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HALLGARTEN & COMPANY

Portfolio Strategy

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Model Mining Portfolio:
Commodity Supercycle 2.0?

Performance Review – November 2020

Model Mining Portfolio

Commodity Supercycle 2.0?

+ **Copper broke through the key resistance at $3 per lb and then rapidly powered on to above $3.50 in a frankly stunning move**
+ **Zinc shot above $1.25 on Copper's coattails**
+ **Financing activity in Canada and Australia continues to bubble along and M&A is finally starting to get traction**
+ **Tin moved above $19,000 per tonne briefly**
+ **Rare Earth prices are up, which is good for pumpers in the space**
+ **Oil majors rallied famously, far more so than the underlying oil price**
+ **Rallies in the prices on battery and EV metals gained steam, unfortunately lifting also the values of many unworthy stocks**
- ✘ **If a 20% decline in market indices is a Bear market then what is a decline of 20% in gold prices? A buying opportunity… lol**
- ✘ **Silver was also slapped around but the improvements in the silver/gold ratio managed to hold up**
- ✘ **Rare Earth prices are up, which is dangerous for credibility in the space, sucking in carpetbaggers and the "Usual Suspects"**

Commodity Supercycle - Back with a Vengeance?

We saw mention in the last month of the current recover in base metals prices possible being a revival of the much vaunted Commodity Supercycle that reigned from around 2001 until 2007 (or in some versions until 2012). Firstly, we must confess to being only partial subscribers to the initial Commodity Supercycle. Not all metals were participants in the first Supercycle and the performance of some was decidedly humdrum. Equally we resist the tendency to believe that some price spikes were due to anything more than random actions of hedge funds pouring in (and then out) of metals such as the crazy surge in Nickel in 2007. How was that a "Supercycle" and not just an extremely misguided collective trade gone wrong?

The other premise that underlay the first Supercycle was that China was the primary driving force, rather than strong underinvestment in base metals production between the end of the previous Supercycle (from 1946-72) and the most dire point for copper, which was when its price hit 62 cents per pound in March 1999, whilst the frenzy of the TMT boom has gaining a full head of steam. China, of course, was the most real component in the fairly bogus BRICs concept cooked up by a certain New York investment bank well-known for “talking its book”. The BRICs concept was launched at the end of a decade in which the emerging markets concept had risen (particularly in Latin America and SE Asia) and then been eclipsed.

For us the precious metals, particularly gold and silver, could not be counted as part of any “commodity” Supercycle, primarily because they are not commodities and instead bear far more resemblance to monetary assets, particularly gold. Muddling a gold rise with rising base metals may have made the past Supercycle concept more all-embracing, but also means that it can be dusted off whenever the precious and base metals all move up in tandem. We suspect that is what is driving some of the nostalgia currently. Some might argue that price surges in commodities and most particularly in precious metals in the first decade of this century were actually due to the Fed pump-priming in the wake of firstly, the dot-com meltdown and then the events of September 11th 2001.

We discount the idea that the first Supercycle survived the 2008 meltdown. The bounceback for most base metals from the events of that year were relatively feeble and shadow of their earlier glories, with only really gold, copper and some bizarre side notes like the initial Lithium boom and its camp follower, the Rare Earth boom, dominating the years until 2012. It was then that gold rose to nearly triple its 2008 lows and silver managed to briefly hit $50 an ounce.

However if the first Supercycle was driven by a once in a lifetime (or indeed once in a century) rise of an economic power such as China, then how can this be also a Supercycle? What is its driving force propelling current metal price rises beyond underinvestment between 2007 and now? One might posit that it is again *loose money* for the China factor is still around but with much less vigour.

Nickel was over $60,000 per tonne at one point in 2007 and two years later was one tenth of that price. From 62 cents per lb in 2001, the price of copper rose to over $4.50 ten years later. Zinc broke thru $2 per lb in 2007 and has never even vaguely revisited that level since.

Some metals are still lying there like a fish on a dock…. Tungsten can get any upward motion, Vanadium is torpid and despite the much vaunted Rare Earth rally, the prices of Cerium and Lanthanum

Then we must question whether 2000-2007 was even a Supercycle? Surely it pales next to 1946-72? And what defines a great price? We know what a crazy price looks like: we saw it in Nickel in 2007, Cobalt in 2017, Rare Earths in 2009-11. But is Zinc at $2 per lb a crazy price or copper at $4 so crazy? It is only at these levels that one even begins to look like getting a decent return on investment considering the long lead times, massive capex and thin margins at lower price points.

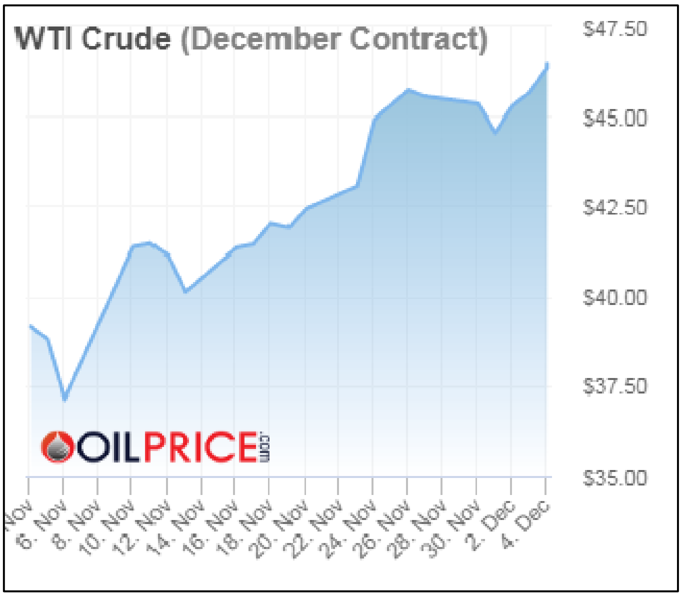
Some are dampening down their enthusiasms by calling it the start of a commodity cycle which may be a wiser course of action because the economic underpinnings of a rip-roaring boom are not there with most Western economies severely battered and unemployment rising steeply in the wake of the pandemic. Cycles should be made of sterner stuff.

For now though we should maybe just “lie back and enjoy it” because it may not last long.

Big Oil Gets Bigger

It is rare that a non-tech $100bn market cap stock rises 30% in a month but the surge in Exxon Mobil (and other survivors of the once mighty Seven Sisters) has been one of the most outstanding trends in a month freighted with trends of all shapes and colours. November was really a stellar month for oil majors, with our addition of Shell on the cusp of the monthly proving to have been most serendipitous.

Initially we were torn as to the wisdom of going long oil stocks as the "Era of Biden" was about to dawn, but as we have argued to those who would listen, Federal Law does not give scarcely any levers (except financial) to those in the White House with EV adoption or mandating being, at best, within the purview of the states. So far only a small number of states have mused aloud about the type of 2030, 2040 or 2050 guillotine dates on ICE usage that the hardcore green factions favour.



The absolute cheapness of the oil majors seemingly simultaneously dawned upon value investors at the start of November and collectively they piled in. What was not to like about a yield of 3.9% on a blue chip when interest rates are struggling to stay above zero? The oil price came to the party but WTI up 20% was still way less than the move in the share price of the majors.

Can the momentum be sustained? Or better to ask, why not… Value is a scarce commodity in global markets these days. Those who cannot stomach the fecklessness of the Big Tech *putsch* are left with few alternatives that are not tied to the fates of industries or sectors likely to suffer further in the pandemic or its aftermath. One has to have a considerably less resilient stomach to invest in oil & gas than in retail, for instance. The judges are still out on what mortgage meltdowns might do to financials.

Despite this, we would note that the rotation into Big Oil has maybe been too far too fast and a pause might ensue…. Or not.

Portfolio Changes

There were no portfolio changes during the month.

Rare Earth Resurrection

We were asked during the last month whether the Tulip Bubble of 2009-2011 in the Rare Earth space could be getting a second wind. The issue is that many are being tempted to believe that the rise in stock prices of some of the names in the space is actually evidence that there is some substance to the rally. We would ask the question though whether it is possible to reinflate a burst balloon?

We recommend a history lesson. The first REE boom saw the spawning, by some accounts, of up to 300 REE wannabes. Of these three got to production (and one of those went bust, Molycorp). Of the (maybe) 300, only less than 20 listed survivors has soldiered on. A better survival rate than the Poseidon Adventure, but not great. Why should the "higher-ups" expect any better this time around? We suggested we might see up to an extra 20 wannabes spawned and all that would be dependent upon prices remaining bubbly, and that is far from a given.

Many of the new players (and even a few of the survivors from the first REE boom) are little more than carpetbaggers. The virtues, or lack thereof, of their assets we shall not discuss but rather the fundamental question of who needs them? If 17 of the surviving twenty are not in production (and we count MP Materials, much to their chagrin, as Son of Molycorp) then how will having an extra 20 players improve the chances of getting to production. At least all the survivors have resource estimates, PEAs and in many cases up to BFS's (though with price projections that have ceased to be historical and more border on the comical). The newbies only have novelty value and "fresh" projects (which means stories that someone has not been burnt on last time). Despite our disdain, some of the newer offerings might actually get somewhere (thinking of Hochschiild's Biolantanidos) compared to Golden Oldies like the perpetually drilling Search Minerals or the highly radioactive Nolan's Bore deposit of Arafura. If there was a "too hard basket" for REE players, both of those would be in it. "Persistence" is not a synonym for "viable".

Nothing succeeds like success as shown by the debut of MP Materials via its backing into a SPAC. The stock has a market cap that matches Molycorp, of unfond memory, and yet the company doesn't have as favorable a pricing environment as MCP had and nor does it have such grandiose plans. That Oaktree are already conducting a secondary offering of their position shows the smart money is on the move, out!

We can't help getting the feeling that the Chinese are gingering up the prices of REEs to lure in a tribe of new punters and then sink the market to finally teach Western investors a lesson. However, as long as there are "new chums" to get fleeced every 8-10 years in a new cycle the Chinese are wasting their firepower (and brainpower) on trying to second-guess or even worse, manipulate the bizarre thought patterns of those indulging in the REE boom *du jour*.

Parting Shot

Mining industry virtue-signalling is a rather stomach-churning thing to see in recent times. Many miners have been working with communities for decades and just called it being good neighbours. Now a tsunami of hypocrisy is washing over the sector with those who never gave a damn suddenly finding true-religion (and adding an extra page to their powerpoint).

It falls, though, mainly to miners (and not explorers) to make the expenditure on improving the local community. Explorers can't waft in and out of a neighbourhood and leave little in their wake besides ruts in the local roads. With a drilling season of a month the issue, for them, is how little ESG they can get away with beyond buying something in the local convenience store.

We might also note that ESG is a thing for foreigners to practice in foreign lands, rarely in their own. Practices such as FiFo are almost pathologically against whatever ESG principles one might claim to be cultivating. They are deracinating the workforces and often making the locals into nothing more than outsiders looking in. Talking to local aboriginal community or First Nation elders (as mandated) is not the same as talking to all local communities and neighbours. The attitude in Australia and Canada is "we are making jobs". That is what they used to say in Peru or Zambia, but cannot get away with such simple mantras in exotic locations, and it long ago wore thin….. but these miners still do it at "home".

To some extent one sympathises with miners that bemoan (most notably in Peru) that they've paid their royalties and yet the money does not come back to the locals, therefore money spent on ESG is like a double-taxation or exaction. Well, hey, it is what it is. Getting on the high horse when national or provincial governments purloin the royalties solves nothing. It just means that one needs to make the local benefits distributed that much more effective (and evident). We always remember the smart operators at Semafo under Benoit Lasalle who loaded up containers with redundant school desks and kit from Quebec and shipped it to Burkina Faso where it was welcomed with open arms. Being smart is a key component of ESG. Mind you that was 10 years ago when ESG might have been imagined as some sort of food colouring.

ESG is tiring as a buzzword (or acronym). More action, less talk is what is what called for.

MODEL RESOURCES PORTFOLIO @ END NOVEMBER

	Security	Currency	Price	Change last 12 mths	Change last mth	12-mth Target
LONG EQUITIES						
Diversified Large/Mid-Cap	Teck Resources (TECK.B)	CAD	22.49	8%	28%	$22.00
Uranium	Uranium Participation Corp (U.to)	CAD	4.1	-3%	2%	$6.00
	GoviEx (GXU.v)	CAD	0.15	7%	7%	$0.17
Zinc/Lead Plays	WisdomTree Zinc ETF (Zinc.L)	USD	8.58	18%	8%	$9.00
	Myanmar Metals (MYL.ax)	AUD	0.08	100%	14%	$0.15
	Telson Mining (TSN.V)	CAD	0.25	108%	-11%	$0.50
Silver Producer	Excellon Resources (EXN.to)	CAD	3.50	317%	17%	$5.50
Silver Explorer	Southern Silver Exploration (SSV.v)	CAD	0.74	222%	14%	$0.80
Silver ETF	IShares Silver ETF (SLV)	USD	22.33	40%	2%	$26.00
Gold Producer	Soma Gold (SOMA.v)	CAD	0.30	131%	-23%	$1.20
	McEwen Mining (MUX)	USD	0.99	-16%	2%	$1.60
Coking Coal	Colonial Coal (CAD.v)	CAD	0.77	83%	-3%	$1.10
Project Generator	Altus Strategies (ALS.L)	GBP	57.7	114%	-4%	£40.00
Copper Explorers	Panoro Minerals (PML.v)	CAD	0.12	20%	0%	$0.30
	Phoenix Copper (PXC)	GBP	43.80	237%	3%	£0.65
Tungsten Producer	Almonty Industries (AII.v)	CAD	0.66	14%	5%	$0.90
Vanadium Developer	Vanadium Resources (VR8.ax)	AUD	0.03	0%	0%	$0.05
Lithium	Neometals (NMT.ax)	AUD	0.24	20%	26%	$0.45
	Lithium Power Intl (LPI.ax)	AUD	0.28	12%	56%	$0.30
Scandium Developer	Scandium International (SCY.to)	CAD	0.21	133%	75%	$0.16
Gold Explorer	Cabral Gold (CBR.v)	CAD	0.56	1020%	10%	$0.60
	BTU Metals (BTU.v)	CAD	0.18	64%	-10%	$0.42
	Gunpoint Exploration (GUN.v)	CAD	0.61	11%	-9%	$0.75
Fertilizers	Verde Agritech (NPK.to)	CAD	0.74	61%	14%	$0.90
Cesium et al.	Essential Metals (ESS.ax)	AUD	0.09	800%	0%	$0.30
Rare Earths	Northern Minerals (NTU.ax)	AUD	0.04	-33%	33%	$0.08
	Neo Performance Materials (NEO.to)	CAD	12.81	6%	10%	$14.00
Tin Miner	Alphamin (AFM.v)	CAD	0.28	75%	33%	$0.48
	Metals X (MLX.ax)	AUD	0.09	-25%	13%	$0.14
Oil & Gas	Shell A (RDSA.L)	GBP	13.564	-38%	47%	£14.90
SHORT EQUITIES						
Shorts	NioCorp (NIO.to)	CAD	0.77	-6%	-4%	$0.40
	Texas Mineral Resources (TMRC)	USD	1.61	419%	12%	$0.30
	Abdn Standard Palladium Trust (PALL)	USD	216.05	21%	4%	$180.00

Important disclosures

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