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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

14 December 2024 *Chart comments updated on Friday's close* Analyst : Warwick Grigor

Reflecting on the market as we approach Xmas

Activity is starting to slow down as we approach Xmas. So far we have not seen any evidence of a pre-Christmas rally. On the contrary, the junior end has fallen further as funds have been drained by another spate of capital raisings as companies try and refresh the kitty while people are still at their desks. Raising money in January is never easy so there is a last minute rush now.

On the big picture the gold price continues to rise and markets are being positively influenced by a backdrop of expectations of interest rate easings. We are still in an extended bull market with the exception being the junior end.

How long will the bears dominate the juniors? this end could be underperforming for another two years under the weight of placements and a lack of FOMO. This would fit in with the larger, 10-12 year cycle that seems relevant. The last time we had a market like this was 2010 to 2013. Resource equities fell on average by 80%, excluding BHP, Iluka, RIO and Santos. We are seeing something similar now. Eventually the market recovers but it takes new blood and new money to turn the market around. This happens gradually and cautiously, not overnight, but where will the new blood come from this time?

With such catastrophic falls in share prices the average portfolio has suffered crippling losses. Not only has the funds available for investing shrunk dramatically but confidence of investors has been shattered. The greatest falls have been in the new age and alternative energy stocks where enthusiasm was once exuberant. The only exception to the despair is the gold sector which continues to benefit from record gold prices.

Where will the new money come from?

Investors are always wiser after a bear market. Those that have preserved some funds will gradually regroup and look for more tangible value. Australia is a land of punters so the need to gamble will eventually bring new players into the market. The younger ones will be more fearless while many survivors will be more cautious, having learnt the business the hard way.

Over time we will see family offices playing bigger roles, especially where fundamentals are concerned. These organisations deal in larger unit sizes and have a longer term perspective. They will be attracted by real growth opportunities rather than hot trading ideas. However, these offices are often in their infancies in terms of how they operate and how they assess opportunities.

A family office usually has a titular head who has been responsible for the creation of substantial value from operating businesses. Perhaps the best example of this is the Forrest Group with Andrew still being the King of the Castle, backed up by an extensive court of advisors and analysts. The politics in getting through this pack of courtesans to reach the man with the "smarts", who is capable of perceiving real value and making decisions, is indeed a challenge.

Unless they are born "gifted", it takes many years for a person to become a smart analyst and to develop serious business acumen. Intelligence on its own is not enough. Yet, the family offices have a proliferation of beginners who act as gatekeepers. You have to deal with them in the first instance, and then you have to get the attention of the real decision makers.

Family offices are just starting to get established as a recognisable category of investors in Australia. Unlike the USA, where there is a much larger market and the sector has been around long enough to have developed serious business models with highly skilled professional management, the Australian family office sector is still learning the ropes.

There are many business opportunities in Australia that end up going to the stock market prematurely due to the lack of access to funds. Once listed on the market the imperative changes from sensible long-term investment criteria to short-term survival. Pricing is based on flippant sentiment rather than actual value. The volatility of the stock markets compromises the growth and the very survival of these companies. This is where we need family offices to stand up with considered investment decisions.

Investing and the role of management

We all know that management should be the most important consideration when investing, as opposed to just gambling. There are some first class managers already in the businesses and their companies get strong support, as they should. But what about the new companies that are trying to make a name for themselves? How do you assess the new managers coming through the system?

In many cases we are backing entrepreneurial concepts in the first instance. Once we put our toe in the water we get an opportunity to observe and assess management, which is effectively on probation to start with. If management performs well, then that justifies taking a bigger position. It is a learning curve and a building of credibility.

When we talk management we should be throwing in the word "commercial". Very few of the resource companies have smart, commercial management. There are plenty of managers who have technical skills in the fields of geology and mining engineering, but only a minority of these have good commercial skills. They are the weakest link.

The role of the stock market in allocating capital

Capital management is probably the most important role of a CEO. That is a fact that most CEO's under-appreciate. They think their job is to raise money and then to spend it. How naive! The need to match their spending to the ability to raise capital is the first order of the day.

Too many CEOs leave it until the last minute to raise capital and then they act like desperate men. They hope the market will improve, or something good comes along, but that shows a lack of forward planning.

The original theory is that stock markets assist in the allocation of risk capital. That was true decades ago when commission rates were high and served as an impediment to quick trading. Now, with the internet and almost zero transaction costs, the velocity of money in the markets has increased enormously and changed the nature of investing.

The lack of commissions to brokers from trading activities has forced them to rely on capital raisings and 6% capital raising fees, and some options, to survive. Research has largely disappeared as it is a luxury that no-one can afford. The brains trusts have moved on.

Placements are “priced to clear” rather than being based on analysis of value. There is no value other than what someone is prepared to pay on the day. The discounts at which shares are being placed only serve to ratchet stocks down to ever lower trading ranges and there is no follow through buying or broker support.

Rather than being an efficient allocator of capital, the stock market now acts to transfer wealth from the general population of investors and companies to those feeding off them. The list includes brokers and investor relations companies.

We now have a casino in the smaller end but the regulators don’t understand this fact. Compliance regimes that are suitable for established, profitable companies are not suited to the speculative end of the market, so there is another mismatch that makes it tough for juniors.

So, there needs to be some structural changes to the market and how it operates. Until that happens it is going to continue to be very difficult. We are just going to see a continuation of the procession of capital raisings that don’t achieve any more than keep a company alive, until the next raising. Tell me how the punters are going to make money in this scenario.

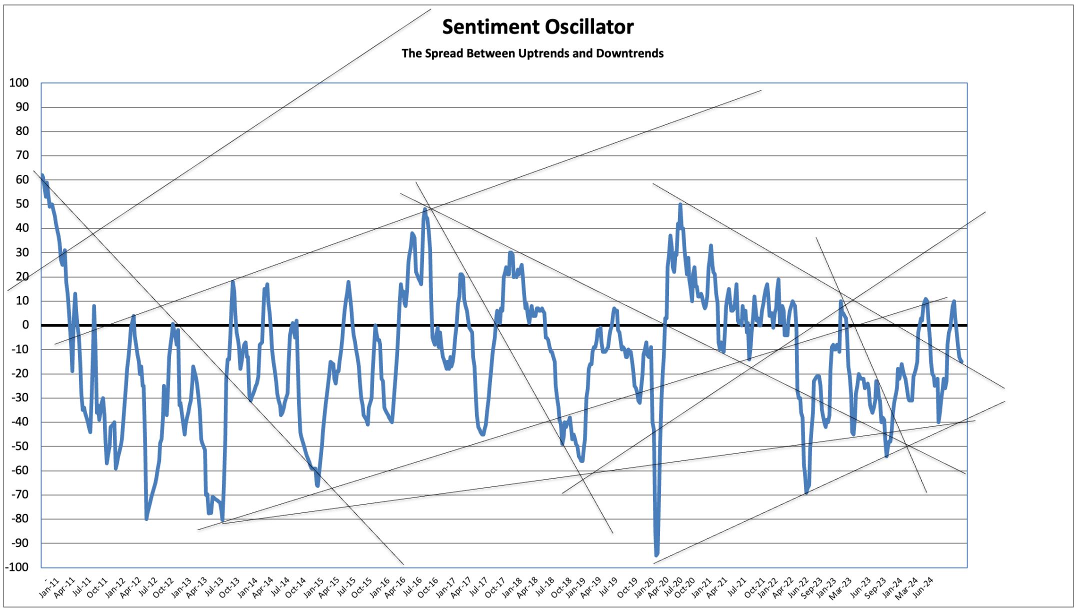
Of course, what I am saying is not universal. There will always be exceptions, but they will be in the minority.

Extreme fluctuations in stock market valuations

A few decades ago I undertook a study of the extreme highs and lows of stock markets across the duration of a normal cycle. It showed that in a bull market companies and their projects increase in value to reach 600-700% of fair value. At the other of the cycle you could see the same assets selling at only 25% of fair value. Surely that observation points to opportunities if you can get synchronised with the cycle, but that is easier said than done.

What is does say for family offices and private equity is that the stock market should be seen as offering exit strategies at the right stage of the cycle as opposed to being a source of capital. For everyone else the lesson is simple. Buy when no-one else is and sell when things are looking great and everyone wants to buy. There is nothing new here, but how many people actually do it?

We have added two gold stocks to the chart coverage: Aureka (AKA) and Santana Minerals (SMI). We have deleted Alto Metals following the merger with Brightstar, and dropped Arizona Lithium.



Sentiment Oscillator: Sentiment weakened slightly with 30% (30%) in uptrend and 45% (44%) in downtrend.

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		risen to new high	
Metals and Mining	XMM		down	
Energy	XEJ		still down	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Aguia Resources	AGR		fall on release of escrowed shares	phosphate, gold
Alkane Resources	ALK		forming a wedge	gold
Alicanto Minerals	AQI		strongly higher	base metals, silver, gold
Alligator Energy	AGE		on support line	uranium
Almonty Industries	AII		rising	tungsten
Alpha HPA	A4N		rising again	HPA
Altech Chemical	ATC		breached support line	HPA, anodes
American Rare Earths	ARR		sideways breach of downtrend	rare earths
Anax Metals	ANX		new low after placement	copper
Andean Silver	ASL		heavy pullback	silver
Anteotech	ADO		back to low	silicon anodes, biotech
Arafura Resources	ARU		secondary downtrend in play	rare earths
Ardea Resources	ARL		down	nickel
Arizona Lithium	AZL		new low	lithium
Astral Resources	AAR		on support line	gold
Aureka	AKA		rising after name change from Navarre	gold exploration
Auric Mining	AWJ		breached uptrend	gold
Averina	AEV		hugging downtrend line after initial breakout	phosphate
Aurora Energy Metals	1AE		surge on asset sale	uranium
Aurelia Metals	AMI		rising	copper + base metals
Australian Gold and Copper	AGC		weaker	base metals, silver, gold
Australian Rare Earths	AR3		down	rare earths
Australian Strategic Materials	ASM		down	rare earths
BHP	BHP		secondary downtrend in play	diversified, iron ore
Barton Gold	BGD		gently higher	gold exploration
Beach Energy	BPT		new low	oil and gas
Bellevue Gold	BGL		recovering	gold
Besra Gold	BEZ		still down	gold
Black Cat Syndicate	BC8		new high	gold
Boab Metals	BML		rising	silver/lead
Brazil Critical Minerals	BCM		new low - two tranche plus 1 for 3	rare earths
Brazilian Rare Earths	BRE		back to downtrend	rare earths
Brightstar Resources	BTR		less steep uptrend	gold
Caravel Minerals	CVV		improving	copper
Carnaby Resources	CNB		down	copper

Castile Resources	CST		gently higher	gold/copper/cobalt
Catalyst Metals	CYL		down	gold
Cazaly Resources	CAZ		sideways	rare earths
Celsius Resources	CLA		sideways	copper
Challenger Gold	CEL		breached uptrend	gold
Cobalt Blue	COB		at lows	cobalt
Critica. (was Venture)	CRI		testing downtrend	tin
Cyprium Metals	CYM		strong rally	copper
Emerald Resources	EMR		rising, new high	gold
Empire Energy	EEG		breached uptrend	gas
EQ Resources	EQR		testing uptrend	tungsten
Evolution Energy	EV1		back to lows	graphite
Evolution Mining	EVN		rising	gold
Felix Gold	FXG		breached downtrend	gold exploration, antimony
First Graphene	FGR		down	graphene
Fortescue Metals	FMG		rally run out of steam	iron ore
Genesis Minerals	GMD		rising	gold
Globe Metals and Mining	GBE		sideways	niobium
Gold 50	G50		rising again	gold exploration + gallium
Great Boulder Resources	GBR		new low	gold exploration
Group 6 Metals	G6M		suspended	tungsten
Hamelin Gold	HMG		back to lows	gold exploration
Hastings Technology Metals	HAS		breached downtrend	rare earths
Heavy Minerals	HVY		sideways	garnet
Hillgrove Resources	HGO		testing downtrend	copper
Iltani Resources	ILT		down	antimony
Iluka Resources	ILU		breached uptrend	mineral sands
ioneer (was Global Geoscience)	INR		breached uptrend	lithium
Ionic Rare Earths	IXR		new low	rare earths
Jindalee Lithium	JLL		new low	lithium
Jupiter Mines	JSM		new low	manganese
Kaiser Reef	KAU		improving	gold
Kalina Power	KPO		breaching steep uptrend	carbon sequestration
Larvotto Resources	LRV		breaching uptrend	gold, antimony
Lindian Resources	LIN		down	rare earths + bauxite
Li-S Energy	LIS		down again	Lithium sulphur battery technology
Lotus Resources	LOT		continuing down	uranium
Lucapa Diamond	LOM		collapsing due to institution dumping shares	diamonds
Lunnon Metals	LM8		down	nickel
Lynas Corp.	LYC		breached uptrend	rare earths
Marmota	MEU		testing downtrend	gold/uranium exploration
Mayur Resources	MRL		stronger	renewables, cement
Meeka Gold	MEK		uptrend	gold
MetalsX	MLX		rising	tin, nickel

Meteoric Resources	MEI		recovering	rare earths
Metro Mining	MMI		back to high	bauxite
Midas Minerals	MM1		pullback	lithium
Nagambie Resources	NAG		stronger	gold, antimony
Neometals	NMT		down	lithium
Newfield Resources	NWF		suspended	diamonds
Nexgen Energy	NXG		testing uptrend	uranium
Northern Star Res.	NST		rising again	gold
Nova Minerals	NVA		surged higher	gold exploration
Novo Resources	NVO		down	gold exploration
Pacific Gold	PGO		new low	gold exploration
Paladin Energy	PDN		testing steep downtrend	uranium
Pantoro	PNR		down	gold
Patriot Battery Metals	PMT		collapse to a new low	lithium
Peninsula Energy	PEN		reconstructed	uranium
Perseus Mining	PRU		correcting lower	gold
Provaris Energy	PV1		new low	hydrogen
QMines	QML		down	copper
Queensland Pacific Metals	QPM		rising	nickel/cobalt/HPA
RareX	REE		sideways at the bottom of a downtrend	phosphate, rare earths
Regis Resources	RRL		new uptrend	gold
Renergen	RLT		down	gas, helium
Richmond Vanadium	RVT		sideways	vanadium
RIO	RIO		down	diversified, iron ore
RTG Mining	RTG		down	copper
Rumble Resources	RTR		slump on placement	zinc exploration
S2 Resources	S2R		down	gold exploration
Sandfire Resources	SFR		rising again - new high	copper
Santana Minerals	SMI		falling	gold
Santos	STO		down	oil/gas
Sarytogan Graphite	SGA		still down	graphite
Siren Gold	SNG		spike and fall on corporate bid	gold exploration
Southern Cross Gold	SXG		new high - consolidating with Mawson	gold exploration
Southern Palladium	SPD		pullback	PGMs
Stanmore Coal	SMR		rising	coal
St George Mining	SGQ		suspended	rare earths, niobium
Stellar Resources	SRZ		sideways	tin
Summit Resources	SUM		down	niobium, rare earths
Sun Silver	SS1		breached downtrend	silver
Suvo Strategic Minerals	SUV		down	kaolin
Talga Resources	TLG		back to downtrend line	graphite
Tamboran Resources	TBN		down	gas
Terra Uranium	T92		down	uranium
Theta Gold Mines	TGM		rising again	gold

Toro Energy	TOE		down	uranium
Torque Metals	TOR		back to lows	gold exploration + lithium
Vanadium Resources	VR8		back to lows	vanadium
Vintage Energy	VEN		sideways	gas
Vertex Minerals	VTX		steeply higher	gold
Warriedar Resources	WA8		testing downtrend	gold exploration
West Cobar	WC1		new low	rare earth + lithium
Westgold Resources	WGX		spiked higher	gold
West Wits Mining	WWI		sideways	gold
Whitehaven Coal	WHC		strong rally	coal
Totals	30%	40	Uptrend	
	45%	60	Downtrend	
		133	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	**25**	**18.8%**	
Rare Earths	**15**	**11.3%**	
Gold Exploration	**14**	**10.5%**	
Copper	**11**	**8.3%**	
Uranium	**9**	**6.8%**	
Lithium	**6**	**4.5%**	
Oil/Gas/Hydrogen	**7**	**5.3%**	
Graphite/graphene	**4**	**3.0%**	
Iron Ore/Manganese	**4**	**3.0%**	
Nickel	**3**	**2.3%**	
HPA/Kaolin	**3**	**2.3%**	
Tungsten	**3**	**2.3%**	

Tin	**3**	**2.3%**	
Silver	**3**	**2.3%**	
Antimony	**4**	**3.0%**	
Potash/Phosphate	**2**	**1.5%**	
Coal	**2**	**1.5%**	
Diamonds	**2**	**1.5%**	
Niobium	**1**	**0.8%**	
Vanadium	**2**	**40.0%**	
Zinc/Lead	**1**	**0.8%**	
PGMs	**1**	**0.8%**	
Mineral Sands	**1**	**0.8%**	
Bauxite	**1**	**0.8%**	
Cobalt	**1**	**0.8%**	
Other	**5**	**3.8%**	
Total	**133**		

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