

Iron ore producers lead the market higher BHP, Fortescue and RIO

Dramatic improvement in Indices

In the weeks since our last chart update the All Ords, the Metals and Mining and the Energy Indices have all powered ahead with strength that would have been considered impossible only a month earlier. What should we read in this? Is the economic outlook any better? No, there continue to be clouds on the horizon all around the world.

There has been a rise of 13.9% in the All Ords since the Christmas Eve low of 5,478. The rise has been so strong that you would have to say that it can't continue like this. The Energy index has risen by 25.2% over the same period, from its low of 9,183, resuming a broad long term uptrend. The Metals and Mining Index has been even more dramatic, peaking 27.9% higher from its low of 3,365 on 28 November, but it is now pushing against long term resistance.

BHP and iron ore prices, take a bow

The importance of BHP to the Indices needs to be acknowledged in any analysis of the market performance. Another tailings dam collapse in Brazil and the subsequent reduction in iron ore supplies from Vale has underpinned a strong rise in the iron ore price, and therefore the share price of BHP. Vale's pain is BHP's gain. Speculators have led the charge, so you need to be ready for when they take profits, but earnings will be much stronger in the immediate future.

Fortescue, another leading iron ore producer, threw off the shackles and surged higher, approaching level last seen in early 2017. Similarly, RIO hit record highs.

Will the juniors get a flow-on effect?

It is a widely held view that strength in leading mining stocks - those that make up the bulk of the Index - will eventually flow into smaller stocks as investors seek to gain better leverage. However, is this really sensible or just optimistic? Why should money flow from well-managed, stronger companies to financially weak, poorly managed companies (in many, but not all cases)? Why become more risk preferring? It would be sensible to suggest that money may flow to under-priced but sound companies with realistic chances of commercial success. However, you would be lucky to find 10% of the juniors are worth considering.

The chain around the juniors is the continual need to raise equity capital. A quick perusal of the Appendix 3Bs in January shows how desperate the situation is. One of the readers of the Weekly kindly sent across his summary. The statistics on 699 companies reads like this;

- ☛ 63 companies had less than \$100,000 cash
- ☛ 93 companies had less than \$250,000 cash

- ☛ 149 companies had less than \$500,000 cash
- ☛ 246 companies had less than \$1m cash
- ☛ 383 companies had less than \$2m cash.

For a company to effectively operate it needs \$500-750,000 for corporate and overhead costs each year. It then needs to conduct exploration and project generation activities in order to achieve news flow. So, the 35% of the companies, having less than \$1m are just hanging on by their fingernails. There are 21% of the companies that are on life support, having less than \$500,000.

As we have seen, sentiment is improving. Those companies with fundamental merit are improving in price as investors selectively re-weight in commodities. However, investors need to be very selective if they are going to the bottom end. There is no point in hoping that many of these shares will recover when they are clearly on death row - though they can always bounce. Old, unsuccessful stories deserve to fail. Look for new stories without stale bulls if you want to get into sync with the market mood.

"I'm not dead yet", says thermal coal

On Thursday morning The Australian front page was all about the Labor Party calling for the death of the coal industry, and commentary on how disastrous it would be for the Australian economy. The most confusing thing about this, from my point of view, is trying to come to grips with how stupid this all is. The zealotry with which the Labor Party is pushing alternative energy with blind acceptance of the global warming argument is shockingly naive, and hysterical.

The irony is that this approach to the issue will underwrite the profitability of existing thermal coal producers for the foreseeable future. The world needs the coal. Strangling future supply is going to ensure rising prices and improving profit margins. Maybe we should be buying these stocks aggressively.

Lucapa is back to a fundamental story

Diamond exploration is never easy. It's like searching for needles in a haystack, following indicator minerals micro and even macro diamonds as you search for economic deposits. Even though Lucapa reported stunningly high diamond counts from the earlier drilling of the Brooking project, the subsequent bulk sampling of 100 tonnes of material recovered from trenches failed to impress. Only 11 diamonds were recovered for a total weight of 0.284 carats. Another eight targets drilled also failed to deliver. Thus, the speculative flavour has been hosed down. The company needs to be assessed on its fundamental value, looking at the Lulo and Mothae producing mines, rather than guessing what might come out of the WA exploration.

The shares were heading higher on positive feedback from the recent analyst visit, but this exploration news has taken the wind out of Lucapa's sales just now.

Fortunately, the big diamonds keep coming from Lulo. On Tuesday Lucapa reported the recovery of another large diamond; 128 carat high quality, Type IIa. If this achieves the same price as the recent sales, this stone could be worth A\$6m. The frequency of the recovery of these large, very valuable stones is a compelling feature of Lulo. The move to triple shift operations will boost production, and revenue, further.

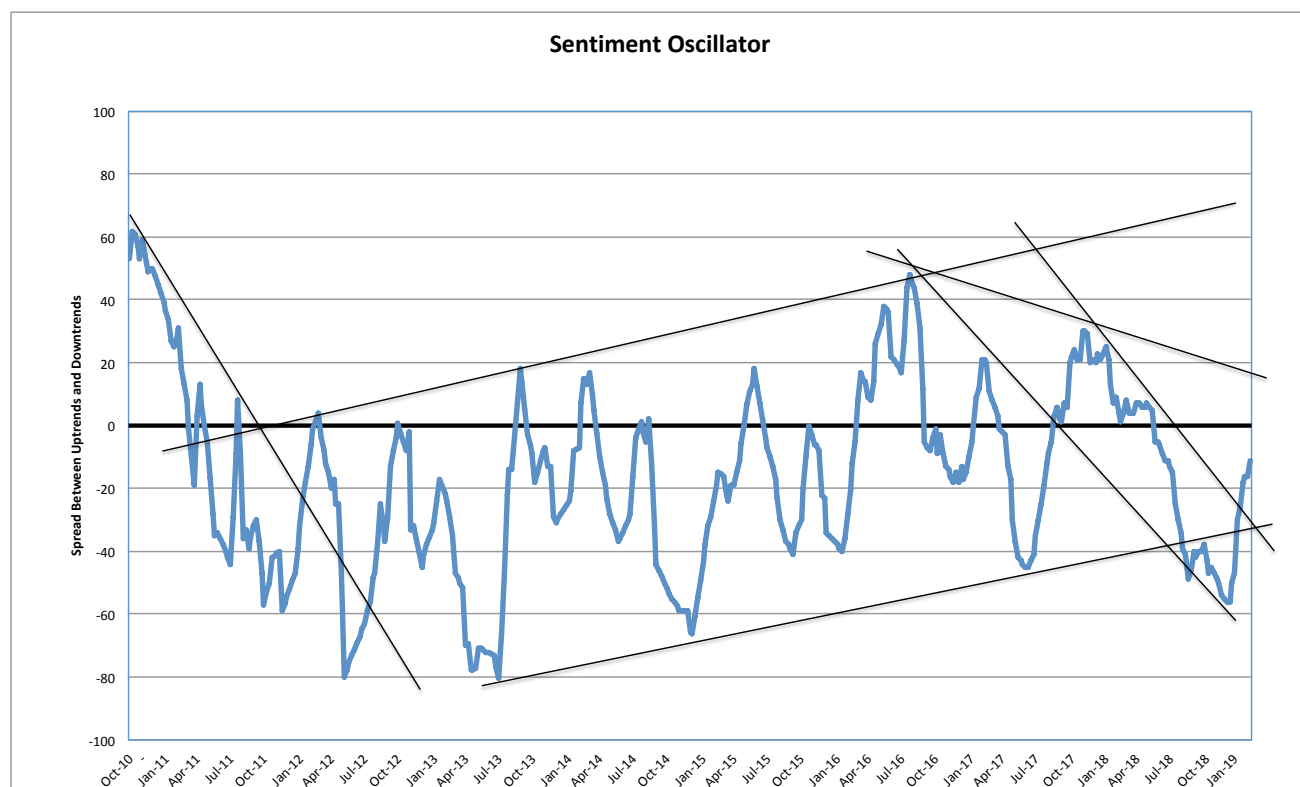
Disclosure: Interests associated with the author own shares in Lucapa Diamond Company.

Silicon and graphite/graphene battery anodes

Graphite anodes are the standard in rechargeable batteries. Many companies are working on finding something better, with silicon anodes promising at least four times the capacity. However, there is one major problem that is holding back development; disintegration of the anode after 400 cycles. To be a commercially acceptable replacement for graphite anodes you need to achieve 800-1,000 cycles.

It is thought that placing the silicon in some sort of graphene matrix could be the answer as graphene can expand by 20% and help keep the structure of the anode wholesome. A number of groups are working on this with an expectation that the breakthrough could be 2-3 years away.

The announcement by an ASX-listed company that it has excellent results after 130 cycles is somewhat meaningless. Many variations of silicon anodes have done this. The real test comes after the 400 cycle threshold is reached. Will this silicon/graphite anode fall off the edge, like all others before it?



























Sentiment Oscillator: Sentiment has continued to improve over the past few weeks, breaching the downtrend. That is all welcome positive. There were 30% (29%) of the charts in uptrend and 41% (45%) in downtrend on Friday's close. The improvement has been in the better quality stocks rather than the juniors

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.

Indices	Code	Trend Comment	
All Ordinaries	XAO	surged higher	
Metals and Mining	XMM	surged higher	
Energy	XEJ	surged higher	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Adriatic Resources	ADT	resumed uptrend	zinc
Aeon Metals	AML	testing downtrend	copper + cobalt
Alacer Gold	AQG	surged higher	gold – production
Alkane Resources	ALK	gently down	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	weaker	nickel, cobalt
Alicanto Minerals	AQI	back to lows	gold exploration
Allegiance Coal	AHQ	heavy fall, then strong recovery	coal
Alliance Resources	AGS	still down	gold exploration
Altech Chemicals	ATC	rally turned down at resistance line	industrial minerals - synthetic sapphire
Anova Metals	AWV	new low on poor production report	gold
Apollo Consolidated	AOP	breached support	gold exploration
Archer Exploration	AXE	sideways at lows	magnesite, graphite
Argent Minerals	ARD	still in downtrend	silver
Aurelia Metals	AMI	new high	gold + base metals
AusTin	ANW	holding support line	tin, cobalt
Australian Bauxite	ABX	breached uptrend	bauxite
Australian Potash	APC	pullback to support line	potash
Australian Mines	AUZ	hitting resistance	cobalt/nickel
Australian Vanadium	AVL	rallying, but hitting resistance	vanadium
Bounty Coal	B2Y	back to lows	coal
BHP	BHP	surged to multi-year high	diversified
Base Resources	BSE	breaching downtrend	mineral sands
Bathurst Resources	BRL	risen to meet resistance line	coal
Battery Minerals	BAT	surge out of downtrend, then a pullback	graphite
BBX Minerals	BBX	surged higher, but stopped at resistance line	gold
Beach Energy	BPT	surged higher	oil and gas
Beadell Resources	BDR	rising	gold
Bellevue Gold	BGL	new high	gold
Berkeley Energia	BKY	consolidating pattern after steep rise	uranium
Blackstone Minerals	BSX	back to lows	gold, cobalt
Breaker Resources	BRB	down	gold
Broken Hill Prospecting	BPL	new low	minerals sands
Buru Energy	BRU	down	oil
Cardinal Resources	CDV	sideways	gold exploration
Cassini Resources	CZI	consolidating	nickel/Cu expl.

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Celsius Resources	CLA		back to lows	copper/cobalt
Chalice Gold	CHN		sideways, but pushing higher	gold
Cobalt Blue	COB		new low	cobalt
Comet Resources	CRL		surge higher	graphite
Dacian Gold	DCN		new high	gold
Danakali	DNK		sideways	potash
Davenport Resources	DAV		steep rise, pullback and consolidation	potash
Doray Minerals	DRM		rising	gold
Eden Innovations	EDE		down	carbon nanotubes in concrete
Egan Street Resources	EGA		risen to meet resistance line	gold
Emerald Resource	EMR		uptrend	gold
Evolution Mining	EVN		breaching uptrend	gold
Exore Resources	ERX		rising	gold exploration
FAR	FAR		crunched down on dud oil well	oil/gas
First Graphene	FGR		breached uptrend	graphene
Frontier Diamonds	FDX		suspended	diamonds
Fortescue Metals	FMG		surged higher	iron ore
Galaxy Resources	GXY		back into downtrend	lithium
Galilee Energy	GLL		down	oil and gas, CBM
Gascoyne Resources	GCY		collapse back to lows	gold
Gold Road	GOR		rising	gold exploration
Golden Rim	GMR		back to sideways movement	gold exploration
Graphex Mining	GPX		surge, testing downtrend	graphite
Heron Resources	HRR		sideways	zinc
Highfield Resources	HFR		rallied to meet resistance line	potash
Highlands Pacific	HIG		down	nickel, cobalt
Hillgrove Resources	HGO		sideways	copper
Hipo Resources	HIP		rallied to meet resistance line	battery metals
Iluka Resources	ILU		steep uptrend	mineral sands
Image Resources	IMA		higher	mineral sands
Independence Group	IGO		new uptrend forming	gold, nickel
ioneer (was Global Geoscience)	INR		down	lithium
Jervois Mining	JVR		rising	nickel/cobalt
Jindalee Resources	JRL		surge higher, then a pullback	lithium
Karoo Gas	KAR		breached downtrend	gas
Kasbah Resources	KAS		downtrend breached on consolidation	tin
Kibaran Resources	KNL		downtrend	graphite
Kin Mining	KIN		heavy fall	gold
Legend Mining	LEG		down	nickel exploration
Lepidico	LPD		rising	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		new low	rare earths
Macphersons Res.	MRP		down	gold/silver

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Mako Gold	MKG		higher in new ST uptrend	gold
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		rounding out at bottom of downtrend	tin, nickel
Metro Mining	MMI		rounding out at bottom of downtrend	bauxite
Mincor Resources	MCR		sideways	gold
Musgrave Minerals	MGV		breached uptrend	gold exploration
Myanmar Minerals	MYL		testing downtrend	zinc
Nelson Resources	NES		still struggling in downtrend	gold exploration
Neometals	NMT		down	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		new low	REE
Northern Star Res.	NST		continuing uptrend	gold
NTM Gold	NTM		sideways	gold
Oceana Gold	OGC		bounce off support line	gold
Oklo Resources	OKU		down	gold expl.
OreCorp	ORR		rising	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		heavy fall	lithium
Oz Minerals	OZL		resumed uptrend	copper
Pacific American Coal	PAK		back to downtrend	coal
Pantoro	PNR		breached downtrend, moving higher	gold
Panoramic Res	PAN		breached downtrend, at secondary resistance point	gold , nickel
Peak Resources	PEK		breached downtrend, but pulled back	rare earths
Peel Mining	PEX		failed to hold breach of longer term downtrend	copper
Peninsula Energy	PEN		downtrend again	uranium
Perseus Mining	PRU		testing downtrend	gold
Pilbara Minerals	PLS		down heavily	lithium/tantalum
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		sideways at lows	polymetallic exploration
Prodigy Gold	PRX		down	gold exploration
Real Energy	RLE		new high	gas
Red5	RED		rising	gold
Red River Resources	RVR		breaching downtrend	zinc
Regis Resources	RRL		moving higher	gold
Resolute Mining	RSG		rallying	gold
RIO	RIO		record high	diversified
Salt Lake Potash	SO4		re-entering downtrend	potash
Saracen Minerals	SAR		testing uptrend	gold
St Barbara	SBM		up	gold
Sandfire Resources	SFR		rising	copper
Santana Minerals	SMI		breached downtrend	silver
Santos	STO		into uptrend	oil/gas
Sheffield Resources	SFX		down	mineral sands
St George Mining	SGQ		new, gentle uptrend forming	nickel

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Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Sundance Energy	SEA		stronger following consolidation	oil/gas
Syrah Resources	SYR		new low	graphite
Talga Resources	TLG		new low	graphite
Tanami Gold	TAM		breached downtrend	gold
Technology Metals	TMT		short term down	vanadium
Tiger Realm	TIG		down	coal
Triton Minerals	TON		breached steepest downtrend	graphite
Troy Resources	TRY		down	gold
Tyranna Resources	TYX		back in downtrend	gold exploration
Vango Mining	VAN		down	gold
Vector Resources	VEC		suspended	gold
Venturex	VXR		stronger	zinc
Vimy Resources	VMY		testing downtrend	uranium
Volt Resources	VRC		sideways	graphite
West African Resources	WAF		down	gold
Westwits	WWI		down	gold
Western Areas	WSA		uptrend	nickel
Whitehaven Coal	WHC		breached ST downtrend, resistance at \$5-\$5.20	coal
Totals	30%	43	Uptrend	
	41%	59	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	38	26.6%
Gold Exploration	14	9.8%
Graphite	9	6.3%

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Nickel	9	6.3%	
Coal	8	5.6%	
Oil/Gas	8	5.6%	
Lithium	8	5.6%	
Copper	6	4.2%	
Mineral Sands	5	3.5%	
Zinc	5	3.5%	
Potash/Phosphate	5	3.5%	
Cobalt	4	2.8%	
Tin	3	2.1%	
Uranium	3	2.1%	
Rare Earths	3	2.1%	
Silver	2	1.4%	
Bauxite	2	1.4%	
Diamonds	2	1.4%	
Vanadium	2	1.4%	
Iron Ore	1	0.7%	
Other	6		
Total	143		

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