

## Gold - still the best sector in which to be

It has been more of the same last week with the Dow still under pressure and an oil price that keeps falling. More than likely the market will offer only slim pickings between now and Christmas.

### *What stocks are going up?*

As an interesting exercise, let's look at the 21 stocks under chart coverage that are still in uptrends and see if there is a discernible pattern. Gold features most prominently, with seven of the companies being established producers. Another five are either pre-production or exploring gold companies. Thus the market is more generous in its support for the gold sector. However, there are many other gold stocks, both producers and explorers, and especially in the junior end, that don't make the grade. See the list below of stocks in uptrend.

Adriatic Resources - advanced polymetallic exploration, Bosnia

Allegiance Coal - coking coal in BC, working on DFS

Aurelia Metals - producing mine in NSW - gold & base metals

Bellevue Gold - high grade u/g gold discovery in WA

Breaker Resources - gold discovery in WA

Cassini Resources - nickel & copper exploration in WA

Davenport Resources - potash project in Germany

Eden Innovations - carbon nanotubes in concrete

Evolution - major gold producer

First Graphene - graphene producer

Exore Resources - gold exploration in the Ivory Coast

Lynas Corp - rare earths producer

Northern Star - major gold producer

Oceana Gold - major gold producer

Orecorp - pre-development gold project in Tanzania

Regis Resources - sizeable gold producer in WA

Saracen - sizeable gold producer in WA

St Barbara - sizeable gold producer in WA

St George Mining - nickel explorer in WA

Stanmore Coal - coal producer

Vango Mining - pre-production u/g gold project in WA.

### *Is vanadium heading down the cobalt path?*

The rise of cobalt prices a year ago was wonderful for the traders, but its subsequent collapse was not what the doctor ordered. That resulted in a stampede out of cobalt stocks, even though there continues to be uncertainty regarding supply. Some of the speculative money went into vanadium as that commodity price spiralled to record highs. However, it seems to have come off the boil, falling from the high in March of \$8,700 pt to \$8,050-\$8,250. It seems

that buyers are resisting paying the higher prices and there isn't a shortage of the metal. So, maybe it is going to follow the cobalt path downwards in the near term, irrespective of the longer term outlook.

### *More on the Pilbara/Paterson excitement*

The excitement in the Pilbara/Paterson cranked up to a high level during the week when UK-listed company, Great Land Gold, announced follow-up drilling from the intercept of 121m at 2.93 gpt Au and 0.23% Cu from a depth of 497m, reported in July 2018. Most recently, Hole HAD005 intersected 275m at 4.77 gpt Au and 0.61% Cu, including 118m at 3.08 gpt Au and 0.84% Cu, and 157m at 6.04 gpt Au and 0.44% Cu. The intercept commenced at a down hole depth of 459m. The mineralisation has been interpreted as being the IOCG style, like the giant Olympic Dam deposit in South Australia

This drilling is from the Haverion Prospect, located to the east of the huge Telfer gold/copper mine that has been a major producer over many decades. Over the last 30-40 years there has been a multitude of companies exploring the region in the quest for another Telfer. Exploration has been expensive and difficult. There have been plenty of sniffs, but until now the big prize has eluded these explorers.

Hole HAD005 is a very significant drill result but what does it have to do with the scuttlebutt going around RIO and that company's pegging of new ground? Given that it is located about 150 km to the SSE of where RIO plans to construct an airstrip, and probably 200 km from the recent ground acquired by RIO, maybe it is totally unrelated ... other than to say that the region is prospective. From a geological perspective, RIO had initially pegged ground within the Paterson Province and to the East of the Pilbara. Recently RIO has gone back and pegged additional ground further to the west. Has there been a change of thinking here? Is the Pilbara-Patterson boundary further to the west than initially understood, or has RIO had exploration results that have upgraded the Archean side? Interestingly, they have pegged right up to, and around, the West Wits licence application named the Mt Cecilia Project. That ground covers the north-eastern portion of an outstanding magnetic high. This anomaly would be getting geologists excited as it could be indicative of an IOCG structure. It is crying out to be drilled. Is this what RIO is looking for? Watch this space.

### *Allegiance Coal - raising the bar with a bigger project*

We have mentioned Allegiance Coal a couple of times in the past, commenting that the shares offered sound value as the company was progressing with the planning and approval steps in its quest to become a coking coal producer from the Tenas coking coal project in British Columbia.

Previously the company was looking to start production at the modest rate of 250,000 tpa of saleable coking coal, thereby enabling compliance with a less rigorous environmental compliance regime. However, the plan has had to change because locals objected to the coal trucks hauling product on a public road. Allegiance has had to bring forward the construction of a new haul road which will cost \$7m. One thing led to another and the decision was made to upscale the project size to 750,000 tpa from its inception. Thus the numbers have doubled from US\$35m to US\$70m for the capex, but the scale of production has tripled.

In July 2018, the Company announced that this larger scale project would have a mine life of 22 years, start-up capital expenditure US\$62m and opex of US\$56 pt, based on PFS results that will be fed into the DFS, due for completion by late Q1, 2019.,

The company and the project received a fillip with the announcement earlier this month of a deal with Itochu Corporation of Japan. Itochu, one of the largest commodity trading houses in the world with assets of \$111bn, will be the exclusive sales agent for Telkwa.

To start with Itochu is purchasing 20% of the project for C\$6.6m, by taking 20% of the project company in staged payments coinciding with the following events;

- 1) the issue of a section 10 order under the Environmental Assessment Act (C\$1.5m), (received 14/11/18)
- 2) completion of a positive DFS (C\$3.6m) (target Q1 2019)
- 3) lodgement of an application for an Environmental Assessment Certificate (C\$3.6m) (target Q3 2019).

Itochu may subsequently increase its interest to 50% at a price to be based on a post DFS valuation.

The time to production has obviously been pushed back, but possibly by only six months. The new schedule calls for a decision to mine by mid 2020 i.e. about 20 months away.

The share price is how most shareholders assess performance. In this regard over the last year the price has been mildly positive, mostly trading between 4 and 6¢. The market has had to absorb three placements since October 2017, at 5¢, 5¢ and 5.2¢ respectively for raisings of \$3.67m, \$3.97m and \$2.4m. The deal with Itochu should mean that there will be no need for another raising before Q4 2019, thereby allowing some time for share price improvement while the project advances.

At a market capitalisation of \$28m today, it falls well below the institutional threshold. Thus it is one for private clients or value seeking investors in the near term. As the numbers become more certain we should see continued share price appreciation. The deal with Itochu is a big tick and it could be the key to the larger project financing.

### *Interesting commentary on China*

In an article titled “*Stop Obsessing About China*”, the Foreign Affairs publication says that China exaggerates its output by as much as 30%. China’s businesses use two times more capital and five times more labour than US companies, to achieve the same level of output. More than

a third of China’s industrial capacity is wasted. More than half of its R&D spending is stolen. Nearly two thirds of its infrastructure projects cost more to build than they will ever generate in economic returns. China spends hundreds of billions of dollars more than the USA every year to feed, police and provide social services to its population. The article goes on to opine why the military build-up that China is undertaking will not be a threat to the USA’s dominance. The bottom line is that if the US continues to do what it does best, there is no need to be paranoid about China. Nevertheless, markets are worried about China both on the trade and the military front (physical and cyber).

### *Solar battery policy not well thought out*

The Labor Party’s announcement of the policy to grant \$2,000 to each household for batteries to store solar electric might appeal to the greenies, but it makes little economic or practical sense. It is not enough to make a difference to power costs. You would need at least \$10,000 worth of batteries to be meaningful. Yes, it might cause a short term boost to the battery supply business for a while, but it will cause a shortage of supply and actually drive up the cost of batteries for the duration of the scheme. Expect the usual level of rorts that come with this type of subsidy. There is no way it will lead to the birth of a sustainably competitive battery manufacturing sector in Australia.

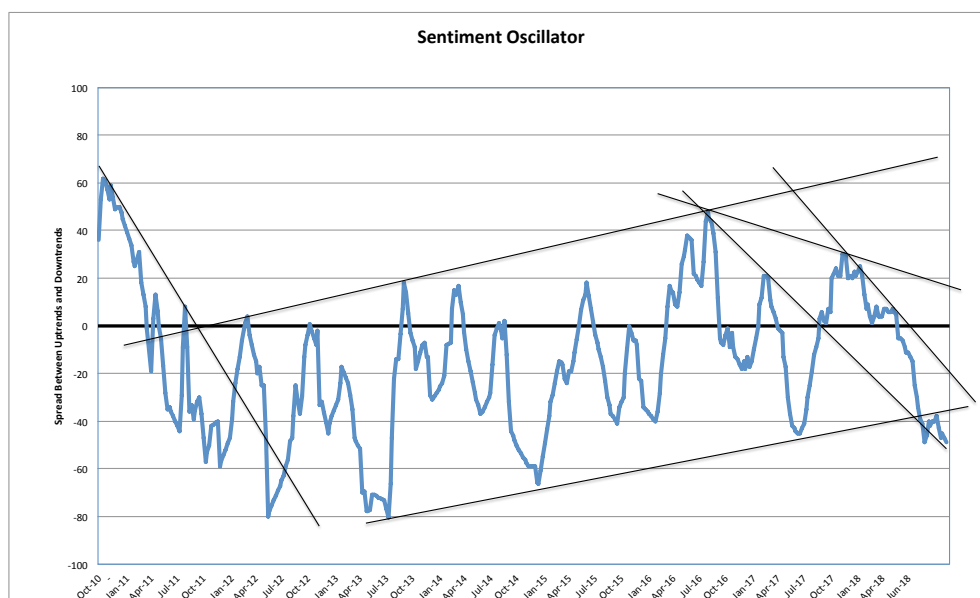
It only works for households that already have solar power now, but it will reduce the energy these houses can sell into the grid. Thus, there are gains and losses to these households. The scheme promises to be another one of Labor’s bright spark bugger-up ideas, like the insulation subsidy and the NBN roll-out.

### *Don’t take spreadsheets for gospel*

It is interesting how some people believe that because someone has taken the trouble to run a spreadsheet to demonstrate the value of a project, you magically get all the answers. Be warned; do not be lulled not a false sense of security. It is an oversimplification to rely on a spreadsheet to determine whether a project is any good or not. Seeing numbers in black and white doesn’t make a project a real economic proposition because the accuracy of the spreadsheet is entirely dependent upon the veracity of the assumptions. This should be obvious but it is amazing how many people fall into the trap.

You need to dig much deeper (not a pun) and get a real understanding of the physical mining attributes and the chemistry and metallurgical processes. Then, you have to be certain that the operators have real and successful experience in the field. If all this stacks up, you have to figure out where the funding will come from and how long the project will take to develop and become cash flow positive. Throughout this analytical process you are also vulnerable to the truth factor. You need to know the right questions to ask, and be able to evaluate the answers.

*Disclosure: Interests associated with the author own shares and options in WWI. Capital raising fees have been earned.*



**Sentiment Oscillator:** There was a slight worsening of sentiment with 15% (15%) of the charts in uptrend and 64% (62%) 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. 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	still falling	
Metals and Mining	XMM	still falling	
Energy	XEJ	still falling	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Adriatic Resources	ADT	uptrend	zinc
Aeon Metals	AML	downtrend confirmed	copper + cobalt
Alacer Gold	AQG	testing downtrend	gold – production
Alkane Resources	ALK	sideways at lows	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	sideways	nickel, cobalt
Alicanto Minerals	AQI	back to lows	gold exploration
Allegiance Coal	AHQ	holding LT uptrend	coal
Alliance Resources	AGS	resting on support line	gold exploration
Altech Chemicals	ATC	down	industrial minerals - synthetic sapphire
Anova Metals	AWV	new low on poor production report	gold
Apollo Consolidated	AOP	holding support line	gold exploration
Archer Exploration	AXE	breach of support	magnesite, graphite
Argent Minerals	ARD	down	silver
Aurelia Metals	AMI	could be topping out here	gold + base metals

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AusTin	ANW		rally	tin, cobalt
Australian Bauxite	ABX		sideways	bauxite
Australian Potash	APC		testing downtrend	potash
Australian Mines	AUZ		down again	cobalt/nickel
Australian Vanadium	AVL		down heavily	vanadium
Bounty Coal	B2Y		down	coal
BHP	BHP		still in steep downtrend	diversified
Base Resources	BSE		down	mineral sands
Bathurst Resources	BRL		slump	coal
Battery Minerals	BAT		sideways at lows	graphite
BBX Minerals	BBX		secondary downtrend	gold
Beach Energy	BPT		down	oil and gas
Beadell Resources	BDR		secondary downtrend	gold
Bellevue Gold	BGL		return to strong uptrend - placement	gold
Berkeley Energia	BKY		collapse - Spanish media	uranium
Blackstone Minerals	BSX		back to lows	gold, cobalt
Breaker Resources	BRB		rising	gold
Broken Hill Prospect.	BPL		down	minerals sands, cobalt
Buru Energy	BRU		down	oil
Cardinal Resources	CDV		breaching downtrend	gold exploration
Cassini Resources	CZI		stronger	nickel/Cu expl.
Celsius Resources	CLA		falling again	copper/cobalt
Chalice Gold	CHN		sideways	gold
Cobalt Blue	COB		free fall on study results	cobalt
Comet Resources	CRL		breached downtrend, but correction down	graphite
Crusader Resources	CAS		suspended	gold
Dacian Gold	DCN		continuing down	gold
Danakali	DNK		breached uptrend	potash
Davenport Resources	DAV		steep rise	potash
Doray Minerals	DRM		sideways - merger	gold
Eden Innovations	EDE		new uptrend being tested	carbon nanotubes in concrete
Egan Street Resources	EGA		new low	gold
Emerald Resource	EMR		broad downtrend	gold
Evolution Mining	EVN		higher	gold
Exore Resources	ERX		rising	gold exploration
FAR	FAR		crunched down on dud oil well	oil/gas
First Graphene	FGR		rising again	graphene
Frontier Diamonds	FDX		breached downtrend	diamonds
Fortescue Metals	FMG		rallied out of steepest, but still in LT downtrend	iron ore
Galaxy Resources	GXY		strong rally	lithium
Galilee Energy	GLL		turned down	oil and gas, CBM
Gascoyne Resources	GCY		collapse	gold
Gold Road	GOR		breached uptrend	gold exploration
Golden Rim	GMR		new low	gold exploration

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Graphex Mining	GPX		rally then retracement	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		down	battery metals
Iluka Resources	ILU		down heavily	mineral sands
Image Resources	IMA		downtrend	mineral sands
Independence Group	IGO		back in downtrend	gold, nickel
ioneer (was Global Geoscience)	INR		down	lithium
Jervois Mining	JVR		heavy fall	nickel/cobalt
Jindalee Resources	JRL		downtrend commenced	lithium
Karoon Gas	KAR		new low	gas
Kasbah Resources	KAS		still in downtrend	tin
Kibaran Resources	KNL		weaker	graphite
Kin Mining	KIN		heavy fall	gold
Legend Mining	LEG		down	exploration
Lepidico	LPD		continuing down	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		steeply higher	rare earths
Macphersons Res.	MRP		still down	gold/silver
Mako Gold	MKG		down	gold
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		down again	tin, nickel
Metro Mining	MMI		down	bauxite
Mincor Resources	MCR		sideways	gold
Myanmar Minerals	MYL		starting down again	zinc
MZI Resources	MZI		downtrend still	mineral sands
Nelson Resources	NES		down	gold exploration
Neometals	NMT		down	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		new low	REE
Northern Star Res.	NST		still strong	gold
NTM Gold	NTM		testing downtrend	gold
Oceana Gold	OGC		rising again	gold
Oklo Resources	OKU		down	gold expl.
OreCorp	ORR		breached downtrend	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		strong rally	lithium
Oz Minerals	OZL		testing downtrend	copper
Pacific American Coal	PAK		down	coal
Pantoro	PNR		down	gold
Panoramic Res	PAN		downtrend again	gold , nickel

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Peel Mining	PEX		breached downtrend on drill intercept	copper
Peninsula Energy	PEN		downtrend again	uranium
Perseus Mining	PRU		improving within a downtrend	gold
Pilbara Minerals	PLS		down	lithium/tantalum
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		still down	polymetallic
Prodigy Gold	PRX		down	gold exploration
Real Energy	RLE		rallying	gas
Red5	RED		down	gold
Red River Resources	RVR		down	zinc
Regis Resources	RRL		rising	gold
Resolute Mining	RSG		testing downtrend	gold
RIO	RIO		down	diversified
Salt Lake Potash	SO4		re-entering downtrend	potash
Saracen Minerals	SAR		up	gold
St Barbara	SBM		up	gold
Sandfire Resources	SFR		strong rally	copper
Santana Minerals	SMI		new low	silver
Santos	STO		short term down	oil/gas
Sheffield Resources	SFX		testing uptrend	mineral sands
St George Mining	SGQ		starting uptrend	nickel
Sipa Resources	SRI		sideways	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Sundance Energy	SEA		downtrend again	oil/gas
Syrah Resources	SYR		new low	graphite
Talga Resources	TLG		down	graphite
Tanami Gold	TAM		slump	gold
Technology Metals	TMT		short term down	vanadium
Tiger Realm	TIG		down	coal
Triton Minerals	TON		down	graphite
Troy Resources	TRY		down	gold
Tyranna Resources	TYX		back in downtrend	gold exploration
Vango Mining	VAN		correcting	gold
Vector Resources	VEC		down again	gold
Venturex	VXR		testing downtrend	zinc
Vimy Resources	VMY		down	uranium
Volt Resources	VRC		sideways	graphite
West African Resources	WAF		down	gold
Westwits	WWI		down	gold
Western Areas	WSA		down	nickel
Whitehaven Coal	WHC		down	coal
Totals	15%	21	Uptrend	
	64%	92	Downtrend	
		143	Total	

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**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.

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Weightings of Sectors Represented in the Company Charts			
Sector	No. of Companies	Weighting	
Gold	39	27.3%	
Gold Exploration	14	9.8%	
Graphite	9	6.3%	
Coal	8	5.6%	
Oil/Gas	8	5.6%	
Lithium	8	5.6%	
Copper	6	4.2%	
Mineral Sands	6	4.2%	
Nickel	7	4.9%	
Cobalt	5	3.5%	
Zinc	5	3.5%	
Potash/Phosphate	5	3.5%	
Silver	3	2.1%	
Tin	3	2.1%	
Uranium	3	2.1%	
Rare Earths	2	1.4%	
Bauxite	2	1.4%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	7		
Total	143		

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