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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

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Charts on Friday's Close

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By the time you realise that we are in a correction it is often too late to take profits

If you have been watching the Sentiment Index, and the derivative Sentiment Oscillator, you would have noticed that sentiment has been slipping backward for three, and now four weeks. In reality that means that many of the stocks under coverage have probably dropped by 20-25% from the highs they saw in July. Some have dropped by more than 30%.

Does this mean that you should be worried, or is it too late to worry? Has the correction already happened? The froth is out of the market and many stocks are coming back into the range where they should be bought for the next leg upwards. But wait, how many people really think that? What is the next person thinking? Welcome to the confusion that is ever present in the stock market, especially for those that like to hunt in packs.

Last week, when we presented the Sentiment Oscillator, we said the mining equity markets were poised to go either way, with senior gold stocks looking vulnerable. They fell during the week with sentiment taking a heavy hit at the end of the week. The next week will tell us whether those stocks that are sitting on support will recover, or whether they will succumb to further selling which will mean that we are in a period or sustained correction after six months of a good market from February to July. The outlook for commodity prices and economics generally is not deteriorating. We are still coming off historic lows in mining equities markets, but in order for this recovery to last longer we do need a period of correction. We just don't know how severe it will be before the second wave of the cycle kicks in.

Coal returning to favour

The strength in the mining sector started with the gold stocks and as money returns investors are extending their vision to other commodities, knowing that even the down and out sectors will come back into favour. Notwithstanding the aversion to dirty coal by many evangelists, even that commodity is showing signs of recovery.

You should remember that thermal coal and coking coal are very different products. Thermal coal has many substitutes but coking coal is an unavoidable input for steel production. Thus there is not the same social pressure against its use.

Coking coal is making a comeback. The rise in Atrum Coal (ATU) from 48¢ to $1.04 in a couple of months has shown how these situations can turn around in the market. Another contender is Pacific American Coal (PAK) with its 250 Mt of high grade JORC compliant resource in BC, Canada. Six months ago the market was valuing this at only 1¢ per tonne, whereas a normal market valuation could easily be 10-20¢ pt. Back in March the market capitalisation was only $3-4m. That is when I decided to buy around 9%, for a long term view. Since then the market capitalisation has increased to $15m (after hitting $20m), but most of this increase has been due to the acquisition of a 40% stake in Imagine Intelligent Materials Pty Ltd, a private company that is commercialising graphene through its application in conductive geotextiles. The market is valuing the Imagine business at approximately $10m, leaving a valuation of $5m on the coal assets, which is still only 2¢ pt. Contrast the capitalisation of Atrum Coal at $200m and you will see that PAK has significant upside potential on the coking coal, which has been described to me by an experienced coal expert as a Tier One asset. The graphene business has great upside, but the revaluation of the stock on the coal assets is a no-brainer. The shares are priced at a heavy discount still.

Waiting for inspiration from Jackson Hole

The markets seem to be in standby mode as we wait for missives from the annual gathering at Jackson Hole, Wyoming. So far the news flow has been inconclusive, with the only direction being indecision and uncertainty and the economists are making suggestions.

The dominant policy drive for central banks continues to be setting of inflation targets in the order of 2% pa and making monetary policy work to facilitate these targets, but actual inflation is constantly falling below this rate (ignoring the problem in calculating what an effective inflation rate really is across the entire economy).

The problem with this strategy is that its justification is backward looking. It was influenced by the period of high inflation in the 1970s and 1980s, when there was a serious problem in breaking the inflationary psychology that dominated world economics. That psychology and the expectations of ever rising prices has been quashed. Consumers still expect prices will rise over time but they also know that in many areas prices of consumer goods and commodities have also been known to fall. The cycle of inflationary expectations has been broken.

The problem now is that there is little, if any, recorded aggregate growth in many economies. Sure, some sectors are growing well, but on the whole the growth in GPD is recorded as being incipient. There are winners and losers in the economy but it all seems to balance out at a near zero sum gain.

One of the primary weaknesses in the current interest rate policy is the crushing of the wealth effect as earnings on investments are minimised due to the very low interest rates. In advanced economies with ageing populations, increasing numbers of senior citizens are having their incomes truncated by the low interest rates on their deposits. Expectations of shrinking incomes leads to less spending and therefore lower growth than otherwise. There is a need for these investors to make capital gains as an alternative and that is why the stock markets are at high levels. It works while markets keep rising and that is why no-one is interested in reigning in the bull market, particularly in the USA, but that can't go on forever.

These are the problems but what is the solution? There is an increasing argument to say that we should be looking at targeting a growth in GPD rather than inflation. Forget inflation. It is no longer the evil on the battlefield. Stagnation is the real problem. We have tried QE but that hasn't worked. It merely increases liquidity in a sectors that rely on investment income and capital gains, thereby increasing competition for investment products but not increasing widespread aggregate demand. It has made markets that are easily spooked by the prospects of higher interest rates and this has impeded initiatives by the Fed.

It is a different mindset if governments and central banks target GPD growth rather than inflation. It requires both fiscal policy and monetary policy to be on the front foot, working as a team. It brings Keynesian economics back into play to stimulate economic activity. Governments will have to spend more either through increasing deficits or by increasing taxation. They will have to introduce efficiencies and put those improvements to work. If the increase in spending improves productivity, say through improvements from better infrastructure or restructuring sectors, and if aggregate demand improves, we then have to rely on the income accelerator to flow through.

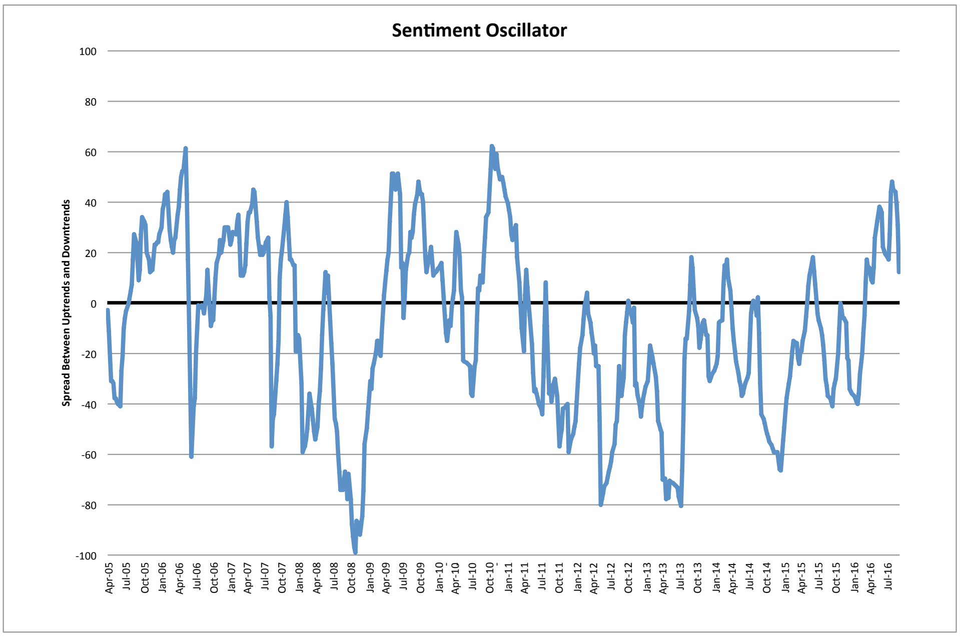
There is also the view that economic activity has been constrained over the last 10-20 years due to socially dictated changes rather than hard economics. We have seen industry and society suffer ever increasing burdens from areas such OH&S requirements, security costs, increasing infestation of lawyers and accountants making rules that increase compliance costs but do nothing for productivity, escalating insurance costs due to the abandonment of the contributory negligence doctrine in compensation claims, climate change regulations and more recently the epidemic in depression and mental health. Is it any wonder that we are becoming depressed and anxious about the future when we see so much squandering of the nation's wealth on peripheral issues?

Reality taking hold of flake graphite stocks

The two leading flake graphite stocks (in terms of market performance), Syrah and Magnis, are going through a period of heavy selling that has taken them down by 40% and 47% respectively, from their June 2016 highs. They were capitalised at $1.7bn and $522m at their peaks. As is usual, once enthusiasm and FOMO gets into overdrive the share prices perform independently of fundamentals. When punters start to think the run has finished the sellers will be jamming the exits.

Traders should always remember that it is more fun to trade on expectations and "what if" scenarios that hard fundamentals, but they should also remember that converting the expectation into reality is a high risk path - more risky than drilling out a geological discovery in many cases. This is why we are so keen on a stock like **Santana Minerals** (SMI), which is currently planning the next drill program on a silver property in Mexico. It ticks all the boxes; geology, scale, management and commodity. It is at the start of the value creation curve - the definition and expansion of the resources. It is taking ground that might be worth $10/acre and turning it into something worth millions of dollars per acre based on resources in the ground.

It is no coincidence that Syrah's share price is turning down just as it announces the awarding of the construction project for the Balama graphite project. It is about to face the litmus test where it has to deliver on all of the promises but it will take another 1-2 years before we really know. That is a long time to park speculative funds, so the aggressive money will be looking to be deployed in more opportunistic stocks while long term investors will wait until there is delivery on development and production. Again, this is an example of how investors react to commissioning risk. There is no room for traders to feel good that a mine is being developed per se when that introduces a period of uncertainty. Leave that to the true believers.



Sentiment Indicator: We have now had four week of softer sentiment with there being an acceleration in the last week 42% (52%) of the stocks in uptrend and 30% (21%) in downtrend. On balance it is still well positive, but it needs something to turn the recent trend around (as shown on the Oscillator).

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	near peak of trading range	
Metals and Mining	XMM	edging higher	
Energy	XEJ	gently rising	
Stocks	**Code**	**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU	breached support line	gold
Aeon Metals	AML	new high	copper + cobalt
Alacer Gold	AQG	rising again	gold – production
Alkane Resources	ALK	higher	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Aguia Resources	AGR	struggling to hold these levels	phosphate
Alicanto Minerals	AQI	new high	gold exploration
Altlech Chemicals	ATC	heavy pullback to support line	industrial minerals
Anova Metals	AWV	new high	gold
Antipa Minerals	AZY	short term down	gold
Archer Exploration	AXE	breached uptrend	graphite
Argent Minerals	ARD	now sitting on long term support at 2.7¢	polymetallic
Atlas Iron	AGO	down	iron ore
Atrum Coal	ATU	new high	coal
Aurelia Metals	AMI	pullback	gold + base metals
Auroch Minerals	AOU	down on withdrawal from lithium deal	exploration
Aus Tin	ANW	surge higher	tin, cobalt
Australian Bauxite	ABX	turned down at resistance	bauxite
Australian Vanadium	AVL	downtrend	vanadium
Avanco Resources	AVB	down, but sitting on long term support now	copper
AWE	AWE	heavily down	oil and gas
Azure Minerals	AZS	down heavily	silver
BHP	BHP	hugging trendline	diversified
Base Resources	BSE	breached uptrend, but rallying	mineral sands
Beach Energy	BPT	long term downtrend in play	oil and gas
Beadell Resources	BDR	on support	gold
Berkeley Resources	BKY	coming off the high	uranium
Blackham Resources	BLK	new high	gold
Broken Hill Prospect.	BPL	lower	minerals sands, cobalt
Buru Energy	BRU	sideways	oil
Canyon Resources	CAY	down	bauxite
Cardinal Resources	CDV	new high	gold exploration
Carnegie Wave	CWE	downtrend	wave energy
Cassini Resources	CZI	stronger	nickel/Cu expl.
Chalice Gold	CHN	new high	gold
Consolidated Zinc	CZL	down	zinc
Coventry Resources	CYY	ST down	copper
Dacian Gold	DCN	new high	gold exploration
Danakali	DNK	rising again	potash
De Grey	DEG	rising	gold
Doray Minerals	DRM	down	gold
Duketon Mining	DKM	on support	nickel
Eden Energy	EDE	correction turning into a downtrend	carbon nanotubes in concrete
Energia Minerals	EMX	struggling	zinc

Evolution Mining	EVN		coming off its highs	gold
Excelsior Gold	EXG		new low	gold
First Australian	FAR		sideways	oil/gas
First Graphite	FGR		on support line	graphite
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		heavy fall	lithium
Galilee Energy	GLL		still down	oil and gas, CBM
Gascoyne Resources	GCY		correcting lower	gold
General Mining	GMM		steep uptrend breached	lithium
Geopacific Res. Resources	GPR		correcting lower	copper/gold exp.
Global Geoscience	GSC		breached uptrend	lithium
Gold Road	GOR		breached uptrend	gold exploration
Goldphyre	GPH		short term down	potash,gold
Graphex Mining	GPX		heavy correction	graphite
Gryphon Minerals	GRY		new high on takeover bid	gold
Herron Resources	HRR		at highs	zinc
Highfield Resources	HFR		fallen to support line	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		coming off high in a retracement	copper
Hot Chilli	HCH		new low	copper
Iluka Resources	ILU		correcting after rise	mineral sands
Image Resources	IMA		down	mineral sands
Independence	IGO		new high	gold, nickel
Intrepid Mines	IAU		sideways - 7¢ capital return proposed	copper
Karoon Gas	KAR		testing downtrend	gas
Kibaran Resources	KNL		breached downtrend but then a pullback	graphite
Kin Mining	KIN		testing uptrend	gold
King Island Scheel.	KIS		new low	tungsten
Kingsgate Consol.	KCN		suspension	gold
Kingsrose Mining	KRM		testing downtrend	gold
Legend Mining	LEG		breach of gentle dwontrend	exploration
Lithium Australia	LIT		downtrend	lithium
Lucapa Diamond	LOM		on support line	diamonds
Macphersons Res.	MRP		sideways	silver
Manas Resources	MSR		rising	gold
Medusa Mining	MML		breached ST downtrend	gold
Metals of Africa	MTA		long term downtrend	zinc expl/graph.
MetalsX	MLX		new high	tin, gold
Metro Mining	MMI		uptrend	bauxite
Mincor Resources	MCR		heavy fall	nickel
Mineral Deposits	MDL		heavy pullback	mineral sands
MMJ PhytoTech	MMJ		testing downtrend	medical cannabis
Mustang Resources	MUS		breaching support line	diamonds, rubies
MZI Resources	MZI		breached uptrend	mineral sands
Northern Minerals	NTU		fallen to support line	REE
Northern Star Res.	NST		breaching uptrend, ST down	gold
Oceana Gold	OGC		heavy correction	gold
Oklo Resources	OKU		testing uptrend	gold expl.
Orecorp	ORR		pullback	gold development
Orinoco Gold	OGX		rising again	gold development
Orocobre	ORE		down	lithium
Oz Minerals	OZL		new high	copper
Paladin Energy	PDN		new uptrend	uranium
Pacific American Coal	PAK		breached uptrend	coal, graphene
Pantoro	PNR		surge to new high	gold
Panoramic Res	PAN		rising	nickel
Paringa Resources	PNL		down	coal
Peel Mining	PEX		gentle uptrend	copper

Peninsula Energy	PEN		surge off lows	uranium
Perseus Mining	PRU		falling	gold
Pilbara Minerals	PLS		falling	lithium/tantalum
Potash West	PWN		meeting resistance line	potash
Red River Resources	RVR		surge to new high	zinc
Regis Resources	RRL		new high	gold
Renaissance Min.	RNS		new high	gold
Resolute Mining	RSG		on support line	gold
Reward Minerals	RWD		**strong rise**	potash
Rex Minerals	RXM		back to lows	copper
RIO	RIO		testing long term downtrend	diversified
RTG Mining	RTG		correcting	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		**breaching uptrend**	gold
St Barbara	SBM		**now in a correcting downtrend**	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		strong rise	silver
Santos	STO		recovering uptrend	oil/gas
Sheffield Resources	SFX		new high	mineral sands
Silver City Minerals	SCI		down	base metals
Silver Lake Resources	SLR		new high	gold
Silver Mines	SVL		surge to new high	silver
Sino Gas & Energy	SEH		sideways	gas
Southern Gold	SAU		uptrend continuing	gold
Sundance Energy	SEA		testing downtrend	oil/gas
Syrah Resources	SYR		downtrend	graphite
Talga Resources	TLG		down	graphene
Tanami Gold	TAM		new high	gold
Tiger Resources	TGS		back to lows	copper
TNG Resources	TNG		drifting lower	titanium, vanadium
Torian Resources	TNR		rising again	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		**down**	gold exploration
Vimy Resources	VMY		down	uranium
West African Resources	WAF		new high	gold
Westwits	WWI		**breached uptrend**	gold exploration/development
Western Areas	WSA		**turned down at resistance**	nickel
White Rock	WRM		**down**	silver
WPG Resources	WPG		improving following placement	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	42%	60	Uptrend	
	30%	43	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	36	25.2%	
Copper	14	9.8%	
Gold Exploration	11	7.7%	
Oil/Gas	9	6.3%	
Potash/Phosphate	7	4.9%	
Mineral Sands	7	4.9%	
Graphite	6	4.2%	
Zinc	6	4.2%	
Silver	6	4.2%	
Lithium	6	4.2%	
Nickel	5	3.5%	
Uranium	5	3.5%	
Coal	4	2.8%	
Tin	2	1.4%	
Bauxite	3	2.1%	
Iron Ore	2	1.4%	
Diamonds	2	1.4%	
Other	12		
Total	143		