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Pathfinder Investment Outlook

For the week ending March 25th, 2022

The Short Squeeze and Uranium Tailwinds

Previously, we discussed the divergence of commodities from other markets but also the differences within commodities. Diving deeper, we discuss the effects of recent events on uranium and nickel, highlighted by the charts below.

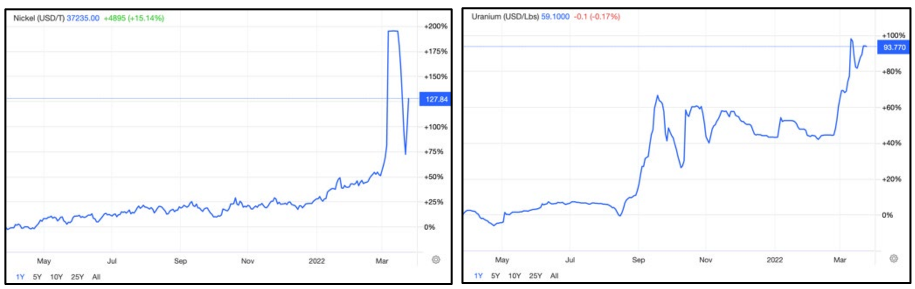

Figure 1: Nickel (left) and uranium (right) performance, in percentage over a period of one year.

The nickel spot price had steadily been gaining strength over the last couple of years as an important battery metal on the back of increasing demand for EV's and supply shortage due to the pandemic. However, since the Ukraine crisis in March, nickel has gone parabolic underpinned by not only supply concerns out of Russia (third largest supplier at ~11%) but also mainly due to a so-called short squeeze causing the London Metal Exchange (LME) to freeze trading for over a week. The surge was driven by Tsingshan Holding Group Co (a top nickel producer) who had placed a large wager (~$3B short) that the nickel spot price would fall. The opposite occurred when Russia invaded Ukraine and nickel purchasers boycotted Russian nickel causing the supply to tighten further thereby increasing the spot price. This increase led to Tsingshan having to cover their short position by purchasing nickel at higher spot prices leading to an unprecedented surge in price and recent volatility. Nickel has started trading again; however, the LME canceled billions of dollars' worth of transactions as the market tried to mitigate further price increase and volatility. We expect to see continued volatility as a significant short position remains.

The uranium spot price, although not as volatile as nickel, has also seen significant tailwinds as countries push for cleaner energy to curb greenhouse gas emissions. This has led to larger funds such as Sprott Asset Management to purchase excess supply based on future demand expectations. Demand has been further magnified upon the invasion of Ukraine pushing uranium spot prices to 10-year highs. Russia is the largest supplier of refined/enriched uranium at ~42% (7% mined production) and although no official sanctions on Russian uranium have been imposed, speculation continues to drive prices higher (up 30% since the invasion).

"This means that" recent events will be short lived-in terms of surging spot pricing; however, the long-term effects may take the form of countries increasing domestic production of natural resource and diversifying sources for commodities. This bodes well for a sustained rally in commodity prices going forward as demand remains strong based on fundamental supply issues.

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Sources: Trading Economics, Pathfinder Asset Management Limited

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*All returns are time weighted and net of investment management fees. Returns from the Pathfinder Partners' Fund and Pathfinder Real Fund are presented based on the masters series of each fund. The Pathfinder North American Equity Portfolio and The Pathfinder North American Income Portfolio are live accounts. These are actual accounts owned by the Pathfinder Chairman (Equity) and client (High Income) which contain no legacy positions, cash flows or other Pathfinder investment mandates or products. Monthly inception dates for each fund and portfolio are as follows: Pathfinder North American Equity Portfolio (January 2011), Pathfinder North American High-Income Portfolio (October 2012) Pathfinder Partners' Fund (April 2011), Pathfinder Real Fund (April, 2013), and Pathfinder International Fund (November 2014).

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