

15 August 2020

On Friday's Close

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Gold is slapped down as traders take profits; forward selling comments

Last week I posed the question for gold, "Where to now?" Well, the quick answer was "down". It is Sod's Law that the gold price should take a dive only a few days after my positive comments last week, but you get used to that in the markets. As soon as you think you have it all figured out, you will be reminded that every day is a new day.

What started as profit taking last week turned into the biggest one day selloff in gold since 2013, down more than 5%. Why? One comment was that there was a slight rise in the US interest rate which seemed to act as a catalyst, giving traders the opportunity to give the gold price a good kick in the guts. An other view was that the gold price had been too strong too quickly, so a sizeable correction was overdue.

Charts pointed to the fall

Last week's observation that a number of the gold producers were either resting on support lines or had breached them was a harbinger of what was to come. The dip in the gold price was enough for many of these to breach their uptrends, introducing greater uncertainty into the market. It remains to be seen whether money continues to depart from these stocks or whether we are just moving to a less steep, longer term uptrend. My bet is these stocks will move into less aggressive uptrends. Aggressive money will move out of these companies and into riskier companies with greater leverage.

Same thematic apply to gold

Nevertheless, we need to go back to the thematic of excess liquidity and the spectre of inflation. This is not something that disappears over a few days trading, but it is underlying the short time volatility that the market will demonstrate as it feeds off the vacillation of traders' sentiment. A healthy market is always a battlefield between the bulls and the bears. Anything else is too easy and unsustainable.

Forward Selling Gold

Last week we commented that there was little reason for any company to be forward selling gold due to the lack of contango, courtesy of low interest rates. Yet, producers have still been selling forward. Why?

Specialist gold investors espouse the view that gold companies should produce gold, leaving investors to speculate on the gold price. It only annoys them when gold companies hedge gold production, thereby limiting the leverage to higher gold prices. It is a view.

New gold mines often undertake hedging where it is seen as a risk minimisation tool for financiers. Fair enough. Companies that have large debt positions need to manage the risk that the gold price may fall heavily, so they can legitimately hedge gold. High cost producers may take a

similar view in order to minimise the risk of corporate failure.

Outside of these circumstances any company that is forward selling is punting on the future direction of the gold price. Could they really know which way the gold price is going? I don't believe so. They just have a view.

We have prepared a table of hedging positions for the companies we have under coverage, taken from the recent quarterly statements. In all cases the companies would be losing money on a marked-to-market valuation; hundreds of millions of dollars in some cases. The amounts of gold hedged is mostly relatively small, with the focus being on the next two years of production. Its relevance is even smaller if taken as a proportion of reserves. Interestingly, most of the companies are saying they are reducing their exposure to hedging as their current positions are being delivered into. It seems they are becoming believers that the gold price will keep going up.

Analysts are still under-estimating gold prices

A week ago analysts at some of the large banks were expressing caution about the gold price, suggesting that it was trading up to \$200/oz above their "fair value" estimates, leading to suggestions we could see a sharp correction in the price. It seems that they were correct.

Yet, how do you estimate what a "fair price is? I have never seen a credible methodology for working this price out. When I undertook a study to see what it is that most influences the gold price, I concluded that it was what happened over the preceding three weeks. The gold price is reactive to what is foremost in speculators minds rather than any specific, real world events or circumstances. What is foremost changes frequently, so the best you can say is that it is dynamic and as volatile as human psychology. You study market movements to try and figure out which way it will whip next.

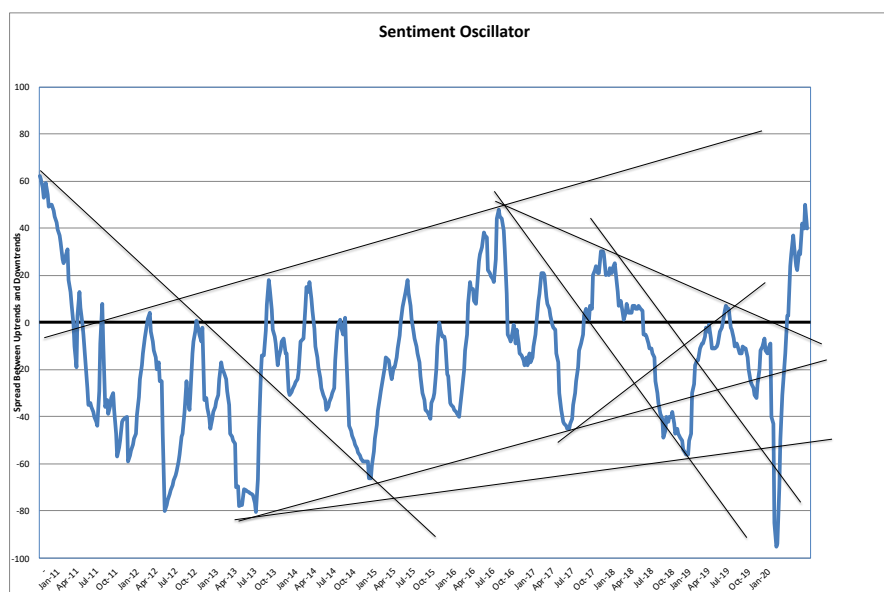
A point worth noting is that if gold mining analysts are still using a gold price around US\$1,600/oz, because of their scepticism or conservatism, what do you think will happen if they figure out they have been too cautious? At some point it will lead to a round of profit forecast upgrades and a scramble by investors to build on their positions; a re-rating.

We have added Cobalt Blue to our chart coverage and deleted Syrah. Next we will add Calidus (CAI) and Genesis (GMD).

Disclosure: Nil. See general disclosure at end of report.

Gold Hedge Position - Leading Australian Producers

Company	Code	AISC	Production	Cash/Gold	Forward Sales				Notes
		A\$/oz			oz	Price A\$	Gain/Loss	% prod'n	
Dacian Gold	DCN	\$1,562	127,532	\$57m	84,589	\$2,055	\$58m	66%	
Evolution Mining	EVN	\$1,088	872,000	\$374m	300,000	\$1,872	\$262m	34%	
Gold Road	GOR	\$1,233	114,800	\$84m	87,800	\$1,847	\$79m	76%	20-25% of prod'n to 2022
Independence	IGO	\$1,440	122,468	\$510m	110,088	\$1,965	\$86m	90%	
Northern Star	NST	\$1,475	1,069,444	\$770m	536,426	\$2,085	\$355m	50%	15% of next 3 years
Oceana Gold	OGC	\$1,265	234,712	\$148m	59,400	\$2,100	\$38m	25%	put/call options
Perseus Gold	PRU	\$1,317	258,704	\$164m	325,065	\$2,031	\$43m	126%	22% of prod'n for 3 yrs
Ramelius Resources	RMS	\$1,041	346,068	\$185m	247,350	\$2,135	\$151m	71%	to Dec 2022
Red 5	RED	\$2,259	82,828	\$122m	67,000	\$2,090	\$44m	81%	
Regis Resources	RRL	\$1,358	349,040	\$209m	399,494	\$1,614	\$452m	114%	spot deferred
Resolute Mining	RSG	\$1,455	428,732	\$124m	213,000	\$2,287	\$98m	50%	30% of prod'n, 18 mo
Saracen Minerals	SAR	\$1,152	583,720	\$369m	493,200	\$2,049	\$344m	84%	
St Barbara	SBM	\$1,301	434,448	\$405m	176,252	\$1,924	\$145m	41%	to Dec 2022
Silver Lake	SLR	\$1,344	285,164	\$269m	155,568	\$2,341	\$63m	55%	delivery over next 2 years
Westgold Resources	WGX	\$1,638	239,156	\$137m	200,000	\$2,062	\$137m	84%	8% of reserves
Notes									
		1	ASIC is based on latest quarterly, not guidance						
		2	Production is based on latest quarterly, annualised						
		3	Gain/Loss is spot price less hedging price						
		4	% of production is based on total hedging as a percentage of annualised production						
Current Gold Price	US\$	\$1,950							
	A\$	2,746							
Exchange Rate	AUD/	0.71							



Sentiment Oscillator: Sentiment pulled back sharply over the week as a number of leading gold companies breached their uptrends. There were 59% (66%) of the charts in uptrend and 19% (16%) in downtrend on Friday's close.

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		hitting resistance line	
Metals and Mining	XMM		surge to new high	
Energy	XEJ		starting downtrend	
Stocks	Code		Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N		new high	HPA
Adriatic Resources	ADT		another new high	zinc, olymetallicp
Aeon Metals	AML		new high	copper + cobalt
Alkane Resources	ALK		pullback	gold, zirconia
Alicanto Minerals	AQI		surge to new high	base metals, sliver, gold
Allegiance Coal	AHQ		at lows	coking coal
Alliance Resources	AGS		pullback	gold predevelopment
American Rare Earths (was BPL)	ARR		near highs	rare earths
Apollo Consolidated	AOP		breached uptrend	gold exploration
Arafura Resources	ARU		breached downtrend	rare earths
Aurelia Metals	AMI		continuing higher	gold + base metals
Australian Potash	APC		still in secondary downtrend	potash
Auteco Minerals	AUT		new high	gold exploration
BHP	BHP		new high	diversified, iron ore
Base Resources	BSE		hitting resistance	mineral sands
BBX Minerals	BBX		higher	gold exploration
Beach Energy	BPT		heading lower	oil and gas
Beacon Mining	BCN		still beneath resistance line	gold production
Bellevue Gold	BGL		new high again	gold exploration
Blackstone Minerals	BSX		rising	nickel
Blue Star Helium	BNL		down	gas, helium
Breaker Resources	BRB		still in LT downtrend	gold exploration
Buru Energy	BRU		sideways	oil
Buxton Resources	BUX		turned down at resistance line	nickel exploration
Capricorn Metals	CMM		breached uptrend	gold
Cardinal Resources	CDV		surge on takeover bid	gold exploration
Central Petroleum	CTP		shallower downtrend	oil/gas
Chalice Gold	CHN		downtrend confirmed	nickel, copper, PGMs, gold exploration
Chase Mining	CML		hit resistance	nickel/copper/PGE
Chesser Resources	CHZ		off its highs	gold exploration
Cobalt Blue	COB		breached resistance	cobalt
Dacian Gold	DCN		rallying	gold
Danakali	DNK		rising	potash
Davenport Resources	DAV		still in longer term downtrend	potash
De Grey	DEG		downtrend confirmed	gold

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E2 Metals	E2M	at highs	gold exploration
Ecograp (was Kibaran)	EGR	sideways	graphite
Element 25	E25	off its highs	manganese
Emerald Resources	EMR	breached uptrend	gold
Euro Manganese	EMN	at lows	manganese
Evolution Mining	EVN	sideways	gold
First Graphene	FGR	sideways	graphene
Fortescue Metals	FMG	new high	iron ore
Galaxy Resources	GXY	rising	lithium
Galena Mining	G1A	rising	lead
Galilee Energy	GLL	breached uptrend	oil and gas, CBM
Gold Road	GOR	breached uptrend	gold
Graphex Mining	GPX	hitting resistance	graphite, turning to gold
Highfield Resources	HFR	breached support	potash
Hillgrove Resources	HGO	still in downtrend	copper
Iluka Resources	ILU	higher	mineral sands
Image Resources	IMA	higher	mineral sands
Independence Group	IGO	down	gold
ioneer (was Global Geoscience)	INR	down	lithium
Ionic Rare Earths (Oro Verde)	IXR	gentle uptrend	rare earths
Jervois Mining	JVR	surge higher	nickel/cobalt
Jindalee Resources	JRL	surge out of downtrend	lithium
Kin Mining	KIN	uptrend breached	gold
Kingston Resources	KSN	new high	gold
Kingwest Resources	KWR	testing downtrend	gold
Legend Mining	LEG	testing downtrend	nickel exploration
Lepidico	LPD	testing downtrend	lithium
Lindian Resources	LIN	higher	bauxite
Lithium Australia	LIT	new uptrend	lithium
Lotus Resources	LOT	new high	uranium
Lucapa Diamond	LOM	new uptrend started	diamonds
Lynas Corp.	LYC	new high	rare earths
Mako Gold	MKG	pullback	gold exploration
Manhattan Corp	MHC	back to support line	gold exploration
Marmota	MEU	strong recovery	gold exploration
MetalTech	MTC	rising	gold
MetalsX	MLX	sideways	tin, nickel
Metro Mining	MMI	slump	bauxite
Mincor Resources	MCR	sideways near high	gold/nickel
Musgrave Minerals	MGV	off its highs	gold exploration
Myanmar Minerals	MYL	surge to new high	lead, zinc, silver
Nelson Resources	NES	rising	gold exploration
Neometals	NMT	testing downtrend	lithium
Northern Minerals	NTU	uptrend confirmed	REE

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Northern Star Res.	NST		breached uptrend	gold
NTM Gold	NTM		sideways	gold exploration
Oceana Gold	OGC		new high	gold
Oklo Resources	OKU		uptrend	gold expl.
OreCorp	ORR		rising	gold development
Orocobre	ORE		steep uptrend	lithium
Oz Minerals	OZL		on trend line	copper
Pacific American Holdings	PAK		at lows	coal
Pacifico Minerals	PMY		off its highs	silver/lead
Pantoro	PNR		breached uptrend	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		steeply higher	rare earths
Peel Mining	PEX		uptrend	copper
Peninsula Energy	PEN		down again	uranium
Pure Minerals	PM1		rising	nickel/cobalt/HPA
Pensana Metals	PM8		surge to new high	rare earths
Perseus Mining	PRU		rising	gold
Pilbara Minerals	PLS		rising	lithium
Polarex	PXX		uptrend	polymetallic exploration
Ramelius Resources	RMS		breached uptrend	gold production
Red5	RED		rallying	gold
Red River Resources	RVR		broken through resistance line	zinc
Regis Resources	RRL		breached trend line	gold
Renegen	RLT		recapturing uptrend	gas, helium
Resolution Minerals	RML		rising again	gold exploration
Resolute Mining	RSG		rising	gold
RIO	RIO		off its highs	diversified, iron ore
Rumble Resources	RTR		rising again	gold exploration
Salt Lake Potash	SO4		hitting resistance	potash
Saracen Minerals	SAR		on trend line	gold
St Barbara	SBM		on trend line	gold
Sandfire Resources	SFR		breached downtrend but heavy pullback	copper
Santos	STO		sideways	oil/gas
Saturn Metals	STN		new high	gold exploration
Sheffield Resources	SFX		new high	mineral sands
Sky Metals	SKY		rallying	gold exploration
St George Mining	SGQ		down	nickel
Silex Systems	SLX		breaching uptrend	uranium enrichment technology
Silver Mines	SVL		off its high	silver
Sipa Resources	SRI		rising	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new low	coal
Strandline Resources	STA		on support line	mineral sands
Talga Resources	TLG		drifting	graphite
Technology Metals	TMT		on support line	vanadium

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Tesoro Resources	TSO		new high	gold exploration
Theta Gold Mines	TGM		uptrend	gold
Titan Minerals	TTM		new high	gold
Vango Mining	VAN		rising	gold
Venturex	VXR		testing downtrend	zinc
Vimy Resources	VMY		down	uranium
West African Resources	WAF		off its high	gold
Westgold Resources	WGX		pullback	gold
West Wits Mining	WWI		rising	gold
Western Areas	WSA		back to support line	nickel
Whitebark Energy	WBE		down	oil and gas
Whitehaven Coal	WHC		secondary downtrend	coal
Wiluna Mining	WMX		softer	gold
Yandal Resources	YRL		breached uptrend	gold exploration
Zinc Mines of Ireland	ZMI		still in downtrend	zinc
Totals	59%	81	Uptrend	
	19%	26	Downtrend	
		138	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	33	23.9%	
Gold Exploration	22	15.9%	
Zinc/Lead	9	6.5%	
Nickel	8	5.8%	

Oil/Gas	8	5.8%	
Lithium	8	5.8%	
Coal	5	3.6%	
Mineral Sands	5	3.6%	
Rare Earths	7	5.1%	
Potash/Phosphate	5	3.6%	
Copper	5	3.6%	
Graphite	3	2.2%	
Iron Ore/Manganese	5	3.6%	
Uranium	3	2.2%	
Bauxite	3	2.2%	
Silver	3	2.2%	
Cobalt	2	1.4%	
Tin	1	0.7%	
Diamonds	1	0.7%	
Other	2		
Total	138		

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