



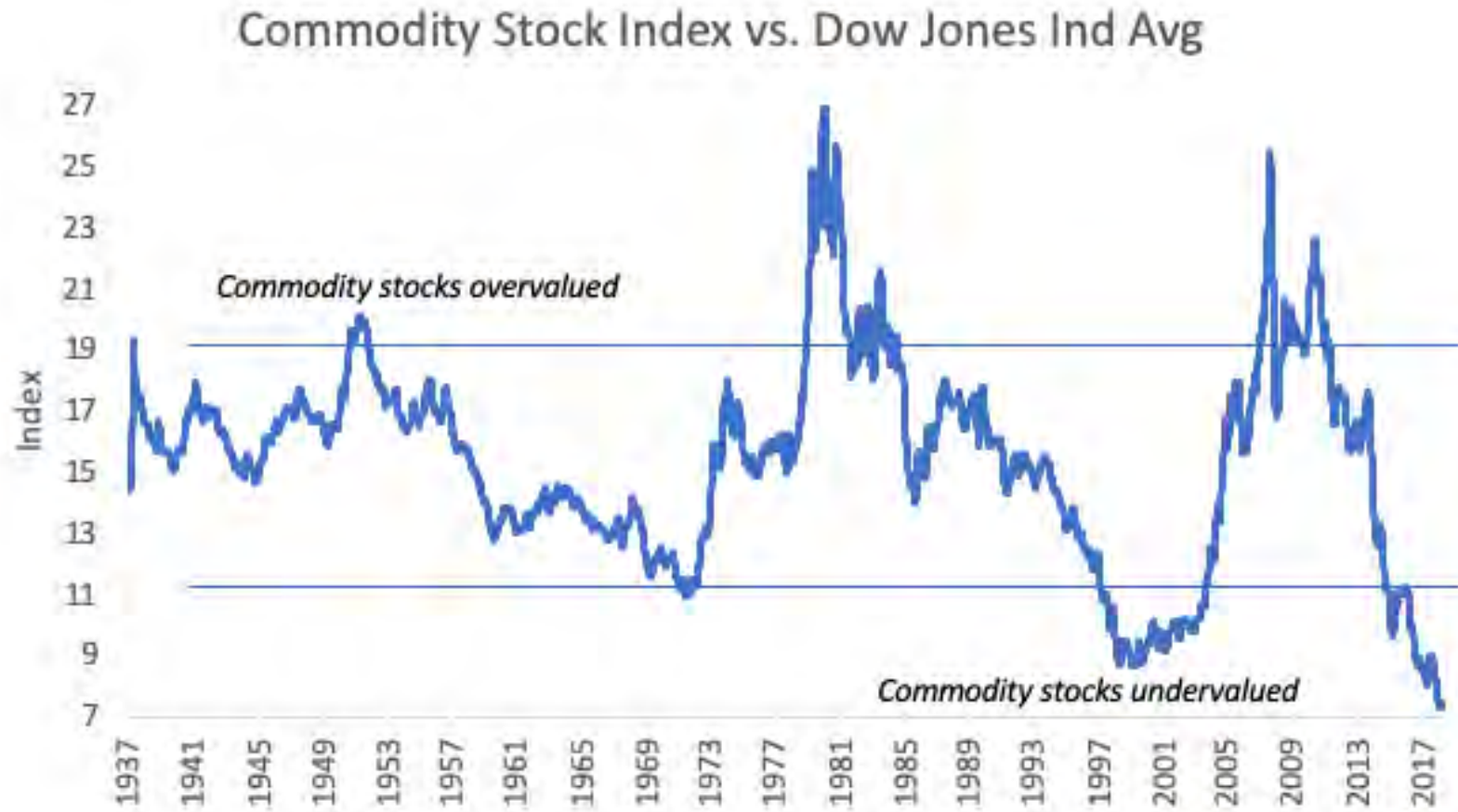
Macro Trends in Commodity Prices

Global Investment Strategy

Arab Mining Convention
Sultanate of Oman
Virtually Presented
23-26 February 2021

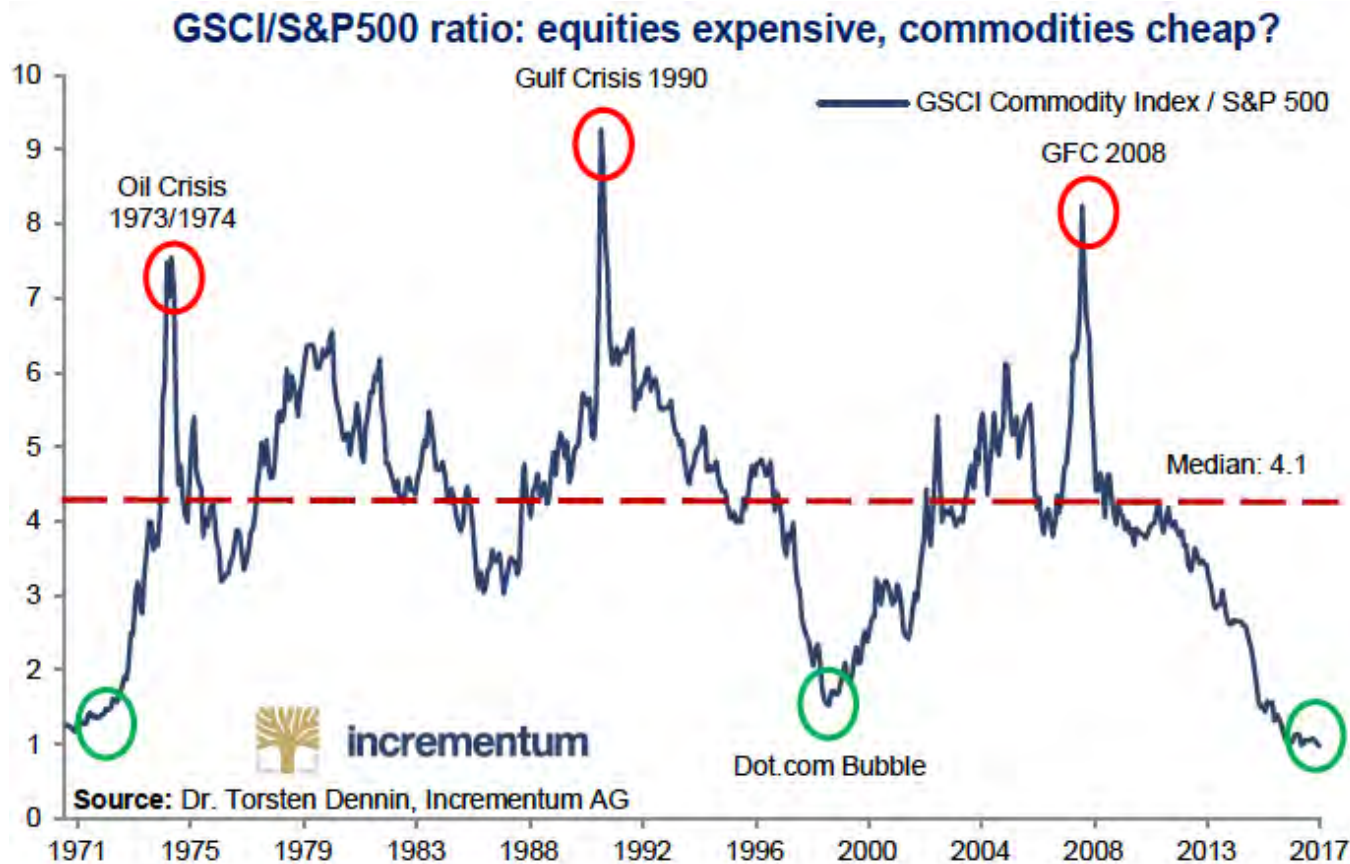
Fred Jones
Chief Financial Officer
Pan Pacific Resource Investments Ltd

Commodity Equities Cheapest in 83 Years – Since Great Depression



Source: Goehring & Rozencajg

Commodities Never this Inexpensive Since US Dollar Severed from Gold



Source: Incrementum AG

The 100-Year Cycle – Commodities STILL at Historically Low Valuation

Chart 1: 100 Years of Commodity Valuation

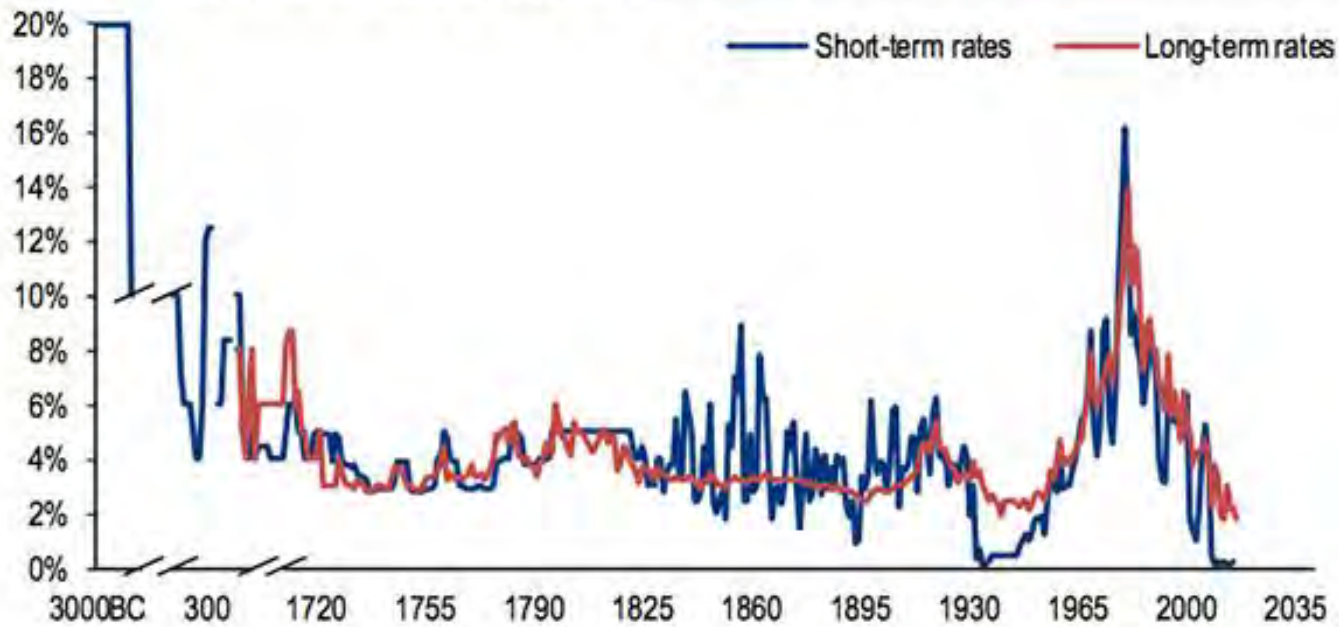


(1) Goldman Sachs Commodity Index to 1970. Goehring & Rozencajg Commodity Index pre-1970.
Source: Bloomberg, Goehring & Rozencajg Models.

Sources: Goehring & Rozencajg, Bloomberg

Interest Rates at Multi-Millennial Lows

Chart 1: The lowest interest rates in 5000 years

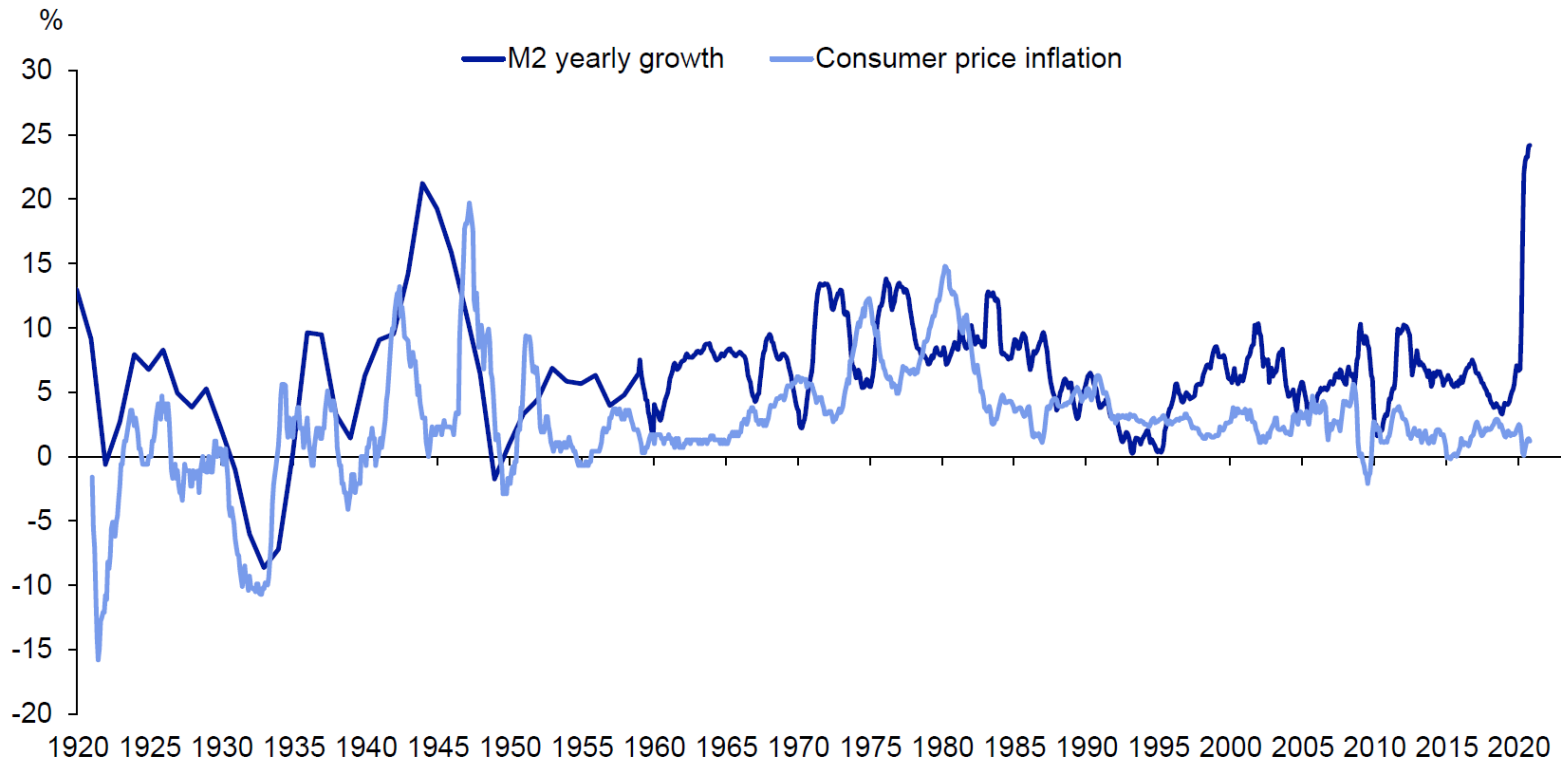


Source: BofA Merrill Lynch Global Investment Strategy, BoE, Global Financial Data, Horner and Sylla 'A History of Interest Rates'
Note: the intervals on the x-axis change through time up to 1700. From 1700 onwards they are annual intervals. Full methodology available upon request

Source: Bank of America Merrill Lynch

Money Supply Growth Leads to Consumer Price Inflation

Money Supply and Inflation in United States



Source: FRB, Historical statistics of United states, BLS, Haver Analytics, Deutsche Bank

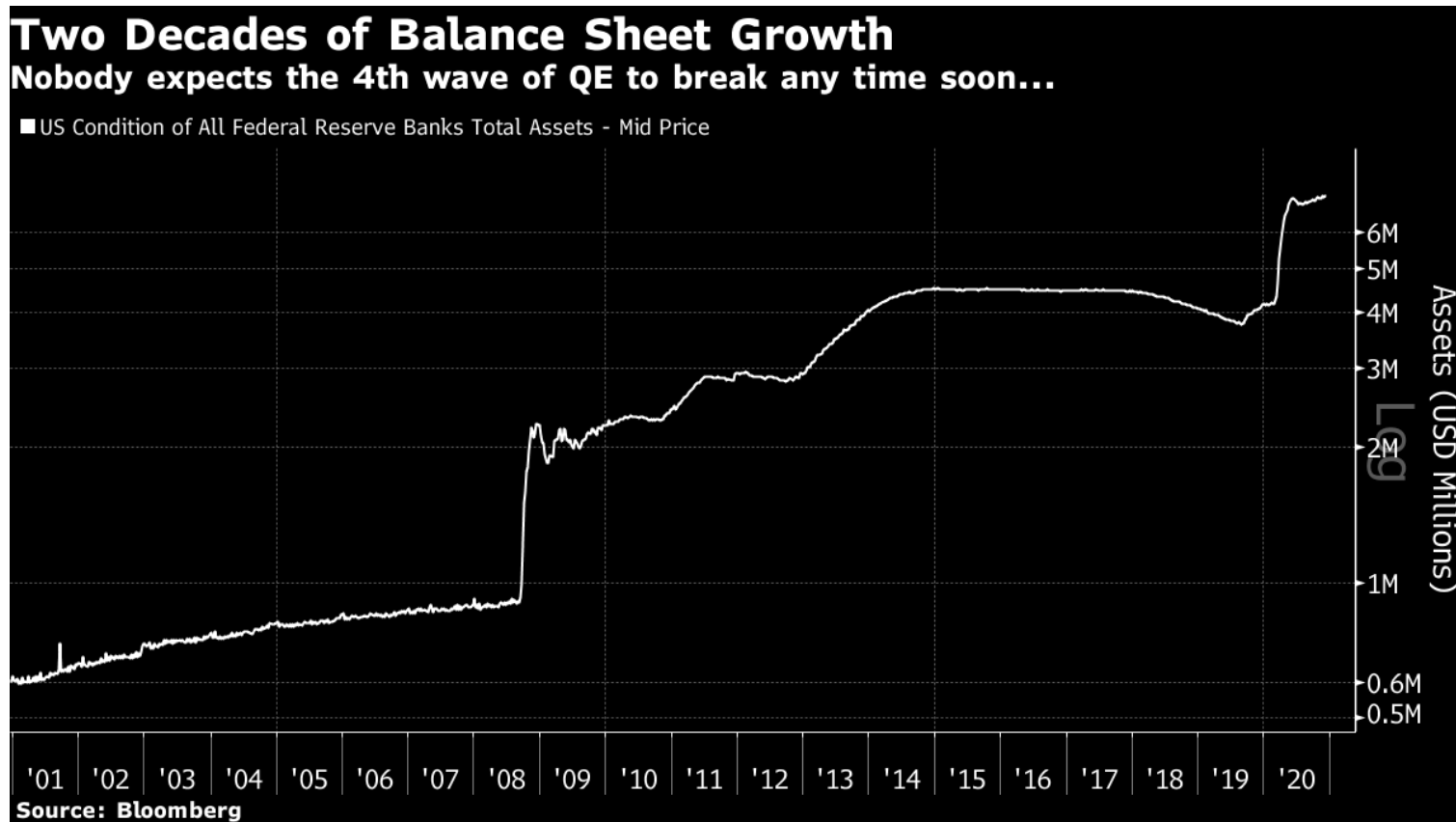
Source: Bloomberg

Financial Conditions in General are Extremely Accommodating



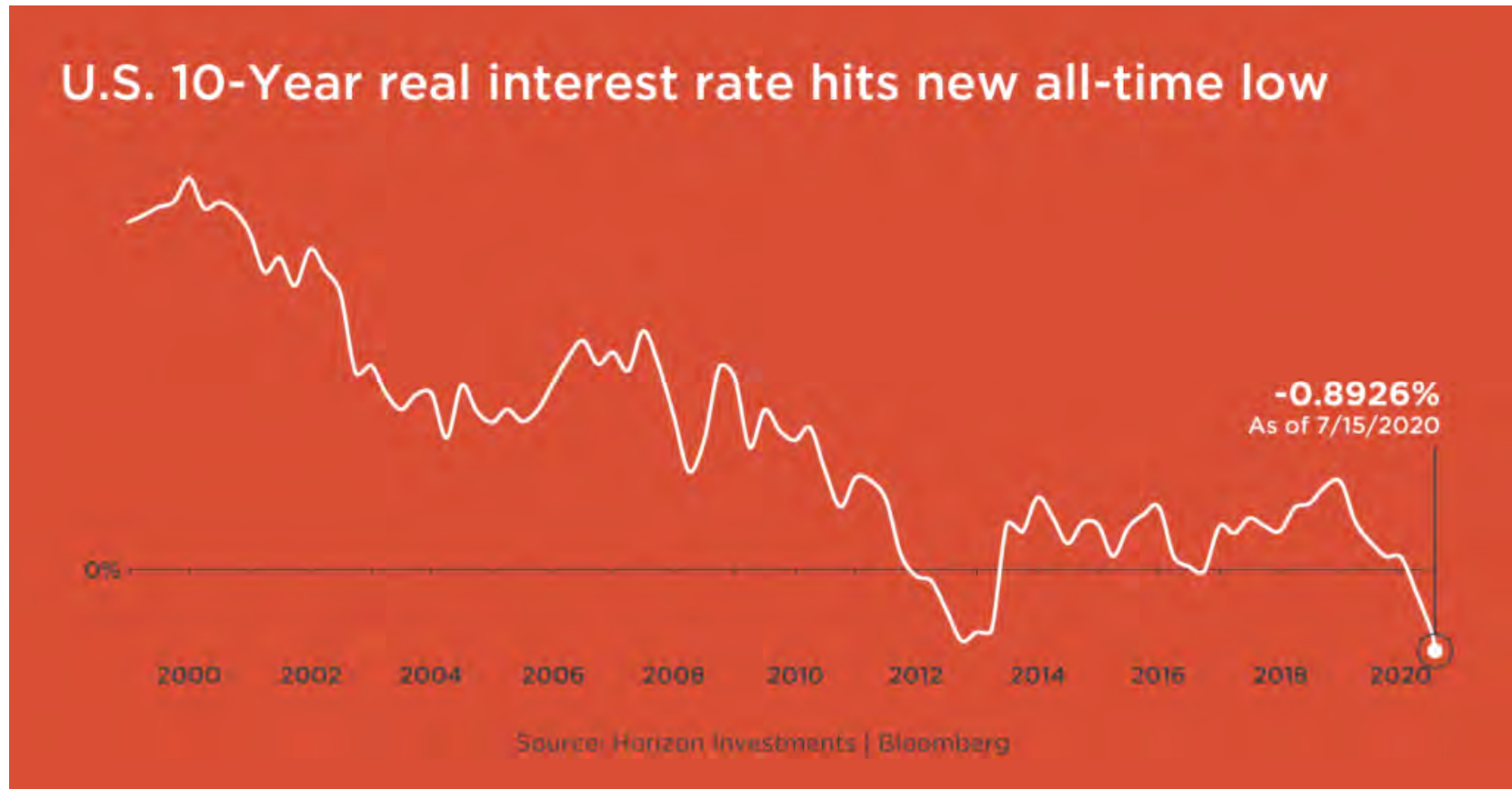
Source: Bloomberg

Two Decades of Fed Balance Sheet Growth Underpins Rising Financial Asset Prices



Source: Bloomberg

Real Rates Negative – Central Bank Policy Behind Inflation



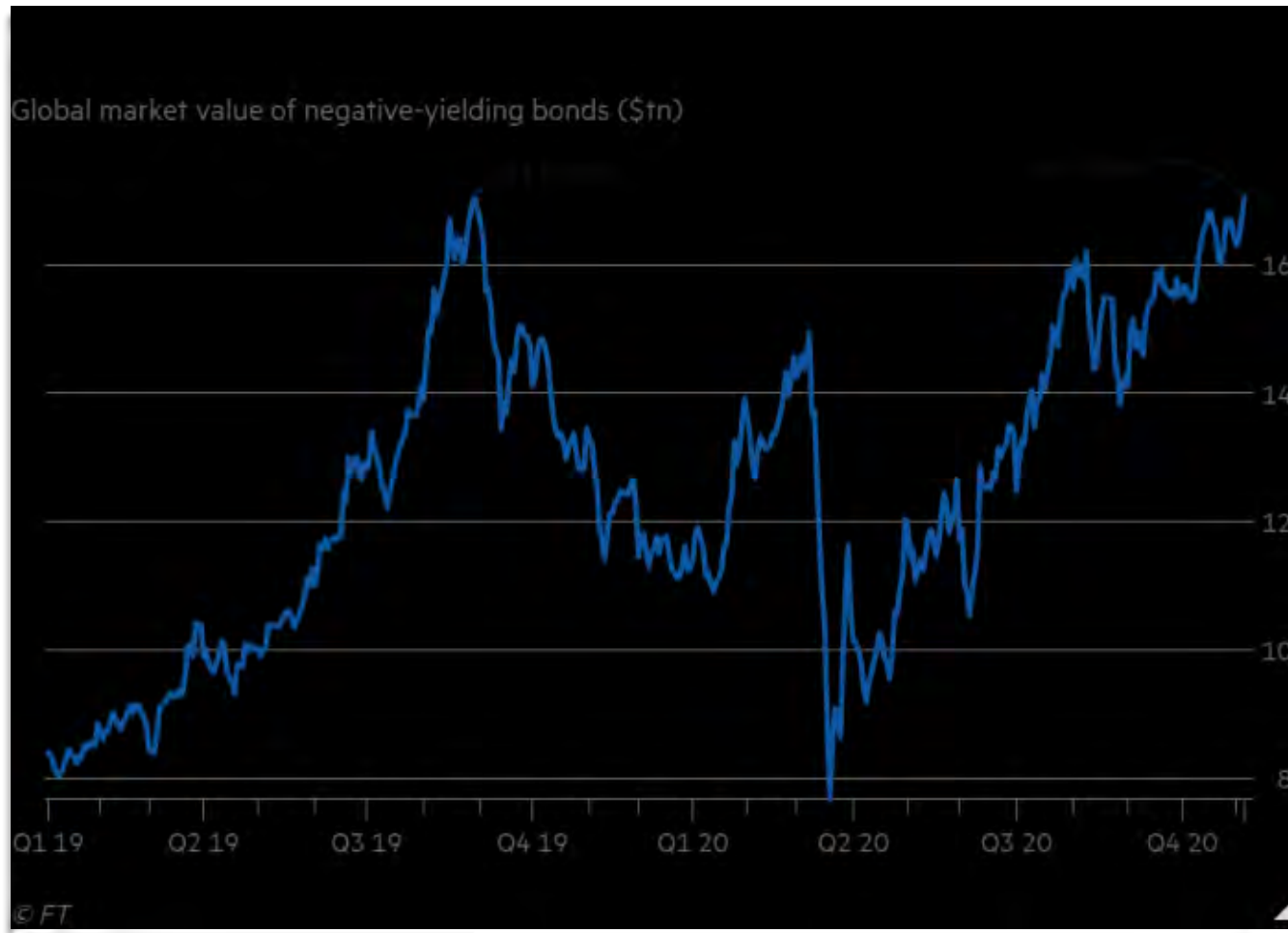
Sources: Bloomberg, Horizon Investments

Bond Market Appears to be Ignoring Inflation Signals



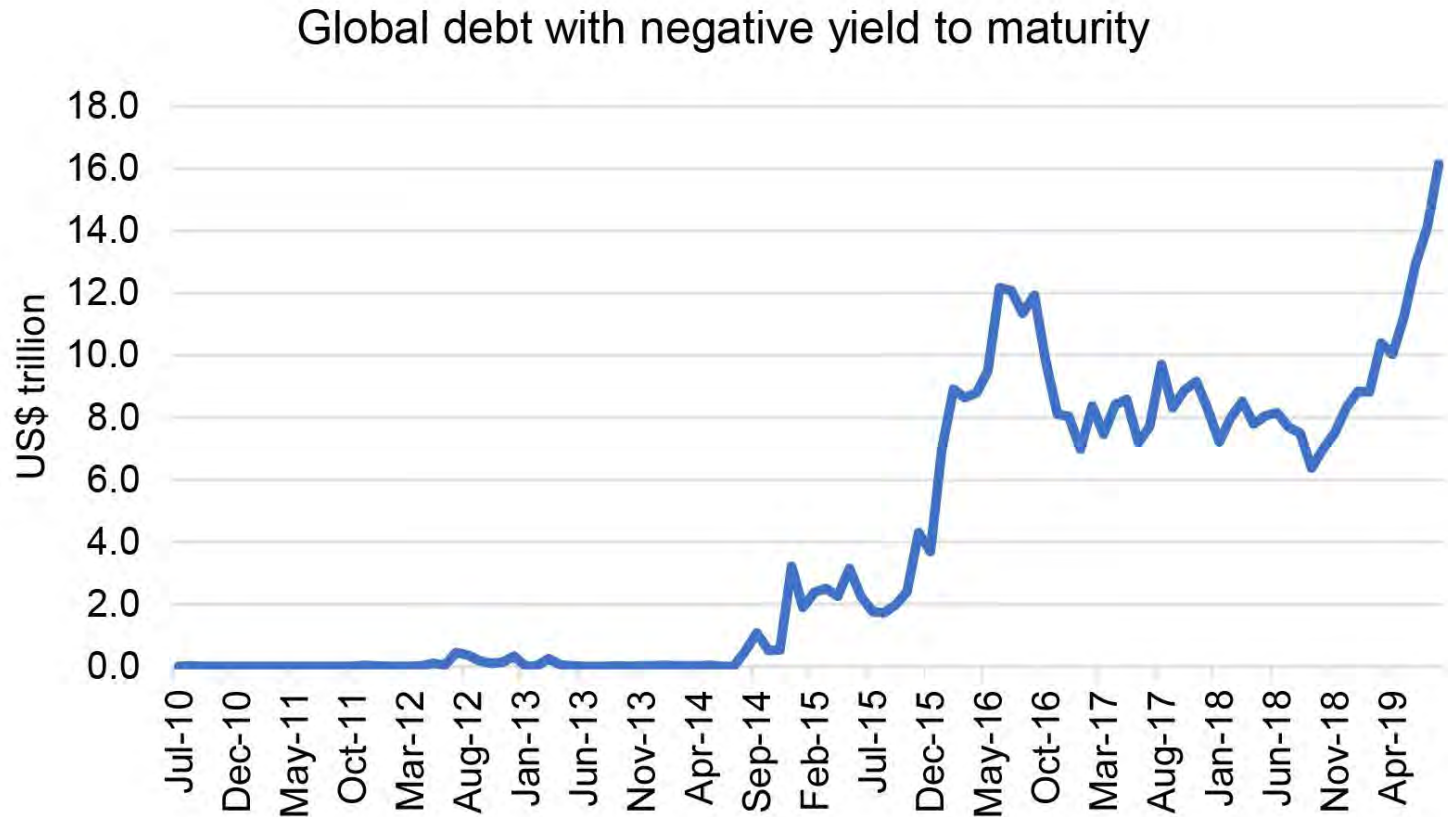
Source: Bloomberg

Negative-Yielding Debt Also at a Record



Source: Financial Times

Central Bank Policy Run Riot in Global Bond Market



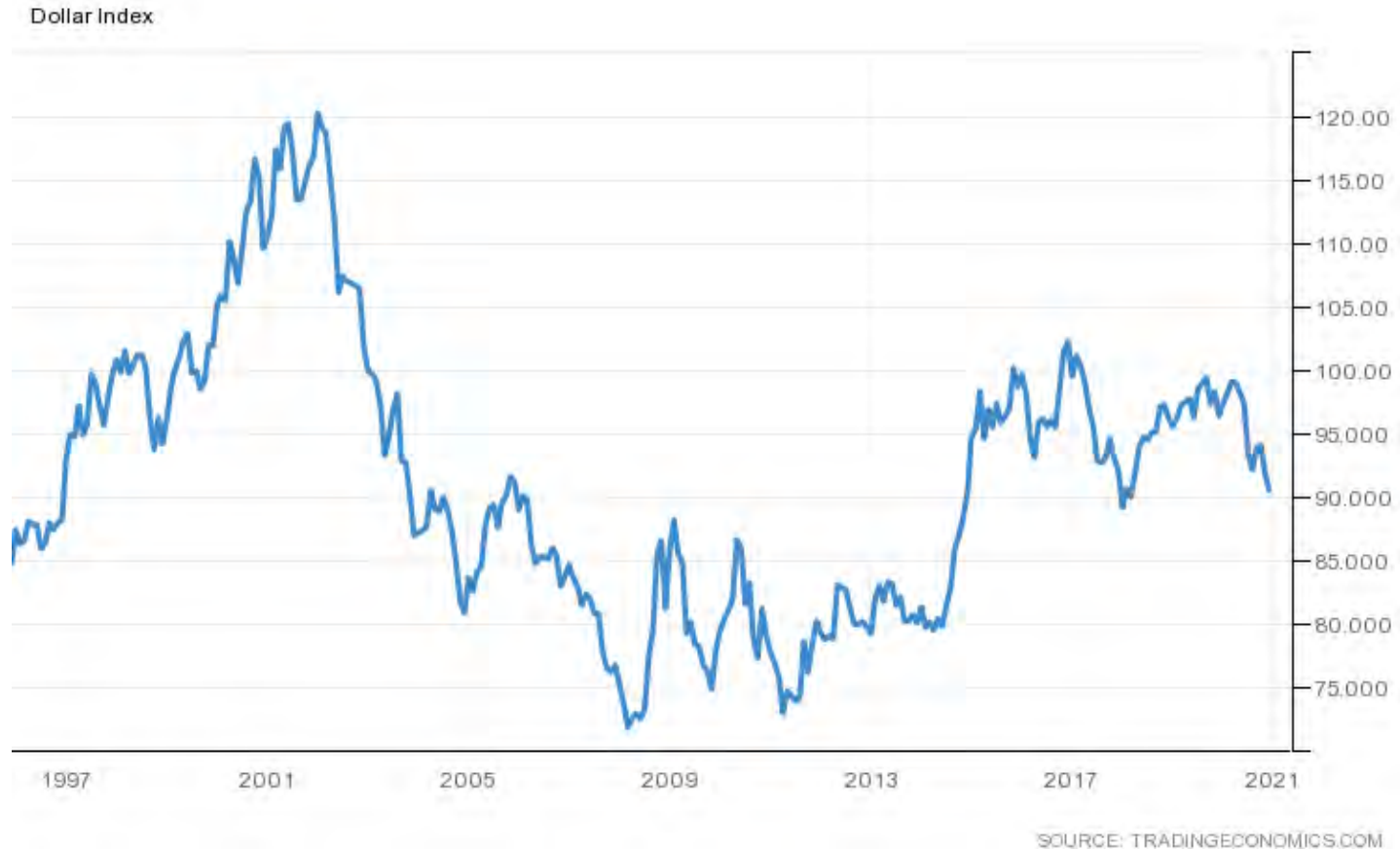
Source: Bloomberg, Quay Global Investors

Sources: Bloomberg, Quay Global

Some Observations....

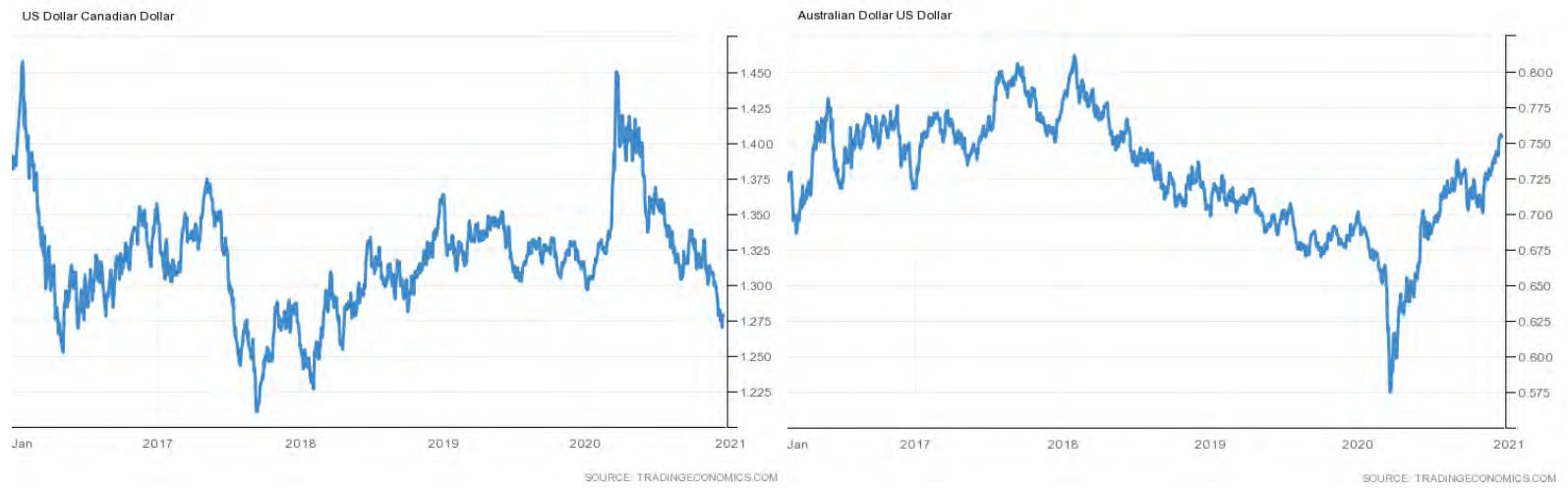
- Central banks are behaving as though consequences for irresponsible monetary policy do not exist; money supply sharply higher against a backdrop of globally repressed interest rates
- Persistently negative real rates are pressuring asset prices ever upward. Bonds, equities, and real estate are all selling at or near all-time highs
- Investment managers are increasingly forced for performance (and job security) reasons to establish/retain positions in asset classes or securities far beyond legitimate exit levels; this is resulting in style drift and concentration issues
- COVID-19 is being used as a convenient justification for continued extreme fiscal and monetary easing; intermediate/longer term this will have consequences that are difficult to quantify
- Commodities have been largely left out of the asset inflation. Valuations relative to equities are at historic lows as capital flows appear to bypass this asset class; earliest indications are that this situation may be changing

Longer Term, Pressure Appears to Downward on the Dollar



Source: Trading Economics

Commodity-Linked Currencies Appearing to Project Future Commodity Strength (5-Year CAD and AUD vs USD)



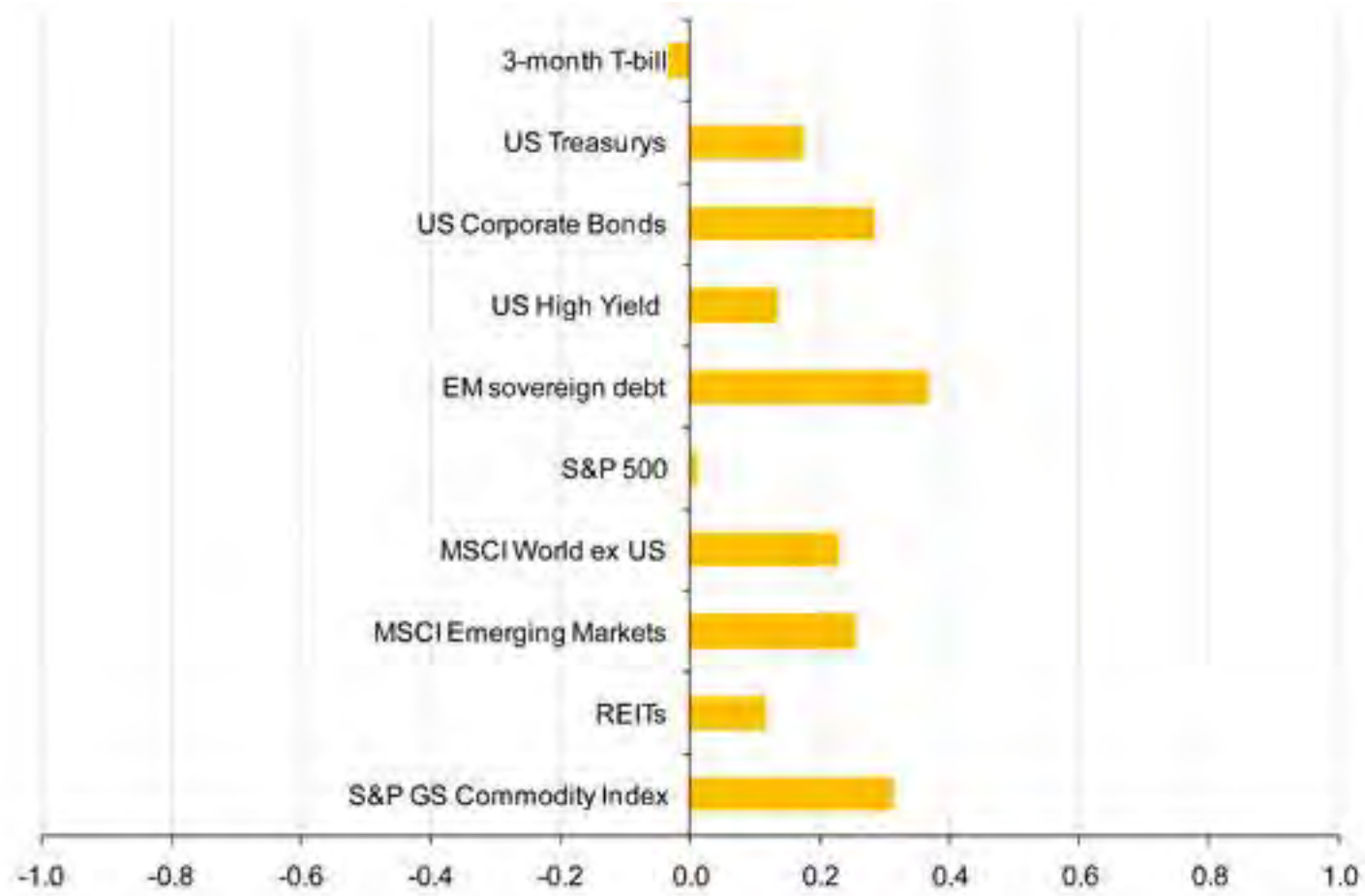
Source: Trading Economics

Metals and Metals Equities Deeply out of Favour



Source: Decisionnext.com

Gold's Low Correlation to Other Assets is Attractive



Source: Bloomberg, Barclay's, JP Morgan, WGC calculations

Source: Forbes

S&P/TSX Venture Exchange Index, 2002-2020



Source: Globe & Mail

In Review

- Central banks have, in our view, crossed the point of “no-return” in that they cannot raise rates otherwise there will be untold financial and economic damage. We may have reached the point of endgame
- Financial repression has gone into overdrive; long- and short-term interest rates are at multigenerational lows, and central banks increasingly express their desire to keep them there
- Monetary authorities have now pushed real rates negative, in addition to US\$19 trillion in negative-yielding securities globally
- Equities, bonds and real estate have inflated dramatically over the past few decades; this has mirrored the 40-year downtrend in long-term rates. These asset classes will be devastated when the nominal rates trend reverses course
- Commodity-related currencies have been exhibiting strength despite international yield spreads being nearly nonexistent; we believe this is reflective of nascent financial interest in commodities as an asset class
- Although we believe that a dollar collapse is not imminent, growing pressure on the dollar against G7 currencies (which have similar if not greater challenges) indicates deeper issues beyond observed economic weakness
- By most every metric, commodities are cheap relative to competing asset classes as well as to their own long-term price histories
- Commodities appear to be poised to benefit from an historic inflow of global capital

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