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# Investor Library

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## Investor Alert

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### A Massive Windfall for China's Fast-Growing Tech Giants

June 29, 2018

By Frank Holmes

*CEO and Chief Investment Officer*

*U.S. Global Investors*



SHANGHAI, CHINA

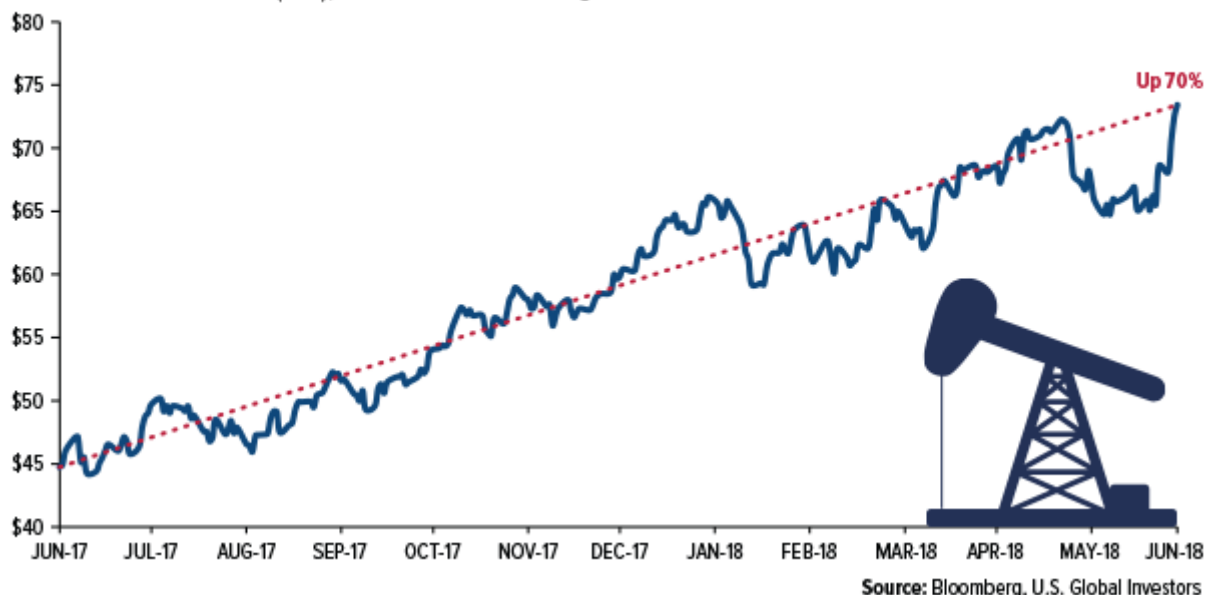
Stop buying Iranian oil or face the music.

That's the message the U.S. government shared with the world this week, giving importers until November 4 to cut their consumption of Iran's crude to zero—or expect sanctions. The threat comes a month after President Donald Trump [withdrew the U.S. from the Obama-era nuclear deal](#).

West Texas Intermediate (WTI) responded by adding more than \$6 to the price of a barrel this week alone, to end above \$74.

## U.S. Toughness on Iran Pushes Crude Above \$70 a Barrel

West Texas Intermediate (WTI), One-Year Period Through June 28



[click to enlarge](#)

Other drivers included supply disruptions in Canada and Libya, as well as a sharp, more-than-expected decline in U.S. crude inventories. Nearly 10 million barrels were drawn in the week ended June 27, the most since September 2016. Crude is now up an eye-opening 70 percent from the same time last year, contributing to the inflationary pressure that's pushed consumer price growth to a six-year high.

And there could be more upside, should supply crunches continue along with Trump's ongoing geopolitical efforts to isolate Tehran. Ready to see \$90-a-barrel oil? That's the forecast from Bank of America Merrill Lynch analyst Hootan Yazhari.

"We are in a very attractive oil price environment," Yazhari told CNBC this week, "and our house view is that oil will hit \$90 by the end of the second quarter of next year," or 12 months from now.

Even if this prediction ends up overshooting the mark, I believe there could still be money to be made in the energy space on tightening supply and strong global demand. For more, I urge you to watch this brief video outlining the six factors that matter when picking energy stocks.

## Bull Market May Have Just Hit a Trade War Wall

The U.S. market is mere days from hitting a milestone that some investors might not have anticipated in the business-friendly era of Trump. Both the S&P 500 Index and Dow Jones Industrial Average have been stuck in correction mode since early February of this year, when inflation fears and concerns of a global trade war triggered a monster selloff.

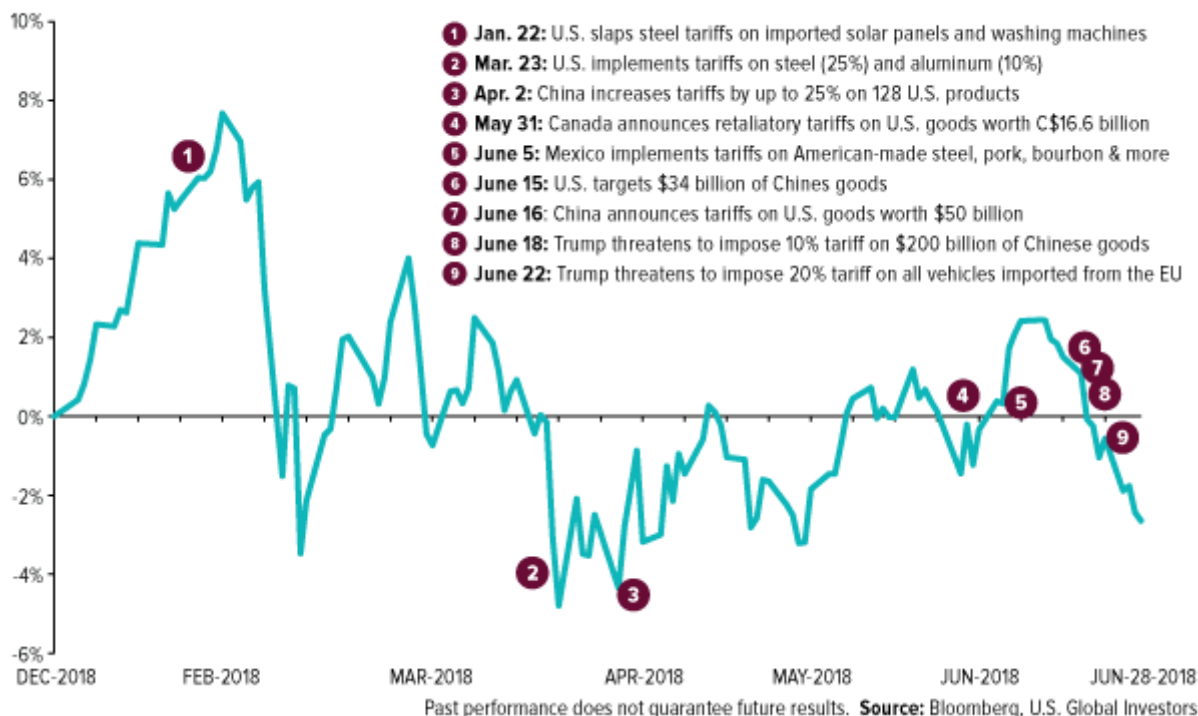
Today marks the 99th day both indices have been in correction, and according to MarketWatch, if they stay sideways another 10 trading days, it will become the longest such stretch since 1984.

Stocks managed to recover then, but as I see it, unless Trump softens his stance on trade, they will have a difficult time doing the same today. Stiff retaliatory barriers are scheduled to be raised by China, Canada and other key markets, and Canadian consumers have already started boycotting American-made goods. U.S. exports of steel, soybeans and other products are down from a year ago because of friction over the tariffs, which are essentially regulations that could jeopardize the positive work Trump has done in cutting red tape in other areas.

Below is the Dow's performance so far this year, not including today, annotated with some key moments in the Trump trade war. I chose the Dow specifically because it includes the very largest U.S. exporters, some of which do tens of billions of dollars in sales in China alone. As the biggest U.S. exporter, Boeing delivered more than 200 aircraft to the Asian country last year, accounting for a quarter of the plane maker's global sales. Apple generated around 20 percent of its revenue in China, or the equivalent of \$44.7 billion.

### Key Moments in Trump Trade War

Dow Jones Industrial Average 2018 Returns Through June 28



[click to enlarge](#)

The question now is whether we're headed for a recession, and how investors can prepare—though I believe the market is oversold, as I explain in the [most recent edition of Frank Talk Live](#). The last nine years have been extraordinarily profitable, but every bull market must come to an end—not from age, remember, but from [changes in monetary or fiscal policy](#).

This week I offered one of my favorite strategies to face the next bear market with confidence. **Discover what it is by [clicking here](#).**

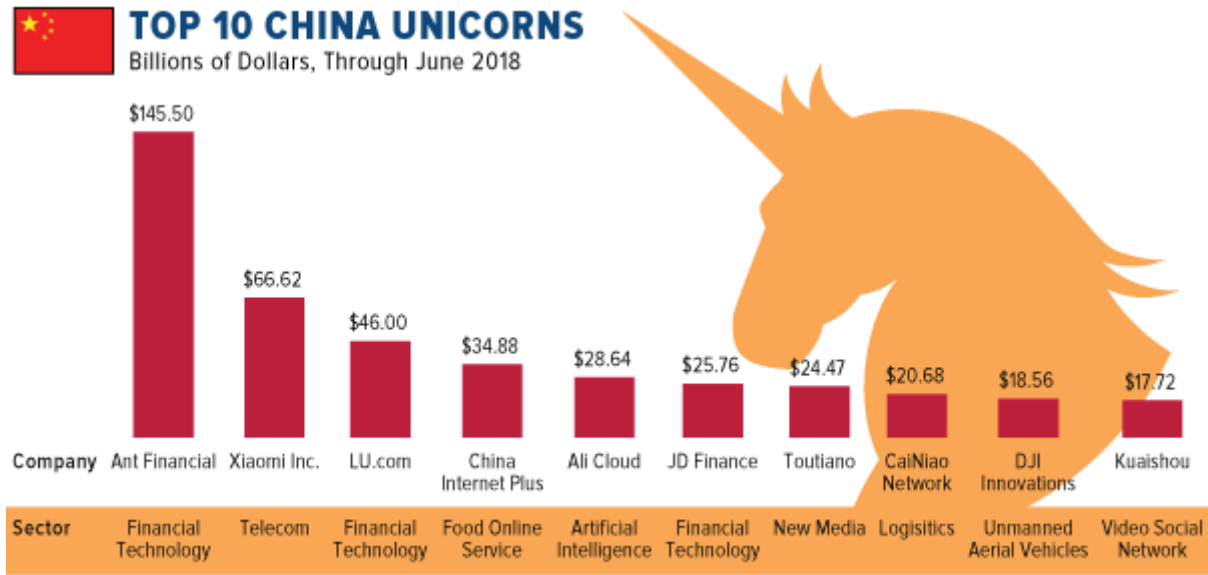
Trade war friction has strained international relations in other ways than just trade, of course. Among those is foreign direct investment (FDI), essential for global economic growth.

## Chinese FDI in the U.S. Just Fell 92 Percent

China's tech industry [is exploding](#). Last year, gross output value of Chinese tech firms hit 20 trillion yuan, or about \$3 trillion, for the first time ever. Nine of the world's 20 biggest tech firms now call China home, beginning with Alibaba, valued at a half a trillion dollars. And for the past several years, China has filed far more patent applications than the U.S. on an annual basis. (I should mention, though, that the U.S. still has more patents overall, having just issued [patent number 10 million](#).)

The Asian country, in fact, has more unicorns—or startups worth \$1 billion or more—than any other nation on earth. Chinese unicorns account for more than half of the global total, and 66 percent in terms of valuation, according to the World Economic Forum (WEF).

Just look at the top 10 Chinese unicorns. Ant Financial, formerly known as Alipay, ranks first with a valuation of \$145 billion. That’s about twice the value of the number one U.S. unicorn, Uber.

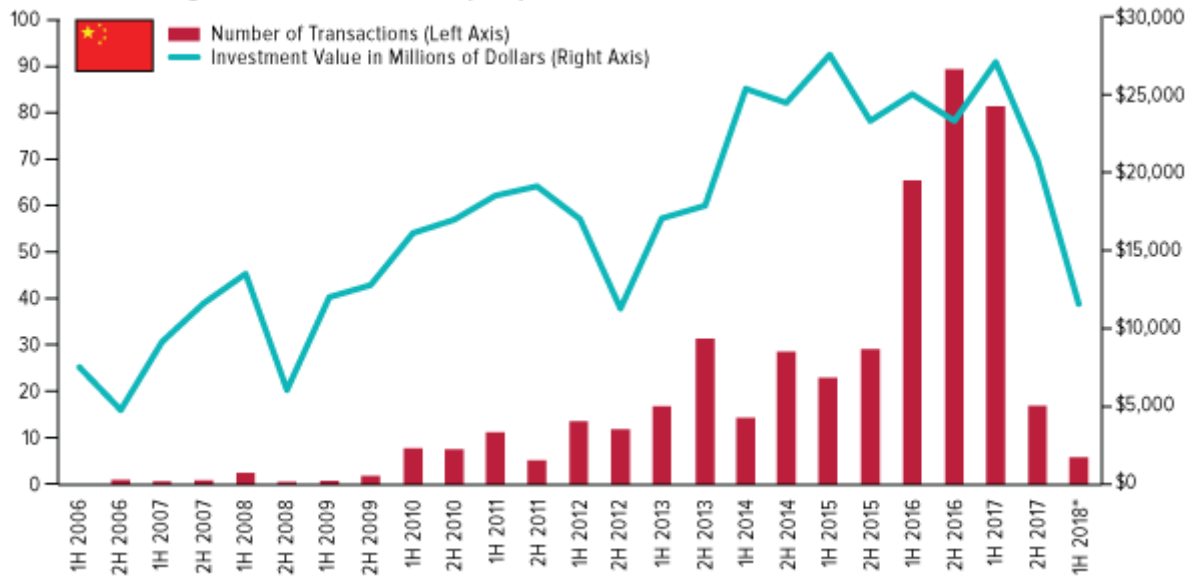


Source: Qhedata AIEV, U.S. Global Investors

[click to enlarge](#)

It’s very likely even more capital will flow into these firms this year and next. That’s because Chinese FDI in the U.S. fell an eye-opening 92 percent in the first half of 2018, as the government cracks down on capital flight. The decline is also likely in response to the U.S. government’s increased scrutiny of Chinese acquisitions.

**Chinese Foreign Direct Investment (FDI) in the U.S. Fell 90 Percent in the First Half of 2018**



\*January to May 2018 Source: Rhodium Group, U.S. Global Investors

[click to enlarge](#)

According to economic research firm Rhodium, Chinese investors have sold \$9.6 billion worth of U.S. assets, including office buildings in New York, San Francisco, Chicago and Los Angeles. That’s after making only \$1.8 billion in investments. What this means is that the country’s net U.S. FDI is negative \$7.8 billion so far this year.

And regarding a possible rebound in Chinese investment activity, “looming U.S. policies present substantial headwinds,” writes Rhodium’s director of research, Thilo Hanemann.

So where will all this capital go?

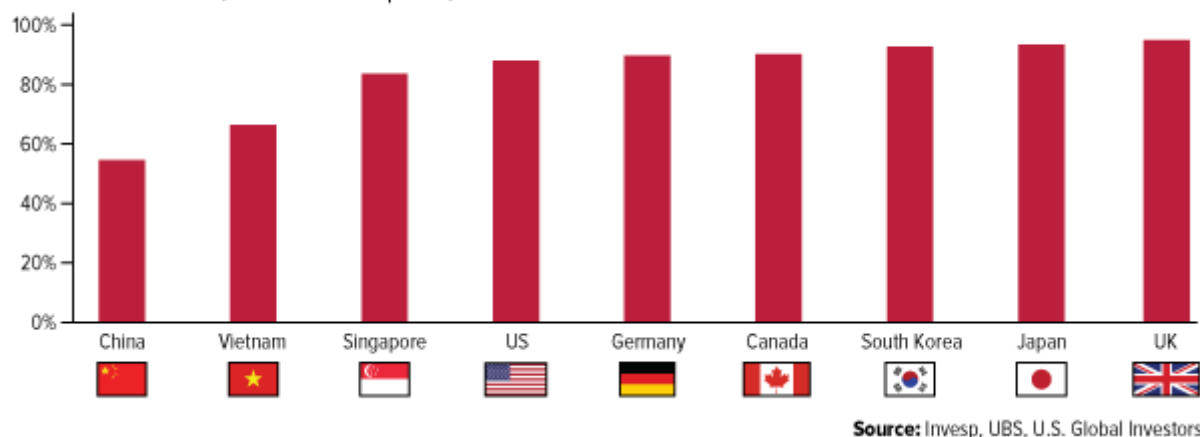
I don't think anyone can say for sure, but my guess is that this will be a huge windfall for the already fast expanding Chinese tech industry.

## Only Half of China Is Online

There are even more reasons to be optimistic about the Chinese tech industry, including the fact that only a little over half of the country's population is online. At 772 million people, the user base is massive—more than twice the size of the entire U.S. population—but penetration is only 54.6 percent, according to UBS. That's well behind the U.K. (94.8 percent), Japan (93.3 percent) and the U.S. (87.9 percent).

### China's Online Universe Still Has Room for Growth

Internet Penetration, Countries Compared, 2017



click to enlarge

This means, of course, that the country's tech and internet industries still have much room to grow.

China is already number one in mobile payments, having surged to a whopping \$9 trillion in 2016, compared to only \$112 billion for the U.S. The Asian giant is rapidly becoming cashless—so much so that a friend of mine recently had a hard time using paper money to make a purchase in a Chinese convenience store. In fact, a number of unmanned, fully-automated stores—most notably BingoBox and Alibaba's Tao Cafe—have sprung up all over the country. Transactions are made simply by scanning your smartphone on a designated counter or plate before leaving the store.

***Learn more about one of the world's fastest-growing regions by [clicking here!](#)***



## Index Summary

- The major market indices finished down this week. The Dow Jones Industrial Average lost 1.26 percent. The S&P 500 Stock Index fell 1.32 percent, while the Nasdaq Composite fell 2.37 percent. The Russell 2000 small capitalization index lost 2.52 percent this week.
- The Hang Seng Composite lost 2.15 percent this week; while Taiwan was down 0.57 percent and the KOSPI fell 1.32 percent.
- The 10-year Treasury bond yield fell 3.7 basis points to 2.859 percent.

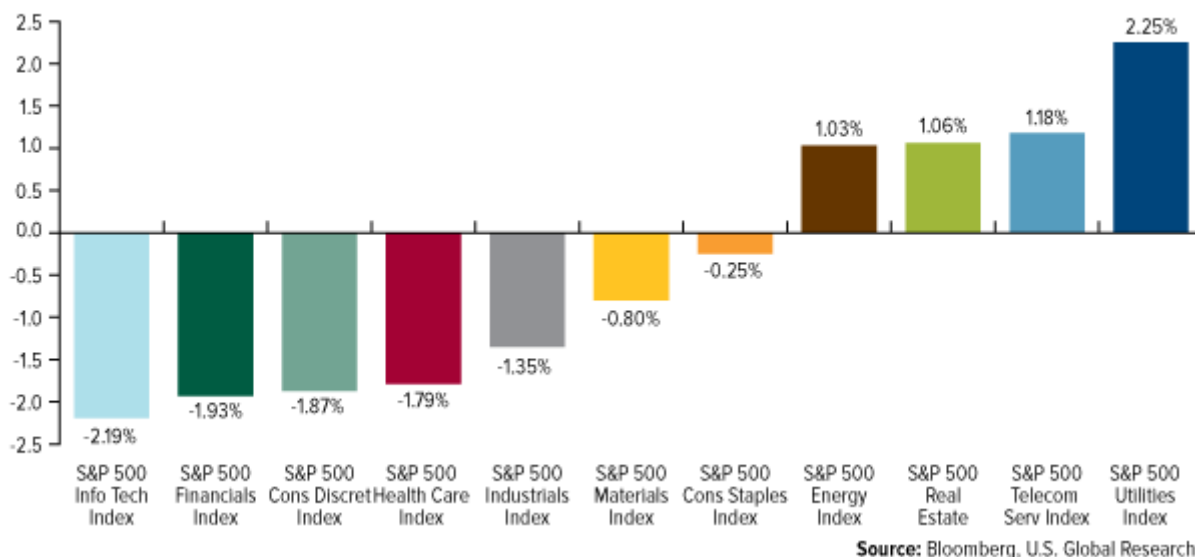



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## Domestic Equity Market

## S&P 500 Economic Sectors

(Percentage return for each sector group from Friday to Friday, June 22, 2018 – June 29, 2018)



[click to enlarge](#)

## Strengths

- Utilities was the best performing sector of the week, increasing by 2.25 percent versus an overall decrease of 1.33 percent for the S&P 500.
- Discovery was the best performing stock for the week, increasing 9.43 percent.
- According to an analysis by Bloomberg Intelligence, Instagram would be worth \$100 billion if it were a standalone company. The analysis determined the photo sharing platform is worth 100 times what Facebook bought it for in 2012.

## Weaknesses

- Energy was the worst performing sector for the week, decreasing by 2.19 percent versus an overall decrease of 1.33 percent for the S&P 500.
- H&R Block was the worst performing stock for the week, falling 11.23 percent.
- MoviePass and its parent company, Helios and Matheson Analytics, are facing a slew of uncomfortable questions about future viability. A major issue that recently emerged is that a director and shareholder, Muralikrishna Gadiyaram, has deep ties to an Indian company accused of fraud.

## Opportunities

- According to Guggenheim, building a car is still the best way for Apple to “move its big needle.” The analysts say that Apple needs to break into another big market to keep growing in a meaningful way.
- The Samsung Galaxy S10 is rumored to have numerous new innovative features, including a triple-lens camera. Differentiating features could reap substantial profits for the tech hardware juggernaut.
- Chipotle is getting ready to close dozens of locations. The burrito chain plans to close 55 to 65 locations as it attempts to turn around business. An effective rationalization of the business could have a big impact on its operating efficiencies and bottom line.

## Threats

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- According to Morgan Stanley, Google needs to give every U.S. home a free smart speaker or else risk getting buried by Amazon. Such a giveaway would cost \$3.3 billion, but it would ensure that Google is in prime position for what could be the next major platform shift.
- Instagram's Stories feature is now twice as big as Snapchat, with 400 million daily users. The growing gap between the app's users poses a daunting competitive challenge for Snapchat.
- Amazon's playbook for upending healthcare just got a lot clearer through the acquisition of a startup called PillPack. The company's intent to get into the pharmaceutical industry should come as a wakeup call for industry incumbents to become more competitive.



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## The Economy and Bond Market

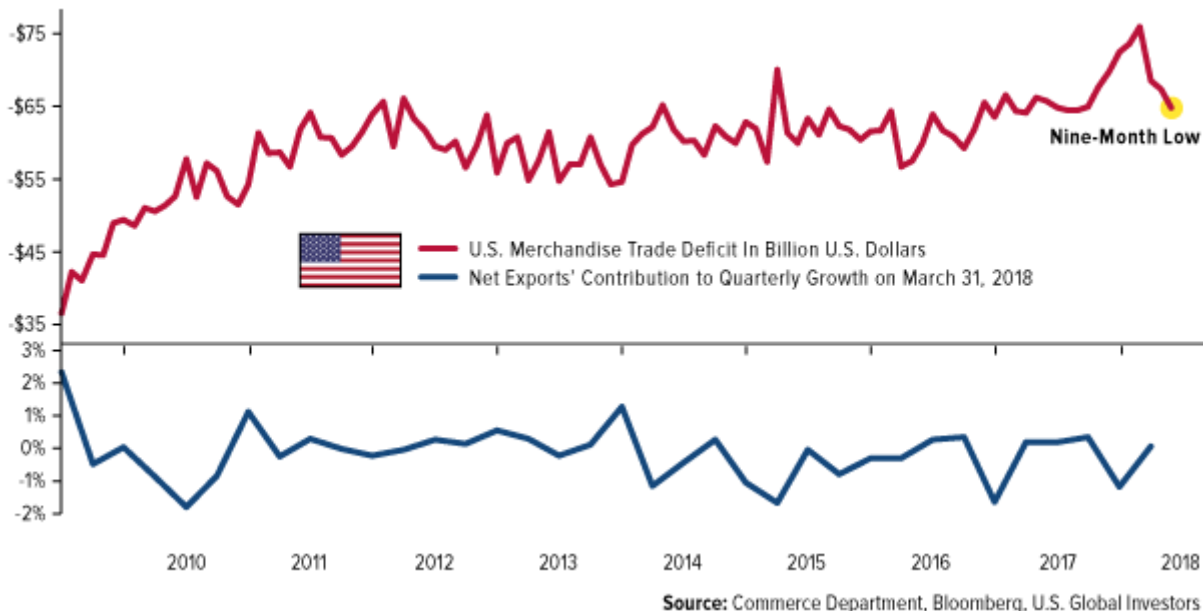
### Strengths

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- Is uncertainty over trade and tariffs a headwind to U.S. economic growth? The latest numbers suggest that is not the case, at least not yet. The merchandise trade deficit narrowed in May for a third month to \$64.8 billion, the lowest level since August, according to preliminary figures from the Commerce Department released Wednesday. Economists estimate net exports are on track to boost second quarter economic growth, following a small contribution in the first quarter.



## U.S. Goods-Trade Deficit Has Been Narrowing Even As Tariff Concerns Mount



click to enlarge

- A gauge of manufacturing in the U.S. Midwestern region hit its highest level in five months in June, data on Friday showed. The Chicago PMI index climbed to 64.1 in June, up from 62.7 previously, topping estimates in a Reuters survey for a reading of 60. The report showed that business activity expanded at a faster pace and new orders were up for a second consecutive month in June.
- Sales of new U.S. single-family homes increased more than expected in May as sales in the South surged to their highest level in nearly 11 years. The Commerce Department said on Monday new home sales jumped 6.7 percent to a seasonally adjusted annual rate of 689,000 units last month, the highest level since November 2017.

## Weaknesses

- The U.S. economy slowed more than previously estimated in the first quarter due to the weakest performance in consumer spending in nearly five years. However growth appears to have since regained momentum on the back of a robust labor market and tax cuts. GDP increased at a 2.0 percent annual rate in the first quarter, the Commerce Department said on Thursday in its third estimate of quarter one GDP, lower than the 2.2 percent pace it reported last month.
- A key gauge of U.S. consumer confidence was revised lower in June, according to a survey released on Friday. The University of Michigan's consumer confidence index was revised down to 98.2 from 99.3. Economists had forecast a reading of 99.2. The survey center's chief economist Richard Curtin noted that consumer sentiment retreated in late June to just above the May reading "largely due to concerns about the potential impact of tariffs on the domestic economy."
- Orders for durable goods fell 0.6 percent in May following a revised 1 percent decline in April, the government said Wednesday. The biggest drop in new orders for cars and trucks since 2015 spurred the second straight decline in demand for durable goods, perhaps a sign that intensifying trade disputes between the Trump administration and other countries are causing businesses to hesitate.

## Opportunities

- IHS Markit's PMI survey signals another strong month of employment growth in June. The flash survey results showed employment rising robustly at the end of the second quarter. Official non-farm payroll data will be released on July 6, and are typically one of the most market-moving numbers in the trading calendar. The PMI series exhibits a strong correlation with the official data which can add significantly to estimations of upcoming numbers.
- Analysts will be watching for the May personal income and spending data next week to see if the strength of retail sales for the month extends into overall spending, say BE's Carl Riccadonna and Niraj Shah. Consumers appear to rebounding vigorously from a lackluster first quarter.
- With regional indicators continuing to rebound in June, the ISM manufacturing has a high probability of rebounding and rising above 60 in June. It will be released on Monday.

## Threats

- The U.S. intends to deal with the 'multitrillion-dollar problem' that is China, a former diplomat says. The Trump administration has gone on the offensive to push China into playing by its trade rules in an effort to "level the playing field" and has now started a trade conflict that could effectively nullify the World Trade Organization, Hosuk Lee-Makiyama, the director of the European Centre for International Political Economy, told Business Insider.
- Factory orders have been falling since February. Next week's release of May data is at risk of continuing this downward trend.
- The global economy is looking like a battle for influence between two questionable policies from U.S. President Donald Trump. On the one hand, a tax cut in a U.S. economy growing at close to full capacity has supercharged growth at the expense of medium-term fiscal sustainability. On the other, the opening shots in a trade war and the threat of full-blown hostilities could count growth as one their first casualties.

## Gold Market

This week spot gold closed at \$1,253.17 down \$16.24 per ounce, or 1.28 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week higher by 0.51 percent. Junior-tiered stocks underperformed seniors for the week, as the S&P/TSX Venture Index lost 2.15 percent. The U.S. Trade-Weighted Dollar ended the week essentially unchanged with Friday's 0.83 percent fall neutralizing the gains from earlier in the week.

Date	Event	Survey	Actual	Prior
Jun-25	New Home Sales	667k	689k	646k
Jun-26	Hong Kong Exports YoY	8.5%	15.9%	8.1%
Jun-26	Conf. Board consumer Confidence	128.0	126.4	128.8
Jun-27	Durable Goods Orders	-1.0%	-0.6%	-1.0%
Jun-28	Germany CPI YoY	2.1%	2.1%	2.2%
Jun-28	GDP Annualized QoQ	2.2%	2.0%	2.2%
Jun-28	Initial Jobless Claims	220k	227k	218k
Jun-29	Eurozone CPI Core YoY	1.0%	1.0%	1.1%

Jul-1	Caixin China PMI Mfg	51.1	--	51.1
Jul-2	ISM Manufacturing	58.2	--	58.7
Jul-3	Durable Goods Orders	--	--	-0.6%
Jul-5	ADP Employment Change	190k	--	178k
Jul-5	Initial Jobless Claims	225k	--	227k
Jul-6	Change in Nonfarm Payrolls	200k	--	223k

## Strengths

- The best performing metal this week was palladium, down just 0.27 percent on a positive recommendation by Morgan Stanley based on deficit market supply. Gold traders and analysts became bearish this week according to the Bloomberg weekly survey as gold fell to its lowest level so far this year.
- China's central bank revised the value of its end-of-May gold reserves to \$77.32 billion, up from \$73.74 billion, reports Reuters. This is notable since the central bank did not provide an explanation for the changed figure and did not change the total amount of gold held by the bank. According to Bloomberg, the Mauritius International Derivatives and Commodities Exchange expects to trade \$6.5 billion of gold annually within the next five years. The move is expected to become a financial gateway from the Indian Ocean island nation to Africa and spur further gold investment.
- Nighthawk Gold announced positive drilling results of 25.50 meters of 2.68 grams per tonne (gpt) gold plus 9.95 meters of 4.90 gpt gold at its North Inca gold deposit in Canada. Yamana Gold declared commercial production had begun at its Cerro Moro gold and silver mine in Argentina.

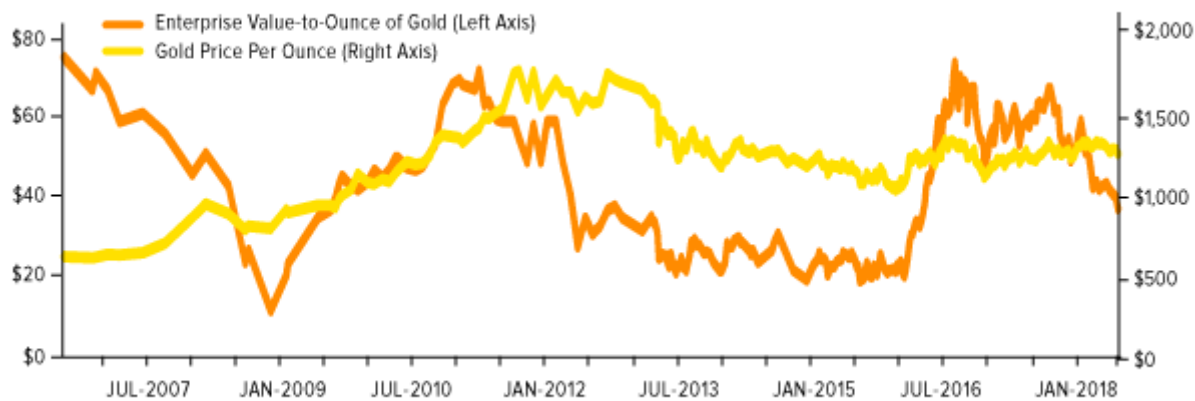
## Weaknesses

- The worst performing metal this week was platinum, down 2.78 percent. According to UBS, gold shorts increased by 3 million ounces in the prior week, the largest weekly gain since November 2015. Strategist Joni Teves writes that risks have increased and the risks to the economy are skewed to the downside. "For gold, this means that longs are more resilient and shorts hesitant. We do not expect strong safe haven flows as long as the anticipated impact on growth and inflation remains modest." Gold has seen its worst week of the year and Jordan Eliseo, chief economist at ABC Bullion, says bullion maybe drop to \$1,250, which "will likely prove an attractive entry point, with sentiment incredibly low and futures positioning continuing to unwind."
- Investors continue to back away from commodities as commodity ETFs saw a seventh straight week of outflows. Outflows totaled \$759 million this week, compared to withdrawals of \$256 million in the previous period. Gold ETFs also reached their lowest holdings levels in three months as gold slumped to its lowest in 2018, reports Bloomberg.
- Gold is set for its biggest monthly drop since November 2016 on the heels of a stronger dollar, which is seeing its third straight month of gains. Gavin Wendt, senior analyst at MineLife, told Bloomberg that "the U.S. dollar has been the biggest beneficiary as investors' first choice safe haven" and that it has "indirectly led to gold-price weakness."

## Opportunities

- RBC Capital Markets writes this week that valuations of junior gold companies have compressed this year and now sit at \$38 per ounce of resources, compared to the trailing 12-month average of \$54 per ounce of resources. This recent pullback could spur greater mergers and acquisitions activity given that junior miners now have more attractive valuations.

### Junior Gold Company Valuations Sit at \$38 an Ounce of Resources, Below the Five-Year Average Takeover Multiple of \$64 an Ounce



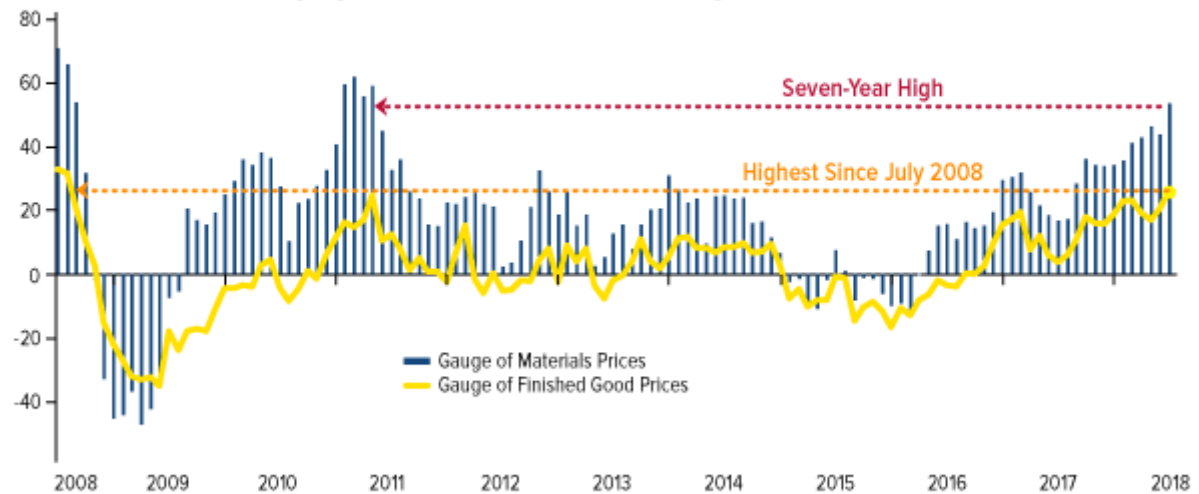
Source: Company reports, Bloomberg, RBC Capital Markets

[click to enlarge](#)

- Suki Cooper, precious metals analyst at Standard Chartered, says that gold could rally after seeing a weak second quarter. “This quarter is generally a seasonally weak period for physical demand, but we’ve also seen a number of macro indicators line up to present quite a weak backdrop for the gold market.” According to Pictet Wealth Management, gold is set to stage a comeback as the dollar’s recent strength is a temporary rebound and should decline further down the road. Currency strategist Luc Luyet said on Monday that he expects bullion to climb to \$1,320 an ounce by the end of the year.
- Inflation is on the rise, as seen in the costs paid by factories for materials, which climbed to a seven-year high in June in Texas. Bloomberg writes that more manufacturers are paying higher input prices and getting more for the final product, able to pass inflation onto consumers as the prices of materials used in U.S. manufacturing have been mounting for months. Larry Summers, former U.S. Treasury Secretary, told Bloomberg in a phone interview this week that Federal Reserve interest rate hikes, which slow expansion, are a greater risk to the economy than inflation. “The dangers are still much more on the side of too much slowdown than they are of too much inflation.”

## Eyes of Inflation Are Upon You

More Texas Factories Seeing Higher Materials Costs and Also Raising Prices



Source: Federal Reserve Bank of Dallas, Bloomberg, U.S. Global Investors

[click to enlarge](#)

## Threats

- General Motors (GM) issued a strong warning to the White House that it could shrink its U.S. operations and cut jobs if tariffs are broadly applied to imported vehicles and auto parts. Because GM's Silverado pickup is the top imported model from Mexico, this is a significant issue. In addition, a lot of high-value parts are sourced from Asia. The proposed 25 percent tariff would add thousands of dollars onto their current vehicle prices.
- Bloomberg reports that gold is now the cheapest relative to crude oil in more than three years as growing concerns over a U.S.-China trade war have failed to revive demand for bullion as a safe-haven asset. High petroleum prices relative to gold can lead to a margin squeeze for large open pit mines that are more energy intensive.
- The S&P 500 Index has stumbled the last five times the Federal Reserve System Open Market Account has had Treasuries mature, writes Bloomberg. The Fed is allowing bonds to "roll off," which means pocketing, rather than reinvesting, the proceeds as the bonds mature. This has the effect of reducing liquidities and possibly draining equities. The last five times maturity dates came and went, the S&P 500 Index fell a minimum of 68 basis points. July 1 is next maturity roll off date.

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# Blockchain and Digital Currencies

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## Strengths

- Of the cryptocurrencies tracked by CoinMarketCap, the best performing for the week ended June 29 was Selfkey, which gained 97.17 percent.
- After banning cryptocurrency-related advertising in January, Facebook reversed its position this week and will again allow ads from pre-approved advertisers, reports Seeking Alpha. The company announced the policy change on Tuesday and states that advertisers must submit an application that assesses eligibility and provides relevant public background information on the business. Facebook still prohibits the advertising of initial coin offerings and binary options.



- Japan's biggest messaging service, Line Corp., is opening a cryptocurrency exchange next month called Bitbox, reports Bloomberg. Bitbox will offer trading between more than 30 virtual tokens including bitcoin, Ethereum, bitcoin cash and litecoin, but not fiat currencies.

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## Weaknesses

- Of the cryptocurrencies tracked by CoinMarketCap, the worst performing for the week ended June 29 was BigONE Token, which lost 52.70 percent.
- Over the weekend, bitcoin dropped below its \$6,000 price level for the first time since February, reports Bloomberg. However, it erased that low later on Sunday, reflecting increased scrutiny by government regulators and global central bankers raising questions about its viability. On Friday, the cryptocurrency fell again, touching as low as \$5,791.
- Bitcoin isn't the only digital currency feeling the pain lately. According to Finder.com, over 80 percent of the 1,586 digital coins it tracks in a weekly survey decreased in price over the last seven days (as of Wednesday), reports Bloomberg. The website's weekly survey, as of June 25, says tokens fell 19 percent on average.

## Opportunities

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- Founder and chairman of Alibaba Group, Jack Ma, launched blockchain-based money transfers between Hong Kong and the Philippines via his Ant Financial, reports Bloomberg. Although Ma has declared bitcoin a potential bubble, reiterating his caution over the volatile cryptocurrency, he extolled the possibilities of the decentralized ledger on which the coin is based, the article continues.
- Bloomberg announced this week that it now lists the Huobi 10 Index in the roster of assets that the service is tracking, reports Blokt.com. Huobi is a digital currency trading platform based in Singapore and the exchange is considered the world's third largest in terms of market volume. Huobi launched the Huobi 10 Index last month, the article continues, which uses the weighted average method to track the exchange's top 10 traded cryptocurrencies.
- Blockchain technology is slowly making its way into the waste management business, reports Bloomberg BNA, potentially helping to play a pivotal role in helping to keep recycling out of landfills. Marine Transport International, a New Jersey based freight forwarder, recently completed a successful blockchain pilot that created a common tracking system linking up recycling suppliers, port operators and ocean carriers, the article continues.

## Threats

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- The crypto coin "graveyard" is filling up fast, writes Bloomberg News. "Dead Coins lists around 800 tokens that are bereft of life, while Coinopsy estimates that more than 1,000 have bought the farm," the article continues.
- Thanks to hackers, you might be mining cryptocurrency without realizing it, reads one MarketWatch headline this week. This type of hacking is known as cryptojacking – malware that can harness your computer's power to mine for cryptocurrency. According to a report released on Wednesday by McAfee, the number of cryptomining attacks is up 629 percent in the first quarter of 2018.
- Crypto prices began tumbling last Friday, and continued into this week, after the Japanese Financial Services Agency ordered six exchanges to improve business practices, reports MarketWatch. This came after a series of inspections over the past few months.

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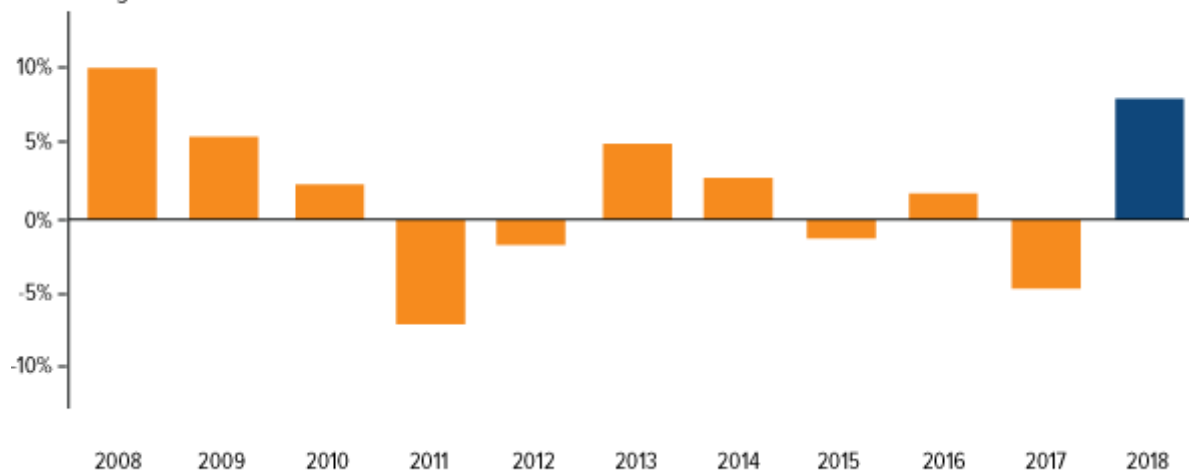
## Energy and Natural Resources Market

## Strengths

- Crude oil was the best performing major commodity this week rising 8.2 percent. The commodity is heading for its best June since 2008, as the specter of a global supply crunch continues to haunt the oil market. Renewed U.S. sanctions may curtail OPEC member Iran's exports and a Canadian oil-sands outage and turmoil in Libya have powered the rally.

### OPEC's Promise To Boost Output Didn't Do Much To Stabilize Prices

WTI Change In June



Note: Data as of June 29, 2018. Source: Nymex, Bloomberg, U.S. Global Investors

[click to enlarge](#)

- The best performing sector this week was the S&P/TSX Oil & Gas Producers and Explorers Index. The index rose 6.65 percent after oil prices posted major gains for a second consecutive week.
- The best performing stock for the week was CNOOC Ltd. The leading Chinese crude producer rose 9.7 percent following favorable commodity price advances and currency decline, while also announcing plans to move ahead with the construction of a new East China LNG terminal.

## Weaknesses

- Silver was the worst performing commodity this week. The precious metal dropped 2.2 percent after Mexico, the world's largest silver producer, reported major production growth, with output rising 15 percent year-over-year.
- The worst performing sector this week was the S&P 1500 Steel Index. The index dropped 1.3 percent after research analysts warned that feedback from steel buyers suggest 2018 volume and profit estimates could be revised lower.
- The worst performing stock for the week was China Oriental Group Co. The Chinese steel producer dropped 10.8 percent after U.S.-China trade tensions intensified.

## Opportunities



- Oil at \$100 per barrel is possible should Iran's exports get cut to zero, according to market analysts. If U.S. sanctions succeed in driving Iranian oil exports to near zero, the international market would need to find 2.5 to 2.6 million barrels per day of replacement supply, JBC Energy said in a note to Bloomberg.
- Profits for China's industrial firms rose sharply last month, maintaining the previous month's sizzling pace, despite an intensifying trade spat with the United States. Industrial profits rose 21.1 percent year-over-year, accelerating relative to the 2018 year-to-date average growth rate of 16.5 percent.
- The U.S. dollar may not continue to strengthen since global central banks have started hiking rates and as threats to global growth are contained, according to Pimco. "The dollar today is not cheap," said strategist Gene Frieda. Medium-term bond yields are unlikely to rise further without a big increase in inflation, helping curb the dollar's rise.

## Threats

- The oil rally may stall at current levels as we approach U.S. mid-term elections, according to Standard Chartered. "We think that [crude] would not have to advance much further before the U.S. Strategic Petroleum Reserve (SPR) is brought into play," Standard Chartered wrote in a note. "Higher gasoline prices, particularly in the Midwest, are likely to provoke a SPR release in the run-up to November's mid-term elections."
- Commodities face twin threats of demand destruction from mounting trade tensions and a possible slowdown in China, warned Morgan Stanley. "Our price deck remains characterized by weakening outlooks across most commodity markets into 2019," the bank said. Regardless of the negative view, the bank listed copper and oil as commodities with favorable outlooks.
- The Chinese yuan fell 3.1 percent in the month of June, its worst monthly decline in at least a decade. The currency tumbled after the People's Bank of China decided not to follow the U.S. Federal Reserve in increasing the benchmark interest rate. Its decline has also tracked the escalation in trade tension between the U.S. and China.

## China Region

### Strengths

- Energy was the top-performing sector in the Hang Seng Composite over the last week, rising 2.37 percent and outperforming even the defensive telecommunications sector, which climbed only 1.38 percent in a red week that saw the index drop 2.15 percent.
- While Vietnam's year-over-year gross domestic product (GDP) for the second quarter declined slightly from the first quarter reading, it nonetheless clocked in at an impressive 7.08 percent, better than an anticipated 6.95 percent, continuing the steady pace in one of the region's fastest-growing economies.
- Indonesia's exports number came in at a 12.47 percent growth rate in May, beating expectations for a mere 7 percent pace. Imports also came in higher than anticipated.

### Weaknesses

- The Chinese yuan suffered through one of its weakest quarters in decades, falling more than 5 percent for the quarter and more than 3 percent for the month.

### Chinese Yuan Weakened Heavily In Second Quarter



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- Thailand's SET Index declined 2.41 percent for the week.
- Properties and construction was the worst-performing sector in the Hang Seng Composite, falling 5.23 percent in a week in which Chinese authorities ratcheted up lending standards and approvals on new lending for shanty-towns.

## Opportunities

- In the latter half of the week, Chinese authorities telegraphed a clear policy tilt toward easing in the second half of 2018, confirmed by central bank statements that it will work to “make sure the structural deleveraging progresses with the right strength and at the right price,” Bloomberg News reported on Friday. This week the bank announced lower reserve ratios for some banks. Clear signs of supportive policy may be of use to Chinese markets seemingly rattled of late.
- In what may well be viewed as a possible hint to next year's outcome in the 2019 presidential elections, Indonesia's local elections this week saw convincing support for the party of incumbent president Joko Widodo's Democrat party. Official results will be released in early July.
- South Korea returns home having finished out its World Cup play after two tough losses against Sweden and Mexico, which will advance with respective first and second places standing in the hotly-contested Group F. But South Korea, while surely disappointed in failing to advance to the knockout round of the World Cup, can nonetheless stand proudly following the final game, in which it sent defending champions Germany home smarting from a 2-0 loss that dropped them to last place within Group F and eliminated them from the tournament. Well played, South Korea. Well played. It has been a World Cup full of twists and turns thus far, and the sensational South Korea-Germany game will be one to remember, for sure.



PRIOR TO BEING SENT HOME,  
**SOUTH KOREA BEAT DEFENDING**  
 WORLD CUP CHAMPS GERMANY,  
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## Threats

- Obviously, concern over U.S.-China (and indeed, global) trade remains central amid many investors' minds as we head into approaching tariff deadlines.
- China's Shanghai Composite has entered a technical bear market, dropping more than 20 percent from its late January highs amid rising trade tensions and economic concerns.
- China may defy U.S. calls to halt imports of Iranian oil, "potentially adding to another source of friction to the already fractious trade relationship between Washington and Beijing," the Nikkei Asian Review reported this week. Of course, importing more oil to China from the United States would help cut the trade deficit, which may well set up energy as an obvious, if lesser, bargaining chip amid a larger trade showdown.

## Emerging Europe

### Strengths

- Hungary was the best performing country this week, gaining 2.1 percent. The Budapest stock exchange saw support this week from strong economic data. Business, economic and consumer confidence data improved in June, while unemployment declined to 3.7 percent. MOL, a Hungarian refinery, was the best equity this week, gaining more than 4 percent.
- The Turkish lira was the best performing currency this week, gaining 2 percent against the U.S. dollar. Erdogan won the presidential elections in the first run last Sunday, and as some uncertainty passed markets, the lira reacted positively to the election outcome.
- Real estate was the best performing sector among eastern European markets this week.

### Weaknesses

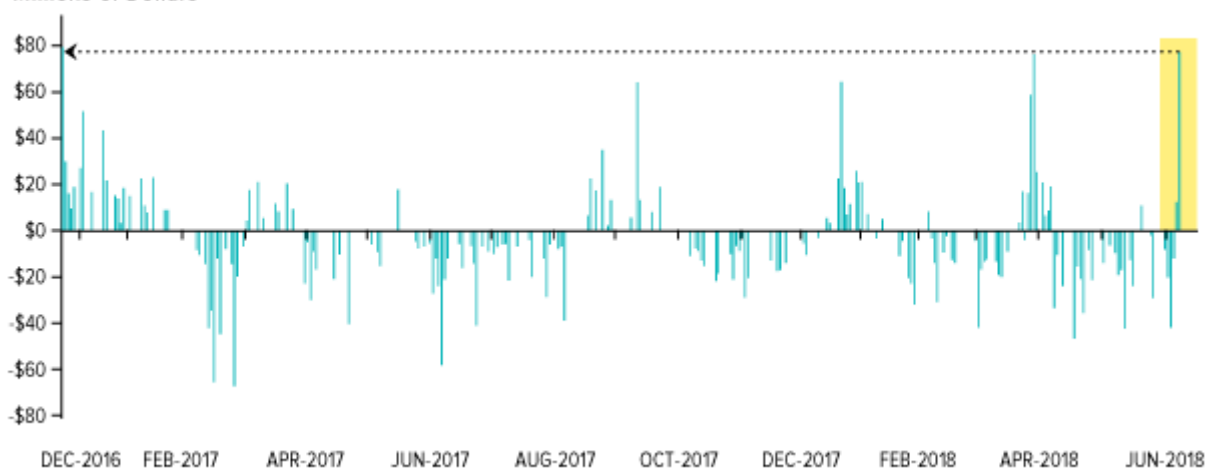
- Greece was the worst performing country this week, losing 1.8 percent. The IMF said that the recent debt relief agreement on Greece has significantly improved debt sustainability over the medium term, but longer-term prospects remain uncertain. Long-term improvements in the debt indicator can only be accomplished with strong economic growth and primary fiscal surplus.
- The Hungarian forint was the worst performing currency this week, losing 1.1 percent against the U.S. dollar. The currency continues to weaken as the country's central bank keeps monetary policy looser than its peers do.
- Information technology was the worst performing sector among eastern European markets this week.

## Opportunities

- European Union leaders have reached a deal on migration. Under the agreement, EU leaders agreed to share refugees arriving on a voluntary basis and created controlled centers inside the EU to process asylum requests. It also agreed to share responsibility for migrants rescued at sea, which should be especially positive for Italy.
- Last week OPEC announced a smaller-than-expected production increase. OPEC's decision and Iranian sanctions are pushing the price of oil higher and Russia generally benefits from this price movement, as most of the country's revenue comes from the sale of oil. Last Friday, the VanEck Vectors Russia ETF had its biggest inflows in 18 months.

### An ETF Tracking Russian Equities Just Posted Its Biggest Inflow in 18 Months

Millions of Dollars



Source: Bloomberg, U.S. Global Investors

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- Two powerful world leaders, Donald Trump and Vladimir Putin, will meet on July 16, in Helsinki. Tension has increased between the U.S. and Russia after additional sanctions were imposed on Russia in April. This meeting could present an opportunity for positive dialogue surrounding global geopolitics.

## Threats

- Russia's government will lower its forecast for economic growth next year as a plan to raise a value added tax from 18 percent to 20 percent could spur inflation and hurt consumer spending. A possible increase in government spending, however, will not have an impact until the second half of next year, Bloomberg reports. Gross Domestic Product (GDP) most likely will slow down to 1.4 percent in 2019, compared with a previous projection of 2.2 percent.
- A Euro-area economic confidence index fell from 112.5 to 112.3 in June, to an eight-month low. Escalating trade tensions and rising oil prices worry European consumers. U.S. President Donald Trump threatened a 20 percent tariff on cars imported from the EU unless the bloc removes import duties and other barriers to U.S. goods. Brent crude oil gained 19 percent year-to-date and is trading at almost \$80 per barrel, a level last seen back in 2014.
- Elections in Turkey are over. The stock market and the lira rebounded this week, but the long-term outlook for Turkey is not certain. Erdogan won the first round of elections, gaining 52.5 percent of votes, while his AKP party and alliance with MHP (a nationalist, non-religious, right-wing party) has the majority in parliament. An announcement of new cabinet members should take place next week and investors will be looking after new economic plans. If Erdogan uses his executive powers to push for looser fiscal and monetary policy, the lira could depreciate further.



## Leaders and Laggards

### Weekly Performance

Index	Close	Weekly Change(\$)	Weekly Change(%)
Russell 2000	1,643.08	-42.49	-2.52%
S&P Basic Materials	363.65	-2.94	-0.80%
Nasdaq	7,510.30	-182.51	-2.37%
Hang Seng Composite Index	3,978.97	-87.57	-2.15%
S&P 500	2,718.66	-36.22	-1.31%
Gold Futures	1,253.80	-16.90	-1.33%
Korean KOSPI Index	2,326.13	-31.09	-1.32%
DJIA	24,271.41	-309.48	-1.26%
S&P/TSX Global Gold Index	191.34	-1.42	-0.74%
SS&P/TSX Venture Index	738.48	-17.76	-2.35%
XAU	81.59	-0.41	-0.50%
S&P Energy	561.54	+5.72	+1.03%
Oil Futures	74.34	+5.76	+8.40%

Index	Close	Weekly Change(\$)	Weekly Change(%)
10-Yr Treasury Bond	2.86	-0.04	-1.28%
Natural Gas Futures	2.92	-0.02	-0.71%

## Monthly Performance

Index	Close	Monthly Change(\$)	Monthly Change(%)
Korean KOSPI Index	2,326.13	-82.90	-3.44%
Hang Seng Composite Index	3,978.97	-189.32	-4.54%
Nasdaq	7,510.30	+47.85	+0.64%
XAU	81.59	-2.26	-2.70%
S&P/TSX Global Gold Index	191.34	+1.24	+0.65%
Gold Futures	1,253.80	-52.70	-4.03%
S&P 500	2,718.66	-5.35	-0.20%
S&P Basic Materials	363.65	-2.74	-0.75%
DJIA	24,271.41	-396.37	-1.61%
Russell 2000	1,643.08	-4.91	-0.30%
SS&P/TSX Venture Index	738.48	-29.20	-3.80%
Oil Futures	74.34	+6.13	+8.99%
S&P Energy	561.54	-1.47	-0.26%
Natural Gas Futures	2.92	+0.04	+1.35%
10-Yr Treasury Bond	2.86	+0.00	+0.11%

## Quarterly Performance

Index	Close	Quarterly Change(\$)	Quarterly Change(%)
Korean KOSPI Index	2,326.13	-110.24	-4.52%
Hang Seng Composite Index	3,978.97	-179.69	-4.32%
Nasdaq	7,510.30	+446.86	+6.33%
Natural Gas Futures	2.92	+0.19	+6.99%
Gold Futures	1,253.80	-79.50	-5.96%
S&P 500	2,718.66	+77.79	+2.95%
S&P Basic Materials	363.65	+7.31	+2.05%
S&P/TSX Global Gold Index	191.34	+4.76	+2.55%
XAU	81.59	+0.47	+0.58%
DJIA	24,271.41	+168.30	+0.70%
Russell 2000	1,643.08	+113.66	+7.43%
SS&P/TSX Venture Index	738.48	-58.19	-7.30%
S&P Energy	561.54	+63.25	+12.69%
Oil Futures	74.34	+9.40	+14.47%
10-Yr Treasury Bond	2.86	+0.12	+4.34%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Purchasing Manager's Index is an indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

The S&P/TSX Venture Composite Index is a broad market indicator for the Canadian venture capital market. The index is market capitalization weighted and, at its inception, included 531 companies. A quarterly revision process is used to remove companies that comprise less than 0.05% of the weight of the index, and add companies whose weight, when included, will be greater than 0.05% of the index.

The S&P 1500 Supercomposite Oil & Gas Exploration & Production Index is a capitalization-weighted index comprised of stocks whose primary function is exploring for natural gas and oil resources on land or at sea.

The S&P 1500 Steel Index is an unmanaged market capitalization weighted index of companies whose primary business involves the manufacture and processing of steel.

The SET Index is a Thai composite stock market index which is calculated from the prices of all common stocks on the main board of the Stock Exchange of Thailand, except for stocks that have been suspended for more than one year.

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.

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).

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