Thursday, February 4, 2021

HALLGARTEN & COMPANY

Portfolio Strategy

Editor: Christopher Ecclestone
cecclestone@hallgartenco.com

Model Mining Portfolio:
Mixed Signs of Fatigue

Performance Review – January 2021

Model Mining Portfolio

Mixed Signs of Fatigue

- + **The Reddit "sensation" cleared out many Shorts in some of the most heavily shorted stocks in the mining space**
- + **Financing activity romped along, seemingly oblivious to gold being well off the boil. Interest has spread through the mining ecosystem with less favoured metals receiving funding**
- + **Tin broke through $23,000 per tonne, while Antimony continued its virtually vertical ascent and Tungsten showed signs of life**
- ✘ **Base metals had a very rough month with Zinc in particularly being massively manipulated by a party (or parties) moving a big block of inventory into LME warehouses to push prices down**
- ✘ **Gold price lying prone like a dead skunk in the middle of the road**
- ✘ **The attempts to ramp Silver using the Reddit hordes as cannon fodder failed miserably**

All Change – Pandemic Upsets the Norms

At first it was believed that what was bad for global economies would be bad for metals and yet that has not proven to be the case with metals having enjoyed, across the board, their best twelve months in the last ten years. While usually we look at companies and specific metals in our monthlies, in this case we shall look at some macro features. Firstly the (potential) changing of the guard from service-driven economies in the West to a more balanced structure. Then we shall look at a collateral issue from onshoring or re-onshoring (and detachment from China-dependence) in the shipping industry, a long overlooked part of the minerals supply-chain.

Services Put Back in their Rightful Place

For the first time in 40 years the services industry has been dealt a major blow. In a brutal combination of events a wide swathe of sub-sectors of services, many of which have been go-go components of the globalized economy, as the West has deindustrialized, have been ravaged on many fronts but the swingeing effects of the lockdowns around the globe. The tourism industry, and its handmaidens in hotels and airlines, has been bulldozed like a slum settlement. Retail has been ravaged and the restaurant trade is in freefall. While no global economy has yet collapsed, many regional economies in tourist zones are collapsing. Beyond that cruise lines are hovering on the brink and vast hordes of their expatriate are either stranded or dispersed back to their homes.

Such has been the fog of the pandemic that until it really lifts we cannot see what has been damaged and to what extent. In any case the truism that services will save the West has been well and truly buried. The thesis was under attack in recent years because many of the jobs were low quality (itinerant or part-time), low skilled and low paid. In many economies the bottom of the services pyramid was composed of either legal or illegal immigrants. In many parts of Europe in particular one can see an almost Biblical “return to place of origin” as those furloughed, or fired, seek refuge in their motherlands where the living is cheap, if not easy.

What was once outsourcing of industrial jobs now became to be termed “hollowing-out” and the response was events like Brexit, MAGA and the toppling of the orthodox parties in places like Italy.

But now the worm has turned….. maybe. As mentioned earlier, onshoring or nearshoring are becoming the new themes of the moment in industrial strategy. If we are in a drift to war (even a Cold one) then having supply lines that are too long is not in the interest of the West. Long supply lines are an even bigger problem for China with the country dependent upon countries like Australia, Brazil and Chile that may not be playing ball if an international pushing and shoving match evolves.

So we now see Westerners staging somewhat of a strategic withdrawal from China. The inevitable result will be many activities being reassessed as to how much industrial activity will relocate back to the West or to intermediate locations. Inevitably that shall also start to rebalance some of the equations on the vast supply chains with implications for shipping and the siting of processing operations.

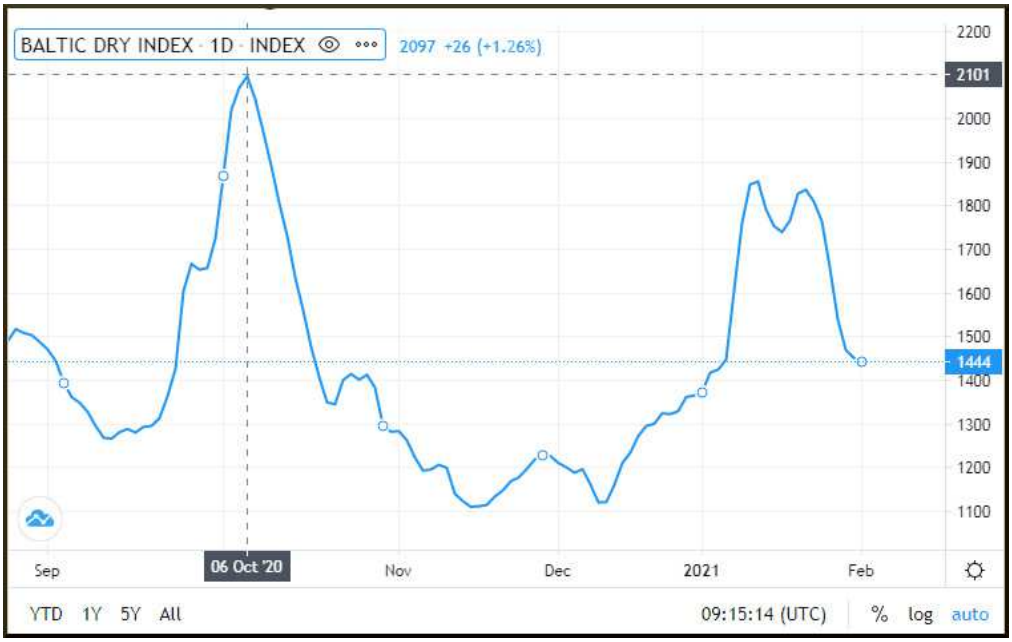
One of the more poignant examples in recent times is Lynas, the Australian Rare Earth producer. It head the (bogus) siren songs of “cheapness” and “tax dodges” so located its plant in Malaysia to its eternal chagrin. Now it is relocating the most vital functions back to Australia. The vain attempt to stick it to the Australian unions and workforce by offshoring has been followed by an ignominious retreat to the motherland.

Likewise the Japanese government is promoting Japanese Rare Earth end-users based in China to “get the hell outta Dodge” with countries like Vietnam and the Philippines being the collateral beneficiaries.

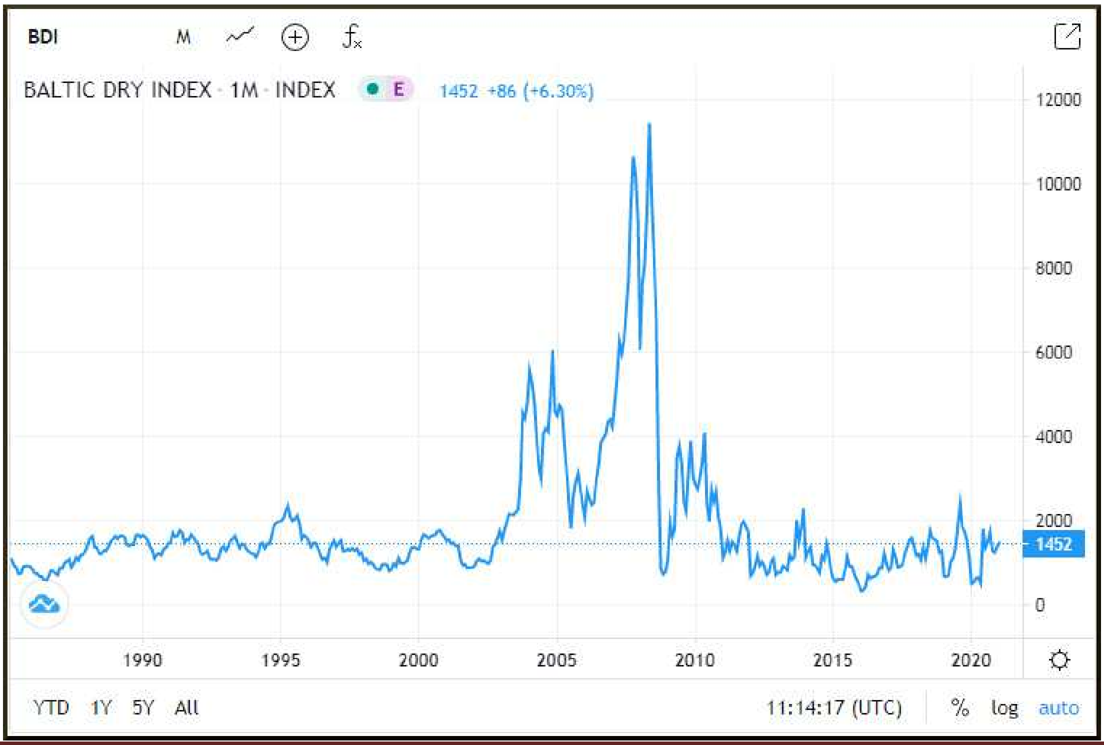
Trump’s wake-up call on China is the legacy that the otherwise Sinophiliac Biden regime has to live down. The genie is out of the bottle and the scales have fallen from people’s eyes (to mix some metaphors. China may imagine it has dodged a bullet in deflecting blame for the pandemic but the wakeup call to the West is the real challenge to the Xi regime going forward.

Mineral Shipping as a Revived X factor

Long gone are the days when Greek shipping tycoons like Niarchos and Onassis “ruled the waves” in the glory days of the post-war economic boom. Things were never quite the same after the various oil shocks of the early seventies when an increasing part of the margin when to the oil producers rather than the owners of the "hardware".



The best period since those days was around the peak of the Commodity Supercycle in 2008 when capacity could not be had for love nor money and the Baltic Dry Index soared to eye-watering levels. The chart below shows just how high it went in the years before the 2008 meltdown.



Still that is all relative, in recent times the Index has also been all over the place and moved through very large swings though these scarcely register compared to the moves of yore. However in the space between September of last year and October the index moved between 1200 to nearly 2200 and then nearly halved to 1100 in mid-November. Quite a wild ride. Spare a thought though for those in the mineral trades because it is the dry bulk cargo category into which most DSO ores (and others) fall. Some claimed that the pandemic caused first the slump in demand and then the soaring price as reactivated economic activity from mid-2020 found many unwanted ships suddenly in demand but not positioned where they were really wanted/needed. This created a price crunch and a rush for capacity.

Thinking further ahead there is (was?) another imperative shrinking the global shipping fleet which is the IMO 2020 ruling. The IMO estimates that the new limit – of 0.5% sulphur content compared with the previous limit of 3.5%, enforced under the international convention for the prevention of pollution from ships – will cut sulphur oxide emissions from ships by 77%, an annual reduction of about 8.5m tonnes. Shipping analysts predicted that the difference between Heavy Fuel oil (HFO) and Low Sulphur Fuel Oil (LSFO) would be in the region of $200 per ton, adding substantially to operating costs. Is it no wonder then operators want higher freight rates or are scrapping their most inefficient ships?

All this multiplies the X Factor of how much more mineral shippers will have to pay to move their product around the vast oceans that separate mines from end users. To this mysterious equation is added a further twist if the West starts to de-Sinoise its supply chains. We feel that if one thing its certain, it will be that shipping will cost more going forward rather than less.

Portfolio Changes

During the month we added a LONG position in Bold Resources.

The Reddit rush of blood to the head provided us with an opportunity to close out our LONG position in McEwen Mining at $1.51 in pre-market trading on the 1st of February.

Fortune Favours the Bold

During the month we had cause to take a call from Bold Ventures. It wasn't the cheeky name, but rather an IR person we trust, who got us to break with our *fatwa* against Zoom calls with companies and take the call. The core asset in this company's portfolio is the Traxxin property east of Atikokan, Ontario. The other properties are also in Ontario, with one even being in the Ring of Fire region.

The Traxxin property is located 130 km west of Thunder Bay and can be accessed by all-weather roads north from the TransCanada Highway 11. The property consists of 151 claim and boundary cells comprising approximately 5497 acres or 2224 hectares.

The Main Zone is located in the Marmion Lake Batholith, host to Agnico Eagle's Hammond Reef deposit of 208mn tonnes @ 0.67 g/t (Measured and Indicated) representing 4.5mn oz Au.

Traxxin Extension Joint Venture

In April 2017 Lac des Mille Lacs First Nation (LDMLFN) and Bold entered into a JV to explore the north-eastern extension of the Traxxin project. Under this deal, the LDMLFN has the right to earn a 50% interest in the Traxxin Gold Property from Bold by paying to Bold 50% of the cash option payments, 50% of the expenditure requirements and reimbursing Bold for 50% of the value of the shares issued pursuant to the option. If the option is earned and both parties maintain their interest in the Traxxin project, Bold and LDMLFN will form a joint venture for the further exploration and development of the project.

The First Nation apparently had a windfall several years ago from an ancient compensation claim relating to a dam construction and therefore they are very cashed-up, in contrast to many such groups. This means they are not only enthusiastic to see Traxxin move forward but able to make the matching contributions to the work program to maintain their position.

Past Work

Prospecting and sampling by the current vendors of the Traxxin claims began in 2011 and culminated in the 2016 discovery of a high-grade quartz vein hosting visible gold (VG). Grab sample assays for gold ranged from anomalous to 1281 g/t Au (41 oz/t Au) (Sims 2019).

A follow-up exploration program in 2017 consisted of geological and geophysical surveys, trenching, sampling and diamond drilling. The drill program was successful in locating the Main Zone mineralization and tracing it over a strike length of 300 m. That work showed that the deposit remains open in all directions.

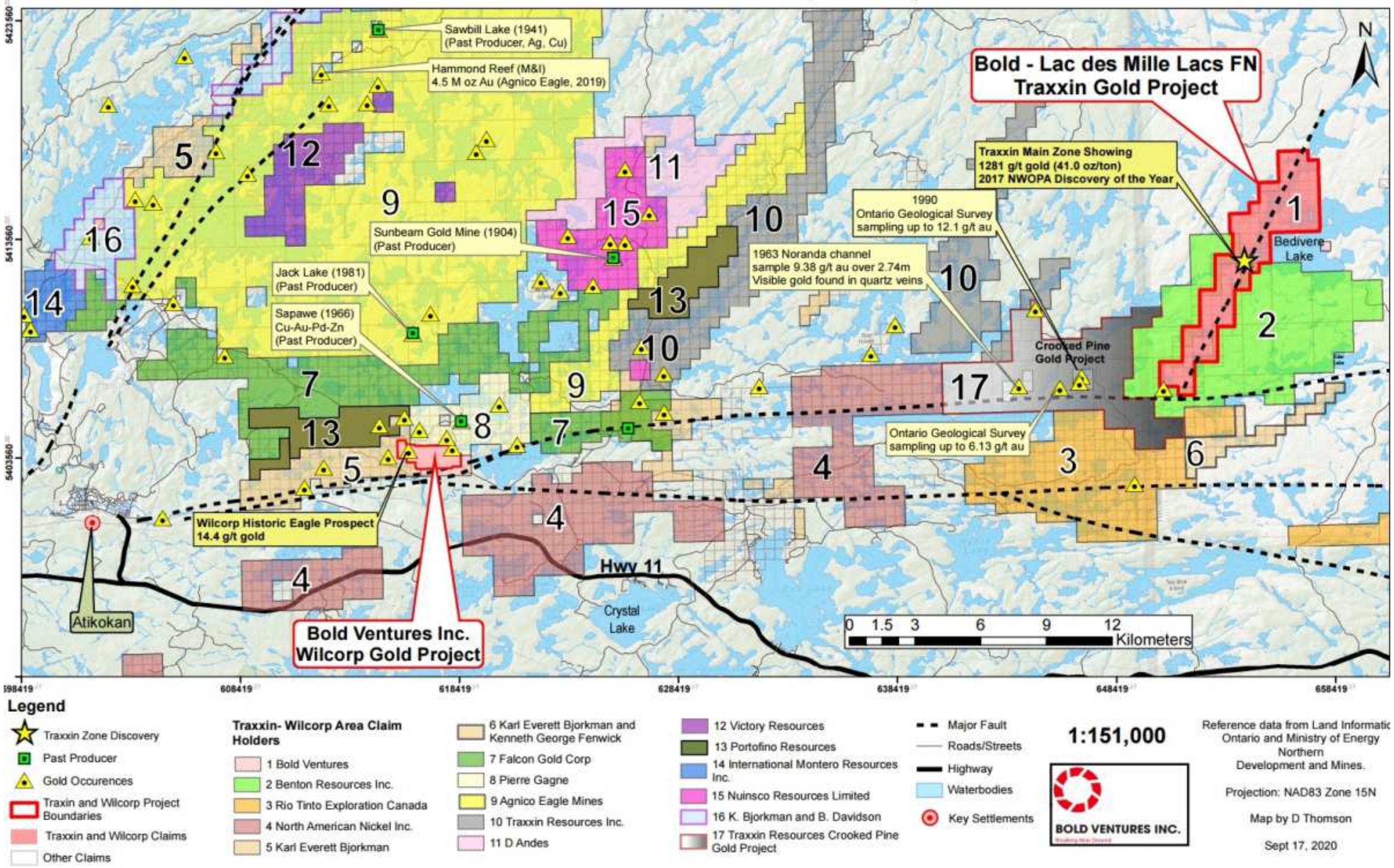
Trenching and diamond drilling in the Main Zone, undertaken in 2018, traced a gold-bearing structure over 300m in strike length hosting a well-defined, sheared, quartz vein surface exposure from 15 to 30 m wide. Of the previous eighteen diamond drill holes completed at the Traxxin Main Zone. Results from that campaign included 4.76 g/t Au over 3.8 m (Hole BED-17-016), 1.07 g/t Au over 22.2 m (Hole BED-17-005) and 37.3 g/t Au over 1 m (BED-17-003).

The gold-bearing structure is open along strike in both directions. Only 2 holes penetrated depths in excess of 150m. Both of these (BED-18-022 and BED-17-021) were located in the main zone and outside of the main zone to the southwest respectively, and intercepted the gold-bearing structure where it remains open at depth.

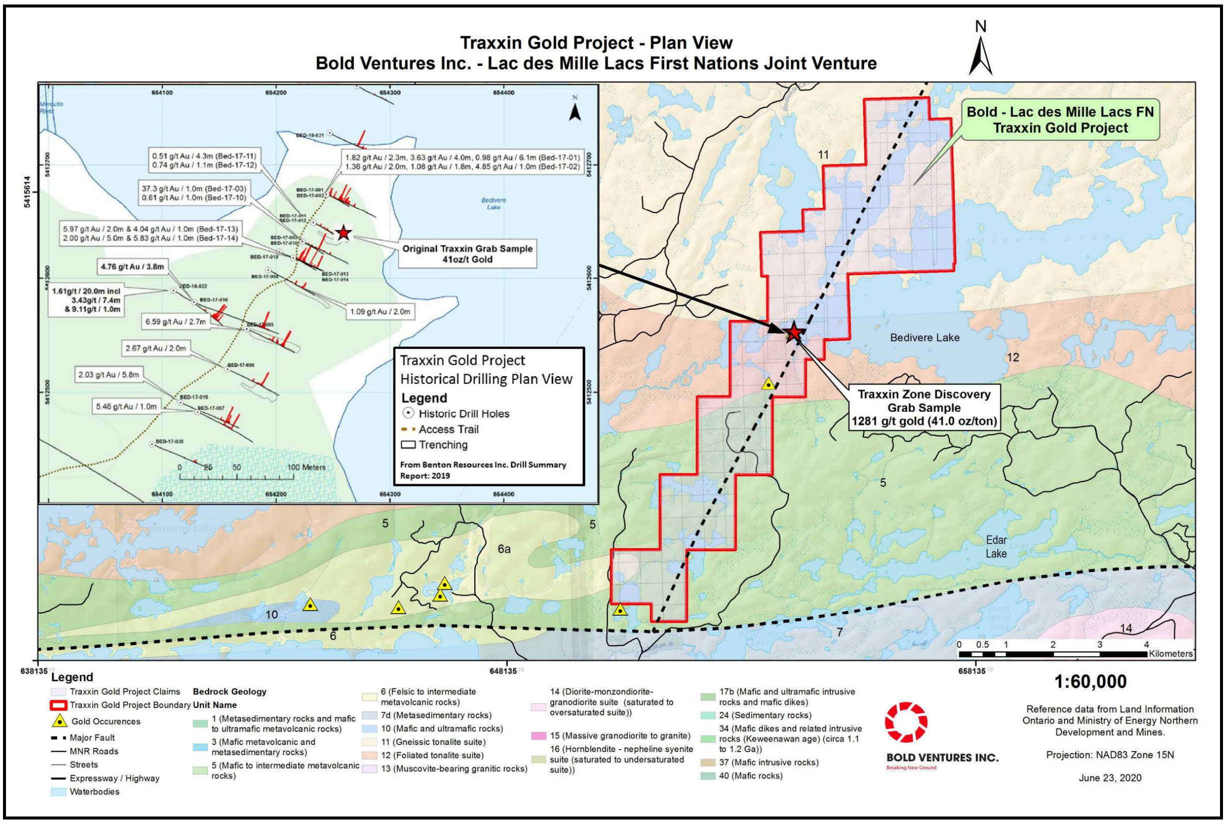
Bold Plans

In September of 2020, Bold received an exploration permit allowing for diamond drilling, trenching, sampling and line cutting. In late January 2021 the company announced that its initial diamond drill program at the Traxxin project, had been completed. Four NQ diameter holes, designed to test the Main Zone, were drilled.

Bold Ventures - Traxxin and Wilcorp Gold Projects



Bold's geological team is satisfied that the structure controlling the gold mineralization present in the historical drilling (2017/2018) was tested for the purposes of this program. Three of the holes appear to have intersected the Main Zone structure below the historical drilling at a vertical depth from 150 m to 200 m. The fourth hole (BV-21-01) intersected the zone at a vertical depth of approximately 80 m. This is based on visual observations only and does not indicate the gold content. Each hole has been logged and sampled. All samples have been sent for gold analysis and the results will be disclosed when received from the assay lab. Information gathered from this diamond drilling program will be used to review the depth potential and mineralizing controls in the Main Zone.



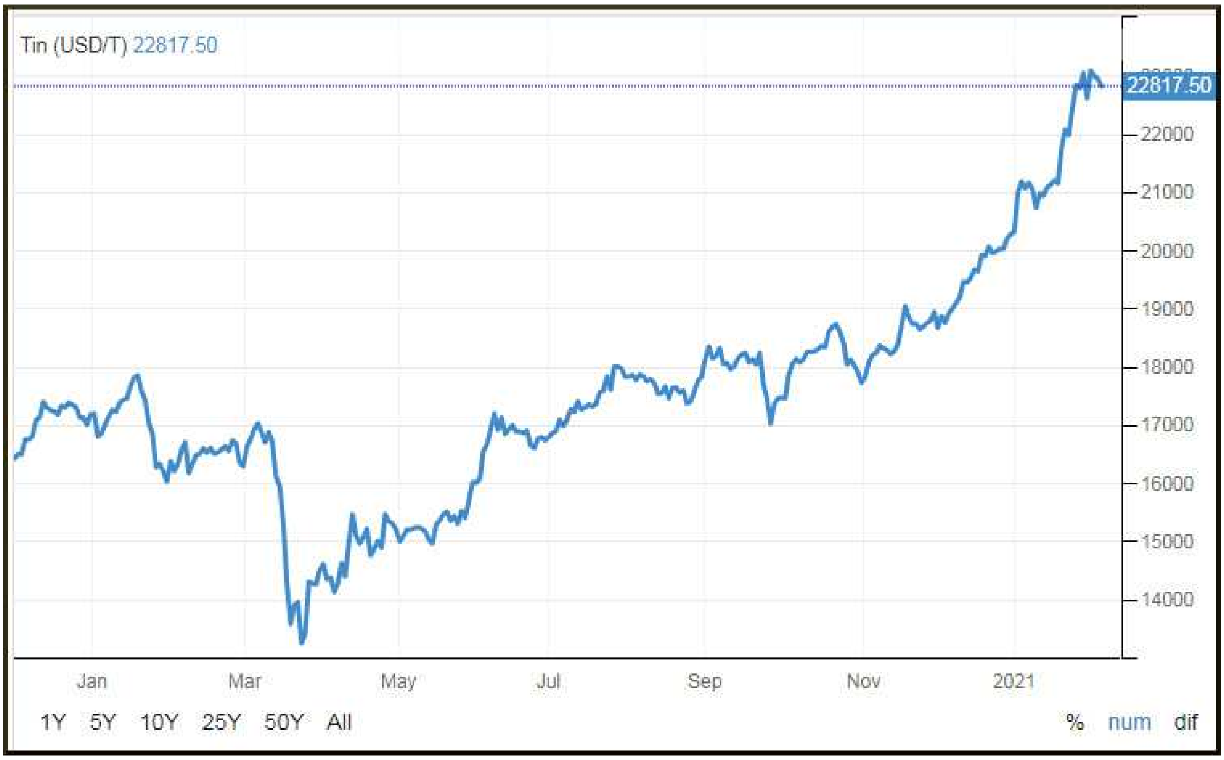
As mentioned, we have added a LONG position in Bold to the Model Resources Portfolio with a telve month target price of CAD 18 cts.

Specialty Metals - The Heat is On

If things were not frenzied enough in the Tin and Antimony space, the coup in Burma has added more fuel to the fire. Tin, Antimony and Rare Earths have all been mentioned in dispatches as linked to the Burmese quagmire.

At first the coup was seen as being pro-Chinese neo-colonialist ravaging of the country's resources but then we have seen commentary that suggest it might turn out differently in light of the Burmese militaries nationalist tendencies (which had been our own first thoughts on hearing of the coup). The outgoing regime had largely rolled over to China in recent years.

Tin has been on a tear since its mid-year lows and being going stratospheric of late, breaking through $23,000 per tonne:

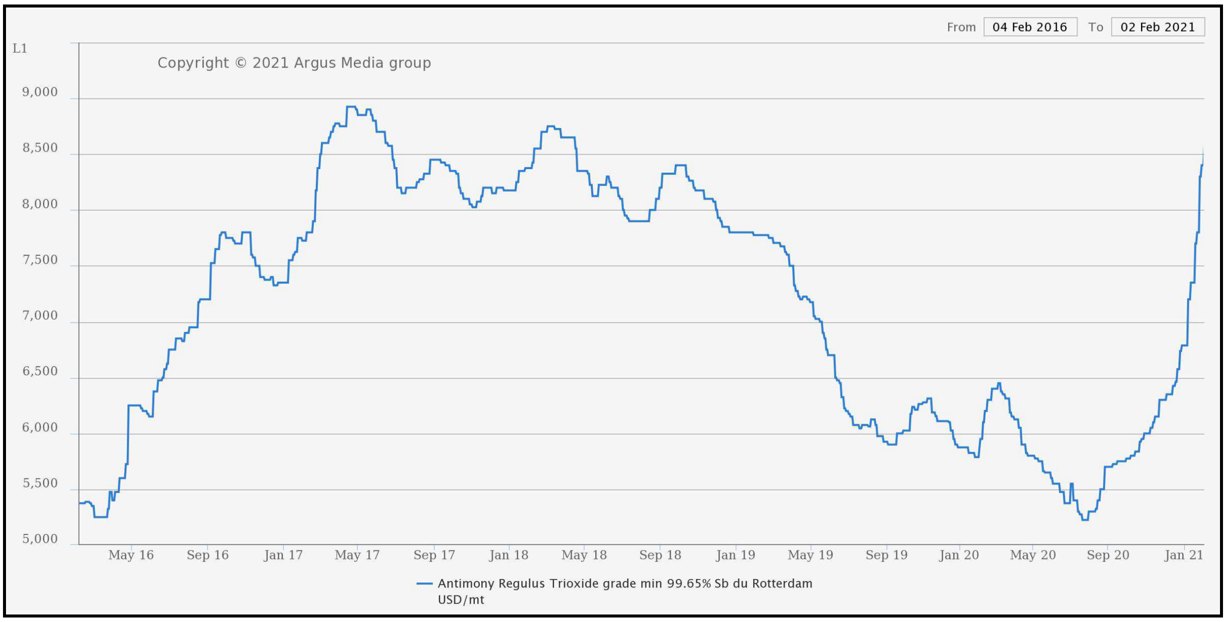


If anything the Burmese coup coincided with the price stepping back slightly, longer term effects are still not clear.

Tin's supply situation has been precarious for several years now but even reasonable prices failed to spur Western companies to move into development. While the TSX is thin on Tin names the ASX has had a reasonable posse of wannabes for over a decade now.

The Tin move has had investors scrambling for exposure, but besides Alphamin (in our Model Portfolio), Metals X (ditto) and Afritin (listed on AIM) there is little public market exposure to producing Tin plays.

Then our beloved Antimony has had a fire lit under it in recent months. After long wallowing in misery as it was unclear how the machinations of the EU's REACH program and Massachusetts's "concerns" about Antimony-based fire retardants in children's pajamas might play out. These worries evaporated like Gorillas in the Mist in the last quarter of 2020 and a stampede to rebuild stocks has occurred sending buyers (notably in the US) into a feeding frenzy:



Source: Argus Metals

It's even worse in Antimony with Mandalay Resources (MND.to) being the largest non-Chinese producer and then the on-again, off-again US Antimony (UAMY) now obsessing about Silver at Los Juarez. The Sb price move has given uplift to the UAMY price just as it takes it eye off the Antimony ball. Sigh….

Parting Shot

We are tempted to resist talking about the Reddit phenomenon but why not wade in, particularly now as we stand amongst the smoking ruins of the dreams of silver bugs, planet-wide, who though all their Christmases had come at once.

While we love Silver and like the Silver ETF (SLV – which is a stalwart in the Model Resources Portfolio) we were braced to push the Sell button if silver had managed to stay above $30 for more than the twinkling of an eye. Alas, it was not to be. The collective groan of the rampers as their gambit failed echoed around global markets then the non-committed pulled the Ejector Seat handle all at once and Silver plunged back to where it had started.

We have never subscribed to the sinister theories of the Tin-foil hat brigade because we just couldn't work out why the evil Powers-that-Be would be interested in pushing Silver down, and moreover suppressing it for so long at such a cost of time and effort. Why? It appears to be some convoluted theory that if they can suppress Silver then they can hobble gold and thus keep the Great Unwashed from realising that the fiat currencies are being debased by inflation on a daily basis.

Hello…. the public worked that out if you hear them moaning in the supermarket. The evidence of their disdain for holding cash is the Cargo Cult of property, not precious metals. That is where they look for their store of value. Governments, such as those in Australia the UK and Canada, are the High Priests of the property Cargo Cult, daily offering prayers that property never gets affordable enough for the children of the Great Washed (and Unwashed) to be able to own a place to live.

When it comes down to it, the Chairman of the Fed does not get up every morning (like the rest of the mining fraternity) and bemoan the price of Silver. Frankly, my dear, he does not give a damn.

MODEL RESOURCES PORTFOLIO @ END JANUARY

	Security	Currency	Price	Change last 12 mths	Change last mth	12-mth Target
LONG EQUITIES						
Diversified Large/Mid-Cap	Teck Resources (TECK.B)	CAD	23.36	4%	1%	$22.00
	Hochschild (HOC.L)	GBP	2.29	31%	10%	£3.40
Uranium	Uranium Participation Corp (U.to)	CAD	4.4	8%	-10%	$6.00
	GoviEx (GXU.v)	CAD	0.25	56%	9%	$0.17
Zinc/Lead Plays	WisdomTree Zinc ETF (Zinc.L)	USD	8.09	10%	-4%	$9.00
	Myanmar Metals (MYL.ax)	AUD	0.09	80%	-10%	$0.15
	Telson Mining (TSN.V)	CAD	0.26	117%	-7%	$0.50
Silver Producer	Excellon Resources (EXN.to)	CAD	3.89	278%	3%	$5.50
Silver Explorer	Southern Silver Exploration (SSV.v)	CAD	0.96	134%	16%	$0.80
Silver ETF	IShares Silver ETF (SLV)	USD	24.99	50%	2%	$26.00
Gold Producer	Soma Gold (SOMA.v)	CAD	0.38	217%	23%	$1.20
Coking Coal	Colonial Coal (CAD.v)	CAD	0.74	131%	-16%	$1.10
Project Generator	Altus Strategies (ALS.L)	GBP	0.803	1185%	1%	£4.00
Copper Explorers	Panoro Minerals (PML.v)	CAD	0.16	100%	-6%	$0.30
	Phoenix Copper (PXC)	GBP	0.452	330%	12%	£0.65
Tungsten Producer	Almonty Industries (AII.v)	CAD	0.75	79%	17%	$0.90
Vanadium Developer	Vanadium Resources (VR8.ax)	AUD	0.04	33%	33%	$0.05
Lithium	Neometals (NMT.ax)	AUD	0.33	65%	18%	$0.45
	Lithium Power Intl (LPI.ax)	AUD	0.29	7%	32%	$0.30
Scandium Developer	Scandium International (SCY.to)	CAD	0.24	140%	9%	$0.16
Gold Explorer	Cabral Gold (CBR.v)	CAD	0.65	442%	-8%	$0.60
	BTU Metals (BTU.v)	CAD	0.14	-73%	-18%	$0.42
	Gunpoint Exploration (GUN.v)	CAD	0.57	10%	0%	$0.75
	Bold Ventures (BOL.v)	CAD	0.10	100%	-20%	$0.18
Fertilizers	Verde Agritech (NPK.to)	CAD	0.96	134%	16%	$0.90
Cesium et al.	Essential Metals (ESS.ax)	AUD	0.15	1400%	88%	$0.30
Rare Earths	Northern Minerals (NTU.ax)	AUD	0.05	-17%	25%	$0.08
	Neo Performance Materials (NEO.to)	CAD	15.2	23%	10%	$14.00
Tin Miner	Alphamin (AFM.v)	CAD	0.46	171%	18%	$0.48
	Metals X (MLX.ax)	AUD	0.17	113%	21%	$0.14
Oil & Gas	Shell A (RDSA.L)	GBP	13.38	-42%	3%	£14.90
Royalties	Elemental Royalties (ELE.v)	CAD	1.52	n/a	-9%	$2.30
SHORT EQUITIES						
Shorts	NioCorp (NIO.to)	CAD	0.70	-15%	-14%	$0.40
	Texas Mineral Resources (TMRC)	USD	1.52	390%	-14%	$0.30
	Abdn Standard Palladium Trust (PALL)	USD	208.37	16%	-9%	$180.00

Important disclosures

I, Christopher Ecclestone, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Hallgarten's Equity Research rating system consists of LONG, SHORT and NEUTRAL recommendations. LONG suggests capital appreciation to our target price during the next twelve months, while SHORT suggests capital depreciation to our target price during the next twelve months. NEUTRAL denotes a stock that is not likely to provide outstanding performance in either direction during the next twelve months, or it is a stock that we do not wish to place a rating on at the present time. Information contained herein is based on sources that we believe to be reliable, but we do not guarantee their accuracy. Prices and opinions concerning the composition of market sectors included in this report reflect the judgments of this date and are subject to change without notice. This report is for information purposes only and is not intended as an offer to sell or as a solicitation to buy securities.

Hallgarten & Company or persons associated do not own securities of the securities described herein and may not make purchases or sales within one month, before or after, the publication of this report. Hallgarten policy does not permit any analyst to own shares in any company that he/she covers. Additional information is available upon request.

Hallgarten & Company acts as, or has acted as in the last twelve months, a strategic consultant to Alphamin and Telson Mining and as such is or has been compensated for those services, but does not hold any stock in those companies, nor has the right to hold any stock in the future.

Web access at:

Research: www.hallgartenco.com