

Precious Metals Were the Winners in H1 2020... And It Wasn't Even Close

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by Frank Holmes
of U.S. Global Investors

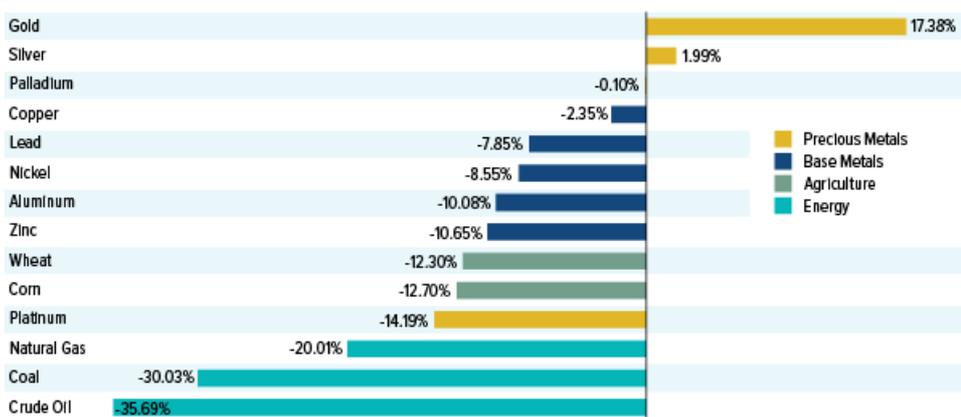


Every year around this time, we check in with raw materials for our popular commodities halftime report. This year, it wasn't even a competition.

Precious metals were the big winners for the first six months of 2020. Spot gold took the first place position, rising over 17 percent, followed in second place by silver, up nearly 2 percent. Palladium rounded out the top three, essentially flat at negative 10 basis points.

Precious Metals Have Been the Big Winners So Far This Year

Percent Change In Price, Dec. 31, 2019 – June 30, 2020



Past performance does not guarantee future results. Source: Bloomberg, U.S. Global Investors

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Platinum—which, like palladium, is used in the production of emissions-scrubbing catalytic converters—trailed substantially behind its precious metal brethren for the six months as global auto sales plunged amid coronavirus lockdown measures.

However, that may be set to change. Automobile manufacturers in China, the world’s number two auto market, announced today that second-quarter sales increased more than 10 percent compared to the same period a year earlier. In fact, June sales in China hit a new record high, with 2.3 million vehicles sold.

Gold in a Secular Bull Market... Ready for \$2,000 an Ounce?

Gold had a phenomenal week, notching its fifth straight week of gains as investors sought a safe haven from sinking government bond yields. On Tuesday, the yellow metal broke through the \$1,800 an ounce resistance level for the first time since 2011. It touched a nine-year high of \$1,828 on Wednesday before declining on profit-taking, but it’s clear to most analysts that the precious metal is in a secular bull market.

Many are now predicting all-time record highs for gold in the next 12 months, with Goldman Sachs forecasting \$2,000 on an “uneven recovery.”

“Go long copper, silver and steel, and stay long gold,” Goldman analysts said in a note to investors this week.

Gold stocks and gold-backed ETFs continue to see incredible inflows during this rally. Gold mining seniors, as measured by the NYSE Arca Gold Miners Index, were up a phenomenal 145 percent for the 12-month period.

Meanwhile, holdings in total known gold-backed ETFs stood at a record 104.3 million ounces on July 9, the equivalent of more than 2,956 metric tons. To put that massive sum into perspective, 2,956 tons is more gold than any country on earth has in its official reserves, except for only two: the U.S. (8,133.5 tons) and Germany (3,363.6 tons).

Up and to the Right: Investors Have Piled Into Gold and Gold Stocks

12-Month Period Through July 10



Source: Bloomberg, U.S. Global Investors

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In a note dated July 7, the World Gold Council (WGC) commented that the long-term investment case for gold remains intact.

“The economic and geopolitical environment remains supportive for gold investment, with most of the existing gold demand drivers still relevant,” says the London-based group, adding: “The opportunity cost of holding gold remains low, as continued central bank activity keeps interest rates low or negative, while several countries continue to experience high levels of tension/unrest.”

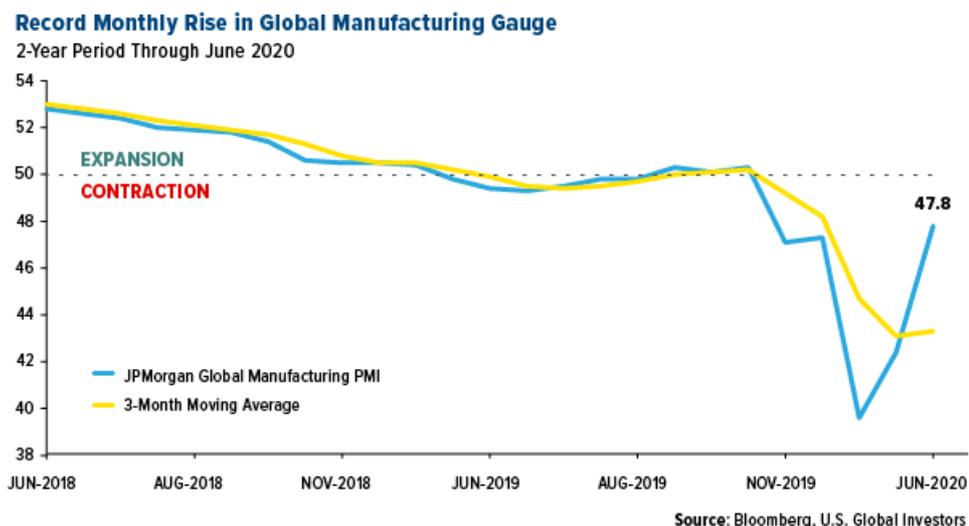
Indeed, the amount of negative-yielding global government bond yields has surged some 81 percent since March 19 and now stands at just under \$14 trillion, the most since early March.

Silver has likewise been catching a bid. The white metal touched \$19.37 an ounce this week, just below its 52-week high of \$19.54.

Global Manufacturing Heading in the Right Direction, Constructive for Base Metals

Base metals all ended lower for the six months as COVID-19 all but brought manufacturing to a halt and shuttered factories across the globe.

I say this with caution, but there could be some good news ahead. The JPMorgan Global Manufacturing PMI, which tracks manufacturing activity around the world, posted a 47.8 in June. Although that doesn't quite indicate expansion, it means that factories are contracting at a much slower rate than they were in the two previous months. What's more, June's gain was the strongest on record for a single month, up 5.4 points from 42.4 in May, indicating a recovery could be underway.



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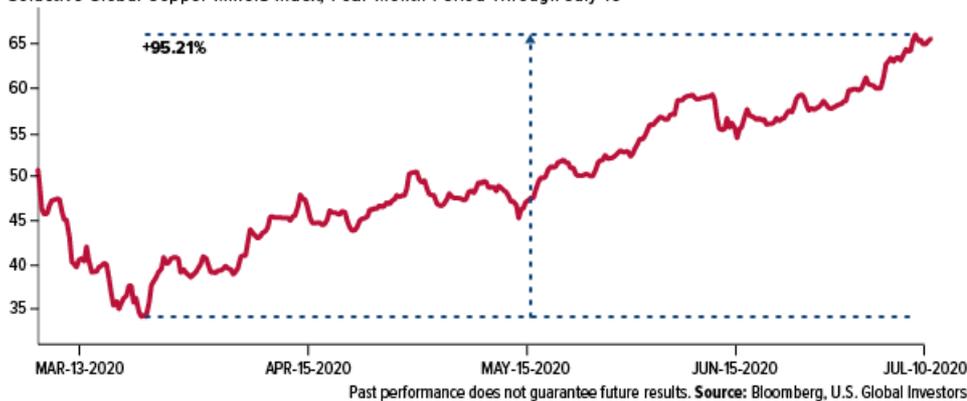
On a country-by-country basis, manufacturing growth was strongest in China, France, Italy, the United Kingdom and (interestingly) Brazil, which has been among the hardest hit by the virus.

China's manufacturing PMI reading in June, at an expansionary 51.2, was its highest for 2020 so far. As the world's largest consumer of base metals, China's improvement is highly constructive for the group.

Zinc posted its biggest weekly gain since 2016, advancing 8.22 percent, largely in response to the positive news. Copper, meanwhile, has surged some 33.5 percent since its 52-week low of \$217 a pound on April 21. Copper miners, as measured by the Solactive Global Copper Miners Index, have fared even better, soaring more than 95 percent since its recent low on March 23 as Chinese copper smelters crank up production.

Copper Miner Shares Have Nearly Doubled in a Little Over Three Months

Solactive Global Copper Miners Index, Four-Month Period Through July 10



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Energy Lagged. A Buying Opportunity?

Energy was the worst performing S&P 500 sector of the first half of the year, falling as much as 35.3 percent, just beating banks, which sank 34.9 percent. Natural gas, coal and oil were all down more than 20 percent for the six-month period as travel restrictions were put in place and demand forecasts deteriorated. Back in April, I shared with you IHS Markit's prediction that global oil supply would exceed demand by more than a staggering 1.8 billion barrels in H1 2020. This week we learned that storage tanks and vessels in Iran, one of the world's leading crude exporters, are nearing full capacity.

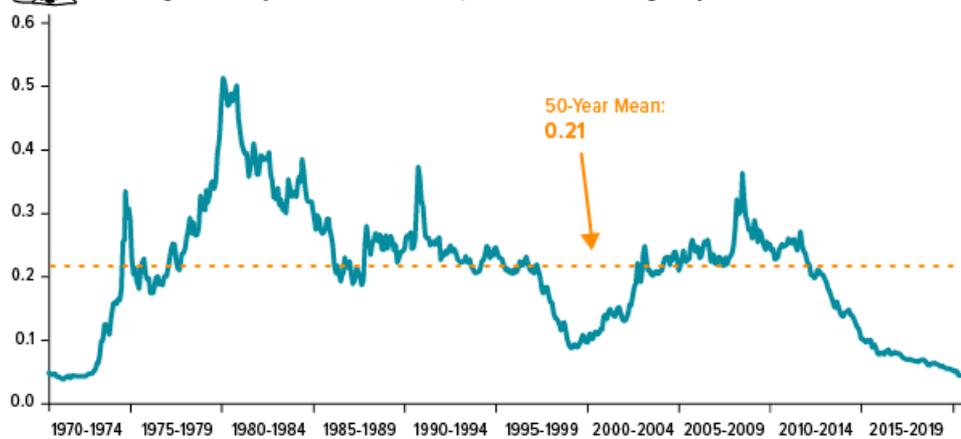
Like other distressed sectors and industries, including airlines, this could be a huge buying opportunity.

Below is the ratio between the Bloomberg Commodity Index and the S&P 500. What it shows is that raw materials, and particularly energy, are at their deepest discount relative to the market in half a century.



Commodities at Deepest Discount Relative to the Market in 50 Years

Bloomberg Commodity Index / S&P 500 Index, 50-Year Period Through July 2020



Source: Bloomberg, U.S. Global Investors

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Amazon Once Again the World's Most Valuable Brand

Kantar Group, a London-based consulting firm, recently published its Brandz Top 100 Most Valuable Global Brands for 2020, and once again, the Amazon brand ranked first in the world at \$416 billion. (This is not to be confused with market capitalization, of which Amazon's currently stands at around \$1.6 trillion.)

Rounding out Kantar's top 10 to were Apple, Microsoft, Google, Visa, Alibaba, Tencent, Facebook, McDonald's and Mastercard.

Besides being highly recognizable, all of these brands are similar in that they're highly innovative and have managed to adapt to change. That includes change in the face of global pandemic, which few people saw coming.

During the pandemic, I know I used my fair share of Amazon Prime, used by an estimated 112 million people in the U.S. alone. I was curious to know if you have as well. We'd love to hear how your spending habits have shifted during this time.

Feel free to email us at info@usfunds.com. Let's chat!

Gold Market

This week spot gold closed at \$1,798.70, up \$23.32 per ounce, or 1.31 percent. Gold stocks, as measured by the NYSE Arca Gold Miners Index, ended the week higher by 6.00 percent. The S&P/TSX Venture Index came in up 9.12 percent. The U.S. Trade-Weighted Dollar fell 0.67 percent.

Date	Event	Survey	Actual	Prior
Jul-9	Initial Jobless Claims	1,375k	1,314k	1413k
Jul-10	PPI Final Demand YoY	-0.2%	-0.8%	-0.8%
Jul-14	Germany CPI YoY	0.9%	--	0.9%
Jul-14	Germany ZEW Survey Expectations	60.0	--	63.4
Jul-14	Germany ZEW Current Situation	-63.0	--	-83.1
Jul-14	CPI YoY	0.6%	--	0.1%
Jul-15	China Retail Sales YoY	0.5%	--	-2.8%
Jul-16	ECB Main Refinancing Rate	0.000%	--	0.000%
Jul-16	Initial Jobless Claims	1250k	--	1314k
Jul-17	Eurozone CPI Core YoY	0.8%	--	0.8%
Jul-17	Housing Starts	1172k	--	974k

Strengths

- The best performing precious metal for the week was silver, up 4.25 percent. Investors poured money into silver-backed ETFs this week as the precious metals trade begins to increase in scope. Spot gold prices reached the key \$1,800 an ounce level. This milestone could help push the metal closer to its all-time high above \$1,900. Bloomberg notes that gold futures traded almost as high as \$1,830 an ounce this week.

Gold Climbs to Highest in More Than Eight Years

Spot Gold Price Per Ounce



Source: Bloomberg, U.S. Global Investors

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- The SPDR Gold Shares ETF has seen 15 straight weeks of inflows, the longest streak since its debut in 2004, boosting assets to \$68 billion, according to data compiled by Bloomberg. Investors continue to get on the yellow metal on speculation that yields will stay low for years, increasing the appeal for assets that don't pay interest. Holdings in all gold-backed ETFs rose to 3,234.6 tons on Tuesday, which includes 655.6 tons so far this year, and is more than the total added in 2009.
- It was a strong week for silver, with the metal trading above \$19 an ounce after jumping over a dollar in five days. Analysts are expecting the \$20 level soon. Demand is being driven by safe-haven appeal and increasing industrial demand in green energy. Silver is outperforming gold. TD Securities said in a note "the white metal outperformed gold by a factor of two, as it jumped some 33 percent over the previous three months."

Weaknesses

- The worst performing precious metal for the week was gold, still up 1.31 percent. Gold and silver prices were lower in midday U.S. trading on Thursday due to "normal" profit taking, according to Kitco News.
- Russia's ecological watchdog says that Norilsk Nickel, the world's largest producer of palladium, should pay \$2 billion for its massive Arctic diesel spill in May. The miner said it would fully fund clean-up efforts but estimated the costs at just \$150 million excluding fines. Bloomberg notes that Norilsk fell as much as 5.8 percent on Monday and that it is now down more than 5 percent for the year. The company could cut dividends by \$1.2 billion to cover the \$2 billion requested for clean-up.

- Barrick Gold Corp., one of the world's two largest gold producers, plans to take Papua New Guinea to international arbitration if it can't settle a dispute over its giant mine in the country, writes Bloomberg. Back in April, the government said it would not renew Barrick's right to operate the Porgera gold mine. Now the company has said its local joint-venture unit will pursue all legal options to defend its interests and recover damages.

Opportunities

- Wells Fargo Investment Institute said it predicts gold will rise to \$2,000 to \$2,300 an ounce by the end of 2021. "We still see a fair amount of upside potential for gold's price. But breaking above \$1,800 and then again the all-time high of \$1,900 will be no small feat," analyst wrote in a note on Monday. Australia & New Zealand Banking Group released a bullish note on gold. "The buoyant gold market has almost perfect conditions. Lower interest rates, ample liquidity and a weaker U.S. dollar are keeping the price afloat."
- According to analysts at Bank of America, the mining sector was a "buyers' market" in the second quarter with a total of 12 deal made. The bank said it was the most active quarter since 2012 for M&A. "Mid-tier producers not involved in M&A risk being left behind by their rapidly growing peers." Kitco News notes that global gold industry reserves have been in decline, pushing miners to acquire rivals or juniors that have deposits.
- The yield on 10-year Treasury Inflation-Protected Securities fell to negative 0.7948 percent on Monday – the lowest since late 2012 and close to the all-time low of negative 0.9269. Bloomberg's Jake Lloyd-Smith notes that these ultra-low real yields will boost the gold price in the second half of this year.

Threats

- The U.S. hit 3 million coronavirus infections this week – demonstrating that the virus spread is not under control. Another 1.3 million Americans filed for jobless benefits in the past week. Reuters notes that cases are rising in 41 of the 50 states over the past two weeks and that many reopening plans have been halted or reversed.
- On Friday, gold prices fell alongside stocks as escalating U.S.-China tensions soured market sentiment, according to Ilya Spivak, Head Strategist at APAC. The risk-off backdrop drove haven demand for the U.S. dollar, as reported by DailyFX, which undermined the appeal of anti-fiat alternatives epitomized by the yellow metal, driving it lower.
- BMO Capital Markets lowered its forecasts for average prices of platinum group metals during 2020, reports Kitco. Analysts reduced the 2020 average platinum price forecast to \$875 an ounce from \$976 previously, although the bank does look for prices to climb from the mid-morning level of \$788 to a fourth-quarter average of \$940.

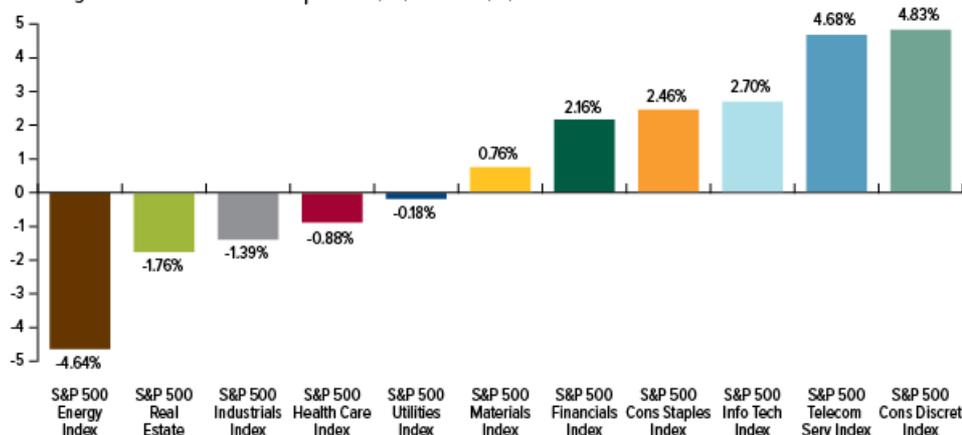
Index Summary

- The major market indices finished mixed this week. The Dow Jones Industrial Average gained 0.96 percent. The S&P 500 Stock Index rose 1.76 percent, while the Nasdaq Composite climbed 4.01 percent. The Russell 2000 small capitalization index lost 0.64 percent this week.
- The Hang Seng Composite gained 5.23 percent this week; while Taiwan was up 2.27 and the KOSPI rose 0.70 percent.
- The 10-year Treasury bond yield fell 3 basis points to 0.64 percent.

Domestic Equity Market

S&P 500 Economic Sectors

Percentage Return for Each Sector Group From 07/02/2020 – 07/10/2020



Source: Bloomberg, U.S. Global Research

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Strengths

- Consumer discretionary was the best performing sector of the week, increasing by 4.83 percent versus an overall

increase of 1.65 percent for the S&P 500.

- Netflix was the best performing S&P 500 stock for the week, increasing 15.06 percent.
- Days after Amazon shares crossed the \$3,000 mark for the first time, Citi boosted the company's price target from \$2,700 to \$3,550, reports Seeking Alpha. Total U.S. retail sales are only expected to grow 1 percent in 2022 compared to 2019, according to analyst Jason Bazinet. E-commerce is expected to grow 43 percent in that period while brick-and-mortar falls 4 percent, according to eMarketer data.

Weaknesses

- Energy was the worst performing sector for the week, decreasing by 4.64 percent versus an overall increase of 1.65 percent for the S&P 500.
- Mohawk Industries was the worst performing S&P 500 stock for the week, falling 28.97 percent.
- Boohoo, an online retailer, saw its stock tumble 30 percent, wiping \$1.25 billion off its market value, reports Business Insider. This came after an explosive report detailing appalling working conditions at one of its factories.

Opportunities

- Billionaire investor Marc Lasry says the Federal Reserve's rampant stimulus makes 2020 a once in a lifetime opportunity for investors, as the U.S. economy is fundamentally fine. The Fed pouring trillions of dollars to shore up markets has in fact made coronavirus a "once in a lifetime opportunity," Lasry said.
- Sony is making a \$250 million "strategic investment" in Epic Games, the company behind "Fortnite," the two announced on Thursday. That \$250 million buys Sony a 1.4 percent stake in Epic Games, which puts Epic's current valuation at just shy of \$18 billion.
- Trading and underwriting may soften a profit plunge for some U.S. banks, reports Reuters. Trading and underwriting revenue could provide some comfort for big Wall Street banks that begin reporting results next week, although second-quarter profits likely plunged because of the coronavirus pandemic's impact on lending.

Threats

- The S&P 500 will fall 8 percent by the end of 2020, according to Bank of America's equity chief, who says a Joe Biden victory could tank stocks. "I wouldn't paint myself as a bear, but the risks between here and year-end are completely to the downside," Savita Subramanaian said during a webinar.
- Goldman Sachs says Wall Street is bracing for a historically wild stock market as the presidential election nears. Investors are paying extraordinarily high premiums to hedge their portfolios around an expectedly volatile election time, according to a recent note from Goldman Sachs.
- A 'staggering' failure to adopt basic security habits led to 70 percent of companies storing data with Amazon, Microsoft, or other big cloud vendors getting hacked or exposing data last year, researchers say. Seventy percent of companies using cloud computing vendors get hacked or leak data, Sophos found, often due to basic security lapses, writes Business Insider.

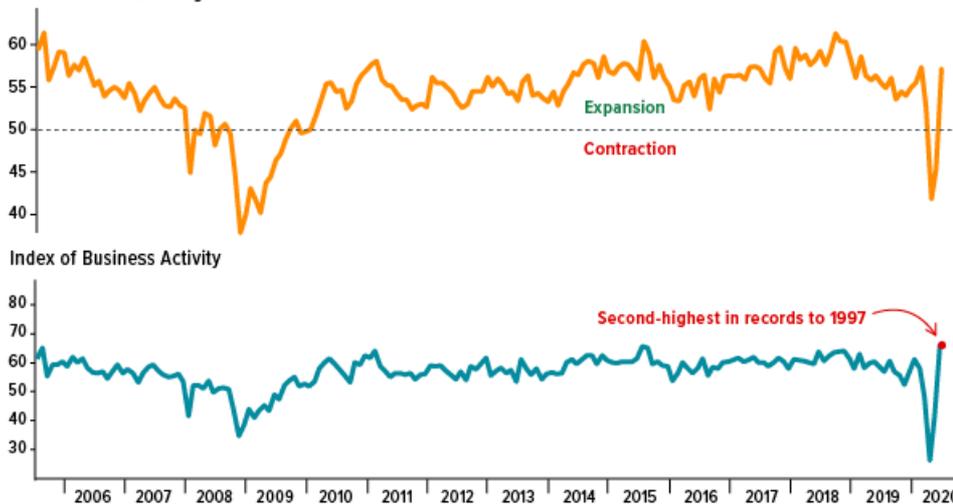
The Economy and Bond Market

Strengths

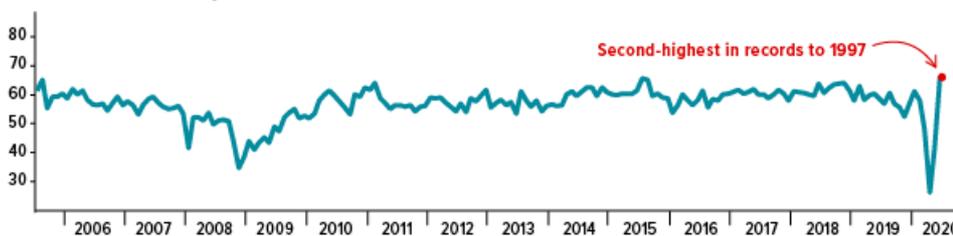
- A gauge of U.S. service industries jumped to a four-month high in June, writes Bloomberg, and showed the resumption of growth as the economy reopened more broadly from pandemic-induced lockdowns. The Institute for Supply Management on Monday said its non-manufacturing index soared a record 11.7 points to 57.1 last month, exceeding the 50.2 median forecast in a Bloomberg survey of economists.

Services Gauge Jumped to Four-Month High in June as Lockdowns Eased

ISM Non-Manufacturing Index



Index of Business Activity



Source: Institute for Supply Management, Bloomberg, U.S. Global Investors

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- New applications for unemployment benefits edged down last week and the number receiving payments fell to the lowest level since mid-April, reports the Wall St. Journal. These are signs the labor market is healing and so far not significantly affected by a rising number of Covid-19 cases in several states. Initial unemployment claims fell by a seasonally adjusted 99,000 to 1.3 million for the week ended July 4, the Labor Department reported Thursday.
- The Mortgage Bankers Association's Weekly Mortgage Applications Survey reported a 2.2 percent increase in applications on an adjusted basis for the week ending July 3, 2020. According to the report, the refinance index rose by 0.4 percent from the previous week and came in 111 percent higher than the same week one year ago.

Weaknesses

- Goldman Sachs Group economists revised down their estimates for the U.S. economy during the third quarter, but predicted it will be back on track in September after some states imposed fresh restrictions to combat the coronavirus, reports Bloomberg. While consumer spending appears likely to stall in July and August, economists led by Jan Hatzius said other economies have proved it's possible to resume activity and changes in behavior such as wearing masks will help too.
- U.S. producer prices unexpectedly fell in June, reports Reuters, as the economy battles depressed demand amid the Covid-19 pandemic. The Labor Department said on Friday its producer price index for final demand dropped 0.2 percent last month after rebounding 0.4 percent in May.
- U.S. wholesale inventories tumbled in May as the COVID-19 pandemic drove imports to near a 10-year low, writes Reuters, supporting expectations that the second quarter will see the sharpest contraction in economic growth since the Great Depression. The Commerce Department said on Thursday that wholesale inventories dropped 1.2 percent in May as estimated last month.

Opportunities

- The July preliminary University of Michigan Sentiment Index reading comes out next Friday and is forecast to edge up to 79.5 from the previous 78.1. Consumer confidence has been improving as the economy reopens; a continued rise in sentiment would assuage fears about the recent spike in coronavirus cases.
- The White House wants Congress to pass another stimulus package by the first week in August, writes Bloomberg, before lawmakers head home for their annual summer recess, and to keep the cost at \$1 trillion or less, according to Vice President Mike Pence's top aide. "I think we want to make sure that people that are still unemployed or hurting are protected but at the same time, we want to take into consideration the fact the economy is bouncing back and want to try to contain the amount of spending," Marc Short, Pence's chief of staff, said Tuesday.
- As reported by Bloomberg, Federal Reserve Vice Chairman Richard Clarida said the central bank would likely turn to additional forward guidance and asset purchases if it needs to do more to support the U.S. economic recovery. "We have a lot of accommodation in place. There is more that we can do. There is more that we will do if we need to," he

said in an interview Tuesday.

Threats

- New Jersey Governor Phil Murphy hinted at tax increases for next fiscal year, saying the state will need “revenue raisers” to balance the budget and recover from the pandemic. The \$7.6 billion stopgap budget Murphy enacted through Sept. 30 contained no new taxes. That won’t be the case for the fiscal 2021 budget, which is due to lawmakers on Aug. 25, he said Thursday during an interview with Bloomberg Television. “We’re going to have to put some revenue raisers on the table as we go to our next budget,” he said.
- Despite the June bump in employment, job gains will not rescue states from looming budget gaps in the fiscal year that started July 1, according to Moody’s. While the 4.9 million jobs gained last month, according to the Bureau of Labor statistics, beat some expectations, “the employment level, the number of unemployed and the heightened risk of uncontained coronavirus spread will leave states well short of fiscal 2019 revenue collections for a prolonged period,” Moody’s senior credit officer Marcia Van Wagner and her colleagues wrote.
- Since the middle of May, mutual funds that buy the riskiest state and local government bonds have received hundreds of millions of dollars of new cash from investors hunting for higher returns, reports Bloomberg. At the same time, the economic chaos unleashed by the coronavirus has put many speculative projects on hold, causing sales of junk and unrated municipal bonds to slow to a trickle. That mismatch between supply and demand had a predictable effect: Prices of high-yield securities have rallied, driving them to a more than 8 percent gain from May through June. That marks the best two-month period since 2009, according to the Bloomberg Barclays indices. While the economic slowdown has left states and cities contending with massive budget shortfalls, the market is factoring in little risk, driving yields back to the lowest in more than six decades.

Energy and Natural Resources Market

Strengths

- The best performing major commodity for the week was lumber, up 13.62 percent as suppliers cut back on tree harvesting with the collapse in demand from the initial COVID-19 shutdowns. However, a surge in buying from DIY homeowners adding wooden decks, and other building projects around the house, have really consumed on-the-shelf inventory. Saudi Arabia raised pricing for August oil shipments to Asia, the U.S. and northern Europe. Saudi Aramco said in a statement that its flagship grade will sell in Asia at \$1.20 a barrel above the Middle East benchmark, compared with just a \$0.20 premium in July. This is a positive signal that oil demand is continuing to slowly recovery.
- Kobold Metals, a startup backed by a group of tycoons including Bill Gates, announced that it has acquired the rights to 386 square miles of land in northern Quebec to search for cobalt. Bloomberg reports that the company is hoping to use data analytics to build a “Google Maps for the earth’s crust” and find metals crucial to the electric-vehicle revolution.
- Copper is on the rise as demand rises and supply disruptions continue out of top producing Chile. Eurasian Resources Group predicts that copper could top \$7,000 a ton by next year due to structural undersupply. However, much of the supply disruptions are due to a growing number of COVID-19 infections among Chile’s miners.

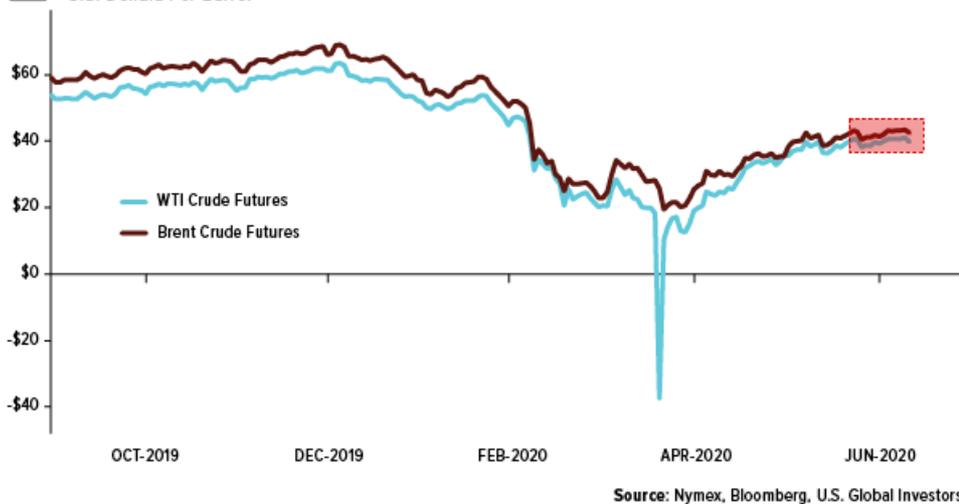
Weaknesses

- The worst performing major commodity this week was coffee, down 5.62 percent amid subdued demand and the likelihood of bumper crop this year from Brazil. Oil rose above \$43 a barrel in London on Monday on news that Saudi Arabia was hiking its prices, but that was the only good news for the fuel for the week. Crude fell closer to \$40 on Tuesday on data that U.S. gasoline stockpiles increased. Coronavirus infections continue to rise, surpassing 3 million in the U.S., which raises concern that the demand recovery will ease. Louise Dickson, analyst at Rystad Energy A/S, says oil is stuck “until it is given a convincing reason to move in either direction.”



WTI, Brent Remain Unable to Rally Past The Mid-\$40's

U.S. Dollars Per Barrel



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- Russia's ecological watchdog says that Norilsk Nickel should pay \$2 billion for its massive Arctic fuel spill last month. The miner said it would fully fund clean-up efforts but estimated the costs at just \$150 million excluding fines. Bloomberg notes that Norilsk fell as much as 5.8 percent on Monday and that it is now down more than 5 percent for the year. The company could cut dividends by \$1.2 billion to cover the \$2 billion requested for clean-up.
- It was quite the negative week for pipelines. A federal judge ordered that the Dakota Access pipeline be shut pending an environmental review. Dominion Energy Inc., the second largest U.S. power company, said that it is selling all its gas pipeline and storage assets. The company and its partner Duke Energy Corp. said they are also ending the controversial Atlantic Coast gap pipeline along the U.S. East Coast due to ongoing delays and cost uncertainty, reports Bloomberg.

Opportunities

- Aintech, a laboratory based in Chile, is using copper nanoparticles in disinfectants to kill and prevent viruses and bacteria on surfaces. Bloomberg notes that Codelco has promoted using copper in hospitals, airports and clothing to kill microorganisms. More research on the effectiveness of the red metal as an anti-microbial agent could further boost demand.
- According to BloombergNEF, corporate cost cutting could boost demand for cheaper clean power. Kuldeep Jain, managing director of CleanMax Solar, said "we promise to cut the power bill by 20 percent to 30 percent with our renewable energy projects for commercial and industrial clients in India. Most corporates are laser-focused on cutting costs right now, so we have seen a jump in inquiries in the last few weeks." CleanMax secured a \$10 million credit line to expand in Southeast Asia where the company has 600 megawatts of operational projects and 200 megawatts worth set to be commissioned in the next 12 months.
- Who would have guessed that wood would be the hottest commodity in the U.S. these days? According to Bloomberg, prices for forest products like lumber and plywood have soared because of booming demand from home builders as well as a DIY explosion sparked by stay-at-home orders. Since April 1, lumber futures are up over 85 percent.

Threats

- North Dakota was once the center of America's shale boom, but is now looking like a bust. The Bakken shale formation, which falls in North Dakota, Montana and parts of Canada, once had prolific drilling and is now halted. Bloomberg reports that the decision to halt the Dakota Access pipeline will have long-term consequences for the region. Sandy Fielden, director of research for Morningstar, says "the court ruling will create major obstacles for producers in North Dakota, who've been struggling to rebound." Fielden added that buyers of Bakken crude will look elsewhere for supply once the pipeline dries up.
- The global stimulus to support the economy has skewed to "dirty sectors" over cleaner ones. BloombergNEF reports that governments have approved \$697 billion in support for carbon-intensive sectors, known as "brown stimulus", without requiring the recipients to meet any climate-related conditions. This amount is 9.7 times as much as the \$72

billion in green stimulus, which is for low-carbon technologies and for brown stimulus with green strings attached. Some countries are implementing measures to tie aid to environmental goals, while others are not.

- Oil is heading for a weekly decline as the International Energy Agency said a jump in COVID-19 cases could derail the market recovery, reports Bloomberg, while Libya signaled the potential restart of crude exports. Futures slipped to near \$39 a barrel in New York, and are down 4 percent this week.

Emerging Europe

Strengths

- The Czech Republic was the best performing country this week, gaining 40 basis points. Avast PLC, a British cyber-security software company listed on the Prague exchange, was the best performing equity, gaining 7.8 percent over the past five days. Local Czech stocks recorded losses with banks underperforming.
- The Russian ruble was the best performing currency this week, gaining 75 basis points. The currency gained with the higher price of oil. Brent crude oil gained 1 percent over the past five days.
- Energy was the best performing sector among eastern European markets this week.

Weaknesses

- Romania was the worst performing country this week, losing 2.6 percent. Equites sold off despite the country reporting 30 basis points growth in the first quarter and 2.4 percent economic growth on a year-over-year basis. SC Fondul Proprietatea SA, a closed-end investment company, was the worst performing stock trading on the Budapest Stock Exchange, losing 7.5 percent over the past five days.
- The Turkish lira was the worst performing currency in the region this week, losing 5 basis points. The lira has been relatively stable in the past few weeks supported by government actions. The central bank has been selling dollars to keep the currency from further depreciation.
- Information technology was the worst performing sector among eastern European markets this week.

Opportunities

- The European Commission published its summer 2020 economic update and forecast an even deeper recession than predicted in May. It said the euro-area economy could contract 8.7 percent in 2020 compared with the 7.7 percent forecast in May. It expects growth to rebound 6.1 percent in 2021. The statement cited Vice President Dombrovskis, who said the impact of the lockdown is more severe than initially expected and Economic Affairs Commissioner Gentiloni said the cumulative hit to GDP is 17 percent in the first half of 2020.
- Emerging European stocks, as measured by the MSCI Emerging Market Europe Index, appreciated 40 percent since this year's bottom in mid-March. Despite this strong performance, equities have more room to appreciate. Based on the 10-year oscillator, European stocks still sit in overbought territory.

MSCI Emerging Europe Index Does Not Look Overbought

Year-Over-Year Percentage Change Oscillator, 10-Year Period

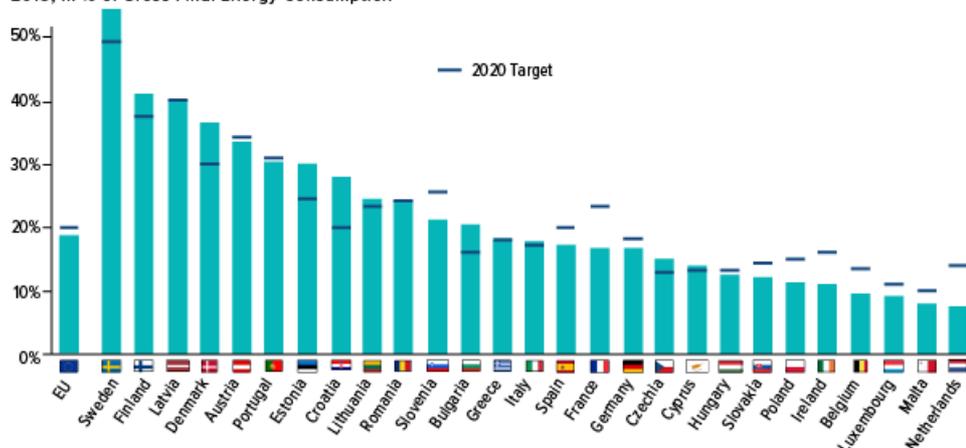


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- The European Union (EU) announced on Wednesday a plan to boost the production of clean hydrogen as part of its goal to achieve climate neutrality by 2050. The investment in renewable hydrogen is expected to reach between 180-470 billion euros by 2050. Hydrogen now accounts for 2 percent of the EU's energy mix, and the EU wants to

increase that to 14 percent by 2050.

Share of Energy From Renewable Sources In The EU Member States 2018, In % of Gross Final Energy Consumption



Source: ec.europa.eu/Eurostat, U.S. Global Investors

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Threats

- Germany's May industrial production rebounded 7.5 percent month-over-month, below the 10.0 percent consensus and compared with contractions of 17.5 percent and 8.9 percent in April and March, respectively. The annual rate of production fell 19.3 percent year-over-year, leaving it well below pre-coronavirus levels. The breakdown showed production excluding energy and construction was up 10.3 percent. The production of capital goods increased 27.6 percent, though gains in other areas were modest.
- Reuters reports that the Bank of Italy has said almost 40 percent of Italian borrowers are struggling to pay home loans because of the impact of the coronavirus crisis and almost half of those surveyed expect their incomes to fall over the next 12 months. The study by the Bank showed that over half of individuals surveyed declared they had seen a reduction in family incomes. The coronavirus outbreak started in Italy and spread quickly throughout Europe.
- Poland will hold a second round of Presidential elections this Sunday. According to the average of the last five opinion polls, 46.6 percent would vote to re-elect Andzej Duda supporter of the conservative, right-wing populist political party Law & Justice versus 46.3 percent for Rafal Trzaskowski. A change of leadership may create some local political tension, but it may also bring Poland closer to Western Europe.

China Region

Strengths

- China was the best performing country this week, gaining 7.3 percent. Retail investors were largely responsible for the stock market rally in China as the Asian nation reported upbeat economic data. Moreover, Chinese investors diversified their portfolios with the Hong Kong dollar after the successful implementation of a new security law in Honk Kong. Xiaomi Corp., a phone maker and distributor, was the best performing equity among stocks trading in the China iShares Large-Cap. ETF (FXI), gaining 24 percent over the past five days.
- The Chinese renminbi (yuan) was the best performing currency this week, gaining 1 percent. The yuan appreciated with support from stronger economic data and outperformance of equities as China leads the global recovery.
- Material stocks were the best performers in the Hong Kong Stock Exchange.

Weaknesses

- The Philippines was the worst performing market this week, losing 2.8 percent. The country unsuccessfully tried to control the COVID-19 outbreak. Coronavirus infections exceeded 52,000 on Friday, the Department of Health said, the highest number of deaths in a day since three months ago. Ayala Land, a property developer, was the worst performing local equity among stocks trading in the iShares MSCI Philippines ETF (EPHE), losing 8.6 percent over the past five days.
- The Indian rupee was the worst performing currency this week, losing 70 basis points. The currency suffered its worst

week in three months with traders citing central bank intervention to map foreign inflows, Bloomberg reported. Moreover, the central bank of India is expected to announce deeper rate cuts.

- Conglomerate stocks were the worst performers in the Hong Kong Stock Exchange.

Opportunities

- According to Nomura, macro hedge funds and quantitative investors are fueling the Chinese stock market rally as they unwind bearish positions. Masanari Takada, cross-asset strategist at Nomura, said that investors are exiting short positions in Chinese equities as the market sentiment rises to the highest since March. Bloomberg notes that the CSI 300 Index has rallied for six weeks to a five-year high.

Chinese Stocks Have Started to Massively Outperform U.S. Counterparts

Normalized as of 07/08/2019



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- On July 2, the first trading day since the national security law was enacted in Hong Kong, the benchmark Hang Seng Index (HSI) rose 2.85 percent. Dong Dengxin, director of Finance and Securities Institution at a Wuhan university, said: “The economic activities in Hong Kong and its financial market were under heavy strain amid the protests, when chaos ravaged the city with transportation cut and banks vandalized. For finance people, the National Security Law is speaking for a more stable and favorable environment for their capital in the market.”
- Bloomberg reports that India is considering a plan to raise as much as 200 billion rupees by selling a stake in Coal India, the world’s largest coal producer. The government could also sell a stake in a bank to fund a stimulus program aimed at boosting the coronavirus-hit economy.

Threats

- Hong Kong announced new powers to police the Internet on Monday, which puts major technology and social media companies in a tricky position. If a publisher fails to immediately comply with a government request to remove content deemed in breach of the new law, police are able to seek a warrant to “take any action” to remove it while also demanding “the identification record of decryption assistance,” notes Bloomberg News. Facebook, Twitter and Google are all blocked in China, and this new law could result in the banning of those in Hong Kong as well. Microsoft and Zoom suspended requests for data from the Hong Kong government shortly after the law was announced. Google voluntarily left China 10 years ago because it didn’t want to comply with its strict measures.
- China is still far from its 2020 purchase targets for U.S. fossil fuels, prompting concerns from the energy industry. China pledged to buy \$25 billion, but the latest U.S. export data from May shows that so far it has only bought \$2 billion worth.
- Hong Kong is tightening social distancing measures after reporting a record daily number of locally transmitted COVID-19 infections, reports Bloomberg. The city found 42 new cases on Thursday, 34 of which were domestic.

Blockchain and Digital Currencies

Strengths

- Of the cryptocurrencies tracked by CoinMarketCap, the best performing for the week ended July 10 was Nasdacoïn, up 149.62 percent. As announced this week, Coinbase, Inc. is reportedly preparing for a U.S. stock market listing that could come this year.
- Tezos price looks ripe to follow in Chainlink’s footsteps for a massive rally, writes CoinTelegraph, and even new all-

time highs given the correlation of these two cryptocurrencies. Massive surges are seen across the board for altcoins, the article continues, with some making 1,000 percent moves or more.

- A new 2020 cryptocurrency outlook report from Bloomberg shows that the company's analysts are quite bullish on bitcoin, reports Bitcoinist.com. In fact, the report highlights the digital assets scarcity and even suggests that the current active addresses point to prices closer to \$12,000 in the short term.

Weaknesses

- Of the cryptocurrencies tracked by CoinMarketCap, the worst performing for the week ended July 10 was Cannadrix, down 88.30 percent.
- Chinese police have seized over \$15 million in cryptocurrency and supercars worth \$2 million, reports CoinDesk. Police in the city of Wenzhou have arrested 10 individuals suspected of operating the fraudulent scheme. According to the article, the criminal case is the first in China where victims were allegedly scammed using blockchain smart contracts to generate fake cryptocurrencies.
- As reported by CoinDesk, U.S. sanctions in response to Hong Kong's national security law, could pose challenges for local crypto brokerage firms. The bill stipulates that the U.S. government should restrict foreign banks and subsidiaries of U.S. banks in Hong Kong from accessing the U.S. dollar system if they "conduct significant transactions with persons or entities that contribute to weakening Hong Kong's autonomy." The article explains that this could take a toll on crypto companies in Hong Kong, particularly crypto brokerages, which are highly dependent on the U.S. dollar system to settle and clear transactions.

Opportunities

- Sahyadri Farmers Producer, one of India's largest farm producer organizations, is integrating blockchain into its business process to help farmers receive higher pay, writes CoinTelegraph. The Hindu Business Line reported that Sahyadri will use blockchain for its supply chains to increase efficiency and transparency in the traceability of food products.
- Which cryptocurrencies matter most to the market? That is a question that gets tougher to answer every day, writes CoinDesk, as new digital assets join the thousands already traded. For this reason, CoinDesk has launched what is known as "CoinDesk 20" – a group of 20 digital assets making up most of what people mean when they say, "the cryptocurrency market." Together, they are worth over 90 percent of the entirety of the crypto market, but the list is not derived simply from valuations. Instead, the article explains, it involves a smarter way to find the assets most relevant. We encourage you to visit CoinDesk for the full methodology explanation.

Assets In The "CoinDesk 20"

Ticker	Asset	Category	Value Proposition	Consensus Mechanism
BTC	Bitcoin	Currency	Digital Gold	PoW
ETH	Ethereum	Software platform	Global computer	PoW
USDT	Tether	Stablecoin	Digital Fiat	n/a
XRP	XRP	Currency	Payments	Custom
BCH	Bitcoin Cash	Currency	Internet money	PoW
LTC	Litecoin	Currency	Digital gold	PoW
USDC	USD Coin	Stablecoin	Digital fiat	n/a
XTZ	Tezos	Software platform	Governance network	PoS
EOS	Eos	Software platform	Global computer	dPoS
LINK	Chainlink	Application token	Oracle network	n/a
BSV	Bitcoin SV	Currency	Internet Money	PoW
ETC	Ethereum Classic	Software platform	Global computer	PoW
DASH	Dash	Currency	Privacy coin	Hybrid
XLM	Stellar	Currency	Payments	Custom
DAI	Dai	Stablecoin	Digital fiat	n/a
ZEC	Zcash	Currency	Privacy coin	PoW
XMR	Monero	Currency	Privacy coin	PoW
ZRX	0x	Application token	Decentralized finance	n/a
BAT	Basic Attention Token	Application token	Payments	n/a
TRX	Tron	Software platform	Global computer	dPoS

Source: CoinDesk, U.S. Global Investors

- The Malaysian Shariah Advisory Council, the authority that oversees the implementation of Islamic laws, made a landmark announcement declaring digital assets trading is permissible, reports CoinTelegraph. The announcement bears extreme significance as more than 60 percent of Malaysians are Muslims, according to Kelvyn Chuah, the founder of SINEGY – the first Malaysian digital asset exchange approved by Malaysia's securities watchdog.

Threats

- The Hebrew University of Jerusalem put out a new cybersecurity report showing that savvy attackers might be able to "loot" bitcoin from others by way of the Lightning Network if users aren't careful, reports CoinDesk. The bitcoin blockchain is slow to settle payments, and this is where the Lightning Network comes in as a second-layer solution. However, Lightning is still tied to the bitcoin blockchain – this attack exploits the connection and tries to take advantage of bitcoin's aforementioned limitations, the article continues.
- Although decentralized finance (DeFi) has the potential to change our financial ecosystem, Richard Ma of

Quantstamp says security remains a huge challenge. “We think security is very crucial for DeFi’s growth,” he said at the Unitize digital conference this week. As reported by CoinTelegraph, Ma specifically noted the several DeFi hacks that occurred so far this year, stating that \$26 million worth of funds were stolen from DeFi projects in 2020 alone.

- The CENTRE Consortium, which issues the dollar-pegged USDC on top of the Ethereum blockchain, blacklisted a USDC address in response to a law enforcement request, writes CoinDesk. This froze \$100,000 worth of the stablecoin. “While we cannot comment on the specifics of law enforcement requests, Centre complies with binding court orders that have appropriate jurisdiction over the organization,” the company’s statement said.

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