

Precious Metals and Minerals

Canadian Equity Research

12 August 2020

Carey MacRury, CFA | Analyst | Canaccord Genuity Corp. (Canada) | cmacrury@cgf.com | 1.416.867.6130
Hilary Chak | Associate | Canaccord Genuity Corp. (Canada) | hchak@cgf.com | 1.416.869.3073
Jeremy Hoy | Associate | Canaccord Genuity Corp. (Canada) | jehoy@cgf.com | 1.416.869.6592

Now what? Gold correction or top?

Now what? In light of the \$115/oz (5.7%) sell-off in gold yesterday, we reiterate our fundamental view on gold in this note – which frankly remains unchanged – and we have taken a look at similar gold sell-offs in the past to provide context around today's move. The \$115/oz (5.7%) drop is the 5th worst one-day drop in gold over the past 20 years and the worst in over 7 years. We view today's sell-off as a price correction given the strong upward price pressure in gold over the past few months, and more acutely over the past few weeks, rather than the start of a more bearish outlook for gold. And, as such, we recommend buying on weakness.

Not hard to argue gold was due for a pullback – The gold price had risen for 9 weeks in a row and over just the past 3 weeks gained over \$250/oz. After such a strong move, we think it's fair to say gold was due for a pullback. While fundamentals continue to be supportive for gold, in our view, we think investors chasing price momentum pushed gold too hard, too fast, particularly with the momentum of a weakening dollar and falling real rates recently tempering (Figure 2).

No deeper market signals pointing to a sustained sell-off – The USD was largely flat on the day and US equity markets, while initially up slightly, ended down for the day. In our view, the frequent media commentary that gold is falling because investors are now "risk-on" is misguided, particularly in this environment. Since mid-March, the S&P500 is up 30% and gold through yesterday was up 29%. US treasury yields rose but so did breakeven rates, indicating inflation expectations continue to rise. The US 10-year real yield rose 5bps from -1.03% to -0.98%, which hardly justifies a \$100/oz drop in the gold price, in our view. We also note that physical gold ETF holdings remain near record highs (Figure 10), with only 9 tonnes sold in the past few days (-0.3%).

As we have frequently noted (see our most recent note [here](#)), we continue to see rising inflation expectations as the key near-term driver for gold prices in this environment. And with the US 10-year breakeven rate at ~1.6%, we believe the Fed will continue to keep its foot on the gas until it can achieve a sustained ~2% inflation rate and its other mandate of full employment (LT neutral unemployment rate of ~4%) with rates to near zero through 2022 and continued QE.

Where do gold stocks stand now? Gold closed yesterday at \$1,912/oz, down 7% from its \$2,064/oz high and back to levels it was at just 2.5 weeks ago. Gold equities meanwhile are down 12% from their recent highs and are back at levels they were at 3.5 weeks ago when gold last traded at \$1,810/oz.

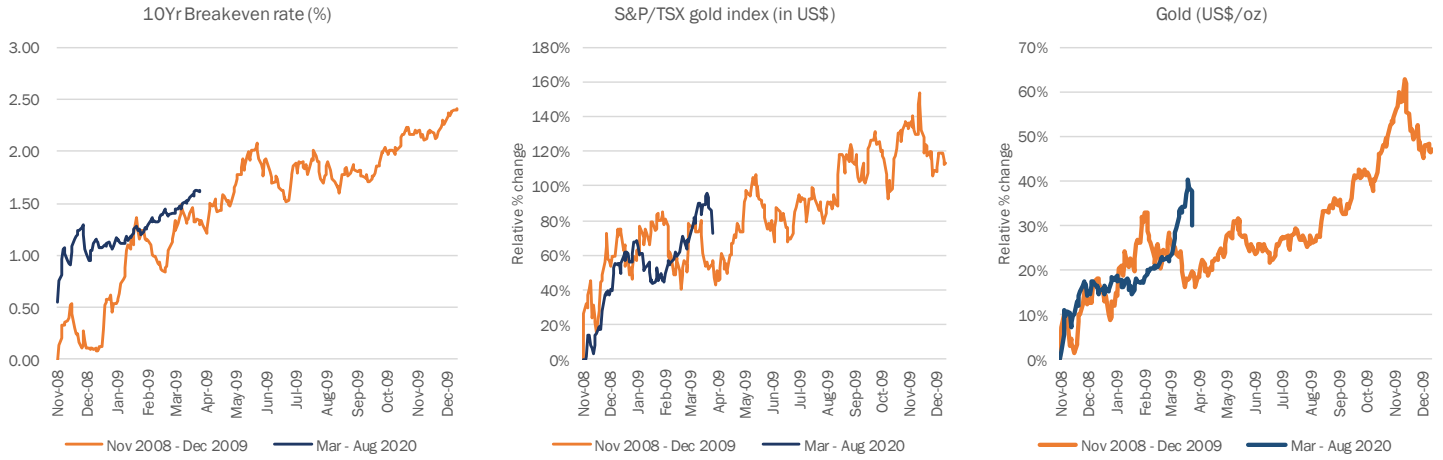
Implications from previous one-day selloffs in gold - There have been 10 one-day selloffs of ~5% or more over the past 20 years with yesterday being the 5th worst. As we show in Figures 4-7, all 10 selloffs have coincided with periods of falling inflation expectations with the exception of yesterday. Five occurred in periods in 2006 and 2013 with inflation receding from above-target levels. Four occurred amid deflationary fears during the global financial crisis in late 2008. As we've noted, inflation expectations haven't shown any signs of breaking down (Figure 1), and we believe the Fed is likely to step in if it did.

What we're watching for if we're wrong: Risks to the gold price from here, beyond a price correction, would be a negative reversal in inflation expectations (similar to March 2020) or sustained strength in either the US dollar or real interest rates.

CG precious metal top picks:

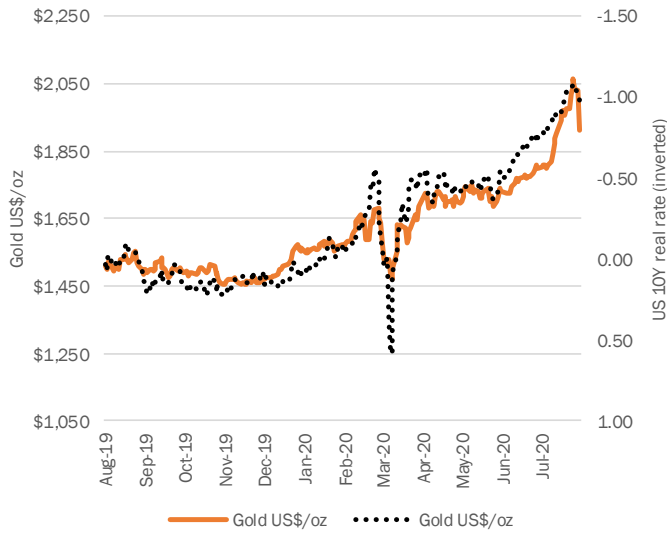
- **Seniors:** Kinross, B2Gold
- **Intermediate/Juniors:** Equinox Gold, Teranga Gold, K92 Mining, Calibre Mining
- **Royalty/streaming companies:** Osisko Gold Royalties

Figure 1: US 10-year breakeven, gold, and S&P/TSX Gold index rebound – Global Financial Crisis versus now



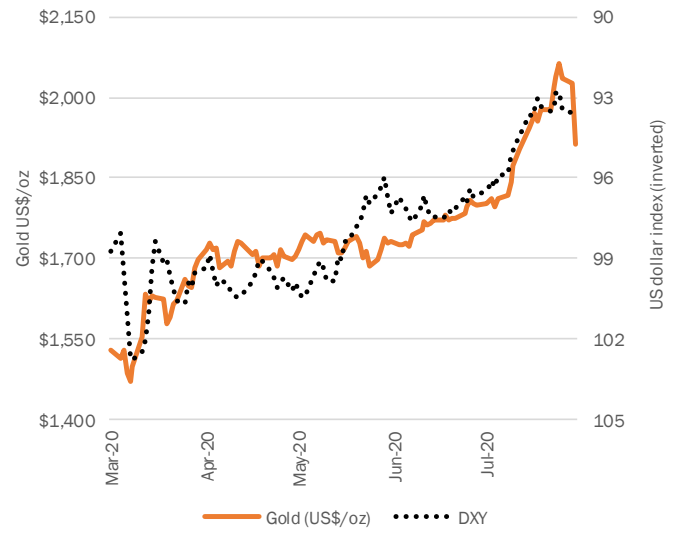
Source: Bloomberg, Canaccord Genuity

Figure 2: Gold vs. US 10Y real rate (inverted)



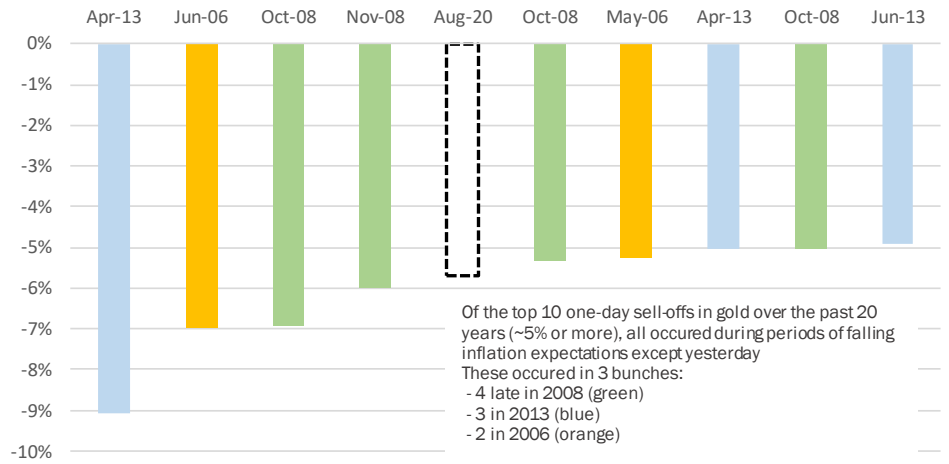
Source: Bloomberg, Canaccord Genuity

Figure 3: Gold vs. US dollar index (inverted)



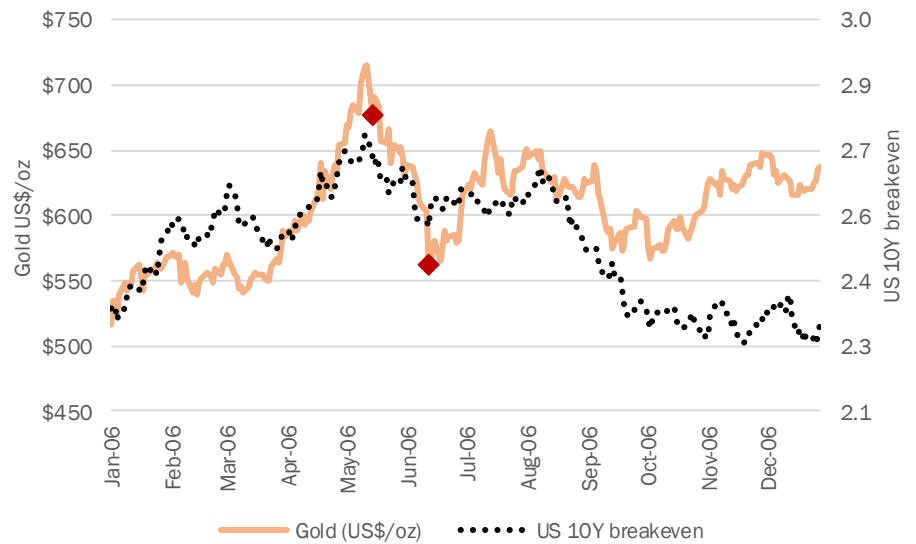
Source: Bloomberg, Canaccord Genuity

Figure 4: Top 10 one-day gold sell-offs in past 20 years (~5% or more)



Source: Bloomberg, Canaccord Genuity

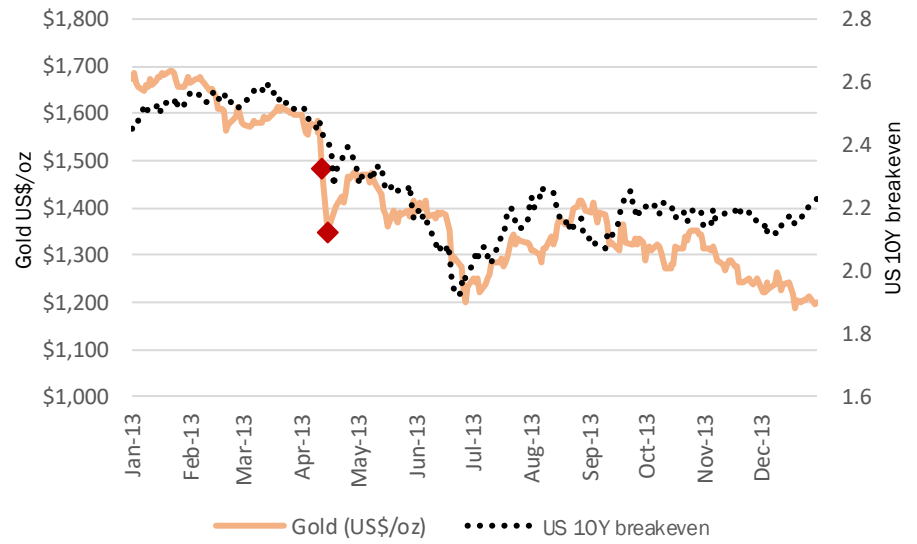
Figure 5: 2006



Note: Red markers are >5% one-day declines in gold

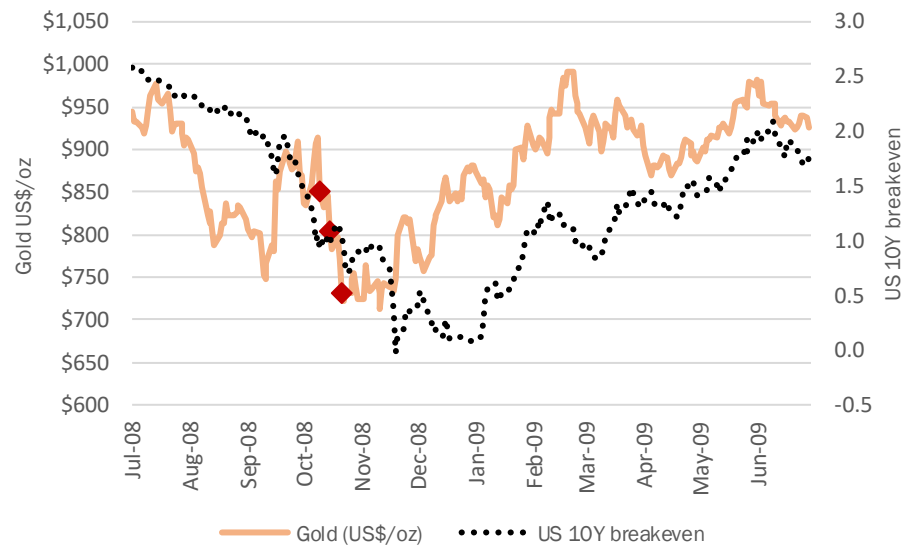
Source: Bloomberg, Canaccord Genuity

Figure 6: 2013



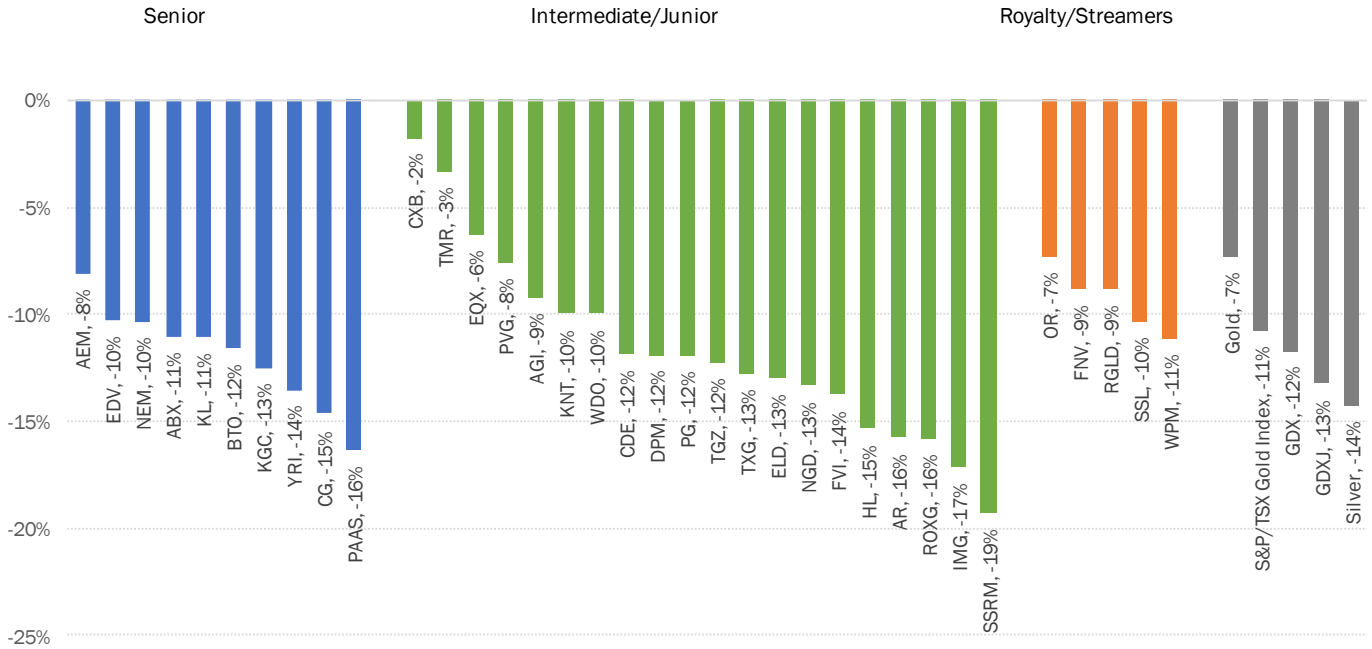
Note: Red markers are >5% one-day declines in gold
Source: Company Reports, Canaccord Genuity

Figure 7: 2008/2009



Note: Red markers are >5% one-day declines in gold
Source: Company Reports, Canaccord Genuity

Figure 8: Share price performance (in US\$) during sell-off since August 6 gold peak of \$2,064/oz



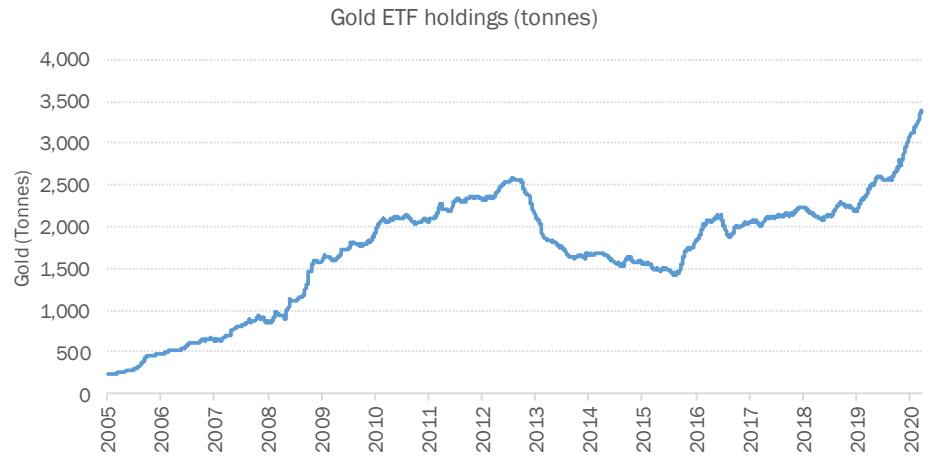
Source: Factset, Canaccord Genuity

Figure 9: 3-week run-up to August 6 gold peak (in US\$)



Source: Factset, Canaccord Genuity

Figure 10: Gold ETF holdings (tonnes)



Source: Company Reports, Canaccord Genuity estimates

Appendix: Important Disclosures

Analyst Certification

Each authoring analyst of Canaccord Genuity whose name appears on the front page of this research hereby certifies that (i) the recommendations and opinions expressed in this research accurately reflect the authoring analyst's personal, independent and objective views about any and all of the designated investments or relevant issuers discussed herein that are within such authoring analyst's coverage universe and (ii) no part of the authoring analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by the authoring analyst in the research, and (iii) to the best of the authoring analyst's knowledge, she/he is not in receipt of material non-public information about the issuer.

Analysts employed outside the US are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity LLC and therefore may not be subject to the FINRA Rule 2241 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Sector Coverage

Individuals identified as "Sector Coverage" cover a subject company's industry in the identified jurisdiction, but are not authoring analysts of the report.

Investment Recommendation

Date and time of first dissemination: August 12, 2020, 05:03 ET

Date and time of production: August 12, 2020, 05:03 ET

Compendium Report

This report covers six or more subject companies and therefore is a compendium report and Canaccord Genuity and its affiliated companies hereby direct the reader to the specific disclosures related to the subject companies discussed in this report, which may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures.canaccordgenuity.com/EN/Pages/default.aspx>; or by sending a request to Canaccord Genuity Corp. Research, Attn: Disclosures, P.O. Box 10337 Pacific Centre, 2200-609 Granville Street, Vancouver, BC, Canada V7Y 1H2; or by sending a request by email to disclosures@cgf.com. The reader may also obtain a copy of Canaccord Genuity's policies and procedures regarding the dissemination of research by following the steps outlined above.

Past performance

In line with Article 44(4)(b), MiFID II Delegated Regulation, we disclose price performance for the preceding five years or the whole period for which the financial instrument has been offered or investment service provided where less than five years. Please note price history refers to actual past performance, and that past performance is not a reliable indicator of future price and/or performance.

Distribution of Ratings:

Global Stock Ratings (as of 08/12/20)

Rating	Coverage Universe		IB Clients
	#	%	%
Buy	520	62.80%	54.04%
Hold	179	21.62%	42.46%
Sell	16	1.93%	37.50%
Speculative Buy	113	13.65%	72.57%
	828*	100.0%	

*Total includes stocks that are Under Review

Canaccord Genuity Ratings System

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

HOLD: The stock is expected to generate risk-adjusted returns of 0-10% during the next 12 months.

SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

NOT RATED: Canaccord Genuity does not provide research coverage of the relevant issuer.

"Risk-adjusted return" refers to the expected return in relation to the amount of risk associated with the designated investment or the relevant issuer.

Risk Qualifier

SPECULATIVE: Stocks bear significantly higher risk that typically cannot be valued by normal fundamental criteria. Investments in the stock may result in material loss.

12-Month Recommendation History (as of date same as the **Global Stock Ratings** table)

A list of all the recommendations on any issuer under coverage that was disseminated during the preceding 12-month period may be obtained at the following website (provided as a hyperlink if this report is being read electronically) <http://disclosures-mar.canaccordgenuity.com/EN/Pages/default.aspx>

General Disclaimers

See "Required Company-Specific Disclosures" above for any of the following disclosures required as to companies referred to in this report: manager or co-manager roles; 1% or other ownership; compensation for certain services; types of client relationships; research analyst conflicts; managed/co-managed public offerings in prior periods; directorships; market making in equity securities and related derivatives. For reports identified above as compendium reports, the foregoing required company-specific disclosures can be found in a hyperlink located in the section labeled, "Compendium Reports." "Canaccord Genuity" is the business name used by certain wholly owned subsidiaries of Canaccord Genuity Group Inc., including Canaccord Genuity LLC, Canaccord Genuity Limited, Canaccord Genuity Corp., and Canaccord Genuity (Australia) Limited, an affiliated company that is 80%-owned by Canaccord Genuity Group Inc.

The authoring analysts who are responsible for the preparation of this research are employed by Canaccord Genuity Corp. a Canadian broker-dealer with principal offices located in Vancouver, Calgary, Toronto, Montreal, or Canaccord Genuity LLC, a US broker-dealer with principal offices located in New York, Boston, San Francisco and Houston, or Canaccord Genuity Limited., a UK broker-dealer with principal offices located in London (UK) and Dublin (Ireland), or Canaccord Genuity (Australia) Limited, an Australian broker-dealer with principal offices located in Sydney and Melbourne.

The authoring analysts who are responsible for the preparation of this research have received (or will receive) compensation based upon (among other factors) the Investment Banking revenues and general profits of Canaccord Genuity. However, such authoring analysts have not received, and will not receive, compensation that is directly based upon or linked to one or more specific Investment Banking activities, or to recommendations contained in the research.

Some regulators require that a firm must establish, implement and make available a policy for managing conflicts of interest arising as a result of publication or distribution of research. This research has been prepared in accordance with Canaccord Genuity's policy on managing conflicts of interest, and information barriers or firewalls have been used where appropriate. Canaccord Genuity's policy is available upon request.

The information contained in this research has been compiled by Canaccord Genuity from sources believed to be reliable, but (with the exception of the information about Canaccord Genuity) no representation or warranty, express or implied, is made by Canaccord Genuity, its affiliated companies or any other person as to its fairness, accuracy, completeness or correctness. Canaccord Genuity has not independently verified the facts, assumptions, and estimates contained herein. All estimates, opinions and other information contained in this research constitute Canaccord Genuity's judgement as of the date of this research, are subject to change without notice and are provided in good faith but without legal responsibility or liability.

From time to time, Canaccord Genuity salespeople, traders, and other professionals provide oral or written market commentary or trading strategies to our clients and our principal trading desk that reflect opinions that are contrary to the opinions expressed in this research. Canaccord Genuity's affiliates, principal trading desk, and investing businesses also from time to time make investment decisions that are inconsistent with the recommendations or views expressed in this research.

This research is provided for information purposes only and does not constitute an offer or solicitation to buy or sell any designated investments discussed herein in any jurisdiction where such offer or solicitation would be prohibited. As a result, the designated investments discussed in this research may not be eligible for sale in some jurisdictions. This research is not, and under no circumstances should be construed as, a solicitation to act as a securities broker or dealer in any jurisdiction by any person or company that is not legally permitted to carry on the business of a securities broker or dealer in that jurisdiction. This material is prepared for general circulation to clients and does not have regard to the investment objectives, financial situation or particular needs of any particular person. Investors should obtain advice based on their own individual circumstances before making an investment decision. To the fullest extent permitted by law, none of Canaccord Genuity, its affiliated companies or any other person accepts any liability whatsoever for any direct or consequential loss arising from or relating to any use of the information contained in this research.

Research Distribution Policy

Canaccord Genuity research is posted on the Canaccord Genuity Research Portal and will be available simultaneously for access by all of Canaccord Genuity's customers who are entitled to receive the firm's research. In addition research may be distributed by the firm's sales and trading personnel via email, instant message or other electronic means. Customers entitled to receive research may also receive it via third party vendors. Until such time as research is made available to Canaccord Genuity's customers as described above, Authoring Analysts will not discuss the contents of their research with Sales and Trading or Investment Banking employees without prior compliance consent.

For further information about the proprietary model(s) associated with the covered issuer(s) in this research report, clients should contact their local sales representative.

Short-Term Trade Ideas

Research Analysts may, from time to time, discuss "short-term trade ideas" in research reports. A short-term trade idea offers a near-term view on how a security may trade, based on market and trading events or catalysts, and the resulting trading opportunity that may be available. Any such trading strategies are distinct from and do not affect the analysts' fundamental equity rating for such stocks. A short-term trade idea may differ from the price targets and recommendations in our published research reports that reflect the research analyst's views of the longer-term (i.e. one-year or greater) prospects of the subject company, as a result of the

differing time horizons, methodologies and/or other factors. It is possible, for example, that a subject company's common equity that is considered a long-term 'Hold' or 'Sell' might present a short-term buying opportunity as a result of temporary selling pressure in the market or for other reasons described in the research report; conversely, a subject company's stock rated a long-term 'Buy' or 'Speculative Buy' could be considered susceptible to a downward price correction, or other factors may exist that lead the research analyst to suggest a sale over the short-term. Short-term trade ideas are not ratings, nor are they part of any ratings system, and the firm does not intend, and does not undertake any obligation, to maintain or update short-term trade ideas. Short-term trade ideas are not suitable for all investors and are not tailored to individual investor circumstances and objectives, and investors should make their own independent decisions regarding any securities or strategies discussed herein. Please contact your salesperson for more information regarding Canaccord Genuity's research.

For Canadian Residents:

This research has been approved by Canaccord Genuity Corp., which accepts sole responsibility for this research and its dissemination in Canada. Canaccord Genuity Corp. is registered and regulated by the Investment Industry Regulatory Organization of Canada (IIROC) and is a Member of the Canadian Investor Protection Fund. Canadian clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity Corp. in their particular province or territory.

For United States Persons:

Canaccord Genuity LLC, a US registered broker-dealer, accepts responsibility for this research and its dissemination in the United States. This research is intended for distribution in the United States only to certain US institutional investors. US clients wishing to effect transactions in any designated investment discussed should do so through a qualified salesperson of Canaccord Genuity LLC. Analysts employed outside the US, as specifically indicated elsewhere in this report, are not registered as research analysts with FINRA. These analysts may not be associated persons of Canaccord Genuity LLC and therefore may not be subject to the FINRA Rule 2241 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

For United Kingdom and European Residents:

This research is distributed in the United Kingdom and elsewhere Europe, as third party research by Canaccord Genuity Limited, which is authorized and regulated by the Financial Conduct Authority. This research is for distribution only to persons who are Eligible Counterparties or Professional Clients only and is exempt from the general restrictions in section 21 of the Financial Services and Markets Act 2000 on the communication of invitations or inducements to engage in investment activity on the grounds that it is being distributed in the United Kingdom only to persons of a kind described in Article 19(5) (Investment Professionals) and 49(2) (High Net Worth companies, unincorporated associations etc) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended). It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. This material is not for distribution in the United Kingdom or elsewhere in Europe to retail clients, as defined under the rules of the Financial Conduct Authority.

For Jersey, Guernsey and Isle of Man Residents:

This research is sent to you by Canaccord Genuity Wealth (International) Limited (CGWI) for information purposes and is not to be construed as a solicitation or an offer to purchase or sell investments or related financial instruments. This research has been produced by an affiliate of CGWI for circulation to its institutional clients and also CGWI. Its contents have been approved by CGWI and we are providing it to you on the basis that we believe it to be of interest to you. This statement should be read in conjunction with your client agreement, CGWI's current terms of business and the other disclosures and disclaimers contained within this research. If you are in any doubt, you should consult your financial adviser.

CGWI is licensed and regulated by the Guernsey Financial Services Commission, the Jersey Financial Services Commission and the Isle of Man Financial Supervision Commission. CGWI is registered in Guernsey and is a wholly owned subsidiary of Canaccord Genuity Group Inc.

For Australian Residents:

This research is distributed in Australia by Canaccord Genuity (Australia) Limited ABN 19 075 071 466 holder of AFS Licence No 234666. To the extent that this research contains any advice, this is limited to general advice only. Recipients should take into account their own personal circumstances before making an investment decision. Clients wishing to effect any transactions in any financial products discussed in the research should do so through a qualified representative of Canaccord Genuity (Australia) Limited. Canaccord Genuity Wealth Management is a division of Canaccord Genuity (Australia) Limited.

For Hong Kong Residents:

This research is distributed in Hong Kong by Canaccord Genuity (Hong Kong) Limited which is licensed by the Securities and Futures Commission. This research is only intended for persons who fall within the definition of professional investor as defined in the Securities and Futures Ordinance. It is not intended to be distributed or passed on, directly or indirectly, to any other class of persons. Recipients of this report can contact Canaccord Genuity (Hong Kong) Limited. (Contact Tel: +852 3919 2561) in respect of any matters arising from, or in connection with, this research.

Additional information is available on request.

Copyright © Canaccord Genuity Corp. 2020 – Member IIROC/Canadian Investor Protection Fund

Copyright © Canaccord Genuity Limited. 2020 – Member LSE, authorized and regulated by the Financial Conduct Authority.

Copyright © Canaccord Genuity LLC 2020 – Member FINRA/SIPC

Copyright © Canaccord Genuity (Australia) Limited. 2020 – Participant of ASX Group, Chi-x Australia and of the NSX. Authorized and regulated by ASIC.

All rights reserved. All material presented in this document, unless specifically indicated otherwise, is under copyright to Canaccord Genuity Corp., Canaccord Genuity Limited, Canaccord Genuity LLC or Canaccord Genuity Group Inc. None of the material, nor its content, nor any copy of it, may be altered in any way, or transmitted to or distributed to any other party, without the prior express written permission of the entities listed above.

None of the material, nor its content, nor any copy of it, may be altered in any way, reproduced, or distributed to any other party including by way of any form of social media, without the prior express written permission of the entities listed above.