The Weekly Beacon

MacNicol & Associates Asset Management Inc.
Safe Harbour Safe Future
Since 2001
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We will be giving some macro economic market updates on a weekly basis. No equity recommendations will be given in this commentary, and we encourage you to contact us if you have questions regarding any observations.

The two main purposes of a Lighthouse are ***to serve as a navigational aid and to warn boats (Investors) of dangerous areas****. It is like a traffic sign on the sea.*

Fairway Island Lighthouse, Alaska

La Marina Lighthouse, Peru

Feel free to send us your photos of Lighthouses to be featured in our weekly market observations.

Short Term Weakness in Oil

As markets opened on Black Friday, they dipped 2% over fears of the spread of a new Covid-19 variant. We will not go into the science of how effective vaccines are against this new strain or give our opinion on how bad this strain will be. The world seems quite split on this topic and has jumped to its conclusions.

The most affected industry since this news dropped has been Crude Oil. Potential government-imposed lockdowns would slow down economic activity and decrease the oil demand.

Oil has dropped below $68/barrel and is trading at the lowest price since August 2021. On Black Friday, oil was down over 10% for its worst loss since April 2020. This seems like a slight overreaction but, also shows how fragile markets are.

Numerous outlets are running with stories that this new variant could be the worst one yet and investors seem to have been spooked.

In reality…….

3 hr 47 min ago

Omicron cases have been "extremely mild" so far, South African doctor says

From CNN's Naomi Thomas

The top doctors in South Africa have said all cases of this new variant have been very mild so far.

We have already seen numerous variants pop up over the past year, yet this variant caused the largest dip in markets, specifically in the energy market since March 2020 when this pandemic started.

We highlight this overreaction because all the indicators that make oil attractive remain true.

1. Energy Shortages
2. The reliance on renewable sources
3. Regulation

Not to mention many other indicators that will keep oil prices high in years to come.

After this oil price dip, J.P. Morgan released an energy report for its clients, and well looks like they "bought the dip". Oil to $125 in 2022 and $150 in 2023.

J.P.Morgan

Global Energy: Supercycle IV

OPEC+ 'Show me the Barrels'; $150/bbl on the horizon as capacity shocks; LT Brent raised to $80/bbl

Our proprietary analysis reveals that even OPEC+ is not immune to the impacts of underinvestment analyzed over the past 18 months in our Supercycle thesis. We estimate 'true' OPEC spare capacity in 2022 will be ~2.0mb/d (43%) below consensus estimates of 4.8mb/d. While we believe a 3-month pause to 400kb/d monthly increments is needed during 1H22 to balance the market (and potentially a cut pending impact of new COVID variants), the group will struggle to deliver monthly growth >250kb/d once reinstated. Our bottom-up field-by-field model reveals a total capacity shortfall extending to 3.0mb/d vs. an OPEC+ target of 49.1mb/d in 1H24. This underperformance comes at a critical juncture as other global producers falter. OPEC+ is back in the oil market driver's seat and the Prisoner's Dilemma is over (as we predicted in Supercycle II). However, the group's ability to control price (the steering wheel) depends on the efficacy of its spare capacity, which, at prevailing quotas, is set to fall to a 25-yr low of just 4% of total from an average of 14% (1995-2020), and well below the ~10% comfort level sought by consumers. **We see LT $80/bbl Brent (real) as the marginal cost to deliver a balanced market in 2024+. Incorporating our model of OPEC+ true capacity, we expect oil to overshoot to $125/bbl in 2022 and $150/bbl in 2023 (JPM Commodities base case avg. $88/bbl 2022, $82/bbl 2023).**

- **OPEC+ firmly in the driver's seat – with benefits: industrial and political.** The group has returned to a positon of positive leverage, which it will defend by keeping inventories low, the market in balance and taking action to support optimal reservoir management through paced volume growth. We think OPEC+ will slow committed increases in early 2022, and believe the group is unlikely to increase supply unless oil prices are well underpinned, as doing so: **(i)** Gives its reservoirs 'a breather' to improve the resilience of its spare capacity; **(ii)** Secures a balanced market that can tolerate future waves of COVID-related demand shocks; **(iii)** Supports fiscal balances (incl rebuilding FX reserves and funding transition); and **(iv)** 'Saves' barrels for even higher prices as SPR inventories drawdown.

J.P. Morgan Global Energy Report November 2021

Goldman Sachs analysts also claim the large dip we have seen is investors' pricing in the worst-case scenario.

Oil prices have tanked so hard traders are assuming planes won't fly for 3 months: Goldman Sachs

Brian Sozzi · Anchor, Editor-at-Large
Wed, December 1, 2021, 6:46 AM · 3 min read

Brief Uranium Update

An ongoing theme in *The Weekly Beacon* has been uranium and nuclear energy.

We like to highlight any news in the industry as we think nuclear energy will play a critical role as a source of energy going forward. Nuclear energy burns cleaner than fossil fuels and is as reliable, this will be critical as the world makes its green transition.

Le Maire: Nuclear power will be integrated into European taxonomy in the coming days

DOWJONES | THE 11/30 AT 11:17 | UPDATED 11/30 AT 11:37

PARIS (Agefi-Dow Jones) - France expects the European Commission to recognize in the coming days that nuclear power constitutes a low-carbon energy essential to achieve the climate objectives of 2050, and that it therefore be included in its green taxonomy, said the Minister of Economy and Finance, Bruno Le Maire, on the occasion of the opening of the World Nuclear Exhibition.

This past week the Minister of Finance and Economy of France announced that France expects the European Commission to accept nuclear energy as a low carbon energy source that will have a crucial part in the road to net-zero by 2050.

The European Commission announcing this is a huge step for nuclear energy. France has historically been the globes largest nuclear user and has pushed for Europe to use nuclear as renewable energy when battling climate change.

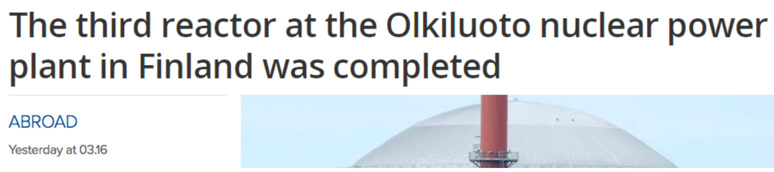
The EU also voiced their opinion on nuclear energy and seem to be listening to France.

> Thierry Breton, the EU's Internal Market Commissioner, said atomic power stations had a "huge potential" to meet Europe's clean energy needs.
>
> The EU is expected to announce shortly whether nuclear energy will be officially badged as climate-friendly.

The EU is quite split on this issue as France and a group of eastern European nations back the use of nuclear energy as a renewable and Germany, Austria, Denmark, and Portugal oppose nuclear energy.

The biggest roadblock for nuclear energy remains policymakers who use external reasoning to reject nuclear energy.

News out of Finland where a new reactor has finally been completed and will be fully operational by June. This is big news because the project had been stalled numerous times over policy. Finnish policymakers mentioned this project as critical to the Finland electricity grid and that this project will bring stability to Finnish electricity.



Twitter gets a new CEO and is below its IPO price

We have mentioned Twitter significantly underperforming companies like Facebook and Google throughout the last 10 years in previous editions of *The Weekly Beacon*.

As of Tuesday's, close, Twitter shares were down 15% from Monday morning open. Twitter shares were also below the opening day close from its IPO 8 years ago.

Over the same period, Twitter's peer group had quite a performance.

Company	*Performance since Twitter IPO*
Facebook	568%
Alphabet	467%
*Snap**	84%
Microsoft	791%
Salesforce	376%

*Snap made its IPO in March 2017

Twitter's lackluster performance over the last 8 years could be foreshadowing for certain technology companies going forward. Not every hyped-up company will perform well, fundamentals will still matter.

Years ago, Facebook and Twitter tried to buy Snap for $1-3 Billion. The company is worth almost $80 Billion now. The founders bet on themselves and won big. Snap is now worth double Twitter.

Twitter shares traded down this week as Jack Dorsey stepped down from Twitter as the CEO. Dorsey founded Twitter and was CEO from 2006-2009 and 2015 up until now.

TECH

Twitter CTO Parag Agrawal will replace Jack Dorsey as CEO

PUBLISHED MON, NOV 29 2021•9:20 AM EST | UPDATED MON, NOV 29 2021•4:42 PM EST

The current CTO Parag Agrawal has been named CEO of Twitter going forward.

Dorsey leaves Twitter with a net worth of $11.8 Billion. Most of that wealth is not from founding Twitter. Dorsey also founded Square, a financial services company that he owns 11% of. That 11% of Square makes up 88% of Dorsey's net worth.

Twitter's board felt it was time for a change as Twitter had not reached its full potential under Jack Dorsey. The company's board cited growth issues versus its competitors.

Dorsey was not universally beloved and was regularly scrutinized for his policy which was not consistent. Everything from labeling tweets as "Missing Context or Misinformation" to the suspension of certain accounts, nothing on Twitter seemed to be consistent.

Twitter has announced it would like to double revenue by 2023.

Even with a new CEO, investors may want to wait and see what the new CEO will do differently. Issues will need to be addressed before Twitter can grow.

EV Delusion

A very common argument for electric vehicles is how clean the vehicles are and how gas is not needed to power them.

This past week the U.S. Secretary of Transportation touted electric vehicles as a hedge against rising gas prices.

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Buttigieg: Families who buy electric vehicles 'never have to worry about gas prices again'

BY MAUREEN BRESLIN - 11/29/21 08:01 AM EST 2,760 COMMENTS

The argument is strong on its headline and helps push the green agenda.

It may not be liquid gas at your local Esso or Shell powering your car but, gas and oil still play a part in powering EV's. The Tesla power stations in parking lots across the world are primarily powered by natural gas.

An article published this past summer dove into the falsehoods of EV's.

Where Do Charging Stations Get Their Power?

by Taylor Martin in on July 15, 2021

Within the article:

> We'll rip the band-aid off now: the most common charging station power source is natural gas. It's cheap, abundant, and accessible. But not all electricity is generated by fossil fuels alone, as charging stations are connected to "the grid."
>
> Your house is connected to the grid. And if you own a home charging station, it's connected to the grid. It's America's power supply divvied out among your community, with 40% of that power generated by natural gas and 19% generated by coal.

Charging companies will not operate in deficit when oil and gas prices increase, prices will still be reflected on consumers.

Even if you want to believe this statement, it's a falsehood that more consumers should understand before buying an electric vehicle.

MacNicol & Associates Asset Management Inc.
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