

# Precious Metals

## Go Gold

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- Global economic outlook has degenerated rapidly this year mainly due to the global trade tensions
- Recession and rate cut probabilities have surged, resulting in diminishing returns for most financial assets
- Global ETF's and central banks' reserves of gold have increased, reinforcing gold's investment value
- In addition to recommendations in our previous report, we highlight several mining stocks who are strong market leaders and have the highest trading liquidity

### Lacklustre global economy outlook

With one quarter left until the end of 2019, global financial institutions have released the final economic growth forecast for this and next year. The summarised global growth projections indicate a dim outlook in the near term:

Date	Organisation/Institution	Type	2019		2020	
			Updated	Changes (pts)	Updated	Changes (pts)
Oct	IMF	Global economic growth	3.0%	-0.3	3.4%	-0.2
Oct	WTO	World trade volume	1.2%	-1.4	2.7%	-0.3
Sep	OECD	Global economic growth	2.9%	-0.4	3.0%	-0.4

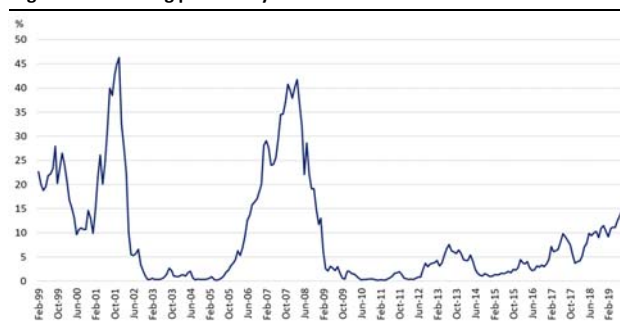
From a short-term perspective, the low growth environment is due to the rise of trade tensions, especially between China and the US. But from a longer-term point of view, this is a result of more than 10 years of loose monetary policy which has favoured debt to boost economic growth, and this has had a diminishing marginal effect. Global debt rose to more than US\$245tn as of Aug-19, which is close to 320% of global GDP, according to the Institute of International Finance. The ratio was about 235% when the global financial crisis occurred. Meanwhile, the major central banks continue to inject more capital into the system. In Sep-19, the ECB announced that it would resume its quantitative-easing programme of US\$20bn/month starting in Nov-19. In Oct-19, the Fed began buying Treasury bills at a pace of US\$60bn/month. The PBOC has been conducting several types of open market operations on hundreds of billions of RMB, including medium-term lending facility and central bank bills swap. We believe this boost in global liquidity will alleviate the pressure of the current slowdown in economic growth but will simultaneously inflate asset prices.

### The probability of rate cut and recession synchronises

We are near the end of the bull cycle. According to the Fed's recession model, the probability of a recession in the US for the next 12 months has jumped substantially this year. Recently, the odds are the highest since the end of the last global financial crisis. This is mainly due to the inversion of the yield curve and the substantial amount of negative yielding debt globally.

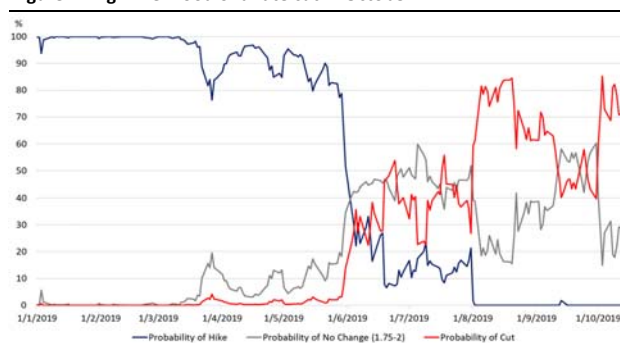
Meanwhile, the rate cut trend continues, reinforcing the low rate environment. Financial asset prices are inflated due to the downtrend of discount rates, while yield generated from these assets are much lower. When interest rates are close to zero or negative, the pricing of these assets becomes distorted, which then affects their investment values. Although Gold does not generate any yield, it has historically been an anchor of value. As currencies devalue and as financial assets begin generating diminishing return, gold's investment value will eventually shine.

Figure 1: Increasing probability of recession in the next 12 months



Source: Bloomberg, KGI Research

Figure 2: High likelihood of a rate cut in October

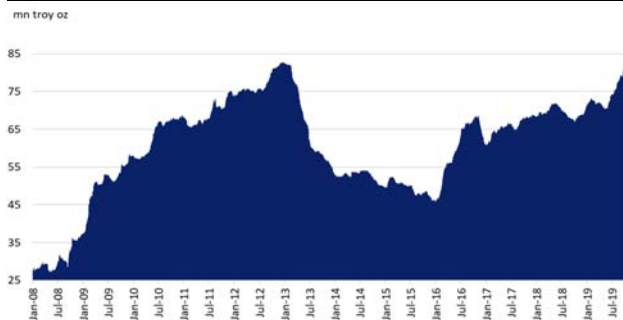


Source: Bloomberg, KGI Research

### Central banks and funds are amassing gold holdings

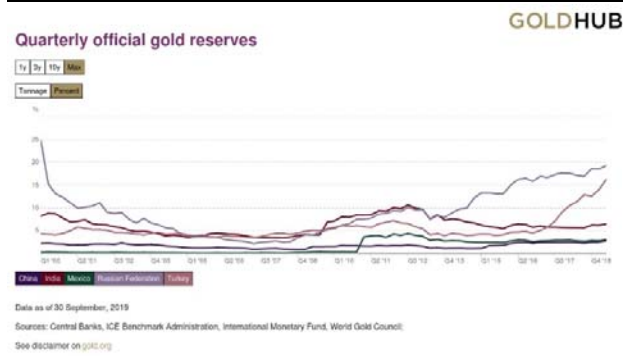
As of Oct-19, the global ETF holdings of gold is at 81.9mn troy oz, a level since gold prices peaked in 2011-2012. Meanwhile, countries, especially Russia and China, have been accumulating gold reserves. The trend indicates dwindling confidence in both financial and monetary systems. Gold as a safe-haven asset has been enabled against the backdrop of global trade tensions and geopolitical uncertainties (Brexit, Sanctions on Iran, and North Korea issues). Therefore, investment allocation to gold will benefit investors in both the short and long term.

Figure 3: Increasing global ETF holdings of gold



Source: Bloomberg, KGI Research

Figure 4: Russia and China are accumulating gold reserve



Source: World Gold Council

### Stock picks

In addition to recommendations in our previous report, below are several mining stocks, strong market leaders with some of the highest trading liquidity, for reference.

Figure 5: Gold and Silver mining stocks

Ticker	Name	Market Cap (USD bn)	1M Return (%)	6M Return (%)	1Y Return (%)	P/B	P/E	12M FWD PE	Net D/E (%)	ROA (%)	ROE (%)
<b>China</b>											
601899 CH	ZIJIN MINING GROUP CO LTD-A	17.2	-6.0	-5.6	2.2	2.1	22.0	14.7	76.9	3.3	9.7
600547 CH	SHANDONG GOLD MINING CO LT-A	14.3	-11.2	53.4	86.8	4.6	105.2	37.9	19.0	2.0	4.8
600489 CH	ZHONGJIN GOLD CORP-A	6.6	-6.2	3.6	22.7	2.2	201.7	76.1	42.1	0.4	1.1
002155 CH	HUNAN GOLD CORP LTD-A	1.5	-7.5	2.5	44.6	2.1	47.3	27.4	7.1	3.1	4.5
<b>Hong Kong</b>											
2899 HK	ZIJIN MINING GROUP CO LTD-H	17.2	-6.6	-17.9	-1.0	1.5	16.2	10.8	76.9	3.3	9.7
1787 HK	SHANDONG GOLD MINING CO LT-H	14.3	0.8	52.1	69.3	2.4	54.4	19.1	19.0	2.0	4.8
1818 HK	ZHAOJIN MINING INDUSTRY - H	6.4	-5.5	21.3	28.6	2.4	63.6	24.2	78.8	1.8	4.3
<b>US</b>											
<b>Gold</b>											
GOLD US	BARRICK GOLD CORP	36.8	-5.2	30.2	36.1	1.9	130.3	24.1	44.4	-4.5	-10.4
NEM US	NEWMONT GOLD CORP	37.5	-3.3	12.9	24.3	1.6	34.3	17.3	5.2	-0.3	-0.5
AEM US	AGNICO EAGLE MINES LTD	14.4	-7.1	31.8	47.2	N/A	N/A	32.2	31.1	-3.8	-6.5
AU US	ANGLOGOLD ASHANTI-SPON ADR	10.3	7.8	61.0	110.9	N/A	N/A	11.4	63.7	3.2	8.0
<b>Silver</b>											
AG US	FIRST MAJESTIC SILVER CORP	2.2	7.7	70.8	65.4	N/A	N/A	31.8	15.1	-15.9	-24.2
PAAS US	PAN AMERICAN SILVER CORP	3.7	-0.9	29.9	6.6	N/A	N/A	20.7	Net Cash	-0.8	-1.1

Source: Bloomberg, KGI Research

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