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FAR EAST CAPITAL
The Mining Investment Experts

**Weekly Commentary**

12 March 202. *Chart comments not updated since 5th March due to travel in the USA* Analyst : Warwick Grigor

# Markets are still on a learning curve with respect to the Ukraine conflict and sanctions

The Ukrainian War continues to cause havoc in our markets with investor conviction being challenged by extreme volatility in commodity prices. The surge in the gold price last week was short-lived and heavy profit taking in the oil market flowed through to equity markets. Even though commodity prices have generally been stronger, and this should lead to higher share prices, the correlation has been inconsistent.

Where are we going with this war? So far it doesn't seem to be working for any party. On the one hand some people are saying Putin is delusional, but perhaps he could be better described as a risk-preferring leader - a player of ever-higher-stakes. In recent years, drawing upon his experience in Syria, he has learnt that boldness, surprise, and playing on his opponents' fears of a wider war are the keys to getting what he wants. He can stomach risks that other leaders can't. That makes him unpredictable as he toys with the West like a cat toys with a mouse. Our markets do not like the feeling of sand shifting around their feet and again we note that this erodes any conviction that might give us confidence.

A couple of weeks ago we provided an overview of commodities that will be affected by trade sanctions. Nickel and palladium are probably the two most critical metals for which there is no real short term alternative. Gold and oil prices will bounce around, but there is not the same level of volume and trading in nickel and platinum group metals, so their upward price movements are likely to be more sustainable. They are very strategic with Russia accounting for about 30% of these markets.

The news that US inflation hit 7.9% last week, as measured by the CPI, reminds us that this inflationary surge is not over yet. The central banks told us that the inflation was caused by temporary supply shortages as they tried to placate inflationary expectations, but the Ukrainian War has shifted the goalposts beyond their expectations. The obvious acceleration of inflation is coming from oil and gas prices but factor in the emerging shortages of other commodities caused by the War and you cn see that central banks are quickly losing control of the agenda.

Rising wheat prices are rapidly becoming a serious issue. Expect the turmoil in markets to provide ever increasing challenges. Gold will continue be volatile but that translates into trading opportunities.

## *Uranium in the spotlight*

The uranium price has spiked 36% to US$60/lb since the Ukraine War started, driven by sanctions on Rosatom, the Russian state-owned nuclear energy company that supplies 42% of the world's refining capacity. In 2020, 16% of US uranium purchases came from Russia. These economic sanctions are going to send more ripples, or waves, through many aspects of the uranium sector.

## *West Wits falls on release of Scoping Study*

It seems to be a continuing trend that West Wits (WWI) releases a very detailed study with as much information that anyone could want, and then the share price falls. This was exacerbated last week with the ASX released entitled *"Sustainable Profitability for WBP Development Confirmed Through Financial Analysis",* and the entire front page was consumed by a cautionary statement. I'm sure this was imposed upon WWI by the ASX, so it is difficult to criticise the Company for its inclusion, but it was not a good look for shareholders. It totally compromises the message in a positive ASX release when the font pages is all about cautions and warnings.

## *Numbers continue to demonstrate excellent value*

Once again we are obliged to highlight the key points that should be taken on board by shareholders;

- 27 year mine life averaging 65,000 oz p.a.(and up to a maximum 92,000 oz in Year 6
- All in sustaining costs (AISC) of US$1,138/oz for 72% of expected production, above depths of 800m
- study assumes US$1,750/oz, well below recent gold prices
- ore will be trucked to nearby treatment plants (10-15 km), alleviating WWI from the need to outlay capital on new processing plant

## *Keep your eye open for initiatives on the uranium …*

Without wishing to complicate the outlook, you need to note the uranium (and gold) potential of the Bird Reef Central. There are no firm plans as to what WWI will do with these orebodies but they remain as potentially very valuable, independently located resources that could provide exposure to the uranium boom that some market pundits are highlighting.

## *… and the possibility of upscaling to 200,000 oz p.a.*

Another source of speculative interest will be Project 200, which aims to increase production to 200,000 oz per annum by increasing the Qala Adits throughput capacity. This will require separate consideration and commentary when more information comes through.

## *Capex funding will be procedural*

It is good that WWI has undertaken as much study and evaluation as it has, and that such information has been released to the ASX. It is out there for everyone to see, but there are very few trading-type investors who have the time to read and understand such detail. This causes decisions to be made on emotive input rather than objective analysis.

Here, one shareholder made the comment that the market is reading into the announcement the need to raise more capital, and the typical knee-jerk is to sell ahead of a raising. While more capital will be needed, there is no need for this to cause panic. Gold companies have a wide range of options when it comes to funding. There is no need to be over-dependent upon the equities market, especially when the bullion market is s strong as it has been recently.

### *The bottom line*

You can read through the favourable NPVs at different gold prices as stated in the Scoping Study, but the bottom line is that there continues to be excellent fundamental value. There is nothing standing in the way anymore, so expect the share price to strengthen from here as gold production ramps up.

*Disclosure: Interests associated with the author own shares in West Wits and FEC has received capital raising fees in the past.*

## *More on Carbon Credits*

We have been digging deeper into the carbon credits market with the focus being on the voluntary market rather than the regulated market. The **regulated market** has structure and pricing from government legislation whereas the **voluntary market** is still essentially a laissez faire domain. Credits from the regulated sector are priced much more highly than the voluntary market, but the spread is expected to narrow as the voluntary market gains more depth and clarity.

The biggest issue in the voluntary market that needs to be addressed over the next few years is whether credit should be given to removal of carbon, or the avoidance of carbon, or both. The former will restrict supply and cause a more rapid appreciation of the carbon credit price. That is obvious economics.

I studied a 70 page article released by Bloomberg on 10 January 2022. It was notable for the very wide range of scenarios that it was considering as possible, but that is not really very helpful in giving us clarity and direction. I have summarised the paper and released it with the Weekly as a separate document, for those who wish to read it rather than labour through the original paper. The most pertinent part of the summary is the section titled Key Points and Commentary. I must admit though, that there is a strong degree of intangibility surrounding the whole concept. It seems like everyone is still feeling around in the dark.

*NB: There is no update to the chart comments or the Sentiment Oscillator due to the author being in the USA, primarily on family business, for the rest of March. For those of you who don't appreciate it, the charts are done with pencil and paper, consuming up to an hour each day i.e. hand drawn, not computerised. The folder is too bulky to carry around the globe.*

## Detailed Chart Comments

*NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.*

| Indices | Code | Trend Comment | |
|---|---|---|---|
| All Ordinaries | XAO | still in downtrend | |
| Metals and Mining | XMM | testing downtrend | |
| Energy | XEJ | punched higher, above uptrend channel | |
| Information Technology | XIJ | rallying | |
| **Stocks** | **Code** | **Trend Comment (updated comments in bold)** | **Main Interest** |
| Alpha HPA | A4N | pullback | HPA |
| Adriatic Resources | ADT | continuing down | zinc, polymetallic |
| Alkane Resources | ALK | stronger | gold |
| Alicanto Minerals | AQI | downtrend | base metals, silver, gold |
| Altech Chemical | ATC | down | HPA, anodes |
| Alto Metals | AME | sideways | gold exploration |
| American Borates | ABR | recapturing uptrend | borate |
| American Rare Earths (was BPL) | ARR | off its highs | rare earths |
| Antilles Gold | AAU | testing downtrend | gold |
| Arafura Resources | ARU | rising | rare earths |
| Ardea Resources | ARL | pullback | nickel |
| Aurelia Metals | AMI | new uptrend | gold + base metals |
| Australian Potash | APC | heavy fall | potash |
| Australian Rare Earths | AR3 | down | rare earths |
| Auteco Minerals | AUT | rallying | gold exploration |
| Azure Minerals | AZS | on support line | nickel exploration |
| BHP | BHP | breeched uptrend | diversified, iron ore |
| Beach Energy | BPT | new uptrend confirmed | oil and gas |
| Bellevue Gold | BGL | down | gold exploration |
| Benz Mining | BNZ | new low | gold |
| Blue Star Helium | BNL | down | gas, helium |
| BMG Resources | BMG | new low | gold exploration |
| Boab Metals | BML | in a secondary downtrend | silver/lead |
| Breaker Resources | BRB | heavy fall from highs | gold exploration |
| Buru Energy | BRU | testing uptrend | oil |
| Calidus Resources | CAI | on support line | gold |
| Capricorn Metals | CMM | surge to new high | gold |
| Caravel Minerals | CVV | slump | copper |
| Celsius Resources | CLA | testing short-term uptrend | copper |
| Chalice Mining | CHN | down | nickel, copper, PGMs, gold exploration |
| Chesser Resources | CHZ | rallied off lows | gold exploration |
| Cobalt Blue | COB | surge to new high | cobalt |
| Cyprium Metals | CYM | rallied to meet resistance line | copper |
| Danakali | DNK | downtrend accelerating | potash |

| | | | | |
|---|---|---|---|---|
| De Grey | DEG | | on support line | gold |
| E2 Metals | E2M | | down | gold exploration |
| Ecograf | EGR | | down | graphite |
| Element 25 | E25 | | down | manganese |
| Emerald Resources | EMR | | rising again | gold |
| Empire Energy | EEG | | holding uptrend | gas |
| Euro Manganese | EMN | | down | manganese |
| Evolution Mining | EVN | | breached uptrend | gold |
| Firefinch | FFX | | breached uptrend | gold |
| First Graphene | FGR | | testing uptrend | graphene |
| Fortescue Metals | FMG | | testing uptrend | iron ore |
| FYI Resources | FYI | | down | HPA |
| Galena Mining | G1A | | still down | lead |
| Galilee Energy | GLL | | down | oil and gas, CBM |
| Genesis Minerals | GMD | | surged higher after consolidation | gold |
| Genmin | GEN | | new uptrend | iron ore |
| Global Energy Ventures | GEV | | testing downtrend | hydrogen |
| Gold Road | GOR | | testing downtrend | gold |
| Great Boulder Resources | GBR | | rising | gold exploration |
| Hastings Technology Metals | HAS | | testing uptrend | rare earths |
| Hazer Group | HZR | | bounce back to resistance line | hydrogen |
| Highfield Resources | HFR | | back to resistance line | potash |
| Hillgrove Resources | HGO | | long term uptrend | copper |
| Iluka Resources | ILU | | breached downtrend, back to highs | mineral sands |
| Image Resources | IMA | | new uptrend | mineral sands |
| Independence Group | IGO | | new high | gold |
| ioneer (was Global Geoscience) | INR | | slump | lithium |
| Ionic Rare Earths (Oro Verde) | IXR | | recovering long term uptrend | rare earths |
| Jervois Mining | JVR | | shallower uptrend | nickel/cobalt |
| Jindalee Resources | JRL | | strong rally | lithium |
| Kingston Resources | KSN | | rallying | gold |
| Kingwest Resources | KWR | | breached uptrend sideways | gold |
| Legend Mining | LEG | | down | nickel exploration |
| Lepidico | LPD | | testing steepest uptrend | lithium |
| Lindian Resources | LIN | | surge higher | bauxite |
| Lion One Metals | LLO | | spike higher | gold |
| Los Cerros | LCL | | rallied to hit resistance line | gold exploration |
| Lotus Resources | LOT | | holding long term uptrend | uranium |
| Lucapa Diamond | LOM | | shallow downtrend | diamonds |
| Lynas Corp. | LYC | | sharp pullback | rare earths |
| Magnetic Resources | MAU | | shallow downtrend | gold exploration |
| Mako Gold | MKG | | breaching support | gold exploration |
| Marmota | MEU | | sideways | gold exploration |
| Marvel Gold | MVL | | breached uptrend | gold exploration |

| | | | | |
|---|---|---|---|---|
| Matador Mining | MZZ | | rallied to hit resistance line | gold exploration |
| Mayur Resources | MRL | | slump to new low | renewables, cement |
| Meeka Gold | MEK | | strong rise but still LT downtrend | gold |
| Megado Gold | MEG | | new low | gold exploration |
| Meteoric Resources | MEI | | still falling | gold exploration |
| MetalsX | MLX | | new high | tin, nickel |
| Metro Mining | MMI | | new uptrend confirmed | bauxite |
| Mincor Resources | MCR | | new high | gold/nickel |
| Mithril Resources | MTH | | down | gold/silver |
| Musgrave Minerals | MGV | | testing downtrend | gold exploration |
| Neometals | NMT | | testing uptrend | lithium |
| Northern Minerals | NTU | | rising | REE |
| Northern Star Res. | NST | | breached downtrend | gold |
| Nova Minerals | NVA | | heavy slump | gold exploration |
| Oceana Gold | OGC | | breaching downtrend | gold |
| Oklo Resources | OKU | | down | gold expl. |
| Orecorp | ORR | | down | gold development |
| Oz Minerals | OZL | | back to support line | copper |
| Pacific American | PAK | | back to lows | coking coal |
| Pantoro | PNR | | surge higher | gold |
| Panoramic Res | PAN | | on support line | nickel |
| Peak Minerals | PUA | | new low | copper exploration |
| Peak Resources | PEK | | broken down through support line, but rebound | rare earths |
| Peel Mining | PEX | | down | copper |
| Peninsula Energy | PEN | | on support line | uranium |
| Poseidon Nickel | POS | | sideways | nickel |
| Perseus Mining | PRU | | good bounce | gold |
| PVW Resources | PVW | | steep rise | rare earths |
| Queensland Pacific Metals | QPM | | down | nickel/cobalt/HPA |
| Red River Resources | RVR | | still down | zinc |
| Regis Resources | RRL | | out of downtrend | gold |
| Renergen | RLT | | on support line | gas, helium |
| RIO | RIO | | new uptrend | diversified, iron ore |
| Rumble Resources | RTR | | breached downtrend | gold exploration |
| S2 Resources | S2R | | consolidating after steep rise | gold exploration |
| St Barbara | SBM | | testing downtrend | gold |
| Sandfire Resources | SFR | | breached uptrend | copper |
| Santos | STO | | breached downtrend | oil/gas |
| Saturn Metals | STN | | breached ST downtrend, but still in LT one | gold exploration |
| Silex Systems | SLX | | sideways through downtrend | uranium enrichment technology |
| Silver Mines | SVL | | sideways | silver |
| South Harz Potash | SHP | | slump | potash |
| Stanmore Coal | SMR | | hitting resistance line | coal |
| Strandline Resources | STA | | slump | mineral sands |

| | | | | |
|---|---|---|---|---|
| Sunstone Metals | STM | | downtrend | exploration |
| Talga Resources | TLG | | still down | graphite |
| Technology Metals | TMT | | down | vanadium |
| Tesoro Resources | TSO | | new low | gold exploration |
| Theta Gold Mines | TGM | | down | gold |
| Thor Mining | THR | | downtrend breached | gold exploration |
| Tietto Minerals | TIE | | strong rise | gold |
| Titan Minerals | TTM | | breached downtrend | gold |
| Turaco Gold | TCG | | downtrend | gold exploration |
| Vanadium Resources | VR8 | | back to highs | vanadium |
| Vimy Resources | VMY | | testing downtrend | uranium |
| West African Resources | WAF | | new high | gold |
| Westgold Resources | WGX | | new uptrend being tested | gold |
| West Wits Mining | WWI | | risen to meet resistance line | gold |
| Whitehaven Coal | WHC | | secondary uptrend | coal |
| Wiluna Mining | WMC | | **breached uptrend** | gold |
| Yandal Resources | YRL | | breached uptrend | gold exploration |
| Zenith Minerals | ZNC | | surge to new high | gold exploration |
| Zinc Mines of Ireland | ZMI | | sideways | zinc |
| Totals | 34% | 48 | Uptrend | |
| | 38% | 53 | Downtrend | |
| | | 141 | Total | |

**Guides to Chart Interpretations**

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

**Weightings of Sectors Represented in the Company Charts**

| Sector | No. of Companies | Weighting | |
|---|---|---|---|
| Gold | 31 | 22.0% | |

| | | | |
|---|---|---|---|
| Gold Exploration | **24** | **17.0%** | |
| Nickel | **11** | **7.8%** | |
| Copper | **10** | **7.1%** | |
| Rare Earths | **9** | **6.4%** | |
| Oil/Gas | **7** | **5.0%** | |
| Iron Ore/Manganese | **6** | **4.3%** | |
| Lithium | **4** | **2.8%** | |
| Potash/Phosphate | **5** | **3.5%** | |
| Graphite/graphene | **4** | **2.8%** | |
| Uranium | **4** | **2.8%** | |
| Zinc/Lead | **4** | **2.8%** | |
| Mineral Sands | **3** | **2.1%** | |
| Silver | **3** | **2.1%** | |
| Coal | **3** | **2.1%** | |
| Bauxite | **2** | **1.4%** | |
| Cobalt | **1** | **0.7%** | |
| Tin | **1** | **0.7%** | |
| Diamonds | **1** | **0.7%** | |
| Other | **8** | | |
| Total | **141** | | |

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