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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

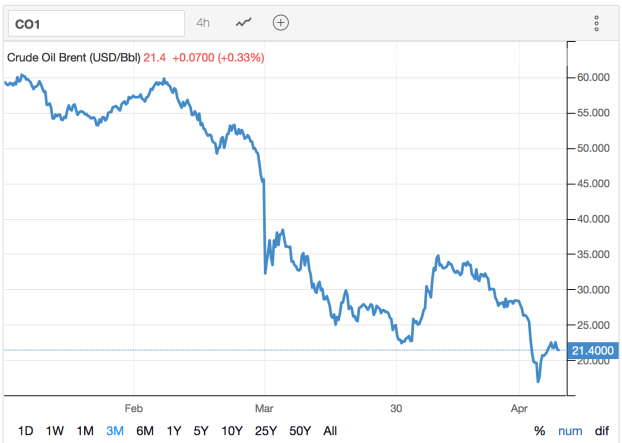
25 April 2020 *On Friday's Close* Analyst : Warwick Grigor

Oil market takes the focus while uranium is gathering momentum

By Tuesday evening the Dow Jones has fallen by 4.5% since Friday's closed, courtesy of the havoc in the oil market. This looked like it could be the catalyst for a halt to the embryonic recovery in our markets when it caused the All Ords to breach its recent, steep short term uptrend, but the index managed to hold together for the rest of the week.

Last week we saw the virus deliver the killer punch to the oil sector. Just like we recently experienced negative interest rates for the first time, last week we were witnessing negative oil prices on near term futures contracts. All of the storage facilities are chocker block with oil and no-one has any spare capacity.

Texas Intermediate Crude Futures May contracts were selling at almost negative US$40/bbl at the start of the week, while the Brent oil price fell below US$17/bbl at one point. It was bizarre. The chart below shows recent movements in Brent. Interestingly, ASX-listed oil stocks were rather subdued in their response, not collapsing along with the commodity price.



The virus was also impacting the US housing market with sales dropping 8.5% in March, from levels in February. Whether this is the start of something in the USA and elsewhere in the world remains to be seen, but some experts are calling a property meltdown.

"Peak oil" - dead and buried

Some years back when oil was referred to as "black gold", industry lived in constant fear that eventually oil would run out. The turning point was when we reached "peak oil", the point at which the globe was producing at its maximum possible output level. Beyond that, the world was anticipated to go into perpetual energy crisis. As it turns out, peak oil never really happened due to a combination of factors.

Advanced drilling and production technology in "tight" sands saw the shale oil revolution catapult the USA back to its status as the world's largest oil producer, simultaneously providing security of supply. At the same time the push for alternative energy sources and EVs eroded what had previously been a never ending growth curve in demand for oil products.

The rules are changing, but to what? Gold?

Look around and you can see so many truisms being broken in the world today. Is it all being caused by the virus, or the governmental reactions to the virus? Quite possibly. Can we ever go back to the way it was, say a year ago? Maybe, but before we get there, expect quite a few more surprises as each industry responded in its own way to changes being thrust upon it; and that bring us back to gold.

There is always debate about whether gold is a currency or a commodity. Modern central bankers believe it to be a relic of the past because they have a vested interest in fiat currencies, but gold seems to be acting like more of a reserve currency today. No-one is brave enough to say you shouldn't have any. Many investors believe it is now a necessity. Banks and trading houses are recommending gold at US$1,700/oz for movements to US$2,000 and US$3,000/oz levels.

There are no problems in storing gold, whether it be in your own private facilities or whether you trust it to a bank vault. There is no risk of yellow gold turning into black gold. It is indestructible, though it can be stolen. Maybe that is why gold and guns appear in the same paragraph so often.

Will we really need gold again as a medium of exchange? Maybe, if the havoc being wreaked in our economies and methods of commerce goes on for too long. We are already seeing societies around the world protesting at the house arrest-like lockdowns. Could this social violence lead to toppled governments? Who are going to be the greatest aggressors, the left or right wing factions? Remember that if gold becomes a medium of exchange, then silver will be needed for the more day-to-day transactions.

There is limited value in looking to recent history to guide us for future action as we stumble through this disaster of our making. No one has experienced anything like this, so we are blazing a new trail. The uncertainty that comes with it helps to explain why there has been a reversion back to the historical comfort of gold, irrespective of the risk of inflation due to excesses of government spending and indebtedness.

In geological terms we are seeing an explosive brecciation of business and social worlds. Maybe we will see gold deposited in all of those cracks and cavities we call the fabric of our society, just as happens on a micro-scale in nature.

Some gold market insights

While they are admittedly a few weeks out of date, there are some factors that have been absorbed by the gold market over the last month.

Firstly, Indian gold imports hit a six year low in March, falling 73% YOY. The lockdown has caused the retail business to almost stand still.

Secondly, in Switzerland, three of the largest gold refineries in the world shut down for two weeks from 20th March, as the government locked down industry. These account for one third of the world supply of refined gold. They have reportedly resumed operation but are still working at much less than full capacity.

Thirdly, as mentioned previous, China and Russian central banks have stepped back from gold purchases for the time being due to the strength in the market, presumably.

We have seen a volatile gold price frequently pushing for new highs, but how badly will the oil price hit Russia? What is it going to do about the huge drop in revenue? Will it cash out of gold and if so, will it dump it or try and do a deal behind closed doors? Maybe it will borrow against it, or do a block trade with China? There is plenty to hold our attention on this issue.

Not every hole into a porphyry is exciting

Alkane (ALK) has been a popular gold producer and explorer in recent times with a strongly performing share price. However, the sun doesn't shine very day. The latest hole in the Boda porphyry copper/gold prospect in NSW wasn't well received by the market, causing the shares to drop 17% on the day of the release.

A huge intercept of 965m at 0.21 gpt gold and 0.11% copper may be geologically exciting, but it is low grade. Better intervals of 153m at 0.4 gpt gold and 0.13% copper and 29m at 0.99 gpt gold and 0.22% copper were hit from 480m and 548m depths respectively, in the same hole, but this is not what the market wanted on the day.

You need to appreciate that these very large low-grade porphyry projects require an enormous amount of drilling over many years. Each hole needs to be placed in perspective within a large database that is being generated. Instant gratification is not an option.

Uranium is suddenly the place to be

Brokers have occasionally asked for my thoughts on the uranium sector over the last couple of years, owing to my experience in taking Peninsula Energy into the uranium space back in the boom time, then continuing on as a director for a 10 year period as PEN became only the second uranium producer out of that boom (Paladin was the other). It was a long difficult haul, with PEN only surviving because of very astute forward selling at much higher prices. It actually suspended production and bought supplies on the spot market to deliver into these contracts.

The sector had the stuffing knocked out of it when Fukushima occurred, causing the shutdown of the Japanese nuclear industry. Everyone lost money as a result and the uranium price has been in the doldrums ever since. Each time I was approached for my views I discouraged investment in a sector that was going through a nuclear winter. Whilst always being a believer in the environmental benefits of nuclear power, the headwinds were just too great.

However, we are starting to see the worm turning. The uranium price is off its lows and there is an undercurrent of enthusiasm emanating from some circles. Suddenly, last week, Peninsula Energy spiked to 22¢, breaking a long term downtrend, in response to the US Secretary of Energy releasing the Nuclear Fuel Working Group's strategy report.

The Report calls for aggressive re-engagement of the US in the uranium/nuclear sector, calling for a five fold increase in the stockpile and the purchase of 17-19 million pounds of U_3O_8 (US$150m p.a. for the next 10 years). It also recommended the purchase of conversion and enrichment services.

Look beyond the supply and demand equation that has dominated the industry in the past, and consider what global political implications are bubbling to the surface. Consider how strategic uranium is to the Chinese power sector, and how the US has, up until now, left the Chinese and Russians to their own devices. Is the US going to be comfortable going forward to leave the Chinese to dictate to the sector. Of course not - not with Trump at the helm. Uranium could be rapidly politicised and speculation is being reintroduced back to markets. It is time to pay more attention.

That said, there is good cause to be short term bullish on the fundamentals as well. Cameco has shut down the Tier 1 mines at McArthur River and Cigar Lake while Kazakh production is being curtailed, such that we see about 50% of mine supply being shut in at present with no prospect of being restarted until the uranium price is much closer to US$40-50/lb. This is the long term price needed for profitable operations.

So, we are actually seeing an acceleration of the tail end of the uranium cycle, causing the uranium price to increase from US$23/lb to US$33/lb in the space of a month. The nature of the market is switching from being inventory dictated to one of production constrains. It is looking like a momentum play now with expectations that the uranium price could hit US$40/lb by the end of May.

Equity funding options for junior companies

Junior companies always need more money, whether it be to embark upon the next exploration program or additional working capital to build an expanding business. In the growing business type of company example, the more successful a business becomes, the more it grows, the more working capital it needs.

The most common method of raising capital is to undertake a placement. It is quick and the certainty of outcome can be achieved within a few days, but there is something fundamentally inequitable about placements. It usually doesn't go to the smaller shareholders who are often the most loyal. Though share purchase plans (SPPs) may be combined with a placement to help out little guys, they are not very efficient. Further, the two methods are somewhat incompatible.

Placements are aimed at delivering into placees who want cheap stock that they frequently just want to feed into the market for a subsequent profit, in a quick and efficient deal. Invariably they are "priced to clear" making them easy to deal for brokers and their clients. Time is always tight so that placees need to make sure they are near the market and able to act quickly. The urgency of timing is often exacerbated by directors who leave it too long before going to the market, leaving them little room to bargain with brokers. At any time there is a risk of an adverse market movement, both on the macro side and the companies' share prices.

On the flip side, large shareholders can easily be disadvantaged by SPPs because of the $30,000 limit per shareholder. They may or may not even have the chance to take a placement.

So, what is the most equitable form of issue to raise capital? The answer has to be an entitlement issue to all shareholders on a pari-passu basis, on a ratio that can vary from 1 for 10 for a light issue, all the way up to a 1 for 1 for something more heavy. All shareholders are treated on the same basis, so it is therefore completely equitable. Maybe shareholders don't want to be puting up more money, but at least they do have an entitlement. They have a choice. What can be fairer than that? If there is excessive appetite over and above their proportional entitlements, shareholders can even apply for additional shares out of the shortfall, of which there are always some.

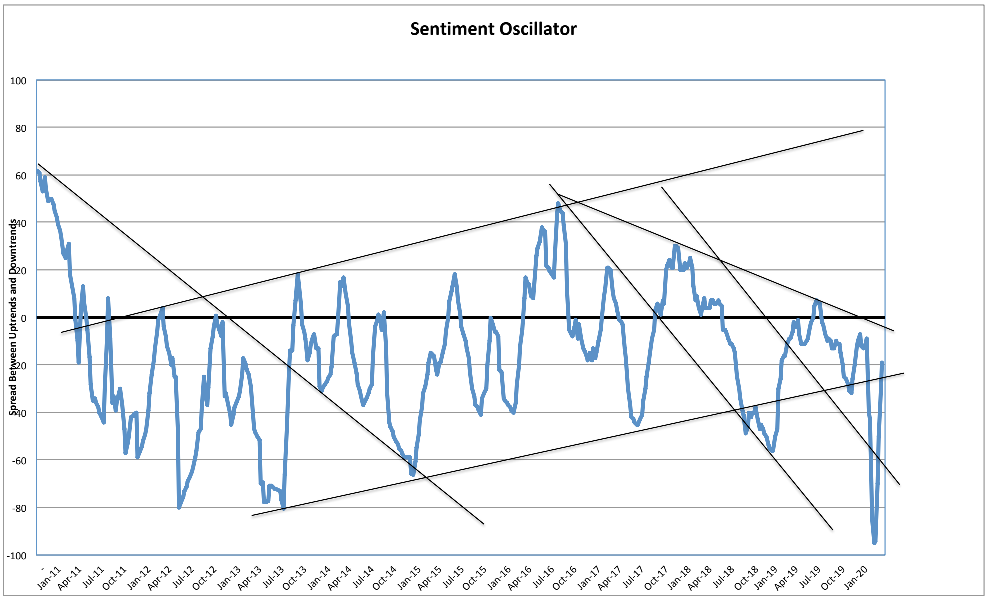
Companies can afford to be more generous in the pricing of entitlement issues because everyone gets the same price. There are no special favourites. Technically there is no dilution, though some shareholders get confused and use this word incorrectly when they comment on an entitlement issue.

As mentioned above, placements are quick and efficient. Properly conducted they can rapidly get a company's balance sheet back in order. Entitlement issues need more time and planning, and they are generally more effective if a company is already healthy and has time on its side. Ideally they should be undertaken as incremental funding techniques that give shareholders the opportunity to invest further in successful business, leaving the company sufficient time to move to Plan B in the event that, for whatever reason, the entitlement issue is not as well supported as first anticipated. In any event, the company will still have three months after the close of the issue to place any shortfall.

First Graphene announces a 1 for 10 entitlement issue at 13¢ (with options) to raise $6m

In the case of First Graphene, it has done placements in the past and even an SPP. This time around, while the company still has a strong cash position, it makes sense to undertake an entitlement issue - even at lower prices than might have been preferred - because it is not about squeezing the last dollar out of shareholders. It is about giving them a fair entry price into business that still has an exciting growth curve ahead of it, should they want to take advantage of the weaker stock market. Boosting cash balances now will ensure that whatever the uncertainties are in the world just now, there will be sufficient funds to continue to grow the business.

Disclosure: Interests associated with the author hold shares and options in First Graphene Ltd. The author is non-executive chairman.



Sentiment Oscillator: There was another healthy improvement in sentiment over the week, with 28% (22%) of the charts in uptrend and 47% (53%) 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		breached recent uptrend	
Metals and Mining	XMM		continuing higher	
Energy	XEJ		pullback	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Alpha HPA	A4N		new uptrend started	HPA
Adriatic Resources	ADT		rising again	zinc
Aeon Metals	AML		falling again	copper + cobalt
Alacer Gold	AQG		breached downtrend	gold – production
Alkane Resources	ALK		breached downtrend	gold, zirconia
Alicanto Minerals	AQI		rising again	gold exploration
Allegiance Coal	AHQ		down	coal
Alliance Resources	AGS		breached uptrend	gold exploration
Apollo Consolidated	AOP		breaching steepest downtrend	gold exploration
Arafura Resources	ARU		breaching steepest downtrend	rare earths
Aurelia Metals	AMI		risen to resistance line	gold + base metals
Australian Potash	APC		down	potash
Australian Mines	AUZ		base forming	cobalt/nickel
Australian Vanadium	AVL		new low	vanadium
BHP	BHP		turned down at resistance line	diversified, iron ore
Base Resources	BSE		down	mineral sands
Bathurst Resources	BRL		down	coal
BBX Minerals	BBX		down	gold exploration
Beach Energy	BPT		rallied through downtrend	oil and gas
Beacon Mining	BCN		breached downtrend	gold production
Bellevue Gold	BGL		steep uptrend from lows	gold exploration
Blackstone Minerals	BSX		rising	nickel
Breaker Resources	BRB		still testing downtrend	gold exploration
Broken Hill Prospecting	BPL		at lows	minerals sands
Buru Energy	BRU		turning down	oil
Buxton Resources	BUX		turned down at resistance line	nickel exploration
Capricorn Metals	CMM		rising again	gold
Cardinal Resources	CDV		breaching downtrend	gold exploration
Cassini Resources	CZI		strong rally	nickel/Cu expl.
Central Petroleum	CTP		down	oil/gas
Chalice Gold	CHN		another surge on high grade palladium	gold exploration
Chase Mining	CML		testing downtrend	nickel/copper/PGE
Chesser Resources	CHZ		breaching downtrend	gold exploration
Cobalt Blue	COB		breached downtrend	cobalt
Dacian Gold	DCN		collapse on recapitalisation	gold

Danakali	DNK		drifting lower	potash
Davenport Resources	DAV		at lows	potash
De Grey	DEG		Uptrend	gold
Ecograf (was Kibaran)	EGR		down	graphite
Emerald Resource	EMR		breaching downtrend	gold
Evolution Mining	EVN		surge higher	gold
Exore Resources	ERX		steepest downtrend breached	gold exploration
FAR	FAR		new low	oil/gas
First Graphene	FGR		surge through downtrend	graphene
Fortescue Metals	FMG		breached downtrend	iron ore
Galaxy Resources	GXY		down	lithium
Galena Mining	G1A		breached steepest downtrend	lead
Galilee Energy	GLL		testing downtrend	oil and gas, CBM
Gold Road	GOR		strong recovery	gold
Graphex Mining	GPX		down	graphite
Heron Resources	HRR		new low	zinc
Highfield Resources	HFR		down	potash
Hillgrove Resources	HGO		still in downtrend	copper
Iluka Resources	ILU		breached downtrend	mineral sands
Image Resources	IMA		testing steepest downtrend	mineral sands
Independence Group	IGO		breached downtrend	gold, nickel
ioneer (was Global Geoscience)	INR		down	lithium
Jervois Mining	JVR		sideways	nickel/cobalt
Jindalee Resources	JRL		spike to hit resistance line	lithium
Kin Mining	KIN		breached support line	gold
Kingston Resources	KSN		turned down at resistance line	gold
Kingwest Resources	KWR		rallying back to resistance line	gold
Legend Mining	LEG		surge to new high	nickel exploration
Lepidico	LPD		down	lithium
Lindian Resources	LIN		testing downtrend	bauxite
Lithium Australia	LIT		strong rally	lithium
Lucapa Diamond	LOM		at lows	diamonds
Lynas Corp.	LYC		rising again	rare earths
Mako Gold	MKG		down	gold exploration
Marmota	MEU		strong recovery	gold exploration
MetalsX	MLX		new low	tin, nickel
Metro Mining	MMI		down	bauxite
Mincor Resources	MCR		breached uptrend	gold
Musgrave Minerals	MGV		almost back to highs	gold exploration
Myanmar Minerals	MYL		breached steepest downtrend	zinc
Nelson Resources	NES		strong rally to hit resistance line	gold exploration
Neometals	NMT		continuing down	lithium
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		breached downtrend	gold

NTM Gold	NTM		rising again	gold exploration
Oceana Gold	OGC		strong rise	gold
Oklo Resources	OKU		new high	gold expl.
Orecorp	ORR		rallied to resistance line	gold development
Oro Verde	OVL		breached uptrend	rare earths
Orocobre	ORE		forming a base	lithium
Oz Minerals	OZL		strong rally	copper
Pacific American Holdings	PAK		new low	coal
Pacifico Minerals	PMY		down	silver/lead
Pantoro	PNR		breached steepest downtrend	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		testing steepest downtrend	rare earths
Peel Mining	PEX		down	copper
Peninsula Energy	PEN		strong surge	uranium
Pure Minerals	PM1		sideways channel	nickel/cobalt/HPA
Pensana Metals	PM8		down	rare earths
Perseus Mining	PRU		up	gold
Pilbara Minerals	PLS		but strong rally	lithium
PNX Metals	PNX		down	gold, silver, zinc
Polarex	PXX		breached recovery uptrend	polymetallic exploration
Ramelius Resources	RMS		testing downtrend	gold production
Real Energy	RLE		testing downtrend	gas
Red5	RED		down	gold
Red River Resources	RVR		rallying	zinc
Regis Resources	RRL		uptrend again	gold
Resolution Minerals	RML		surge to new high	cobalt
Resolute Mining	RSG		rising	gold
RIO	RIO		new uptrend breached	diversified, iron ore
Salt Lake Potash	SO4		down	potash
Saracen Minerals	SAR		breached uptrend	gold
St Barbara	SBM		uptrend breaching resistance line	gold
Sandfire Resources	SFR		breached steepest downtrend	copper
Santos	STO		breached steepest downtrend	oil/gas
Saturn Metals	STN		off its highs	gold exploration
Sheffield Resources	SFX		new low	mineral sands
Sky Metals	SKY		uptrend maintained	gold exploration
St George Mining	SGQ		down	nickel
Silex Systems	SLX		strong recovery from lows	uranium enrichment technology
Sipa Resources	SRI		testing downtrend	general exploration - Ni,Cu, Co, Au
Spectrum Metals	SPX		testing uptrend	gold exploration
Stanmore Coal	SMR		surge out of downtrend	coal
Strandline Resources	STA		down	mineral sands
Syrah Resources	SYR		down again	graphite
Talga Resources	TLG		down	graphite

Technology Metals	TMT		down	vanadium
Tesoro Resources	TSO		steeply higher	gold exploration
Titan Minerals	TTM		down	gold
Vango Mining	VAN		breaching uptrend	gold
Venturex	VXR		strong rally, hit resistance line	zinc
Vimy Resources	VMY		strong rally	uranium
West African Resources	WAF		uptrend again	gold
Westgold Resources	WGX		rising again	gold
West Wits Mining	WWI		testing uptrend	gold
Western Areas	WSA		rising	nickel
Whitebark Energy	WBE		down	oil and gas
Whitehaven Coal	WHC		turned down at resistance line	coal
Yandal Resources	YRL		testing downtrend	gold exploration
Zinc Mines of Ireland	ZMI		strong rally	zinc
Totals	28%	38	Uptrend	
	47%	65	Downtrend	
		137	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	23.4%	
Gold Exploration	20	14.6%	
Oil/Gas	8	5.8%	
Nickel	9	6.6%	
Lithium	8	5.8%	

Coal	**6**	**4.4%**	
Zinc/Lead	**10**	**7.3%**	
Mineral Sands	**6**	**4.4%**	
Rare Earths	**6**	**4.4%**	
Potash/Phosphate	**5**	**3.6%**	
Copper	**5**	**3.6%**	
Cobalt	**3**	**2.2%**	
Graphite	**4**	**2.9%**	
Tin	**1**	**0.7%**	
Iron Ore	**3**	**2.2%**	
Uranium	**2**	**1.5%**	
Bauxite	**3**	**2.2%**	
Vanadium	**1**	**0.7%**	
Silver	**2**	**1.5%**	
Diamonds	**1**	**0.7%**	
Other	**2**		
Total	**137**		

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