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 ships (Investors) of dangerous areas****. It is like a traffic sign on the sea.*

Dryad Point Lighthouse, Dryad Point, Bella Bella, BC

Magdalena Island, Chile Lighthouse

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

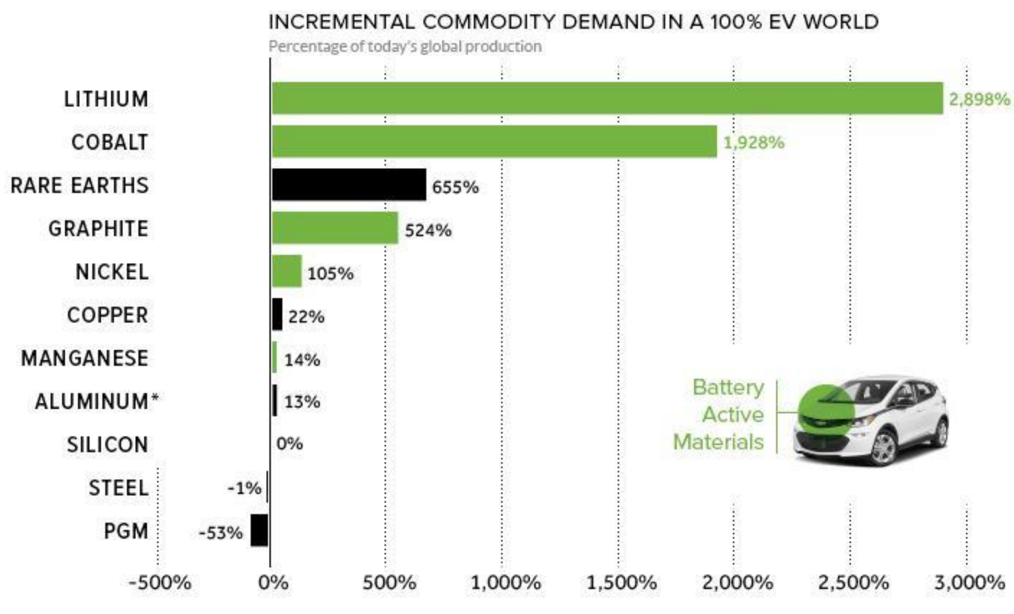
California Continues to Tax Anything That Moves

The state with the highest gas prices, the highest cost of living, and the highest state tax created a new tax this past week. A lithium miners' tax was implemented in California that will generate revenue for environmental remediation projects.

There have been many industry concerns and experts have warned that it will harm the sector and delay shipments to automakers. The tax is structured as a flat rate per tonne and will go into effect in January. The tax will be reviewed every year, and state officials have agreed to study potentially switching to a percentage-based tax.

California is home to a giant lithium reserve in the Salton Sea region, east of Los Angeles.

We suppose lawmakers have realized creating numerous lithium mines is not the most "environmentally friendly". Lithium is a major component in electric vehicles and will be in heavy demand as the world transitions from traditional automobiles to EVs.



In case you wondered this is what a lithium mine looks like:

Two of the area's three lithium companies warned the tax would scare off investors and customers. Both said they might leave the state for lithium-rich brine deposits in Utah or Arkansas. Suddenly, more taxes, fewer jobs, mass migration, and Californians are the losers. Who would have thought? Tesla, Oracle, and numerous other companies have already jumped ship. Who will be next?

Privately held Controlled Thermal Resources said the tax would force it to miss deadlines to deliver lithium to General Motors by 2024 and Stellantis by 2025.

A few industry executives have referred to the tax as a rationing tax. It seems California continues to tax the crap out of anything and will tax anything good it has going for itself.

Oil Takes a Beating on Recession Fears

Oil, natural gas, uranium, gold, silver, and copper prices, as well as the the companies that operate in those fields dropped sharply on Tuesday and Wednesday due to recession fears. The growing fear of a coming recession has formed across the west. Investors and consumers have no faith in their respective Central Banks. Frankly, we do not blame them. They have been behind on inflation every step of the way. Interest rates are in the toilet and will need to rise to bring inflation down which will, in turn, slow the economy and create a recession. We think some of the calls have been overblown.

We think some pundits and even activist investors are being loud on purpose in public to cause panic. After everything we have been through over the last 2 years, we think oil, gas, and energy as a whole will continue to be in high demand. Look at the airports. They are slammed, and people still are buying plane tickets. The entire 400 series were packed over the long weekend here in Toronto. We think a retreat in price could occur for the next few months but a systematic change to our thesis is extremely improbable. Demand destruction will not happen and the systematic problems that plague the energy sector will not be addressed (they may get worse thanks to climate activists and ESG guidelines). Also, a FED that pumped trillions into the economy will not be very likely to let the U.S. fall into a steep recession. The Biden Administration will also pressure them to avoid this as a recession will be political suicide, especially at this magnitude.

TipRanks

Jim Cramer Advises to Recession-Proof Your Portfolio With Packaged Food Stocks; Here Are 2 Names Analysts Like

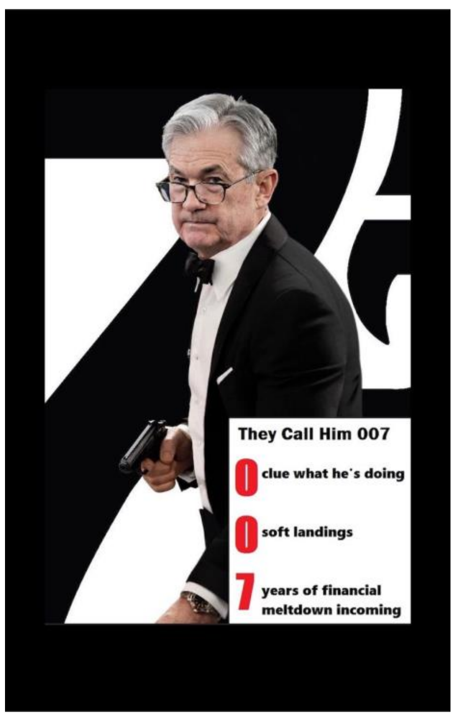
MARKETS

Bill Ackman says a more aggressive Fed or market collapse are the only ways to stop this inflation

PUBLISHED TUE, MAY 24 2022•12:48 PM EDT | UPDATED TUE, MAY 24 2022•1:17 PM EDT

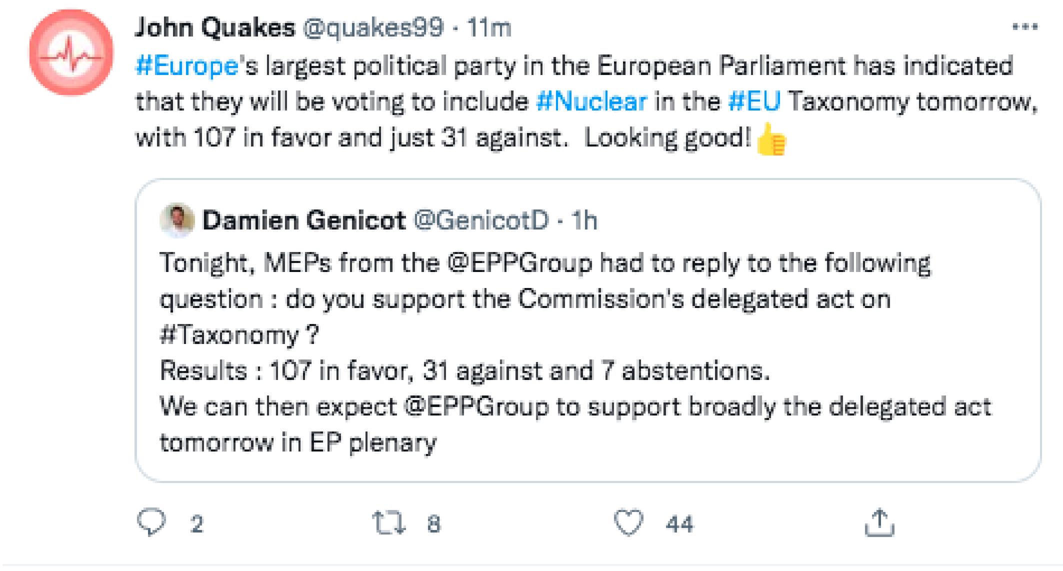
Cramer might have had some hiccups in recent years, but he tries to help. Ackman does not care about anyone other than his fund. He advocated for a full fledged shutdown in the west at the beginning of Covid-19 (close literally everything). We later found out he had a massive short position against the market. Either way, do not always listen to celebs.

We do not dislike Jerome Powell and do not necessarily agree with the prediction under the 7 but the picture is uncanny.



European Union Finally Accepts Uranium

The European Union voted on nuclear energy being considered a green source of energy. In other words, they now believe nuclear is a renewable and clean-burning source of energy. We are glad they finally recognize this. The vote looked to pass pretty unanimously.


John Quakes @quakes99 · 11m

#Europe's largest political party in the European Parliament has indicated that they will be voting to include #Nuclear in the #EU Taxonomy tomorrow, with 107 in favor and just 31 against. Looking good! 👍

Damien Genicot @GenicotD · 1h

Tonight, MEPs from the @EPPGroup had to reply to the following question : do you support the Commission's delegated act on #Taxonomy ?
Results : 107 in favor, 31 against and 7 abstentions.
We can then expect @EPPGroup to support broadly the delegated act tomorrow in EP plenary

2 8 44

107 votes for and 31 against. There are 31 ESG Freaks in the EU Parliament who own solar stocks or wind turbines. The only bad sliver from this passing is green energy propagandists and ESG supporters will use data produced by the EU to mislead people. They will claim renewables are reliable and that they solved their reliance on coal and Russian gas when the solution is nuclear energy. Russia is one of the largest producers of fuel-grade uranium (the enrichment process, not the raw extraction). Either way, as nuclear supporters we think this is a big move. We are glad the German wing's opinion was ousted and French policy seems to be the rule of the EU.....for now. Apart from the use case, the legislation includes ESG guidelines. Investment funds with strict ESG guidelines in Europe can now invest in nuclear companies. These investments might become more popular overnight, not based on valuation but on arbitrary ESG scores (ie. nuclear will randomly increase its ESG scores in coming years).

The only issue with the use case for nuclear: where will the raw uranium come from with such high demand?

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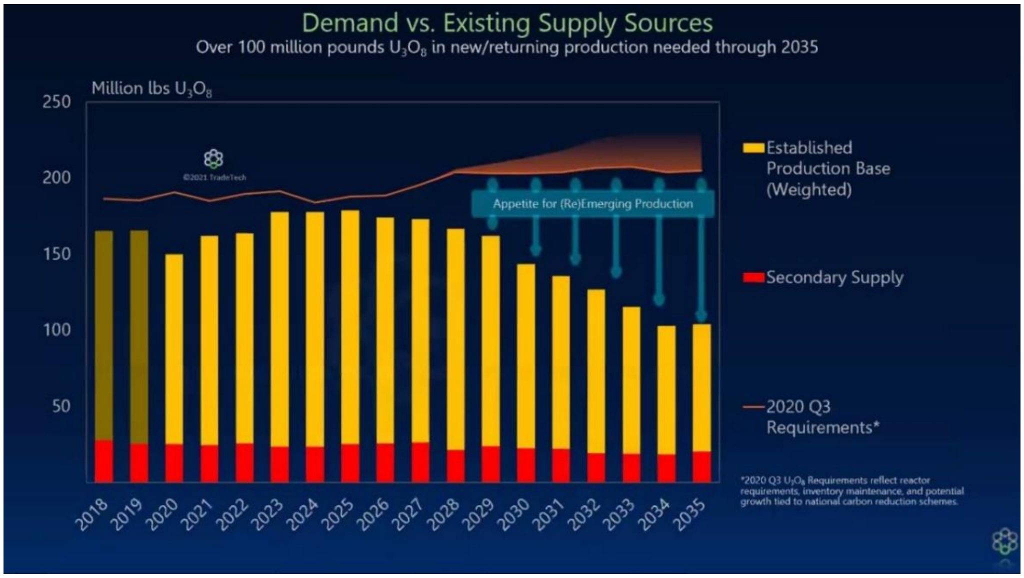
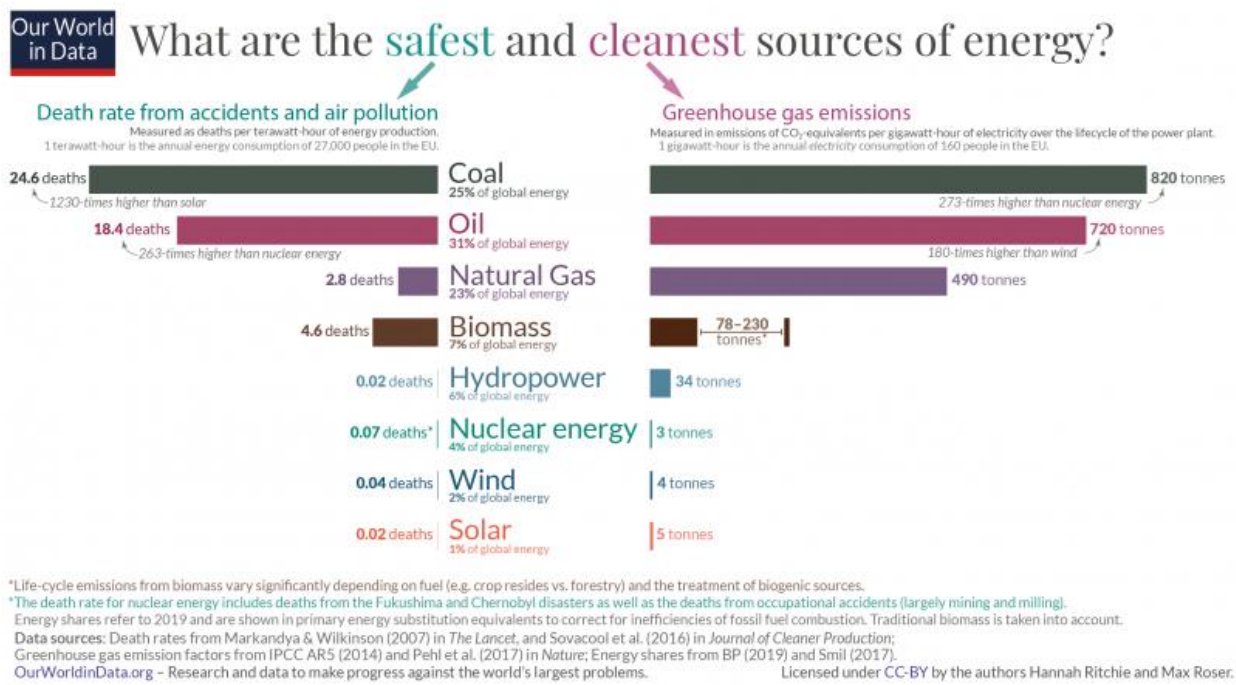


We highlighted the chart below during a Webinar that we conducted in May 2022 on Energy Shortages. Nuclear energy produces the least pollution among all sources of energy.



Yes, that is not a typo. Nuclear is cleaner than solar and wind energy. Solar panels and wind turbines require vast metal extraction that uses fossil fuels. They also clear fields to conduct green energy farms all across the world which destroys ecosystems. Regardless, it's good to see the EU practice some common sense.

Either way, we will take more nuclear energy if skewed headlines are a result.

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We hope our readers understand the risks associated with commodity investing, and increased volatility especially in today's markets. We certainly did not buy at the top but 2022s gains have almost been erased through this last month. Energy investors could be the new “HODLers”.

<u>Energy: Where are the Banks?</u>

We think a few banks have taken this recent reset in oil and gas stocks to enter some positions in cash flow positive, money printing machines. Even Warren Buffett is “dip buying” the price increase in oil and gas we have seen over the last 3-4 weeks. As investors who believe in the fundamental backdrop in the energy sector, it is good to see that the value king has not been scared away during sector turmoil.

Buffett Bought the Latest OXY Dip

Whether a takeout is in the offing or not, there's no question Buffett has been going all in on the **energy sector** in 2022.

Beyond Buffett, some of the banks remain quite bullish on the sector. Most of the big 5 Canadian Banks have put out research where their oil price projections are in the $110 range.

Goldman put out a piece of research that was interesting to read:

Oil

Oil succumbs to recession fears

Oil prices collapsed today, with Brent down more than 10% from the morning highs. We view this move as driven by growing recession fears in the face of low trading liquidity, with technicals exacerbating the sell-off. The declines in prices and refining margins since mid-June are now equivalent to the oil market pricing in an 1.1% downward revision to 2H22-2023 global GDP growth expectations. We believe this move has overshot - while risks of a *future* recession are growing, key to our bullish view is that the *current* oil deficit remains unresolved, with demand destruction through high prices the only solver left as still declining inventories approach critically low levels.

- The fall in oil prices started at the US equity market open and coincided with a broad-based decline in other commodities and risky assets. As is repeatedly the case with oil, the move lower was then exacerbated by technical factors and trend-following CTA flows, such as Brent trading through its 100-day moving average, as well as through the strikes of puts with large open interest (where negative gamma effects invariably accelerate large price sell-off). It is important to finally note that this sell-off occurred amidst seasonally low post-July 4 trading liquidity. From this perspective, this sell-off in oil prices is not all that surprising, similar in set-up and magnitude as the one after Thanksgiving 2021, most recently.
- Fundamentally, we find little catalyst for today's move, with the morning offering instead news of rising geopolitical tensions in Iran and record strong Saudi OSP to Asia, reflective of strong crude demand by refiners. Case in point, front-month Brent timespreads, diesel and gasoline cracks all weathered the fall in flat price, only down slightly on the day. In fact, the most notable move in oil prices in the past few days was the strength in crude timespreads and physical prices, reflective of a market still in deficit. This is consistent with our tracking of oil fundamentals, with an estimated global c.1 mb/d deficit in June, with China back to drawing inventories as well.
- With concerns focused on the potential for a recession, we update our tracking of oil demand. Our mapping of daily mobility points to demand holding despite the surge in retail prices in June, with global jet fuel demand continuing its impressive recovery. Specifically, we estimate that onroad June demand was up c.2% year-on-year exc. Asia, consistent with (1) 2Q real global GDP yoy growth

But there is also no consensus which is a good thing. Some on Wall Street are extremely bearish on oil.

Ari Ozick
@ariozick

Citi says oil will collapse to $65 per barrel.
JPM says oil could go up to $380 per barrel.

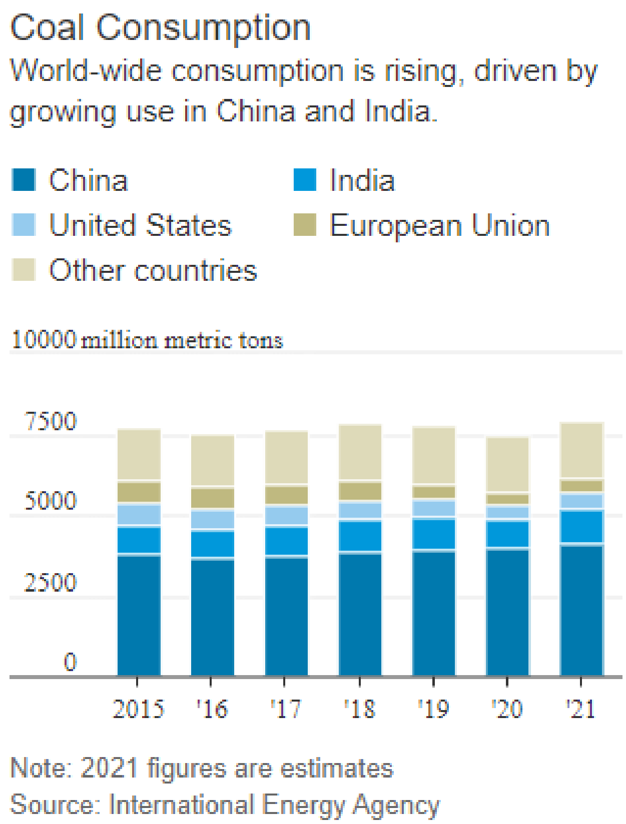
I think that's everything you need to know about market forecasting.

9:42 AM · Jul 5, 2022 · Twitter Web App

1,458 Retweets **151** Quote Tweets **11.6K** Likes

We think JP Morgan's projection is stupid, but Citi continues to be stubborn. Why don't we all use the spread between those projections and call it a day?

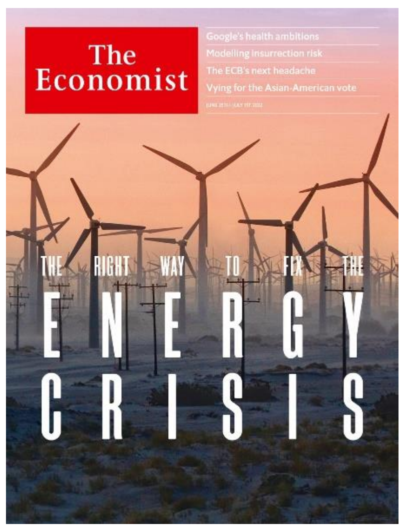
Either way, in the short term with political headwinds, an ongoing war, SPR releases, and recession fears, it is impossible to predict anything. Our readers must remember our projection is a medium to long-term play where global supply problems will continue to be exposed while global demand expands. Never believe that the world will use less oil in 2030. If you read a headline like that, ignore it. Perhaps, by 2050 we will substantially decrease oil usage but for the next 10+ years, the world will continue to pump on oil. Don't believe us? Coal usage has remained flat over the last 5+ years on a global scale. Yea, the dirtiest fossil fuel, coal.



China and India will continue to expand their coal usage as they have over the last 5-10 years. Even if the U.S. and EU ban coal usage (pretend it's possible (mass-energy shortages)), it will not move the needle in terms of decreasing global coal consumption.

Never forget The Economist called coal "history" on December 3rd, 2020:

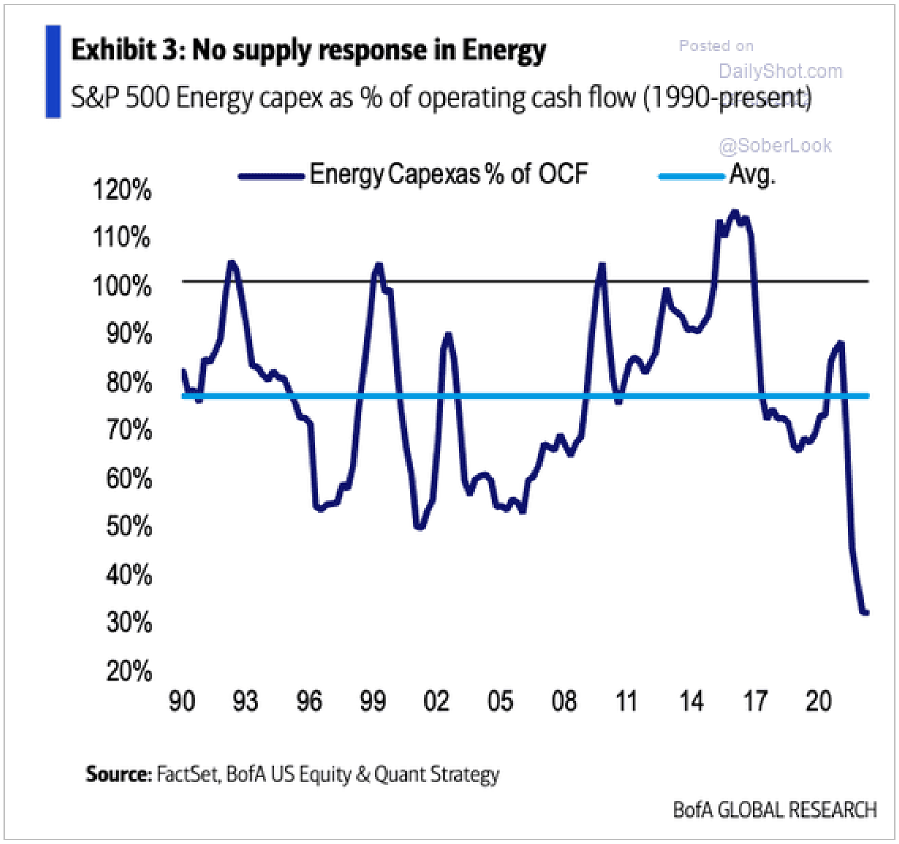
We like to track covers of the popular magazine as it has been a great inverse indicator (do the opposite of their cover). This week's cover was interesting……..



And we will leave it at that……

Those turbines will make what we have right now look attractive (high prices).

While the world thinks that will solve the issue, we know the chart below is the solution:



Increase CapEx. Increase Supply. Decrease Prices.

MacNicol & Associates Asset Management Inc.
July 8, 2022