

## The Weekly Beacon

We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.

*The two main purposes of a Lighthouse are **to serve as a navigational aid and to warn boats (Investors) of dangerous areas.** It is like a traffic sign on the sea.*



Mulantou Lighthouse, Hainan, China



Hegranesviti Lighthouse, Iceland

*Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.*

## Consumer Oil and Gas Benefits



We are sure you are aware of rebates created by Western governments. These rebates can cover various things but, the most recent edition is a tax rebate for buyers of electric cars. President Joe Biden announced an increase to the rebate during his first month in office, notably left off the list was Tesla. Tesla was left off because there is a new requirement for electric car manufacturers, employee unions. Green cars are only good when created by a union. If they were made across the world and shipped here, that is still better than an American-made Tesla according to the U.S. government.

Today we do not bring you a new green government rebate. We bring you Germany cutting consumer costs at the pump by cutting the carbon tax and sending consumers a subsidy of \$300. As oil gets more expensive expect this to continue to happen across Western nations.



The removal of carbon taxes and fuel stimulus is good for oil demand. It increases the global price where demand destruction is reached. Essentially all that red tape created by governments is removed and governments send consumers money to buy the thing that is ballooning in price. The carbon tax is a heavy burden across the west and a reduction of it will make fuel more affordable for consumers and businesses.

Many will continue to tell you that oil has increased in price due to Putin and war. While the price has escalated during Russia's invasion of Ukraine, it had been on the rise for over a year. The impact of the sanctions on Russia has not been seen. Many believe the real supply impact will come in April and May. The real issues in the sector continue to be underinvestment and over-regulation. We were told the sector was on the decline and solar panels were the future. Now we will all face the consequences.

Although oil is \$20/bb off its March high and prices are extremely volatile, the market understands the fundamental issues go beyond Russia.

Expect huge results for some North American oil and gas producers during Q1. Increased dividends, stock buybacks, and some strategic M&A are expected. The average oil price is expected to be well above \$90/bb for Q1 2022, the highest price for a quarter since 2014. To put things in perspective, the average price per barrel last quarter was \$75.

Follow the advertisement below from an edition of The Wall Street Journal this past week.



Not all oil is created equal.

Global events are shining a light on the importance of energy security for the United States. Canada's oil is trusted oil. Canada is recognized as an indisputable leader in environmental, social and governance (ESG) standards. Canada should be the preferred choice for energy supply to the United States. If not Canada, who are you entrusting your country's energy security to? Find out more about why Canada is the solution. [CanadaIsTheSolution.com](http://CanadaIsTheSolution.com)

Canadian Energy Centre

Buy Canadian oil.

### Canada Raising Carbon Tax

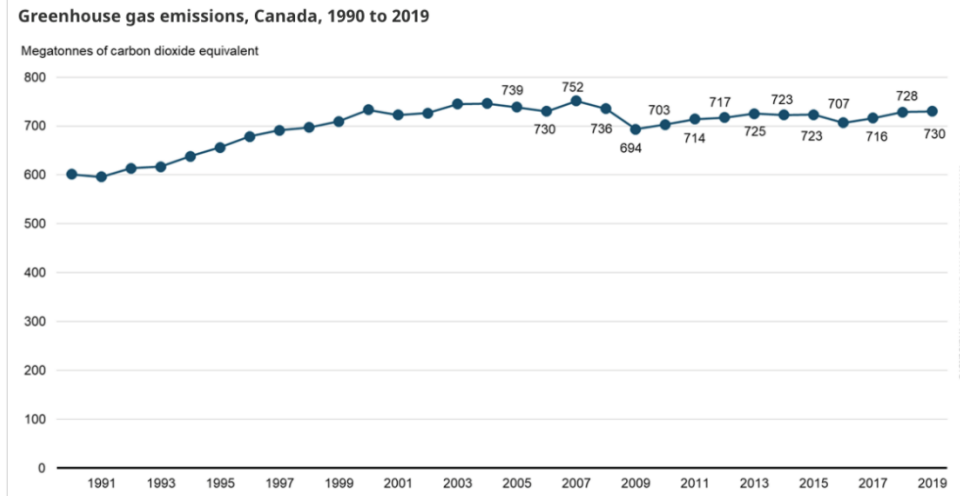
The Trudeau government is set to increase the carbon tax to \$50/ ton on April 1<sup>st</sup>. The carbon tax will eventually increase to \$170/ ton by 2030, talk about extra costs for consumers.

According to the Bank of Canada, the scheduled April 1 increase of the carbon tax to \$50 a ton will increase inflation by an estimated 0.5% while inflation is already at a 30-year high. The federal carbon tax rate on gasoline is set to increase from just under 9 cents per litre to just over 11 cents per litre.

The move is interesting, to say the least. Prices are rising every month and are close to 8-year highs. This added cost will only hurt consumers and will further stunt the growth of Canada's energy sector.

The most interesting part of the carbon tax in Canada, our emissions have remained flat over the last 20 years. Emissions have increased from 723 million to 730 million during Prime Minister Trudeau's first 4 years in office.

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It seems the carbon tax has done relatively nothing in decreasing emissions. If prices start to spiral out of control, look for a temporary halt to the carbon tax. The removal of carbon taxes is a bullish sign for oil prices.

### **The Economist Strikes Again**

In the [January 28<sup>th</sup> edition of The Weekly Beacon](#), we highlighted *The Economist's* January 22<sup>nd</sup>, 2022 cover.



The cover depicts the biggest technology CEO's as superheroes. We signaled this as a "top" for these large-cap technology stocks. Euphoria had been reached, outlandish goals and supersized wallets.

For some of these companies, the call was spot on.

Meta Platforms tanked a few days later. Our call on January 28<sup>th</sup> due to a signal on January 21<sup>st</sup> lined up perfectly. Facebook shares are down 25% since the cover was released.

Market Summary > Meta Platforms Inc

**227.44** USD

-112.02 (-33.01%) ↓ past 6 months

Mar 30, 10:13 a.m. EDT • Disclaimer

NASDAQ: FB

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We would still avoid Meta Platforms (formerly Facebook), the valuation paired with declining growth paint a stark picture. We are not saying it is going anywhere as a platform but its growth may have capsized.

We bring this call up, not to toot our horns but to highlight a few more magazine covers from *The Economist*. We think they do a great job of making calls. Essentially, do the reverse of what they say and you will probably make money.

In December 2020, coal was labeled as history by the magazine.



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We are not naïve and understand coal will continue to remain unpopular and countries will plan to phase it out of use but numbers do not lie.

Countries, states, and cities are all using coal energy due to energy shortfalls stemming from renewable sources. We assume this will continue for a few more years until governments realize, renewables are unreliable on a large scale. The key for countries should be to plan to use natural gas, nuclear, oil, and renewables on a small scale. If more renewable energy is created by chance then scale oil use back in the short term. We know it makes sense but, we will not be listened to.

Going back to coal.

The price per tonne has almost quadrupled since December 2020 even though it has pulled back from the price highs we saw earlier this year.



On the equity side:

Peabody Energy is the largest private-sector coal company in the world. Its primary business consists of the mining, sale, and distribution of coal.



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Peabody is down over the last 5 years, but it's up 20x since December 2020 when that article was written. Whether you like it or not, coal is the cheapest form of energy. It will be a primary way we lift over a billion people out of poverty across the world.

Unfortunately, we did not buy Peabody Energy back in December 2020. However, we will watch *The Economist* for future signals.

This past week, *The Economist* released its latest edition and the cover was again energy-based.



Energy as security? Who would have guessed?

We have highlighted energy policy as a matter of national security in [The Weekly Beacon](#). We believe the EU was naïve for its heavy reliance on Russian oil and gas. It essentially allows your enemy to hold you hostage. Perhaps this article will spur Western nations to increase exploration and production but perhaps not.

The cover reflects a 180-degree rotation from a cover in 2003.



The magazine stated oil is dead. Although the opinion was not mainstream 20 years ago, this was the start of the war against oil and gas. The war is still going on and we are all suffering.

Keep up with *The Economist* to read what not to do in the macro-environment and how we can profit.

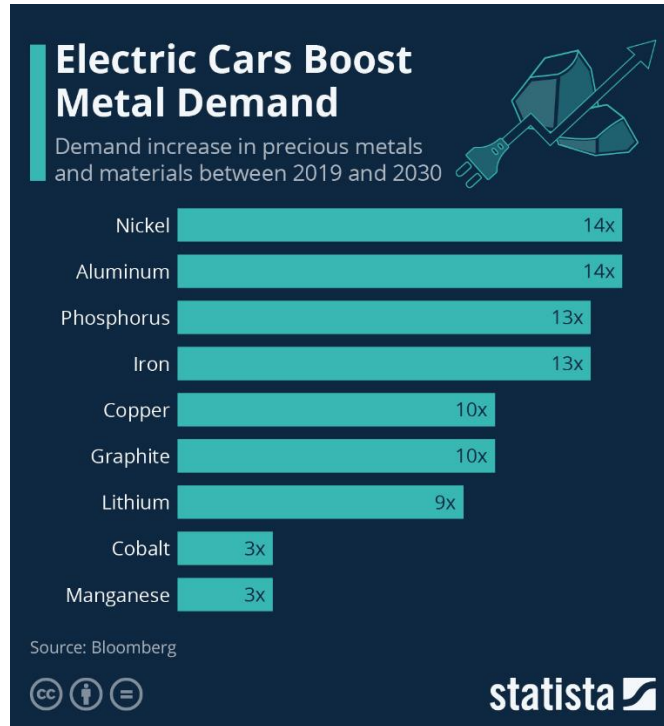
### **Musk is Two Steps Ahead**

We often have reported on Elon Musk. We have complimented him on various fronts. Even though we believe Tesla is extremely overvalued and expensive, we like his initiatives.

This week, Tesla and Musk showed us why he is two steps ahead of his competitors. The only competition Musk will face on a large scale will be that of traditional automakers who make the transition to electric vehicles. We do not think Lucid, Rivian, Nio, or any of the other new electric vehicle makers have a chance at catching Tesla. Aside from the first movers' advantage, Tesla's main competitive advantage remains scale, supply chains, Elon Musk, and technology. Tesla cars are not built well. They often are ridiculed by the automobile community for their cheapness. Tesla's competitive advantages are intangibles that are hard to quantify.

We have long recommended that electric vehicles believers should buy the input metals in the vehicles rather than betting on 1 of 20 companies or buying an extremely expensive Tesla. Buy lithium, cobalt, copper or Nickel miners. No matter the manufacturer, they all need the same metals and those metals have a limited supply. Demand will greatly outweigh supply in this great EV rotation.

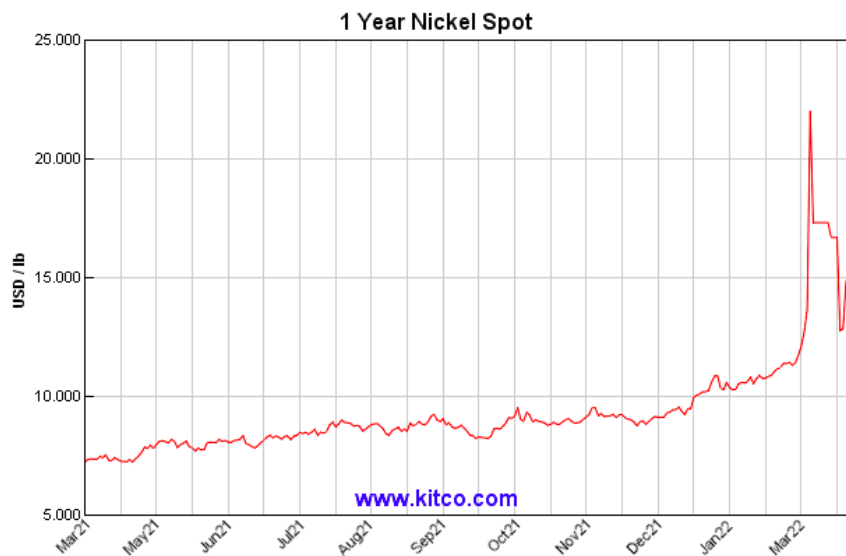




As these metals get more expensive, manufacturers will need to raise prices to keep up. In the next 10 years, demand for these metals is expected to balloon.

We highlight this because of the top metal on this chart, Nickel .

Two weeks ago, Nickel prices exploded due to Russia invading Ukraine and sanctions placed on Russia. Prices have calmed down. Prices got so high the London Metals Exchange closed the market for Nickel trades for a few days.

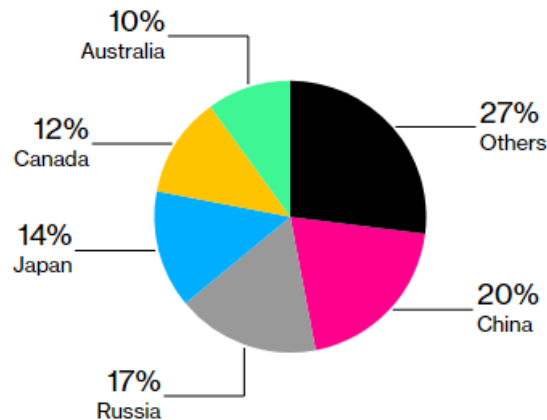


The sanctions placed on Russia by western nations will squeeze an already tight Nickel market. Russia is the second-largest Class 1 Nickel producer for EVs in the world. Nornickel, a Russian company is the world's largest Nickel producing company.



### Nickel Needs

Russia accounts for 17% of global production capacity for Class 1 nickel, used in electric vehicle batteries



Source: BloombergNEF

Tesla would need to raise prices to have the same margins as their input prices went up. This is a sector risk the entire auto manufacturing industry is going to face.

It appears Tesla dodged this Nickel crisis by securing a deal with Vale SA and numerous other Nickel producers. These deals appeared to be finalized in 2021 before this price run-up.

Tesla has placed focus on how it will secure EV metals, specifically Nickel. "Please mine more Nickel," Musk urged producers on an earnings call two years ago. "Tesla will give you a giant contract for a long period of time if you mine Nickel efficiently and in an environmentally sensitive way."

Vale said it has plans to increase its sales to the EV market to between 30% and 40% from 5%.

If Musk sees these metals as the biggest obstacle due to demand growth, we should all follow closely.

### Energy Shortage: Now

Energy shortages are an ongoing problem and will get worse across the West.

Germany is at the forefront of that conversation due to its reliance on Russian energy. Germany and the EU announced they would scale back purchases of Russian energy by the end of this year. Putin has threatened to leave Germany out in the cold. Putin has also demanded Germany and its allies pay for Russian energy in Rubles to strengthen the faltering currency.



Is this a bluff? Who knows?

We do know that Russia has enough food and energy but Germany does not.

Having no power and heat is a quick way for a Western government to be voted out. (Remember Germany recently held an election and installed a new government for the first time in 16 years).

On Wednesday, we were shown how serious the German energy problem is.

## German economy minister raises warning level for gas supplies




**Economy Minister Robert Habeck called on firms and individuals to try and reduce their energy consumption as much as possible as Germany tries to wean itself off dependence on Russian gas.**

A German Minister advocated for Germans to limit energy use to ration supply and urged the EU to decrease use to help as well.

Perhaps Germany could take a page from France and build nuclear reactors to remain energy efficient.

Germany should have worried more about oil, gas, nuclear and coal independence and less dependence on solar energy, wind turbines and buying Russian oil.

They are one of the global leaders in solar energy consumption and production yet solar cannot solve this problem. Fossil fuels can.

Rank	Country	Solar consumption per capita (kWh, 2019)	Solar's share of total (per capita consumption)
#1	 Australia	1,764	2.50%
#2	 Japan	1,469	3.59%
#3	 Germany	1,409	3.22%

Perhaps the strangest part of this German mess was EU officials storming Gazprom offices in Germany. This happened later in the day after the German Minister told citizens to decrease energy usage.

Gazprom is a Russian energy producer.



**Walter Bloomberg**  
@Deltaone

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**\*EUROPEAN UNION RAIDS GAZPROM OFFICES IN GERMANY IN PRICE PROBE**

10:13 AM · Mar 30, 2022 · TweetDeck

99 Retweets 33 Quote Tweets 375 Likes



Perhaps Germany foresees Russia cutting them off.

**MacNicol & Associates Asset Management Inc.**

**April 1, 2022**