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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

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Charts on Thursday's Close

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Brexit is no bad thing and another graphite company is behaving badly

I usually look to take a few weeks off in June of each year as markets are usually labouring under the end of financial year slowdown. This year the tax selling wasn't as prevalent but there was still an easing of momentum due to the fact that markets have to take a breather from time to time, and due to the upcoming Federal election.

Near the end of the month the cat was thrown amongst the pigeons with the Brexit vote causing unnecessary panic in markets. Anyone who had liquidated positions earlier in June has been presented with buying opportunities, except for gold stocks, which moved strongly on the flight to gold on Friday 24th June. The strong performance of markets this week just goes to show that gut reactions of traders can be very wrong.

Nevertheless, a bout of volatility and uncertainty in markets brings with it some trading opportunities. There will be some winners and losers out of the changes, but there is nothing inherently bad about it for Australian companies. We have seen the positive impact on the gold price, confirming bullion's position as a safe haven, and that is good for many of our stocks.

Brexit in historical context of the EU

Looking at Brexit in historical context rather than taking a traders point of view helps to make sense of why it is happening. The original European Economic Community (EEC), sometimes called the Common Market, was formed in 1957 to foster trade and economic relations between six leading European nations; Belgium, France, Italy, Luxembourg, the Netherlands and West Germany.

In 1973, following extended negotiations, Denmark, Ireland and the UK joined the Community. Thereafter there was a series of treaties entered into with Greece, Spain and Portugal joining in 1986, and the agenda moved beyond mere trade. The European Parliament began exercising much greater muscle. Fast forward the timeline and we now have the Economic Union (established by the Maastricht Treaty in 1992), a politico-economic body of 28 member states with an internal single market with a standardised system of laws with a monetary union with the Euro as the currency.

The Euro has not been the success that was intended. It hasn't been a serious threat to the US$ as the primary trading currency. Cracks started to appear in the EU with the shockwaves from the GFC exposing flaws in the model. Countries such as Greece, Ireland, Italy, Portugal and Spain placed the European banking system under extreme strain. The inability of individual countries to adjust domestic currency exchange rates, due to the universal use of the Euro, severely hampered countries in their economic management (unlike Australia, which saw its exchange rate fall by 20-30% in a self adjusting process to restore competitiveness).

The breakdown of the EU commenced with the Greek debt crisis. There was a failure to impose strict discipline and the debt rescue packages breached key terms of the Maastricht Agreement. It was an epic fail on the economic management front. The smart move would have been to kick Greece out of the EU until its house was in order, then re-introduce it at more realistic levels. The trouble with that path though was that too many French and German banks ran the risk of failure.

The next epic fail of the EU came out of left field with the swarm of Syrian refugees seeking new homes in Europe. While Angela Merkel showed wonderful humanitarian compassion in taking on board hundreds of thousands of refugees into Germany, it was a serious overstepping of the mark to suggest that other European countries should be as generous. As we have seen in Australia, border security is very important to the man in the street and to national sovereignty.

During my university days I spent a year studying International Law. At the time I couldn't understand why we were taking it so seriously. Why would countries that have spent hundreds of years developing their own cultures and societies, fighting wars to protect their independence, voluntary hand over legislative and judicial powers to extraneous international organisations that have no accountability to local populations? It didn't make sense. Nevertheless, we have seen a rise of this scenario over the last 30 years, particularly in Europe. We have seen a campaign to homogenise cultures and countries. Brexit represents the the first road block to this trend.

An important point on the Brexit vote is that it was very close. Having such a line ball result is going to displease as many people as it pleases, meaning that conflict rather than harmony may result. Think of Brexit as a messy divorce that doesn't have a clear pathway. Perhaps the most important point to take out of the Brexit vote is the observation that it demonstrates another failure of the EU to achieve its idealistic goals. Long range forecasters will be saying that it confirms that die-back has set into the roots of EU. Its death will be the eventual result.

Is it time to buy "the market"?

We have had a great run since mid February, but four months is a long time in the mind of any trader. We have travelled the seasonal June influences and endured the longest Federal election campaign. To top it off we have had the unexpected turmoil from the Brexit referendum. Is this a good time to buy?

I can't see any overriding thematic that dictates we go out there and buy equities as a class of asset. It is certainly not a market like we saw in February, that was grossly oversold. It will take some weeks, or even months, before a head of buying pressure is likely to emerge.

Nevertheless, now is the time to be switching out of stocks that you don't need to own. It is time to ask yourself whether all the shares in your portfolio are *must haves*, and if not, you might as well turn them into cash or switch into more compelling situations. Watch the news flow at all times in a market that is fundamentally healthy.

Disgracefully Misleading Release by Bass Metals

Yesterday Bass Metals (BSM) brought out an ASX release that caused it to jump from 1.4¢ to 3.2¢, a rise of 128% in intra-day trading. It is good to have volatility in share prices that offer trading opportunities, but not when it is based on such an outrageously misleading release such as we saw yesterday.

Surprise surprise, it's all about graphite. Focusing on the heading of the presentation first, which sets the tone for the rest of the presentation, Bass says it is "*Transitioning to become Australia's only large flake graphite producer*". So far it has acquired a 6.25% investment in a Mickey Mouse graphite mine in Madagascar. It has the right to go to 100% by paying $1.5m cash and issuing $750,000 worth of shares, with milestone share payments of $3m and $5m if the production rate can be lifted to 5,000 tpa and 10,000 tpa of concentrates in the years ending December 2017 and 2018, respectively.

The deal covers the Loharano graphite mine that has been a millstone around the neck of Stratton Global Resources PLC for many years. This mine is a classic example of what can go wrong when you try to commission a graphite mine. I have dug out some research on this company written two years ago by a London broker;

"*We consider StratMin a turnaround story as continuous production at StratMin's Loharano Graphite Mine, located in Madagascar, was scheduled to commence in September 2013 and the mine was expected to produce around 12,000t per annum in 2014. Ramp up of the plant began in March 2013 and by June 2013 it was clear that there were unforeseen metallurgical issues with the plant as the 204t produced had a total graphitic carbon (TGC) content of 75%- 78% TGC lower than the +90% TGC expected and required to command higher prices.*

The upgraded management team then rapidly commissioned further metallurgical testing that was completed in November 2013. These tests revealed that silicates associated with the clay had a strong bond with the graphite flakes. As a result, these silicates could not easily be separated from the graphite using the existing processing stream, causing the production of a lower grade concentrate.

While the metallurgical issues have been frustrating for existing shareholders, initial signs are that the upgraded plant has addressed the production issues at a relatively low capex of c. $200,000. The mine is now expected to produce c. 200t of graphite concentrate per month, increasing to c. 300t per month by Q314".

The mine clearly hasn't performed to the expectations of the analyst who penned this research. The development of this mine has been nothing short of disastrous. Rather than misleadingly boasting about how it will be Australia's only large flake graphite producer, Bass should be disclosing what a problematic mine this has been, and it should be telling us how it is going to solve the problems given its extensive experience in graphite mining. At best the Company seems to have bought into a "lemon" (all 6.25% of it).

Lucapa Diamond Update

We are approaching the most productive time of the year for an Angolan diamond production company. The wet season is over and operations should be operating smoothly. In the case of Lucapa, it is the time when operations can be expanded and when drilling to define the shape of the kimberlite structure can proceed with earnest.

There could be a short term dysfunctional consideration though. LOM has applied for a renewal of the kimberlite exploration licence (as distinct from the 35 year alluvial production licence). There is no reason to believe it won't be renewed but the Angolan bureaucracy is notoriously slow. The Company has learnt that there is no merit in giving the market any guidance as to timing of a renewal. It just has to wait. The dysfunctional aspect comes into play because the Company has no motivation to generate good news flow beyond that which is procedural. As mining stocks need regular doses of positive news flow to keep up the enthusiasm of shareholders, any speed bump in the new flow can lead to a loss of momentum. The share price chart tells you that this is what is happening now.

The MD of Lucapa is currently in London briefing investors of operational progress and laying the groundwork for a London listing later this year. Maybe it will lead to some buying in the market ahead of a listing initiative, but perhaps the Brexit shenanigans will be too much of a distraction this week. In the longer run the London market offers the potential for sustained buying based on its greater appreciation of diamond stocks and its greater tolerance for African situations. Lucapa is still the best fundamental diamond play I have ever seen, notwithstanding any other comments.

We have deleted Regal Resources (RER) from our coverage due to the disgraceful recapitalisation being undertaken which places the big institutions ahead of the ordinary shareholders.

Sentiment Indicator: Following a slower month in June, there were 45% (49%) of the stocks in uptrend and 28% (27%) in downtrend. Some of the previous bullishness has abated.

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		testing four month uptrend	
Metals and Mining	XMM		breached uptrend	
Energy	XEJ		sideways	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		improving	gold
Aeon Metals	AML		sideways	copper + cobalt
Alacer Gold	AQG		breached steep uptrend	gold – production
Alkane Resources	ALK		continuing down	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Aguia Resources	AGR		testing downtrend	phosphate
Alicanto Minerals	AQI		testing downtrend again	gold exploration
Altlech Chemicals	ATC		strongly higher	industrial minerals
Anova Metals	AWV		new high	gold
Antipa Minerals	AZY		rising	gold
Archer Exploration	AXE		breached uptrend	graphite
Argent Minerals	ARD		heavy fall	polymetallic
Atlas Iron	AGO		down	iron ore
Atrum Coal	ATU		black to support line	coal
Aurelia Metals	AMI		new high	gold + base metals
Auroch Minerals	AOU		breaching uptrend	exploration
Australian Bauxite	ABX		drifting lower	bauxite
Avanco Resources	AVB		turning down	copper
AWE	AWE		resistance at 90¢	oil and gas
BHP	BHP		breached uptrend	diversified
Base Resources	BSE		steep rise from lows	mineral sands
Beach Energy	BPT		long term downtrend in play	oil and gas
Beadell Resources	BDR		breached uptrend	gold
Berkeley Resources	BKY		new high	uranium
Blackham Resources	BLK		new high	gold
Broken Hill Prospect.	BPL		strongly higher	minerals sands, cobalt
Buru Energy	BRU		new low	oil
Canyon Resources	CAY		strongly higher, then correcting	bauxite
Cardinal Resources	CDV		stepped up	gold exploration
Carnegie Wave	CWE		downtrend	wave energy
Cassini Resources	CZI		sideways within uptrend	nickel/Cu expl.
Chalice Gold	CHN		moved to new high	gold
Consolidated Tin	CSD		strong rise then pullback	tin
Consolidated Zinc	CZL		downtrend breached then heavy pullback	zinc
Coventry Resources	CYY		rising again	copper
Dacian Gold	DCN		new high	gold exploration
Danakiali	DNK		rising again	potash
Doray Minerals	DRM		new high	gold
Duketon Mining	DKM		pullback	nickel
Eden Energy	EDE		rallying	carbon nanotubes in concrete
Energia Minerals	EMX		new high then heavy correction	zinc
Evolution Mining	EVN		correcting lower	gold
Excelsior Gold	EXG		new low	gold
First Australian	FAR		down	oil/gas
First Graphite	FGR		pullback	graphite
Fortescue Metals	FMG		breakout upside	iron ore
Galaxy Resources	GXY		breached uptrend	lithium
Galilee Energy	GLL		still down	oil and gas, CBM
Gascoyne Resources	GCY		breached ST downtrend	gold
General Mining	GMM		testing steep uptrend	lithium

Geopacific Res. Resources	GPR		collapsed ahead of trading halt/suspension	copper/gold exp.
Gold Road	GOR		uptrend	gold exploration
Goldphyre	GPH		higher	potash,gold
Gryphon Minerals	GRY		new high on takeover bid	gold
Herron Resources	HRR		testing uptrend	zinc
Highfield Resources	HFR		consolidating after breaching downtrend	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		vertical rise on debt restructuring	copper
Hot Chilli	HCH		collapsed	copper
Iluka Resources	ILU		correcting after rise	mineral sands
Independence	IGO		breached LT downtrend	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoon Gas	KAR		testing downtrend	gas
Kasbah Resources	KAS		gentle downtrend	tin
KBL Mining	KBL		collapse to new low, and placement	copper/gold/zinc
Kibaran Resources	KNL		breached downtrend	graphite
Kin Mining	KIN		strong rise	gold
King Island Scheel.	KIS		new low	tungsten
Kingsgate Consol.	KCN		suspension	gold
Kingsrose Mining	KRM		down	gold
Legend Mining	LEG		gentle downtrend	exploration
Lithium Australia	LIT		ST down	lithium
Lucapa Diamond	LOM		testing uptrend	diamonds
Macphersons Res.	MRP		sideways to lower	silver
Medusa Mining	MML		turned down	gold
Metals of Africa	MTA		breached uptrend	zinc expl/graph.
MetalsX	MLX		breakout on the upside	tin, gold
Mincor Resources	MCR		new uptrend breached	nickel
MMJ PhytoTech	MMJ		new low	medical cannabis
Mustang Resources	MUS		testing downtrend	diamonds, rubies
MZI Resources	MZI		new low	mineral sands
Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		new high	gold
Oceana Gold	OGC		new high	gold
Oklo Resources	OKU		rising	gold expl.
Orecorp	ORR		sideways within uptrend	gold development
Orinoco Gold	OGX		rising again	gold development
Orocobre	ORE		through resistance and higher	lithium
Oz Minerals	OZL		breached uptrend	copper
Paladin Energy	PDN		new uptrend	uranium
Pacific American Coal	PAK		correcting after rise	coal, graphene
Pantoro	PNR		surge to new high	gold
Panoramic Res	PAN		sideways	nickel
Paringa Resources	PNL		secondary downtrend	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		new low	uranium
Perseus Mining	PRU		new high	gold
Pilbara Minerals	PLS		breached uptrend	lithium/tantalum
Potash West	PWN		heavy fall	potash
Red River Resources	RVR		new high	zinc
Regis Resources	RRL		new high	gold
Renaissance Min.	RNS		testing uptrend	gold
Resolute Mining	RSG		new high	gold
Reward Minerals	RWD		still down	potash
Rex Minerals	RXM		back to lows	copper
RIO	RIO		down	diversified
RTG Mining	RTG		secondary downtrend	copper/gold
Rum Jungle	RUM		new low	quartz
Salt Lake Potash	SO4		uptrend breached	potash

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Saracen Minerals	SAR		new high	gold
St Barbara	SBM		new high	gold
Sandfire Resources	SFR		breached ST downtrend	copper
Santana Minerals	SMI		strong rise	silver
Santos	STO		continuing stronger	oil/gas
Sheffield Resources	SFX		uptrend in play	mineral sands
Silver City Minerals	SCI		surge higher	base metals
Silver Lake Resources	SLR		secondary uptrend	gold
Silver Mines	SVL		resisted after reconstruction	silver
Sino Gas & Energy	SEH		new uptrend	gas
Southern Gold	SAU		testing uptrend	gold
Stavely Minerals	SVY		up from lows	copper exploration
Sunbird Energy	SNY		down	gas/CBM
Sundance Energy	SEA		surge higher	oil/gas
Syrah Resources	SYR		strongly higher	graphite
Talga Resources	TLG		surge higher, then a placement & pullback	graphene
Tanami Gold	TAM		rising again	gold
Tiger Resources	TGS		new low	copper
TNG Resources	TGS		drifting lower	titanium, vanadium
Torian Resources	TNR		breached downtrend	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		sideways through downtrenda	gold
Tyranna Resources	TYX		down	gold exploration
Vimy Resources	VMY		down	uranium
West African Resources	WAF		new high	gold
Westwits	WWI		sideways at lows	gold exploration/development
Western Areas	WSA		back to lows	nickel
WPG Resources	WPG		ST down	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	45%	61	Uptrend	
	28%	38	Downtrend	
		137	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	**34**	**24.8%**	

Weightings of Sectors Represented in the Company Charts			
Copper	16	11.7%	
Oil/Gas	10	7.3%	
Gold Exploration	11	8.0%	
Uranium	5	3.6%	
Graphite	5	3.6%	
Potash/Phosphate	7	5.1%	
Zinc	6	4.4%	
Nickel	5	3.6%	
Coal	4	2.9%	
Mineral Sands	5	3.6%	
Iron Ore	2	1.5%	
Tin	3	2.2%	
Lithium	5	3.6%	
Silver	4	2.9%	
Diamonds	2	1.5%	
Bauxite	2	1.5%	
Other	11		
Total	137		