FAR EAST CAPITAL LIMITED
Suite 24, Level 6, 259 Clarence Street
SYDNEY NSW AUSTRALIA 2000
Tel : +61-2-9230 1930 Mob: +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

17 December 2016 | *On Friday's Close* | Analyst : Warwick Grigor

No reason not to buy, except no-one wants to do it on their own

The gold price has been the biggest drag on our mining market for quite a while now, with the negative sentiment accelerating as the gold price falls lower. Until the price starts to bottom out it is difficult to see much enthusiasm for not only gold, but other commodities as well. It is the sentiment effect.

But, apart from the gold price, there is no reason not to be selectively purchasing in the market. There are no obvious bear points that threaten to drag the market down, but there is a distinct absence of FOMO in the markets. Perhaps it is the Christmas season and the exhausting scramble to tidy things up prior to going on holidays. Maybe it the lack of inspiration from the nations leaders or the saturating press coverage of esoteric social issues and the overindulgence in tangential concerns. Whatever it is, we have to get over it and start to think optimistically if we are going to generate more buying.

As we suggested last week, the oil sector has performed well as investors have taken on board the renewed spirit of co-operation amongst the leading oil producing countries. Oil stocks will continue to strengthen as stability improves and the oil price moves higher, with re-weighting taking place in oil producers.

Elsewhere the Dow has continued to rise, though the guidance regarding interest rates in the US during the week interrupted the march toward 20,000. This is now shaping up as one of the longest bull markets in history (if not already there). It has maintained the trend notwithstanding a lack of consistent good news. In fact, it has done so in spite of many reasons why it should have gone the other way.

Reflecting on a year of two halves

As we come to a close in 2016, we can look back upon a most interesting year. The turnaround from the middle of February was dramatic. After a few years of painful downtrend in the mining and oil sectors we saw the best six month period I can remember. The gold sector was the best performer, though its turnaround actually started back in October 2015. There was a nerve biting test in December 2015, but it kept faith and surged in the first half of 2016.

I commented that the strength in the market in June and July was extraordinary and not like any other year. It was a great time to take profits as percentage moves in many stocks were unsustainable.

As we passed into August the momentum slowed under a combination of profit taking and the increasing number of companies going to the market to raise funds. At that time people started to wake up to the surge in coal prices, making the coking coal sector in particular the best performers in the subsequent months, just as gold stocks were rolling over and starting downtrends.

The second half of 2016 has been much harder for traders as the excesses of the earlier moves were being expunged. Whereas previously the rising tide underwrote profits for everyone, the second half of the year was more specific.

Nevertheless, diminishing uncertainty about the international economic situation enabled optimism to flow through, particularly with regards to China and the growth in the USA. Iron ore prices improved along with coal prices, but not as spectacularly. Slower moving institutional money continued to flow back into sector leaders with BHP and RIO being the obvious choices.

The two key political events of the year, being Brexit and the US Presidential election both provided surprise results not only in their outcomes, but also in their aftermath. Markets initially moved one way - the wrong way - before taking a more reasoned view in the opposite direction. The reactions were very much symptoms of the nature of markets today and the instant reactions on social media and the press. Investing is supposed to be a reasoned activity that takes many factors into account.

"In your face" influence on markets

A wise investor should make a balanced decision considering both probabilities and possibilities. However, at all times now there is an atmosphere of highly charged traders making instant decisions (that they often regret). They provide the instant volatility but not the sage guidance needed to make serious profits. Like it or not, this is an increasing feature of markets with which we have to contend. It is very much "i*n your face*". We have to maintain the ability to see beyond it.

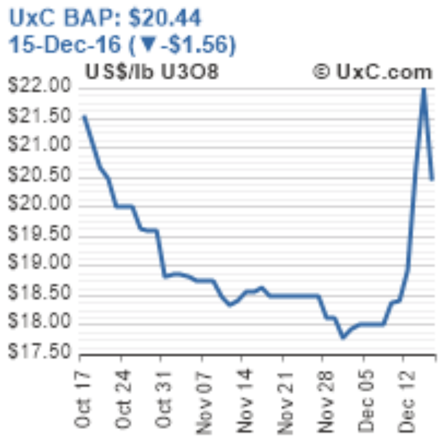
There is no substitute for patience and timing in the markets. If you have the ability to analyse and properly assess a scenario, and you have the confidence and patience to take a position and wait, you have the key to making substantial profits. Everything else is just trading and gambling.

So where to in 2017?

It is always foolhardy to predict a year in advance as so much can change in a short period of time, as we have seen in 2016, but we can say what we see from today's perspective. The oil sector looks as if it has the least number of obstacles ahead of it, so this will continue to improve. Battery input stocks will continue to be a strong focus, particularly for lithium and cobalt, but the flake graphite sector will be facing its moment of truth. Infrastructure commodities such as iron ore and copper should be solid but the prices will depend upon continuing feedback on economic growth. News of expansion of iron ore mines could place a cap on the upside for the price.

Gold stocks are currently in the doldrums but at any point something could come out of left field to make them attractive again. It is not a matter of if, but when. You should be thinking about which ones to move into.

Uranium has been the worst performing sector in 2016, so it is an easy call to say that it will turn around in 2017. The spot price has bounced from a low of US$18/lb earlier this month to hit US$22/lb, before correcting. Maybe it has turned around. Opportunists could do well buying into the sector at these levels but you still have to be careful. There is more than one uranium hopeful out there that hasn't followed the uranium price down, so these would be more risky, particularly if they are coming into production at these low uranium price levels.



Faster money will be going into new situations in all of the above that come to the market, with promotion and a greener pasture effect being the determinant of share price performance.

Technology stocks will continue to provide opportunities particularly in the battery and energy storage sector. When mining interfaces with technology there will be great risk/reward trading and investment situations to consider.

Generally the market is not expensive in the mining sectors but we need more catalysts to encourage new buying. Look for those developments and be aware of seasonal factors. Rising interest rates may push yield stocks lower, but that usually isn't a big issue with mining companies particularly as rising interest rates means economic growth and greater consumption of commodities.

There is more at stake than a $100 note

We should be used to the media being used as a tool of government, in the way possible changes in policies are written by stooge journalists presenting carefully worded arguments. This preliminary exposure of issues is a way that the administration tests the water. Whether or not the change actually comes through depends on what reactions are shown to the lead up articles. This method encourages debate and removes the element of surprise. It can also be seen as a softening up exercise.

The latest example of this is the appearance of articles in the press suggesting that $100 notes should be removed from circulation because it makes it easier for criminals to move money. However, it starts with the assumption that only bad guys like to have cash in such denominations. Not true.

India has been experiencing extreme disruption to commerce recently to a similar policy that outlawed then 500 and 1000 rupee notes overnights.

In this world we are increasingly seeing our privacy eroded. We are told that we have a democracy and basic freedoms but each day we are seeing the basis for the veracity of these claims being eroded. We are not allowed to say what we think any more. We are not allowed to do as we believe fit, based on ecclesiastical law or the 10 commandments. When I was a boy it was a fair measure to say that if none of these basic rules were broken, you were probably okay. Today there are so many rules and regulations, many of them not making sense, that the moral compass is no longer a good guide for our behaviour. There is a law against almost everything now. The emphasis has changed with the focus not being on what you do, but what you are seen to do. It is all about appearances rather than substance with the main objective being to stay under the radar. Don't get caught.

Getting back to the $100 bill - we need to put it into perspective. When it first came out, many decades ago, it was actually worth something. Its purchasing power is now lucky to be worth 10% of what it was on first release. It is not much money anymore, so what's the big deal? Do you think it makes much difference if the criminals have to use $50 bills? Of course it won't. Their criminal activity will continue on abated.

This is all part of the increasing control and regulation of our society. The government wants to be able to track every cent that we spend. It wants to be able to bring up a complete analysis of our lives by going to its computerised databases. It doesn't want us to have cash at all. The banks are probably part of this too as it makes it easier for them to levy charges. So far they don't charge a fee on cash transactions, but you just wait.

Having cash is one of the principle rights of a democratic society. Being able to spend it as you wish, without government scrutiny goes hand in hand with that right. That right should not be subservient to the governments desire for total control in the tax collection activity. If you have cash you can spend it. If you just have a credit card on some computerised system then you are dependent upon that system working. What if there is a hacker that brings down the system? What if there is a terror attack or a virus that makes it inoperable? Without cash we are all beggers in the street. Even though billions of dollars are spent to protect us from this event it continues as a clear and present danger. The consequences of it happening could be very extreme. That is why cash (and physical gold) is needed, even if only for insurance purposes.

If we are not careful we will find that the government python will eventually squeeze the life out its citizens as we travel down the path towards a police state. It will be different to police states of the past though as governments are also abrogating power to social media and special interest social engineers. They are the modern day brown shirts that are moving society away from what the silent majority would prefer with the government being complicit. Bullying is alive and well, it just flies under the radar in a more sinister form.

Could lithium become a stranded asset?

We all know that lithium-ion batteries are not perfect. They are the best we have now but there are imperfections that result in many scientists looking for better alternatives. If the predictions about supercapacitors prove correct it is only a matter of time before lithium gets left behind. Will this be in two year, five years or 10? Its all in the timing and even one year is a long time for markets.

The Weekly might not be published over the Christmas New Year period, or its content may be truncated. It depends upon what is happening in the world, and what else is happening at my Snowy Mountains retreat. This is the first time I will have internet down there, courtesy of the NBN satellite, so communications are now technically possible.

🎄 *I'll take this opportunity to wish you all a Merry Christmas and a Happy New Year. I hope that my writings have been helpful and at times even entertaining over the past year. Most importantly, I hope they have assisted you in meeting your investment objectives.* 🎄🎄

Sentiment Indicator: The weaker gold price caused a softer sentiment over the week. There were 27% (28%) of the charts in uptrend and 44% (41%) 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.

Indices	Code		Trend Comment	
All Ordinaries	XAO		**sitting above the long term resistance line**	
Metals and Mining	XMM		back to recent highs	
Energy	XEJ		continues to improve	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		strongly higher, then heavy pullback	gold
Aeon Metals	AML		at highs	copper + cobalt
Alacer Gold	AQG		down heavily	gold – production
Alkane Resources	ALK		breached uptrend	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Aguia Resources	AGR		down again	phosphate
Alicanto Minerals	AQI		testing downtrend	gold exploration
Alltech Chemicals	ATC		sideways	industrial minerals
Anova Metals	AWV		**slump**	gold
Antipa Minerals	AZY		back in downtrend	gold
Apollo Consolidated	AOP		**breached uptrend**	gold exploration
Archer Exploration	AXE		breached downtrend	magnesite, graphite
Argent Minerals	ARD		testing downtrend	polymetallic
Aspire Mining	AKM		down	coal
Atrum Coal	ATU		down	coal
Aurelia Metals	AMI		**nudging resistance line**	gold + base metals
Auroch Minerals	AOU		improving	exploration
Aus Tin	ANW		**sideways**	tin, cobalt
Australian Bauxite	ABX		turned down at resistance	bauxite
Australian Potash	APC		down	potash
Australian Vanadium	AVL		breach of downtrend	vanadium
Avanco Resources	AVB		rising	copper
AWE	AWE		testing downtrend	oil and gas
Azure Minerals	AZS		downtrend	silver
BHP	BHP		back to highs	diversified
Base Resources	BSE		rising	mineral sands
Bathurst Resources	BRL		correcting lower	coal
Beach Energy	BPT		steeply rise	oil and gas
Beadell Resources	BDR		lower	gold
Berkeley Resources	BKY		breached uptrend	uranium
Blackham Resources	BLK		downtrend	gold
Broken Hill Prospect.	BPL		adjusted after Cobalt Blue distribution	minerals sands, cobalt
Buru Energy	BRU		testing downtrend	oil

Canyon Resources	CAY		testing downtrend	bauxite
Cardinal Resources	CDV		collapse	gold exploration
Carnegie Wave	CWE		testing uptrend	wave energy
Cassini Resources	CZI		down	nickel/Cu expl.
Chalice Gold	CHN		holding uptrend	gold
Crusader Resources	CAS		new low	gold/iron ore
Dacian Gold	DCN		collapse on bungled capital raising	gold exploration
Danakali	DNK		sideways	potash
De Grey	DEG		sideways	gold
Doray Minerals	DRM		down	gold
Duketon Mining	DKM		testing downtrend	nickel
Eden Energy	EDE		sideways	carbon nanotubes in concrete
Energia Minerals	EMX		down	zinc
Evolution Mining	EVN		down	gold
Excelsior Gold	EXG		rallying	gold
Finders Resources	FND		strong uptrend	copper
First Australian	FAR		sideways to lower	oil/gas
First Graphite	FGR		testing ST resistance line	graphite
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		rising again	lithium
Galilee Energy	GLL		breached downtrend	oil and gas, CBM
Gascoyne Resources	GCY		down	gold
Geopacific Res. Resources	GPR		down	copper/gold exp.
Global Geoscience	GSC		breached downtrend	lithium
Gold Road	GOR		breached downtrend	gold exploration
Graphex Mining	GPX		downtrend	graphite
Herron Resources	HRR		breaching downtrend	zinc
Highfield Resources	HFR		testing uptrend	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		back in downtrend	copper
Hot Chilli	HCH		testing downtrend	copper
Iluka Resources	ILU		strong breach of downtrend	mineral sands
Image Resources	IMA		building a base	mineral sands
Independence	IGO		pullback	gold, nickel
Intrepid Mines	IAU		sideways - 7¢ capital return proposed	copper
Karoon Gas	KAR		heavy fall	gas
Kibaran Resources	KNL		breached support line	graphite
Kin Mining	KIN		breached uptrend	gold
Legend Mining	LEG		strong surge, then a slump	exploration
Lithium Australia	LIT		downtrend	lithium
Lucapa Diamond	LOM		recapturing uptrend	diamonds
Macphersons Res.	MRP		down	silver
Medusa Mining	MML		still in long term downtrend	gold
Metals of Africa	MTA		vertical rise	graphite
MetalsX	MLX		downtrend	tin, nickel
Metro Mining	MMI		rising	bauxite
Mincor Resources	MCR		down	nickel
Mineral Deposits	MDL		rising again	mineral sands
Mustang Resources	MUS		at lows	diamonds, rubies
MZI Resources	MZI		still in downtrend	mineral sands
Northern Minerals	NTU		breaching uptrend	REE
Northern Star Res.	NST		selldown	gold
Oceana Gold	OGC		testing downtrend	gold
Oklo Resources	OKU		breached downtrend	gold expl.
Orecorp	ORR		down	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		strongly higher	lithium
Oz Minerals	OZL		new high	copper

Paladin Energy	PDN		down again	uranium
Pacific American Coal	PAK		breached downtrend	coal, graphene
Pantoro	PNR		breached steepest uptrend	gold
Panoramic Res	PAN		rising wedge	nickel
Paringa Resources	PNL		strong recovery	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		sideways	uranium
Perseus Mining	PRU		collapse on operations update	gold
Pilbara Minerals	PLS		breached downtrend	lithium/tantalum
PNX Metals	PNX		strong surge	gold, silver, zinc
Potash West	PWN		falling	potash
Red River Resources	RVR		still in uptrend	zinc
Regis Resources	RRL		down	gold
Resolute Mining	RSG		breached support line	gold
Reward Minerals	RWD		strong rise	potash
Rex Minerals	RXM		back to lows	copper
RIO	RIO		still strong	diversified
RTG Mining	RTG		breached support line	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		down	gold
St Barbara	SBM		down	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		down	silver
Santos	STO		rising	oil/gas
Sheffield Resources	SFX		rising again	mineral sands
Silver Lake Resources	SLR		rising	gold
Silver Mines	SVL		down	silver
Sino Gas & Energy	SEH		breaching downtrend	gas
Southern Gold	SAU		down	gold
Stanmore Coal	SMR		breached steep uptrend and turning down	coal
Sundance Energy	SEA		new uptrend confirmed	oil/gas
Syrah Resources	SYR		rallied to resistance	graphite
Talga Resources	TLG		sideways	graphene
Tanami Gold	TAM		breached uptrend	gold
Teranga Gold	TGZ		down heavily	gold
Tiger Realm	TIG		surging higher	coal
Tiger Resources	TGS		breaching downtrend	copper
TNG Resources	TNG		breached uptrend	titanium, vanadium
Torian Resources	TNR		down	gold expl’n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		down	gold exploration
Vimy Resources	VMY		new low	uranium
West African Resources	WAF		down	gold
Westwits	WWI		ST downtrend	gold exploration/development
Western Areas	WSA		up again	nickel
White Rock	WRM		breached downtrend	silver
Whitehaven Coal	WHC		heavy correction	coal
WPG Resources	WPG		down	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	27%	38	Uptrend	
	44%	62	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	33	23.4%	
Copper	14	9.9%	
Gold Exploration	12	8.5%	
Oil/Gas	9	6.4%	
Potash/Phosphate	7	5.0%	
Mineral Sands	7	5.0%	
Graphite	6	4.3%	
Zinc	5	3.5%	
Silver	6	4.3%	
Lithium	5	3.5%	
Nickel	5	3.5%	
Uranium	5	3.5%	
Coal	10	7.1%	
Tin	2	1.4%	
Bauxite	3	2.1%	
Iron Ore	1	0.7%	
Diamonds	2	1.4%	
Other	9		
Total	141		