MACRO OPS
TRADE - LEARN - EVOLVE

August 07, 2024

THE LONG PULL: Precious Metals Basket Update

I'm back from Hilton Head, SC, just in time to watch the Japanese markets crash, only to see it reverse its losses within twenty-four hours.

By the way, vacations with a baby aren't vacations. It's just more work at a different location. I now get the comment, "I need a vacation from my vacation." Someone tell me it gets easier eventually!

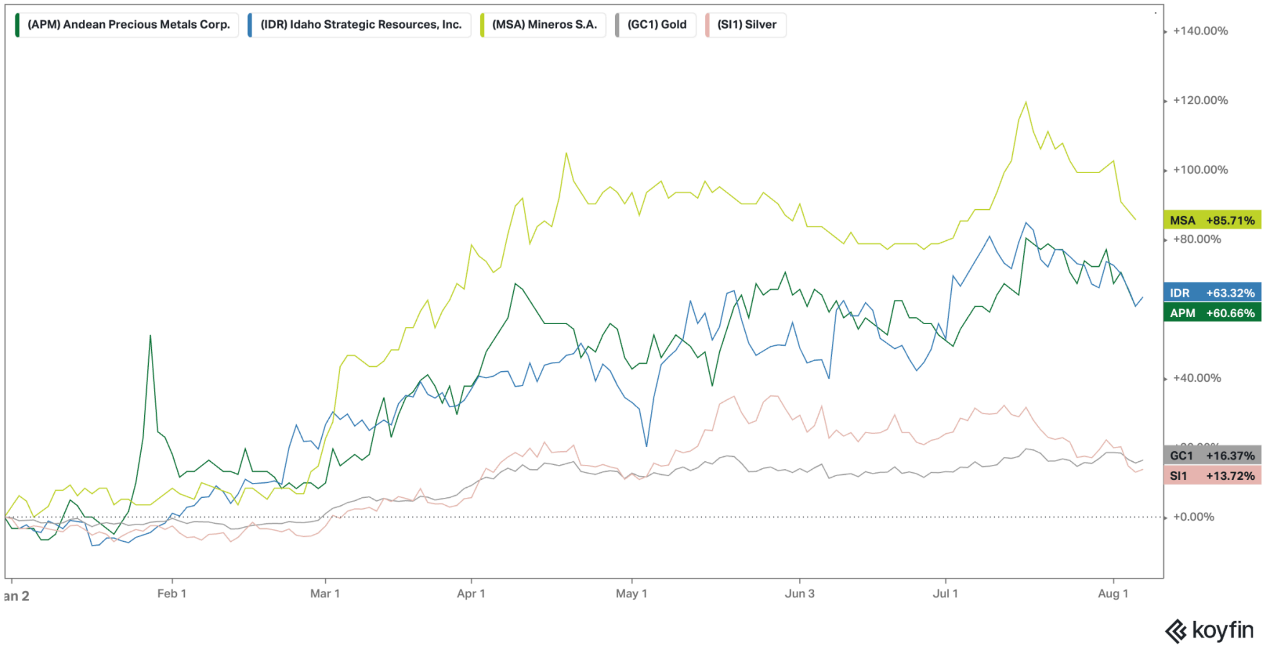
Anyway, we've got a few things to cover this week.

First, we highlight the latest updates from our current positions. Then, we explore the most recent CoT report to spot any potential micro-level trades.

Let's get after it.

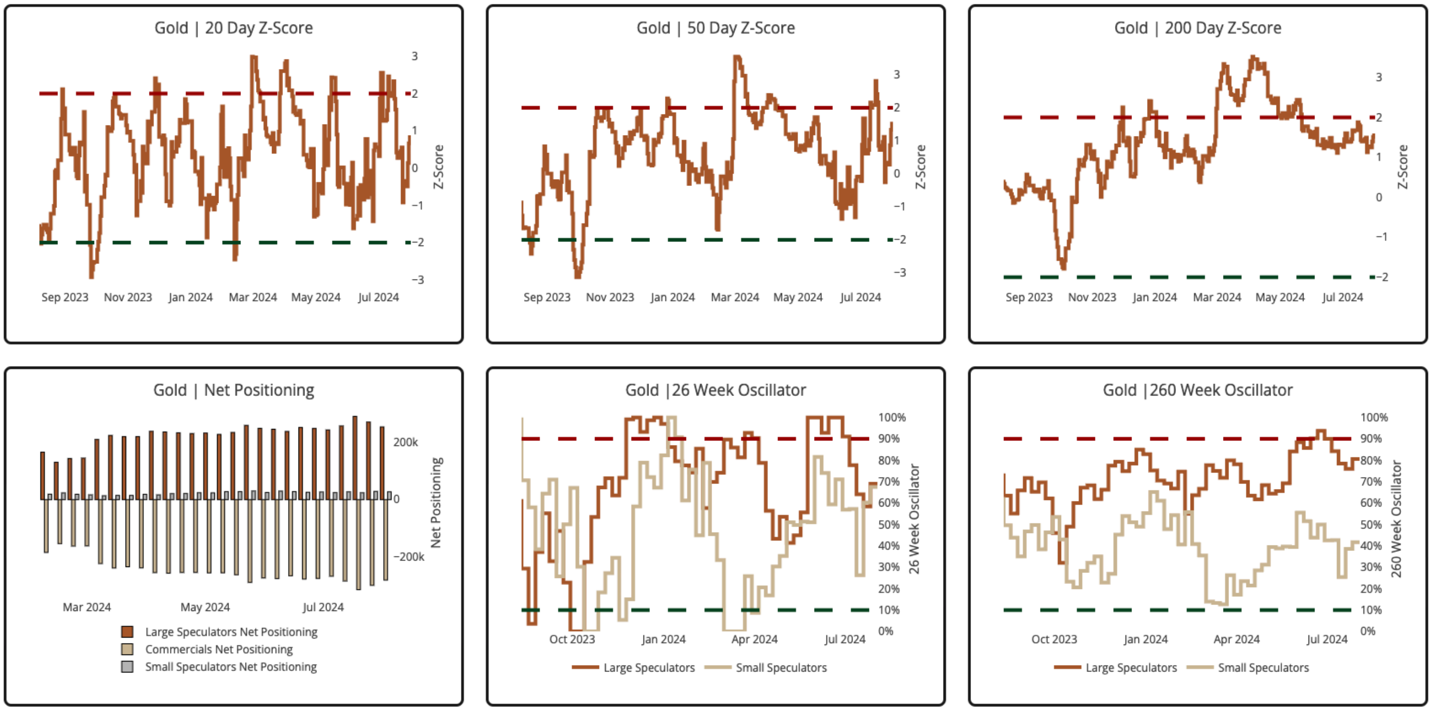
Portfolio Updates: Reviewing Our Precious Metals Basket

Our Precious Metals basket of APM, IDR, and MSA continue to outperform the broader indices and their underlying commodity price.



Our companies have given back some of their YTD gains. But the long-term fundamentals and recent CoT data suggest we're setting up for another breakout.

Let’s start with gold.



Gold is working off the extremely overbought levels of June/July when the price moved +2std above its 50D and Large Spec positioning ticket above 90%.

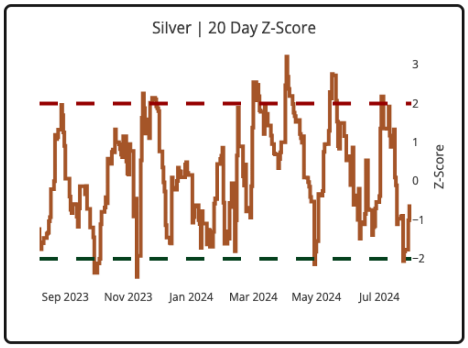
This coincided with the failed breakout attempt at $2,500 (see below).

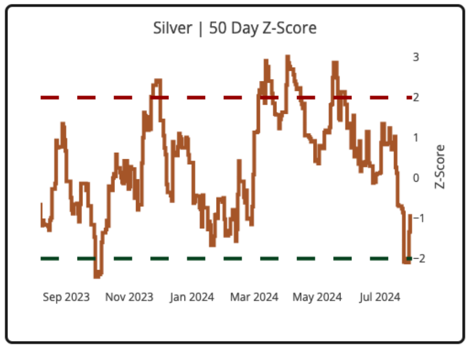
Since then, gold has traded sideways in a Bull Quiet Regime. The only difference is now you have investors calling for emergency pre-meeting rate cuts.

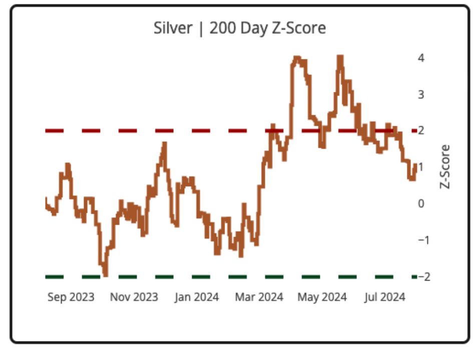
Cutting rates have historically been good for precious metals. Gold and silver skyrocket whenever the Fed cuts interest rates, vastly outperforming SPY. Here are a few examples (h/t for Will Thomson for sharing the below chart):

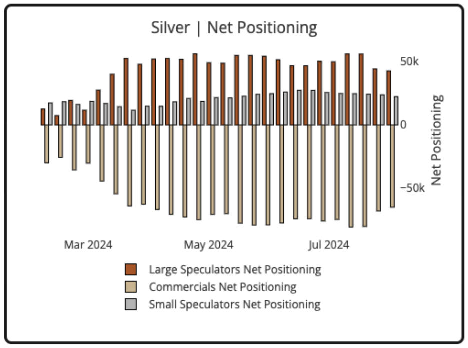
On January 3, 2001, the Fed responded to the "internet" crash by cutting the fed funds rate from 6.50% to 6.00%, commencing an easing cycle which would reduce rates to 1.0%. During the following 17 months (through 5/28/02):	S&P 500 -18.76% Gold +20.92% GDM +177.87% Silver+8.44% HL/CDE/PAAS +374.56%
On November 25, 2008, amid the GFC, Chair Bernanke launched the nuclear option of QE1. During the following 12 months (through 12/2/09):	S&P 500 +32.76% Gold +47.90% GDM +122.32% Silver +86.25% SOL +265.23%
On January 19, 2016, global market stress following the Fed's 12/16/15 liftoff caused Chair Yellen to announce a pause in rate hikes. During the following seven months (through 8/12/16):	S&P 500 +17.59% Gold +22.86% GDM +147.36% Silver +40.48% SOL +239.82%
On December 19, 2018, Chair Powell hiked rates 25 bps. Market declines were so severe, the Fed abandoned rate hikes (January), shut QT down (June) & cut rates (July). During the nine months following the 12/19/18 hike (through 9/4/19):	S&P 500 +18.87% Gold +24.89% GDM +54.59% Silver +34.25% SOL +33.24%
On March 16, 2020, the Powell Fed's Covid response was to cut fed funds 100 basis points, from 1.25% to 0.25%. During the next five months (through 8/5/20):	S&P 500 +40.42% Gold +34.61% GDM +104.30% Silver +108.83% SOL+140.95%

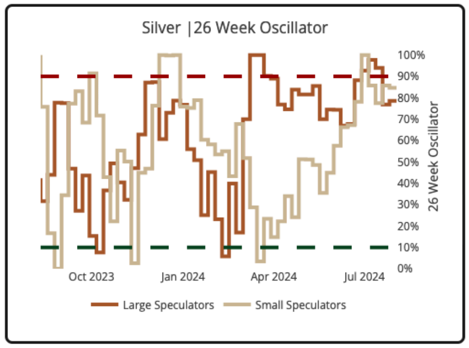
What's interesting is that silver crushed gold during the above periods. This brings me to silver's CoT data.

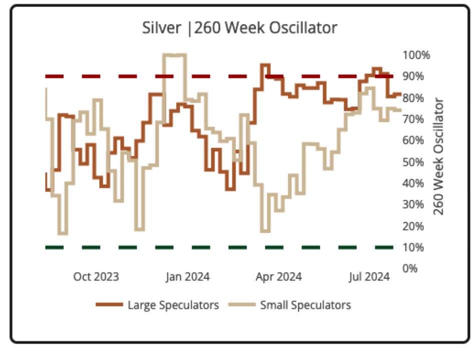












Silver saw a reset in Large Spec Net positioning and trades around -1 to -2std below its 20D and 50D.

Here's how I see the silver chart.

We're bouncing around $27/oz, which looks like support. If we break below $27, we could test the $22-$23/oz level.

Let's check in on our miners.

Idaho Strategic (IDR): Another Record Quarter

IDR is our Idaho-based gold producer that owns the US's largest rare earth element (REE) land package.

You can read our deep dive here and listen to my podcast with CEO John Swallow here.

The company released record Q2 2024 earnings. Here are the highlights:

- ➢ Revenue increased **by 89%**
- ➢ Gross Profit increased **by 287%**
- ➢ Net Income increased **by 558%**
- ➢ Earnings Per Share increased **by 467%**

This type of operating leverage makes mining companies such asymmetric investments. Look at these three- and six-month YoY results.

	June 30, 2024		June 30, 2023	
	Three Months	Six Months	Three Months	Six Months
Revenue:				
Sales of products	$ 6,125,382	$ 12,024,320	$ 3,236,515	$ 6,578,111
Total revenue	6,125,382	12,024,320	3,236,515	6,578,111
Costs of Sales:				
Cost of sales and other direct production costs	2,596,027	5,154,940	2,099,890	4,247,850
Depreciation and amortization	455,930	957,718	343,042	671,079
Total costs of sales	3,051,957	6,112,658	2,442,932	4,918,929
Gross profit	3,073,425	5,911,662	793,583	1,659,182
Other operating expenses:				
Exploration	620,056	887,904	207,369	480,811
Management	90,313	199,413	55,568	124,479
Professional services	84,982	239,226	123,238	364,043
General and administrative	179,456	340,119	123,765	387,063
(Gain) loss on disposal of equipment	3,022	7,431	(6,344)	(224)
Total other operating expenses	977,829	1,674,093	503,596	1,356,172
Operating income	2,095,596	4,237,569	289,987	303,010

On a six-month YoY basis, operating income increased from $303K to $4.24M (!) or 14x. During that same period, the gold price increased by 25%.

I also want to discuss AISCs, which increased by 18% to $1,319/oz. All else equal, you want stagnant to declining AISCs… or at least AISC growth in line with inflation. So I got nervous when I saw the 18% increase.

However, Swallow explained the increased AISCs in the company's earnings release (emphasis added):

*We have a lot going on (in addition to daily activities) – underground and surface drilling at the Golden Chest, pad, and road construction for the paste backfill plant, power upgrade underway, paste plant structure and equipment ordered, upcoming drill program at Eastern Star in September, **added two geologists and seasonal help to our staff, and possibly one or two other items on deck**.*

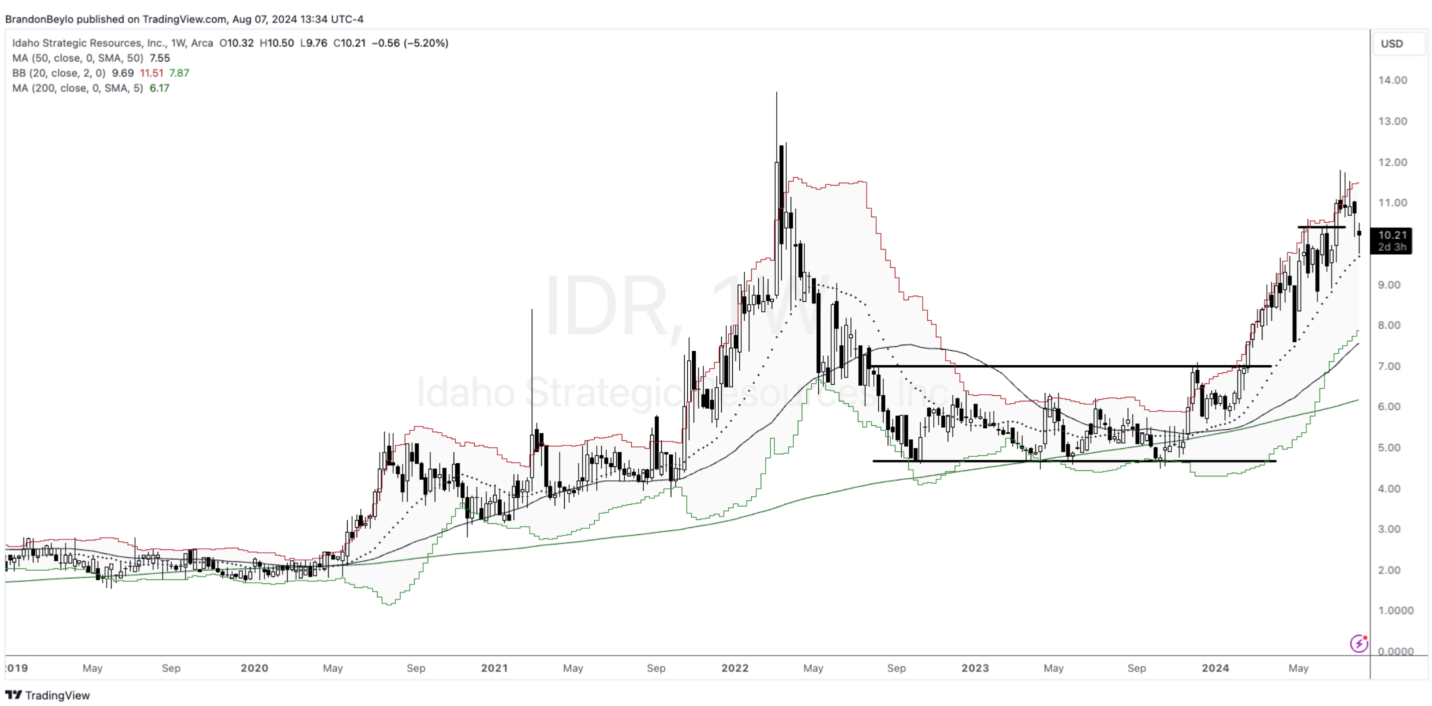
*Not to mention that the macro picture seems to be evolving more and more toward our business plan. In alignment with our discretionary 'win as we go' approach to compensation, **each employee, officer, and director earned another quarterly 'paycheck bonus' on top of the normal pay structure.**"*

Two new geologists, seasonal staff, and company-wide bonus paychecks … are AISC increases I can understand and welcome.

The other important thing to note is the company's increasing grade-per-ton (or gpt). IDR increased gpt by 41%, from 7.31 GPT to 10.29 GPT.

This is a big deal because higher GPT means more gold per ton of rock moved, which means higher operating leverage on the costs to move that rock—like diesel, labor hours, and equipment maintenance.

Let's head to the charts.



IDR has been stair-stepping its midline on the weekly chart since late last year/early this year in a steady, Bullish Quiet Regime.

Recently I've experimented with selling premium on a portion of my IDR position. For example, in June, I sold the $10 July 19 2024 calls for $0.85 (see below).

Estimated returns

As at 11th Jun 2024 (IDR $10.10)

Entry credit: $85.00 net credit see details

Maximum risk: $925.00 (at IDR$0.00)

Maximum return: $75.00 (at IDR$10.00)

Max return on risk: 8.11% (75.9% ann.)

Breakevens at expiry: $9.25

Probability of profit: 70.2%

It's a good R/R. At the end of June, I bought back the calls at $0.51 for a net profit of ~$31/contract … which I used to buy more IDR stock.

I like this strategy because it allows me to hold my core position while a) reducing my cost basis and b) providing float to buy more underlying shares.

If you don't want to sell premium or want another way to manage the trade, I like buying pullbacks to the midline on the weekly time frame.

Next, let's discuss Andean Precious Metals (APM.V).

Andean Precious Metals (APM.V): Adding Silver Ounces & Successful Drilling

APM is a gold/silver producer with a silver mine in Bolivia and a recently acquired gold mine in California.

You can read our write-up on the company here.

Here's how I explained the APM.V opportunity (emphasis added):

> *"Suppose I had a box. Inside that box was a $30 gift card that automatically replenishes every year. If I said, "I'll pay you $42 to take this box off my hands. Oh, and by the way, the box is worth anywhere from $106 to $500." Would you take the deal?"*

Since then, management has started its California mine AISCs turnaround, generated positive cash flow from its silver operations, and bought back hundreds of thousands of shares on the open market.

Last week, the [company announced the]Fines Disposal Facility (FDF) commissioning at San Bartolomé Mine.

That means APM can process more silver from its Bolivian assets *on top of* its third-party artisanal sales agreements.

The disposal facility currently processes 1,300 tons per day and plans to reach 1,500 tons per day by Q3 2024.

This could be a valuable resource for APM that extends "mine life" at San Bartolome for years.

The report states, *"The FDF contains an estimated 3.3 million tonnes of proven and probable mineral reserves grading 58 g/t of silver. The mineral reserves are contained within 3.8 million tonnes of measured and indicated mineral resources grading 56 g/t of silver."*

Let's do a quick resource value estimate on the FDF ounces.

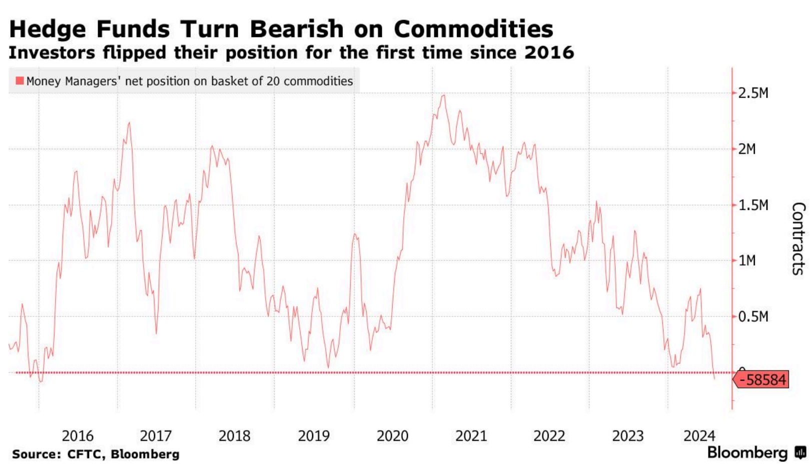
3.8M tons at 56g/t gives us approximately 6.9Moz of contained silver. That's $179M in in-situ resource value, assuming $26/oz.

In APM's case, another way to think about value is EV/Resource or **$14/oz.** Recent buy-out transactions for similar silver assets have **averaged $20-$30/oz.** So, there's embedded value in APM's FDF assets at the current silver price.

Q2 2024 is still the "show me" quarter for APM and its management team. I'll update you on those results as soon as we get them.

I'll leave you with one final comment on commodities… one that hopefully encourages you as we enter the second half of the year.

Hedge Funds are net bearish commodities for the first time since 2016.



We know what happened the last time hedge funds flipped bearish on commodities … it marked the start of an epic bull run from gold to silver to iron ore and copper.

Fingers crossed

Remember, when everyone shifts to one side of the boat, it’s usually a good time to hop on the other side to avoid, you know, drowning and all.

Conclusion: Working on Japanese Basket

I’m working on my “Too Cheap” Japanese basket. Between the flash crash and this *Long Pull Report, I didn't have enough time* to release the research this week, so expect that in your inbox next week.

As always, we're open to new ideas or situations that could earn us money. If you’ve got ‘em, send them our way!

Until next week,

Your Value Operator

Brandon