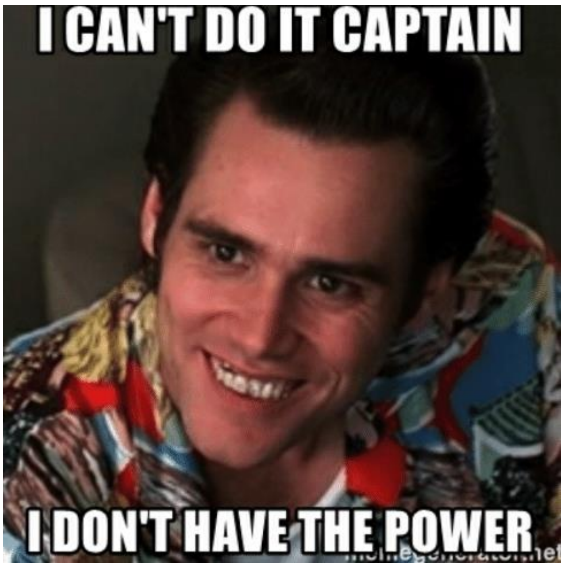
1 October 2021

MARKET UPDATE

Weekly Update

This is getting interesting



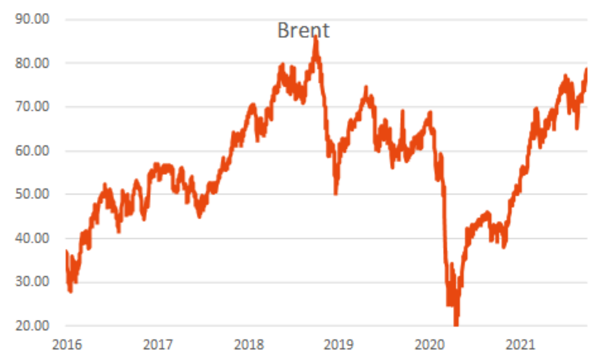
On Tuesday this week the market fell to its lowest point in 4 months, the next day enjoyed its best day this year, then got smacked again on Friday. Volatility is back. In summary, the market fell 167 points or 2.3% for the week.

Energy prices have replaced Evergrande on the front page of business papers this week - that was of course up until the only adult in State politics fell on her sword and resigned-. The oil price hit US$80/barrel for the first time in 3 years, gas prices have risen to US$30 plus per unit and thermal coal hit a high of US$218/tonne.

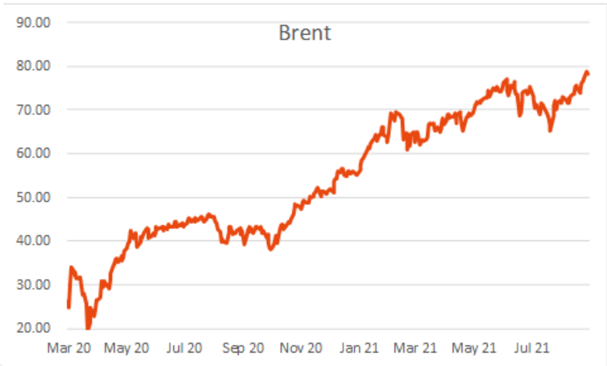
What an unusual time. The Federal government are fumbling their way towards a realistic net zero target for carbon, whilst the prices of a number of our major *dirty* exports, oil, gas and thermal coal are hitting records or at the very least near-term highs.

At a time when the iron ore price seems to have no floor, dramatically reducing the profits made by iron ore producers and in turn, lower iron ore tax collections, we are going to be saddled with record levels of both State and Federal Government debt. Tax, tax and more tax is coming. To offset this gargantuan impost on the Australian citizen, we should be taking full advantage of this energy crisis and sell as much into the demand as possible.

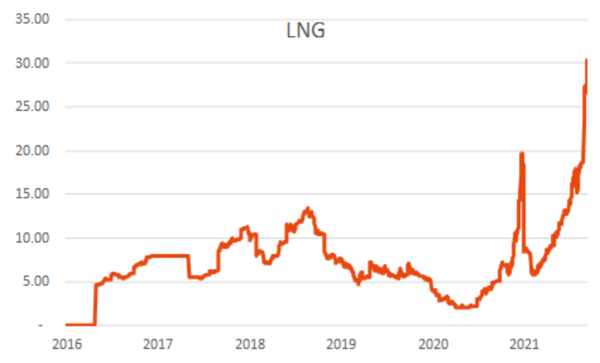
Oil 12 months



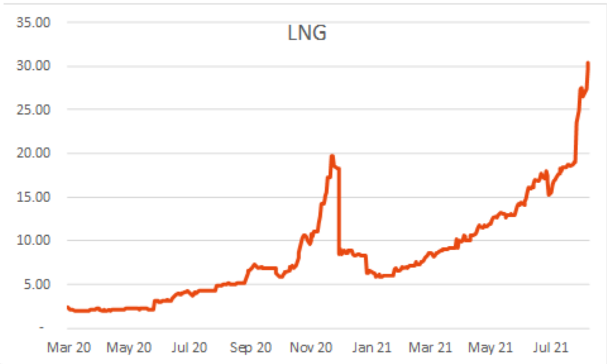
Oil 5 years



LNG 12 months

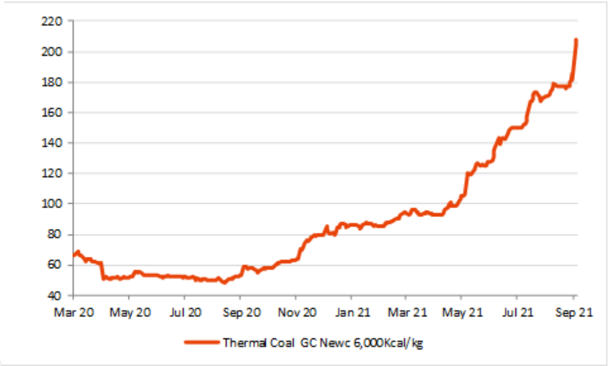


LNG 5 years



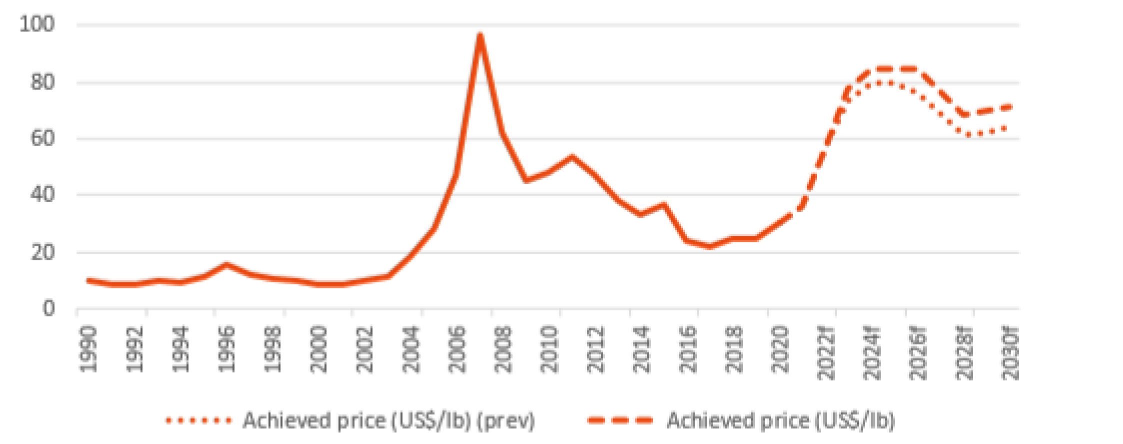
Thermal coal 12 months

Thermal coal 5 years



Uranium; 30 years including forecast

Figure 2: U_3O_8 realised price assumptions (US$/lb)



Source: Factset, Bloomberg, Shaw and Partners analysis

The energy shortage is largely a supply issue, and an outcome I've been discussing almost every week. A quick catch up; the shortages are due to a justifiable pursuit of greener solutions to replace fossil fuels, but this is all occurring prior to the creation of sufficient 'green' replacement capacity. Approvals for fossil fuel developments have been few and far between, and as such, developers have been disinclined to explore and develop new resources/deposits, bringing us to this inevitable, poorly thought out position.; insufficient replacement capacity plus no new fossil fuel development. The concerning part is we are a long way from genuine alternatives filling the void; a very long way.

Britons are being rationed on car fuel as petrol is at an 8 year high, most of Europe are enduring record gas prices, Russia possesses supply capacity but has been withholding it to jack the price higher and the Chinese are rolling through sector blackouts to reduce demand; ill-timed given their all-encompassing property market is wobbling due to overly indebted developers (led by none other than Evergrande).

Out of sheer pugnacious belligerence, the Chinese have refused to buy our coal anyway, and the prices they've been paying are far higher than the previous charts suggest; into the high US$300s and low US$400s in fact.

If prices remain high, which I think they will, those currently mothballed operations that had higher operating costs can dust of the cobwebs and start producing again- although its not as simple as just turning a key to get them started- but this, along with incentivisation for current energy producers to supply more, should provide a bit of a price cap at least.

With these global supply constraints well entrenched, and the northern hemisphere winter settling in, energy companies are finally going to have their day in the sun (pun intended), and there looks to be a long way to go in this run.

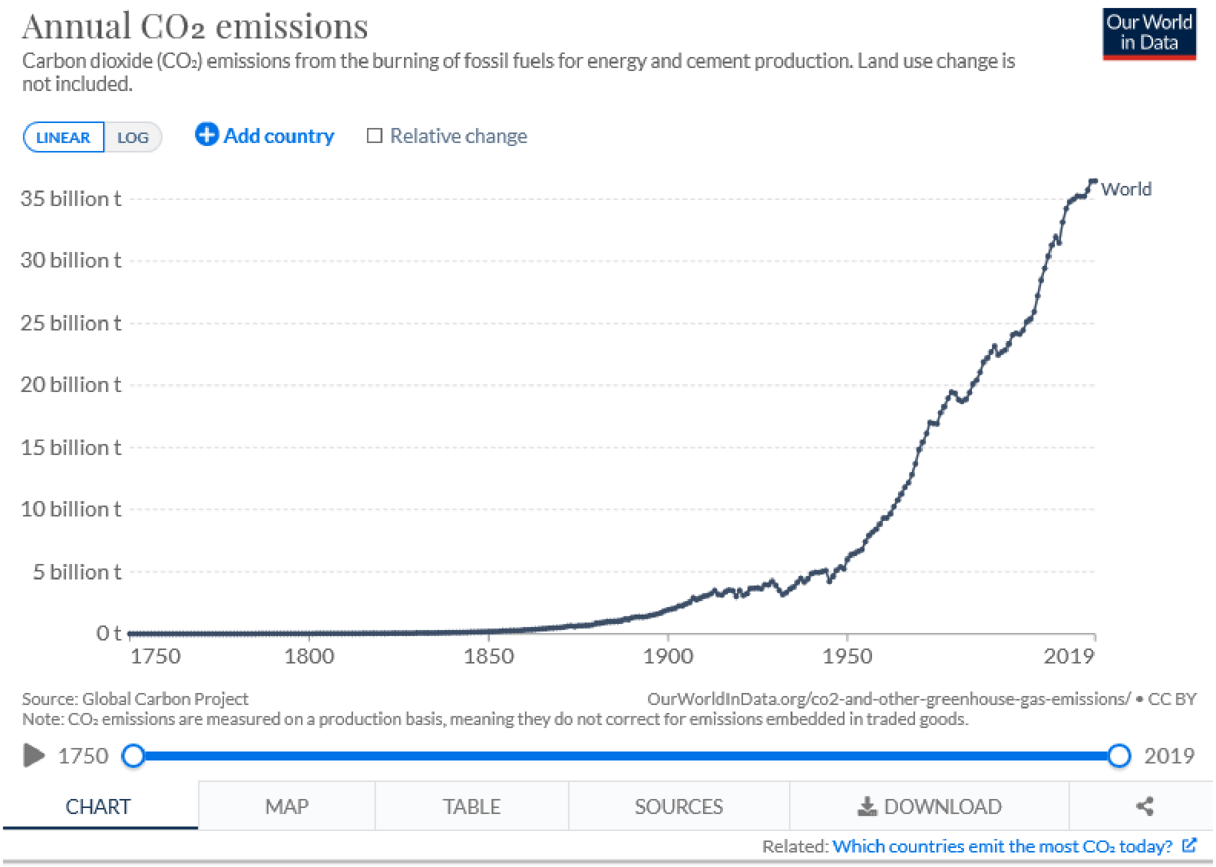
The long game.

According to UBS research, oil will remain a major source in the energy mix, although US production will peak in 2030. Global oil demand is expected to increase from 90.6Mb/d (barrels per day) in 2020 to 108.2Mb/d in 2045. Transport will remain the main contributor to demand growth. To counter that, they expect thermal coal demand to peak in 2025 and fall thereafter and gas demand to grow 22% over the same period to offset the coal decline. Non-fossil fuel demand (Nuclear, hydro, biomass and other renewables) is forecast to almost double by 2045.

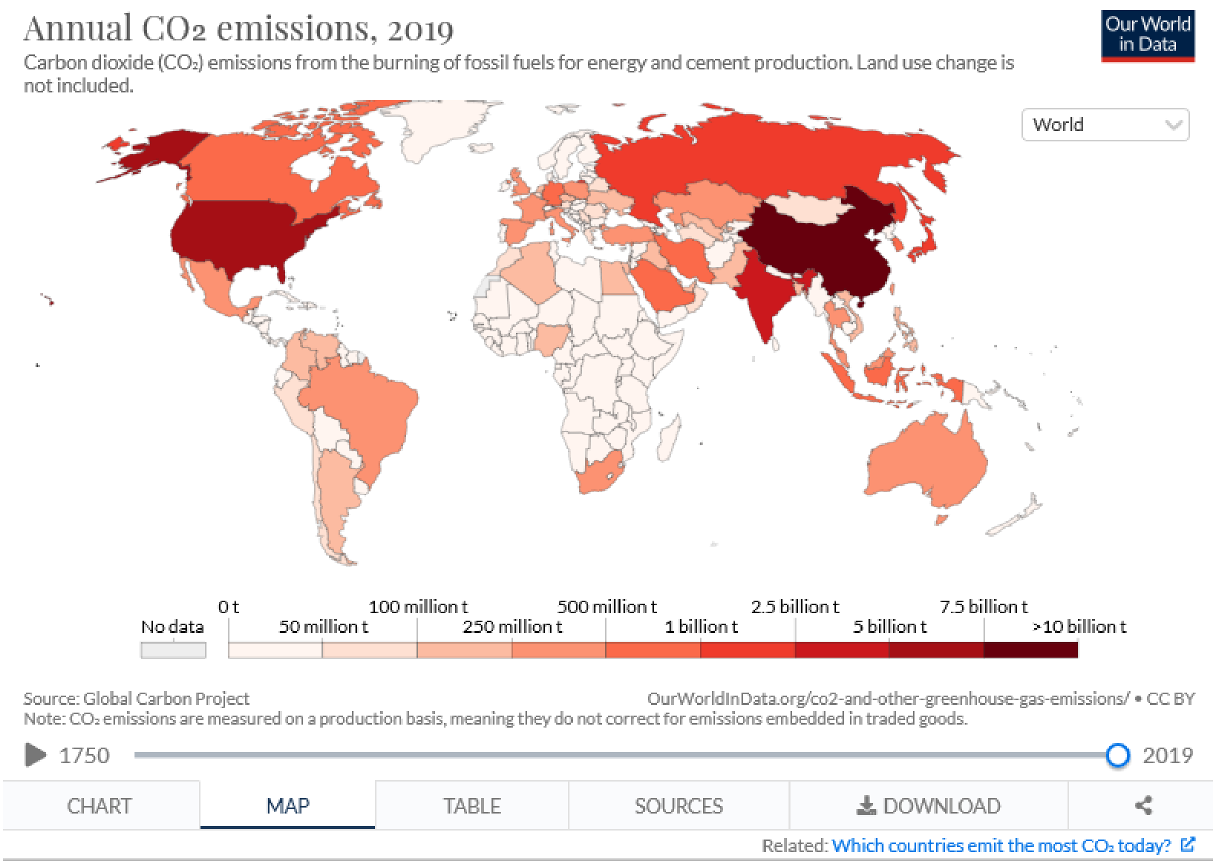
The final concerning point they made was that energy-related CO2 emissions would peak at 35.2Gt/year in 2030 which sounds great but will only fall to 34.4Gt/year by 2045, suggesting net zero carbon emissions by 2050 is nothing but a pipedream.

Note one gigatonne or Gt is one billion tonnes so yes that's 35 billion tonnes of CO2 per annum into the atmosphere.

The following chart looks like we're above that already mind you.



And no surprises on the major contributors



This energy game has a long way to go and there will be some interesting twists and turns along the way. Stay tuned.

South 32 (S32)

S32 has performed well since we started buying 12 months ago around the $2 mark. Due to the continued strength in the alumina, aluminium and metallurgical coal prices, in amongst some well-timed acquisitions, our analyst has increased the target price from $3.60 to $4.70.

Click on link below to read

South32 - M&A: Adding more aluminium production = right commodity (1 of 3) and right time - 30 Sep 2021

Have a good weekend,

Ben and the team

This report has been prepared by Ben Morrissey
Shaw and Partners, Morrissey Wealth Management
Level 20, 90 Collins Street
Melbourne VIC 3000

Morrissey Wealth Management (Authorised Representative Number 268130) is a Corporate Authorised Representative of Shaw and Partners Limited (AFSL 236048) (ABN 24 003 221 583)