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On Friday's Close

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Gold sector is on the verge of a breakout as the leading indices provide a positive backdrop

In the quiet period between Christmas and into the New Year the market has been quite strong but volumes have been thin. There is always the temptation to touch up prices at the close of the calendar year, and this is better facilitated through the absence of sellers as they are the ones who usually take the longest holiday breaks.

Maybe gold has bottomed

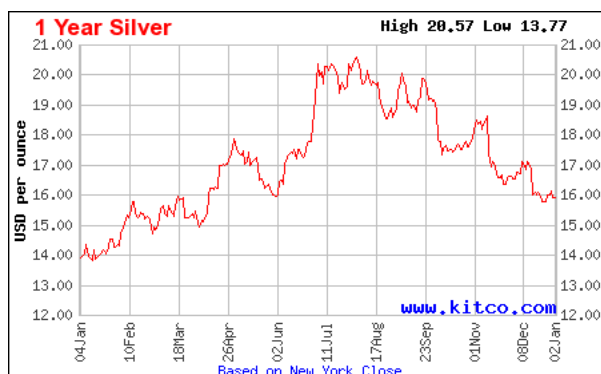
The first week of trading, since 1 January, has seen a good recovery in the gold price. Maybe the sell-down has run its course and we are set for a climbing gold price over the next few months. That scenario is more likely than an assault on US\$1,100/oz given the increasing levels of international political risk that comes with the shift away from the left to the right, with Trump leading the charge.

The strength in the gold equities last week suggests that the market agrees with the preceding comments, while the weakness in the A\$ will be having a positive impact on the bottom line of gold stocks. Many of the leading gold stocks have rallied strongly to meet resistance lines and in some cases they have breached them. Right through the the gold sector it looks like we are about to have a breakout, which would be a major buy signal. However, it will take a few more days to confirm this development.

Revisiting silver

Gold and silver never go in opposite directions, even though they work under different fundamentals. Thus we saw silver prices fall along with the gold price at the end of 2016.

Looking at the fundamentals for silver, we see that the demand for silver is up 35% since 2009, but over the same period the supply increased by only 10%. In 2015, the demand exceeded supply by 11%. The silver bugs tell us that the 10% slump in the price from the Q3 price from US \$20.67 was based on sentiment, not fundamentals. Traders will tell you that the earlier rise from around US\$14/oz necessitated a pullback in the price. Having done that the probability is that we will see silver much higher in the coming months, particularly if the gold price recovers.



The Americans are the biggest silver bugs due to historical and cultural reasons, whereas Australians are more comfortable with gold. That is because our geology is less prolific when it comes to silver. The most successful ASX-listed silver companies have been those that have gone to Mexico, which like the USA, has a strong silver culture. Bolnisi Gold, which developed the Palmarejo project, was one of the most successful Australian companies in Mexico, in the previous cycle.

As we have mentioned previously, we now have the son of Bolnisi - Santana Minerals Ltd (SMI). That company was delivering excellent drill results in Q4 of 2016, when the gold and silver prices were falling. The good news fell on deaf ears though. Now, with the precious metals outlook improving, it would be worthwhile going back to read these reports again (or for the first time). There is a serious 80-100 mill oz silver project unfolding, deserving of a much higher market capitalisation than the current \$11m.

Flake graphite to come under pressure

The flake graphite price is expected to come under pressure with news that China is removing its 20% export tax on Chinese sales, from January 2017. It is not a good time to be trying to finance a new flake graphite mine. The impact of this tax removal will be sorely felt by Syrah as it commissions its mine in 2017.

Industry is responding to excessive regulation

The ingenuity of the human mind, not in the masses but in those that are creative individuals, is what has enabled our species to advance throughout history. Every time an obstacle is thrown before us, be it of environment or natural sources, or whether it has been from the evils of despots or political organisations, the creative minds have worked out how to advance themselves notwithstanding the impediments thrown in their paths.

The latest example of this is the adaptation of industry operating methods to overcome excess in compliance and regulation in areas such as the transportation sector. One of the reasons for Uber's success is the freedom it offers to its operatives. The most noticeable difference between taxis and Uber drivers is that the latter are always pleasant and seem to love their jobs. They take pride in offering a good service, assisted by the knowledge that they are not bound by regulations such as those that restrict the taxi business.

The business model works well for Uber as all of these drivers are not employees in the legal sense. They are partners. Thus they circumvent all of the restrictive employment laws and regulations which drive up costs to consumers. Uber has avoided having to be a tax collection agent for the government, further enabling a streamlining of costs. As examples, it doesn't have to extract superannuation or other levies. It provides a business

platform courtesy of the internet and it is very efficient. It has effectively shifted the burden of compliance to the operators - the people who vote at elections.

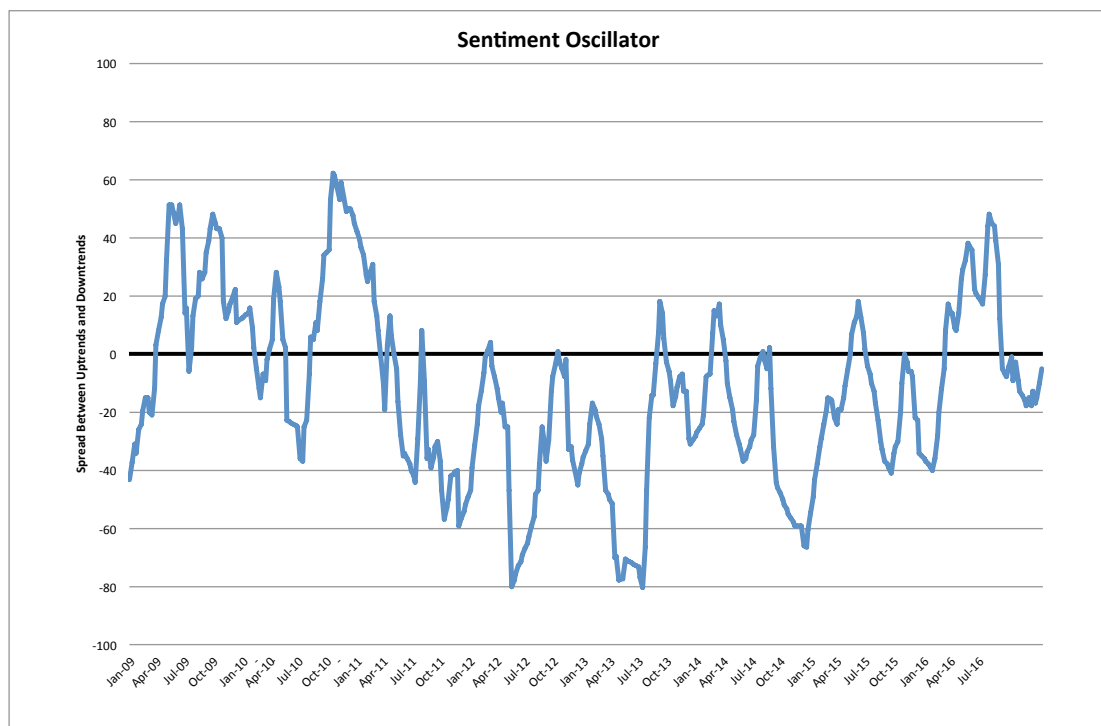
Whether this system stays one step ahead of the regulators and the tax department is a valid question. You can be certain that governments are working overtime to see how they can latch on and suck value out of the system. The debate will shift from protection of the existing taxi industry, where industry operators push for government intervention to protect the value of licences, to one in which the government will accept the changing nature of the personal transport industry and instead look for ways in which it can leech off its success.

Employment laws have evolved over many years - centuries in fact. From a position where history tells us that capitalists exploited the poor masses with virtual slavery, we have seen the rise of the labor movement and with it the trade unions and a formidable political force in the classic labour versus capital struggle.

In recent decades the increasingly intricate proscription of how employees are to be managed has given rise to booming HR departments in a parallel development with

compliance departments. Each are more focused on meeting the requirements of regulation than earning income for shareholders and business owners, and therefore they can both be accused of being a drag on business. (Notwithstanding the need to effectively manage employees).

We have also seen the nature of management change to one of consensus management as strong leadership is being confused with terms such as bullying. The ability of employees to cry wolf and invoke all sorts of regulations that give the employee the benefit of the doubt, making it expensive and difficult to ensure the quality of the workforce is causing a change of tactics in personnel management. Contractors and short term assignments with clearly defined purposes are being preferred rather than full time positions as they can be terminated with much less redress.



Sentiment Indicator: Sentiment improved over the past week weeks with a noticeable drop in the number of stocks in downtrends. There were 30% (27%) of the charts in uptrend and 35% (44%) in downtrend.

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	sitting above the long term resistance line	
Metals and Mining	XMM	back to recent highs	
Energy	XEJ	continues to improve	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	strongly higher, then heavy pullback	gold
Aeon Metals	AML	new high	copper + cobalt
Alacer Gold	AQG	rallied to hit resistance line	gold – production
Alkane Resources	ALK	down, but with a rally	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	down again	phosphate
Alicanto Minerals	AQI	testing downtrend	gold exploration
Alltech Chemicals	ATC	breached downtrend	industrial minerals
Anova Metals	AWV	breached ST downtrend	gold
Antipa Minerals	AZY	back in downtrend	gold
Apollo Consolidated	AOP	breached uptrend	gold exploration
Archer Exploration	AXE	breached downtrend	magnesite, graphite
Argent Minerals	ARD	breached downtrend	polymetallic
Aspire Mining	AKM	down	coal
Atrum Coal	ATU	testing downtrend	coal
Aurelia Metals	AMI	nudging resistance line	gold + base metals
Auroch Minerals	AOU	improving	exploration
Aus Tin	ANW	down	tin, cobalt
Australian Bauxite	ABX	forming a wedge	bauxite
Australian Potash	APC	sideways through downtrend	potash
Australian Vanadium	AVL	rising gently	vanadium
Avanco Resources	AVB	rising	copper
AWE	AWE	testing downtrend	oil and gas
Azure Minerals	AZS	downtrend	silver
BHP	BHP	on support line	diversified
Base Resources	BSE	rising	mineral sands
Bathurst Resources	BRL	correcting lower	coal
Beach Energy	BPT	steeply rise, but testing uptrend	oil and gas
Beadell Resources	BDR	rallied to hit resistance line	gold
Berkeley Resources	BKY	strongly higher	uranium
Blackham Resources	BLK	testing downtrend	gold
Broken Hill Prospect.	BPL	adjusted after Cobalt Blue distribution	minerals sands, cobalt
Buru Energy	BRU	testing downtrend	oil
Canyon Resources	CAY	testing downtrend	bauxite
Cardinal Resources	CDV	forming a base	gold exploration
Carnegie Clean Energy	CCE	surge to new high	wave energy
Cassini Resources	CZI	down	nickel/Cu expl.
Chalice Gold	CHN	holding uptrend	gold
Crusader Resources	CAS	downtrend	gold/iron ore
Dacian Gold	DCN	breached downtrend	gold exploration
Danakali	DNK	rising again	potash
De Grey	DEG	sideways	gold
Doray Minerals	DRM	down	gold
Duketon Mining	DKM	testing downtrend	nickel
Eden Energy	EDE	sideways	carbon nanotubes in concrete
Energia Minerals	EMX	sideways	zinc
Evolution Mining	EVN	rallied to hit resistance line	gold
Excelsior Gold	EXG	rallying	gold
Finders Resources	FND	breached uptrend	copper

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First Australian	FAR		sideways to lower	oil/gas
First Graphite	FGR		testing ST resistance line	graphite
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		rising again	lithium
Galilee Energy	GLL		breached uptrend	oil and gas, CBM
Gascoyne Resources	GCY		rallied to hit resistance line	gold
Geopacific Res. Resources	GPR		rallied to hit resistance line	copper/gold exp.
Global Geoscience	GSC		breached downtrend	lithium
Gold Road	GOR		downtrend	gold exploration
Graphex Mining	GPX		downtrend	graphite
Herron Resources	HRR		new low	zinc
Highfield Resources	HFR		testing uptrend	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		back in downtrend	copper
Hot Chilli	HCH		testing downtrend	copper
Iluka Resources	ILU		rising	mineral sands
Image Resources	IMA		building a base	mineral sands
Independence	IGO		pullback	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		breached downtrend	gas
Kibaran Resources	KNL		breached support line	graphite
Kin Mining	KIN		breached uptrend	gold
Legend Mining	LEG		strong surge, then a slump	exploration
Lithium Australia	LIT		downtrend	lithium
Lucapa Diamond	LOM		recapturing uptrend	diamonds
Macphersons Res.	MRP		down	silver
Medusa Mining	MML		still in long term downtrend	gold
Metals of Africa	MTA		vertical rise	graphite
MetalsX	MLX		downtrend	tin, nickel
Metro Mining	MMI		rising	bauxite
Mincor Resources	MCR		down	nickel
Mineral Deposits	MDL		rising again	mineral sands
Mustang Resources	MUS		at lows	diamonds, rubies
MZI Resources	MZI		still in downtrend	mineral sands
Northern Minerals	NTU		breaching uptrend	REE
Northern Star Res.	NST		rallied to hit resistance line	gold
Oceana Gold	OGC		breached downtrend	gold
Oklo Resources	OKU		breached downtrend	gold expl.
OreCorp	ORR		breached downtrend	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		strongly higher	lithium
Oz Minerals	OZL		new high	copper
Paladin Energy	PDN		rallied to hit resistance line	uranium
Pacific American Coal	PAK		breached downtrend	coal, graphene
Pantoro	PNR		new high	gold
Panoramic Res	PAN		rising wedge	nickel
Paringa Resources	PNL		strong recovery	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		surge on Friday	uranium
Perseus Mining	PRU		rallying	gold
Pilbara Minerals	PLS		breached downtrend	lithium/tantalum
PNX Metals	PNX		strong surge	gold, silver, zinc
Potash West	PWN		falling	potash
Red River Resources	RVR		still in uptrend	zinc
Regis Resources	RRL		rallied to hit resistance line	gold
Resolute Mining	RSG		breached resistance line	gold
Reward Minerals	RWD		strong rise	potash
Rex Minerals	RXM		sideways	copper

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RIO	RIO		still strong	diversified
RTG Mining	RTG		breached support line	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		strong rally	gold
St Barbara	SBM		breached resistance line	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		down	silver
Santos	STO		rising	oil/gas
Sheffield Resources	SFX		rising again	mineral sands
Silver Lake Resources	SLR		rising	gold
Silver Mines	SVL		down	silver
Sino Gas & Energy	SEH		breaching downtrend	gas
Southern Gold	SAU		steep rise	gold
Stanmore Coal	SMR		breached steep uptrend and turning down	coal
Sundance Energy	SEA		new uptrend confirmed	oil/gas
Syrah Resources	SYR		breaching downtrend	graphite
Talga Resources	TLG		sideways	graphene
Tanami Gold	TAM		breached uptrend	gold
Teranga Gold	TGZ		surge through downtrend	gold
Tiger Realm	TIG		surging higher	coal
Tiger Resources	TGS		breaching downtrend	copper
TNG Resources	TNG		breached uptrend	titanium, vanadium
Torian Resources	TNR		down	gold expl'n
Toro Energy	TOE		surge through downtrend	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		down	gold exploration
Vimy Resources	VMY		downtrend breached	uranium
West African Resources	WAF		testing downtrend	gold
Westwits	WWI		ST downtrend	gold exploration/development
Western Areas	WSA		up again	nickel
White Rock	WRM		breached downtrend	silver
Whitehaven Coal	WHC		heavy correction	coal
WPG Resources	WPG		down	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	30%	43	Uptrend	
	35%	49	Downtrend	
		141	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	33	23.4%	
Copper	14	9.9%	
Gold Exploration	12	8.5%	
Oil/Gas	9	6.4%	
Potash/Phosphate	7	5.0%	
Mineral Sands	7	5.0%	
Graphite	6	4.3%	
Zinc	5	3.5%	
Silver	6	4.3%	
Lithium	5	3.5%	
Nickel	5	3.5%	
Uranium	5	3.5%	
Coal	10	7.1%	
Tin	2	1.4%	
Bauxite	3	2.1%	
Iron Ore	1	0.7%	
Diamonds	2	1.4%	
Other	9		
Total	141		

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