

Momentum slowing on US interest rise banter

Banter concerning renewed likelihood of the US interest rate rising has dominated the markets over the past week. It started with a 2% fall in the gold price as a gut reaction to news flow, with the price continued at the lower levels. There was some slowing of momentum in the mining stocks as the week progressed, but there was no breakdown. The number of stocks in uptrend improved slightly. The firming oil price assisted with the strength in oil shares.

Elsewhere the revived dynamic of higher rates in the US had a general dampening effect as we are seeing the pendulum swing the other way. In Australia we are seeing a softer dollar, partly due to US events and partly due to our lower interest rate. Interestingly, the merits of a lower domestic interest rate are being debated by former Reserve Bank board members.

On balance the All Ords looks set for a pause and likely, a correction. Will the combination of the end of the financial year and the Federal election cause a slowing in June? Probably. After such a good few months in the market, particularly the miners, it would not be surprising to see profit taking and an adherence to the "sell in May and go away" syndrome, though there are never two years that are the same.

To disclose or not disclose, that is the question

We all know that the markets are not perfect and much of the imperfection comes about because a market place is where humans come together to do business. Humans are not perfect. Nevertheless it is where buyers and sellers gather to transact, either physically or more recently, on screens. Information that impacts upon the market is neither instant nor perfect.

The efficiency of the market is often measured by how quickly information is disseminated. The ASX has instituted a continuous disclosure policy whereby companies must bring news to the market within 24 hours in order that the market be fully informed, even where this can lead to half baked announcements that only give part of the picture. A good example of this was when an exploration company had to release results from a spectacular first hole in a drill program rather than wait until it could be viewed in context with the entire program. As it turned out the shares went for an almighty run on the first hole, then collapsed when the subsequent holes returned much lower grades. Volatility was exacerbated by a disclosure policy that prevented mature and sensible information management. The continuous disclosure rules can cause dysfunctional outcomes.

Accurate disclosure is a bigger problem

A constant problem for investors is the number of misleading ASX releases made by companies to the ASX. These range from over-enthusiasm and hyperbole that try to encourage spontaneous buying through to deception by omission and even outright untruths. The problems

become even more pronounced where there are technical issues of geology and metallurgy involved that require expertise to interpret. There will always be differences of opinions on interpretation and the debate around these differences will affect share prices.

During the week there was much discussion in the press about the tightening up on what companies can release to the market with Energia Minerals (EMX) being forced to withdraw numbers associated with a recently completed scoping study. The question to ask here is whether the ASX/ASIC would rather have the market less well informed, thereby increasing speculation and uncertainty, in preference to having the market misinformed or fully informed? Are the regulators saying they haven't got time to monitor all that goes out, and they don't have the budget to prosecute misstatements, so they won't allow companies to say anything? How does this fit with the objectives of continuous disclosure? Very poorly, I suggest. It's not very professional.

That begs the question of where analysts fit into the system going forward. If anyone is capable of sussing out the truth it is a professional analyst. Rather than attack analysts for "secret" briefings when they interview companies, isn't it time to acknowledge that analysts are out there trying to find the truth, and having found that truth, their job is to disseminate it into the market place. The fact that their clients might find out before the general market should be weighed up against the need for analysts, and their employers, to achieve an economic return on their endeavours and costs.

The market is sufficiently efficient that once the news or interpretation is in circulation it will be rapidly disseminated. An efficient market needs to allow analysts to do their jobs unencumbered, not terrorise them into being too scared to write anything other than what is already in the public domain. They should actually be one of the conduits by which information becomes fully public.

Batteries - how much graphite is actually needed?

There is plenty of talk of higher demand for batteries, but how does this translate to graphite demand and prices?

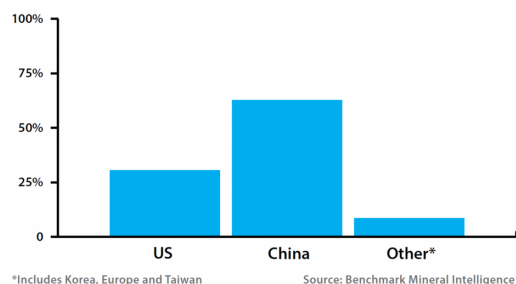
Benchmark Intelligence recently stated that demand for graphite used as anode material will increase by 200% over the next four years, from 80,000 t in 2015 to 250,000 t in 2020. Given the low conversion rate of flake to spherical, it estimates that 360,000 tpa of medium flake graphite will be needed in 2020.

Presently, 65% of all battery anode graphite is from natural graphite and 30% from synthetic graphite, which is much more expensive to make but more consistent in quality and therefore more reliable.

China supplies 100% of the world's spherical graphite and nearly 70% of new lithium-ion battery demand for raw materials will be coming from China. Investment in new

lithium-ion battery capacity out to 2020 is estimated at US \$12bn.

■ EXPECTED NEW LITHIUM ION BATTERY CAPACITY IN 2020



Flake graphite in oversupply and the price has fallen

The anticipated increase in demand for flake graphite is yet to impact upon its market price due to soft demand from the steel sector, which is still the largest consumer of flake graphite. As recently as 23rd March, Benchmark reported that weak flake concentrate demand had forced global capacity utilisation under 50% for a second consecutive year. Flake graphite prices had declined by 8.3% through the previous year. That is the opposite direction to the share prices of Syrah and Magnis.

Nevertheless, there seems to be an improving price for the spherical graphite (99.95% C, 15 micron); lifting from \$2,500-\$3,000 pt to \$2,800-\$3,200 pt).

Aurelia Metals turning the corner

This week we have added Aurelia Metals to the chart coverage following receipt of a presentation. It had previously been deleted due to serious problems it was having with its financier after a rocky start to production at the Hera gold-lead-zinc-silver project in NSW.

We frequently caution readers about commissioning risk. While some people see the start of a new mine as an exciting event, often it pays to sit on the sidelines for at least three months, particularly if there is high expectation already built into the share price. AMI's experience is a salutary lesson.

The first Hera ore went through the 350,000 tpa plant in August 2014. First up it was looking good but as the calendar turned over in to 2015, issues started to appear. The multi-metal ore necessitated a complex process flow sheet, but it was the adaptation of some innovative aspects that cause real problems (another lesson - be careful of doing things differently). Geko decided to use vertical shaft impact crushers but these didn't give the fragmentation that was required. The solution to this was to bring in contract primary and secondary crushing contractors to enable a 14mm product rather than the 25mm crush size that was being achieved with the vertical crushers alone. While costing more up front, this

was balanced by better performance elsewhere in the plant, particularly in wear and tear aspects.

Another weakness in the plant design was that the gravity circuit was not specifically designed for the Hera ore. Gravity gold recovery was initially only 40%, against expectations of 60%. A further \$1.8m had to be spent to get this working properly.

These speed bumps meant that the plant was operating below design capacity and revenue was not being maximised. Whereas the project was expected to be cash flow positive in Q1 of 2015, it didn't achieve this milestone until Q3, consuming \$20m of additional cashflow in the process. Effectively the commissioning period was almost 18 months.

The start-up problems caused Glencore, the financier, to take pre-emptive action. It looked like it was all-over-red-rover even before the party had started, but following some heavy duty discussions Glencore brought in expertise to help on the technical side and an arrangement was achieved on funding and debt repayments. Today there is an effective debt of \$125m but there is a two year moratorium on repayments or conversions. The Company has some breathing space.

The plant achieved name plate capacity in March 2016, following the modifications. It is now working well and gold is contributing 70% of the revenue as opposed to the 60% in the budget (looking at 50,000 oz p.a.). It now has a period in which to prove itself and generate cash flow and profits before the financing issues need to be addressed again, through conversion or repayment.

So, Aurelia presents itself as predominantly a gold producer capitalised at \$44m, having been through a traumatic birthing. The gold price will be very important going forward, as will the attitude of Glencore. The share price has performed well in recent months, showing there is an element of support in the market, but its balance sheet doesn't leave much room for initiatives. Nevertheless, where there is life there is hope. It is back on the radar.

Is MZI the worst performing mining stock?

Whilst on commissioning risks, it might be worth doing an assessment of MZI Resources, a new mineral sands producer. Its share was ramped up to 58¢ last October prior to a large, two tranche share placement; *tsk tsk*. It was lauded as the best new mining stock - a real story - but ever since then it has fallen into a hole with it hitting 22.5¢ this week. Is this another commissioning failure or is it a case of over exuberance from brokers pushing stock into the market? According to the quarterly report things seem to be going well, so why is the share price tanking? Its been a disaster for investors who took the placement at 42¢, so far. Maybe, just maybe, it could be a good rebound stock. We need to see what the next quarterly tells us about production.

Sentiment Indicator: Stocks in uptrend increased slightly over the week, but so did stocks in downtrend. That means that there were fewer fence sitters. There were 56% (54%) of the stocks in uptrend and 19% (16%) 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	consolidating around recent highs	
Metals and Mining	XMM	testing steepest uptrend	
Energy	XEJ	sideways after correcting	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	breached steepest downtrend	gold
Aeon Metals	AML	strong rise	copper + cobalt
Alacer Gold	AQG	testing steep uptrend	gold – production
Alkane Resources	ALK	at resistance line	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	punched through downtrend, then pullback	phosphate
Alicanto Minerals	AQI	uptrend with a pullback	gold exploration
Altech Chemicals	ATC	testing downtrend	industrial minerals
Anova Metals	AWV	new high	gold
Antipa Minerals	AZY	rising	gold
Archer Exploration	AXE	stronger	graphite
Argent Minerals	ARD	heavy fall	polymetallic
Atlas Iron	AGO	sharp fall	iron ore
Atrum Coal	ATU	surge higher	coal
Aurelia Metals	AMI	uptrend	gold + base metals
Auroch Minerals	AOU	uptrend	exploration
Australian Bauxite	ABX	correcting	bauxite
Avanco Resources	AVB	breached ST uptrend	copper
AWE	AWE	new high	oil and gas
BHP	BHP	breached downtrend	diversified
Base Resources	BSE	steep rise from lows	mineral sands
Beach Energy	BPT	breached secondary downtrend	oil and gas
Beadell Resources	BDR	testing uptrend	gold
Berkeley Resources	BKY	rising again	uranium
Blackham Resources	BLK	steeply higher then a pullback	gold
Broken Hill Prospect.	BPL	new high	minerals sands, cobalt
Buru Energy	BRU	new low	oil
Canyon Resources	CAY	rising	bauxite
Cardinal Resources	CDV	stepped up	gold exploration
Carnegie Wave	CWE	breached downtrend	wave energy
Cassini Resources	CZI	new uptrend	nickel/Cu expl.
Chalice Gold	CHN	moved to new high	gold
Consolidated Tin	Coven	strong rise then pullback	tin
Consolidated Zinc	CZL	secondary downtrend	zinc
Coventry Resources	CYY	strong rise	copper
Dacian Gold	DCN	uptrend , at high	gold exploration
Danakiali	DNK	off its lows	potash
Doray Minerals	DRM	new high	gold
Duketon Mining	DKM	new high	nickel
Eden Energy	EDE	new high	carbon nanotubes in concrete
Energia Minerals	EMX	testing uptrend	zinc
Evolution Mining	EVN	new high	gold
Excelsior Gold	EXG	new low	gold
First Australian	FAR	ST breached downtrend	oil/gas
First Graphite	FGR	pullback	graphite
Fortescue Metals	FMG	correcting	iron ore
Galaxy Resources	GXY	heavy profit taking	lithium
Galilee Energy	GLL	still down	oil and gas, CBM

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Gascoyne Resources	GCY		new high	gold
General Mining	GMM		heavy profit taking	lithium
Geopacific Res. Resources	GPR		rising again	copper/gold exp.
Gold Road	GOR		uptrend	gold exploration
Goldphyre	GPH		higher	potash, gold
Gryphon Minerals	GRY		strongly higher	gold
Herron Resources	HRR		gentle uptrend	zinc
Highfield Resources	HFR		heavy fall	potash
Highlands Pacific	HIG		testing downtrend	copper, nickel
Hillgrove Resources	HGO		new low	copper
Hot Chilli	HCH		new uptrend	copper
Iluka Resources	ILU		down heavily	mineral sands
Independence	IGO		continuing fall	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		bounced	gas
Kasbah Resources	KAS		sideways	tin
KBL Mining	KBL		collapse back to lows	copper/gold/zinc
Kibaran Resources	KNL		testing resistance	graphite
Kin Mining	KIN		strong rise	gold
King Island Scheel.	KIS		New low	tungsten
Kingsgate Consol.	KCN		improving	gold
Kingsrose Mining	KRM		sideways	gold
Legend Mining	LEG		testing uptrend	exploration
Lithium Australia	LIT		heavy profit taking	lithium
Lucapa Diamond	LOM		in a wedge between uptrend and downtrend	diamonds
Macphersons Res.	MRP		sideways to lower	silver
Medusa Mining	MML		testing uptrend	gold
Metals of Africa	MTA		testing downtrend	zinc expl/graph.
MetalsX	MLX		breached downtrend	tin, gold
Mincor Resources	MCR		new uptrend	nickel
MMJ PhytoTech	MMJ		new low	medical cannabis
Mustang Resources	MUS		new low	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		new high	gold development
Orinoco Gold	OGX		testing downtrend	gold development
Orocobre	ORE		through resistance and higher	lithium
Oz Minerals	OZL		testing uptrend	copper
Paladin Energy	PDN		new uptrend	uranium
Pacific American Coal	PAK		new high	coal, graphene
Pantoro	PNR		surge to new high	gold
Panoramic Res	PAN		risen strongly from lows, then pullback	nickel
Panterra Gold	PGI		breached new uptrend	gold production
Paringa Resources	PNL		secondary downtrend	coal
Peel Mining	PEX		breached downtrend	copper
Peninsula Energy	PEN		new low	uranium
Perseus Mining	PRU		new high	gold
Pilbara Minerals	PLS		new high	lithium/tantalum
Potash West	PWN		surged higher	potash
Red River Resources	RVR		new high	zinc
Regal Resources	RER		strong rise	copper
Regis Resources	RRL		new high	gold
Renaissance Min.	RNS		surged higher	gold
Resolute Mining	RSG		new high	gold
Reward Minerals	RWD		breaching downtrend	potash

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RIO	RIO		heavy pullback	diversified
RTG Mining	RTG		correcting lower	copper/gold
Rum Jungle	RUM		turned down at resistance line	quartz
Salt Lake Potash	SO4		uptrend	potash
Saracen Minerals	SAR		new high	gold
St Barbara	SBM		new high	gold
Sandfire Resources	SFR		breached ST downtrend	copper
Santana Minerals	SMI		vertical rise then pullback	silver
Santos	STO		breached uptrend	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
Sino Gas & Energy	SEH		new uptrend	gas
Southern Gold	SAU		testing uptrend	gold
Stavely Minerals	SVY		up from lows	copper exploration
Sunbird Energy	SNY		sideways through downtrend	gas/CBM
Sundance Energy	SEA		surge higher	oil/gas
Syrah Resources	SYR		strongly higher	graphite
Talga Resources	TLG		down, new low	graphene
Tanami Gold	TAM		down	gold
Tiger Resources	TGS		new low	copper
TNG Resources	TGS		secondary uptrend	titanium, vanadium
Torian Resources	TNR		downtrend	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		uptrend	gold
Tyranna Resources	TYX		uptrend	gold exploration
Vimy Resources	VMY		down	uranium
West African Resources	WAF		new high	gold
Westwits	WWI		breached downtrend then a pullback	gold exploration/development
Western Areas	WSA		uptrend, but heavy fall	nickel
WPG Resources	WPG		uptrend	gold
Wolf Minerals	WLF		testing downtrend	tungsten
Totals	56%	77	Uptrend	
	19%	26	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	35	25.4%
Copper	17	12.3%
Oil/Gas	10	7.2%
Gold Exploration	11	8.0%
Uranium	5	3.6%
Graphite	5	3.6%
Potash/Phosphate	7	5.1%
Zinc	6	4.3%
Nickel	5	3.6%
Coal	4	2.9%
Mineral Sands	5	3.6%
Iron Ore	2	1.4%
Tin	3	2.2%
Lithium	5	3.6%
Silver	3	2.2%
Diamonds	2	1.4%
Bauxite	2	1.4%
Other	11	
Total	138	

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