

Newsletter



November 2022



Industrial Metals & the Comeback of Gold?

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November 2022

November 2022 could not have gotten more eventful.

With the onset of winter came the worries that have been on the minds of people in many European countries for months: rising inflation rates, an energy crisis that has become a major problem factor for many especially at this cold time of year, as well as political unrest such as Russia's ongoing aggression in the fight against Ukraine, where there still seems to be no end in sight.

Another significant event in regard to political outrages in the form of riots that occurred in November refers to the Chinese population, which resisted in demonstrations against the Chinese Communist Party's strict no-covid-policy, which resulted in many cases in violent riots between the civilian population and legislative state officials. This became known mainly through the media dissemination of photos and videos on social networks and led to a worldwide outcry by human rights activists. Where these conflicts will lead is difficult to predict at this point. One fact that can already be seen, however, is the indication of a high probability of Chinese GDP decline in the third and fourth quarters of this year. A large number of independent financial analysts had already predicted this, as Chinese industry profits had fallen by 3% year on year in the first ten months of 2022. We will see how the Chinese economy will affect other countries in the future, following the resurgence of COVID disease, political protests, and the possibility of a large-scale lockdown in major Chinese cities.

November was also an extremely busy month for CM-Equity's liquidity services partners. Approvals of projects, positive earnings results from financial reports, or new production highs exceeding previous production records were on the agenda; more on that later in the newsletter.

Benjamin Jung (CM-Equity AG)



Why Prices for Industrial Metals are bound to rise

Many experts predict a distinct commodity super-cycle for the coming decade. There are many reasons for this, most of which point to a general increase in demand, especially for industrial metals and rare earths, which are needed not least to build a stable renewable energy infrastructure. However, such a super-cycle is always also supply-driven and often results in a longer-term supply deficit for important industrial metals such as copper, zinc, and aluminum until its peak phase.

While demand for industrial metals can increase significantly within a few years in a good economic environment, many years of preparation are required on the supply side before a mining project can be finally developed and production can start. The development costs can vary greatly depending on the geographical location of a raw material deposit and are a decisive factor for the profitability of a mining project. For example, a producer is likely to prefer a project in the lowlands with coastal access to one in the high mountains away from the coast, as the former's development is likely to be far less time- and resource-intensive. With commodity prices at relatively low levels over the past decade, there has been little incentive for producers to make major investments in new projects, especially as the capital market has also treated the commodity sector quite stepmotherly. As a result, the industry focused on low-cost mining projects.

However, the two post-Covid years have now brought the supply problem for raw materials more to the fore, causing the price level of industrial metals in particular to rise significantly. Now, higher prices per se would be reason enough for producers to have a corresponding incentive to invest more and expand output. However, the significant rise in energy costs in recent quarters has now led to renewed restraint on the part of many companies along the entire raw materials value chain. As a result, unprofitable aluminum smelters, for example, have been closed, and individual mining projects have been shut down again. Fuel prices, the second major cost item for many raw material producers, had also developed counterproductively. As many experts are now also assuming a permanently higher level of inflation in the coming years, rising personnel costs as the third cost component are likely to weigh on many raw material producers in the long term.

Why Prices for Industrial Metals are bound to rise

Against this background, therefore, the incentive for many raw material producers to participate in large-scale investment programs has probably not yet developed. Even if many mining projects manage to earn their break-even revenues without any problems at current commodity prices, the uncertainty on the cost side is still too great to consider current commodity prices for copper, zinc, aluminum, and co. as sustainably profitable. Raw material producers will therefore be forced to pass on their higher production costs to their customers in the long term, in the interests of planning security. Their customers, in turn, will also accept these higher prices, as the political pressure and concern about an uncertain raw material supply outweigh a possible reduction in profit margins due to higher purchasing costs for raw materials.

As a result, the commodity super-cycle touted by experts is not only being supported by the demand side, but the producers and operators of commodity mines, as suppliers of the much-needed industrial metals, are also contributing to the fact that we should expect rising industrial metal prices in the long term. Investors and shareholders who are convinced of this should position themselves in commodities at an early stage.

Markus Polz (CM-Equity AG)

Will Gold make a Comeback?

The biggest driver of this year's increase in the value of precious metals was the geopolitical conflict caused by Russia's aggression in Ukraine, which resulted in an economic energy shock and pushed gas prices to new highs. Sadly, it seems like there will be no resolution to the situation in the near future. In effect, investors are worried about additional escalation because it might result in more serious conflicts than just economic penalties. The invasion undoubtedly had a significant influence on the price of gold early in 2022 and will have a significant impact again in 2023.

Inflation has been a major motivator for gold prices. To maintain the stability of the global economy, central banks around the world adopted a dovish monetary policy, creating money and buying assets with reserves (Quantitative Easing). In general, high interest rates are often considered negative for a non-yielding asset such as gold, but high inflation is typically seen as advantageous for gold price development since it serves as an inflation hedge. Concluding, gold will remain in a broad range until inflation slows down, pressured by the central bank's "hawkish" moves and supported by inflationary surges.

To sum up, it can be said that the two main factors that currently play a role in a potential surge in the price development of gold are geopolitics and the monetary policies of the banking industry. Nevertheless, central banks must start boosting economies if they want long-term, sustainable growth. Currently, regulators' main objective is to ease inflation rates. The banks will increase interest rates and decrease balances until it drops, pressuring gold. However, it will start to go upward as soon as the authorities alter their tone and adjust their monetary policies.

Benjamin Jung (CM-Equity AG)



Liquidity Services News



Nov. 23, 2022

The company (TSX: ACP | OTC: ACPRF | FSE: P21P), entered into an option agreement to acquire 100% interest in the TL Nickel project(nickel-copper-cobalt) mine 70 kilometers west of the town of Nain in Newfoundland and Labrador, Canada.

[Read the full press release](#)



Nov. 21, 2022

The company (TSX: AAG | OTCQX: AAGFF | FSE: FLM1), made public (Nov. 21) to have closed its non-brokered private placement, whereby the company has completed the issuance of 24,385,566 units at a price of CAD\$0.17 per unit for gross proceeds of CAD\$4,145,563.

[Read the full press release](#)



Nov. 28, 2022

The company (TSX: IMIN | FSE: P1A | TG: P1A), announced to have entered a letter of intend to purchase a four-megawatt power project in Alberta, Canada. This will be the first acquisition for iMining Technologies Inc. under the new strategy of being an energy focused company

[Read the full press release](#)



Newrange Gold Corp.

Nov. 28, 2022

The company (TSX: VMS | FSE: DM8), Newrange Gold Corp. announced that its stock will resume trading starting from November 29th, 2022.

[Learn more about the company](#)

Liquidity Services News



Nov. 03, 2022

The company (CSE: GTOO | OTCQB: GTGEF | FWB: 1NZ.F) provided an update on its wholly owned Masten Unit, which gross volume (prior to marketing fees) exceeded 2,000 barrels of oil per month, approximately 200 barrels higher than any previous month.

[Read the full press release:](#)



Nov. 22, 2022

The company (TSX: FKM | OTCQX: FKMCF | FSE: F7E1), Fokus Mining Corp. completed metallurgical testwork on their Galloway project

[Read the full press release](#)



Nov. 17, 2022

The company (TSX: SMP | OTCQB: SMPEF | FSE: 5RE), provided updates on status of environmental permitting of their Oro Cruz Project

[Read the full press release](#)



AVICANNA™

Nov. 14, 2022

The company (TSX: AVCN | QTCQX: AVCNF | FSE: 0NN), Avicanna announced its Q3 financial results, including a 42% growth in revenue year-to-year coupled with a 16% reduction of SG&A over the same period.

[Read the full press release](#)

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