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December 28, 2023

THE LONG PULL: Recent Updates On Tin & Copper

The Holiday Season is the market's slowest time. There's not much to do in our portfolio besides hang on for dear life in uranium, Nasdaq futures, and TMF.

We're writing a year-end review next week where I'll dive deep into the portfolio, describe what went right/wrong, and how I'm thinking about 2024.

But today, I want to discuss two of my favorite metals: tin and copper (read our tin industry primer here).

Both metals face structural supply issues that should result in significant deficits over the next few years. They also play a critical role in "Electrification" and a "Greener" economy.

It's also important to note that demand hasn't collapsed despite China's *supposed* real estate implosion and the impending recession.

Worsening supply with not-dead-yet demand should increase tin and copper prices and create plenty of opportunity in 2024.

Let's start with tin.

Tin: A Fragile Supply Chain

Alphamin Resources (AFM.V) is one of the world's largest tin producers and our favorite way to play the tin thesis.

Last week, the company updated its production guidance and road conditions at both its Mpama North/South mines.

The TL;DR version is that road conditions have worsened since November, resulting in lower production volumes and reduced full-year guidance (emphasis added):

> *"The road conditions have further deteriorated with ongoing heavy rains which are only recently showing signs of subsiding. Historically, the months of December, January and February are* ***relatively dry from a rainfall perspective****."*

Weather is unpredictable. But there's also normal seasonality. Clothing stores can't "predict" the weather. Still, they know consumers don't buy winter jackets in June.

Mining is like that. There are wet and dry seasons, and you plan certain activities around those seasons. Heavy rain when you're not expecting it causes supply issues (emphasis mine):

> *"As a result of increased truck transit times, contained tin sales for Q4 2023 are now expected to be between* ***2,000 tonnes and 2,200 tonnes (Q3 2023: 3,110t)****.*
>
> *Contained tin production remains on target and is expected at approximately 3,100 tonnes for Q4 2023 (Q3 2023: 3,104t). The Q4 2023 sales delays should catch-up during Q1 2024 when road conditions are expected to improve.*
>
> *For the year ending December 2023, contained tin production of approximately 12,500 tonnes (previous guidance: 12,000t) and* ***contained tin sales of approximately 11,400 tonnes (previous guidance: 12,000t)*** *are expected."*

Contained tin sales will be lower this quarter than expected. That's fine. It doesn't matter what this quarter's sales or next quarter's sales are.

What matters is Mpama South and AFM's ability to ramp *future* production, which they explained (emphasis added):

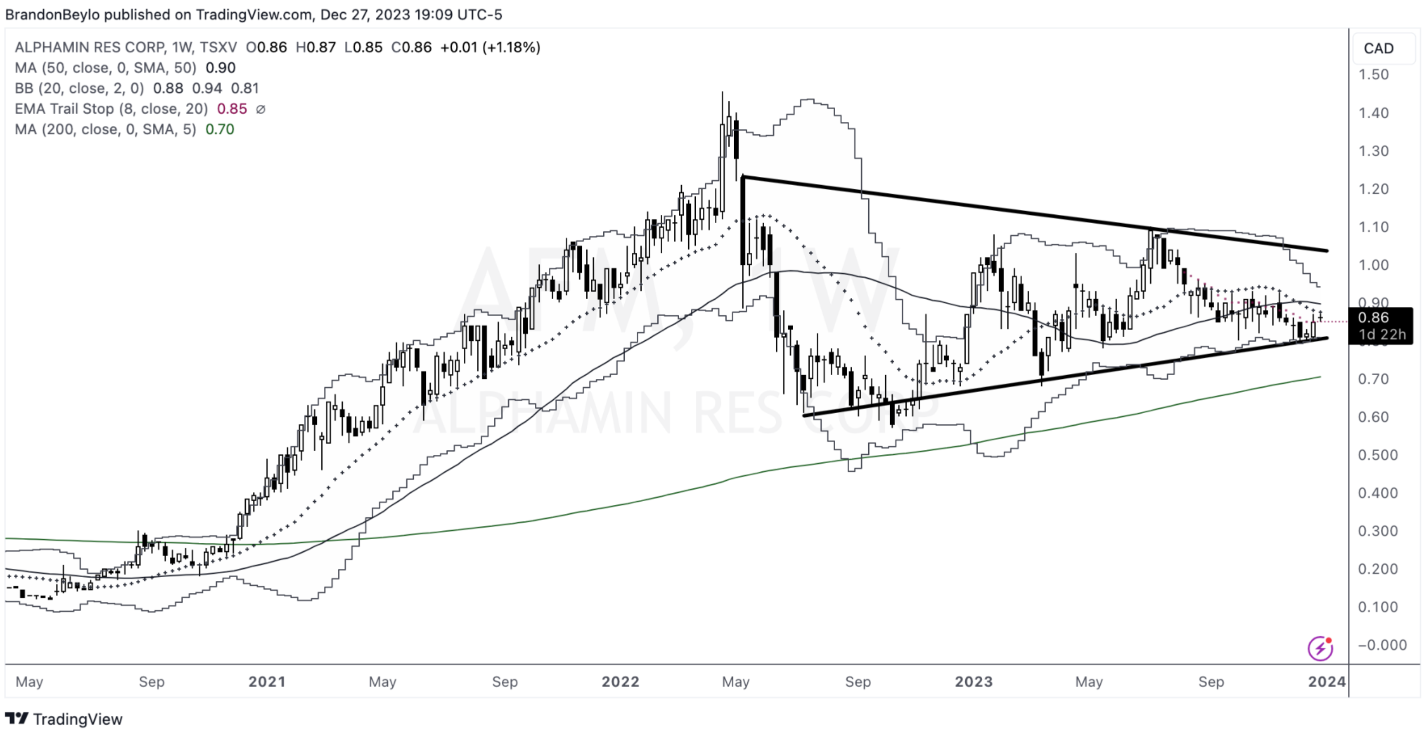
> *"The delay in the arrival of the last batch of containers required for the completion of the Mpama South plant is estimated to defer the project's completion by a further month with commissioning now expected from late February 2024 and ore processing from the end of March 2024.*
>
> ***The Mpama South underground mine is operational and has commenced with the stockpiling of ore on surface*** *in preparation for a rapid ramp-up during plant commissioning."*

In other words, Mpama South is running, stockpiling ore, and waiting for the road to open so they can sell it. This is a *big* deal.

AFM is bringing Mpama South online at what could be an inflection point in tin prices. Look at the chart below.

Tin has been in a year-long symmetrical triangle/coiling pattern. Of course, prices could break lower. But you want to buy commodities when the underlying price is below the marginal cost of production, which is where tin is now.

Let's pair that chart with AFM's price action (see below).



AFM has gone nowhere since May 2021.

On the one hand, it's frustrating because the supply/demand narrative keeps improving.

But on the other hand, it flushes out weak holders and leaves plenty of investor apathy, which is a great spot to buy.

We're buying a starter position at the bottom of this range this week. It allows us to get decent size with little risk. We can then add on the breakout above CAD 1.00.

AFM is the only liquid way to play the tin thesis. So when this thing goes, it will go fast. We don't want to miss it.

Alright, onto copper.

Copper: When Time Horizons Shrink

We've been writing about copper's impending supply issues for months. With copper approaching $4/lb, everyone seems to be catching up. Price drives narrative.

The base case narrative for copper was basically, *"Supply will be a huge issue, just not right now, and not until 2025-2026. And don't forget the recession in 2024 …"*

Then First Quantum shut down one of the largest copper mines in the world (producing ~3% of world copper).

Then Codelco cut production guidance to 25-year lows.

Then Aurubis, one of the world's largest copper recyclers, said, *"Actually, 2024 will be a pretty good year for copper."*

Then Chile, which accounts for 27% of global copper supply, announced a 7% YoY production decline.

Then Chinese smelters reduced the price of converting copper concentrate into refined metal by $8/ton, the first price adjustment in three years!

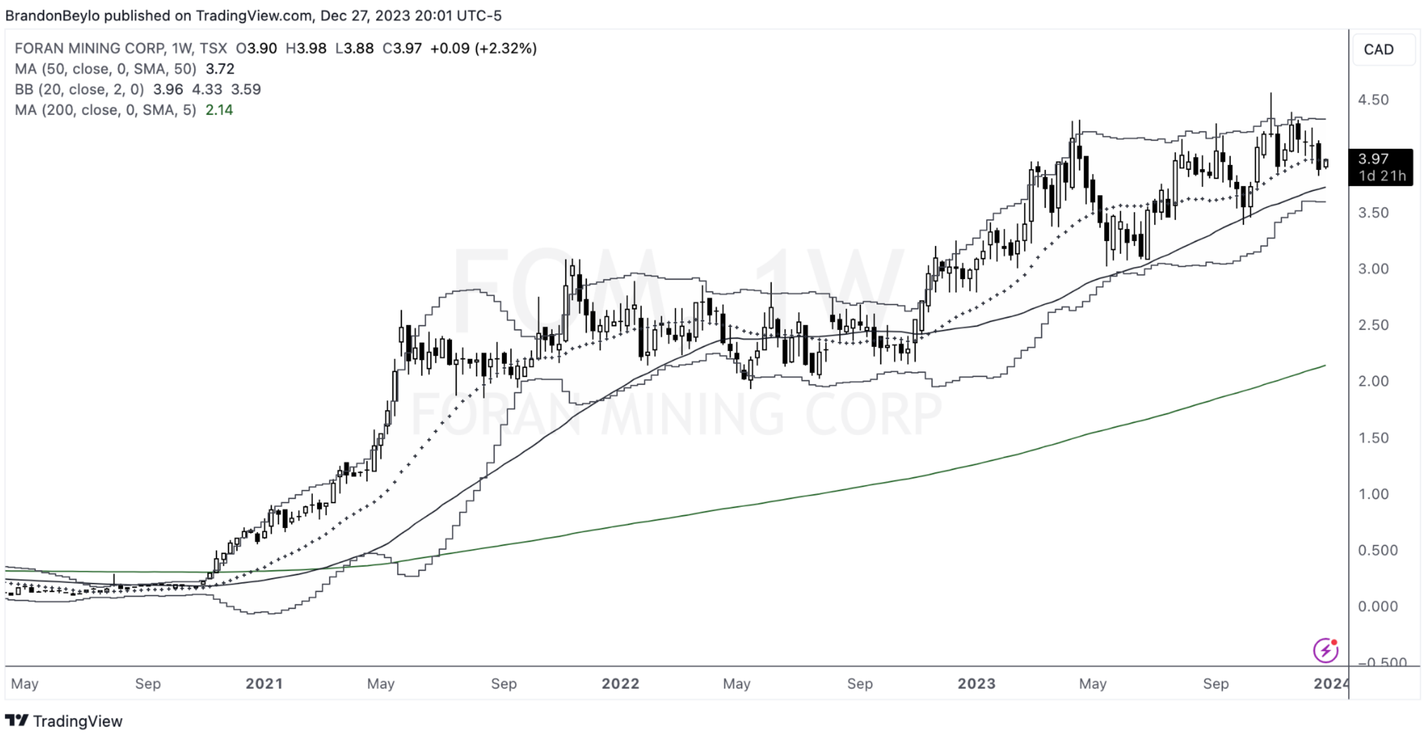
Then Anglo American (AAL) lowered its 2024 copper production guidance by 200,000 tons.

Here's the important thing. These above developments shrink time horizons. What was once a 2025-2026 problem is now *today's* problem. In two weeks, Goldman Sachs' 2024 forecast flipped from surplus to deficit.

Copper is a huge market, so it takes a lot to influence price. But I think we're there now. Look at the copper chart below.

It's breaking out of a 19-month consolidation wedge while hugging the 50D and 200D moving averages. And it's made three higher lows.

Our copper explorer Foran Mining (FOM) continues to move higher. We're up over 40% on the name and have added two legs to the trade this year.



Stocks with the highest relative strength tend to move first when new bull markets arrive. I expect FOM to break out to new highs if we get a sustained breakout in the underlying copper price. It's currently 5% of the portfolio NAV.

That said, I want more copper exposure. I've got a long watchlist of producers, explorers, and picks-and-shovels names to go through and will hopefully add 1-2 more names to the book next year.

Conclusion: Our Patience Will Be Rewarded … Eventually

Watching a stock go nowhere while the underlying fundamentals improve is not fun. But the beauty of commodity markets is that supply and demand ultimately determine price and returns.

Tin cannot stay below the marginal cost of production forever. Copper cannot fix its supply issues anytime soon.

Eventually, our patience will be rewarded. Probably sooner than we think.