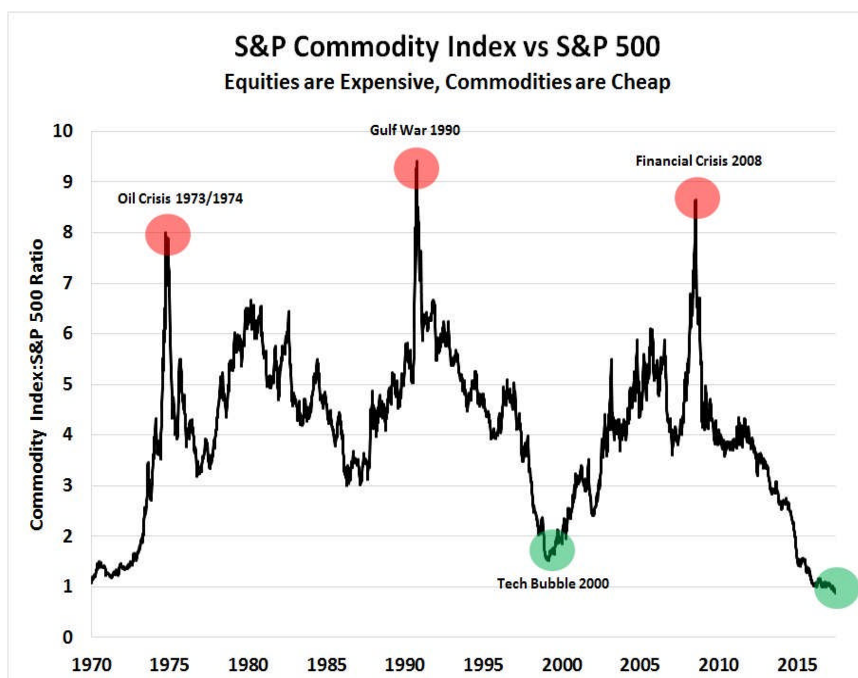
THE National Investor

Sept. 4, 2017 *You can get information anywhere. Here, you get KNOWLEDGE.* Vol. No. 22 -- 18

HAVE WE REALLY STARTED A NEW METALS "SUPERCYCLE"?

Over the next couple issues, I'll be delving deeper into some individual commodities, but for now want to set the table with this following general commentary I am circulating elsewhere...but which you are getting the first look at:

Resource-oriented investors' fondest memories -- and if you are like most, greatest profits -- hearken back to the glory days of the early "aughts." From, roughly, 2002 - 2008 major forces served to drive commodity prices through the roof. You had to work hard *not* to make money during this time, with quantum leaps across the board in precious and base metals, energy, agricultural commodities. . .well, pretty much EVERYTHING!



Lately, some considerable rallies in base metals -- including technical breakouts in copper and zinc, as well as surging interest in the "energy metals" complex -- have investors giddy once more. To be sure, there are indeed some *individual* stories of companies in these areas that I have recommended to my Members based as much or more on their own unique merits as opposed to my long-term view for the metal(s) they are exploring for.

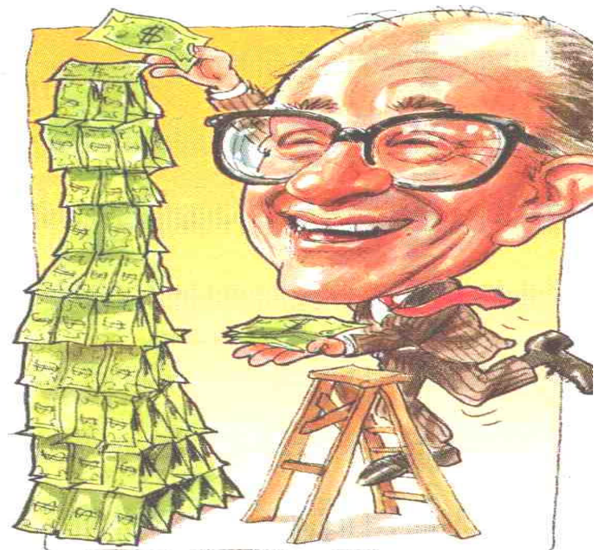
Aside from that -- and the purpose of this brief commentary -- I am advocating caution. It is easy to look at a chart such as at left and

believe it is a no-brainer "green light" to throw money wantonly at anything to do with commodities; metals or otherwise. Yes, I know -- and myself harp on -- the fact that, relative to financial assets, commodities are historically undervalued. But I'm here to tell you that the environment today -- and the challenges to this overly simplistic, increasingly bullish euphoria over a new commodities supercycle -- just might not be as safe or as simple as you might think.

First, we need to look at the "macro" as well as monetary environments that must be positively aligned to undergird a secular bullish environment for commodities. Back in that "aughts" time frame **we had the two greatest positive forces of all time leading to that explosive supercycle:**

1. First, from the demand side, we had China's great leap forward in industrialization, urbanization and infrastructure building. For a several-year stretch, that nation was almost single-handedly responsible for the increases in aggregate demand of pretty much any commodity you want to name.

2. Secondly, we had in the United States of America a Federal Reserve Chairman, Alan Greenspan, who I have often described as the Mad Monetary Scientist of the Ages. Fresh from blowing the financial bubbles that eventually led to the 2000 stock market debacle, Greenspan--retooled thanks to the repeal just prior of the Glass-Steagall act, which he had long pushed for--took bubble-blowing into a whole new dimension still. This time around, the mad scientist's favorite financial alchemy was to push **the derivatives markets** to dizzying heights; leverage on top of leverage on top of leverage, securitization of everything imaginable, to the point where this all blew up AGAIN, led by the implosion in credit markets and mortgage securities, primarily.



It was fun while it lasted; and if you -- like our Members -- grabbed a chair in late 2007 or early 2008 before the music stopped. Later, as all that unwound, commodities of all kinds crashed anew.

There was a hopeful rebound from 2009 - 2011 or so. Initially, it was led strongly by precious metals; the theory here was that all the new "money printing" by the central banks ostensibly to rescue the world from the 2008 implosion was *finally* going to lead to that Weimar-like hyperinflation the gold bugs had long touted as what would bring about a gold price of $5000 per ounce or greater.

But things didn't go according to script; and even as financial assets kept recovering, commodities rolled over anew DESPITE all the Quantitative easing, Z.I.R.P. and *even negative* interest rates, etc.

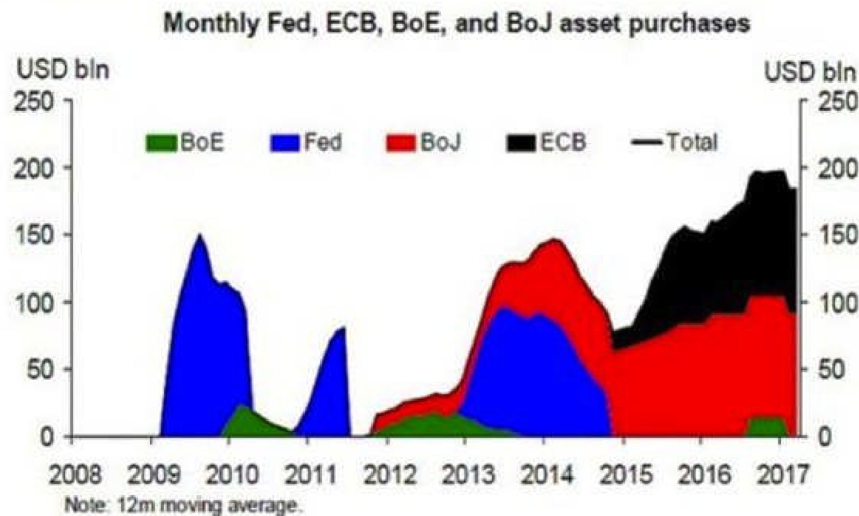
WHAT'S DIFFERENT TODAY?

We decidedly do NOT have all the same tail winds that led to the explosive gains of the last decade for commodities. Far from it.

1. **China is not the factor that it was.** Certainly, over the long run, the renewed empire will continue to have an oversized appetite for raw materials; not only as it continues to build its own country

but the New Silk Road as well. But for the foreseeable future, the best we can say is that China is not quite the demand force it was before. Further, the risk exists that at some point it might have a debt debacle for a while; something that would send ALL asset classes reeling, *with the most likely exception being gold.*

2. **The Fed is on the sidelines for now.** For the time being, the Federal Reserve is taking the "window" the market allows it and removing some of its past accommodation. None the less, other central banks are more than picking up the slack; indeed, the first six months of 2017 saw some $1.5 trillion injected into markets, the fastest annual pace *ever*. Near-term, though, monetary stimulus may become less of a help if the E.C.B. decides to finally cut back its own Q.E. program.



3. **OVERCAPACITY.** A lingering issue that investors seem to be ignoring amid the renewed bullishness is that **many industrial commodities, agricultural commodities and energy continue to be hobbled by in some cases *massive* overcapacity.** For this, too, we can thank "The Maestro." WAY too much credit was force-fed to producers and resulted in far too much product and capacity. **It's worst with energy**, but lingering overcapacity remains in key metals such as nickel, iron ore and even copper.

4. **Trade -- and other? -- Wars Looming.** While U.S. President Donald Trump has so far been more bark than bite, the possibility of a larger trade war breaking out is still palpable. As I write this, there is also a larger threat of broader trade embargoes over North Korea's ongoing weapon tests. Needless to say (or it should be!) if any of these kinds of wars are launched in a meaningful way, you can kiss the new commodities bull market good-bye for a while (not to mention the bull market in equities broadly.)

In summation, and as I am explaining in more detail on an ongoing basis to our audience at *The National Investor*, there indeed are some pockets of opportunity, chiefly with those individual companies along the entire commodities spectrum whose attributes set them apart. **But aside from them, the current rally environment will NOT lead in my estimation to that kind of "rising tide lifts all boats" we saw in the aughts, at least not any time soon.**

Pick your commodities -- and companies -- wisely!

(The above is excerpted from the Sept. 4, 2017 Issue)

The National Investor is published and is e-mailed to subscribers from chris@nationalinvestor.com . The Editor/Publisher, Christopher L. Temple may be personally addressed at this address, or at our physical address, which is -- National Investor Publishing, P.O. Box 1257, Saint Augustine, FL 32085. The Internet web site can be accessed at https://nationalinvestor.com/ . **Subscription Rates:** $195 for 1 year, $375 for two years for "full service" membership (twice-monthly newsletter, Special Reports and between-issues e-mail alerts and commentaries.) **Trial Rate:** $59 for a one-time, 3-month full-service trial. Current sample may be obtained upon request (for first-time inquirers ONLY.) The information contained herein is conscientiously compiled and is correct and accurate to the best of the Editor's knowledge. Commentary, opinion, suggestions and recommendations are of a general nature that are collectively deemed to be of potential interest and value to readers/investors. Opinions that are expressed herein are subject to change without notice, though our best efforts will be made to convey such changed opinions to then-current paid subscribers. We take due care to properly represent and to transcribe accurately any quotes, attributions or comments of others. No opinions or recommendations can be guaranteed. The Editor may have positions in some securities discussed. Subscribers are encouraged to investigate any situation or recommendation further before investing. The Editor receives no undisclosed kickbacks, fees, commissions, gratuities, honoraria or other emoluments from any companies, brokers or vendors discussed herein in exchange for his recommendation of them. All rights reserved. Copying or redistributing this proprietary information by any means without prior written permission is prohibited**. No Offers being made to sell securities**: within the above context, we, in part, make suggestions to readers/investors regarding markets, sectors, stocks and other financial investments. These are to be deemed informational in purpose. None of the content of this newsletter is to be considered as an offer to sell or a solicitation of an offer to buy any security. Readers/investors should be aware that the securities, investments and/or strategies mentioned herein, if any, contain varying degrees of risk for loss of principal. Investors are advised to seek the counsel of a competent financial adviser or other professional for utilizing these or any other investment strategies or purchasing or selling any securities mentioned. Chris Temple is not registered with the United States Securities and Exchange Commission (the "SEC"): as a "broker-dealer" under the Exchange Act, as an "investment adviser" under the Investment Advisers Act of 1940, or in any other capacity. He is also not registered with any state securities commission or authority as a broker-dealer or investment advisor or in any other capacity.
Notice regarding forward-looking statements: certain statements and commentary in this publication may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 or other applicable laws in the U.S. or Canada. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual results, performance or achievements of a particular company or industry to be materially different from what may be suggested herein. We caution readers/investors that any forward-looking statements made herein are not guarantees of any future performance, and that actual results may differ materially from those in forward-looking statements made herein. **Copyright issues or unintentional/inadvertent infringement**: In compiling information for this publication the Editor regularly uses, quotes or mentions research, graphics content or other material of others, whether supplied directly or indirectly. Additionally he makes use of the vast amount of such information available on the Internet or in the public domain. Proper care is exercised to not improperly use information protected by copyright, to use information without prior permission, to use information or work intended for a specific audience or to use others' information or work of a proprietary nature that was not intended to be already publicly disseminated. If you believe that your work has been used or copied in such a manner as to represent a copyright infringement, please notify the Editor at the contact information above so that the situation can be promptly addressed and resolved.