

In our mid-April report, we highlighted ten market variables we view as bullish for the gold price. During the intervening month, these factors have remained generally supportive, yet spot gold has traced out a 6.28% correction (from an intraday high of \$1,295.61 on 4/17 to an intraday low of \$1,214.26 on 5/9). More than anything else, we view gold's pullback as a reflection of persistent strength in U.S. equity markets. It is no coincidence that as gold marked its 5/9 trading low, the S&P 500 Index surpassed the 2,400 level for the first time. Simultaneously, the VIX volatility index declined to rarified single-digits (9.56), approaching lows last recorded in December 2006. In short, equity markets, to gold's reflexive challenge, have rarely been so complacent. What is fueling this record-breaking investor complacency? We would suggest market perceptions of risk have been all but extinguished by relentless provision of central bank liquidity.

Since the final taper of QE3 in November 2014, the Fed has passed the baton of global liquidity-creation to central banks around the world. Somewhat surprisingly, aggregate asset-purchases by the Fed's global colleagues have exceeded the scale of QE3 by an accelerating margin. Throughout 2016, monthly asset-purchases by the European Central Bank (ECB), the Bank of Japan (BOJ) and the Bank of England (BOE) totaled \$185 billion, or more than twice the rate of QE3 liquidity. Year-to-date in 2017, Bank of America (Michael Hartnett) calculates the annualized growth-rate of asset-purchases by the Fed, ECB, BOJ, BOE and the Swiss National Bank (SNB) totaled \$3.6 trillion through 4/19, dwarfing all prior rates of central bank balance-sheet expansion. To lend perspective to the scale of ongoing global QE, we plot in Figure 1, growth in the balance sheets of the Fed, the ECB and the BOJ. While the occasion received little fanfare in financial media, the size of the Fed's balance sheet at month-end April had actually been surpassed by **both** the ECB **and** the BOJ.

Figure 1: Balance Sheets of the Federal Reserve, European Central Bank and Bank of Japan (Total Assets Measured in U.S. Dollars) (12/30/94-4/30/17)



Source: Bloomberg

Zeroing in on recent developments in the Eurozone, the ECB expanded its balance sheet by 465 billion euros during the first **four months** of 2017. Figure 2 demonstrates this growth was heavily concentrated in the month of April. Obviously, the ECB was showering the continent with liquidity in concerted effort to cushion the Eurozone from potential shocks emanating from French presidential elections on 4/23 and 5/7. Perhaps the SNB was displaying similar trepidation in boosting its total equity holdings to \$80.4 billion during Q1, up a record \$17 billion during the three months. (If the **Swiss National Bank** prints money to boost its AAPL stake from 15 to 18.9 million shares during a quarter, why should equity investors feel anything **but** complacent?)

SPROTT PRECIOUS METALS WATCH

May 2017

Figure 2: U.S. Growth in Total Assets on ECB Balance Sheet (Trailing 8-Week Increase) (3/20/15-4/20/17)



Source: ECB; MacroStrategy Partnership

Lest financial markets might have missed the message in the ECB's furious springtime pump-priming, Eurozone central bank stewards unleashed on the eve of first-round voting in France a spirited barrage of we-have-your-back jawboning:

The central bank should be ready for any shocks that should materialize [after the French election]. Intervening very quickly is really very easy now given the instruments we have. But as we have seen in similar cases, no need has really been observed. And the reason is that **all market participants know that these instruments are there to be used.**

Ignazio Visco, Governor, Bank of Italy, 4/22/17

If there should be problems for specific French banks liquidity-wise, then the ECB has the...ELA, Emergency Liquidity Assistance, but we don't expect of course any special movements."

Ewald Nowotny, President, National Bank of Austria, 4/22/17

We hope that a reasonable candidate can win – somebody who is in favor of free markets – but we cannot exclude that there will be more pressure on the Swiss franc. But as you know we also have our instruments to react to such a situation...We have more leverage on interest rates, and we of course have our willingness to intervene if necessary on the foreign-exchange market.

Thomas Jordan, Chairman, Governing Board, Swiss National Bank, 4/22/17

Of course, the 2017 prize for central bank self-importance was earned by the startling victory-lap declaration of ECB Governing Council member, and Central Bank of Lithuania Governor, Vitas Vasiliauskas, who remarked in a 5/11 Bloomberg interview:

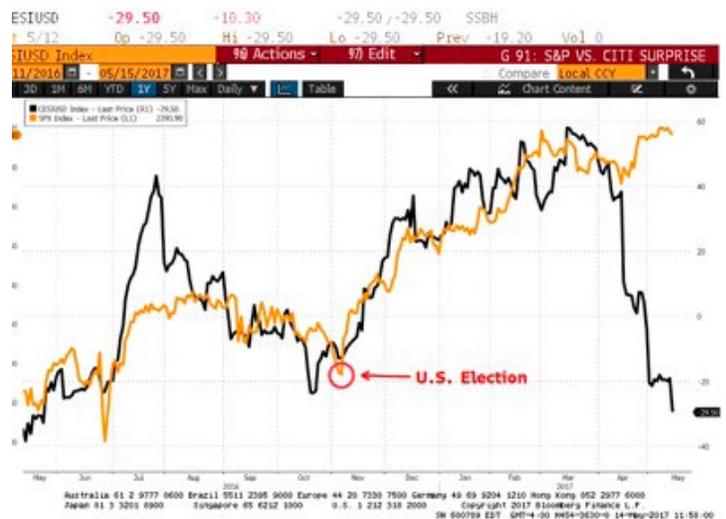
Markets say the ECB is done, their box is empty. But we are magic people. Each time, we take something and give to the markets – a rabbit out of the hat!

Under the tutelage of such a determined contingent of central bankers, it would be fair to say that it has become an ill-advised endeavor to be overly bearish on any financial asset! However, we would make one observation about central bank behavior so far in 2017. If the ECB and local EU central banks became this exorcized over fallout from essentially a primary

vote in the world's sixth largest economy, we are likely nearing the endgame for central bank saturation of global financial markets.

In our view, the Fed's recent willingness to raise rates has been enabled as much by accelerating global central bank liquidity as by any tangible improvement in domestic economic performance. Indeed, the May FOMC statement reflected a notable uptick in nothing-to-see-here insincerity in the Fed's contention that "the fundamentals underpinning the continued growth of consumption remained solid." The facts are that Q1 GDP of 0.7% marked the weakest GDP growth in any quarter in which the FOMC has hiked rates since Chairman Volcker did so in February 1980. To VIX-hugging optimists, allured by trendy dismissal of first quarter "seasonals," we offer Figure 3 as food for thought. After tracking the S&P 500 Index higher in tight lockstep since election-day, the Citi Economic Surprise Index has utterly collapsed since mid-March.

Figure 3: S&P 500 Index versus Citi Economic Surprise Index (5/11/16-5/15/17)



Source: Citibank; Bloomberg

We recognize that new all-time highs for the S&P 500 foster an environment of investor security unlikely to fuel urgency in precious-metal markets. If stocks rally every week, who needs gold? On the other hand, one could make the case that year-to-date (5/12) gains for spot gold (6.58%) and the NYSE Arca Gold Miners Index (8.23%) are comparatively solid in the context of year-to date gains for the S&P 500 (6.79%). Perhaps gold's relative stability belies a degree of incipient investor apprehension. Whatever the motivating factors may

SPROTT PRECIOUS METALS WATCH

May 2017

be, the suppression of volatility in equity markets is currently being reflected in equivalent suppression of volatility in gold bullion. Indeed, as shown in our addenda graph, implied volatility for spot gold currently stands at a 10-year low. The insurance value of a portfolio commitment to gold is always cheapest **before** the onset of market volatility against which gold provides protection. For this reason, historic complacency in equity markets may actually be signaling growing urgency for a commitment to precious metals.

Sincerely,

Trey Reik
Senior Portfolio Manager
Sprott Asset Management USA, Inc.
203.656.2400

ADDENDA

Figure 4: Spot Gold Historical Implied Volatility (11/16/07-5/16/17)



Source: Bloomberg "GV" Function

SPROTT PRECIOUS METALS WATCH

May 2017

Metal Prices

METAL	CLOSE	1 WEEK	YTD	1 YEAR
GOLD	1,230.69	0.4%	6.8%	-3.3%
SILVER	16.61	2.4%	4.4%	-2.9%
PLATINUM	929.34	1.2%	2.9%	-11.7%
PALLADIUM	796.77	-1.8%	17.0%	34.4%

Source: Bloomberg. Prices as at May 15, 2017.

Sprott Physical Bullion Trusts

The goal of the Sprott Physical Gold Trust, Sprott Physical Silver Trust and Sprott Physical Platinum and Palladium Trust ("the Trusts") is to provide a secure, convenient and exchange-traded investment alternative for investors who want to hold physical bullion. The Trusts offer a number of compelling advantages over traditional exchange-traded bullion funds.

SECURE • CONVENIENT • COST EFFECTIVE • POTENTIAL TAX ADVANTAGE FOR U.S. INVESTORS

SPROTT PHYSICAL GOLD TRUST

NYSE ARCA: PHYS

Price	\$10.06
NAV	\$10.10
Premium/ Discount to NAV	-0.48%

TSX: PHYS

Price	\$10.07
-------	---------

Total Ounces Held	1,755,391
Total NAV of Trust	\$2,161,791,649

SPROTT PHYSICAL SILVER TRUST

NYSE ARCA: PSLV

Price	\$6.31
NAV	\$6.30
Premium/ Discount to NAV	0.05%

TSX: PSLV

Price	\$16.61
-------	---------

Total Ounces Held	55,631,091
Total NAV of Trust	\$925,018,380

SPROTT PHYSICAL PLATINUM AND PALLADIUM TRUST

NYSE ARCA: SPPP

Price	\$7.71
NAV	\$7.81
Premium/ Discount to NAV	-1.17%

TSX: SPPP

Price	\$7.75
-------	--------

Total Ounces Held	39,740 Pt 90,187 Pd
Total NAV of Trust	\$108,843,717

Figures as at April 18, 2017.

To learn more about the **Sprott Physical Trusts**,
visit www.sprottphysicalbullion.com or contact us at bullion@sprott.com.

Sprott Physical Bullion Trusts

Find out why our Trusts are better »



Sprott Gold Miners ETF

Learn more » www.sprottets.com

About Sprott

Sprott Asset Management LP is a leading independent asset management company headquartered in Toronto, Canada. The company manages the Sprott family of mutual funds, hedge funds, physical bullion funds and specialty products and is dedicated to achieving superior returns for its investors over the long term.

For more information, please visit www.sprott.com

Individual Investors

TF 877.403.2310 | E bullion@sprott.com

Financial Advisors

Sergio Lujan

TF 888.622.1813 | E slujan@sprott.com

Institutional Investors

Jalaj Antani

Vice President, Institutional Sales

T 416.943.8091 | TF 877.874.0899 | E jantani@sprott.com

www.sprott.com

The risks associated with investing in a Trust depend on the securities and assets in which the Trust invests, based upon the Trust's particular objectives. There is no assurance that any Trust will achieve its investment objective, and its net asset value, yield and investment return will fluctuate from time to time with market conditions. There is no guarantee that the full amount of your original investment in a Trust will be returned to you. The Trusts are not insured by the Canada Deposit Insurance Corporation or any other government deposit insurer. Please read a Trust's prospectus before investing.

The information contained herein does not constitute an offer or solicitation to anyone in the United States or in any other jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Prospective investors who are not resident in Canada should contact their financial advisor to determine whether securities of the Funds may be lawfully sold in their jurisdiction.

The information provided is general in nature and is provided with the understanding that it may not be relied upon as, nor considered to be, the rendering of tax, legal, accounting or professional advice. Readers should consult with their own accountants and/or lawyers for advice on the specific circumstances before taking any action.

Sprott Asset Management LP is the investment manager to the Sprott Physical Bullion Trusts (the "Trusts"). Important information about the Trusts, including the investment objectives and strategies, purchase options, applicable management fees, and expenses, is contained in the prospectus. Please read the document carefully before investing. Investment funds are not guaranteed, their values change frequently and past performance may not be repeated. This communication does not constitute an offer to sell or solicitation to purchase securities of the Trusts.

This article may not be reproduced in any form, or referred to in any other publication, without acknowledgement that it was produced by Sprott Asset Management LP and a reference to www.sprott.com. The opinions, estimates and projections ("information") contained within this report are solely those of Sprott Asset Management LP ("SAM LP") and are subject to change without notice. SAM LP makes every effort to ensure that the information has been derived from sources believed to be reliable and accurate. However, SAM LP assumes no responsibility for any losses or damages, whether direct or indirect, which arise out of the use of this information. SAM LP is not under any obligation to update or keep current the information contained herein. The information should not be regarded by recipients as a substitute for the exercise of their own judgment. Please contact your own personal advisor on your particular circumstances. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any investment funds managed by Sprott Asset Management LP. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell. SAM LP and/or its affiliates may collectively beneficially own/control 1% or more of any class of the equity securities of the issuers mentioned in this report. SAM LP and/or its affiliates may hold short position in any class of the equity securities of the issuers mentioned in this report. During the preceding 12 months, SAM LP and/or its affiliates may have received remuneration other than normal course investment advisory or trade execution services from the issuers mentioned in this report.