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On Friday's Close

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## Contemplating interest rates and economic activity, as they relate to markets highs

There is something happening to the equities markets which is unusual for Australia, but not necessarily so for the USA. We have seen an incredibly long-lived bull market in the Dow and through the life of it there has been a resilience that has just kept it going, even through periods of doubt. From time to time there have been aggressive sells-downs that threatened to break the trend, but each time it has recovered to hit new highs. It is almost as if it is being responsibly managed to ensure no disasters.

The stronger Australian market is starting to show similar characteristics notwithstanding the concern that our expended period of growth, decades of it in fact, may be under challenge. There doesn't seem to be any strong fundamentals that justify us testing record highs, but it is still happening. It is out of the ordinary but it might be the new game ... until someone changes the rules.

The determination of Reserve Bank Governor, Phil Lowe, to sink interest rates to even lower levels is worrying on the economic management front, though it is good for share prices. Look at Europe. The onset of the GFC caused central banks around the world to take drastic action on interest rates, and then QE, as they sought to avoid a collapse of the system. The medicine has continued to be administered for an extended period time with regard to the extremely low interest rates, but that has left them with limited policy options in Europe as economies slow.

The USA is in a completely different situation. Relatively strong growth has led to full employment. Pre-emptive strikes by the Fed saw a period of rising interest rates last year before it was acknowledged that lead indicators foretold a downturn, so the interest rate machine was clunked into reverse. Now the US economy continues to be strong, mostly on the back of consumer confidence rather than business expectations. Politics and the trade war with China are having the biggest impact on investor expectations over there, but still the market goes higher.

Australia, in its own world, has benefitted greatly from Chinese demand for its raw materials, and from Chinese money coming down to underpin a property boom that is now in the process of unwinding. There has been no collapse, but there has been a definite slow down. It seems that the Reserve Bank is determined to make sure that this doesn't devolve into a recession, so it is using lower interest rates to keep the wolf at bay. It is subtly different to the interest rate strategy in Europe and elsewhere, though all banks automatically believe that the key to stimulation is lower interest rates. Australia should have more policy options than other countries due to its long period of growth. It need not rely solely on lowering of interest rates to do the heavy lifting, especially when there are disadvantageous effects of low interest rates on some sectors of the economy e.g retirees.

Relating all this back to the stock market as it is pushing towards new highs, we note that these new highs are being made possible because of interest rate policy. Does that explain it all? Certainly we are seeing money moving from low interest bearing accounts into dividend paying shares in the quest for income, as you can get quality dividends about three times higher than cash rates, and there is still plenty of money on the sidelines that could follow. But what happens when this flow slows and the market fully prices in the expectations? What will be the next driver?

Having survived a few stock market crashes over the last 40-50 years, one is always mindful that they can happen again, but there are no warning signs on the horizon. Our market is going higher on the basis of falling interest rates, but there is no bullish economic outlook. If the property boom is well and truly past, which seems to be the consensus, where else do you put your money? It seems that good quality, well managed stocks that are paying dividends are the best bet, especially while risk appetite is low. So, stick with the strength.

The orderly behaviour of markets and the obliviousness to the alternative scenarios for the future at present is unusual, as if no-one wants to bother to consider the "what if" scenarios. Just live with what we have. There is enough turmoil in the world with geopolitics, the trade war, the climate change hysteria, Presidential tweeting and the implications of Chinese Communist Party expansionism without having it disturb our stock markets, if we can possibly avoid it.

### *Santana switching to nickel in Vietnam*

A few years back we were following Santana Minerals as it drilled a silver project in Mexico. While the geological prognosis proved accurate, supporting a belief that the ground could host tens of millions of ounces at commercial grade, the market was just not interested. It mattered not that the same team was enormously successful with a similar project in Bolnisi Gold some time ago, with all shareholders doing very well. If the market is not interested, meaning it won't stump up with more funds to advance a project, then you have to move on.

One of the reasons for backing Norm Seckold in Santana, and not losing too much sleep over a speculative investment that has turned into a long-term, bottom draw holding, was that he will usually move on to Plan B or even Plan C, if that is what it takes to do the right thing by shareholders. It is impossible to avoid the haircuts that come with unsuccessful ventures, but where there is life there is hope.

So now we are seeing the rebirth of Santana as a nickel sulphide play in Vietnam. Given the headlines in the press regarding M & A activity in the sulphide nickel business, with IGO's bid for Panoramic, it seems like Santana might

be in the right mineral at the right time, albeit in Vietnam rather than WA.

Last week the Company announced a petrology analysis of the mineralisation from the Phu Lon prospect that confirmed nickel sulphide mineralisation. Santana believes it to be a magmatic sulphide mineralised ultramafic intrusion with similar geological characteristics to the Jinchian deposit in China, which hosts 500 Mt at 1.2% Ni, 0.7% Cu and 0.4 gpt PGE.

A big selling point for Phu Lon is the dimension, with a 14 km strike length. Earlier trenching results have been 975m at 0.51% Ni, 90m at 0.67% and 80m at 0.74% Ni. So it has size. Now, what about depth? A maiden drilling program is scheduled to commence in January 202, that will test the prospect with 13 holes. It has not been drilled previously. This will be funded by a \$3m placement at 0.3¢, happening as we write.

*Disclosure: Interests associated with the author own shares in Santana and have received capital raising fees in the past.*

### *Kalamazoo embracing the exploration revival in Victoria*

The Victorian mining industry is undergoing a renaissance now largely because of the extraordinary success of Kirkland Lake, but with some extra spice thrown into the mix with some excellent copper drill results reported by Stavely Minerals. That Victoria has been the source of some of the richest gold mines in the world over time, particularly from alluvial workings, is an historical fact. The failure of that State to deliver world-class mines since the 1980s (with Fosterville being the exception) has been anomalous. However, the realisation that you have to drill deeper has spurred an exploration revival.

During the week I went to a well-attended presentation by Kalamazoo Resources (KZR) which was very upbeat about its Castlemaine gold exploration programs. It is committed to spend \$5m over the next 12 months in the quest to find where all that alluvial gold came from. Apart from the small underground Wattle Gully gold mine, no-one has had a good look at the depth potential of the goldfield, according to Kalamazoo. A 10,000m drilling program is underway, with initial results expected by Xmas. Holes to 500m depth will provide a fascinating window on what is down there. We will watch with interest to see if there is early success that might point to something big.

Hartley's is on the game, initiating research on Navarre Minerals (NML), a Victorian gold explorer capped at \$49m with \$10m of cash. Over the next 6-9 months NML will drill test two prospects at Irvine, to the south of Stawell, to vertical depths of 300m. In the opinion of John McDonald at Hartley's, NML is "one or two gold holes away from a major discovery in the Stawell gold corridor" (I assume that means he won't count "bad" holes). Previous holes at the Resolution lode include 18.7m at 7.1 gpt, 10.6m at 6.2 gpt, 4m at 9.8 gpt, 6m at 6.3 gpt and 2.9m at 12.9 gpt. There is something interesting there.

Carawine Resources (CWX), also in the region, has commenced drilling at its Jamieson project, targeting down-dip extensions of copper /gold porphyry mineralisation at Hill 800, 80 & 160m below previous drilling.

Other companies in the area include Catalyst Metals (CYL) and Challice (CHN).

### *Another big gold purchase in Canada, by Australians*

First it was St Barbara, then it was Northern Star, and now it is Evolution. EVN has announced a deal to buy 100% of the Canadian Red Lake gold complex for US\$375m, and up to another US\$100m payable upon a new resource discovery. Red Lake is a Tier 1 asset with historical gold production of more than 25 Moz and a mineral resource of 7 Moz at 11.2 gpt.

Without getting too detailed, why are North Americans selling out of their leading gold assets (including Kalgoorlie's Super Pit)? What do Australians know that seems to have them more confident about the gold price future? It is not as if our currency is historically high. Do the Australian companies just want growth in production, corresponding with the Canadian's and American desire to cash out? It will be interesting to see who has the best crystal ball.

### *Structuring IPOs is always challenging*

There seems to be a number of companies out there embarking upon IPOs, or at least laying the ground work. Add this to the companies seeking to raise equity before the Xmas shutdown, which generally extends until at least the middle of January, and you see the equity raising space becoming crowded. The trouble is that investors don't see any urgency to act right now. Many of them have already started to disengage for the holiday season and so they are reluctant to support new raisings.

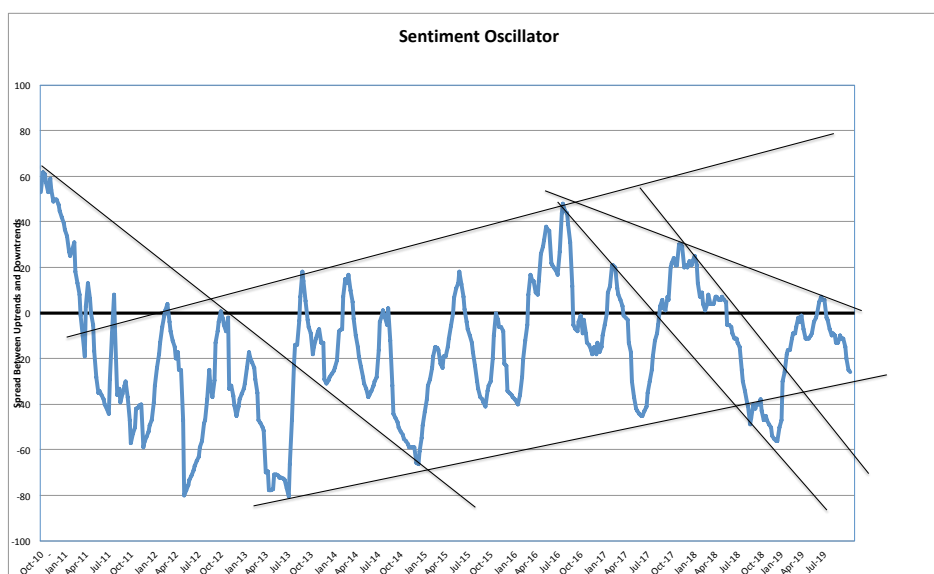
Structuring an IPO is always a challenge as you have to reward the entrepreneurs adequately, but you also need to respect the interests of IPO investors if you are going to raise the money and make the exercise worthwhile. One prospective IPO I saw during the week that was seeking \$4.5m but this represented only 50% of the planned expanded capital on listing. There is a school of thought that suggests the cash backing is where the share price will drift to on listing, in the absence of some powerful reason why it won't trade under the IPO price. That seems to have happened with Trigg Mining (TMG), an IPO that raised \$4.5m in October. The price has fallen to 8.4¢ giving a market capitalisation of \$4.8m.

The company I mentioned earlier has 9% of the issued capital going to vendors, and 32% to seed investors who paid 5¢ a share, not the 20¢ that the public is being offered (percentages assume success in the IPO). (Another, pre-IPO raising on I saw was not as generous to the early birds, issuing pre-IPO shares at 12¢ rather than 5¢). There is a further allocation of about 6.8% to be granted to brokers as a sweetener. The investing public will see these figures and wonder why they are being asked to pay cash at 20¢, being the top price.

My biggest concern with IPOs - any IPO - is the absence of price discovery. How do we know it is priced smartly? The promoters can throw in all sorts of inducements to interested parties but until it is actually trading, we won't know if it has hit the mark. The process leading up to a public offering can be exhausting and expensive over a 6-9 month time frame with no guarantee of success. They either get over the line, or they don't.

The other concern is that the IPOs usually raise what they can manage - what the market will give them. Too often it is

not enough to make a real difference, especially when it has projects in remote countries. Thus, the company is undercapitalised from the outset and already pregnant with a subsequent capital raising.



**Sentiment Oscillator:** Sentiment weakened again and approaching what could be longer term support. Does this mean we will get a Christmas, or New Year rally in the juniors? There were 25% (27%) of the charts in uptrend and 50% (47%) 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	holding uptrend	
Metals and Mining	XMM	holding uptrend	
Energy	XEJ	holding uptrend	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	stronger	HPA
Adriatic Resources	ADT	new high	zinc
Aeon Metals	AML	new low	copper + cobalt
Alacer Gold	AQG	new high	gold – production
Alkane Resources	ALK	testing support line	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alicanto Minerals	AQI	new low	gold exploration
Allegiance Coal	AHQ	breached support, then rallied	coal
Alliance Resources	AGS	breached uptrend	gold exploration
Apollo Consolidated	AOP	back to support line	gold exploration
Arafura Resources	ARU	breached downtrend	rare earths
Argent Minerals	ARD	down	silver
Aurelia Metals	AMI	testing downtrend	gold + base metals













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Australian Potash	APC	testing uptrend	potash
Australian Mines	AUZ	continuing down	cobalt/nickel
Australian Vanadium	AVL	new low	vanadium
BHP	BHP	rising after downtrend breached	diversified, iron ore
Base Resources	BSE	down	mineral sands
Bathurst Resources	BRL	down	coal
BBX Minerals	BBX	sideways through downtrend line	gold exploration
Beach Energy	BPT	risen through resistance line	oil and gas
Beacon Mining	BCN	down	gold production
Bellevue Gold	BGL	breached support, downtrend	gold exploration
Berkeley Energia	BKY	in secondary downtrend	uranium
Blackstone Minerals	BSX	testing downtrend	nickel
Bounty Coal	B2Y	still in downtrend	coal
Breaker Resources	BRB	down	gold exploration
Broken Hill Prospecting	BPL	steeply higher, then all the way back down	minerals sands
Buru Energy	BRU	turning down	oil
Buxton Resources	BUX	continuing down	nickel exploration
Capricorn Metals	CMM	consolidating 5 into 1	gold
Cardinal Resources	CDV	down	gold exploration
Cassini Resources	CZI	softer	nickel/Cu expl.
Central Petroleum	CTP	new uptrend breached	oil/gas
Chalice Gold	CHN	ST downtrend commencing	gold exploration
Chase Mining	CML	secondary downtrend	nickel/copper/PGE
Chesser Resources	CHZ	breached downtrend	gold exploration
Cobalt Blue	COB	breaching downtrend, but pullback	cobalt
Dacian Gold	DCN	turning down on LT resistance line	gold
Danakali	DNK	drifting lower	potash
Davenport Resources	DAV	broken lower	potash
Egan Street Resources	EGA	under takeover offer, but weaker	gold
Emerald Resource	EMR	gentle downtrend	gold
Evolution Mining	EVN	approaching support line in ST downtrend	gold
Exore Resources	ERX	higher for placement then slump	gold exploration
FAR	FAR	sideways at lows	oil/gas
First Graphene	FGR	short term down	graphene
Fortescue Metals	FMG	new high	iron ore
Galaxy Resources	GXY	new low	lithium
Galena Mining	G1A	slump	lead
Galilee Energy	GLL	downtrend forming	oil and gas, CBM
Gold Road	GOR	down	gold
Graphex Mining	GPX	drifting lower	graphite
Heron Resources	HRR	new low	zinc
Highfield Resources	HFR	down heavily	potash
Hillgrove Resources	HGO	sideways	copper
Iluka Resources	ILU	breached downtrend	mineral sands

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Image Resources	IMA		down	mineral sands
Independence Group	IGO		new high	gold, nickel
ioneer (was Global Geoscience)	INR		resting on support	lithium
Jervois Mining	JVR		sideways at lows	nickel/cobalt
Jindalee Resources	JRL		heavy fall	lithium
Karoo Gas	KAR		heading lower	gas
Kasbah Resources	KAS		new low	tin
Kibaran Resources	KNL		new low	graphite
Kin Mining	KIN		down again	gold
Kingston Resources	KSN		down	gold
Legend Mining	LEG		stronger	nickel exploration
Lepidico	LPD		down	lithium
Lindian Resources	LIN		Uptrend	bauxite
Lithium Australia	LIT		new low	lithium
Lucapa Diamond	LOM		new low	diamonds
Lynas Corp.	LYC		down	rare earths
Mako Gold	MKG		rising off lows	gold exploration
Marmota	MEU		down	gold exploration
MetalsX	MLX		new low	tin, nickel
Metro Mining	MMI		gentle uptrend	bauxite
Mincor Resources	MCR		continuing higher	gold
Musgrave Minerals	MGV		correcting lower	gold exploration
Myanmar Minerals	MYL		new low	zinc
Nelson Resources	NES		heavy fall	gold exploration
Neometals	NMT		continuing down	lithium
Northern Cobalt	N27		surge out of downtrend	cobalt
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		down heavily	gold
NTM Gold	NTM		fallen to support line	gold exploration
Oceana Gold	OGC		heavy fall	gold
Oklo Resources	OKU		stronger	gold expl.
OreCorp	ORR		rising again	gold development
Oro Verde	OVL		rising	rare earths
Orocobre	ORE		testing downtrend	lithium
Oz Minerals	OZL		surged higher in long-term uptrend	copper
Pacific American Holdings	PAK		at lows	coal
Pacifico Minerals	PMY		rising	silver/lead
Pantoro	PNR		down	gold
Panoramic Res	PAN		up - takeover bid	gold , nickel
Peak Resources	PEK		stronger	rare earths
Peel Mining	PEX		sideways	copper
Peninsula Energy	PEN		sideways	uranium
Pensana Metals	PM8		at lows	rare earths
Perseus Mining	PRU		off its high	gold

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Pilbara Minerals	PLS		down	lithium
PNX Metals	PNX		new uptrend forming	gold, silver, zinc
Polarex	PXX		breached uptrend	polymetallic exploration
Prodigy Gold	PRX		down	gold exploration
Ramelius Resources	RMS		heavy fall	gold production
Real Energy	RLE		new uptrend	gas
Red5	RED		less steep downtrend	gold
Red River Resources	RVR		now in secondary downtrend	zinc
Regis Resources	RRL		breached support	gold
Resolute Mining	RSG		down	gold
RIO	RIO		rising again	diversified, iron ore
Salt Lake Potash	SO4		breached uptrend	potash
Saracen Minerals	SAR		breached uptrend	gold
St Barbara	SBM		down	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Saturn Metals	STN		uptrend breached	gold exploration
Sheffield Resources	SFX		down	mineral sands
St George Mining	SGQ		down	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Spectrum Metals	SPX		falling from highs	gold exploration
Stanmore Coal	SMR		down	coal
Strandline Resources	STA		breaching downtrend	mineral sands
Syrah Resources	SYR		free fall on capital raising	graphite
Talga Resources	TLG		breached downtrend	graphite
Technology Metals	TMT		sideways	vanadium
Vango Mining	VAN		moving higher	gold
Venturex	VXR		new low on resignation of CEO	zinc
Vimy Resources	VMY		sideways under LT downtrend	uranium
West African Resources	WAF		down after breaching support	gold
Westgold Resources	WGX		breached uptrend	gold
Westwits	WWI		down	gold
Western Areas	WSA		on support line	nickel
Whitebark Energy	WBE		rising	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		breached ST uptrend	gold exploration
Zinc Mines of Ireland	ZMI		breached uptrend	zinc
Totals	25%	34	Uptrend	
	51%	71	Downtrend	
		138	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.

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- 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	30	21.7%	
Gold Exploration	20	14.5%	
Oil/Gas	9	6.5%	
Nickel	8	5.8%	
Lithium	8	5.8%	
Coal	7	5.1%	
Zinc/Lead	10	7.2%	
Mineral Sands	6	4.3%	
Rare Earths	6	4.3%	
Potash/Phosphate	5	3.6%	
Copper	5	3.6%	
Cobalt	3	2.2%	
Graphite	4	2.9%	
Tin	2	1.4%	
Iron Ore	3	2.2%	
Uranium	2	1.4%	
Bauxite	3	2.2%	
Vanadium	2	1.4%	
Silver	2	1.4%	
Diamonds	1	0.7%	
Other	2		
Total	138		

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