



MACRO OPS

TRADE - LEARN - EVOLVE

THE MARKET BRIEF | **JUNE 18 2023**



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Equity Note: Updating Alphamin (AFM) Thesis

Brandon here.

Alphamin (AFM.TSX) produces ~4% of the world's tin from its Bisie Mine in the Mpama North region of the Dominican Republic of the Congo (or DRC). The company is one of two ways to play the long tin thesis (MetalsX Limited or MLX), and the chart looks ready to break out.

Meanwhile, Mining Twitter has gone silent on tin as the underlying price declined 40% over the past year. But the long-term demand and supply drivers remain intact. Some drivers – like AI and 5G and semiconductors – have even accelerated their trends.

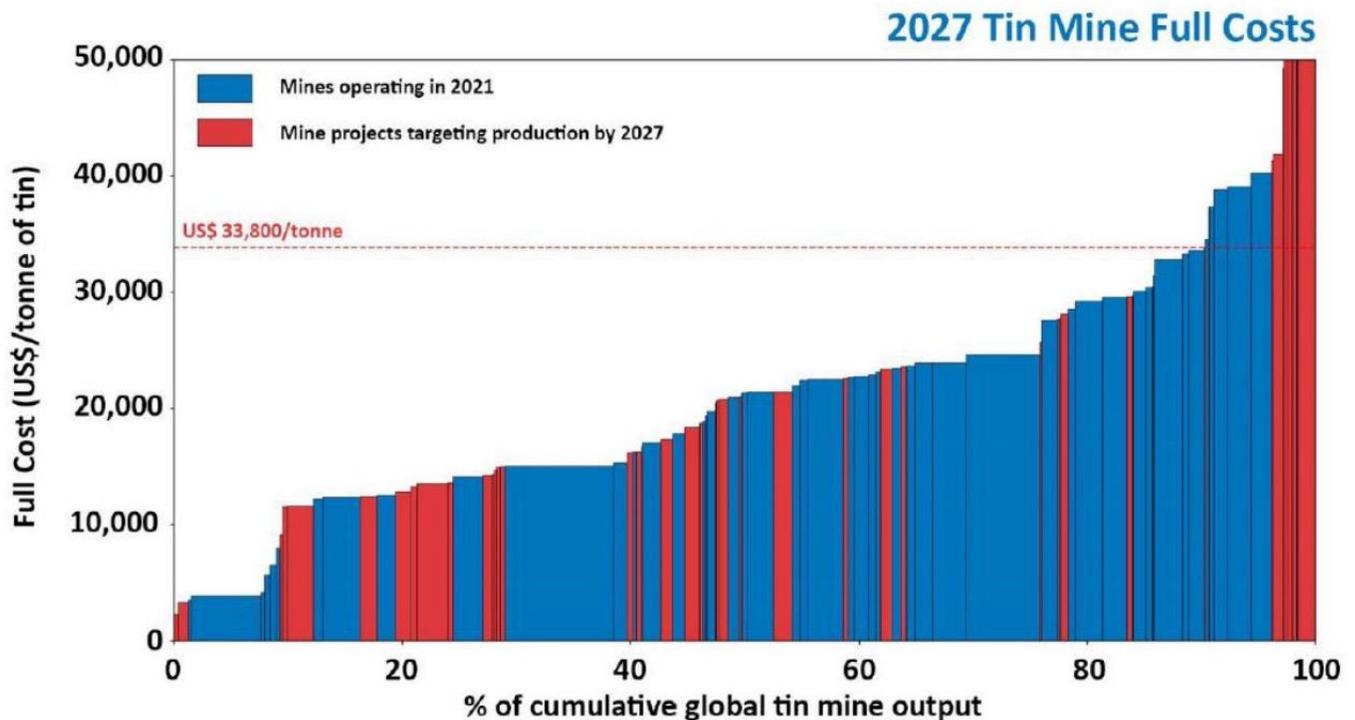
We initially covered tin with our [MetalsX Limited \(MLX\) thesis](#) on November 2022. Then, we explored the [entire tin industry with Adrian Godas](#) in April. I'd watch the industry deep dive with Adrian before reading the rest of the report. He converted us from MLX to AFM bulls.

Let's discuss why we're just as excited about tin today as we were last year.

Low-Cost, High Cash-Generating Producer

AFM extracts tin at ~\$14,000/ton. So despite tin's 40% price decline (~\$26,500/ton currently), the company still generates ~\$12,500/ton in profit.

The marginal tin mine requires a \$30,000/ton tin price to break even (see below).



This is important because the marginal operating cost is a buoy to future tin prices. There is no incentive to bring new supply online with tin below \$30,000/ton. **Yet AFM still generates \$150M in profits at today's prices.**

Then there's supply concentration risk. Four countries account for 73% of global tin production (China, Indonesia, Myanmar, and Peru). Unfortunately, **they all face supply constraints.**

China's output has flatlined over the past decade. Indonesia has exhausted its on-shore tin production and requires high-cost offshore efforts (check out Adrian's MOHO for a crazy picture of Indonesia's Gerry-rigged offshore operations). Myanmar depleted all its high-grade tin and must now mine lower-grade, underground rock (read: more expensive). And Peru closed its largest mine in January over social unrest.

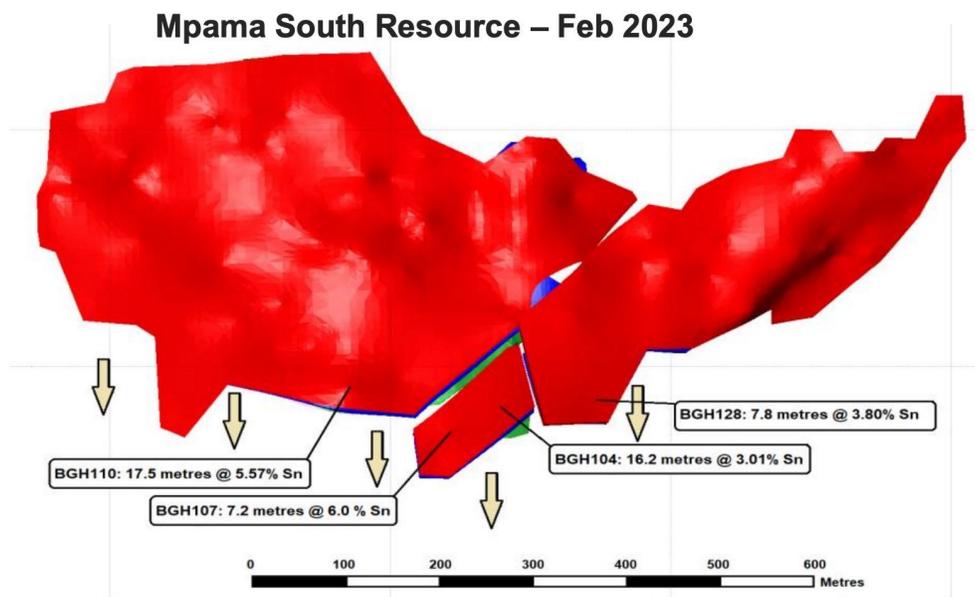
That's a long-winded way of saying tin's production looks fucked over the next 12-18 months.

Why don't companies bring new mines online, you ask? Two reasons. One, new mines take up to 10 years to come online. Two, tin is a small market (~400K/t demand or \$10B). It doesn't move the needle for major miners like Rio Tinto, Vale, or M&A giants like Glencore (GLEN).

This is the other reason why we're so excited about AFM. **The company is one of the only miners adding production over the next four years** with Mpama South.

Reaching 20,000t Annual Production

Mpama South is a high-grade deposit (6% at some intercepts). It is expected to add 8,000 tons in annual production. It has 80K tons in Indicated Reserves.



The mine should commission in December 2023 and cost around \$116M. Remember, this is one of the only tin mines coming online over the next four years.

So by January 2024, AFM will produce ~20,000 tons with ~15,000 AISCs. This brings us to the final reason we're excited about the opportunity: **future cash flows.**

\$300M+ Annual Cash Flow By 2024

If I learned anything from my college microeconomics course, the underlying tin price will eventually trade at the marginal cost of production.

The LT supply/demand imbalances suggest that tin will trade much higher than the marginal cost (or \$30,000/ton). But I want to underwrite for pessimism, not optimism.

Let's assume tin prices average ~\$30,000 throughout 2024. That's only a 13% increase from today's price. Reasonable.

We'll also assume both Mpama North and South mines are fully operational with ~75% recoveries and producing 20,000 tons of contained tin.

In that scenario, AFM would generate \$300M in profits or a ~30% yield on the current market cap. A third of those profits will go towards taxes and sustaining capex. Then another 14% towards treasury build-up. There are also no interest payments since AFM has no debt.

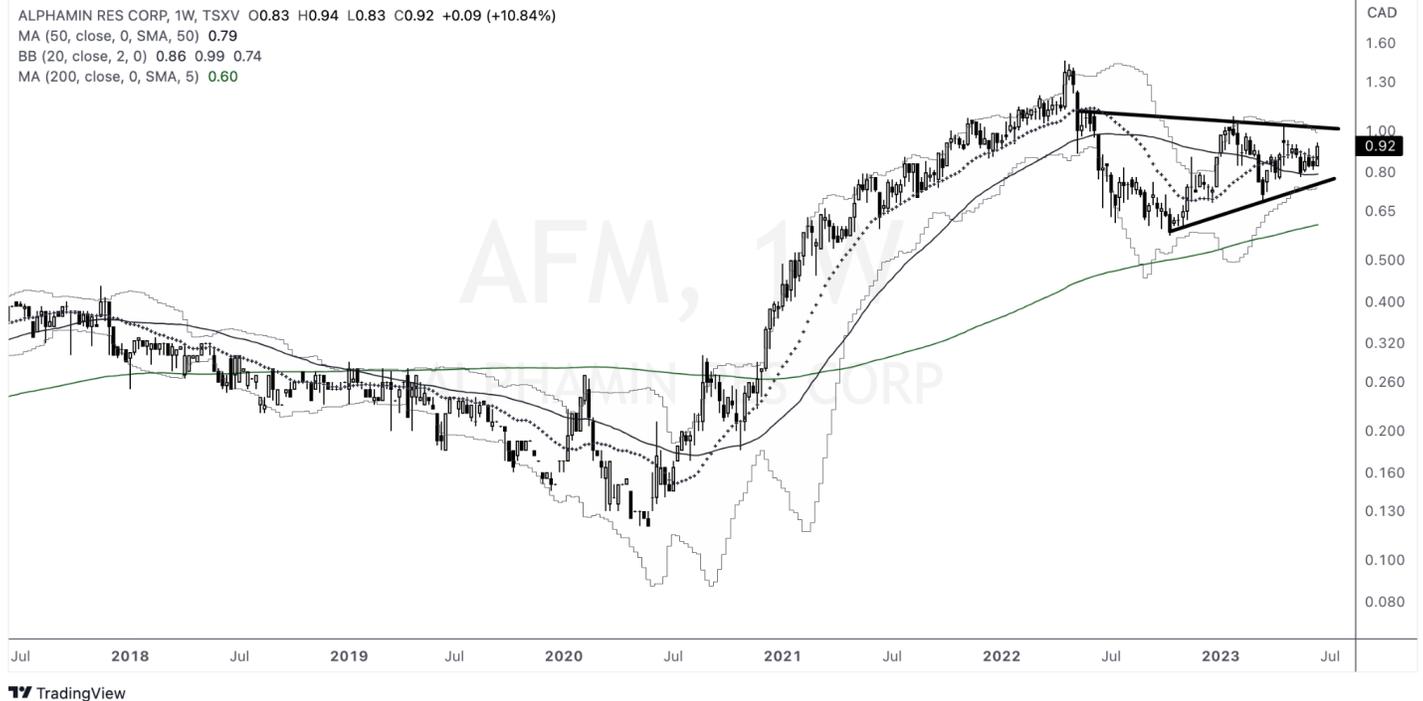
That leaves ~55% of the profits (or \$165M) available for dividends and/or buybacks. All at the marginal cost of production (\$30,000).

Now hold my beer.

There's a real chance tin trades at \$40,000-\$50,000/ton if supply issues prolong and demand drivers accelerate. If that happens, AFM will generate \$360M in profits, 50%+ of which it can return to shareholders. Again, with no debt on the balance sheet.

We can buy this mission-critical business today for \$1B. Let's head to the charts for an entry opportunity.

BrandonBeylo published on TradingView.com, Jun 17, 2023 20:08 UTC-4



The stock is coiling in a Bull Quiet Regime on the weekly time frame. You can wait for the breakout from the symmetrical triangle. Or you can buy the open on Monday and place a protective stop below the recent pivot low (CAD 0.68).

MO Portfolio Snapshot

The Macro Ops Portfolio

PDF: <https://tinyurl.com/mo-portfolio>

2023 YTD Return	4.49%
Total Notional Exposure	211.03%
Current Cash Value (%)	61.92%
2022 Final Return	10.21%
2021 Final Return	6.39%
2020 Final Return	66.40%

Futures, Bonds & FX

	Ticker	Contracts	Capital	Notional	At-Risk	Cost Basis	Current Price	Stop-Loss	P&L
Dollar/Chinese Yuan	USDCNH	365,650	\$2,606,464.19	152.53%	-3.66%	\$6.95	\$7.13	\$7.12	2.55%
Russell 2000 Futures	RTYU2023	4	\$378,600.00	22.15%	0.74%	\$1,882.80	\$1,893.00	\$1,819.90	0.54%

Equities

Strategic

	Ticker	Shares	Capital	Notional	At-Risk	Cost Basis	Current Price	Stop-Loss	P&L
Sprott Uranium	U.UN	6,431	\$85,597.20	5.01%	0.49%	\$11.73	\$13.31	\$10.44	13.47%
Sprott Uranium (Second Leg)	U.UN	10,058	\$133,867.99	7.83%	0.51%	\$13.41	\$13.31	\$12.55	-0.75%
Foran Mining	FOM.TSXV	27,333	\$66,419.13	3.89%	0.24%	\$2.11	\$2.43	\$1.96	15.17%
Foran Mining (Second Leg)	FOM.TSXV	16,994	\$41,295.27	2.42%	0.52%	\$2.48	\$2.43	\$1.96	-2.02%
Vista Energy	VIST	6,727	\$161,177.68	9.43%	-0.27%	\$14.11	\$23.96	\$14.80	69.81%
Triple Flag Precious Metals	TFPM	2,013	\$27,471.41	1.61%	0.51%	\$16.65	\$13.65	\$12.35	-18.02%
Tidewater (Second Leg)	TDW	1,249	\$54,342.45	3.18%	0.50%	\$49.35	\$43.51	\$42.57	-11.83%
Tidewater	TDW	1,174	\$51,064.93	2.99%	-0.13%	\$34.15	\$43.51	\$36.00	27.41%

Tactical

	Ticker	Shares	Capital	Notional	At-Risk	Cost Basis	Current Price	Stop-Loss	P&L
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Options

	Ticker	Contracts	Capital	Notional	At-Risk	Cost Basis	Current (Mid) Price	Stop-Loss	P&L
AG JAN 19 2024 \$20 CALLS	AG	237	\$4,259.70	0.25%	0.97%	\$70.00	\$18.00	\$0.00	-74.29%
PAAS JAN 19 2024 \$45 CALLS	PAAS	660	\$23,087.13	1.35%	0.97%	\$25.00	\$35.00	\$0.00	40.00%
HAL JAN 19 2024 \$60 CALLS	HAL	67	\$2,226.55	0.13%	0.52%	\$132.00	\$33.00	\$0.00	-75.00%

[*Learn how to interpret our portfolio here.](#)

[*Learn how we size positions and issue trade alerts here.](#)

[*Set up trade alerts here.](#)

What I Learned This Week: Metals & Mining Resources

I spend almost all day reading. Investor letters, annual reports, investor presentations, etc.

There are only 24 hours in a day, so I've developed a large backlog of PDFs I'll "eventually read." They sit like abandoned orphans in my browser tabs.

So I thought you could help me work through them.

Here's the current "Eventually Read" list as of today:

- [METALS AND MINING SCENARIOS TO 2030, MCKINSEY](#)
- [METALS AND MINING INDUSTRY TOP TRENDS 2022, S&P GLOBAL](#)
- [MINING INVESTMENT BEYOND THE BOOM, RESERVE BANK OF AUSTRALIA](#)
- [2023 METALS AND MINING OUTLOOK, S&P GLOBAL](#)
- [PLANNED MINING CAPEX IN 2023, S&P GLOBAL](#)
- [COPPER PROJECTS REVIEW 2021, RFC AMBRIAN](#)
- [NET ZERO ROADMAP FOR COPPER AND NICKEL, IFC](#)
- [THE MINERAL INTENSITY OF THE CLEAN ENERGY TRANSITION, WORLD BANK GROUP](#)

Join me as I knock out this list over the coming month.

Community Highlights

Three things you may have missed this week in the Comms Center!

- 1) [An American Investment Boom Would Be Good for the World](#) (#research)

Alex shared the PDF version of *The Overshoot's* latest article (link above). The argument is that a rapid increase in US spending would boost American imports and create a win-win for US GDP/productivity and global consumption.

- 2) [Potential Trade Setup in Cocoa Futures](#) (#ideas-commodities)

Alex G shared a potential trade setup in Cocoa Futures on Thursday (emphasis added):

*“Keeping an eye on Cocoa, back to May 2016 price. **Speculators highest levels since Feb 2020**, this on its own is not enough for me to get short I want to news story failure - positive news but stock finishes down, this will be signal to try a short with a tight stop. **key level is 3400 Nov 2015 high.**”*

The chart looks overextended here, too.



- 3) [Interactive Brokers Introduces New Tradable Markets](#) (#random)

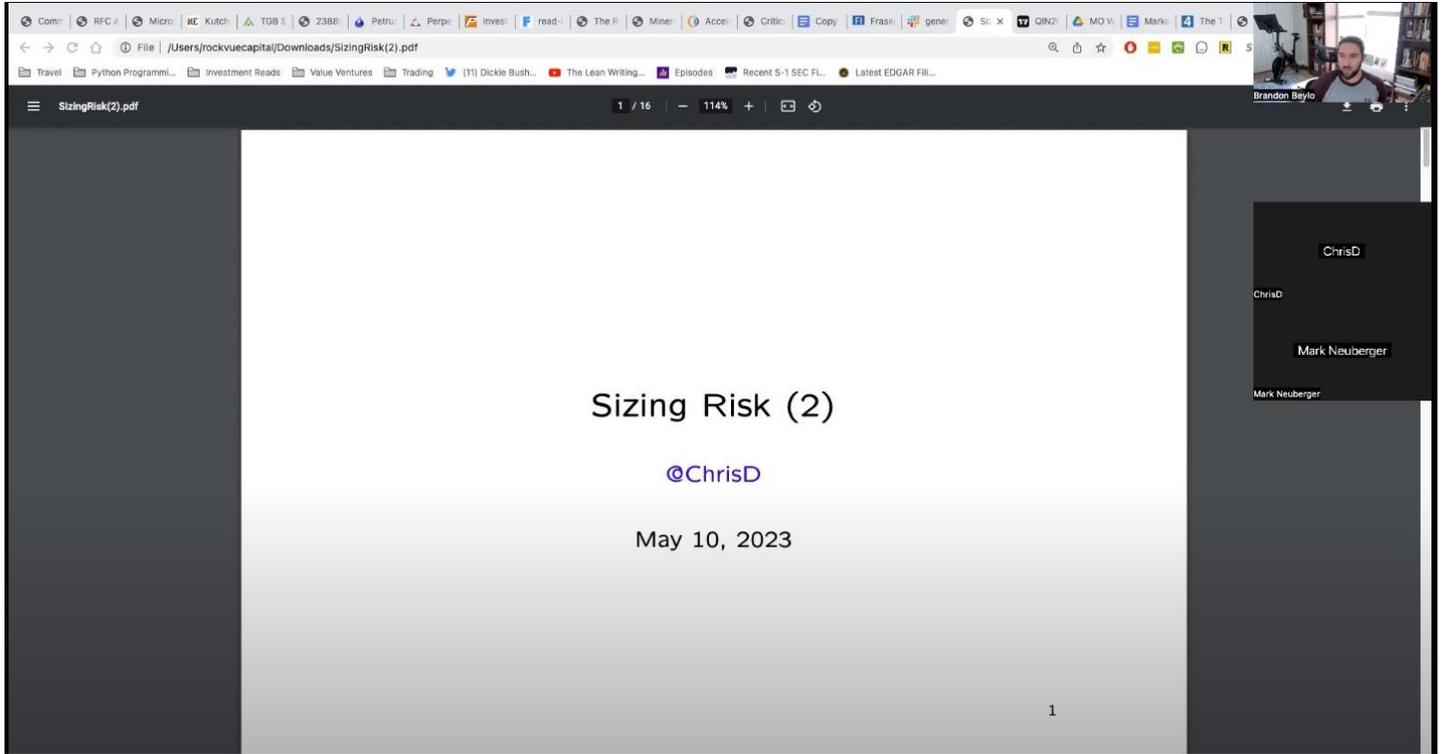
Andre A. posted a tweet from IBKR a couple of weeks ago highlighting two new markets IBKR customers can now trade: **Nasdaq Copenhagen** and **Prague Stock Exchange**.

I plan to explore these indices and encourage you to do the same over the coming months. Let's compile a list of the Collective's favorite stocks from these indices.

[*Join our Comm Center here.](#)

The Vault: MOHO Webinar #6 w/ ChrisD

Check out ChrisD's Probability, Risk, and Trading Part 2 webinar [here](#). ChrisD discusses Kelly Betting, how to adapt your risk management practices in real-time according to your live trading data, and the probability of geometric vs. linear betting.



HUD Focus: Small/Large Specs Bullish For Copper

I don't want to be "The Boy Who Cried Copper." If it gets that bad, please take me out back for the Old Yeller treatment.

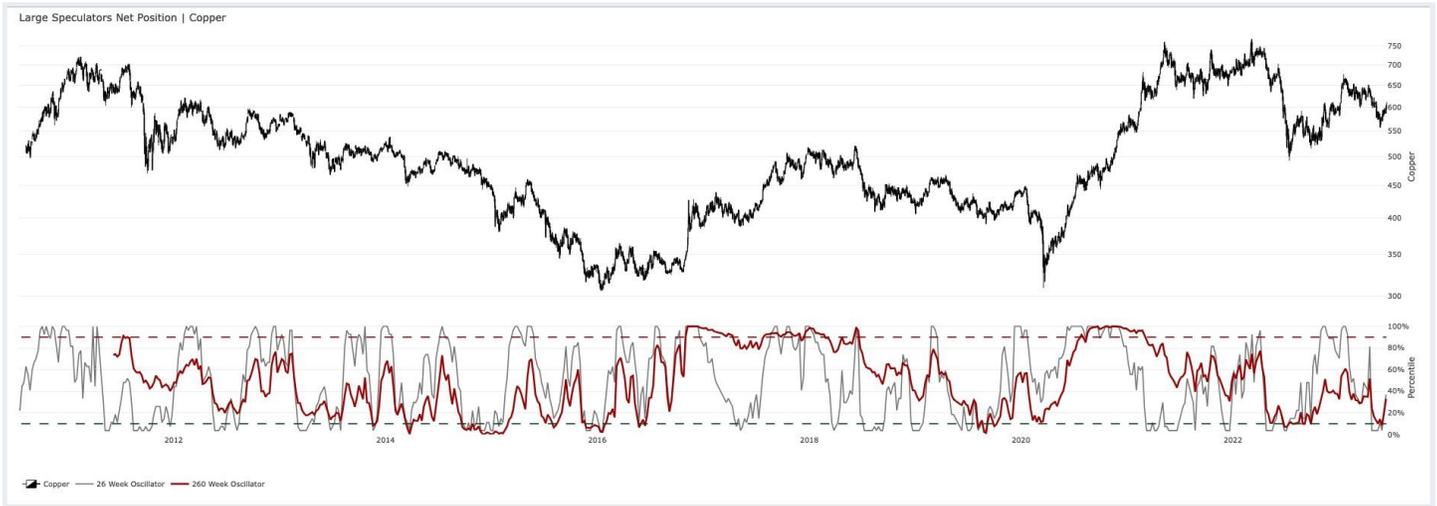
Despite my long-term bullish copper outlook, short-term positioning and technicals have kept us on the sidelines.

But that could change. Let's head to the HUD.

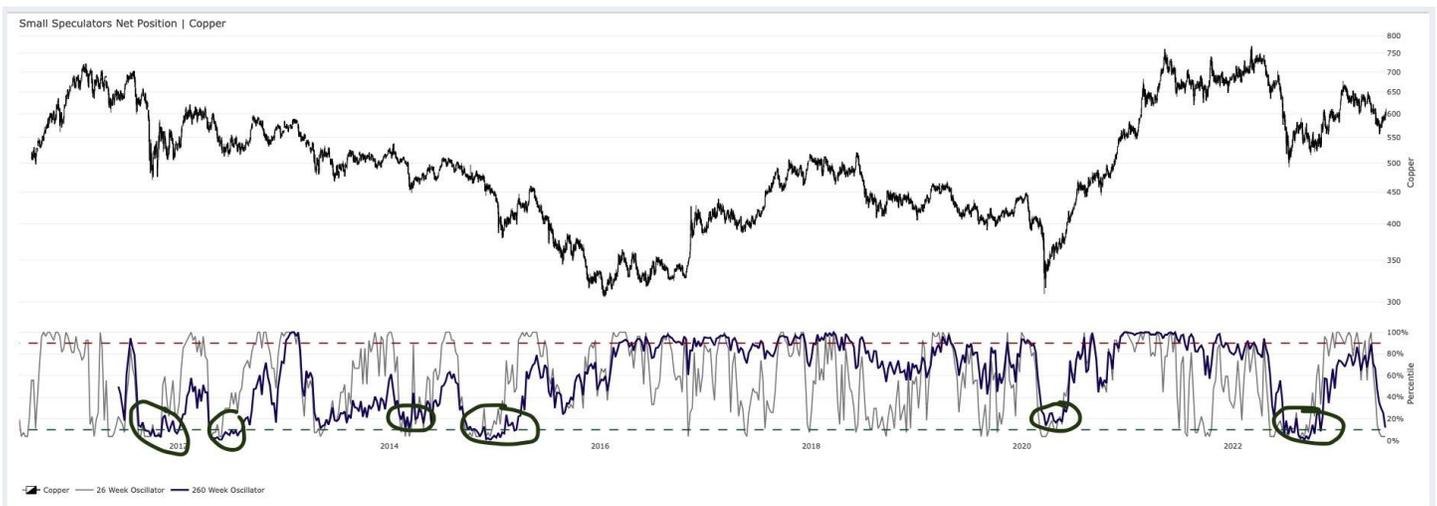


Small and Large Speculator Positioning is firmly bullish, with Small Specs' 26-week Oscillator falling sharply over the past month to levels we haven't seen since November 2022.

Large Positioning this low has historically signaled market bottoms (see: March 2014, January 2015 and 2016, September 2019, March 2020, and June 2022).



We see the same phenomenon in Small Speculator Positioning. Since 2011, Small Spec positioning has hit ~0%. Each time it's marked the bottom (see below).



Remember, this doesn't *guarantee* that copper trades higher from here. All it does is raise the probability of a move higher over the next few months.

China's rumored a massive stimulus plan again, which would send copper higher. But our base case is a recession in Q3/Q4 of this year, *maybe* Q1 of 2024. And if we're right, copper should take out its lows.

Copper is a challenging game.

Let's check the technicals.

BrandonBaylo published on TradingView.com, Jun 17, 2023 08:34 UTC-4



I don't see anything actionable yet. HG remains in a Bear Quiet/Neutral regime on the weekly time frame.

There's no reason to force a trade here, either. But there are reasons to be excited about copper's price action.

For instance, it put in two consecutive higher lows and closed above the 50D and 200D moving averages.

Long-term copper bulls could buy the open Monday and put a protective stop below the most recent pivot low (around \$3.5415/lb). You'd have to size small, though.

I talked with Alex about copper yesterday, and he made an excellent point. If we're long-term bullish copper, *we will eventually get a buy setup to get long*.

Our job is to remain patient until we get that opportunity.

[*Access the HUD here.](#)

The MO Trading Process Explained

Macro Ops Trifecta

- [The MO Trifecta Strategy Explained](#)
- [Expected Value \(EV\) & Bayesian Analysis](#)
- [Trade Alerts + Position Sizing](#)
- [The MO Portfolio Guide](#)

Sentiment

- [How To Be A Contrarian](#)
- [How To Play The Player](#)
- [The Hierarchy Of Markets](#)
- [Trend Fragility Indicator](#)

Technicals

- [Multidimensional Forecasting](#)
- [How to Manage to Uncertainty](#)
- [How to Read Price Action](#)
- [How to Spot Market Trends](#)
- [Momentum, Mean Reversion And Volatility](#)
- [Classical Charting, Price Patterns & Entries](#)
- [Which Time Frame To Focus and Why](#)

- [How To Exit A Trade](#)
- [How To Size Your Positions](#)
- [Position Sizing Calculator](#)
- [Key Options Spreads](#)
- [Trading Volatility](#)
- [Delta Hedging](#)
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- [Tactical Options Strategies](#)
- [The DOTM Options Strategy](#)
- [How To Use The SQN To Identify Market Regimes](#)
- [How To Execute BVO & FBVO Trades](#)
- [The FOMC Trade](#)

Fundamentals

- [Finding Compounders](#)
- [Investing In An Inflationary Environment](#)
- [Finding Inflation-Proof Companies](#)