

A quick look at some commodity prices

This week we take a quick look at how selected commodities are performing, looking for correlations with their price movements and those of share prices. They should usually move in the same direction.

The iron ore price is very important to our market sentiment as the big three producers dominate the indices, though our Sentiment Oscillator only gives them weighting of three out of approximately 140 stocks on the database. BHP, Fortescue and Rio have all been significantly stronger over the past couple of weeks notwithstanding their reliance on Chinese demand in a time when there is growing evidence that China is really struggling on the economic performance parameters.

The iron ore price is continuing in a long term uptrend even though some leading analysts have forecast that it will fall. The chart below (courtesy of Trade Economics) shows the performance of the 62% Fe price over the past decade. It is clearly well below its peak of about US\$214 pt, but it seems to be staging a useful recovery that is flowing through to the share prices. By mid last week the spot iron ore price was at an eight month high, reaching US\$135 pt/.



Iron ore is up 34% on a year ago. The next best performer has been gold, up 14% and edging over the US\$2,000/oz mark again. Bullion is being very resilient but perhaps the lack of a specific narrative is meaning that stock market punters are still not warm to the task of buying gold stocks. They should be, as this commodity offers lower commodity price risk than just about everything else.

Contrast gold with lithium, which continues to collapse. It is now down 77% over the year. There is a serious disconnect between the performance of the lithium price and that of speculative stocks that are out there doing lithium deals or early stage exploration. It is nonsensical, but the punters still throw money at these companies.

There is plenty of lithium in the world and plenty of lithium stocks to play, so there will eventually be a shakedown of all of these stocks.

Over the page there is a table of energy related commodities. All of these are in the red compared to a year ago, except uranium. Just last week it jumped another 8.45% to reach US\$80.25/lb, up 58.9% on a year ago. Most of the uranium stocks already have high expectations built into the share prices so they are not cheap. One exception though is Aurora Energy (1AE), a company we mentioned a couple of weeks ago. <http://www.fareastcapital.com.au/imagesDB/newsletter/WeeklyComm4Nov2023.pdf>

If energy prices have fallen so much in the last 12 months, why is the government continuing to use this as an excuse for inflation?

Metals	Price	Day	%	Weekly	Monthly	YoY	Date
Gold USD/t.oz	2001.60	▲ 9.81	0.49%	1.09%	1.11%	13.98%	Nov/24
Silver USD/t.oz	24.313	▲ 0.653	2.76%	2.46%	6.22%	12.61%	Nov/24
Copper USD/Lbs	3.7873	▲ 0.0185	0.49%	1.33%	5.91%	4.26%	Nov/24
Steel CNY/T	3937.00	▼ 13.00	-0.33%	-0.51%	7.83%	6.66%	Nov/24
Iron Ore USD/T	136.00	▲ 0.00	0.00%	2.64%	12.86%	33.99%	Nov/24
Lithium CNY/T	130500	▲ 0	0.00%	-7.12%	-21.15%	-77.40%	Nov/24
Platinum USD/t.oz	930.61	▲ 15.06	1.64%	3.52%	3.10%	-5.09%	Nov/24
Titanium USD/KG	6.00	▲ 0.00	0.00%	0.00%	0.00%	-33.33%	Nov/24
HRC Steel USD/T	1040.00	▲ 7.00	0.68%	-0.19%	18.05%	58.54%	Nov/24

Energy	Price	Day	%	Weekly	Monthly	YoY	Date
Crude Oil USD/Bbl	76.160	▼ 0.940	-1.22%	0.16%	-10.07%	-0.35%	Nov/24
Brent USD/Bbl	80.230	▼ 1.190	-1.46%	-0.47%	-9.98%	-3.96%	Nov/24
Natural gas USD/MMBtu	2.8592	▼ 0.0628	-2.15%	-3.41%	-15.31%	-59.93%	Nov/24
Gasoline USD/Gal	2.1611	▼ 0.0566	-2.55%	-1.07%	-4.75%	-4.78%	Nov/24
Heating Oil USD/Gal	2.8357	▼ 0.0351	-1.22%	2.28%	-4.17%	-8.70%	Nov/24
Coal USD/T	122.15	▲ 0.00	0.00%	-0.77%	-10.51%	-64.87%	Nov/23
TTF Gas EUR/MWh	46.66	▼ 0.18	-0.38%	3.54%	-6.54%	-62.49%	Nov/24
UK Gas GBP/thm	118.0000	▼ 1.8700	-1.56%	3.75%	-5.00%	-59.09%	Nov/24
Ethanol USD/Gal	1.8750	▲ 0.0000	0.00%	-0.79%	-18.92%	-27.88%	Nov/24
Naphtha USD/T	628.55	▼ 0.51	-0.08%	0.35%	-3.08%	-6.38%	Nov/22
Uranium USD/Lbs	80.2500	▲ 6.2500	8.45%	8.45%	9.93%	58.91%	Nov/20
Propane USD/Gal	0.64	▼ 0.00	-0.14%	0.93%	-6.88%	-25.23%	Nov/22
Methanol CNY/T	2380.00	▲ 17.00	0.72%	-5.03%	-1.41%	-12.14%	Nov/24
Urals Oil USD/Bbl	62.57	▲ 0.00	0.00%	-2.77%	-15.93%	-5.41%	Nov/24

Comparing runaway stocks to wildfires

Reflecting further on the out-performance of WA1 in the market place brings back memories of other, recent extreme performers that have subsequently taken serious haircuts. Three that come to mind are 5E Advanced Materials (5EA) (formerly American Boron), Hastings Technology (HAS) and Jervois Global (JRV). All have genuine development projects that require the consideration of commodity price movements and funding strategies. All have been butchered in the market for specific reasons, but for a time, while the share prices were running, these risk areas were ignored by the punters.

5EA has seen its share price collapse from \$3.58 to \$0.34, a fall of 72%. Likewise, HAS has fallen from \$5.60 to \$0.72, down 87%. Not to be outdone, JRV fell from \$0.86 to \$0.031, a fall of 96%. How could the market get these so wrong? The answer is easy. Investors were only looking at the positives and were ignoring the downside risks. Is this telling us that developing projects is much riskier for shareholder pockets than exploration? It seems so, but it also shows how gullible the punters can be when they act on group think.

I couldn't help but think about the exceptional market behaviour that gets a life of its own and defies all things sensible, comparing it to the performance on wildfires in the bush. As a volunteer fireman in the RFS, I have seen all types of fires. The ones that are the scariest are those that build up to a level where they make their own weather patterns. They make their own rules and they become predictably unpredictable. You can't put them out. You just have to wait until they exhaust themselves or there is a

powerful weather event that counters the energy of the fire itself.

Compare the job of an individual fire fighter or a brigade. There is nothing they can do, just like there is nothing an analyst can do to counter the frenzy of a rabid market chasing a stock higher. All of the common sense in the world is not enough to counter a wildfire share price.

The aftermath of a wildfire is devastating, just like the collapse of wildfire stocks can destroy investments. It is important that investors do not get lost in the moment and become true believers.

Haircuts causing inflation? Really?

The new head of the Reserve Bank, Michele Bullock has trivialised the inflation debate by saying that items like hair cuts are contributing to inflation and this could lead to further interest rate rises. Surely there must be more insightful comments to be made.

Of course, there is always the possibility that the press has misquoted what Ms Bullock really said, or taken it out of context. It wouldn't be the first time.