



U.S. Global Investors

Investor Alert



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My Conversation with Bitcoin Visionary Marco Streng

By Frank Holmes

CEO and Chief Investment Officer

U.S. Global Investors

This week I had the opportunity to sit down with Marco Streng, the wunderkind bitcoin visionary behind Genesis Mining. Genesis, as many of you reading this might know, is the world's largest cloud bitcoin mining company, with over 2 million customers worldwide. It calls Iceland home, whose cool climate and affordable green energy are ideal for mining newly minted virgin cryptocurrencies. Last year, Genesis helped connect the blockchain sector and traditional capital markets by partnering with HIVE Blockchain Technologies, the first publicly traded digital currency mining firm.

Next week, Marco will be one of the panelists at the Consensus 2018 blockchain technology summit in New York, which I will also be attending. Below are highlights from our conversation.

Tell us how you got started in this industry.

I've always had a passion for mathematics, science, physics. I wanted to understand how nature works. I used to spend days and nights in the library, and I was actually on my way to becoming a math professor.

But then blockchain and bitcoin came along, and that changed everything. At the time, the community was very small, but the ideas and visions were very big. No one fully realized then how fast it would all grow or just how revolutionary it could end up being. I watched as new marketplaces began to emerge, businesses began to bet on bitcoin and people started adopting it. More and more exchanges popped up. All of this happened within a year of me first reading about blockchain and bitcoin—it progressed that quickly.

It was clear that something big was happening. The world was changing, and I needed to be part of it.

How would you describe bitcoin to someone who knew nothing about it?

With bitcoin, you can send money anywhere in the world to anywhere else without worrying about boundaries or having the transaction controlled or stopped by a third party. It's a completely independent, decentralized, peer-to-peer system. This is what makes it so revolutionary.

The conventional banking system really shows its limitations when we try to move money between developed and underdeveloped countries, particularly those in Africa. There are some serious inefficiencies that, frankly, many of the big banks just aren't interested in fixing. But with bitcoin, you don't have to worry about that. You can send money to, say, a coffee farmer in Africa, and he'll receive it directly.

Money transfers are only one among a number of many other uses. Bitcoin is also a store of value. It's one of the



Marco Streng,
Co-founder and CEO of
Genesis Mining

few assets that I would say are uncorrelated to the broader financial markets.

As for blockchain, it has innumerable world-changing applications across a wide range of industries. That's why I believe it's crucial that people have the right information about blockchain and understand it. If people *don't* understand it, and it gets overhyped, I'm afraid it could start going in the wrong direction.

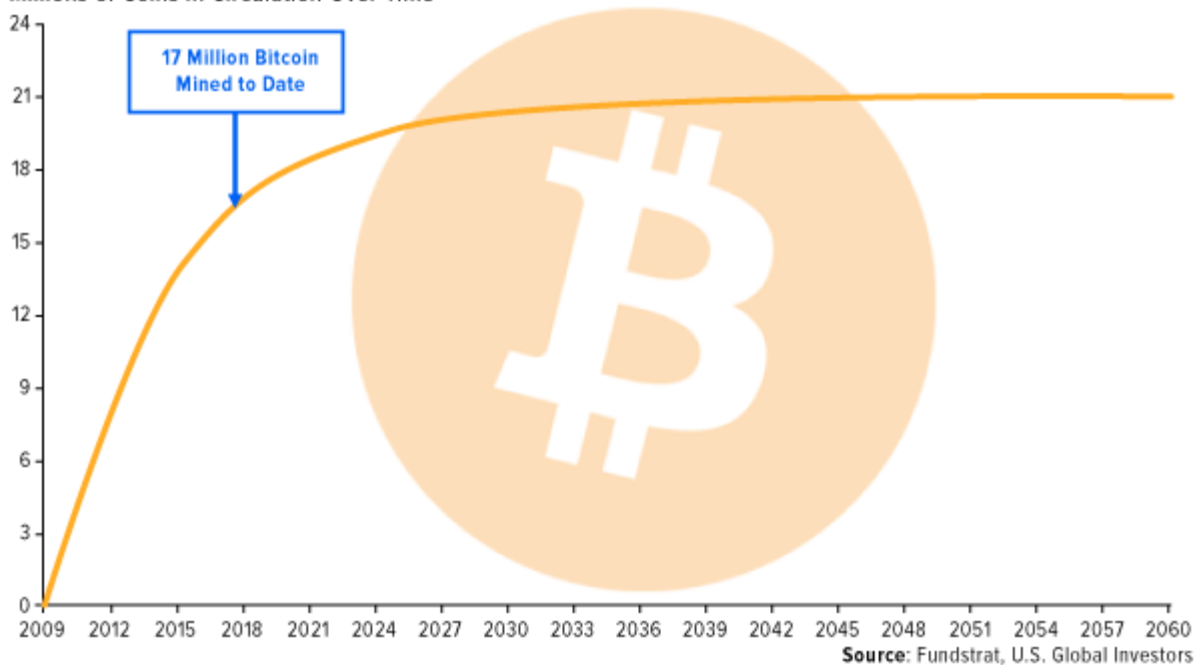
We recently mined the 17 millionth bitcoin, leaving only four million left. Explain why it becomes exponentially more difficult to mine coins the closer we get to that 21 million-coin ceiling.

It's not that the mining itself becomes more difficult. To answer this, I think we have to look at two components.

One component is the daily supply of bitcoin. At the moment, only 1,800 bitcoins can be generated every day by the whole network, meaning all the miners worldwide. But it's important to remember that after every 210,000 blocks that are mined, the rewards are halved. What this means is that after the next halving, which I believe is expected sometime in 2020, the number of bitcoins mined a day will fall from 1,800 to 900. And then after the next halving, it'll be 450. This helps reduce the supply in a natural way.

Only ~4 Million Bitcoin Remain to Be Mined out of 21 Million Total

Millions of Coins in Circulation Over Time

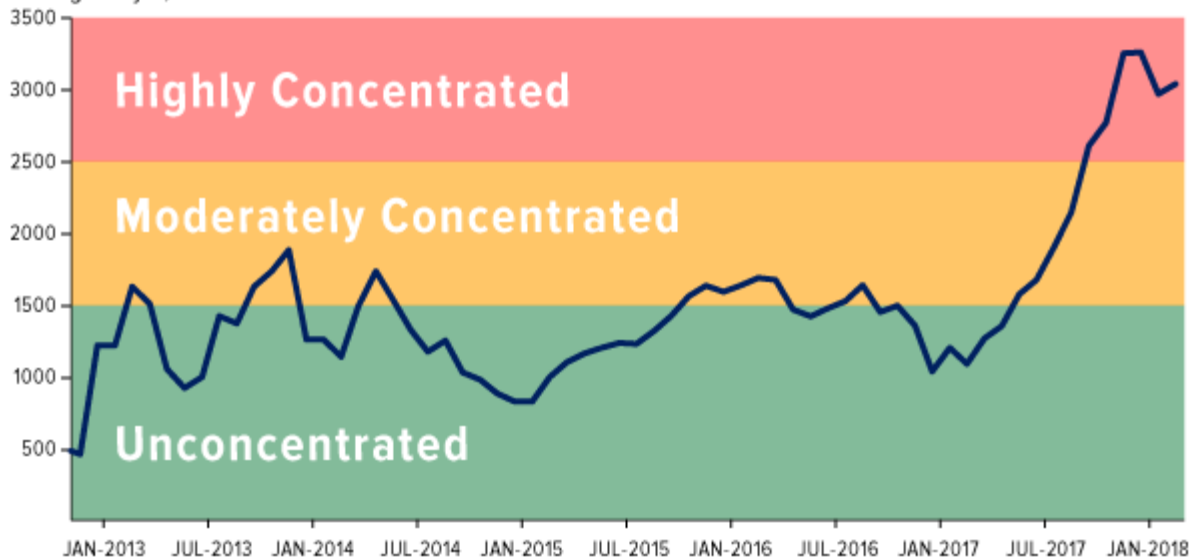


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The second component is a measure of how many miners and how much computing power is in the network. If more miners come online, then of course the competition becomes greater. Because the daily supply is already fixed, your market share shrinks.

Bitcoin Mining Is Now in “Highly Concentrated” Range of the Herfindahl-Hirschman Index

Through May 3, 2018



The Herfindahl-Hirschman Index measures industry concentration by summing the squared market shares of the participants in an industry.

Source: Fundsrat, Blockchain.info, U.S. Global Investors

[click to enlarge](#)

Think of it like the California Gold Rush. Mining gold at first was relatively easy because the metal was plentiful and there were few miners. By the end, it became more difficult because the easy gold had already been claimed, and you were competing with far more miners. We're seeing the same thing happen with bitcoin and other mineable digital currencies.

Speaking of computing power, HIVE Blockchain just announced that it [expanded to 24.2 megawatts \(MW\)](#), up from 2.4 MW in August. What's next in the pipeline for HIVE?

Yes, the last expansion was a massive build-out in Sweden. It was done in three phases. I think this was a remarkable achievement for HIVE, that it could add so much computing power so quickly.

This is only the beginning. The year is still long and you can expect to see some bigger expansions on the way. In September, for example, we're going to ramp up another bitcoin mining facility worth 20 MW, which is very exciting. And from there it goes even further.



G20 finance ministers are scheduled to share their plans for more uniform regulation of cryptocurrencies by July. What are your expectations?

I personally think that this is very good and that it will bring more professionalism into the market. The momentum and adoption has grown so much and so rapidly that there really needs to be some kind of strategy—the world's economic leaders can't just leave this space untouched. Anyone who believes otherwise isn't facing reality.

Having said that, regulating this market will not be easy because it's in a whole other dimension than anything that has come before it. As an analogy, imagine someone trying to regulate flying cars using the same measures that have been written for cars driving on the street. It wouldn't make any sense. So there will certainly need to be some innovation to get it right. I think it's also important that the regulators talk to the right people, the industry leaders. They have good input, and I think it could be a very fruitful dialogue.

Along those same lines, South Korea's central bank just announced that it was looking seriously into how the Korean economy might use blockchain and cryptocurrencies. Specifically, there's talk of the country going cashless by 2020. Do you think that's where the global financial systems are headed?

I think there's a natural incentive for governments to go in that direction because, of course, they want to have greater control over their economies. But as is the case with overregulation, too many controls—or going completely cashless—could be harmful to the economy. This is certainly part of a long and interesting debate, and I'm curious to see how it plays out, in South Korea and elsewhere.

Where do you see the best application of blockchain technology right now?

Blockchain's greatest contribution is its ability to erase boundaries. It completely removes the element of trust—or distrust, I should say—and adds a stabilizing effect to nearly every industry because of decentralization.

Take the global banking industry, for example. You don't need to look far to find some serious inefficiencies, as I mentioned earlier. We're already seeing some very concrete instances where blockchain can be of help here. The banks recognize this and are getting together to make use of this technology to improve their services.

What's been the greatest challenge you've faced so far in your journey?

For me, the greatest challenge can usually be found in the moment that you're currently in. I always compare this industry to the beginning of the internet—no one knew where it was headed or what it would eventually look like. Most people had a general idea that it was innovative and could benefit the world, but the full implications were unclear.

Similarly, no one knows where blockchain and cryptocurrencies might take us, and having to deal with this constant uncertainty is, I'll admit, not trivial. You must always be prepared to act quickly in response to another bitcoin fork, a hack or some other unexpected event. These are things that keep you up at night.

But it's exciting. I think what history has shown again and again is that it's dangerous to be ignorant and to not have an open mind. Not everything was euphoric and wonderful when the internet first emerged. Problems still occur online, but I believe most people would agree that the benefits far outweigh the drawbacks.

No industry is without its challenges, and as long as you're willing to address them, it can be very rewarding. As for blockchain technology, I'm very happy and thrilled to be a part of it this early on.

Interested in learning more? [Click here](#) to watch the short film "Cryptocurrency Revolution," featuring Marco Streng and Enigma, the world's largest Ethereum mining facility.



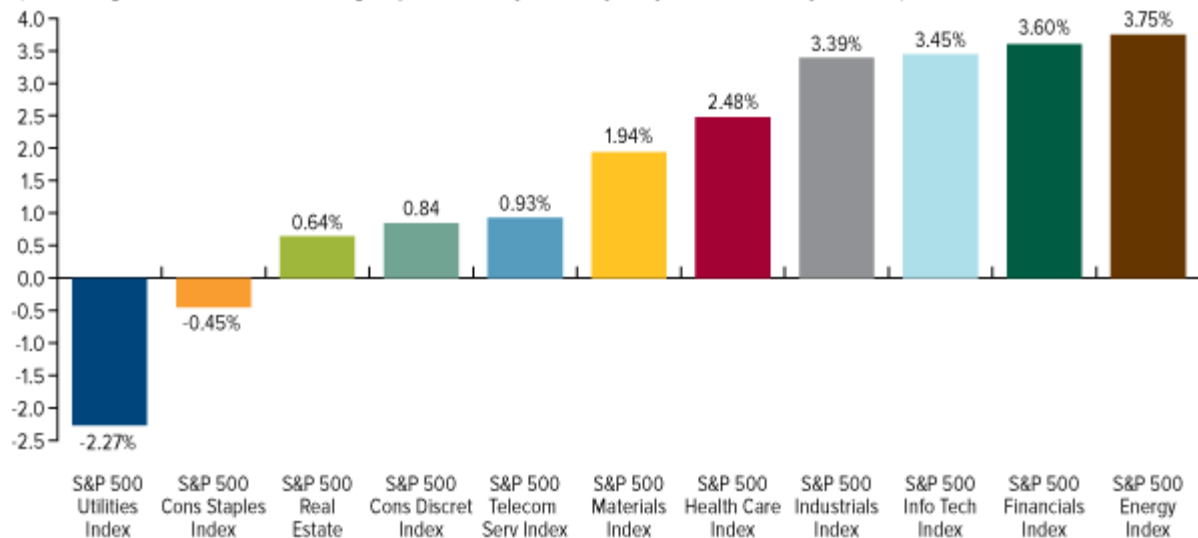
Index Summary

- The major market indices finished up this week. The Dow Jones Industrial Average gained 2.34 percent. The S&P 500 Stock Index rose 2.41 percent, while the Nasdaq Composite climbed 2.68 percent. The Russell 2000 small capitalization index gained 2.63 percent this week.
- The Hang Seng Composite gained 3.68 percent this week; while Taiwan was up 3.13 percent and the KOSPI rose 0.66 percent.
- The 10-year Treasury bond yield rose 1.8 basis points to 2.969 percent.

Domestic Equity Market

S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, May 04, 2018 – May 11, 2018)



Source: Bloomberg, U.S. Global Research

[click to enlarge](#)

Strengths

- Energy was the best performing sector of the week, increasing by 3.75 percent versus an overall increase of 2.31 percent for the S&P 500.
- TripAdvisor was the best performing stock for the week, increasing 27.15 percent.
- Nvidia had a stellar earnings report. "We had a strong quarter with growth across every platform," Nvidia CEO Jensen Huang said in the company's earnings release which showed the chipmaker earned an

adjusted \$2.05 a share on revenue of \$3.21 billion.

Weaknesses

- Utilities was the worst performing sector for the week, decreasing by 2.27 percent versus an overall increase of 2.31 percent for the S&P 500.
- Symantec was the worst performing stock for the week, falling 29.89 percent.
- Shares of MoviePass owner Helios & Matheson Analytics plunged 22 percent Thursday to a record low of \$0.61. The company has lost 71 percent of its value over the last three trading sessions.

Opportunities

- ValueAct has built a \$1.2 billion Citigroup stake. Jeff Ubben's activist fund has been building those holdings over the past four or five months, according to a quarterly investor letter. The fund said it believes the bank has about \$50 billion it could easily return to shareholders over the next two years.
- Blackstone is doubling down on industrial real estate by buying Gramercy Property Trust, a warehouse company, in a deal valued at \$7.6 billion. With Gramercy trading at a discount to its peers before the takeout, the deal appears to have been a steal for Blackstone and could result in big gains down the road.
- Small cap stocks are outperforming large caps despite the market's condition, propped up by faster buyback growth, write Bloomberg Intelligence strategists Gina Martin Adams and Kevin Kelly. Small caps are buying back shares at a faster pace than large caps for the first time since 2015.

Threats

- Norway's \$1 trillion sovereign wealth fund could be forced by Parliament to divest gambling stocks. The Labor party's financial spokeswoman Rigmor Aasrud said there's a majority in Parliament that wants to exit the sector and they expect to see something happen.
- Symantec, the owner of the popular Norton antivirus software and LifeLock identity theft protection service, stunned Wall Street by disclosing that its audit committee is conducting an investigation of the company. The company's stock plunged 33 percent in early trading Friday on the news.
- Comcast could become America's largest corporate borrower and its credit ratings may teeter at the bottom edge of investment grade if it ends up bidding for 21st Century Fox's entertainment assets. Assuming the company also completes its acquisition of a 61 percent stake in European pay-TV group, Comcast would come out with a debt load of around \$170 billion, surpassing telecommunication giants Verizon and AT&T, according to Andy Stone of Invesco.

Frank Talk Insight for Investors

 May 8, 2018 Are Cryptos Regaining Momentum?	 May 8, 2018 Gold Love Trade Looks Promising in India and China	 May 7, 2018 South Korea Courts Investors with Huge Payouts
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A blog by Frank Holmes, CEO and Chief Investment Officer

The Economy and Bond Market

Strengths

- The University of Michigan's consumer sentiment index continues to point to robust economic activity ahead. The preliminary print for May was unchanged from the previous month, holding at an elevated level by historical standards as benefits from tax cuts offset concerns about the impact of trade tariffs.
- The U.S. posted its largest monthly budget surplus on record in April, which the CBO said reflected stronger economic activity over the past year. Receipts in April totaled \$510 billion, about 12 percent more

than the same period last year, while outlays increased by 8.4 percent to \$296 billion, the Treasury Department said. The monthly surplus was \$214 billion, the highest on record dating to 1968.

- U.S. small business optimism rose to 104.8 in April, versus the estimated 104.5. About a quarter of employers said they think it's a good time to expand.

Weaknesses

- U.S. consumer prices rebounded less than expected in April as rising costs for gasoline and rental accommodation were tempered by a moderation in health care prices. The Labor Department said on Thursday its consumer price index (CPI) rose 0.2 percent after slipping 0.1 percent in March. Excluding the volatile food and energy components, the CPI edged up 0.1 percent after two straight monthly increases of 0.2 percent. Economists had forecast the CPI rebounding 0.3 percent in April and the core CPI climbing 0.2 percent.
- U.S. household sentiment dropped last week to the lowest level since early February as views of the buying climate and personal finances dimmed, the Bloomberg Consumer Comfort Index showed. The index declined to 55.8 from 56.5. The buying climate index slipped to an eight-week low of 47.5 from 48.6; down 3.6 points in the last three weeks, while the gauge tracking views of the economy fell to 57.2, the weakest reading since January, from 57.6.
- The Bloomberg Barclays Treasury Index posted its worst year through May 8 since 2009. This year, the long end has driven the overall weakness, even after duration adjusting the front end outperformed longer-maturity Treasuries. Furthermore, equity and rate volatility have become more aligned this year.

Opportunities

- U.S. companies lifted their outlook for investment this year, while noting that tariffs will raise prices and cause supply disruptions, according to a private survey. The ISM's semi-annual forecast showed factory purchasing managers see capital spending jumping 10.1 percent in 2018, well above the 2.7 percent projection made in the last report released in December. Service providers project investment will climb 6.8 percent, up from 3.8 percent.
- St. Louis Fed President James Bullard said the central bank doesn't need to raise interest rates further because the policy rate has reached its neutral setting and inflation expectations are at or below target. "By keeping the policy rate steady, the FOMC may be able to appropriately re-center inflation expectations at the target outcome for the next several years," he said. "The yield curve could invert later this year or early next year if the Committee continues increasing the policy rate and longer-term yields do not move higher."
- Municipal bond yields may fall further relative to Treasuries amid strong demand from investors who are set to receive principal payments over the next several months, Bank of America Merrill Lynch analysts led by Philip Fischer wrote in a research note to clients. "Muni relative performance should be very positive for the next four months," the note read.

Threats

- In an ominous sign for global earnings forecasts, April data on South Korean exports showed a decline for the first time since 2016. The measure is a "notoriously good global cyclical indicator," and a great lead indicator of global earnings-per-share growth, according to strategists at Bank of America Merrill Lynch. While 12-month forward EPS estimates for the U.S. and Europe continue to rise, those for Asia and emerging markets peaked at the beginning of April, according to data compiled by Bloomberg.

Decline In South Korean Export Growth Is An Ominous Sign for Global Earnings



Source: Bank of America Merrill Lynch, Bloomberg, U.S. Global Investors

[click to enlarge](#)

- Jamie Dimon just got a big-name backer in his bet that benchmark U.S. yields are heading toward 4 percent. Franklin Templeton bond chief Michael Hasenstab predicts rising inflationary pressures, an onslaught of U.S. bond supply and the Federal Reserve's moves to pare its balance sheet, will conspire to drive up benchmark rates.
- Given the rise in BBB debt and M&A leverage build-up, as much as \$310 billion of investment-grade debt could fall into junk territory this year, according to UBS strategist Matthew Mish. That compares with 2017, which recorded a multi-year low for "fallen angel" debt at \$29 billion. Sectors like health care, automobiles, media and energy MLPs present the greatest risk, and investors as such should move up in quality there, Mish said.

Gold Market

This week spot gold closed at \$1,318.30, up \$2.95 per ounce, or 0.22 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week higher by 1.19 percent. Junior-tiered stocks outperformed seniors for the week, as the S&P/TSX Venture Index came climbed 1.38 percent. The U.S. Trade-Weighted Dollar was essentially unchanged by the end of the week.

Date	Event	Survey	Actual	Prior
May-9	PPI Final Demand YoY	2.8%	2.6%	3.0%
May-10	CPI YoY	2.5%	2.5%	2.4%
May-10	Initial Jobless Claims	219k	211k	211k
May-14	China Retail Sales YoY	10.0%	--	10.1%
May-15	Germany ZEW Survey Current Situation	85.2	--	87.9
May-15	Germany ZEW Survey Expectations	-8.2	--	-8.2
May-16	Germany CPI YoY	1.6%	--	1.6%
May-16	Eurozone CPI Core YoY	0.7%	--	0.7%
May-16	Housing Starts	1325k	--	1319k
May-17	Initial Jobless Claims	218k	--	211k

Strengths

- The best performing metal this week was palladium, up 2.14 percent. Physical demand is tight as holdings in metal backed ETFs are being withdrawn and then lent to users as one-week lease rates are currently at 5 percent, higher than Treasury yields. Gold is set for its first weekly gain in a month as the dollar fell amid speculation that the Fed might be less aggressive in raising interest rates than expected, writes Bloomberg.
- U.S. consumer prices rose by 0.2 percent in April, less than forecasted after a March decline of 0.1 percent, as measured by the consumer price index. Bloomberg writes that used car prices saw their biggest monthly drop since 2009 and airline tickets also fell the most in four years. Naeem Aslam, chief market analyst at TF Global Markets said that they “do not expect the Fed to remain hawkish when it comes to interest rate hikes.”
- UBS writes that the gold consolidation could continue for now amid a stronger U.S. dollar. Positioning in gold has been cut significantly in the last couple of weeks and last week’s data shows net longs at 35 percent of the all-time high. Joni Teves, UBS strategist, writes that “this is understandable after gold remains capped, failing its attempt to break the \$1,350/\$1,360 level in April.”

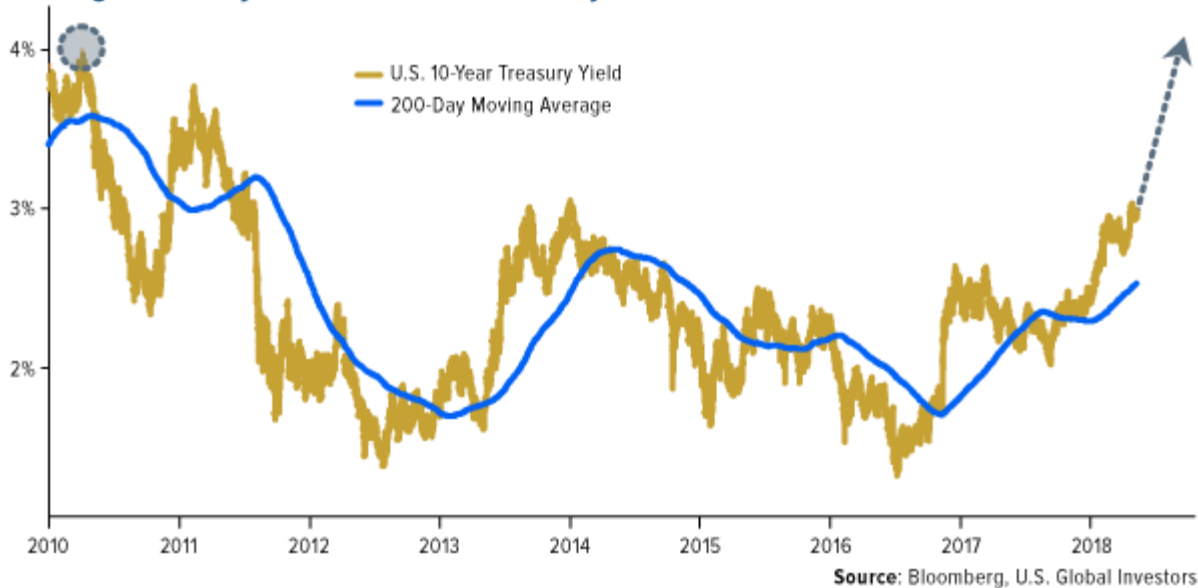
Weaknesses

- The worst performing metal this week was gold, up 0.22 percent. Randgold Resources Ltd. fell to its lowest in 18 months after a labor dispute at its Tongon mine in Ivory Coast will likely prevent the mine from hitting its full-year target, reports Bloomberg. Randgold’s new mine in the Democratic Republic of Congo faces challenges over a new mining code that could threaten profits. Kinross fell 5.3 percent in pre-market on Wednesday after Mauritania rejected one of its exploitation permits for failure to meet feasibility criteria.
- Newmont Mining’s chief economist Tom Brady gave a presentation at the Mines and Money Conference in New York this week saying that investors continue to favor gold versus gold equities. Brady stated that gold miners have seen “anemic returns” and that ore grades have fallen around 35 percent in the past 20 years. Brady also spoke about senior gold producers reducing debt recently, but that total debt was still around \$25 billion in 2017, compared with less than \$4 billion in 2000.
- Bloomberg reports that China’s foreign-currency stockpile, the world’s largest such stockpile, fell \$18 billion to a five-month low of \$3.12 trillion last month. This is the second monthly shrinkage this year and is likely due to a stronger U.S. dollar. Several large corporations such as Apple, Netflix and Microsoft are no longer reporting on their cash held overseas. This lack of disclosure makes it difficult to calculate whether or not the new tax reform is having an effect on bringing cash held overseas back to the States. With the recent broad market weakness over the last couple months, the surge in the U.S. dollar may only reflect money being brought back to the States to execute stock buybacks as if trying to put a floor on falling technology shares and may not be a fundamental sustaining force for the value of the dollar.

Opportunities

- Epsilon Theory published a report analyzing Bloomberg articles that contain material related to inflation and their sentiment. The study found that from April 2016 to March 2017 there were 1,400 articles published about inflation with most of those referring to inflation as a subsidiary topic. From April 2017 to March 2018, by contrast, there were 2,400 articles published where inflation was mentioned, with the majority of them actually being about inflation. The researchers suggest that because inflation was written about more and had a more cohesive narrative; it became common knowledge and accepted that inflation is indeed rising.
- Matthew Sigel of CLSA wrote about two reports this week showing how inflation can rise due to changes in demographics. One report documents the stagnation in real wages that occurred from the 1980s to 2000s when manufacturing surged in Asia after China and Eastern Europe were brought into the World Trade Organization, however the wage stagnation is now reversing due to aging populations and rising real interest rates. Sigel also notes how the second report prepared by the Bank of International Settlements connects age demographics and dependents. The author specifically concludes that inflationary pressures rise when the share of dependents increases and, conversely, subsides when the share of working age population increases. Their data predicts rising inflation over the coming decades, which has historically been good for gold.

JPMorgan CEO Says Growth and Inflation May Push 10-Year Yields Back to 4 Percent



[click to enlarge](#)

- Eily Ong, Bloomberg Intelligence industry analyst, writes that gold production growth will likely slow as a result of falling weighted-average gold reserve grades. Mine life expectancy has declined since 2012 and expectations are that major gold miners may exhaust their current mines' lives within 19 years versus 25 years in 2012. Ong writes that overall capital spending could drop for gold miners and boost free cash flow to a new record. Falling production and more free cash flow should make way for more mergers and acquisitions as the gold price climbs with rising inflation expectations.

Threats

- South Africa's National Union of Mineworkers (NUM) has submitted wage hike demands in the gold sector of up to 37 percent over a two-year period, reports CNBC. According to a document submitted to the Chamber of Mines, the demands far exceed the current inflation rate of 3.8 percent and suggest potentially tough negotiations with companies that have tried to contain these rising costs in the world's deepest mines, the article continues. On a similar note, South Africa's Solidarity Union says that it wants annual pay increases of at least 10 percent from gold-mining companies, reports Bloomberg, as it prepares for the next round of wage negotiations.
- As supply risks in Venezuela and Iran strain global markets, Bank of America Corp. says that oil prices could rally to \$100 a barrel in 2019. "Brent futures, trading near \$77 on Thursday, are set to reach \$90 in the second quarter of 2019 as world inventories shrink," the bank said. So what does this mean for gold? If oil prices go up too much, gold mining companies' margins will be compressed, which is a threat to the industry.
- Barrick Gold has entered into a subscription agreement to acquire 46.6 common shares of Midas Gold at C\$1.06 per share, reports Bloomberg, resulting in Barrick owning about 19.9 percent of Midas. Using a replicating portfolio valuation of other gold mines currently in production of known ounces and grades, the \$970 million initial capital expenditure to build the Stibnite Mine implies that about 16 million ounces of gold-equivalent production from the mine would be needed to support the investment. Stibnite currently has 6.4 million gold-equivalent ounces of resources but it is not uncommon for a typical gold mine to produce more than 2x the number of gold ounces on the resource statement over the life of the mine as new ounces are found and incorporated into the mine plan.



Blockchain and Digital Currencies

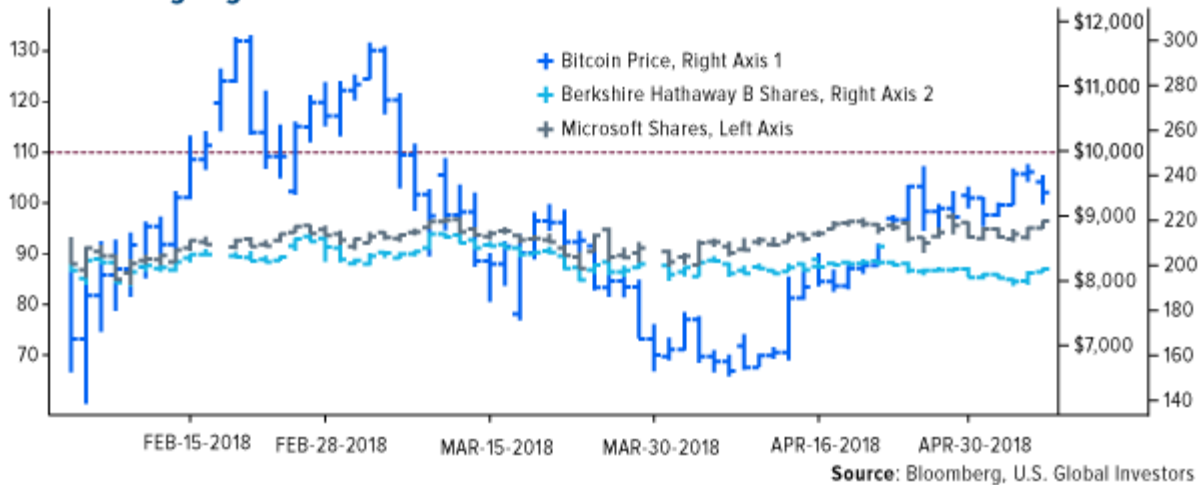
Strengths

- Of the cryptocurrencies tracked by CoinMarketCap, the best performing for the week ended May 11 was Maggie, which gained 120.31 percent.
- The Hedge Fund Research Blockchain Index jumped 47 percent in April after declining 34 percent in March, reports Seeking Alpha. This helps narrow the year-to-date losses to 19.3 percent. “The HFR index gains in April mirror an earlier study by Crypto Fund Research that predicts total volume of virtual currency fund assets could rise two-fold this year,” the article continues.
- Blockchain technology could soon be helping Puerto Rico keep the lights on, writes Bloomberg. Australian blockchain technology provider Power Ledger wants to help the island where power was wiped out last year due to hurricanes Irma and Maria. According to the article, Power Ledger is working with factories and regulators to help companies on the island finance so-called micro grid resources such as solar panels and battery storage. Then, using blockchain technology, companies will be allowed to trade power from those resources with one another and also to sell supplies to employees or local communities.

Weaknesses

- Of the cryptocurrencies tracked by CoinMarketCap, the worst performing for the week ended May 11 was SRCOIN, which lost 60.27 percent.
- The price of bitcoin weakened Monday following negative comments by Warren Buffett and his longtime business partner Charles Munger at Berkshire Hathaway’s annual shareholder meeting. Buffett colorfully compared the cryptocurrency to “rat poison” while Munger commented that trading bitcoin is “just dementia.”

Bitcoin Swings Against Shares of Critics



- Buffett and Munger aren't the only billionaires pouring cold water on digital currencies this week, reports MarketWatch. Speaking to CNBC on Monday, Microsoft co-founder Bill Gates said that if there was an easy way to bet against bitcoin and other cryptocurrencies, he would. "As an asset class, you're not producing anything and so you shouldn't expect it to go up," Gates said.

Opportunities

- Joining the growing list of companies using the digital-ledger technology behind bitcoin, Oracle Corp. will unveil its blockchain software starting this month, reports Bloomberg. President of product development Thomas Kurian said on Monday that the company will introduce a platform-as-a-service blockchain product in May and decentralized ledger-based applications next month.
- On May 14, the Consensus conference begins in New York and is expected to attract close to 7,000 blockchain and cryptocurrency enthusiasts, reports MarketWatch. According to Tom Lee from Fundstrat Global Advisors, there is a seasonality pattern to the conference that could push bitcoin back toward an all-time high. "Already one of the largest crypto conferences in the world, attendance this year is up dramatically and coming at a time when Bitcoin/Crypto is down YTD. Hence, we expect the Consensus rally to be even larger than past years," Lee said.
- Bloomberg has started its own cryptocurrency index, reports Seeking Alpha. The Bloomberg Galaxy Crypto Index is owned and administered by Bloomberg and is co-branded with Michael Novogratz's Galaxy Digital Capital Management. The index is designed to track the performance of the largest, most liquid part of the cryptocurrency market, the article continues.

Threats

- According to research from the San Francisco Federal Reserve, bitcoin's decline following its climb to \$20,000 was directly tied to the launch of a futures market in December 2017, reports Seeking Alpha. "It is consistent with trading behavior...the launch of bitcoin futures allowed pessimists to enter the market, which contributed to the reversal of the bitcoin price dynamics," the report states.
- Multiple news outlets pointed to a meeting between the SEC and the Commodities Futures Trading Commission (CFTC) this week, to determine how cryptocurrencies should be designated and regulated. However, according to TheStreet.com, a call to the SEC's Public Affairs Office denied that a meeting between the two agencies would take place. The SEC and CFTC have expressed differing opinions regarding the topic, so investors will have to stay tuned for any ultimate decision (and meeting between the two) down the road.
- Bitcoin is risking a drop below \$9,000, reports Coindesk.com, specifically pinpointing the digital currency's four-day low Wednesday morning. According to technical charts tracking its price action, Tuesday's downward move "meant the cryptocurrency closed below the 10-day moving average," thus setting it up for further potential drops.

Energy and Natural Resources Market

Strengths

- Natural gas was the best performing major commodity this week, rising 3.8 percent. The commodity rallied after analysts noted the Iran sanctions could make for more expensive natural gas exports as Iran supply is constrained, potentially increasing demand for U.S. shale gas.
- The best performing sector this week was diversified metals and mining. The group rose 6.9 percent after industrial metals prices rallied on a lower U.S. dollar.
- The best performing stock for the week was Petrobras. The Brazilian major integrated oil producer rose 18.3 percent after announcing the early repayment of certain debt instruments, as well as benefiting from a rallying oil price.

Weaknesses

- Aluminum was the worst performing commodity this week. The commodity dropped 0.2 percent after market commentators suggested Chinese production can keep the market adequately supplied.
- The worst performing sector this week was fertilizers and agricultural chemicals. The group rose 0.2 percent, lagging other commodity-related sectors after agricultural data in the U.S. showed farmers have planted less acreage so far this spring owing the weather-related delays.
- The worst performing stock for the week was Centerra Gold Inc. The Canadian gold and base metals producer dropped 8.5 percent.

Opportunities

- Crude oil has broken out of a deep three-year basing formation, with analysts suggesting prices could rally to \$100 a barrel. Technical research conducted by Joseph M. Farrell shows crude has broken out of the year-to-date bullish secondary accumulation zone. This targets minimum technical upside to the 2/3 Fibonacci retracement of the 2014-2016 crash at \$76.00. The base itself supports technical upside in excess of \$100, according to Farrell.

Oil Has Broken Out Of A Deep, Three-Year Basing Formation

WTI Crude Oil Price Per Barrel



Source: Bloomberg, U.S. Global Investors

[click to enlarge](#)

- Warren Buffet believes the trade disputes between the U.S. and China will be resolved, averting a possible trade war. According to Buffet, it is unlikely that the two countries would dig themselves into a trade war, suggesting the broad appeal of trade for industry in both countries would prevent an escalation of the conflict.
- China opened trading in Dalian iron ore futures to overseas investors. It is the second Chinese futures contract open to foreign entities after Shanghai launched crude oil futures in late March. The Asian nation

is aiming to increase its pricing influence over the commodities market and increasing liquidity to allow for more accurate price discovery.

Threats

- Iran appears to be ramping up its oil exports ahead of the imposition of U.S. sanctions. Exports have climbed to a post-sanction high of 2.84 million barrels a day. A disorderly liquidation of Iranian crude inventories ahead of the sanctions deadline could result in short-term distortions to global crude and refined products markets.
- China's foreign reserves fall more than forecast as the Chinese yuan drops and Chinese regulators show less concern over capital flight. The level of reserves fell almost \$18 billion to a five-month low of \$3.1 trillion. The devaluation of the Chinese yuan over the recent period has negative implications for commodity demand as raw material imports become more expensive for Chinese buyers.
- Aluminum posted the lowest close in a week on speculation that the market is well supplied as China ramps up production. "Given the fundamentals, there's no reason for the metal to trade as high as it has been," Simona Gambarini, a commodities economist at Capital Economics, said by phone from London. "There was a substantial increase in Shanghai-listed stocks. That's a sign that the market is well-supplied."

China Region

Strengths

- Hong Kong first quarter GDP crushed expectations. Analysts' expectations were for a 3.4 percent growth rate, but the actual print came in at a rock-solid 4.7 percent.
- Chinese import and export data both came in strong. Imports were up 21.5 percent and exports were up 12.9 percent, leaving China with a conspicuous trade surplus of about \$29 billion.
- North Korea freed three American detainees, who returned to the United States on Tuesday with Secretary of State Mike Pompeo in a diplomatic victory for U.S. President Donald Trump ahead of his upcoming meeting with North Korea's Kim Jong Un. President Trump announced that the historic summit will be held in Singapore on June 12.

Weaknesses

- Indonesia's first quarter GDP reading clocked in at 5.06 percent on a year-over-year basis—just shy of the 5.19 percent expectations. Quarter-over-quarter growth declined by 0.42 percent, also missing expectations for a more modest decline of only 0.30 percent.
- China's Foreign Reserves came in lower than expected at \$3.125 trillion, down from the prior month's \$3.143 trillion print and below expectations for a \$3.131 trillion showing. The FX Reserves number continues, on the whole, to demonstrate relative stability, but the number did come in lighter than expected.
- Taiwanese exports missed expectations, coming in at a pace of 10.0 percent year-over-year growth, below the anticipated 12.3 percent print for the April period and down from March's 16.7 percent.

Opportunities

- Geely Automobile Holdings Ltd. (175 HK) had a newsworthy week. The company is reportedly considering floating Volvo Cars—with potential dual listings in Sweden and Hong Kong—and potentially seeking a valuation of up to \$30 billion. In addition, Geely released its April sales data, which showed sales volume up 49 percent year over year to 128,817 units. The company is right on track for its 2018 targets, and its new Lynk & Co. 01 hit sales of 9,709 units—a new record for the brand, and a rise of about 7 percent month over month. Credit Suisse upgraded the stock following the update. Despite all the tariff talk and possible headwinds, Chinese auto companies—like Geely—have been expanding globally. Just look at the below map of China's global auto acquisitions and investments over the last 5 years, courtesy of Bloomberg.

China's Global Auto Acquisitions and Investments

Foreign Announced Deals Have Exceeded \$31B In Past Five Years



Source: Bloomberg, U.S. Global Investors

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- Bloomberg Businessweek reported recently that Uber Technologies announced a plan to swap its Southeast Asia ride-hailing business to its rival, Grab, for a 27.5 percent stake in the new business. The “sharing economy” continues apace.
- The Wall Street Journal reported this week that China’s Premier Li Keqiang is signaling openness to boosting imports of palm oil from Indonesia. Indonesia, together with Malaysia, controls roughly 85 percent of global palm oil supply. Environmental concerns have created a spat between the two palm oil juggernauts and the EU, but China—which already imports some 3.7 million tons of palm oil—is reportedly developing a biofuel that employs 5 percent palm oil.

Threats

- Inflation concerns continue in the Philippines as the central bank stepped in this week to hike rates, even as the country reported a positive first quarter GDP print of 6.8 percent, while revising the prior quarter’s growth down to 6.5 percent from 6.6 percent.
- While rising energy prices may benefit Malaysia, elections this week have also introduced a degree of uncertainty into the market after 92-year-old Mahathir Mohamad led a 4-party opposition coalition to victory on Wednesday, ending the ruling party’s 61-year tenure and unseating Prime Minister Najib Razak, Mohamad’s own former protégé. Mohamad states that he hopes to hand over power in time to another former protégé of his as a successor—the de facto opposition leader Anwar Ibrahim. The only problem? Mr. Ibrahim is currently in jail and will need a royal pardon to get out. An exchange-traded fund and proxy for the Malaysian market—the Malaysian market was closed the rest of the week as an immediate holiday—dropped significantly on Wednesday as the election results came in, but partially bounced back a little bit on Thursday and Friday. Change can be good—but fiscal sustainability and stability will be required. Stay tuned. Oh, and by the way, when Mohamad cruised up to his inauguration, he did so in a custom Proton.



- The New York Times reported this week on the

sale of the English-language Cambodian newspaper The Phnom Penh Post, dubbed by the NYT to be a “newspaper widely seen as the last bastion of a free press in Cambodia.” The sale, which was reported Sunday, grants control to “a Malaysian investor with ties to Cambodia’s strongman prime minister” in “a move that critics say further highlights the country’s slide toward outright authoritarianism.” The Times points out that Sivakumar S. Ganapthy, the Malaysian investor, is CEO of a public relations firm that has worked on behalf of the Prime Minister Hun Sen. The Times also notes that, “Intervention in the paper’s editorial decision-making came almost immediately,” and that, “[s]everal senior editors resigned or were fired after they refused to excise a story from the paper’s website about the relationship between Mr. Sivakumar’s firm and the Cambodian government.”

Emerging Europe

Strengths

- Poland was the best performing country this week, gaining 3.2 percent. Equities trading on the Warsaw exchange, as measured by WIG20 index, bounced back sharply from last week’s losses. CDR Projekt, a video game maker, gained more than 15 percent, and shares of Bank Zachodni, appreciated by more than 7 percent. PZU, an insurance company, was the only stock that recorded a net loss within the large cap names in the WIG20 index. PZU shares declined by 2.8 percent.
- The Russian ruble was the best performing currency this week, gaining 1.2 percent against the dollar. The currency rebounded with the price of oil, after President Donald Trump announced that the U.S. would be exiting the Iran nuclear deal. Crude oil gained 3 percent in the past five days, closing at \$77 per barrel.
- Information technology was the best performing sector among eastern European markets this week.

Weaknesses

- Turkey was the worst performing country this week, losing 70 basis points. Political uncertainty weighted on Turkish equities ahead of the snap election scheduled for June 24. Flap Kongre Toplantı Hizmetleri & Turizm A.S., a travel service company, was the biggest loser trading on the Istanbul exchange, down 48 percent.
- The Turkish lira was the worst performing currency this week, losing 2 percent against the dollar. The lira continues to depreciate as the President of Turkey wants to lower rates in order to stimulate the economy and bring double-digit growth. Falling currency needs a bigger rate hike, not a rate cut.
- The real estate sector was the worst performing sector among eastern European markets this week.

Opportunities

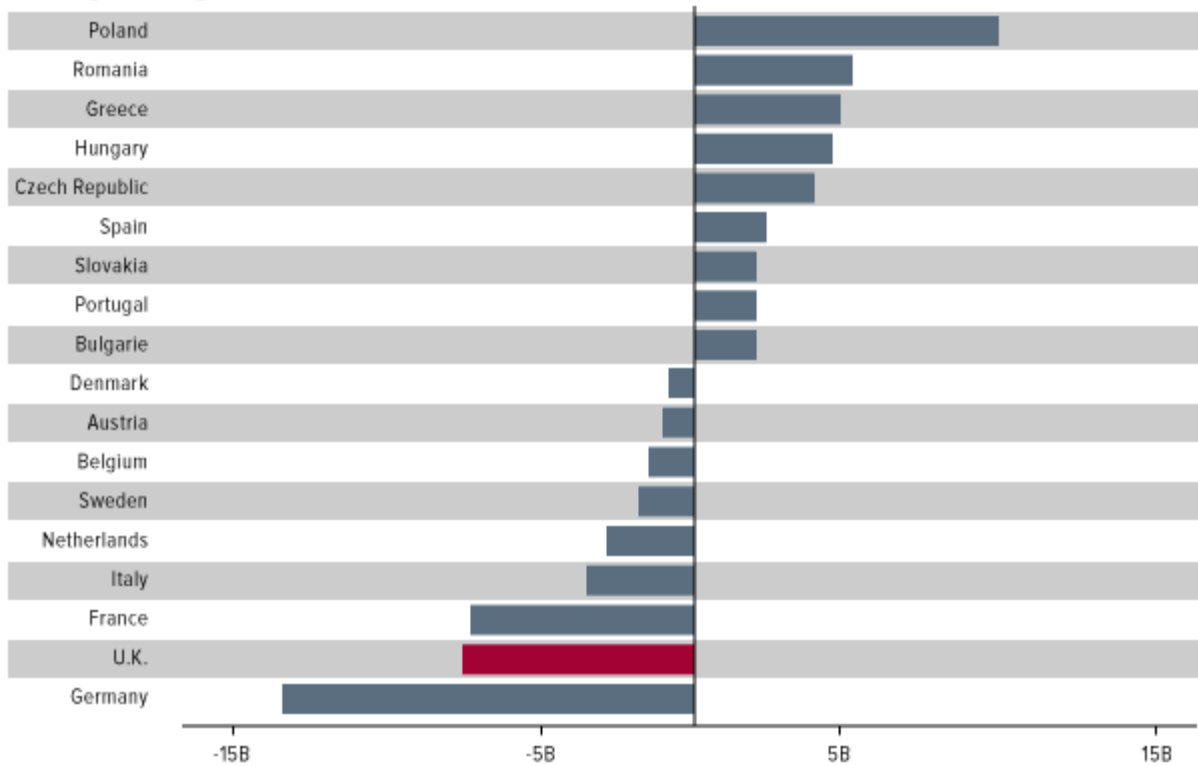
- JPMorgan says that U.S. sanctions on Russia have had minimal impact on growth. April surveys registered little reaction to sanctions or ruble depreciation. Both manufacturing and service PMIs printed higher than expected, while other business surveys were steady. Early data on electricity consumption and railway turnover showed little change in activity.
- A report published on Monday by the World Bank shows that the poorest regions in Romania, Poland, Hungary and Bulgaria would become richer, on average, than the “lagging regions” of Italy, Spain, Portugal and Greece by 2025, if the trends of the past decade were to continue. Between 2005 and 2015, the low-growth regions in southern Europe experienced zero growth in GDP per capita compared with the EU average of 2.1 percent annually. By contrast, annual growth in low-income regions of Eastern Europe (Poland, Hungary, Romania and Bulgaria) averaged 4.6 percent. If these trends were to persist, there will be a radical restructuring in the economic hierarchy, with low-income and low-growth regions having trade position by 2025.
- According to UNLU & Company research, the earnings cycle in Turkey remains strong despite macro headwinds. Consensus raised 2018 estimated earnings-per-share by 4 percent in cumulative terms in the first four months of the year. With the April revisions, the earnings upgrade cycle for Turkish equities was extended to 15 months. Looking at the breakdown, non-banks were the outperformers, with 5 percent year-to-date EPS upgrades versus 4 percent for banks.

Threats

- This week the European Union started to debate on its proposed 2021 to 2027 budget. Mr. Jean-Claude Juncker said the total budget might increase to 1.279 trillion euros from 1 trillion. The commission for the first time proposed linking the payment of EU funds to countries' independence of courts, acceptance of immigrants and the rule of law. Poland and Hungary, the biggest net recipients of EU funds, could lose some of their funding. In addition, the U.K. who was the second largest contributor to the EU budget, will remove a large portion of funds available for distribution after deciding to exit the EU.

Brexit Strips European Union of Second Biggest Contributor to the Bloc's Budget

EU Budget: Average Annual Balance 2014- 2016



***Note:** Average operating budgetary balances 2014-2106. Figures may vary per year.
Source: Bloomberg, U.S. Global Investors

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- The lira has depreciated 12 percent against the dollar year-to-date, and it is the second worst performing currency after the Argentine peso. A weaker currency may push inflation even higher, which has already reached a multi-year high of 12 percent, well above the central bank's target of 5 percent. A weak lira will also put pressure on the corporate and banking sector. Banks' domestic loan portfolios are deteriorating and corporate FX mortgage holders may struggle to make debt payments. FX lending to households was banned in 2009.
- The U.S. withdrawal from the Iran nuclear deal could stress already strained diplomatic relations with a number of key allies, including European Union leaders in Germany, France and the United Kingdom, all original parties in the 2015 accord. President Emmanuel Macron of France and Chancellor of Germany Angela Marker recently visited the U.S. to try and persuade President Trump not to withdraw from the deal. British Foreign Secretary Boris Johnson has implored President Trump in recent days to stay in the Iran nuclear deal.

OUTSTANDING IN THE OILFIELD



LEARN MORE ABOUT THIS OPPORTUNITY

Leaders and Laggards

Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
Russell 2000	1,606.79	+41.19	+2.63%
S&P Basic Materials	368.61	+7.01	+1.94%
Nasdaq	7,402.88	+193.26	+2.68%
Hang Seng Composite Index	4,284.72	+151.93	+3.68%
S&P 500	2,727.72	+64.30	+2.41%
Gold Futures	1,319.30	+4.60	+0.35%
Korean KOSPI Index	2,477.71	+16.33	+0.66%
DJIA	24,831.17	+568.66	+2.34%
S&P/TSX Global Gold Index	191.37	-0.21	-0.11%
SS&P/TSX Venture Index	782.92	+10.68	+1.38%
XAU	83.86	+1.46	+1.77%
S&P Energy	565.28	+20.44	+3.75%
Oil Futures	70.54	+0.82	+1.18%
10-Yr Treasury Bond	2.97	+0.02	+0.61%
Natural Gas Futures	2.82	+0.10	+3.84%

Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
Korean KOSPI Index	2,477.71	+33.49	+1.37%
Hang Seng Composite Index	4,284.72	+10.82	+0.25%
Nasdaq	7,402.88	+333.86	+4.72%
XAU	83.86	+0.17	+0.20%
S&P/TSX Global Gold Index	191.37	+2.81	+1.49%
Gold Futures	1,319.30	-40.70	-2.99%
S&P 500	2,727.72	+85.53	+3.24%
S&P Basic Materials	368.61	+8.44	+2.34%
DJIA	24,831.17	+641.72	+2.65%
Russell 2000	1,606.79	+59.99	+3.88%
SS&P/TSX Venture Index	782.92	+5.21	+0.67%
Oil Futures	70.54	+3.72	+5.57%
S&P Energy	565.28	+43.17	+8.27%

Natural Gas Futures	2.82	+0.14	+5.23%
10-Yr Treasury Bond	2.97	+0.19	+6.72%

Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
Korean KOSPI Index	2,477.71	+113.94	+4.82%
Hang Seng Composite Index	4,284.72	+223.45	+5.50%
Nasdaq	7,402.88	+528.39	+7.69%
Natural Gas Futures	2.82	+0.23	+8.94%
Gold Futures	1,319.30	-1.60	-0.12%
S&P 500	2,727.72	+108.17	+4.13%
S&P Basic Materials	368.61	+2.59	+0.71%
S&P/TSX Global Gold Index	191.37	+13.01	+7.29%
XAU	83.86	+5.51	+7.03%
DJIA	24,831.17	+640.27	+2.65%
Russell 2000	1,606.79	+128.96	+8.73%
SS&P/TSX Venture Index	782.92	-30.47	-3.75%
S&P Energy	565.28	+74.24	+15.12%
Oil Futures	70.54	+11.34	+19.16%
10-Yr Treasury Bond	2.97	+0.12	+4.10%

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 Centerra Gold Inc.

*The above-mentioned indices are not total returns. These returns reflect simple appreciation only and do not reflect dividend reinvestment.

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.

MSCI World Index is a capitalization weighted index that monitors the performance of stocks from around the world.

Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

The HFR Blockchain Composite Index is comprised of funds sub-classified as either Cryptocurrency or Infrastructure.

The Bloomberg Galaxy Crypto Index is designed to track the performance of the largest, most liquid portion of the cryptocurrency market.

The WIG20 is a capitalization-weighted stock market index of the twenty largest companies on the Warsaw Stock Exchange.

The University of Michigan Confidence Index is a survey of consumer confidence conducted by the University of Michigan.

The report, released on the tenth of each month, gives a snapshot of whether or not consumers are willing to spend money.

The Bloomberg Consumer Comfort Index is a weekly, random-sample survey tracking Americans' views on the condition of the U.S. economy, their personal finances and the buying climate.

The Bloomberg Barclays US Treasury Index measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury.

Frank Holmes has been appointed non-executive chairman of the Board of Directors of HIVE Blockchain Technologies.

Both Mr. Holmes and U.S. Global Investors own shares of HIVE, directly and indirectly.

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