FAR EAST CAPITAL LIMITED
Suite 24, Level 6, 259 Clarence Street
SYDNEY NSW AUSTRALIA 2000
Mobile Telephone: +61 417 863187
Email : wgrigor@fareastcapital.com.au
AFS Licence No. 253003 ACN 068 838 193

FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

14 May 2022 *Chart comments as at Friday's close* Analyst : Warwick Grigor

A paradigm shift in the markets

The rules for playing the stock market have changed and if you don't react appropriately to that change, you run the risk of losing much of your capital. That is a big call, I know, but let me explain. We have lost the safety net that has been instrumental in maintaining what has been the longest bull market that we have seen in living memory. The US markets have defied gravity for such a long time that we may have thought that the rules have changed, but no, that was just an extended departure from the reality to which we are about to revert.

Only last week I was discussing with investors the lack of relevance of fundamental research and logic today. The market had become much more dynamic and reactionary with individual stock prices moving in response to the top three bullet points rather than carefully thought out analysis. "*Buy now and analyse later*" seemed to be the mantra, and it worked, up until now. There had been no shortage of aggressive liquidity to push popular stock prices higher. But, times are changing.

When Alan Greenspan assumed the chair of the US Fed in 1987, he pursued a policy of protecting the equity markets from collapse by injecting liquidity. He did so on many occasions until his retirement in 2006. The same policy was used to bail out markets in the GFC, along with historically low interest rates. Then the objective was to avoid a recession. Markets were in intensive care being fed the drug of cheap, and even zero cost money. The world was never weaned off this money and the market kept bubbling along … until now.

Inflation will inevitably follow a period of low interest rates. That is classic 101 Economics. That inflation will invariably be blamed upon the relevant circumstances of the day, such as higher energy prices, supply shortages, wage push or whatever else is topical, but the base truth is that an inflationary cycle will always follow a period of low interest rates.

Inflation will always lead to higher interest rates. Whether they rise in anticipation of inflation in a prudent preemptive strike, or whether they play catch up due to a delayed policy move that is too timid to face up to the consequences of higher rates, will determine whether the process of managing the economy is easier or more difficult. Today it is the latter. The central banks have lost the initiative and consequently, we are faced with greater uncertainty. Where will it all end?

Greenspan's policy was great for us all, but it can only be implemented in an environment of low inflation and low interest rates. Today inflation is up and running and interest rates are playing catch up. Any injection of liquidity is going to throw fuel on the fire. It will only make inflation worse, which will in turn drive interest rates higher. So, the markets have to fend for themselves without any safety net. That means a return to more fundamental investment strategies rather than chasing hot money, after a period of correction during which excess liquidity evaporates due to market corrections.

Parallels with 1973/74

History can offer great insight as to what to expect but we have to remember that circumstances of the day will always prevent perfect correlation. Precise facts will vary, but the emotional reactions are likely to be more consistent over the generations.

Can we draw parallels between the early 1970s and today? I say we can in terms of the economic and political scenarios. Energy prices have skyrocketed. Back then it was OPEC and sanctions related to the Yom Kipper War. Today it is the Ukraine War and oil sanctions imposed on Russia. Inflation inevitably follows in both circumstances as higher energy prices filter through to all layers of the economy. Interest rates rise to combat inflation and this gives rise to inflationary expectations contaminating the thinking of consumers and trade unions.

Australia was experiencing full employment in the early 1970s, as we are today. Back then it was defined as unemployment being around 1.5%, but today it has been redefined to about 4%.

We had the famous nickel boom in the late 1960s that flowed into the 1970s. Enormous fortunes were made - and some lost - in an historically speculative frenzy. Today we are just coming to the tail end of the best mining speculative market we have seen for decades.

The final similarity between the two time periods is about to fall into place, if indeed the Labor Party wins the Federal election. However, we should not expect that an Albanese led government will be as bad as Whitlam's.

We don't have a crystal ball so we shouldn't be too dogmatic in predicting future events, but we can identify the trend. How long it goes on for depends on future actions of central banks and politicians, but at the very least we should be more cautious. You need to remember that there is no-one in the Reserve Bank or in the Fed who has experienced circumstances like today with rising energy costs, inflation and rising interest rates. Those guys have all retired. So, the bureaucrats and the bankers are all relying on the textbooks to guide their actions. They are learning on the job. Expect them to make mistakes.

Step aside greed. Fear is taking over

Greed has dominated the minds of investors in recent years during a period of strong markets, being one of the best equity capital raising markets in memory. It is a disappointing observation to note the brokers get even greedier in times like these, not wanting to share deals with other brokers because they don't need to do so. Why share a fee if you don't have to?

When the market turns down, as we are witnessing, the overriding psychology changes from one of greed to one of fear. How far will the market fall? Will brokers be able to find clients willing to throw money into a falling market? How will brokers be able to pay high salaries and bonuses if the deal flow drys up? It is going to be difficult for the foreseeable future.

However, even though most share prices will probably fall as there is a rush to pull money out, some companies will benefit in the real world. Thermal coal producers and other energy stocks are likely to do well operationally. The article below, from Bloomberg, suggests diamond producers are in for a strong period of profitability. Real world stocks will offer excellent buying opportunities while the FOMO stocks will be falling.

One other point to remember: by the time the charts show a downtrend conclusively, much of the fall has already been experienced. The question then becomes… "How long until until it turns around?" Do you sell into a downtrend or do you ride it out? That is a personal call.

This will be a good election to lose

If the polls are correct the next government will be Labor, with or without the support of independents and Greens. Thus we will tick another box in drawing the similarities between 1973/74 and today - a Labor Government.

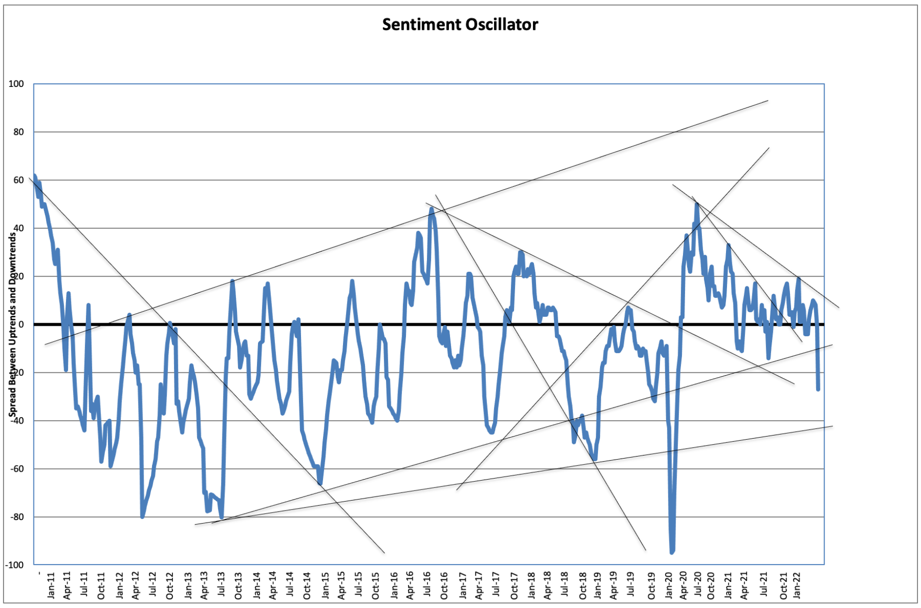
We witnessed one of the most economically inept governments imaginable when Gough Whitlam came to power with the cry of "Its Time". There is no reason to suggest that the current Labor Party will be as bad, but time will tell.

Whichever party wins the election, you can be certain that managing the economy through this period of surging inflation will be very challenging. Australia will be a victim of international events from which we cannot be isolated. There is no-one left in the bureaucracy or Treasury who has any experience of the 1973/74 scenario. The closest they got to it was the textbooks at university.

The Federal Government will be blamed for the pain that is falling at our doorstep and it will scar the electorate's memory for all time, whether or not that will be an equitable apportionment of blame. For whoever wins this election it will be very difficult to win the next one. Maybe, if the Liberals are destined to lose an election, this is a perfect one to lose.

Diamond Prices Are Spiking and Even De Beers Can't Fill the Gap - Bloomberg

"*Prices are surging in some corners of the rough-diamond market, as sanctions on one of the world's two giant miners ripple through the supply chain. In the past, the industry could turn to behemoth De Beers to crank out extra gems when supply ran tight — but not this time. The price of a small rough diamond, the type that would end up clustered around the solitaire stone in a ring, has jumped about 20% since the start of March, according to people familiar with the matter. The reason: Diamond cutters, polishers and traders are struggling to source stones after the US levied sanctions on De Beers's Russian rival, Alrosa PJSC, which accounts for about a third of global production. For most of the modern history of diamonds, this is the sort of situation where De Beers could have tapped its vast stockpiles or simply fired up latent mining capacity. Little more than 20 years ago, its safes in London held stocks of diamonds worth perhaps as much as $5 billion. Those days are now long gone. The company only carries working inventory stocks and its mines are running at full tilt. There is little chance of material increases in supply before 2024, when an expansion at its flagship South African mine will be completed. "It's very difficult to see us bringing on any new production," Chief Executive Officer Bruce Cleaver said in an interview in Cape Town. "Thirty percent of supply being removed isn't sustainable." De Beers also produces relatively few of the type of diamonds Alrosa specialises in: the small and cheap gems that surround a larger center-point stone or are used in lower-end jewellery sold in places like Walmart or Costco. For many in the sector, that means growing shortages unless Alrosa and its trade buyers can find a work around. Alrosa cancelled its last sale in April and is unlikely to sell any large volumes again this month, the people said. It's uncertain when the company will be able to sell normally again, they said, even as the company, banks and buyers look for solutions.*"



Sentiment Oscillator: Sentiment collapsed last week. There were 21% (35%) of the charts in uptrend and 48% (36%) in downtrend on Friday's close. That takes us out of the period of uncertainty, into a heavy selldown mode. The market ha further to fall but the question will be whether it does it in a straight line or in waves.

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		falling in broad downtrend	
Metals and Mining	XMM		sharp fall within broader downtrend	
Energy	XEJ		correction	
Information Technology	XIJ		down	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Alpha HPA	A4N		on support line	HPA
Adriatic Resources	ADT		shallower downtrend	zinc, polymetallic
Alkane Resources	ALK		breached uptrend	gold
Alicanto Minerals	AQI		down	base metals, silver, gold
Altech Chemical	ATC		down	HPA, anodes
Anteotech	ADO		back to lows	silicon anodes, biotech
Alto Metals	AME		sideways	gold exploration
American Rare Earths (was BPL)	ARR		off its highs	rare earths
Antilles Gold	AAU		still down	gold
Arafura Resources	ARU		off its highs	rare earths
Ardea Resources	ARL		heavy retracement	nickel
Aurelia Metals	AMI		breached support line	gold + base metals
Australian Potash	APC		risen to hit downtrend line	potash
Australian Rare Earths	AR3		down	rare earths
Auteco Minerals	AUT		new low	gold exploration
Arizona Lithium	AZL		uptrend	lithium
Azure Minerals	AZS		collapse	nickel exploration
BHP	BHP		slump out of downtrend	diversified, iron ore
Beach Energy	BPT		new uptrend confirmed	oil and gas
Bellevue Gold	BGL		slump	gold exploration
Benz Mining	BNZ		back to previous lows	gold
Blue Star Helium	BNL		down	gas, helium
BMG Resources	BMG		shallower downtrend	gold exploration
Boab Metals	BML		back to downtrend	silver/lead
Breaker Resources	BRB		heavy fall from highs	gold exploration
Buru Energy	BRU		falling	oil
Calidus Resources	CAI		on support line	gold
Capricorn Metals	CMM		slump	gold
Caravel Minerals	CVV		rallied to meet resistance line	copper
Castile Resources	CST		good rise	gold/copper/cobalt

Celsius Resources	CLA		falling	copper
Chalice Mining	CHN		down	nickel, copper, PGMs, gold exploration
Chesser Resources	CHZ		rallied off lows	gold exploration
Cobalt Blue	COB		correcting lower	cobalt
Cyprium Metals	CYM		surge out of downtrend	copper
Danakali	DNK		downtrend accelerating	potash
De Grey	DEG		falling	gold
E2 Metals	E2M		down	gold exploration
Ecograf	EGR		down	graphite
Element 25	E25		down	manganese
Emerald Resources	EMR		recovered to highs	gold
Empire Energy	EEG		down	gas
Euro Manganese	EMN		down	manganese
Evolution Mining	EVN		slump	gold
Firefinch	FFX		slump out of uptrend	gold
First Graphene	FGR		downtrend	graphene
Fortescue Metals	FMG		rallying after heavy fall	iron ore
FYI Resources	FYI		down	HPA
Galena Mining	G1A		still down	lead
Galilee Energy	GLL		breaching downtrend	oil and gas, CBM
Genesis Minerals	GMD		collapse back to downtrend	gold
Genmin	GEN		new uptrend breached	iron ore
Global Energy Ventures	GEV		down	hydrogen
Gold Road	GOR		down	gold
Great Boulder Resources	GBR		down	gold exploration
Hastings Technology Metals	HAS		testing uptrend	rare earths
Hazer Group	HZR		heavy slump	hydrogen
Highfield Resources	HFR		back to resistance line	potash
Hillgrove Resources	HGO		long term uptrend	copper
Iluka Resources	ILU		down	mineral sands
Image Resources	IMA		new uptrend breached	mineral sands
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths (Oro Verde)	IXR		new high	rare earths
Jervois Mining	JVR		on support line	nickel/cobalt
Kingston Resources	KSN		down	gold
Krakatoa Resources	KTA		short term down	rare earths
Kingwest Resources	KWR		drifting lower	gold
Legend Mining	LEG		sideways	nickel exploration
Lepidico	LPD		breached uptrend	lithium
Lindian Resources	LIN		holding long term uptrend	bauxite
Lion One Metals	LLO		slump	gold
Los Cerros	LCL		new low	gold exploration
Lotus Resources	LOT		testing long term uptrend	uranium
Lucapa Diamond	LOM		back to lows	diamonds

Lynas Corp.	LYC		down	rare earths
Magnetic Resources	MAU		shallow downtrend	gold exploration
Mako Gold	MKG		sideways	gold exploration
Marmota	MEU		surge higher on REE news	gold exploration
Marvel Gold	MVL		breached uptrend	gold exploration
Matador Mining	MZZ		new low	gold exploration
Mayur Resources	MRL		slump to new low	renewables, cement
Meeka Gold	MEK		strong rise but still LT downtrend	gold
Megado Gold	MEG		back to trend line	rare earths, gold exploration
Meteoric Resources	MEI		sideways through downtrend line	gold exploration
MetalsX	MLX		heavy fall	tin, nickel
Metro Mining	MMI		heavy fall	bauxite
Mincor Resources	MCR		down	gold/nickel
Mithril Resources	MTH		down	gold/silver
Musgrave Minerals	MGV		testing downtrend	gold exploration
Neometals	NMT		breached uptrend	lithium
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		breached downtrend	gold
Nova Minerals	NVA		down again	gold exploration
Oceana Gold	OGC		rising	gold
Oklo Resources	OKU		down	gold expl.
Orecorp	ORR		down	gold development
Oz Minerals	OZL		back into downtrend	copper
Pacific American	PAK		back to lows	coking coal
Pantoro	PNR		down	gold
Panoramic Res	PAN		testing uptrend	nickel
Peak Minerals	PUA		pullback	copper exploration
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		sideways	copper
Peninsula Energy	PEN		breached uptrend	uranium
Poseidon Nickel	POS		drifting lower	nickel
Perseus Mining	PRU		near highs	gold
PVW Resources	PVW		down heavily	rare earths
Queensland Pacific Metals	QPM		testing downtrend	nickel/cobalt/HPA
Red River Resources	RVR		testing uptrend	zinc
Regis Resources	RRL		down	gold
Renergen	RLT		breached uptrend	gas, helium
RIO	RIO		down	diversified, iron ore
Rumble Resources	RTR		back in downtrend	gold exploration
S2 Resources	S2R		drifting lower	gold exploration
St Barbara	SBM		down	gold
Sandfire Resources	SFR		down	copper
Santos	STO		uptrend	oil/gas
Saturn Metals	STN		sideways	gold exploration

Silex Systems	SLX		holding support	uranium enrichment technology
Silver Mines	SVL		down	silver
South Harz Potash	SHP		still holding long term uptrend	potash
Stanmore Coal	SMR		pullback	coal
Strandline Resources	STA		pullback	mineral sands
Sunstone Metals	STM		downtrend	exploration
Talga Resources	TLG		down	graphite
Technology Metals	TMT		down	vanadium
Tesoro Resources	TSO		down again	gold exploration
Theta Gold Mines	TGM		down	gold
Thor Mining	THR		correcting lower	gold exploration
Tietto Minerals	TIE		down	gold
Titan Minerals	TTM		down	gold
Turaco Gold	TCG		downtrend	gold exploration
Vanadium Resources	VR8		heavy correction	vanadium
West African Resources	WAF		holding uptrend	gold
Westgold Resources	WGX		down	gold
West Wits Mining	WWI		heavy fall	gold
Whitehaven Coal	WHC		secondary uptrend	coal
Wiluna Mining	WMC		heavy fall	gold
Yandal Resources	YRL		sideways	gold exploration
Zenith Minerals	ZNC		off its highs	gold exploration
Zinc Mines of Ireland	ZMI		sideways	zinc
Totals	21%	30	Uptrend	
	48%	68	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	23	16.3%	
Nickel	11	7.8%	
Copper	10	7.1%	
Rare Earths	11	7.8%	
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	3	2.1%	
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		

FEC Disclosure of Interests: It is a requirement of ASIC that holders of AFS licences prominently disclose any conflicts of interest. At all times readers should be aware that Far East Capital Ltd is an active investor. It shares its research and opinions free of charge to other investors and it aims to do so on an ethical basis. Accordingly, when it is writing about stocks in which it holds interests, these will be disclosed. In this week's publication FEC discloses that interests associated with the the author hold shares in First Graphene. and Lucapa Diamond Company. The author is chairman of First Graphene and one of the largest shareholders, through a number of entities. Over the last three years FEC has received fees from Alicanto Minerals, Blackstone Minerals, Broken Hill Prospecting, Cobalt Blue, First Graphene, Golden Rim, Lindian Resources, Lucapa Diamond Company, Orinoco Gold, Pacific American and West Wits for corporate and capital raising services. Its primary business is investing and managing its own money, but it does occasionally raise money for resource companies.

Disclaimer: This Research Report has been prepared exclusively for Far East Capital clients and is not to be relied upon by anyone else. In compiling this Commentary, we are of necessity unable to take account of the particular investment objectives, financial situation and needs of any of our individual clients. Accordingly, each client should evaluate the recommendations obtained in this Commentary in the light of their own particular investment objectives, financial situation and needs. If you wish to obtain further advice regarding any recommendation made in this Commentary to take account of your particular investment objectives, financial situation and needs, you should contact us. We believe that the advice and information herein are accurate and reliable, but no warranty of accuracy, reliability or completeness is given and (except insofar as liability under any statute cannot be excluded) no responsibility arising in any other way for errors or omissions or in negligence is accepted by Far East Capital Limited or any employee or agent. For private circulation only. This document is not intended to be an offer, or a solicitation of an offer, to buy or sell any relevant securities (i.e. securities mentioned herein or of the same issuer and options, warrant, or rights with respect to or interests in any such securities). We do not guarantee the accuracy or completeness of the information herein, or upon which opinions herein have been based. At any time we or any of our connected or affiliated companies (or our or their employees) may have a position, subject to change, and we or any such companies may make a