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 November 2017 *On Friday's Close* Analyst : Warwick Grigor

A stronger market and increasing volatility

After surging to new highs the leading indices took a breather mid week in a classic profit taking movement. This coincided with a weaker A$ and softer oil prices. We saw profit taking throughout the junior mining sector in stocks that had recently been very strong. Thus the volatility at this end of the market is on the rise. These are all symptoms of a good market.

A$ gold price is performing well

On Friday night the gold price jumped US$14.80/oz to US$1294/oz, a useful 1.16% improvement, but look at the A$ price and you will see it was up A$25.06/oz. The weakness in the A$ in recent weeks has been particularly useful to producers, such that our currency is almost back to the 2017 high seen early in July.

Dynamic markets require frequent realignment of expectations

The challenge at this point of the market cycle is to get in step with the current psychology. The bottom fishers are all making good profits, assuming they actually did pick the bottoms and didn't come in too early. In many cases these guys go over-weight in their fishing, so they look for a chance to take some money off the table on an improving market. They provide stock for more cautious investors who wait, to buy on break outs of downtrends.

As more and more people see that the direction has turned the question becomes "*when do I get in? Do I buy now, or do I wait for pullback*? *Will there be a pullback*". Fear of falling prices is replaced by fear of missing out. That is the stage of the market cycle that we are entering now. The pendulum has swung in favour of a rising market and this will suck more buyers into the game. The search is on for fundamentals to justify the psychology, not the other way around. That is how emotional markets work.

Spot LNG prices up by 55% in two months

LNG spot prices are at a two year high, rising 55% in the last two months. Demand for clean energy in China is the apparent cause, with Chinese demand expected to show a 44% increase, YoY, in 2017. This is good for Queensland and companies like Santos and Origin. Maybe this is the driver behind stories of an $11bn bid for Santos. It is time to brush off the files on other gas companies as, along with the oil price, the trend is towards higher prices.

Lepidico running hard on new lithium process

As lithium stocks continue to attract interest there has recently been very strong interest in Lepidico (LPD). It is coming from the technology end of the business, with a process that treats high-quality lithium micas such as lepidolite and zinnwaldite. These have previously been thought of as uneconomic when compared with spodumene or brine deposits. Its L-Max® process allows recovery of battery grade lithium chemicals such as lithium carbonate and lithium hydroxide.

The process involves the acid leaching of lithium mica slurry at atmospheric pressure and modest temperature followed by a series of purification steps, then precipitation of lithium carbonate. It avoids the energy intensive high temperature decrepitation and sulphate roasting needed for spodumene concentrates.

LPD has been carrying out pilot scale work on the process to date with a mini-plant achieving 2-3 kg/hr of lithium carbonate. The next step is to achieve a 3.6t/hr rate, which would give capacity of 3,000 tpa, while also working on a Feasibility Study for a plant that could produce 15-25,000 tpa of lithium carbonate. Results of this are due by mid 2018, which could lead to construction commencing late in 2018, for commissioning late in 2019.

There is the potential for this process to be a game changer for the lithium business as it could enable the exploitation of low cost supplies of mica rich feedstock. This material was previously of academic interest only. It is obviously being taken seriously by existing lithium companies as Galaxy Resources has just taken a 12% stake in the company. LPD aims to be fully integrated from mine site through to production of battery grade lithium materials.

There has been a surge of interest in the shares this week, with volumes of more than 120 mill. shares going through in the first four days, and almost 2,000 trades per day on the ASX. The shares have moved from 3.7¢ to 8.4¢. Thus it has been a feeding frenzy for day traders. The market capitalisation is now $168m with the shares resting at 5.9¢. Whether or not there is short term value at these prices depends upon whether it is FOMO or fundamentals that is driving the share price. If the process moves to wide-scale commercialisation there is a chance that it will fill any gaps in future supply, at a low cost. So, you should keep it on your radar if you follow lithium stocks

Aussie business conditions at 10 year high

The recent NAB survey last week declared that business conditions in Australia are at a 10 year high. There is no longer any talk of what happens when the property boom turns down, so there is no fear of a collapse. It may soften, but there is no talk of collapse. There is no talk of rising interest rates any more as inflation seems to be under control. Everything seems set for steady sailing. Maybe its a good thing that the government is off in its own introverted world, letting the rest of us get on with our lives.

Citizenship shamozzle

The Federal Government in Australia is crippled by an issue that no-one really cares about. The amount of time and money being wasted on the citizenship shamozzle is a disgrace. It shows us the puerile nature of our politicians and how useless they really are. We should sack them all and appoint an administrator for the next 12 months - or longer. Our Federal parliament and the sitting members are the laughing stock of the world.

The role of analysts

Previously I have written about the confused role of analysts in the finance sector. Well, the playing field is going to become even more murky, courtesy of regulators in Europe. The introduction of MIFID II (Markets in Financial Instruments Directive II) is soon to come into play, requiring asset managers to spell out how much they pay brokers for research, rather than having it hidden in overall fees. It could be said that this is part of the trend of asset managers relying less on brokers services and relying on their own resources instead, but the real reason is the increasingly invasive approach of the regulators.

Back in the late 1980s, when County NatWest was Australia's # 1 broker, it had a team of highly paid, very professional analysts. It was the first time that a broking house was built around the quality research model. The analysts called the shots when it came to corporate deals, with quality control of the deal being paramount to investment bankers who focus on underwriting and advisory fees. The business model worked well. It was something that the high integrity analysts were appropriately proud of at the time. However, the goal posts moved with brokerage rates coming under relentless pressure.

Everyone wants the best information. In the past this has been described as the earliest information, but if you get it too early you run the risk of getting inside information. So, the best information should now be described as the best interpretation and analysis of that information that everyone has equal access to. But, how is an investor going to know if that information and analysis is any good ahead of risking his money?

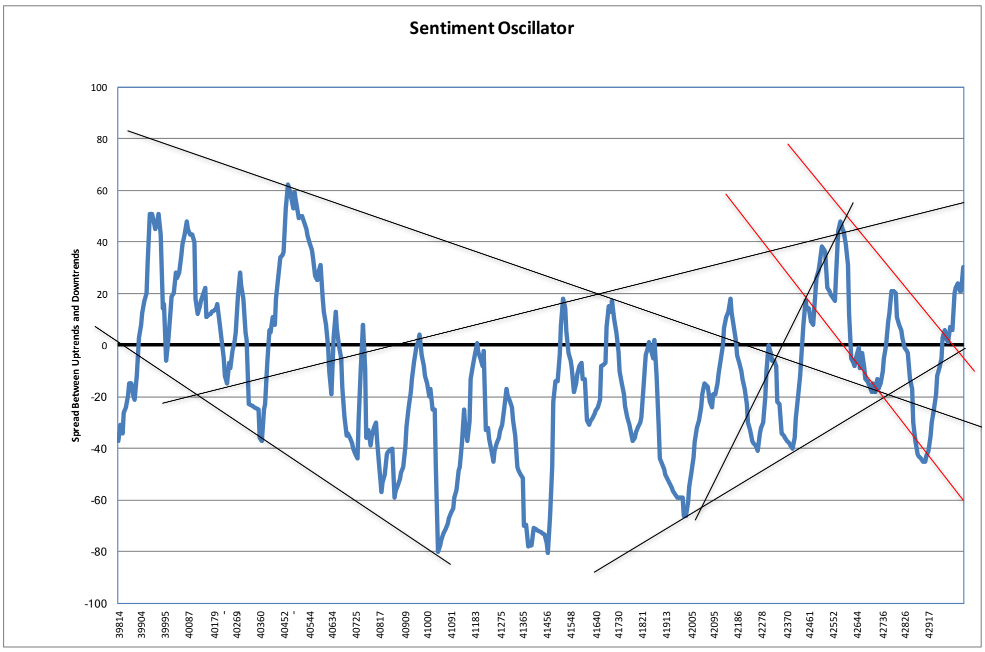
The trouble with sell side analysis is that brokers view it as a cost centre. Very few organisations are prepared to invest in the 10 years that it takes to develop a first class analyst. When a downturn comes along the normal approach is to retrench the better, highly paid analysts in favour of juniors that are less expensive and are more malleable. Experienced analysts become more cautious while junior analysts are happy to lead the charge of the light brigade. They are more pragmatic, especially when they learn how bonuses can be tied to corporate fees (even though this is against ASIC policy). At the end of the day, brokers rarely offer high integrity research products because their business models do not facilitate the development of quality analysis.

With the changes coming with MIFID II, it is likely that analysts will become more marginalised. Investors won't want to pay decent money for analysis when quality is so rare, and difficult to assess. Some larger fund managers will build their own analytical teams but they will suffer the same issues that brokers have had troubles with - the time and cost of developing quality research capability.

The regulators are motived by the desire to remove conflicts of interest as opposed to nurturing better quality analysis. They fail to understand that the markets can form their own views on conflicts of interest, and adjust accordingly. It would be fair to say that the experienced fund manager is more market savvy than your average regulator. They get to know how markets work and who you can trust, otherwise they don't last. Overlaying a proscriptive and paternalistic regulatory regime designed by lawyers removes the market's inbuilt ability to adjust to changing circumstances. It dumbs down the market. In the case of research, it is going to drive most of it from the market place. Markets will become less well-informed and we will see greater volatility and variance as stock movements become even more influenced by spin. They will become even greater casinos than they are now. But hey, the conflicts of interest will be removed, won't they?

Disclosure: FEC has no interest in the securities of shares listed above.

This week we have added Blackstone Minerals and Northern Cobalt to our stocks under chart coverage. Both are interesting, high grade cobalt companies.



Sentiment Indicator: The Sentiment Oscillator continued its upwards march last week, suggesting strongly that the market is going to get much hotter before it cools down. Keep an eye on this over the coming weeks for the signal when the market starts to "max-out". There were 49% (46%) of the charts in uptrend and 19% (25%) 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.

Indices	Code		Trend Comment	
All Ordinaries	XAO		pullback	
Metals and Mining	XMM		into a steeper uptrend now	
Energy	XEJ		new high	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		breached trend line	gold
Aeon Metals	AML		back to highs	copper + cobalt
Alacer Gold	AQG		testing uptrend	gold – production
Alkane Resources	ALK		**breached steepest downtrend**	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Aguia Resources	AGR		back in downtrend	phosphate
Alicanto Minerals	AQI		testing downtrend	gold exploration
Allegiance Coal	AHQ		**testing downtrend**	coal
Alliance Resources	AGS		sideways	gold exploration
Alltech Chemicals	ATC		stronger	industrial minerals
Anova Metals	AWV		falling again	gold
Antipa Minerals	AZY		sideways	gold
Apollo Consolidated	AOP		new high	gold exploration
Archer Exploration	AXE		strongly higher	magnesite, graphite
Argent Minerals	ARD		testing downtrend	polymetallic
Artemis Resources	ARV		Uptrend	gold, nickel
Aspire Mining	AKM		new low	coal
Aurelia Metals	AMI		upside breakout	gold + base metals
Auroch Minerals	AOU		continuing higher	exploration
Aus Tin	ANW		sideways	tin, cobalt
Australian Bauxite	ABX		breached uptrend	bauxite
Australian Potash	APC		slump back into downtrend	potash
Australian Mines	AUZ		working around highs	cobalt/nickel
Australian Vanadium	AVL		stronger	vanadium
Avanco Resources	AVB		sideways	copper
AWE	AWE		stronger	oil and gas
Azure Minerals	AZS		strong rise	silver
BHP	BHP		stronger	diversified
Base Resources	BSE		rallying	mineral sands
Bathurst Resources	BRL		heading down	coal
Battery Minerals	BAT		testing downtrend	graphite
BBX Minerals	BBX		suspended	gold
Beach Energy	BPT		rising	oil and gas
Beadell Resources	BDR		around lows again	gold
Berkeley Resources	BKY		spike on Cameco suspensions	uranium
Berkut Minerals	BMT		**spiked to new high**	cobalt
Blackham Resources	BLK		crunched down again	gold
Blackstone Minerals	BSX		**steep rise**	gold, cobalt
Broken Hill Prospect.	BPL		strongly higher	minerals sands, cobalt
Buru Energy	BRU		strongly higher	oil

Canyon Resources	CAY	correcting of recent high	bauxite
Cardinal Resources	CDV	testing uptrend	gold exploration
Cassini Resources	CZI	rising	nickel/Cu expl.
Chalice Gold	CHN	surge	gold
Cobalt One	CO1	back in downtrend	cobalt
Cobalt Blue	COB	spiked higher	cobalt
Comet Resources	CRL	pushing higher	graphite/graphene
Consolidated Zinc	CZL	downtrend being tested	zinc
Corizon Mining	CZN	down	cobalt
Crusader Resources	CAS	new low	gold/iron ore
Dacian Gold	DCN	rising again	gold exploration
Danakali	DNK	bounced off support line	potash
Doray Minerals	DRM	back in downtrend	gold
Draig Resources	DRG	new high	gold
Eden Innovations	EDE	new low	carbon nanotubes in concrete
Emerald Resource	EMR	sideways	gold
Energia Minerals	EMX	weak	zinc
Evolution Mining	EVN	gently stronger	gold
Excelsior Gold	EXG	new high	gold
Finders Resources	FND	stronger	copper
First Australian	FAR	testing uptrend	oil/gas
First Graphite	FGR	strong breach of downtrend	graphite
Fortescue Metals	FMG	testing longer term uptrend	iron ore
Galaxy Resources	GXY	steeply higher	lithium
Galilee Energy	GLL	surge out of downtrend	oil and gas, CBM
Gascoyne Resources	GCY	testing steeper downtrend	gold
Global Geoscience	GSC	new high	lithium
Gold Road	GOR	uptrend continuing	gold exploration
Graphex Mining	GPX	new uptrend	graphite
Heron Resources	HRR	testing downtrend	zinc
Highfield Resources	HFR	breached downtrend, but slipping again	potash
Highlands Pacific	HIG	correcting from recent high	copper, nickel
Hillgrove Resources	HGO	sideways	copper
Iluka Resources	ILU	surged higher	mineral sands
Image Resources	IMA	spiked higher	mineral sands
Independence	IGO	stronger	gold, nickel
Intrepid Mines	IAU	sideways	copper
Karoon Gas	KAR	spiked higher	gas
Kibaran Resources	KNL	breached downtrend	graphite
Kin Mining	KIN	rallying	gold
Legend Mining	LEG	rising	exploration
Lepidico	LPD	another steep rise	lithium
Lithium Australia	LIT	rising again	lithium
Lucapa Diamond	LOM	back to lows	diamonds
Macphersons Res.	MRP	downtrend	silver
Marmota	MEU	sideways	gold exploration
MetalsX	MLX	spiked higher	tin, nickel
Metro Mining	MMI	stronger	bauxite
Mincor Resources	MCR	spiked higher	nickel
Mineral Deposits	MDL	on support line	mineral sands
Mustang Resources	MUS	collapse	diamonds, rubies
Myanmar Minerals	MYL	rising on re-listing	zinc
MZI Resources	MZI	testing downtrend	mineral sands
Northern Cobalt	N27	strong rise	cobalt

Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		rising again	gold
NTM Gold	NTM		uptrend forming	gold
Oceana Gold	OGC		down after steep fall	gold
Oklo Resources	OKU		heavy correction	gold expl.
Orecorp	ORR		risen off lows	gold development
Orinoco Gold	OGX		collapse on 1 for 2 issue	gold development
Orocobre	ORE		stronger	lithium
Oz Minerals	OZL		bounced off support line	copper
Pacific American Coal	PAK		good bounce to meet resistance line	coal, graphene
Pantoro	PNR		breached uptrend	gold
Panoramic Res	PAN		surge through downtrend	nickel
Peel Mining	PEX		another spike on big zinc hit	copper
Peninsula Energy	PEN		testing downtrend	uranium
Perseus Mining	PRU		breaching uptrend	gold
Pilbara Minerals	PLS		steeply higher	lithium/tantalum
PNX Metals	PNX		sideways	gold, silver, zinc
Red River Resources	RVR		holding longer term uptrend	zinc
Regis Resources	RRL		near highs again	gold
Resolute Mining	RSG		sideways	gold
RIO	RIO		rising	diversified
Salt Lake Potash	SO4		new uptrend started	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		sideways at highs	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		short term down	silver
Santos	STO		steeply higher	oil/gas
Sheffield Resources	SFX		correcting after issue	mineral sands
Silver Lake Resources	SLR		heavy fall	gold
Silver Mines	SVL		down again	silver
Sino Gas & Energy	SEH		breached steepest downtrend	gas
Southern Gold	SAU		gentle LT uptrend	gold
Stanmore Coal	SMR		breaching long term support	coal
Sundance Energy	SEA		new uptrend started	oil/gas
Syrah Resources	SYR		stronger	graphite
Talga Resources	TLG		downtrend	graphene
Tanami Gold	TAM		down	gold
Tempo Australia	TPP		sideways to higher	mining services
Tiger Realm	TIG		spiked higher	coal
Torian Resources	TNR		new low	gold expl'n
Triton Minerals	TON		uptrend	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		spiked higher	gold exploration
Vango Mining	VAN		down	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		correcting	gold
Westwits	WWI		new uptrend on Pilbara deal	gold exploration/development
Western Areas	WSA		new uptrend	nickel
White Rock Minerals	WRM		sideways	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		sideways at bottom of steep fall	gold
Wolf Minerals	WLF		testing downtrend	tungsten
Totals	49%	71	Uptrend	
	19%	28	Downtrend	

		145	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	22.1%	
Gold Exploration	16	11.0%	
Copper	11	7.6%	
Coal	9	6.2%	
Oil/Gas	9	6.2%	
Mineral Sands	7	4.8%	
Graphite	8	5.5%	
Zinc	7	4.8%	
Silver	6	4.1%	
Lithium	6	4.1%	
Nickel	4	2.8%	
Potash/Phosphate	5	3.4%	
Cobalt	6	4.1%	
Uranium	3	2.1%	
Bauxite	3	2.1%	
Tin	2	1.4%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	8		
Total	145		

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