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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

1 October 2016 *On Friday's Close* Analyst : Warwick Grigor

Making money in a sustainable business environment as opposed to a strong growth model

Working through the charts we see gentle improvement in sentiment. The oil sector in particular looks as if it wants to go higher. Nickel stocks have responded positively to the events in the Philippines. There seems to be enough buying coming back into the market for us to say that the two month period of correction is nearing the end.

While waiting for the next general buy signal …

As the newspapers are increasingly focusing on the theme that zero to low interest rates are not proving effective in stimulating growth, whilst at the same time failing to offer alternatives, stock market investors can reasonably wonder where this is taking us. The world is suffering from a lack of aggregate demand, which leads to a lack of growth. Without that demand there will be no inflation, so the issue is how to stimulate demand. Cutting prices would only be deflationary and so governments won't go there. So, does anyone have any ideas?

What we appear to have is sustainability. The more environmentally conscious would say that this is a good thing. It takes pressure off the world's resources. It introduces modesty and gives us the chance to thing about the concept of better rather than bigger, but it doesn't help those who want more. It doesn’t give us expansion and growth.

It is easy to make money in a rising tide. The six months from February to July was a perfect example. It was all about timing and going with the flow. Now that the easy money making window has closed and we have been digesting a two month period of profit taking and correction, how are we going to make the next dollar? Rather than just getting on board the escalator as it takes us to the next floor we are going to have to think more carefully.

If indeed we are working within a sustainable economic environment rather than an expanding one we can't just position ourselves for growth. We can't just assume that the proving of an orebody will lead to a profitable development. The period of high exploration activity from 2005 until 2013 has resulted in a pipeline of potential development projects that is chocker blocked. There is a very high level of competition amongst these projects vying for finance and a position in the supply curve. That means profits will be kept modest for the foreseeable future.

However, there will always be exceptions. We should be looking for those exceptions as they will be the lights to which the trading moths will be attracted. On the commodity front gold is the most obvious due to it being an investment medium as well as a commodity. The increase in the gold supply continues to be in the range of 1-2% p.a. as a long term average. That will never be enough to swamp the markets. Remember that the potential gold supply is limitless due to the vast amounts of gold in safes and the ability to short gold. What is important for the gold price is the level of demand from investors. That seems strong for the foreseeable future for a vast number of reasons. Companies that have gold mines literally have a licence to produce money that is not dependent upon economic growth alone.

The other exception to consider are the metals and commodities that will benefit from technological change, particularly that which people like to refer to as disruptive or game changing. Energy storage commodities are the most prominent at present as the world has veered off towards environmentally sustainable energy generation. This requires massive investment in the development of improved battery capability both in terms of technology and capacity.

You can focus on existing battery technology and that will take you into lithium, graphite and cobalt. We have had the lithium and graphite bubbles which are now receding, but we haven't had the cobalt bubble yet. Perhaps that is because of a dearth of genuine cobalt plays. The cobalt price hasn't been a driver yet, notwithstanding some predictions that it could triple in price due to shortfalls in supply. The wildcard is what happens in the DRC. As usual, we are waiting for something to ignite the speculators ‘ activity in the market as the signal that it is "game on".

Apart from these specific battery input commodities, investing in battery technology will be a more drawn out affair. It takes time to design and test new battery technology. As mentioned last week, the overall battery system has to improve, not just parts of a battery. There are a number of alternative designs that are being promoted, for different purposes. Which ones will dominate?

There seems to be a general view that graphene will play an important role in the future of batteries but like anything else, it takes time to optimise. Industry is only just starting to come to grips with how to deal with graphene as a material. It knows that graphene offers great potential but most of the work to date has been on highly specialised electronic and medical applications. These industries marvel at what can be achieved at relatively low cost, with advanced science, using CVD generated graphene.

But what about graphene as a commodity? Is it a commodity? Becoming a freely available commodity is an important step in making it accessible to industry. Bulk supplies are necessary at lower cost than can be achieved by CVD production. We are now seeing this scenario evolve with "top down" electrochemical exfoliation techniques being employed by First Graphite and Talga. We are seeing applications now being developed that will rely on the lower cost source of graphene. These require further advances in the functionalising of the graphene to facilitate its deployment into industry materials, but advances are being made.

While we have a sustainable economy there will be significant opportunities to make money from shifting trends and patterns within that economy. There will be winners and losers as money chases efficiencies from new business models, new production techniques and new technological developments that make industry and individuals smarter. Getting onto companies that are leaders in these frontiers will be where serious money will be made by investors. Traders may be peripheral players from time to time, when they feel inspired to act, but their attention will always be drawn to fields where they think the grass is greener.

Russians are buying gold, but who else?

The Russian Central Bank has reported that it bought 700,000 oz (21.77 tonnes) of gold in August, bringing its total purchases in 2016 to 133 tonnes. This is obviously taking gold out of the market, but we can only speculate as to what this means in the big picture.

As I have previously stated, gold sentiment is very important to the overall mining sentiment in Australian markets due to the large proportion of companies focusing on gold. At the moment the momentum in gold markets seems to have hit a flat spot. Flat spots result from a loss of momentum, and when momentum slows money will always leak to more active areas of the markets. Predicting the gold price is notoriously difficult. Momentum is the most important guide, but when that dissipates we have to take each day as it comes. What chances is there that gold will move higher in the near future?

The basis for the renewed interest in gold over the last 12 months comes from a number of fronts. Geopolitical instability is a factor as is uncertainty with the US Presidential election, with both of these being emotive. Fundamentally there is cause to be concerned about the direction of monetary policy and the effect of negative interest rates, making a decision to hold gold both easy and low cost. There is minimal opportunity cost. It is a way to store and preserve a proportion of wealth in an uncertain environment.

What drives the gold price is the short term decisions of traders rather than wealth accumulators, and this is often done through trading derivatives to maximise leverage. It is the activity at the margins that suck short term profiteers to either buy or sell as they are sucked into the trading on the day. The gold price responds to news flow and at the moment, the most prominent news flow is that concerning the outlook for US interest rates.

One week a 104 carat, the next week 172 carats

The extraordinary quality of Lucapa's Lulo diamond mine is best demonstrated by the diamonds it is producing, in rapid succession. It was only last week that it reported a 104 carat D-colour diamond. Within a few days of that it has reported another, even bigger 172 carat diamond, also a D-colour.

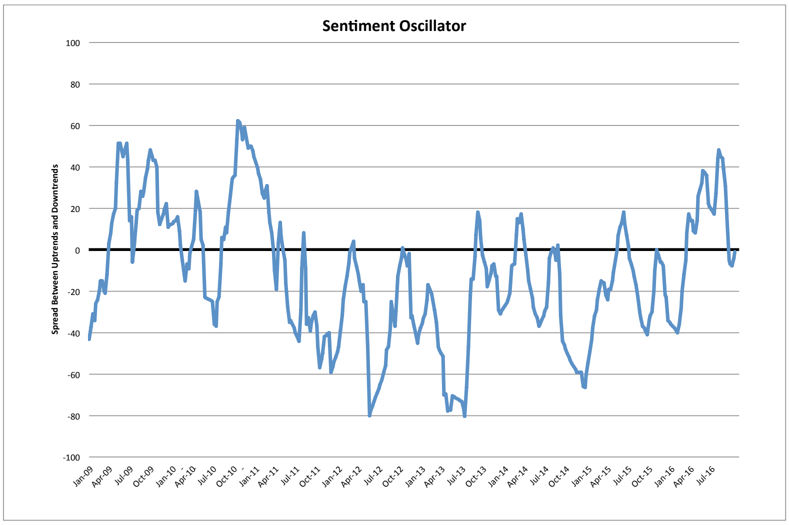
We believe that the source pipe has been identified and all we are waiting on now to confirm this is the drilling to 70-80m depths. We can only speculate as to the value of this pipe, but if it is throwing off high value stones such as the ones mentioned above, there is very little risk here. Speculation should be on just how good this one can be. Forgive me for being excited, but this is definitely a unique project.

For those of you who are wondering what Type IIa means, it is the high value type diamonds from a nitrogen-free environment. On average mines around the world have an average population density of 1-1.5% of these high value stones. Some months back LOM was finding that 37% of its stones were Type IIa. This is an extraordinary level that seems to be holding.

The stock market seems to have woken up to what is going on the with Lucapa share price rising strongly during the week, on high volume. An investor that was previously in the top two on the register has exited the stock, taking away the overhang that was frustrating the market.

FGR signs MoU for graphene separation device

First Graphite has taken another positive step in its plans to become a supplier of low cost high quality graphene to the market with the signing of an MoU with Flinders University, covering the Vortex Fluidic Device. This unit, developed by the award winning Prof. Colin Raston, is capable of taking the few layer graphene produced by FGR and reducing it to single layer graphene in a secondary processing step. The alternative method would be to employ sonication which can lead to defects and reduced platelet size. The VFD will have other uses in material handling and industry beyond the graphene.



Sentiment Indicator: Last week there were 31% (29%) of the stocks in uptrend and 32% (33%) in downtrend. The bulls are turning the tide.

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		rallied to hit resistance line	
Metals and Mining	XMM		breached support line	
Energy	XEJ		regaining support line	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		breaching downtrend	gold
Aeon Metals	AML		new high	copper + cobalt
Alacer Gold	AQG		stronger	gold – production
Alkane Resources	ALK		new high	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Aguia Resources	AGR		sideways	phosphate
Alicanto Minerals	AQI		up again	gold exploration
Altlech Chemicals	ATC		down	industrial minerals
Anova Metals	AWV		new high	gold
Antipa Minerals	AZY		testing downtrend	gold
Archer Exploration	AXE		downtrend	graphite
Argent Minerals	ARD		rallied to meet resistance line	polymetallic
Atrum Coal	ATU		new high	coal
Aurelia Metals	AMI		testing support line	gold + base metals
Auroch Minerals	AOU		rallied to meet resistance line	exploration
Aus Tin	ANW		breached uptrend	tin, cobalt
Australian Bauxite	ABX		turned down at resistance	bauxite
Australian Vanadium	AVL		downtrend	vanadium
Avanco Resources	AVB		rallying from lows	copper
AWE	AWE		Breaching downtrend	oil and gas
Azure Minerals	AZS		rallying	silver
BHP	BHP		strongly higher	diversified
Base Resources	BSE		sideways to higher	mineral sands
Beach Energy	BPT		breached downtrend	oil and gas
Beadell Resources	BDR		breaching downtrend	gold
Berkeley Resources	BKY		new high	uranium
Blackham Resources	BLK		on support line	gold
Broken Hill Prospect.	BPL		lower	minerals sands, cobalt
Buru Energy	BRU		sideways	oil
Canyon Resources	CAY		down	bauxite
Cardinal Resources	CDV		new high	gold exploration
Carnegie Wave	CWE		downtrend being tested	wave energy
Cassini Resources	CZI		stronger	nickel/Cu expl.
Chalice Gold	CHN		new high	gold
Consolidated Zinc	CZL		sideways at lows	zinc
Coventry Resources	CYY		ST down	copper
Crusader Resources	CAS		fallen to support line	gold/iron ore
Dacian Gold	DCN		pullback	gold exploration
Danakali	DNK		breaching support	potash
De Grey	DEG		sideways	gold
Doray Minerals	DRM		down	gold
Duketon Mining	DKM		rallying	nickel
Eden Energy	EDE		rallying	carbon nanotubes in concrete
Energia Minerals	EMX		down	zinc
Evolution Mining	EVN		rallying from support line	gold
Excelsior Gold	EXG		breaching downtrend	gold

First Australian	FAR		sideways	oil/gas
First Graphite	FGR		breached support line	graphite
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		heavy fall	lithium
Galilee Energy	GLL		breached downtrend	oil and gas, CBM
Gascoyne Resources	GCY		breaching support	gold
Geopacific Res. Resources	GPR		correcting lower	copper/gold exp.
Global Geoscience	GSC		heavy fall	lithium
Gold Road	GOR		breached uptrend	gold exploration
Goldphyre	GPH		short term down	potash,gold
Graphex Mining	GPX		down	graphite
Gryphon Minerals	GRY		new high on takeover bid	gold
Herron Resources	HRR		at highs	zinc
Highfield Resources	HFR		rallying	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		coming off high in a retracement	copper
Hot Chilli	HCH		new low	copper
Iluka Resources	ILU		rallying	mineral sands
Image Resources	IMA		down	mineral sands
Independence	IGO		rallying	gold, nickel
Intrepid Mines	IAU		sideways - 7¢ capital return proposed	copper
Karoon Gas	KAR		sideways	gas
Kibaran Resources	KNL		heading lower	graphite
Kin Mining	KIN		breached short term correction	gold
King Island Scheel.	KIS		new low	tungsten
Kingsgate Consol.	KCN		suspension	gold
Kingsrose Mining	KRM		rising off lows	gold
Legend Mining	LEG		breach of gentle dwontrend	exploration
Lithium Australia	LIT		downtrend	lithium
Lucapa Diamond	LOM		recapturing uptrend	diamonds
Macphersons Res.	MRP		sideways	silver
Manas Resources	MSR		rising	gold
Medusa Mining	MML		breached ST downtrend	gold
Metals of Africa	MTA		back to previous lows	zinc expl/graph.
MetalsX	MLX		fallen to support line	tin, gold
Metro Mining	MMI		correcting within uptrend	bauxite
Mincor Resources	MCR		rallying	nickel
Mineral Deposits	MDL		rallying out of breached	mineral sands
Mustang Resources	MUS		breached downtrend	diamonds, rubies
MZI Resources	MZI		breached uptrend	mineral sands
Northern Minerals	NTU		rising	REE
Northern Star Res.	NST		rallying	gold
Oceana Gold	OGC		heavy correction	gold
Oklo Resources	OKU		ST down	gold expl.
Orecorp	ORR		pullback	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		down	lithium
Oz Minerals	OZL		testing uptrend	copper
Paladin Energy	PDN		new uptrend	uranium
Pacific American Coal	PAK		breached uptrend	coal, graphene
Pantoro	PNR		surge to new high	gold
Panoramic Res	PAN		rising	nickel
Paringa Resources	PNL		sideways	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		falling again	uranium
Perseus Mining	PRU		breaching downtrend	gold
Pilbara Minerals	PLS		falling	lithium/tantalum
PNX Metals	PNX		strong surge	gold, silver, zinc

Potash West	PWN		falling	potash
Red River Resources	RVR		surge to new high	zinc
Regis Resources	RRL		**testing uptrend**	gold
Renaissance Min.	RNS		new high	gold
Resolute Mining	RSG		on support line	gold
Reward Minerals	RWD		strong rise	potash
Rex Minerals	RXM		back to lows	copper
RIO	RIO		**strongly higher**	diversified
RTG Mining	RTG		correcting	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		breaching uptrend	gold
St Barbara	SBM		**testing ST downtrend**	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		strong rise	silver
Santos	STO		heavy fall	oil/gas
Sheffield Resources	SFX		new high	mineral sands
Silver City Minerals	SCI		down	base metals
Silver Lake Resources	SLR		down	gold
Silver Mines	SVL		slump	silver
Sino Gas & Energy	SEH		sideways	gas
Southern Gold	SAU		uptrend continuing	gold
Sundance Energy	SEA		sideways	oil/gas
Syrah Resources	SYR		downtrend breached	graphite
Talga Resources	TLG		down	graphene
Tanami Gold	TAM		new high	gold
Tiger Resources	TGS		back to lows	copper
TNG Resources	TNG		surge through resistance	titanium, vanadium
Torian Resources	TNR		breached uptrend	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		**rising again**	gold exploration
Vimy Resources	VMY		down	uranium
West African Resources	WAF		rallying	gold
Westwits	WWI		breached ST downtrend	gold exploration/development
Western Areas	WSA		breaching resistance line	nickel
White Rock	WRM		down	silver
WPG Resources	WPG		improving following placement	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	31%	44	Uptrend	
	32%	45	Downtrend	
		142	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	37	26.1%	
Copper	14	9.9%	
Gold Exploration	11	7.7%	
Oil/Gas	9	6.3%	
Potash/Phosphate	7	4.9%	
Mineral Sands	7	4.9%	
Graphite	6	4.2%	
Zinc	7	4.9%	
Silver	6	4.2%	
Lithium	5	3.5%	
Nickel	5	3.5%	
Uranium	5	3.5%	
Coal	4	2.8%	
Tin	2	1.4%	
Bauxite	3	2.1%	
Iron Ore	1	0.7%	
Diamonds	2	1.4%	
Other	11		
Total	142		