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

18 August 2018 Charts on Friday's Close Analyst : Warwick Grigor

Uncertainty on a number of fronts is keeping the buyers away

The biggest influence on financial markets continues to be the strength of the US dollar. Money is flowing back into the US from all around the world as investors are chasing the greenback as the safest currency. The longer this trend continues the more likely that we will see a reversal (eventually). The US economy continues to be very strong and the likelihood of further interest rate rises strengthens along with it. The tipping point may be when expectations are met and interest rates rise to such a point that they will have a negative effect on business conditions. Remember that punters always try to pick the peak and act in anticipation.

In the meantime the Metals and Mining Index is continuing with its downtrend as money is moving elsewhere. It is now down almost 10% from its high of only a few months ago. Energy seems the only place to have been where you could have made profits recently. That means oil and gas, coal and maybe, just maybe, uranium. The All Ords continues to make new highs but it is not being fuelled by resource stocks.

No property pain of magnitude … so far

The property boom has definitely run its course in Australia with the heat being taken out of the market. We are seeing an increasing number of articles talking about how prices have come off, but so far the reversal in the market hasn't caused any dramatic pain. If this scenario continues it will go down as one of the best managed property booms we have seen. There has been no blood on the floor so far with an absence of corporate failures. Are we past the danger point yet, or are there some up-coming casualties that haven't yet surfaced? Keep a watching brief.

Uranium; a cyclical turn or a new thematic?

There is an increasing number of articles and commentaries suggesting that the uranium business is turning around with closures of mines being an important element. The latest missive was a well reasoned paper by Larry Hill of Canaccord in which he queries whether it was time for uranium to move. The real question to ask though, is whether uranium has been oversold and has therefore arrived at a turning point, or whether there is an emerging overwhelming thematic that is going to cause a strong growth curve. If the answer is the first alternative, then it is just another turn in a cycle as the industry adapts to changing supply levels. Share prices will improve along with a sigh of relief. If it is the latter, then it will suck in money and gather momentum based on enthusiastic expectations.

While tightening of mine supply should lead to a better uranium price, it takes much more than that to herald a new boom. It will lift the industry off the canvas, but what is the next stimulus to enable a gathering of momentum? How easily will mines that have been shut down be brought back on line? At what point does Japan start to offload its large stockpiles, that it no longer wants or needs? Those companies that are already producing uranium can breathe a little more easily, but can emerging producers receive the confidence necessary to commission new mines?

We have known for a long time that nuclear power is the safest, greenest form of electricity that we can produce, but social and environmental groups have black-balled nuclear power. Are they going to change their minds now, when the increasing subsidisation of alternative energy has led to lower costs (though still not as low as nuclear). If you think so, then go ahead and buy up uranium stocks, but the same sort of people who are against nuclear power are also pushing to de-sex the English language. They are irrational. Maybe you can figure them out, but I can't.

When uranium boomed in the noughties it was after being in the wilderness in the 20 years since Chernobyl, in 1986. Just when the world was starting to re-embrace nuclear power, we had Fukushima in 2011. This was a serious blow to confidence in the nuclear power sector and it wiped out 80% of the value of uranium shares overnight. How many times will investors be willing to expose themselves to such a risk. Maybe the younger guys in the investment community are impervious to the risks, and maybe one day they will control the money flows, but the collapse of uranium share prices is still an open wound for many experienced investors.

If you buy uranium shares today it must be because of seriously favourable economics on a company and project basis, not because some people are predicting a boom in the uranium sector. Thus you should be buying on fundamentals and not hype. There is one other very important point to consider, that I learnt from my 12 year experience on the board of Peninsula Energy. Producing uranium economically is not enough on its own. You have to be able to sell it to utilities. It is about successful marketing to very conservative utilities that don't like buying from companies with only one source of production. They want reliability and diversity of supply. Keep that in mind if you are thinking of investing in a single mine, emerging uranium producer, as well as whether the team has any uranium production experience.

Turkey and the falling gold price

Gold took a slug on Monday, and continued to fall thereafter, due to speculation that Turkey might have to sell gold to shore up the lire. Journalists were trying to raise drama levels by saying that Turkey's issues could lead a collapse of emerging markets elsewhere, throwing the word contagion into the mix for good effect. Really? This is another example of the media trying to beat up events to a dramatic maximum without conducting a thoughtful and sensible analysis. What is happening in Turkey is more about politics than pure economics.

Trump has imposed higher tariffs on Turkish steel and aluminium but the vulnerability of the Turkish lire is more about the domestic politics of that country as Erdogan seeks to do a King Canute and exercise dictatorial control, refusing to allow domestic interest rates to rise in response to inflation running at 15% p.a. and a current-account deficit exceeding 5% of GDP We are seeing an increasingly uncertain future for Turkey because of one man's obsession to hold and strengthen his power. (The country's new finance minister is Erdogan's son-in-law).

To roll out the contagion word is more of an attempt to incite fear than to accurately reflect Turkey's influence on the world economy. True, there are many businesses in Turkey that have borrowed heavily in foreign currencies, but in terms of trade Turkey accounts for only 1.3% of the world's traded goods. Euro-area banks have lent Turkey about US$150bn with US$80bn of this being attributable to Spanish banks, but even this amount, if written-off, would cost only 1-12% of their group equity. It would be painful but not life threatening.

The impact on stock markets is more about the uncertainty of what is happening next as opposed to the certain impact of what has already happened. Markets don't like uncertainty. Fear will push markets down.

NEG is a symptom of failed energy policy, not a cure

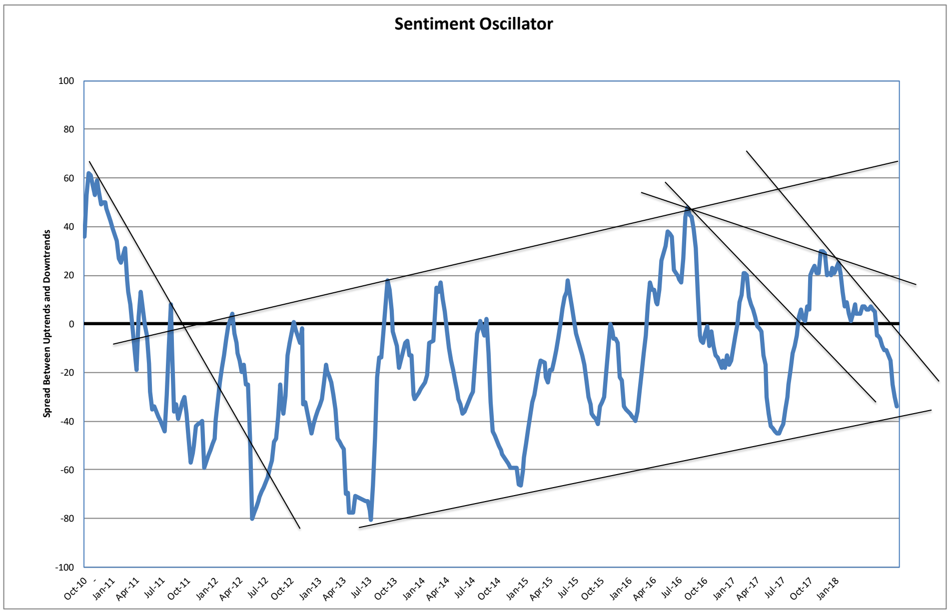
I sit back and look at the in-fighting going on about the NEG. We wouldn't even be considering the NEG had the respective governments in Australia not already destroyed one of the country's great competitive advantages through inept management.

Having crippled our electricity industry by introducing left wing and greenie inspired polices, with stupid belief that alternative energy can become the backbone of electricity generation, we now find the Federal Government is trying to gain kudos by inventing the NEG when really it is just another chapter in the circus full of merry-go-rounds being ridden by clowns. This government is too concerned with fixing problems rather than providing us with a workable inspiration for the future. We should never have reached this position if the governments had been half competent.

Disclosure: Interests associated with the author own shares/options in Peninsula Energy..

FlexeGRAPH closing its seed raising

A few weeks ago we mentioned that FlexeGRAPH was undertaking a SAFE agreement raising for graphene-based coolants. A few investors took advantage of the opportunity and the issue is now in the process of settling.



Sentiment Indicator: We are very close to the support line. If this holds, we can start to buy again. If it is breached, there is more pain to come; probably capitulation. 20% (21%) of the charts were in uptrend and 54% (51%) 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		at highs	
Metals and Mining	XMM		holding	
Energy	XEJ		at highs	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Adriatic Resources	ADT		down now	zinc
Aeon Metals	AML		breached support line	copper + cobalt
Alacer Gold	AQG		heavy fall	gold – production
Alkane Resources	ALK		breached long term support line	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Alchemy Resources	ALY		base forming	nickel, cobalt
Alicanto Minerals	AQI		down	gold exploration
Allegiance Coal	AHQ		holding LT uptrend	coal
Alliance Resources	AGS		continuing down	gold exploration
Altech Chemicals	ATC		holding on support line	industrial minerals - synthetic sapphire
Anova Metals	AWV		new low on poor production report	gold
Apollo Consolidated	AOP		rallying	gold exploration
Archer Exploration	AXE		breach of support	magnesite, graphite
Argent Minerals	ARD		down	polymetallic
Aurelia Metals	AMI		new high	gold + base metals
AusTin	ANW		new low	tin, cobalt
Australian Bauxite	ABX		surged through downtrend	bauxite
Australian Potash	APC		testing downtrend	potash
Australian Mines	AUZ		down	cobalt/nickel
Australian Vanadium	AVL		new high	vanadium
Bounty Coal	B2Y		below issue price	coal
BHP	BHP		downside brake from wedge	diversified
Base Resources	BSE		sideways, but softer last week	mineral sands
Bathurst Resources	BRL		sideways	coal
Battery Minerals	BAT		collapse to new low	graphite
BBX Minerals	BBX		down	gold
Beach Energy	BPT		near highs	oil and gas
Beadell Resources	BDR		another new low	gold
Bellevue Gold	BGL		testing resistance	gold
Berkeley Energia	BKY		breached downtrend, but pullback	uranium
Berkut Minerals	BMT		new low	cobalt
Blackham Resources	BLK		down again	gold
Blackstone Minerals	BSX		new low	gold, cobalt
Broken Hill Prospect.	BPL		down	minerals sands, cobalt
Buru Energy	BRU		slump	oil
Cardinal Resources	CDV		testing uptrend, down	gold exploration
Cassini Resources	CZI		sideways	nickel/Cu expl.
Celsius Resources	CLA		back in downtrend	copper/cobalt
Chalice Gold	CHN		testing downtrend	gold
Cobalt Blue	COB		free fall on study results	cobalt
Comet Resources	CRL		new low	graphite/graphene
Crusader Resources	CAS		spike out of downtrend	gold/iron ore
Dacian Gold	DCN		down heavily	gold exploration
Danakali	DNK		breached uptrend	potash
Doray Minerals	DRM		trying to hold uptrend	gold

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Eden Innovations	EDE		down	carbon nanotubes in concrete
Egan Street Resources	EGA		new low	gold
Emerald Resource	EMR		surge out of downtrend	gold
Evolution Mining	EVN		down	gold
Excelsior Gold	EXG		down	gold
FAR	FAR		uptrend emerging	oil/gas
First Cobalt	FCC		new low	cobalt
First Graphene	FGR		holding uptrend	graphene
Frontier Diamonds	FDX		new low	diamonds
Fortescue Metals	FMG		rallied out of steepest, but still in LT downtrend	iron ore
Galaxy Resources	GXY		longer term downtrend confirmed	lithium
Galilee Energy	GLL		retaining uptrend	oil and gas, CBM
Gascoyne Resources	GCY		down	gold
Global Geoscience	GSC		breached uptrend	lithium
Gold Road	GOR		new high	gold exploration
Golden Rim	GMR		new low	gold exploration
Graphex Mining	GPX		new low	graphite
Heron Resources	HRR		downtrend persisting	zinc
Highfield Resources	HFR		down again	potash
Highlands Pacific	HIG		still in uptrend	copper, nickel
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		crunched down	mineral sands
Image Resources	IMA		resumed LT uptrend	mineral sands
Independence Group	IGO		breached support line	gold, nickel
Jervois Mining	JVR		strong bounce	nickel/cobalt
Karoon Gas	KAR		new low	gas
Kasbah Resources	KAS		still in downtrend	tin
Kibaran Resources	KNL		sideways	graphite
Kin Mining	KIN		trying to form a base	gold
Legend Mining	LEG		strongly higher	exploration
Lepidico	LPD		continuing down	lithium
Lithium Australia	LIT		testing downtrend	lithium
Lucapa Diamond	LOM		breached downtrend	diamonds
Macphersons Res.	MRP		rallying	silver
Mako Gold	MKG		down	gold
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		down again	tin, nickel
Metro Mining	MMI		fallen back to support	bauxite
Mincor Resources	MCR		breached uptrend	nickel
Mineral Deposits	MDL		strongly higher on takeover approach	mineral sands
Myanmar Minerals	MYL		testing uptrend	zinc
MZI Resources	MZI		bounced off low	mineral sands
Neometals	NMT		down	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		rallied back to resistance line	REE
Northern Star Res.	NST		still strong	gold
NTM Gold	NTM		continuing downtrend	gold
Oceana Gold	OGC		rising again	gold
Oklo Resources	OKU		down	gold expl.
Orecorp	ORR		breached downtrend	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		secondary downtrend	lithium
Oz Minerals	OZL		struggling with uptrend	copper
Pacific American Coal	PAK		still in uptrend	coal, graphene

Pantoro	PNR		pullback	gold
Panoramic Res	PAN		testing uptrend	nickel
Peel Mining	PEX		downtrend confirmed	copper
Peninsula Energy	PEN		risen to resistance line	uranium
Perseus Mining	PRU		breaching uptrend	gold
Pilbara Minerals	PLS		testing uptrend	lithium/tantalum
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		testing downtrend	polymetallic
Prodigy Gold	PRX		testing uptrend	gold exploration
Red5	RED		struggling	gold
Red River Resources	RVR		down	zinc
Regis Resources	RRL		down	gold
Resolute Mining	RSG		testing downtrend	gold
RIO	RIO		down	diversified
Salt Lake Potash	SO4		re-entering downtrend	potash
Saracen Minerals	SAR		down	gold
St Barbara	SBM		breached uptrend	gold
Sandfire Resources	SFR		down	copper
Santana Minerals	SMI		new low	silver
Santos	STO		back to highs	oil/gas
Sheffield Resources	SFX		rising again	mineral sands
Sino Gas & Energy	SEH		confirming uptrend	gas
Sipa Resources	SRI		sideways	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Sundance Energy	SEA		testing uptrend	oil/gas
Syrah Resources	SYR		new low	graphite
Talga Resources	TLG		down	graphite
Tanami Gold	TAM		slump	gold
Tiger Realm	TIG		down	coal
Triton Minerals	TON		down	graphite
Troy Resources	TRY		down	gold
Tyranna Resources	TYX		Sideways at the bottom	gold exploration
Vango Mining	VAN		correcting	gold
Vector Resources	VEC		back to lows	gold
Vimy Resources	VMY		testing downtrend	uranium
Volt Resources	VRC		down	graphite
West African Resources	WAF		breached downtrend, but then a slump	gold
Westwits	WWI		down	gold exploration/development
Western Areas	WSA		down	nickel
Whitehaven Coal	WHC		new high	coal
Totals	20%	27	Uptrend	
	54%	74	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	32	23.2%	
Gold Exploration	15	10.9%	
Coal	10	7.2%	
Copper	9	6.5%	
Graphite	9	6.5%	
Oil/Gas	8	5.8%	
Mineral Sands	7	5.1%	
Cobalt	7	5.1%	
Lithium	7	5.1%	
Zinc	6	4.3%	
Silver	3	2.2%	
Nickel	5	3.6%	
Potash/Phosphate	4	2.9%	
Uranium	3	2.2%	
Bauxite	2	1.4%	
Tin	3	2.2%	
Diamonds	3	2.2%	
Iron Ore	1	0.7%	
Other	4		
Total	138		

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