The Ukraine War and Equities: Surprising Findings on Defense, Commodities, & Tanker Stocks

written by InvestorNews | February 28, 2023

As we mark the somber first anniversary of Russia's invasion of Ukraine, I thought it would be interesting to have a look at what equities have been impacted by this brutal and very unnecessary war. My first thought was that defense or drone stocks would be slam-dunk outperformers. I also figured there would be several resource companies that may have done well if they produce key commodities where Russia was a dominant player, assuming the company in question wasn't actually operating in Russia where it likely would have had to forego its assets. What I found surprised me.

Defense and Drone Companies

I first looked at the biggest U.S. defense and drone stocks and did not find what I expected at all. Let's start with Raytheon Technologies Corporation (NYSE: RTX), and Lockheed Martin Corporation (NYSE: LMT) because not only are they two of the largest market cap defense contractors (US$145 billion and US$122 billion, respectively) but they also count as two of the biggest manufacturers of military drones. Excluding dividends, Raytheon is actually down 3.5% over the last year, while Lockheed Martin rose 10.5%. Granted a positive 10.5% return over the last year did materially outperform the S&P 500, which was down 9% over the comparable time period, I was expecting a much better return.

Given the ever-increasing use and impact of drones in Ukraine, I thought I'd look at a company that was almost exclusively focused on this sector alone to see if there was any difference in performance from the multi-faceted defense names. I choose Kratos Defense & Security Solutions Inc. (Nasdaq GS: KTOS). Not only because of the name but the Company has contract ties to the U.S. Department of Defense, and roughly 25% of Kratos' revenue comes from its "Unmanned Systems" division. This all sounds good on paper but the Kratos share price saw a dismal 40% loss over the last 12 months. Even with that pummeling, Capital IQ has the stock trading at 33.2x Forward P/E. I don't think I'll be putting this name on my list as a hedge against the war in Ukraine dragging on for a lot longer.

(Note: An Unmanned System (US) or Unmanned Vehicle (UV) can be grouped into four primary types: (1) in the air, as Unmanned Aerial Vehicle or System (UAV or UAS), commonly known as a "drone"; (2) on the ground, as Unmanned Ground Vehicle (UGV); (3) on the water surface, as Unmanned Surface Vehicles (USV); and, (4) in the water, as Unmanned Underwater Vehicles (UUV).)

Commodity Stocks

Time to change gears and start looking at commodities. Despite oil, natural gas, and refined products accounting for Russia's largest value of exports, I chose platinum as the first place to look given Russia's Norilsk Nickel (MISX: GMKN) accounts for 10-12% of the world supply, which is a higher percentage of global market share than oil or natural gas. For reference, Nornickel, as it is also known, is also the world's largest palladium and refined nickel producer, plus a top-ten producer of copper as well. The best platinum/palladium surrogate I could find was Sibanye-Stillwater (NYSE: SBSW), another of the world's largest primary producers of platinum and palladium. This stock is down an abysmal 57% over the last 52 weeks. With platinum prices down 10% year-over-year and palladium down 41%, it appears the market isn't reeling from the impact of Russian supply disruptions in these particular metals.

Early in the conflict, natural gas was making a lot of headlines, with European prices spiking to unimaginable heights and all the subterfuge around the two Nord Stream pipelines. The leading European benchmark is Dutch TTF Gas and it is priced in Euro per megawatt hour (€/MWh). Despite this benchmark price peaking in late August 2022 at €339, it is currently trading below €50, even lower than it was trading before this whole mess began. Meanwhile, Henry Hub gas prices in the U.S. also peaked in August at US$9.71/MMbtu (Metric Million British Thermal Unit) but iscurrently transacting around US$2.70, also below year-ago levels. Thus, it will probably come as no surprise that big natural gas producer ARC Resources Ltd. (TSX: ARX) in Canada and EOG Resources, Inc. (NYSE: EOG), a leading gas producer in the U.S., are trading at pretty much the same price they were last year at this time. Or maybe it is a surprise as one might think they'd be down year over year based on the commodity price.

Oil and Refined Products Companies

The question is, did anyone's share price benefit from this unfortunate event? There were a few that I found and they were all oil and refined products related. The most well know name of the bunch is Exxon Mobil Corp (NYSE: XOM) which returned an impressive 41% excluding dividends over the last year. We all know Exxon is a behemoth, and there could be lots of reasons other than Russian supply disruptions that could have influenced the share price but other integrated global giants like Shell PLC (formerly Royal Dutch Shell) (LSE: RDSA | NYSE: SHEL) and BP plc (LSE: BP | NYSE: BP) all had similar one-year performances.

Albeit they all had setbacks of some form in the last year due to the fact that they had to write off or choose to sell (for essentially zero) some Russian assets. Regardless, the large integrated oil companies outperformed the rest of the sector for the most part.

Tanker Stocks

But the big outperformers were the oil and refined product tanker stocks. The returns in this category were what I would have expected from the defense stocks, which as we discussed above, were relatively disappointing. There are many to choose from but I looked at two that I have traded in the past but did not have the foresight to continue holding them. The first company is Scorpio Tankers Inc. (NYSE: STNG), a Monaco-based international transporter of refined petroleum products with a fleet of 113 vessels. This stock returned a whopping 255% over the last 12 months.

The second company is Frontline Ltd. (NYSE: FRO) a Bermuda-based company providing marine transportation of crude oil and oil products with a fleet of roughly 70 tankers. Frontline returned 97% excluding dividends since the end of February 2022. This quote from Scorpio's Q4, 2022 results pretty much sums up why this sector has performed as well as it has:

> *"…the volatility brought on by the ongoing conflict in Ukraine, which has resulted in the implementation of sanctions on the export of Russian crude oil and refined petroleum products, has continued to disrupt supply chains for crude oil and refined petroleum products, changing volumes and trade routes, and thus increasing ton-mile demand for the seaborne transportation of refined petroleum products."*

Scorpio's Q4/2022 vessel revenue increased 211% as a result and needless to say, the market paid attention even though I did not.

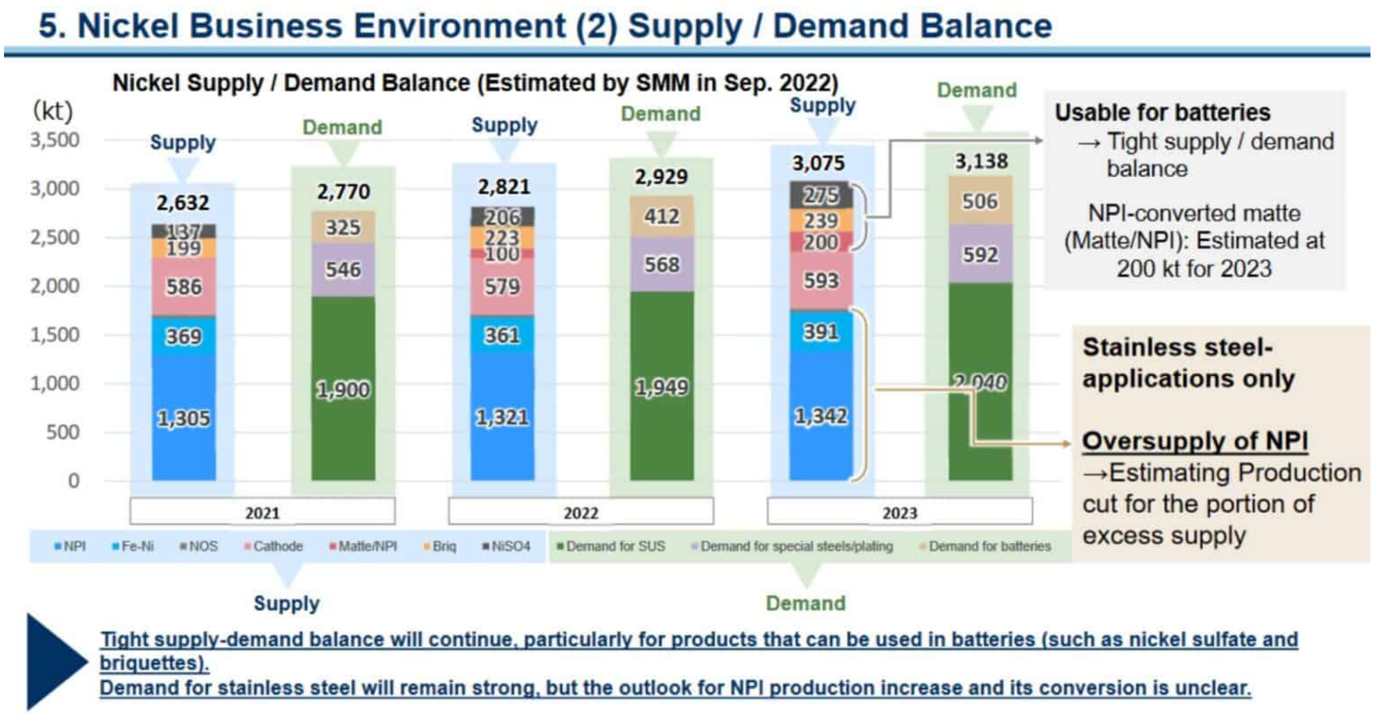
Today I've only scratched the surface of what ramifications the Russian invasion of Ukraine has had on markets and stocks around the world. What I truly hope is that I won't be doing this again a year from now.

A look at the nickel sector and the leading companies as we head into 2023

written by Matt Bohlsen | February 28, 2023
Nickel prices have had a very good year in 2022, up 43% YTD to US$28,199/t at the time of writing. This has been mostly due to a tight market with demand remaining strong and limited new supply.

2023 is forecast to be another tight year for the nickel market, although some analysts are concerned with potential new supply from Indonesia. Sumitomo sees a tight nickel supply/demand balance for the battery sector with some potential oversupply of nickel pig iron (NPI) in 2023. Nickel pig iron is a low grade ferronickel commonly used in China as a cheaper alternative to pure nickel for the production of stainless steel.

Sumitomo Metal Mining forecasts (as of Sept. 2022) small nickel deficits for 2022 and 2023



Source: Sumitomo Metal Mining (see page 11)

A huge demand wave ahead for nickel this decade and next

Looking out further, in 2021 the **IEA forecast that nickel demand is set to increase by 7x to 19x from 2020 to 2040.** This is driven by conventional demand from stainless steel plus surging demand from batteries, mostly to supply the electric vehicle boom. Not all batteries will use nickel; however nickel, manganese, cobalt (NMC) cathode batteries are set to remain as a dominant battery chemistry in Western markets due to their superb energy density, combined with a good long cycle life. In 2022, the IEA forecast that **60 new nickel mines would be needed by 2030**.

Jessica Farrell, BHP's Asset President of Nickel West, recently was quoted as stating: "We anticipate demand for nickel in the next 30 years will be 200% to 300% of the demand in the previous 30 years".

The leading nickel companies

Vale S.A. (NYSE: VALE) is consistently in the top 3 global leading producers of nickel. In 2020 they ranked second producing 215,000t. In 2021, Vale was the world's largest iron ore and nickel producer with iron ore and pellets making up 81% of revenue in Q2, 2022, nickel making up 9%, and copper 3%. Vale has been working on expanding production capacity of both iron ore and nickel. Vale's key nickel assets are well located in Voisey's Bay in Canada. Vale has nickel supply agreements to supply nickel to Tesla (NASDAQ: TSLA), Ford Motor Co. (NYSE: F), Northvolt, and more recently General Motors (NYSE: GM). Vale's stock currently trades on a 2023 PE of only 5.97 and an indicative 2023 dividend yield of 6.6%.

Norilsk Nickel was the leading global nickel producer in 2020 with 236,000t. Being a Russian company 2022 has not been kind for investors in Nornickel with the stock price plunging and stock trading being suspended from all Western stock exchanges. Nornickel recently stated: "MMC Norilsk Nickel shares are listed on the Moscow and on the Saint-Petersburg Stock Exchanges, ADRs are accepted for trading on the Saint-Petersburg Stock Exchange."

Glencore PLC (LSE: GLEN | OTC: GLCNF) ranked the number 3 leading global nickel producer in 2020 with 110,000t of production. Glencore's 2022 production for the first 9 months of the year was 81,600t, 15% up on the same period in 2021.

BHP Group Limited (NYSE: BHP) is ranked 4th in 2020 with 80,000t of nickel production. BHP's Nickel West mine has been ramping up operations in recent times with ore sent to BHP's Kwinana Nickel Refinery which can produce 100,000tpa of nickel sulphate. BHP is looking to grow their nickel business and recently announced a takeover offer of OZ Minerals Limited (ASX: OZL) (who themselves have an option deal to acquire Havilah Resources' Kalkaroo Project in SA that contains copper, gold and cobalt).

BHP’s Nickel West operations in Western Australia

Source: BHP website

Others – Other key global nickel producers include **Jinchuan Group (HK: 2362)**, **Sumitomo Metal Mining Co. (TYO: 5713 | OTC: SMMYY)**, **Anglo American (LSE: AAL | OTC: AAUKF)**, **Eramet (OTC: ERMAY)**, **Sherritt International (TSX: S | OTC: SHERF)**, **IGO Limited (ASX: IGO | OTC: IIDDY)**, **Panoramic Resources (ASX: PAN | OTC: PANRF)**, **Nickel Industries Limited (ASX: NIC | OTC: NICMF)**, **Nickel 28 Capital Corp. (TSXV: NKL)**, **Mincor Resources (ASX: MCR | OTC: MCRZF)**, and a few more.

Closing remarks

2022 was a great year for the nickel sector. 2023 looks like being a bit tougher as a global slowdown looms and as new Indonesia supply comes online; however, looking out this decade it looks hard to see where the 60 new nickel mines needed will come from.

There are several exciting nickel juniors working to fill the impending nickel supply gap this decade. Some are ii8 members here at InvestorIntel, such as Power Nickel (TSXV: PNPN), so feel free to read up on them over the upcoming Christmas break.

Russia’s War, Supply Chain Turmoil and What It Means to You

written by InvestorNews | February 28, 2023

What a week! Last Thursday, Russia invaded Ukraine. Then this week global supply chains went crazy, with skyrocketing price moves and a global-scale sense of worry about where it all leads.

I won’t dwell on war news, meaning stories and imagery from front lines. It’s tragic and painful to witness, and no doubt you follow events.

But definitely, it’s worth discussing the economic impacts of the war. In particular, consider the almost immediate commercial isolation of Russia that’s now taking shape with a wide array of sanctions on Russia’s government, her banks, businesses and people.

This is an entirely new page for the world economy. And what’s happening is not as easy as just saying, “Russia is bad so let’s punish her.” Sad to say, though, that’s where much thinking across the world is focused. Do something. Make it fast. Think about it later.

Another way to say it is that Russia is a major, global-scale source of key energy and industrial resources. These range from products straight from the well like crude oil and natural gas, to refined hydrocarbons like gasoline, diesel and chemicals.

Plus, Russia produces a vast array of industrially critical elements, again ranging from ores and concentrates to highly refined and processed alloys.

For example, as Russian sanctions kicked into play over the past few days the price of oil pulled up into a strong climb, with Brent Crude hitting $114 per barrel at one point. This reflects market uncertainty over future access to Russian exports. Meanwhile, one sees stories of tanker-loads of Russian oil going “no bid” because traders are uncertain about the legality of even making an offer. It’ll sort out, more or less. But for now, it’s a serious mess.

Other important commodities with a Russia-trade angle are also rising in price. Wheat futures are soaring to two-decade highs, according to market tracking services. And lumber futures are up sharply as well, reflecting concern over diminishing Russian supply.

Other materials rising in price include aerospace-grade aluminum, now at record levels according to a market follower with whom I spoke earlier. Meanwhile, a significant fraction of the world’s aerospace grade titanium – about 60% by some calculations – comes from Russia.

Or consider spot prices for other widely used, critical industrial elements like copper, nickel and uranium. All have a strong Russia supply angle, and all are at 10-year highs, per trading data.

You get the picture, right? Literally, overnight, anti-Russia sanctions have created uncertainty over future supplies of key energy resources and metals.

Meanwhile, share prices for important Russian producers have collapsed. Consider just two key companies in the Russian investment space, gas producer **Gazprom (OTC: OGZPY)** and metals producer **Norilsk Nickel (OTC: NILSY)**. Both companies' share prices have tumbled in recent days, as you can see here:

Is there an investment angle? Well, the possibilities are many and depend on your risk tolerance.

For the truly bold, the collapse of Russian share prices creates a contrarian setup. If you are aggressive, and perhaps a bit crazy, feel free to wade into the selloff and buy shares of Norilsk and Gazprom. Of course, we don't yet know what will happen as events unfold, so the "buy low" idea could also lead to even more losses, of not a complete wipeout. You've been warned.

Or frame it this way: Russia now has a very significant level of what's called "war risk" in everything that has to do with its investment climate. Perhaps there's an upside in the not-too-distant future, but for now the entire space is a very dangerous place to be for most investors.

The safer investment idea is to focus on U.S. and Canadian names that work in the resource space that's affected by Russian sanctions. Of course, there are many names out there ranging from small exploration plays to large and mighty companies.

For example, let's look at nickel. Large nickel producers include Brazilian play **Vale (NYSE: VALE)**, as well as Swiss-based **Glencore (OTC: GLNCY)** and Australia's **BHP Group Ltd. (NYSE: BHP)**. These names have global operations and everything you would want in a major player. If customers need nickel and cannot obtain it from Russia and Norilsk, they can buy it from these other guys.

On the much smaller, exploration side, though, my strongest play is a Canadian junior operating in Montana, called **Group Ten Metals Inc.** **(TSXV: PGE | OTCQB: PGEZF)**. This company is relatively early stage in its efforts, but with significant progress on the books. The play is focused within the well-regarded Stillwater District, where the company holds a massive land package. Exploration has already revealed extensive mineralization in copper, nickel, platinum, palladium, rhodium, gold, silver and even chrome. It’s a superb asset (I’ve visited the site and seen the mineralization), with strong technical and management talent.

It’s also worth noting that Group Ten holds lands directly adjacent to Sibanye-Stillwater, Ltd. (NYSE: SBSW), currently producing minerals in the region. This situation makes it more likely that Group Ten can eventually obtain necessary mining permits and move towards development and production.

To sum up, we can’t do anything about the tragic war in Ukraine. Meanwhile, the anti-Russia sanctions are a massive, international phenomenon, again out of our hands. But already these dynamics have set up severe supply chain issues, all based on just a few days of history being made. And more disruptions are, no doubt, in the pipeline as events unfold and politics play out.

Finally, looking ahead the world is not simply on a glide path to a new version of the Cold War. No, Western nations are on the path to a “Commodity War” scenario, firmly embedded inside the looming political, economic and perhaps military confrontations. In this sense, holding real assets – including ores in the ground – is critical to your investment future.

On that note, I rest my case.

That’s all for now… Thank you for reading.

Best wishes…

Byron W. King

Asset Class Winners and Losers if Russia Invades Ukraine

written by InvestorNews | February 28, 2023

As Russian troops gather at the Ukraine border a war looks imminent. U.S intelligence has warned that Russia is likely to invade Ukraine as early as this week. Investors can look at ways to protect and position their portfolio if the Russian invasion goes ahead, as is widely expected.

Based on the February 27, 2014, Russian invasion that took control of the Crimean Peninsula from Ukraine, any invasion may meet with limited resistance. The 2014 invasion and takeover of Crimea was completed in only a month. Of course, on this occasion the whole of Ukraine is at risk and the Ukrainian military response should be a lot greater.

Russia and Ukraine look to be on the brink of war

Russia – Ukraine War

Source: iStock

Sanctions on Russia will likely be the key response from the West

If Russia invades then the most likely outcome is that very heavy sanctions will be imposed on Russia by at least the U.S, UK, and the European Union. Goods and services likely to be sanctioned could be the import of any military hardware & software, semiconductors, smartphones, critical metals etc. There would also likely be financial sanctions that act to block western finance to Russia and Russian companies as well as US dollar transactions. Russian exports (with gas and perhaps oil excluded) may also be sanctioned, which could lead to price spikes in key commodities and metals (palladium, iron ore, nickel, aluminum, or uranium) that Russia exports. For example, the Russian company Norilsk Nickel is the world's leading palladium and nickel producer; the Russian company Rusal is a large global aluminum producer; and much of the world's uranium comes from Russia, and Russian controlled companies such as those operating in Kazakhstan.

Ukraine would also be heavily impacted by a Russian invasion, which would interrupt Ukrainian businesses. Ukraine is well known for its fuel and non-fuel resources production and mining industry, including natural gas, oil, coal, iron ore, chalk, limestone, and manganese ore. Manufacturing is also a major business in Ukraine and includes automotive, shipbuilding, aircraft & aerospace. Ukraine is also a strong agricultural producer that helps to feed Europe. Key Ukrainian agricultural products include corn, wheat, sunflower oil, sugar, dairy, meats, honey, and nuts.

Ways to protect your portfolio

Some of the safe havens in times of conflict include:

- Cash (U.S dollar, Japanese Yen, Swiss Franc).
- U.S Government bonds.
- Physical Gold, and quality gold producing mining

companies.
- Rotating some money out of risky assets.
- Reducing exposure to Europe.

Possible winners if Russia invades Ukraine

- Global energy companies due to increased price of oil and gas. Leading non-Russian gas and oil companies include Exxon Mobil Corporation (NYSE: XOM), BP plc (NYSE: BP), and Chevron Corporation (NYSE: CVX).
- Global metal companies (palladium, iron ore, nickel, aluminum, uranium). For palladium consider South African Sibanye Stillwater Limited (NYSE: SBSW). For iron ore and nickel consider Brazil's Vale S.A. (NYSE: VALE), or Australia's BHP Group Limited (NYSE: BHP). For aluminum consider China's Chalco (SHA: 601600) or America's Alcoa Corp. (NYSE: AA). For uranium consider Energy Fuels Inc. (NYSE American: UUUU | TSX: EFR) or Ur-Energy Inc. (NYSE American: URG | TSX: URE).
- Military related stocks as the West supports Ukraine and other parts of Europe with access to the latest weapons as a counter to Russian expansion in Europe. Consider the iShares U.S. Aerospace & Defense ETF (ITA) or the more aggressive Direxion Daily Aerospace & Defense 3X Shares ETF (DFEN). More details on the top defense stocks in my recent InvestorIntel article are here.
- Agricultural stocks. Given Ukraine is a food bowl of Europe, then any significant disruption to the Ukraine agricultural sector could force up prices for grains such as corn, wheat, and sunflower oil.
- Cybersecurity stocks may be a winner if Russia responds to the West with cyber-attacks. Consider buying the ETFMG Prime Cyber Security ETF (HACK).
- Inverse or Bear ETFs that short the market or the currency. As there is no current Russia short ETF

(Direxion Daily Russia Bear 3x Shares (RUSS) ETF closed in 2020) or short Russian ruble ETF to my knowledge, one option would be ProShares Short Euro (EUFX) or ProShares UltraShort Euro (EUO) for shorting the Euro currency. These are only suited to day trading and sophisticated investors.
- Shorting individual Russian stocks.

Possible losers if Russia invades Ukraine

- Russian ruble currency, Ukrainian currency (the hryvnia).
- Russian stocks and the Russian stock market index (eg: iShares MSCI Russia (ERUS)).
- Companies that have significant exports to, or revenues from, Russia as Russia may impose countersanctions or suffer a sharp slowdown. Examples include Veon (NASDAQ: VEON), Mobile TeleSystems (NYSE: MBT), EPAM Systems (NYSE: EPAM), Playtika (NASDAQ: PLTK), QIWI (NASDAQ: QIWI), and Ozon Holdings (NASDAQ: OZON).

Closing remarks

When Russia invaded Ukraine in 2014 the immediate impact saw the Russian stock market index fall ~11%, European stock indexes fell (Germany fell 3.3%), and the Russian ruble fell to a record low. US shares fell about 1.3% and money flowed into US bonds, gold and safe haven currencies. Rotating some funds from risky assets into safe havens right now looks to be a good idea.

Apart from what’s mentioned in the article, investors should also consider using any significant dip in global share markets as an opportunity to buy, as any contained Russia/Ukraine conflict should not have a lasting impact on the world. I will most likely use any market dip to top up on some of my favorites such as Alphabet Inc. (NASDAQ: GOOG) and Tesla Inc. (NASDAQ: TSLA), as well as some well valued EV metal miners.

Finally, there is also the risk that Russia backs down or de-escalates and we get no Ukraine invasion. In that case, most of the stocks and ETFs in this article are likely to fall back after a recent run up as invasion risks have been an issue for some months now.

At the rate of escalation, we should know what the outcome is probably within the next month or two. Feel free to post your thoughts and idea in the comments section below.

Can the palladium market continue to defy gravity?

written by InvestorNews | February 28, 2023

Palladium prices have risen from US$316/oz in January 2016 to US$2,329/oz today, representing an impressive 637% gain in just under 5 years. The big question investors want to know is where will the prices go from here? To get a feel for the answer, today I look at palladium supply and demand and what the industry expects.

Palladium prices have had an impressive rally since January 2016 up 637%

Source

2020 palladium supply vs demand forecast

Palladium supply decreased in 2020 due to COVID-19 related supply disruptions from South Africa, but palladium demand also weakened in 2020 due to a slowdown in conventional car sales due to COVID-19.

According to the world's largest palladium producer, Norilsk Nickel, 2020 global palladium supply is forecast to fall 14% and demand is forecast to fall 16%. Effectively balancing a market that was previously in deficit. This forecast suggests that palladium prices should remain relatively high in 2020, especially if auto demand continues to pick up in Q4, 2020.

Palladium (Pd) supply estimated to fall 14% and demand to fall an estimated 16% in 2020

Source

Mid term palladium demand continues to look strong as tightening auto-emissions rules are requiring larger volumes of palladium in exhaust systems (75% of palladium demand comes from catalytic converters). By 2030 onward 100% battery electric vehicles (EVs) may be taking significant market share that palladium auto demand begins to decline. At that point the EV and battery metals such as lithium, cobalt, copper, nickel, manganese and graphite should be doing very well as EV sales start to dominate.

In the mid term new palladium supply is expected to continue to be slow to come online as palladium is usually mined as a by-product of nickel or platinum mining. In the long term high palladium prices will most likely lead to more supply and some price reductions for palladium.

Best palladium performers on Sept. 30, 2020 from InvestorIntel's Palladium Watchlist

Source

A palladium company we have been watching lately is Canadian Palladium Resources Inc. (CSE: BULL | OTCQB: DCNNF | FSE: DCR1). Canadian Palladium is an exploration stage company that has a 100% interest in the East Bull Palladium Property in the Sudbury Mining Division in Ontario, Canada. The company recently found high grade palladium at their East Bull Palladium Property. Canadian Palladium also owns the Tisova Copper/Cobalt Project which gives them exposure to the EV metals market in the longer term. You can click the link below to read more.

- Canadian Palladium strikes high grade palladium at their East Bull Project

The palladium market continues to perform very well in 2020 despite COVID-19 related supply and demand issues. In the short term palladium demand should continue to recover as global auto sales recover. In the mid term palladium demand is expected to remain strong due to tightening emission standards globally. Norilsk Nickel forecasts the medium term outlook for palladium as neutral and the long term outlook as positive. Longer term, by 2030, palladium demand should begin to fall as we move faster to EVs and conventional internal combustion Engine (ICE) car sales decline rapidly.