low capex/sales and D&A versus history, balance sheets are now fixed, dividends have been reinstated and commodity prices continue to be strong.” However, Barclays notes that capex upside is limited “by a paucity of growth projects that can be accelerated.” Also note, that according to Bloomberg Intelligence, for the first time in five years, capital spending for the BI global senior gold valuation peers is projected to increase in 2017, based on past 12-month trends and 2018 estimates.
- In a report published on Tuesday, Metals Focus says that the macroeconomic backdrop remains positive for precious metals prices through to 2018, reports Bloomberg, along with expected weakening of the dollar. The firm stated that, “crucial to this view is that monetary policies are likely to remain accommodative.” Other news in the gold sector comes from a Paradigm Capital Report, outlining the group’s favorite explorers from the Beaver Creek Conference, specifically highlighting 12 companies. One positive sign was record attendance by corporate acquirers at the event, a sign that producers are hungrier. Paradigm Capital also notes the shortage of new discoveries, which makes the good ones all the more exceptional. The report

goes on to explain that in the 1990-1999 decade, for every ounce produced globally, there was 1.4 ounces found in significant new greenfield projects. Then, from 2000 to 2009, the rate declined to 0.7 ounces per ounce produced. Since 2010, SNL estimates that only 0.3 ounces have been found. “Many of the ounces discovered, maybe one-third, are in inhospitable locations or are uneconomic, making the good ones all the more exceptional,” it reads.

## Threats

- David Doyle of Macquarie Research says the group is more optimistic about 2018 and beyond. The group is lifting its estimates for U.S. real GDP growth for 2018 by 50 basis points, while also increasing its estimates for 2019 through 2021 by 30 to 40 basis points. Doyle writes that Macquarie sees two to three interest rate hikes in 2018, and one to two hikes in 2019. In another note from Macro Strategy Partners this week, it reports that Congressional Republicans approved a 2018 fiscal spending blueprint to help advance the eventual tax bill. And although the market took the news positively, Fed officials have warned despite the delivery of a short-term boost, it could also bring high inflation and much higher debt – lowering growth even further.
- If Western Australia moves forward with its proposed gold royalty rate hike, four of the biggest gold producers in Australia have warned they will likely close mines or direct investment dollars elsewhere, reports the Australian Financial Review. “If you get these royalty increases that wipe out all of your profits while you are trying to set up the long-term future of the mine you have to question, ‘do we really put that capital here or should we put it elsewhere’ and these are the sort of decisions that will get taken,” said Sandeep Biswas, chief executive of Newcrest Mining.
- Jason Schenker, president and founder of Prestige Economics, told Bloomberg Television in an interview Monday that gold is facing numerous bearish factors. He noted a stronger dollar, U.S. stocks at all-time highs and signs of weakness in China’s economy. Looking at the political landscape in the U.S., advisers and allies of President Trump are floating the idea of Secretary of State Rex Tillerson being replaced by CIA Director Mike Pompeo, reports Bloomberg. On October 4, Tillerson actually vowed to stay in position following reports that he was near resigning.



## Energy and Natural Resources Market

### Strengths

- Copper was the best performing major commodity this week rising 2.39 percent. The metal’s price rallied on the back of supportive macroeconomic data out of China, which showed a new spike in manufacturing activity. In addition, investors became wary of potential supply disruptions as Chile, the world’s largest exporter of the metal was shaken by an earthquake on Thursday.
- The best performing sector this week was the TSX Diversified Metals & Miners Index. The index of major

producers rose 8.49 percent on the back of rising copper and zinc prices. The rally in base metals was a result of a better-than-expected PMI reading in China, together with proposed reserve requirement ratio reductions, which are expected to facilitate access to credit.

- First Quantum Minerals Ltd., a major Canadian producer of copper, was the best performing stock in the broader resource market this week. The stock, which is perceived as a bell-whether for investors' appetite for copper-exposed equities, rallied 10.06 percent tracking copper's rally to a three-week high.

## Weaknesses

- Crude oil was the worst performing major commodity in the energy space this week, dropping 4.61 percent. The commodity dropped after surveys reported OPEC production climbed in September, defying the odds that the production cut enacted in 2016 can be extended. In addition, the EIA in its weekly inventory numbers reported U.S. crude oil exports rose to a record, suggesting the inventory glut may be far from over.
- The worst performing sector this week was the TSX Oil & Gas Producers and Explorers Index. The index of Canadian E&Ps fell 2.85 percent as crude oil prices struggled to hold onto key technical support levels amid negative headlines from OPEC and the EIA. In addition, the sector may face more logistical problems as TransCanada shelved its project to redevelop a pipeline that would take Canadian crude to east coast refineries and alleviate the logistic challenges depressing Canadian crude prices.
- The worst performing stock for the week was thyssenkrupp AG. The German steel producer dropped 6.82 percent after market analysts suggested the company's planned merger with Tata Steel may not yield the profitability levels expected at first.

## Opportunities

- China's manufacturing activity grew at the fastest pace since 2012 in September. The manufacturing report suggests factories cranked up output to take advantage of strong demand ahead of a key political meeting next month. Total new orders and output prices all improved to the highest level in at least a year, while the construction sector indicated the current building boom is undiminished. The official reading rose to 52.4 in September, from 51.7 in August.

### China Manufacturing PMI Rises To Highest Since 2012



[click to enlarge](#)

- China's central bank cut the reserve requirement ratio (RRR) banks must hold against loans from next year as it tries to boost lending to small businesses and the agricultural sector. The RRR, which represents the amount of cash banks must hold against loans, will be reduced for the first time since February 2016 for banks that lend to the targeted sectors.
- Natural gas prices may be set to outperform after the EIA reported a weekly inventory build significantly below expectations. The 42 billion cubic feet (bcf) inventory build was far below the five-year average of 91 bcf. The smaller-than-expected draw officially reverses the eight-month-old storage surplus, leaving a modest deficit in its wake.

## Threats

- The Organization of the Petroleum Exporting Countries (OPEC) crude oil production has continued to rise, defying odds that the current production cut agreement can be extended. Oil prices fell after a Reuters survey found output from OPEC rose by 50,000 barrels a day in September. A separate survey expects OPEC production to have climbed 120,000 barrels a day to 32.83 million barrels per day for the same period.
- Western Canada oil producers could face greater logistic challenges as TransCanada scraps projects to help boost access to east-coast refineries. Citing an adverse regulatory environment, TransCanada has shelved its plans to redevelop the existing East-West pipeline into a crude West-to-East pipeline that would have given Canadian crude access to Canada's largest east coast refinery. The East Coast refinery currently imports crude, whereas Canadian crude is exported under large discounts owing to the difficulty of transporting it to refiners in the Gulf from remote gathering points in Alberta and Saskatchewan.
- Money has been fleeing bullion-backed ETFs amid rising odds that the Federal Reserve will boost interest rates by December, according to Bloomberg. Not even signs of escalating tension between the U.S. and North Korea have been enough to persuade investors to hold onto gold as a haven. This week the SPDR ETF, the largest bullion-backed product, registered its biggest daily outflow since July.

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## China Region

### Strengths

- The Hang Seng Composite Index (HSCI) surged 3.46 percent in this holiday-filled week. Mainland China and South Korea were closed all week, and several regional indices did not trade on one or more days this week (Hong Kong included).

#### Hang Seng Composite Index Hits 52-Week Highs and Approaches 5-Year Highs



[click to enlarge](#)

- The Nikkei Vietnam Manufacturing PMI came in at 53.3 for the September period, up from August's 51.8 print.
- Year-over-year South Korean exports also had a good showing. Exports rose 35.0 percent, far surpassing analysts' expectations for a 25.0 percent rise. Imports also beat for the September period, coming in up 21.7 percent, ahead of expectations for 20.6 percent.

### Weaknesses

- The Jakarta Composite Index rose a mere 8 basis points for the week, the "weakest" performer in the region (excluding South Korea and China which were closed and therefore technically flat).
- The Nikkei Malaysia PMI for the September period fell from the mildly expansionary 50.4 print in August to the very mildly contractionary print of 49.9.

- Hong Kong-listed athletic apparel maker 361 Degrees tumbled 11.95 percent in this holiday-shortened week after announcing a share offering late last week.

## Opportunities

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- On Thursday, China announced its approval of HP Inc.'s \$1.1 billion purchase of Samsung Electronics' printer business, of course with certain restrictions, reports Reuters. The deal was actually announced by HP back in September 2016, hoping to close the transaction within 12 months, pending regulatory review. The Ministry of Commerce issued a statement saying the sale of A4 format laser printers by HP in China should be done on "fair and reasonable" terms, with HP required to report every six months on its prices and related data to the ministry, the article continues.
- Citigroup Inc., headquartered in the U.S., is considering setting up an onshore cash equities business in China, reports Reuters, as well as expanding research coverage of Chinese stocks. The bank's increased focus on its Asia equities business is part of its global effort to bolster trading technology, hire senior bankers and boost financing to hedge funds, the article reads.
- According to Bloomberg, bank stocks in China have turned into the "latest best hope for investors." A surge in Chinese bank stocks has helped take pressure off of technology names in the Asian nation, helping to continue this year's rally, the article continues.

## Threats

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- Media reports suggest North Korea may soon test a missile potentially capable of hitting as far as the West Coast of the United States, and said reports caused chatter in markets during North American trading hours on Friday.
- "China has the fastest-modernizing military in the world next to the United States," according to insights provided by U.S. intelligence officials on Thursday, reports Bloomberg. This kind of expansion could create potential conflicts between the Asian nation, the U.S. and other countries abroad. In July, the People's Liberation Army announced the establishment of a logistics support base in Djibouti, the article continues, and China intends to continue building around the world.
- China, the world's biggest smartphone market, has reported a "fresh case of Apple Inc.'s new iPhone popping open due to a swollen battery," reports Reuters. The incident, reported in state media, comes at a time when Apple is also investigating similar cases reported in Taiwan and Japan. The latest faulty iPhone reports put continued pressure on the U.S. firm, which is seeking to revive its faltering sales in the Asian nation.

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## Emerging Europe

### Strengths

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- Hungary was the best performing country this week, gaining 1.8 percent. Fitch raised the country's growth forecast this year from 3.2 percent to 3.6 percent. In September, central banks cut deposit rates further below zero. Marton Nagy, deputy governor of the National Bank of Hungary, said that real negative interest rates could remain as is for seven to eight years offering a historical opportunity to businesses, household and the government to borrow at very low rates.
- The Czech koruna was the best relative performing currency this week, losing 35 basis points against the U.S. dollar. Policymakers are talking about hiking rates again at the next meeting. They increased the key rate to 0.25 percent from a record-low 0.05 percent on August 3.
- Material services was the best performing sector among eastern European markets this week.

### Weaknesses

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- Greece was the worst performing country this week, losing 1.3 percent. Banks continue to trade lower on political uncertainty in Germany, and fears of another asset quality review remain.
- The Turkish lira was the worst performing currency this week, losing 1.4 percent against the U.S. dollar. According to Bloomberg, the dollar has historically been strong in the fourth quarter over the past six years.

A stronger dollar will push emerging Europe currencies lower; especially the Turkish lira which is sensitive to dollar strength.

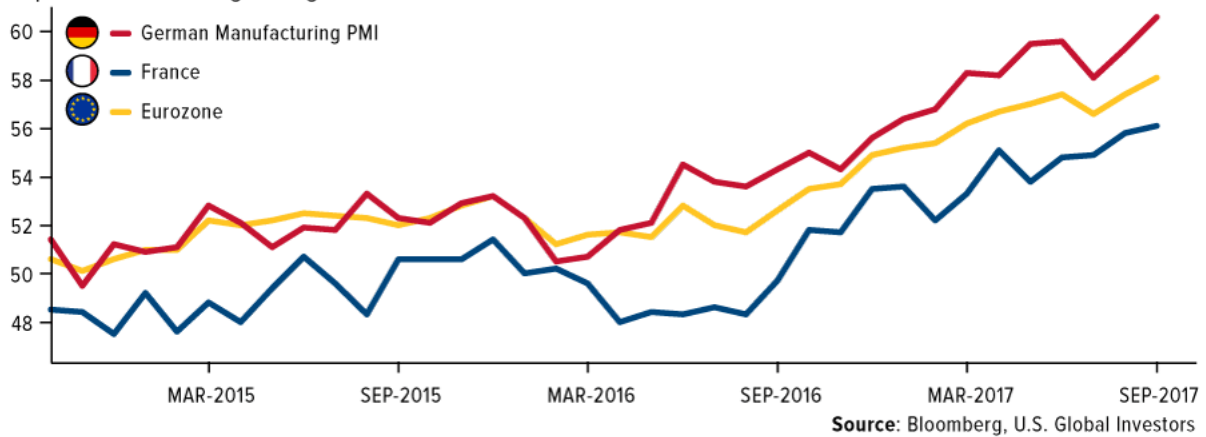
- Consumer staples was the worst performing sector among eastern European markets this week.

## Opportunities

- September's final manufacturing PMI for the eurozone was reported at 58.1, compared with 57.4 in August. France and Germany, two of the biggest Western Europe economies, reported higher PMIs. In central Eastern Europe, Poland, Hungary, the Czech Republic, Russia and Greece all saw improvement in their PMIs as well, while Turkish PMI declined to 53.5 (although remains above the 50 level). Anything above 50 indicates that the manufacturing economy is expanding, while a reading below 50 indicates a contraction.

### Manufacturing Growth Surges In Europe

September Purchasing Managers' Index Data



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- The FTSE announced that Poland will be reclassified from the Advanced Emerging Markets to the Developed Markets universe, effective as of the semi-annual review in September 2018. Poland is the first Central and Eastern European market to join the FTSE's Developed Markets universe. The upgrade may attract new investors to local equities.
- JPMorgan in its CEEMEA Equity Research, recommends overweighting Russia and Central Europe versus South Africa and Turkey. The group thinks that central Europe (CE3) stocks can re-accelerate. The stocks being led by financials, the raise in European bond yields, and ongoing strength in the core European economy all add to this reasoning. Rising oil prices are positive for Russia and negative for Turkey.

## Threats

- The European Central Bank wants European banks to be fully covered against losses from non-performing loans. The new banking rule under discussion would require lenders to set aside 100 percent of the value of the unsecured loan within two years and it would give lenders seven years to put aside the full amount of a secured loan. The rule would only apply to loans declared non-performing after January 2018, not the existing 1 trillion euros of bad debts on banks books. However, it could hurt credit creation and boost capital needs of European banks.
- Catalonia, which generates more than one-fifth of Spain's economy, held a referendum on independence last Sunday. The results show that about 90 percent of those voting backed independence. However, the turnout was low, at just over 40 percent. Under Spanish law, the referendum is considered illegal. Should Catalonia declare independence, Spain's government may disband the region's government, taking back control. Investors are relatively calm so far in reaction, but if the political situation worsens in Spain, European markets may respond negatively.
- Alexei Navalny, the anti-corruption Russian activist who would like to run for president against Putin in the next year's election, has been arrested again and is serving a 20-day detention. Navalny planned a rally in St. Petersburg, the president's hometown, for October 7. Authorities withheld permission for the gathering and Navalny refused to change his plans. According to his campaign manager Leonid Volkov, Navalny has spent every fifth day of his "presidential campaign" behind bars. His campaign manager was also sentenced to 20 days on Thursday, for tweeting calls for an illegal rally in Moscow.

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## Leaders and Laggards

### Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
Russell 2000	1,510.23	+19.37	+1.30%
S&P Basic Materials	362.96	+6.81	+1.91%
Nasdaq	6,590.18	+94.22	+1.45%
Hang Seng Composite Index	3,965.47	+132.46	+3.46%
S&P 500	2,549.33	+29.97	+1.19%
Gold Futures	1,277.30	-7.50	-0.58%
Korean KOSPI Index	2,394.47	0	0%
DJIA	22,773.67	+368.58	+1.65%
S&P/TSX Global Gold Index	201.89	+5.66	+2.88%
SS&P/TSX Venture Index	788.32	+7.09	+0.91%
XAU	86.90	+2.25	+2.66%
S&P Energy	503.79	-2.93	-0.58%
Oil Futures	49.31	-2.36	-4.57%
10-Yr Treasury Bond	2.36	+0.03	+1.20%
Natural Gas Futures	2.87	-0.14	-4.72%

### Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
Korean KOSPI Index	2,394.47	+74.65	+3.22%
Hang Seng Composite Index	3,965.47	+171.51	+4.52%
Nasdaq	6,590.18	+196.87	+3.08%
XAU	86.90	-4.45	-4.87%
S&P/TSX Global Gold Index	201.89	-5.51	-2.66%
Gold Futures	1,277.30	-61.70	-4.61%
S&P 500	2,549.33	+83.79	+3.40%
S&P Basic Materials	362.96	+20.09	+5.86%
DJIA	22,773.67	+966.03	+4.43%
Russell 2000	1,510.23	+108.04	+7.70%
SS&P/TSX Venture Index	788.32	+14.33	+1.85%
Oil Futures	49.31	+0.15	+0.31%
S&P Energy	503.79	+28.14	+5.92%

Natural Gas Futures	2.87	-0.14	-4.50%
10-Yr Treasury Bond	2.36	+0.26	+12.21%

## Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
Korean KOSPI Index	2,394.47	+14.60	+0.61%
Hang Seng Composite Index	3,965.47	+468.18	+13.39%
Nasdaq	6,590.18	+437.10	+7.10%
Natural Gas Futures	2.87	+0.00	+0.03%
Gold Futures	1,277.30	+60.40	+4.96%
S&P 500	2,549.33	+124.15	+5.12%
S&P Basic Materials	362.96	+23.55	+6.94%
S&P/TSX Global Gold Index	201.89	+16.11	+8.67%
XAU	86.90	+9.40	+12.13%
DJIA	22,773.67	+1,359.33	+6.35%
Russell 2000	1,510.23	+94.40	+6.67%
SS&P/TSX Venture Index	788.32	+33.10	+4.38%
S&P Energy	503.79	+31.84	+6.75%
Oil Futures	49.31	+5.08	+11.49%
10-Yr Treasury Bond	2.36	-0.02	-1.01%

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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 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 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 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.

S&P/TSX Capped Diversified Metals and Mining Index is an index of companies engaged in diversified production or extraction of metals and minerals. The S&P/TSX Composite Oil & Gas Exploration & Production Sub Industry Index is a subset of the constituents of the S&P/TSX Composite Index. 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). 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. Standard deviation is a measure of the dispersion of a set of data from its mean. The more spread apart the data, the higher the deviation. Standard deviation is also known as historical volatility. The Jakarta Stock Price Index is a modified capitalization-weighted index of all stocks listed on the regular board of the Indonesia Stock Exchange. The ISM Nonmanufacturing index based on surveys of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors across the nation, by the Institute of Supply Management (ISM). The ISM Non-Manufacturing Index tracks economic data, like the ISM Non-Manufacturing Business Activity Index. A composite diffusion index is created based on the data from these surveys that monitors economic conditions of the nation. The National Federation of Independent Business's (NFIB) Index of business optimism is based on responses from 1221 member firms. 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 COMEX is a commodity exchange in New York City formed by the merger of four past exchanges. The exchange trades futures in sugar, coffee, petroleum, metals and financial instruments.

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