

21 October 2017

On Friday's Close

Analyst : Warwick Grigor

All Ords is giving us the lead as mining stocks continue to improve

During the week the All Ords finally broke out of a five month sideways pattern, spurting higher on a change of sentiment. It is difficult to see what the catalyst was other than looking at other markets around the world and wondering why ours was so lethargic. As if there was a dearth of real news the papers seemed full of nostalgia over the 1987 crash last week, to what end I am not sure.

The sentiment in the mining sector is overwhelmingly positive after three months of improvement. Everyone should be making money to a lesser or greater extent. The most money is being made by punters playing the hot sectors such as lithium and there is a strong appetite for speculative situations like the Pilbara gold conglomerate story, which continues to attract new players. A conservative analyst will always espouse caution with this type of play, but at the same time there can be significant trading profits for the nimble.

Australia is still in an awful mess with its energy policy and a Prime Minister that is looking like a "oncer". In New Zealand they have a cleanskin PM who didn't win the election, but somehow ended up in the top position. How is this result consistent with democracy? Angela Merkel is patching together another government in Germany, the American markets continue to believe that Donald Trump is their saviour, Brexit is still confusing the Brits and bombs are going off all around the world. About the only inspirational news out there is that markets are going higher in denial, or ignorance, of the messed up global politics. So whose complaining?

RIO is the ultimate wingman

This week we learnt that two senior executives of RIO are being charged with fraud due to that company's failure to write-down its Mozambique coal assets in a timely fashion, after it became apparent that infrastructure issues had completely destroyed the economics of the Riversdale coal project. Not only has it lost more than US\$3bn on the deal, and it was fined £27.4m by Britain's Financial Conduct Authority, but now it suffers the ignominy of being charged for not fessing up earlier to just how pear shaped the deal had gone. A right hook first, and then an uppercut for good measure - and it was RIO who lost all the money! How's that for justice? Did anyone else actually lose money? It seems that some people do rely on the historical, published accounts.

This wasn't the first, and it won't be the last time that "smart" operators get the better of the big guys. It seems to happen regularly, with the smart guys running all the way to the bank. Yet, the executives of these big companies reckon they should be paid millions of dollars a year because they are good. One similar example was when Areva paid a Canadian company about US\$2.5bn for

worthless uranium assets in southern Africa, back in the uranium boom. It was one hell of a wealth transfer.

Many lessons come from scenarios like these, but there is one in particular that the average punter needs to keep in mind. The market is full of promoters pushing their wares. Most of the stories are embellished to a lesser or greater extent. The bigger the lie, the greater the audacity, the more people get sucked into playing the game. Caution is thrown to the wind, good analytical commentary is ignored, as everyone wants to get onto a speeding train. Maybe the naive people just can't believe that anyone would be so outrageously untruthful (because they, being essentially honest themselves, can't fathom the deception that promoters are prepared to embark upon). Maybe the more experienced smart people can pick a good snake-oil salesman when they see one, and are prepared to run with an expert at creating FOMO, thinking they are clever enough to sell out before it all collapses.

There are a number of these scenarios operating at any one point in time on our stock market. They generally take at least one, and up to five years to play out. During that time more and more people get sucked into the game, with the turbo charge coming when the big institutional brokers decide to throw their weight into the mix. Once a company gets to beyond a certain size (probably \$200m) the carcass gets large enough that these big boys can get a decent feed off it. The aim is to charge fees on raisings of \$50m or more - the bigger the better. It really gets exciting when the market capitalisation approaches \$1bn.

Can any of you pick the companies out there today that fall into the category I am describing? I know of a few. I have expressed my concern about some of them, but they can take a long time to play out and it makes for negative commentary to be mentioning them too often. I have already had people complaining to ASIC about some of the things I say in the column, because it cuts close to the bone, so I will refrain from mentioning any candidates this week.

Nickel being touted as a battery metal

A presentation from Vale, promoting nickel as a key battery metal, has been doing the rounds. However, it is only the better quality nickel that is useful (not nickel pig iron). Nickel sulphate is already used in lithium-ion batteries, offering the best energy density available today, but cobalt supply concerns are prompting a shift from 50:50 kg ratio of nickel to cobalt, to a 50:6 kg for a 60 kWh battery. Vale is actually saying that there will be a shortage of quality nickel so industry may have to revive some lateritic limonite projects. We should be looking at nickel companies more closely.



































Sentiment Indicator: The trend of improving sentiment continued last week. There were 43 % (40%) of the charts in uptrend and 21% (20%) 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	surged higher during the week again	
Metals and Mining	XMM	still rising	
Energy	XEJ	improving	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	pullback	gold
Aeon Metals	AML	breached uptrend	copper + cobalt
Alacer Gold	AQG	testing downtrend	gold – production
Alkane Resources	ALK	down	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	breaching downtrend	phosphate
Alicanto Minerals	AQI	testing downtrend	gold exploration
Allegiance Coal	AHQ	testing support again	coal
Alliance Resources	AGS	sideways	gold exploration
Alltech Chemicals	ATC	stronger	industrial minerals
Anova Metals	AWV	rallying	gold
Antipa Minerals	AZY	sideways	gold
Apollo Consolidated	AOP	consolidating around highs	gold exploration
Archer Exploration	AXE	rising	magnesite, graphite
Argent Minerals	ARD	sideways	polymetallic
Aspire Mining	AKM	sideways	coal
Atrum Coal	ATU	heavy pullback	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	skyrocketed, then retracement	cobalt/nickel
Australian Vanadium	AVL	sideways	vanadium
Avanco Resources	AVB	sideways	copper
AWE	AWE	breached downtrend	oil and gas
Azure Minerals	AZS	back in downtrend	silver
BHP	BHP	trying to hold trend line	diversified
Base Resources	BSE	rallying	mineral sands
Bathurst Resources	BRL	testing uptrend	coal
Battery Minerals	BAT	reached resistance line	graphite
BBX Minerals	BBX	suspended	gold
Beach Energy	BPT	breached steepest downtrend	oil and gas
Beadell Resources	BDR	testing downtrend	gold
Berkeley Resources	BKY	sideways	uranium
Berkut Minerals	BMT	rising	cobalt
Blackham Resources	BLK	trying to break downtrend	gold
Broken Hill Prospect.	BPL	new uptrend	minerals sands, cobalt
Buru Energy	BRU	testing downtrend	oil
Canyon Resources	CAY	vertical rise	bauxite
Cardinal Resources	CDV	testing uptrend	gold exploration

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Carnegie Clean Energy	CCE		breached downtrend	wave energy
Cassini Resources	CZI		rising	nickel/Cu expl.
Chalice Gold	CHN		surge	gold
Cobalt One	CO1		testing downtrend	cobalt
Cobalt Blue	COB		sideways	cobalt
Comet Resources	CRL		sideways	graphite/graphene
Consolidated Zinc	CZL		downtrend being tested	zinc
Corizon Mining	CZN		down	cobalt
Crusader Resources	CAS		softer	gold/iron ore
Dacian Gold	DCN		bounced off support line	gold exploration
Danakali	DNK		bounced off support line	potash
Doray Minerals	DRM		back in downtrend	gold
Draig Resources	DRG		new high	gold
Duketon Mining	DKM		testing downtrend	nickel
Eden Innovations	EDE		new low	carbon nanotubes in concrete
Emerald Resource	EMR		sideways	gold
Energia Minerals	EMX		new uptrend breached	zinc
Evolution Mining	EVN		heavy pullback	gold
Excelsior Gold	EXG		new high	gold
Finders Resources	FND		stronger	copper
First Australian	FAR		testing uptrend	oil/gas
First Graphite	FGR		testing downtrend	graphite
Fortescue Metals	FMG		breached short 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		drifting lower	zinc
Highfield Resources	HFR		breached downtrend	potash
Highlands Pacific	HIG		down	copper, nickel
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		down	mineral sands
Independence	IGO		stronger	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		breached support line	gas
Kibaran Resources	KNL		breached downtrend	graphite
Kin Mining	KIN		just holding uptrend	gold
Legend Mining	LEG		sideways	exploration
Lithium Australia	LIT		rising again	lithium
Lucapa Diamond	LOM		testing downtrend	diamonds
Macphersons Res.	MRP		downtrend	silver
MetalsX	MLX		LT uptrend in play	tin, nickel
Metro Mining	MMI		sideways to higher	bauxite
Mincor Resources	MCR		new uptrend	nickel
Mineral Deposits	MDL		on support line	mineral sands
Mustang Resources	MUS		strong rise	diamonds, rubies
Myanmar Minerals	MYL		rising on re-listing	zinc
MZI Resources	MZI		new low	mineral sands
Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		rising again	gold
NTM Gold	NTM		uptrend forming	gold

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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		rallying from lows	coal, graphene
Pantoro	PNR		struggling to hold uptrend	gold
Panoramic Res	PAN		surge through downtrend	nickel
Peel Mining	PEX		new high	copper
Peninsula Energy	PEN		new uptrend breached	uranium
Perseus Mining	PRU		rising	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		testing uptrend	gold
Resolute Mining	RSG		at lows again	gold
RIO	RIO		rising	diversified
Salt Lake Potash	SO4		breached steepest downtrend	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		still under long term downtrend	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		new uptrend	silver
Santos	STO		new uptrend	oil/gas
Sheffield Resources	SFX		steep rise	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		rallying	graphite
Talga Resources	TLG		testing uptrend	graphene
Tanami Gold	TAM		sideways	gold
Tempo Australia	TPP		breached downtrend	mining services
Tiger Realm	TIG		falling back to support line	coal
Torian Resources	TNR		new low	gold expl'n
Triton Minerals	TON		uptrend	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		testing downtrend	gold exploration
Vango Mining	VAN		down	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		correcting	gold
Westwits	WWI		rallying	gold exploration/development
Western Areas	WSA		new uptrend	nickel
White Rock Minerals	WRM		sideways	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		collapse	gold
Wolf Minerals	WLF		testing downtrend	tungsten
Totals	43%	61	Uptrend	
	21%	30	Downtrend	
		143	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	22.4%	
Gold Exploration	14	9.8%	
Copper	11	7.7%	
Coal	10	7.0%	
Oil/Gas	9	6.3%	
Mineral Sands	7	4.9%	
Graphite	8	5.6%	
Zinc	7	4.9%	
Silver	6	4.2%	
Lithium	5	3.5%	
Nickel	5	3.5%	
Potash/Phosphate	5	3.5%	
Cobalt	4	2.8%	
Uranium	3	2.1%	
Bauxite	3	2.1%	
Tin	2	1.4%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	9		
Total	143		

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