MACRO OPS
TRADE - LEARN - EVOLVE

August 28, 2024

THE LONG PULL: MOHO Idea Lunch #7 w/ Chase Taylor, Pinecone Macro

A big thank you to those who joined live for last week's MOHO Idea Lunch webinar on PGMs with *Collective* member (and Pinecone Macro founder) Chase Taylor. I learned so much from Chase and hope you did, too.

The webinar had six parts: **BEV Hype Fading, Why EVs are Struggling, PGM Fundamentals, Stretched Positioning, Big Picture Prices, and Some Charts/Ideas.**

Chase is one of the smartest and deepest thinkers in the game, and this presentation showcased his talent. You will want to watch it a few times to get all the knowledge nuggets Chase left for us.

It's also a *must-watch* if you have any PGM exposure or want to add PGM exposure to your book.

Watch the entire webinar here and download the presentation while you're at it.

You can read my Cliff Notes below, where I highlight my favorite parts of each section.

Part 1: BEV Hype Fading

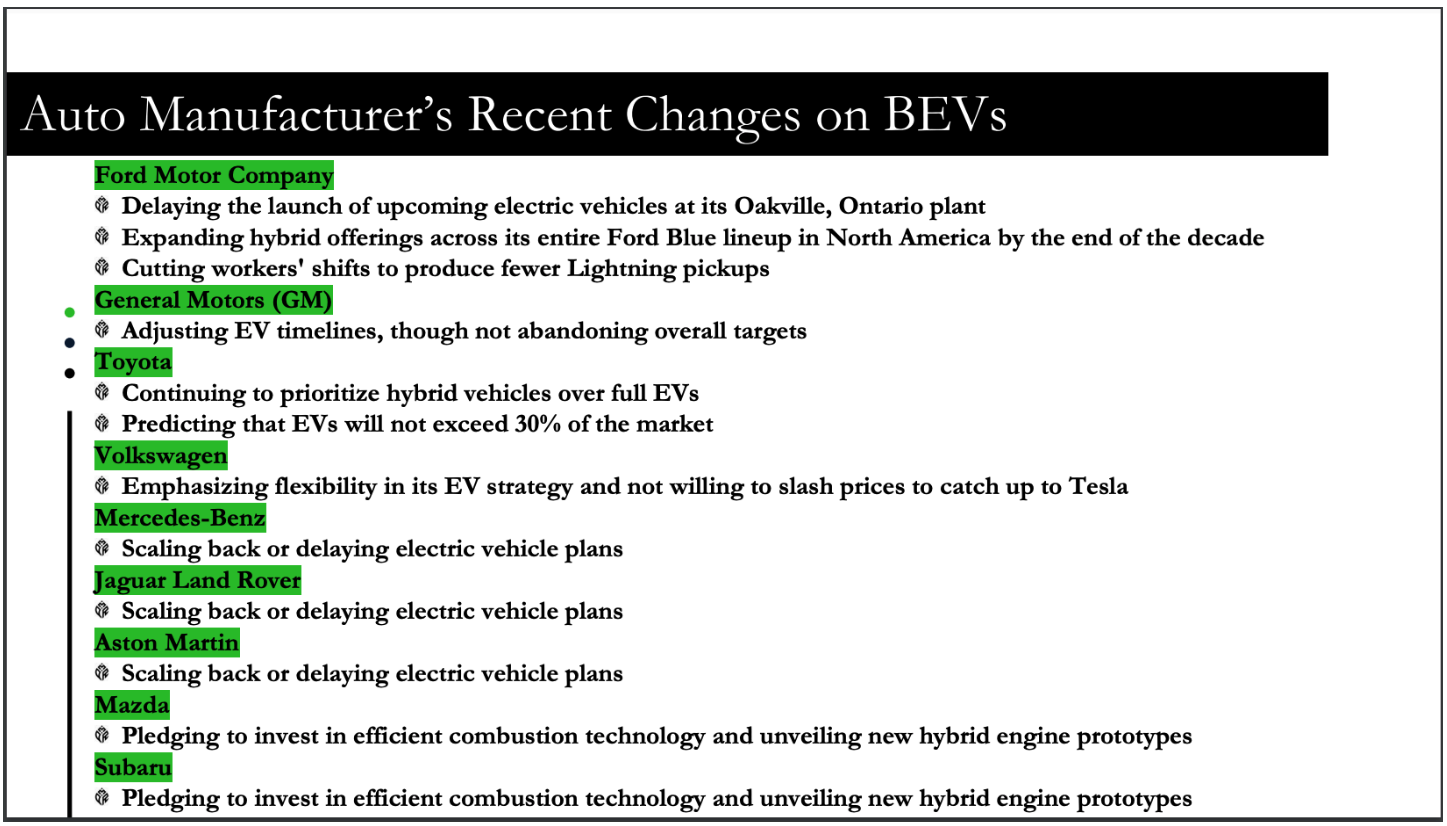
Charlie Munger had a phrase … *"show me the incentive and I'll show you the outcome."*

For a while, the incentive in the auto industry was to "build as many EVs as possible because there's a bucket of free money waiting for you when you do."

Mercedes wanted all EVs by 2030, and other OEMs planned to phase out ICE vehicles by 2030. Why make cars that don't have free money attached to them?

But now the subsidies are gone. And so is the incentive to build EVs.

I love this slide from Chase's presentation. Look at how many OEMs changed their tone on EVs compared to ICE/hybrids.



As Chase mentioned in the presentation, this isn't just a US/Europe revelation. South Korea's largest EV battery manufacturer has recorded ten consecutive quarters of operating losses.

Part 2: Why EVs Are Struggling

Chase cites six main culprits for EVs recent struggles.

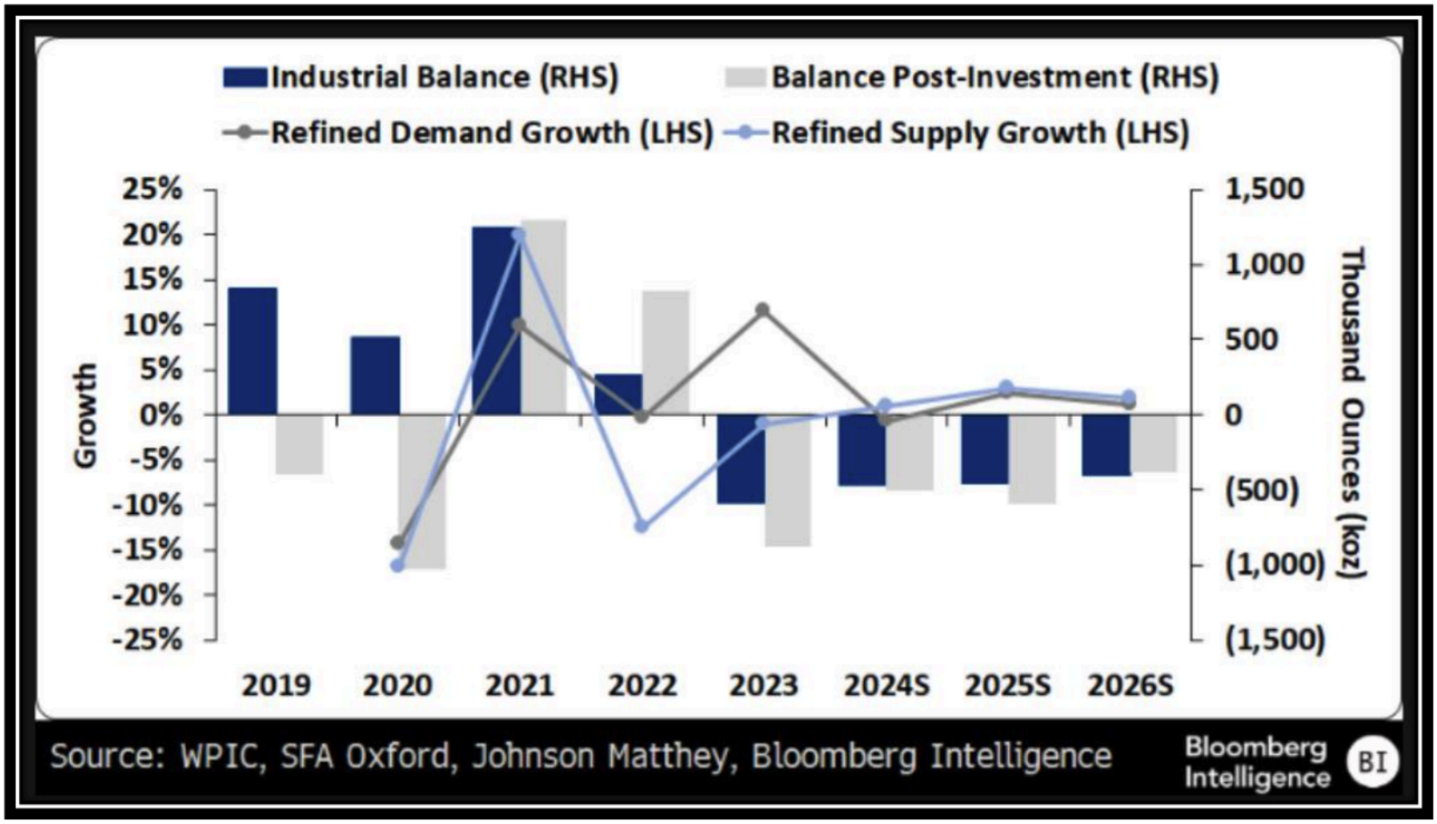
1) **Resale Value:** Used EV prices are down 16% YoY, the lowest of any auto category.
2) **Cost:** The average price of a hybrid is around $42,000, while BEVs run over $55,000. That $13K is a huge deal to millions of people. And that doesn't include the comparative cost of ICE vehicles, which are cheaper than hybrids.
3) **Range Anxiety:** Range anxiety is the fear that your battery will die in the middle of nowhere and you can't find a charging station for hundreds of miles. Hybrids fix this because they can use gasoline. And you can almost *always* find a gas station somewhere.
4) **Charging:** There are barriers to entry for charging, whether that's range anxiety in finding a charging station or installing one in a condo or apartment. However, most new apartment buildings have a few charging stations on the property.
5) **Insurance Costs:** Chase explained why EVs cost more to insure … higher vehicle costs, more expensive repair costs (EVs are more computer than car), and costly battery replacements.
6) **Repair Costs:** Two interesting data points … 1) EV incident claims are 25% more expensive than ICE claims, and 2) EV repairs take 14% longer to fix than ICE vehicles.

Part 3: PGM Supply and Demand

Platinum will likely stay in a supply deficit for the rest of the 2020s. Palladium is expected to enter a supply surplus in 2025-2026. However, the surplus is built on the assumption that EVs will displace ICE/hybrids by then (which we know won't happen).

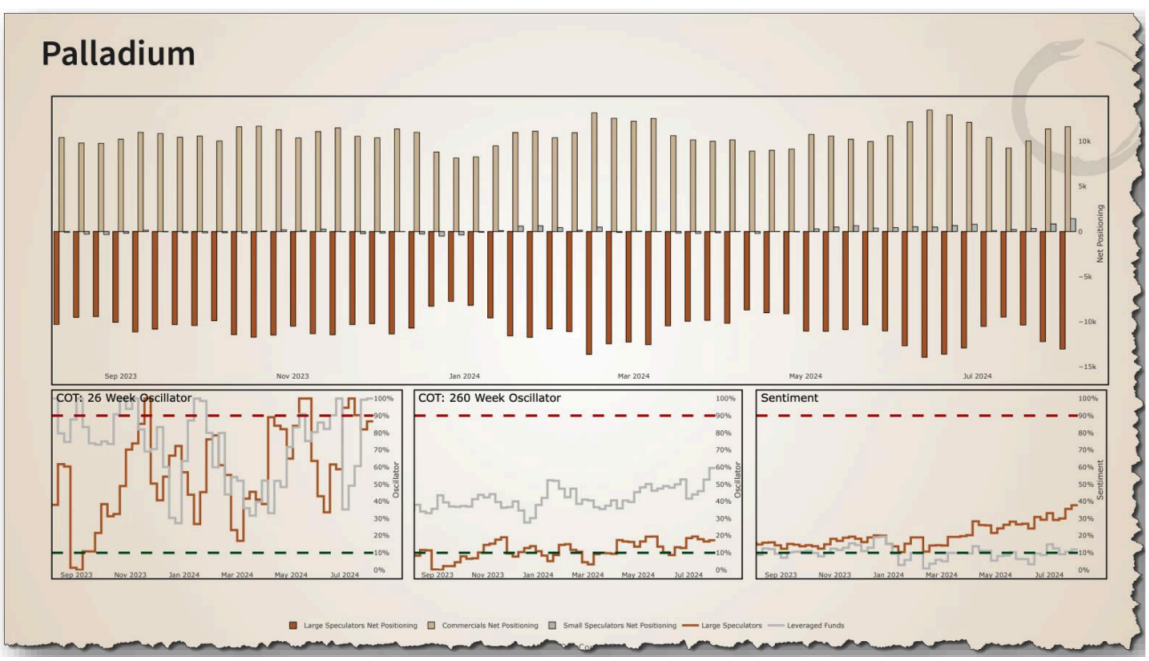
Then there's the vehicle replacement cycle, which is bullish for PGMs. See Chase's comments below (emphasis added):

> *"We have established that demand for hybrids has outgrown BEV lately, but it is important t note the bottom left panel here…**cars out there right now are OLD and need to be replaced.** When rates eventually fall – **folks will buy a lot of cars and a lot of them will not be BEVs.**"*



Part 4: Stretched Positioning

Large Speculators have been massively short palladium for most of the past year. So far, it hasn't mattered. But remember, the longer we need PGMs, the more stressed this short trade becomes … eventually unwinding in epic proportions.



Part 5: Big Picture Prices

Chase compared palladium prices to gold and noted that palladium reached long-term support (see below).

PGMs have been one of the worst-performing commodity groups this year. And the miners have performed even worse (speaking as a painful SBSW bagholder).

The PGM mining sector trades at ~4.7x EBITDA versus its 10YR average of 5.7x.

Part 6: How To Play The PGM Trade

Chase finished the presentation with eight ways to play the bullish PGM trade (Chase's comments below).

1) **Sprott Physical Platinum & Palladium Trust (SPPP):** *"For those who do not want dumpster fire miner and country risk and do not want to trade degen palladium futures – check out SPPP."*
2) **ABRDN Physical Palladium (PALL):** "*If you just want palladium, there is PALL. Super cheap but also a terrible chart until it isn't."*
3) **Sibanye-Stillwater (SBSW): "***SBSW is my favorite miner because it sucks and has a lot of room to run if PGM prices go back up and they suck a tiny bit less. The chart is awful so waiting for it to firm up or bounce off $3.50 makes sense. No reason it cannot go back to $2 either."*
4) **Impala Platinum (IMPUY): "***Like Sibanye, Impala can push production if/when prices pick back up and they can make a lot of money. For now, its just about surviving until that happens."*

5) **Sylvania Platinum (SLP.L): "***Sylvania looks much better on the chart clearly and their focus on retreating PGM bearing chrome tailings helps them blow less money on production. So perhaps a safer way of getting (less) exposure."*
6) **Platina (PGM):** "*Platina is down about 100% and clearly a grease fire of a chart. Something great would need to happen to make this make sense but not many companies so I wanted to cover the dogs so you can add it to a watchlist."*
7) **Northam Platinum Holdings (NPH.JSE):** "*If you can trade it – one to watch – especially above that 14,370 line."*
8) **Anglo American (AAL):** "*If you want some quality and safety but still have some mining exposure – Anglo American is probably the best bet. The chart looks great too. Less than 1% default chance."*

Conclusion: Notes From @Kulok

When he's not buying biotech stocks, Collective member *Kulok* moonlights as a consultant with the major automotive OEMs. He has "inside baseball" knowledge of ICE, hybrid, and EV trends … which impact our bullish PGM thesis.

Here are my notes from my conversation with Kulok this morning.

- *People want hybrids … if they have the money … hybrids win every time*
- *If it is between ICE or EV …* ***ICE wins 6-7 to 1***
- *Numbers are getting worse for the EVs*
- *The winners are TSLA and BYD*
- *Most automakers want an EV in the future, but only if Washington pays for it.*
- *In the last 60-70 years, every system that had significant capex eventually became commoditized*
    - *Whoever provided the software/OS won*
- *Just not sure how things will look in 3-4 years*
- *Next* ***1-2 years will be great for this trade***
- *It's not about green vs. not green*
    - *It's about how they can be built, how they can be distributed, and about the labor unions.*
    - *There is so much embedded in the system for Legacy to compete with EV*
- *PGMs are a 1-2, maybe 3YR trade. Anything longer than that gets more risky.*

The TL;DR: PGMs could have 1-3 years of life-changing returns before crashing down as reality sets in, TSLA and BYD dump the market with low-priced EVs, and consumers change purchasing decisions.