Struthers Report V28 # 16.3 Gold, Markets, Economy, ATCO, ET, DHT, Oil, Millennium C$Leaving Nov. 30/22

Know when to hold-em!
Know when to fold-em!
Know where to set stops!
Know when to run!
Never count your portfolio
Until the sells are done..

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Gold bounced off the $1730 support area I outlined in my Nov 22nd update. Last week witnessed a hammer candle stick down to $1720. So far we are holding above my support level and my new bull market theory is looking good so far. A break above $1830 would be a strong sign of a new bull move.

A US survey of consumer confidence fell to 100.2 in November and touched the lowest level in four months, reflecting growing angst about a softening economy and potential recession. The closely followed index dropped 2 points from 102.2 in the prior month, the nonprofit Conference Board said today.

The US housing market pulled back even more in September, with prices slipping 1.2% from a month earlier. It was the third straight decline for the seasonally adjusted measure of prices in 20 large US cities, according to the S&P CoreLogic Case-Shiller index.

Canada is setting records. Home sales had fallen for eight straight months before October brought a small uptick. Not only is that the longest stretch of falling sales on record, it is also the steepest, said a CIBC team. "*And it's not really over yet*." Prices are also setting records. With the average price of a home in Canada **down 20 per cent** since February the correction is already the steepest on record, said CIBC.

Well this is no surprise to us, I believe the bad effect on Canadian Banks will be delayed some. I have learned that many of the variable rate mortgages have fixed payments but increase the amount of the payment that is interest only as rates rise until some trigger point is met and the mortgagee will then have to make a large lump sum payment.

It is hard to get a handle on the numbers, but there was an article last week where the Bank of Canada says 50% of variable rate mortgages have hit the trigger. I quote from that article.

“””After hiking the overnight rate from near zero at the start of the year to 3.75 per cent, the Bank of Canada said this week that about 50 per cent of borrowers with variable-rate, fixed-payment mortgages have reached a trigger rate — the point at which set monthly payments cover only the interest while the principal remains unpaid. Nearly 13 per cent of all Canadian mortgages are affected, according to the central bank.

Federal rules stipulate that mortgages must be amortizing — meaning borrowers must be repaying principal — but lenders have three options once a trigger-rate threshold is reached: raise monthly payments, require a lump-sum pre-payment on the mortgage, or allow borrowers to slip into negative or reverse amortization for a period under rules set by banking authorities and mortgage insurers.””

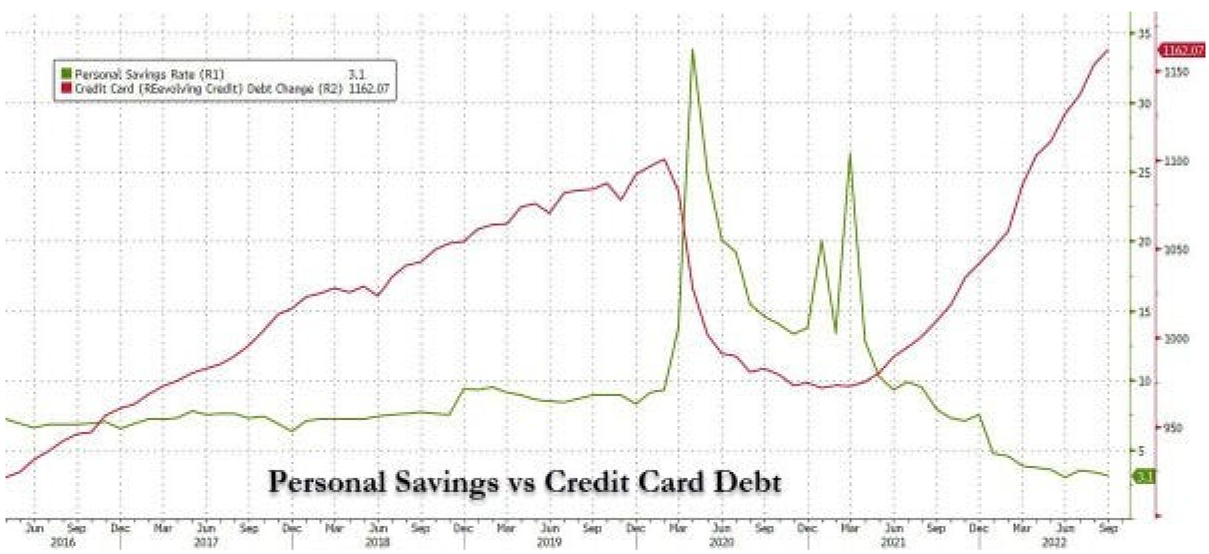
I expect the majority of affected mortgages are in Ontario. This has likely delayed defaults and more selling pressure and the banks have not had to increase their loss reserves as quickly as past housing declines. That said, Canadian Banks are reporting financial s this week so we will get a picture of how much their earnings are declining but they won't feel the heavy brunt of the housing decline until 2023.

Canada house prices will fall much further. Skyrocketing home prices and massive interest rate spikes have driven affordability to its worst level in decades, according to a TD Economics report, leaving some first-time buyers shut out of the market altogether. "*The drop in prices has not offset the effect of higher interest rates,*" said RBC economist Robert Hogue. "*Our affordability measure is still deteriorating.*"

Another factor is that home owners and consumers are piling up credit card debt and this only delays the reckoning.

Equifax Canada’s consumer survey released end of October found the average credit card balance held by Canadians was at a record high of $2,121 by the end of September.

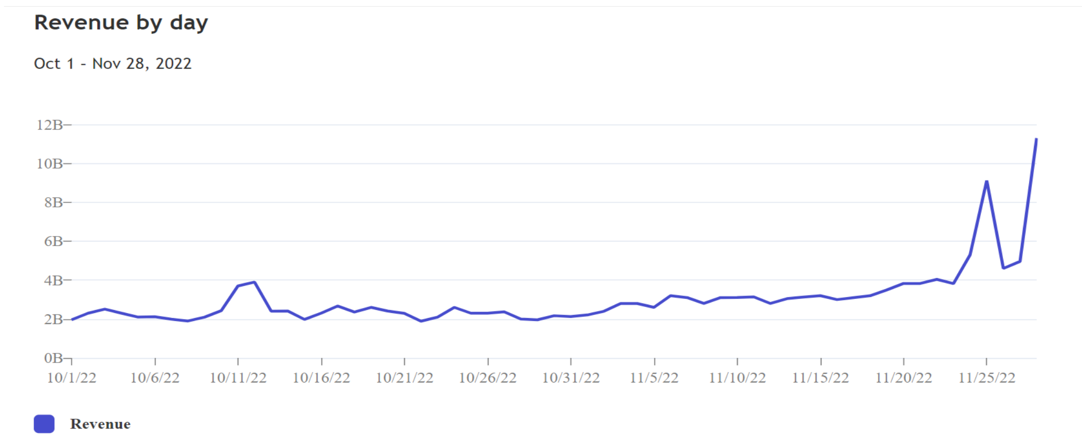
This chart posted by zerohedge. US consumers are piling on credit card debt even faster than Canadians.



Canada's GDP increased 2.9% on an annualized basis from July to September, Statistics Canada said Tuesday. That is well ahead of the Bank of Canada's forecast of 1.5% growth in the quarter. No signs of recession yet, but also goes along with the stagflation scenario, I have been commenting on. The Bank of Canada posted a $522-million third quarter loss on Tuesday, the first time it has lost money in its 87-year history. It is all because of the fast short term rise in rates.

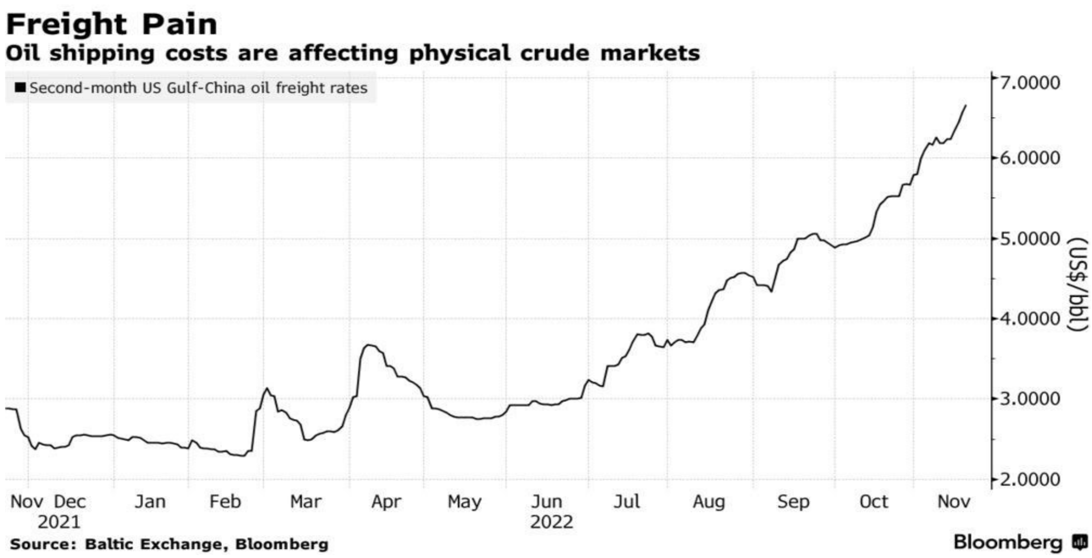
Royal Bank is buying HSBC Canadian assets for $13.5 billion that will make Canada's biggest bank even bigger. It is an all cash offer and basically it is the cash RBC hoarded during the pandemic. However, when I looked at the Canadian Bank's mortgage assets, HSBC was among the weakest, but because they are mostly influenced by their Asian assets it was not a good play on Canada's housing crash. If RBC closes the deal, it might come back to haunt them.

According to Adobe Analytics, the e-commerce focused Cyber Monday has usurped Black Friday as the premier sales day of the holiday season. Consumers spent $11.79B on Cyber Monday sales, comfortably above the $9.12B recorded for Black Friday that was a new record. It would appear that US consumers are not worried about high interest rates and a recession or maybe don't know what one is. At the moment there is no sign of a recession, but avoiding one by making ends meet with credit cards is just a band-aid. The chart shows the spike in Monday online sales over Black Friday.



Meanwhile, the equity markets seem to be undecided of their direction. I think there is some more room to rally up to around 4,100, but if we see a drop below 3,900 it would likely mean this bear market rally is over.

Now some better news for us with our shipping stocks, ATCO and DHT. And a look at the oil market.



Earnings on the US Gulf Coast-to-China shipping route have **soared** above $100,000/day, equivalent to $7 per barrel, demonstrating the shrinking availability of crude tankers. The recent weakness in oil is probably because of shipping costs. Spot differentials for crudes across the Americas were tanking because of higher shipping costs – free-on-board prices for WTI plummeted a whopping $5/barrel last week, reflecting shipping.

Oilprice.com pointed out last week that the shortage of tankers is taking place across all vessel categories, even VLCC freight costs from the Middle East into Asia Pacific have tripled year-on-year. The **news** of Freeport LNG pushing its restart into March 2023 following a damning report from federal pipeline safety regulators have pushed U.S. natural gas prices to $6.7 per mmBtu, aggravated by forecasts for colder weather into December.

Germany's LNG Terminal Costs Soar. The cost of purchasing and maintaining floating LNG terminals to help Germany survive this winter and diversify away from Russian gas has **doubled** to some $6.6 billion, with the first unit already completed at the North Sea port of Wilhelmshaven.

As reported by Bloomberg, global long-term LNG contracts before 2026 are all sold out, meaning that over the upcoming three years (until Qatar's upgrades are commissioned) Europe and Asia will **remain** on collision course for remaining spot cargoes.

Remember the oil sanctions on Russia were only announced and the EU sanctions are suppose to come into effect in less then two weeks. Italy is **considering** several options to save its largest refinery, operated by Russia's Lukoil in Sicily, one of them is to ask the EU for a temporary waiver.

A petition from a range of public interest groups is pushed the US government to condition the approval of federal drilling permit on operators posting the upfront cost to clean up wells, trying to deter cases when small producers file for bankruptcy to avoid cleanup costs. **More Biden Administration negative influence on oil&gas exploration.** The only thing I know for certain is the whole energy sector is in a mess and will just get worse. This winter will be horrific for many. However, as investors there are great ways to profit from the government fiasco. Our 2 shipping stocks are doing great.

Atlas NY:ATCO Recent Price - $15.36
Entry Price - $7.33 Opinion – take $15.50 buyout

Atlas is being bought out at $15.50 and will be taken private by Q2 2023 and they will keep paying the dividend until then. You can hold the stock and get $15.50 or sell now and put funds into one of my other millennium stocks. We have a yield of 6.8% but that is based on our $7.33 buy price. The current yield is 3.2% and there are other stocks on my Millennium Index with higher yields. A good replacement could be-

Energy Transfer   NY:ET **Recent Price - $12.37**
Entry Price - $14.50 **Opinion - buy**

The stock is yielding 8.5% paying $0.265 per quarter. The company plans to get back to their pre covid dividend of $0.305 per quarter. I see no reason why they will not get there. ET reported very good Q3 results on September 30. Net income attributable to partners for the three months ended September 30, 2022 of $1.01 billion, a $371 million increase from the same period last year. For the three months ended September 30, 2022, net income per limited partner unit (basic and diluted) was $0.29 per unit.

In the third quarter 2022, the Partnership experienced a $126 million charge in the crude oil transportation and services segment related to a legal matter. In addition, Energy Transfer's third quarter 2022 results were impacted by an approximately $130 million negative adjustment related to hedged inventory in the NGL and refined products transportation and services segment. These two items impacted third quarter 2022 Adjusted EBITDA by approximately $260 million in the aggregate. Otherwise ET numbers could have been better still.

During the third quarter of 2022, each of Energy Transfer's five core segments realized higher volumes compared with the same period in 2021.

- Intrastate natural gas transportation volumes were up 28% and set a new Partnership record.
- Interstate natural gas transportation volumes were up 43%.
- Midstream gathered volumes were up 47% and set a new Partnership record.
- NGL transportation volumes were up 5%.
- NGL fractionation volumes were up 6% and set a new Partnership record.
- Crude oil transportation and terminal volumes were up 10% and 14%, respectively.

Over 90% of ET's growth capital spending is comprised of projects that are already on-line or expected to be on-line and contributing cash flow at very attractive returns before the end of 2023. The project backlog includes Gulf Run Pipeline in Louisiana, Grey Wolf and Bear processing plants in the Permian Basin, Fractionator VIII in Mont Belvieu and LPG facilities projects at Energy Transfer's Nederland Terminal. There is no good reason why this stock is not back to higher levels witnessed in 2019. The recent break above $12.50 is a good signal the stock is headed higher.

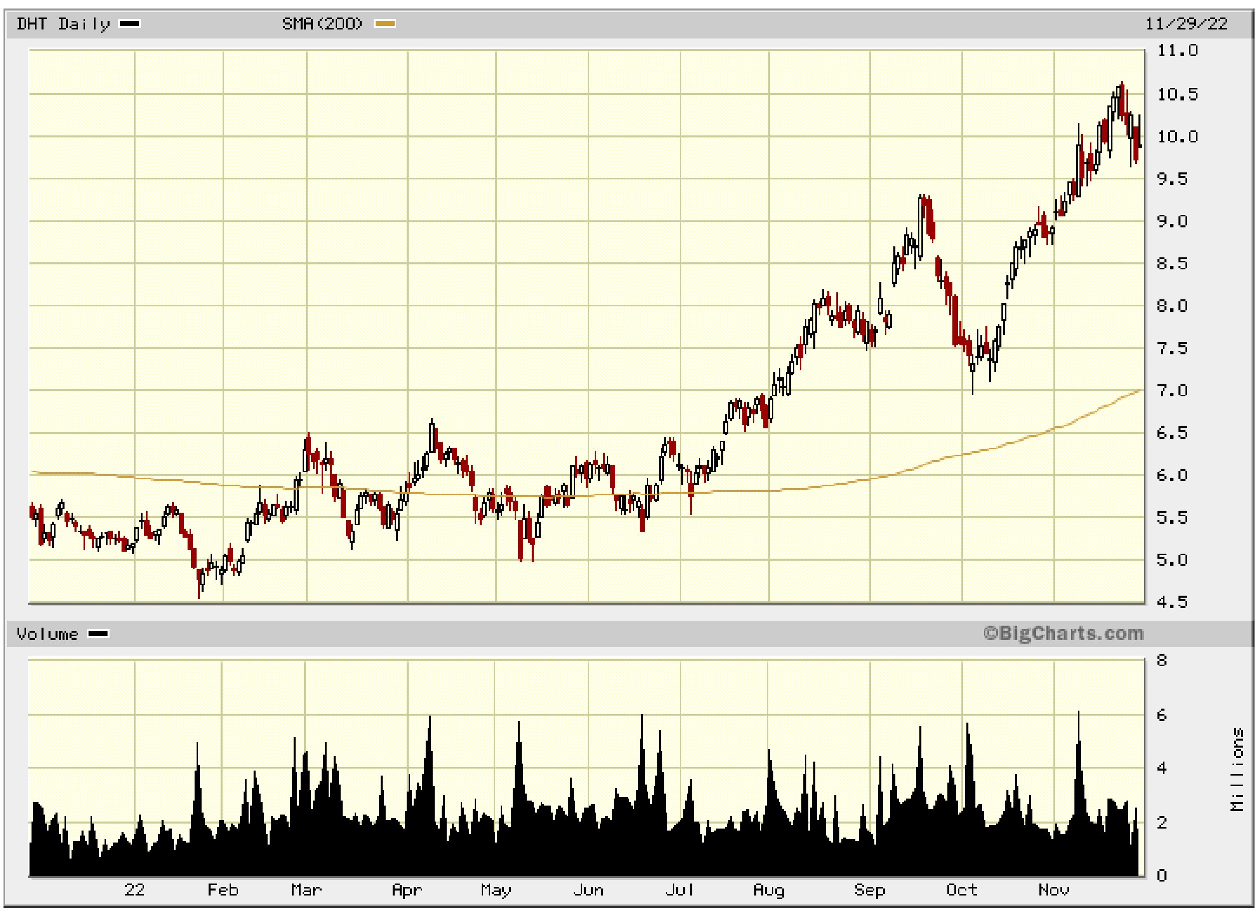
DHT Holdings **NY:DHT** **Recent Price - $9.90**
Entry Price - $7.45 **Opinion – hold, buy below $9.50**

The stock moved very quickly for us, breaking out to highs and prices not seen since 2012. The oil shipping market will probably get tighter still this winter. Since we bought the stock in early October, they released their Q3 results on November 7th.

In the third quarter of 2022, the Company achieved combined time charter equivalent earnings of $25,400 per day, comprised of $35,300 per day for the Company's VLCCs on time-charter and $22,000 per day for the Company's VLCCs operating in the spot market. Adjusted EBITDA for the third quarter of 2022 was $35.6 million. Net profit for the quarter was $7.5 million which equates to $0.04 per basic share. DHT is paying a 4 cent dividend, payable November 29th.

Profits and dividends are going much higher. Look at the rates they are getting so far in Q4 compared to above. Thus far in the fourth quarter of 2022, 69% of the available VLCC spot days have been booked at an average rate of $61,800 per day on a discharge-to-discharge basis. 77% of the available VLCC days, combined spot and time- charter days, have been booked at an average rate of $53,100 per day (not including any potential profit splits on time charters).

Our timing to buy the stock was perfect with the dip under $7.50. The pull back from the recent $10.50 is healthy market action and I would buy on any dip below $9.50



Sentiment in the oil market has been weak with the China covid lockdowns causing demand fear. At the same time, liquidity in the key contracts traded is wafer-thin as last week's volatility prompted the sell-off of an equivalent of 90 million barrels, with open interest in WTI falling to the lowest since 2015. Oil dropped under $40 in 2015 where it bottomed, so this low open interest is likely another bottom with a 2nd test of $75

Mighty Millennium Index

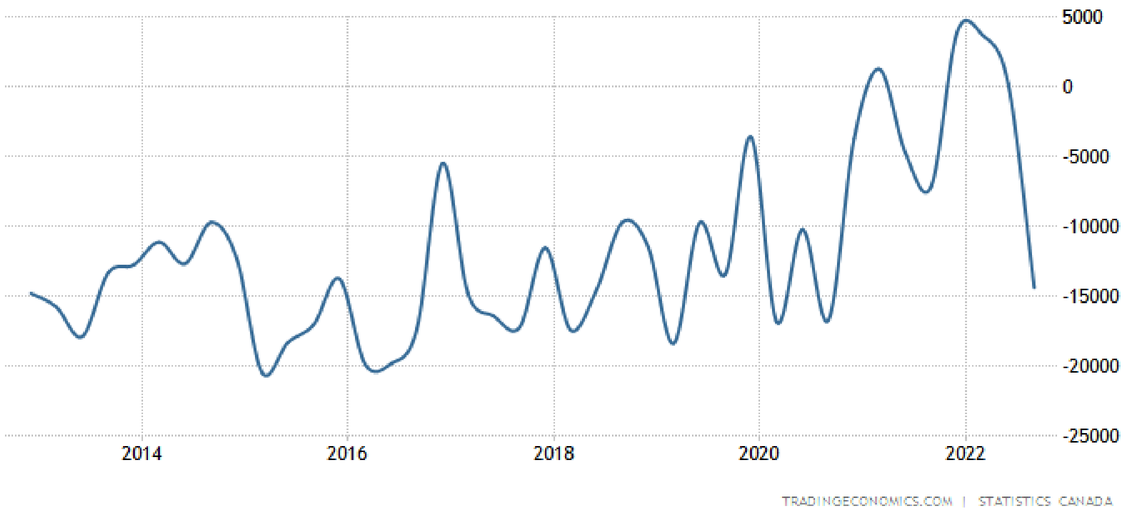
Prices Nov 29

Name, Symbol	Buy Date	Buy Price	Current Price	Divid Yield	Gain/ Loss	12/31/21 Price	YTD Gain Loss	Action
Cameco CCO	May 00	3.25	31.65	3.7%	874%	27.58	14.8%	H
Russel Metals RUS	Jan 08	20.00	28.58	7.6%	43%	33.63	-15.0%	H
Gamco Gold GGN	Aug 11	16.50	3.51	2.2%	-79%	3.75	-6.4%	H
Newmont NEM	July 13	27.90	76.46	7.9%	174%	62.02	23.3%	Sold
LTC Properties LTC	Jan 14	35.24	39.03	6.5%	11%	34.14	14.3%	H
Atlas ATCO	Jan 17	7.33	15.32	6.8%	109%	14.18	8.0%	buyout
Cenovus CVE	Feb 18	23.53	27.68	0.6%	18%	15.51	78.5%	H
CVE.wt	Jan21	3.97	14.19	0.0%	257%	9.51	49.2%	Sold
Medical Facility DR	Oct 18	14.10	7.95	2.3%	-44%	9.35	-15.0%	H
Energy Transfer ET	Jan 19	14.50	12.41	7.3%	-14%	8.23	50.8%	B
Vermillion VET	Aug 19	19.00	26.03	1.7%	37%	15.90	63.7%	B
Gilat Satellite GILT	Jan 22	8.16	6.08	12.3%	-25%	8.16	-25.5%	BW
Centamin CEE	Mar 22	1.72	1.72	11.6%	0%	1.72	0%	H
Devon DVN	Mar 22	53.1	67.5	6.3%	27%	53.1	27%	H
Birchcliff BIR	Jun 22	8.65	10.82	0.0%	25%	8.65	25%	B
TC Energy TRP	Oct 22	55.50	61.26	6.5%	10%	55.50	10%	BW
DHT Holdings	Oct 22	7.45	9.87	6.7%	32%	7.45	32%	BW
Shell SHEL	Oct 22	52.50	57.62					
Newmont NEM	Nov 22	38.65	45.76					
Average				5.1%	86%		19.8%	

I have been adding a few stocks to the Millennium Index so here is the updated index as of Nov. 29th. I did not included Shell and Newmont into the list average because they are very recent, but already have good gains. The list is up 19.8% year to date plus another 5.1% dividend yield. Two positions will drop off end of December because they are sold and I will probably trim 1 or 2 more positions. Anyway, the index has been a godsend for our portfolios this year.

I hate to say, I told you so because it is not good news. Early this year, I commented that invoking the emergencies act in Canada caused a bank run and would result in strong capital outflows from Canada. Capital flows are transactions involving financial assets between international entities. Financial assets to be included can be bank deposits, loans, equity securities, debt securities, etc. Capital outflow generally results from economic uncertainty in a country (in this case political uncertainty), whereas large amounts of capital inflow indicate a growing economy. **It has been a while now since Trudeau made his ridiculous move and we have some data.**

This is a 10 year chart of Canada Capital flows from Statistics Canada. You can see that Capital flows were improving with the recovery from the pandemic and high oil prices that in the past have been a big benefit to Canada. From around 2001 to 2008 Canada had it's strongest inflows when oil ran from around $60 to $150. Canada was running at the 10,000 mark on the plus side back then.



The emergencies act was invoked in February and you can see the steep plunge since then. The last biggest steep plunge was in the 2008 financial crisis that saw a plunge from around +6000 to -11,000 (click 25 year chart). This current plunge is much more than that and we have not seen the bottom yet. **There is no doubt, we are seeing the greatest outflow of money from Canada in it's history.**

The 'emergencies act' in Canada was all about going after the 'Freedom Convoy' money. The big Canadian banks admitted just that in the current parliament inquiry underway. I am not going to get into that and the political BS right now, but it is no surprise business confidence is plunging also.

Small business confidence in Canada has hit one of its lowest levels ever, according to the Canadian Federation of Independent Business (CFIB). Meanwhile, the long-term index, based on a 12-month outlook, dropped 1.2 points to 50.0 this month—the lowest recorded since 2009, outside of the 2008/09 and 2020 recessions, the CFIB said.

Right now, markets in Canada and the US are trading on the proverbial 'soft landing' that seldom occurs. A severe recession is coming that will get started in Europe this winter as they are forced to shut down industry because of energy shortages. Putin's recent attacks on the Ukraine energy grid will result in more shortages as Ukraine is no longer able to export electricity to Europe. I hate to say it, but another bad news told you so will sadly occur this winter. On a personal experience, I have an emergency kerosene heater and paid around $20 for a 18 to 19 litre jug of fuel. A recent discussion prompted be to check prices and I found out those jugs of fuel are now selling for over $100. And that is if you can find fuel.