

## Inflationary roots are taking hold

We have seen the usual Xmas/New Year period of reduced volumes over the last three weeks and limited news flow. Share price movements have been more pronounced in some cases but it would be unwise to over-analyse these. The recent key underlying themes have been the rising iron ore price, up 42% from the cycle low, and increasing concerns about oil supply that has led to a stronger oil price. Lithium prices have lifted that sector to new highs while rare earth stocks have been firm. As for the other commodities, interest has been variable. Stock market sentiment continues to be middling following the heavy pullback on Thursday with there being no major revelations.

### *Inflation commentary*

Inflation can be very damaging to economies and societies. There are plenty of examples in history where rampant inflation has been very disruptive, in a negative sense. It would be reasonable for us to continue to believe that our sophisticated system of centralised banking will ensure we don't suffer from weaknesses of countries like Zimbabwe and more recently Turkey, but that doesn't mean we should be complacent.

Management of inflation is all about management of expectations. A primary function of our central banks is to manage these expectations. They will always seek to placate our fears on this front, but it is a bit like the expression referring to the elephant in the room that no-one wants to see. The Central banks will always always play down discussion that could raise our inflationary expectations, taking a line from the notorious Queensland Premier, Joe Bjelke-Petersen, when he would say "*don't you worry about that*", but it would be naive to just trust governments and their agencies.

Simple economists have been predicting inflation for a number of years as a result of governments printing money and more recently, because of trillions of dollars being thrown into the system to combat expectation of slower activity brought on by Covid. At first the inflation appeared as rising financial assets and property prices and we were all happy with that, but the cycle is evolving. It is now starting to appear in consumer goods and union demands for wage increases.

Supply shortages of both materials and labor, key inputs in the manufacturing process, are starting to affect pricing. This extends from a shortage of microchips through to logistic of transporting good and materials around the globe. The six fold increase in container shipping prices from China to LA is one example. The underinvestment in traditional sources of energy such as coal and gas are driving up energy prices while the push to decarbonise the world is creating more specialised shortages of materials and supplies. All these pressures are making inflation more visible to the man in the street. It will be important to monitor how this affects the psychology of the investors as

we try to figure out which are the best stocks to hold in an inflationary environment.

### *When is it a downtrend, or just a correction?*

Charts are a useful tool in identifying trends that are not always apparent on random day to day perusal of share prices. They demonstrate what is happening as opposed to what we think is happening, but there is always an element of interpretation.

Look at the chart for Peninsula Energy as an example. It has been in an uptrend since August 2020, rising from a low of 9.5¢. It peaked at 34¢ a year later. Since then it has been in a downward correcting pattern, having recently fallen to 19.5¢. That is a 43% fall from the high. Yet, it is still holding a long term uptrend that won't be tested until it falls a few more cents. Should we be saying it is in a downtrend or should we just be saying it is in a pullback pattern?

We could wait until it hits the trend line before making a pronouncement, but at this point the nervousness will focus on whether or not it can hold the support line, or whether it keeps going lower. At this point it will be 50% lower than its high and the majority of the pain will have already been suffered. Deciding to go negative at this point is a bit like shutting the gate after the horse has bolted.

Deciding on what to call a trend is usually a matter of looking in the rear view mirror. In the case of Peninsula the important signal was when it fell from the 34¢ high to 21¢, then rising to 30¢, before turning south again. The failure to proceed to a new high was the first signal that a (short term) downtrend was in play. It was a definite sell signal.

If you are sufficiently intimate with the way a particular share price performs you can make significant profits from intra-trend trading. In fact, if you are prepared to work a stock you can make regular, though not necessarily spectacular profits, by using this strategy. It becomes a strategic play on probabilities as opposed to an emotional crowd following game that can so easily distort expectations. Get to understand the trading patterns of the stocks you play and you will improve your odds.

### *When stocks are not responding to good news*

There are a number of exploration companies consistently reporting good drill results only to receive a muted response from the market. So often the traders are looking at the positive news flow as opportunities to sell in volume. The true believers are understandably frustrated but what can you do when investors are exiting the market? Not much. At some point there will be a renewed appetite for these stories but that may depend more on macro issues rather than anything stock specific (not considering the anomaly about to be drilled and other advanced projects in the pipeline).

That highlights the point that substantial projects are often discovered in one market cycle, and developed in another, later cycle. In between we can often see share prices that

are much lower than in the discovery phase. The bigger the project the longer it takes to define, finance and develop, and the greater number of trying opportunities we will see along the path.

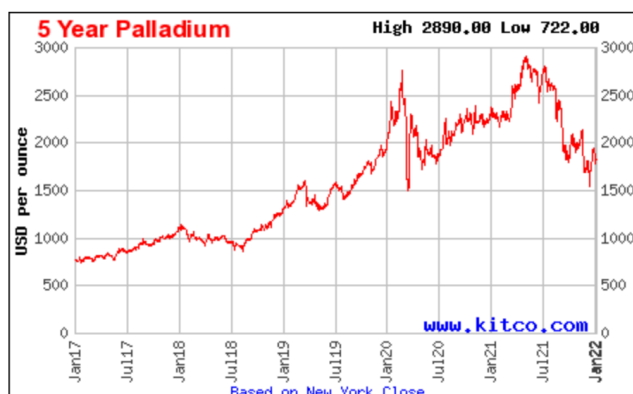
### ***Spectacular intercept from Clean Air Metals***

One of my Canadian positions, Clean Air Metals Inc (TSX.V:AIR), announced a spectacular assay from the Escape South High Grade Zone of 46m at 19.6 gpt PtEq. Breaking this down in to the range of metals, the grades were 3.03 gpt Pt, 3.94 gpt Pd, 1.33% Cu and 0.51% Ni.

This downhole intercept came from Hole ELR21-083A, which was one of 11 holes reported, being part of a 37,000m drill program in 2021, which is expected to materially add to the Jan. 2021 maiden Indicated Resource of 4.28M tonnes at 6.16g/t PtEq. An updated resource estimate is expected in Q1 2022. AIR notes that the drilling suggests good continuity of mineralization along the 900m trend between the Escape South High Grade Zone (HGZ) and Steepledge South Zone.

In 2022, AIR plans 10,000m of drilling on the lower Current deposit to increase drill density and allow application of the mine shape optimiser algorithm along trend with the aim of adding mineable material to the PEA mine plan. Up to another 16,000m of drilling is also planned to start in mid-January to follow up on certain discrete (low resistivity/high conductivity) geophysical anomalies that may represent massive sulphide material at the base of the Escape and Current deposits within the Escape Lake Fault Zone corridor.

We first covered Clean Air in the Weekly of 10/7/21, referring to it as a promising palladium stock with a modest but growing high grade resource. <http://www.fareastcapital.com.au/newsletter.asp?id=401>. As luck would have it the palladium price proceeded to fall out of bed, dropping by around 50% over the following six months. The following chart from Kitco shows this clearly. I continue to think Clean Air is a very good company, notwithstanding the palladium price movements. Echelon Wealth Partners, brokers based in Toronto, recently released research valuing the Company at C\$0.80 a share. That is about 4x the current share price of C\$0.22.



*Disclosure: Interests associated with the author own shares in Clean Air Metals.*

### ***Thermal coal export ban from Indonesia***

Indonesia has announced a ban on coal exports in January, motivated by concerns about the limited supply for its domestic power stations. If it remains in place for just the month of January, then maybe it won't be too disruptive.

Looking at the bigger picture, while Australia is talking about closing its few coal fired power stations, its actions become insignificant when you consider how many coal fired power stations are under construction or planned elsewhere in the world - hundreds of them! We are being pressured into avoiding coal stocks by the socially conscious groups, but the sector will continue to be very profitable.

### ***Salt Lake Potash - going, going, gone***

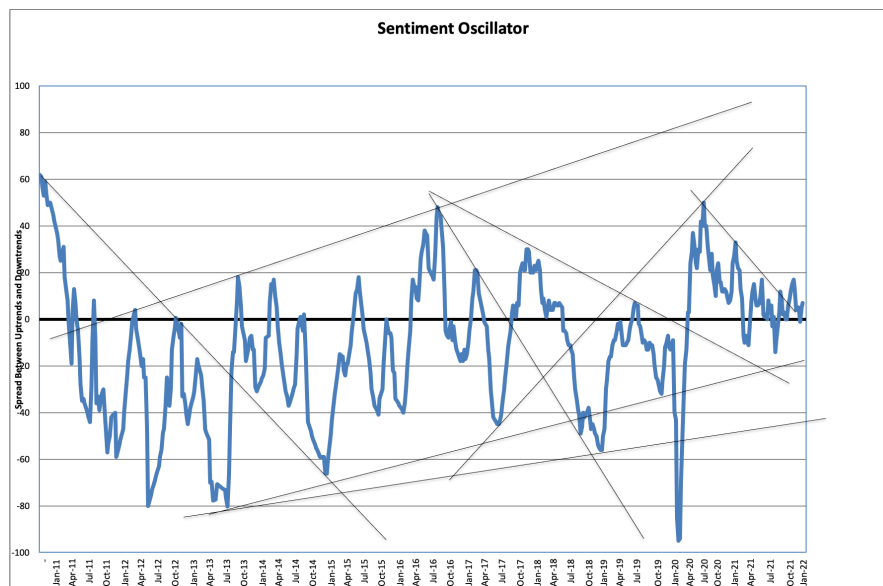
Back in July, Salt Lake Potash (SO4) was suspended from quotation with the news that the reduced availability of plant feed salt would lead to Lake Way SOP production falling short by about 50% in FY2022, requiring an injection of additional capital. Then, in August, the CEO resigned, as did the Company Secretary. In October, the Company was placed in receivership and the Receiver and Manager embarked upon an urgent assessment of the Company's financial position.

The SO4 experience highlights the intensified risk profiles that companies can experience when commissioning a new project, especially when it is in the industrial minerals sector where there is little operating experience available to the company. Some years ago when at the Diggers and Dealers Conference Kalgoorlie, I was trying to get my head around the technical and operational parameters of the SO4 project. When I questioned SO4's executives about what was involved, they showed a disturbingly shallow understanding of the technical aspects themselves; either that or an inability to articulate their knowledge to an analyst. They referred to the positive modelling and expressed confidence in their consultants. I wasn't convinced.

We are still in the dark as to what went wrong at Lake Way, but Salt Lake Potash was the industry leader in the emerging WA borefield brine extraction potash sector. What does its fair imply for others in the same sector? The first thought is that their share prices will be suffering collateral damage, but is there something more fundamental to be concerned about? Other companies in this emerging sector include;

- Agrimin (AMN) - Mackay Potash Project
- Australian Potash (APC) - Lake Wells Project
- BCI Minerals (BCI) - Mardie Project
- Kalium Lakes (KLL) - Beyondie
- Reward Minerals (RWD) - Kumpupinyil Project
- Trigg Mining (TMG) - Lake Throssell

The amber light is flashing on this sector until we get more clarity. However, on the positive side, sanctions imposed on Belarus by the US have further exacerbated soaring potash prices. A year ago the potash price was \$245 pt. It is now at \$800 pt, a 226% increase. Belarus is the world's second largest potash producer. Soaring natural gas prices have triggered surges in fertilisers such as urea and phosphate as well. So, maybe this is more important than the issues suffered by SO4.



**Sentiment Oscillator:** The Sentiment Oscillator continues to flirt on the upside, though we need more time to see if this is a reversal or just period of vacillation. There were 37% (35%) of the charts in uptrend and 30% (30%) 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	rising still	
Energy	XEJ	stronger	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	meeting resistance	HPA
Adriatic Resources	ADT	down	zinc, polymetallic
Alkane Resources	ALK	but surged on drill result	gold
Alicanto Minerals	AQI	downtrend	base metals, silver, gold
Altech Chemical	ATC	breaching uptrend	HPA, anodes
Alto Metals	AME	sideways	gold exploration
American Borates	ABR	new high	borate
American Rare Earths (was BPL)	ARR	breached steepest uptrend	rare earths
Antilles Gold	AAU	still in downtrend	gold
Arafura Resources	ARU	rising	rare earths
Ardea Resources	ARL	sideways through support line	nickel
Aurelia Metals	AMI	sideways to higher	gold + base metals
Australian Potash	APC	heavy fall	potash
Australian Rare Earths	AR3	in wedge	rare earths

Auteco Minerals	AUT		back to lows	gold exploration
Azure Minerals	AZS		breached ST downtrend	nickel exploration
BHP	BHP		surge higher	diversified, iron ore
Beach Energy	BPT		hit resistance line	oil and gas
Bellevue Gold	BGL		down to recent lows	gold exploration
Benz Mining	BNZ		new low	gold
Blue Star Helium	BNL		in a topping formation	gas, helium
BMG Resources	BMG		rallied off lows	gold exploration
Boab Metals	BML		in a secondary downtrend	silver/lead
Breaker Resources	BRB		heavy fall from highs	gold exploration
Buru Energy	BRU		uptrend	oil
Calidus Resources	CAI		rising again	gold
Capricorn Metals	CMM		surge to new high	gold
Caravel Minerals	CVV		rallying	copper
Celsius Resources	CLA		strong rally	copper
Chalice Mining	CHN		new high	nickel, copper, PGMs, gold exploration
Chesser Resources	CHZ		rallied off lows	gold exploration
Cobalt Blue	COB		at highs	cobalt
Cyprium Metals	CYM		rallied to meet resistance line	copper
Danakali	DNK		long term downtrend	potash
De Grey	DEG		shallow downtrend being tested	gold
E2 Metals	E2M		surge higher, then heavy fall	gold exploration
Ecograp	EGR		surge out of downtrend, then heavy fall	graphite
Element 25	E25		strong rallying	manganese
Emerald Resources	EMR		rising again	gold
Euro Manganese	EMN		continuing to fall	manganese
Evolution Mining	EVN		breached downtrend	gold
Firefinch	FFX		new high	gold
First Graphene	FGR		rising again	graphene
Fortescue Metals	FMG		new uptrend	iron ore
FYI Resources	FYI		new uptrend	HPA
Galena Mining	G1A		still down	lead
Galilee Energy	GLL		down	oil and gas, CBM
Genesis Minerals	GMD		consolidation 10 into 1	gold
Genmin	GEN		new uptrend	iron ore
Global Energy Ventures	GEV		downtrend	hydrogen
Gold Road	GOR		testing downtrend	gold
Great Boulder Resources	GBR		sideways	gold exploration
Hastings Technology Metals	HAS		testing uptrend	rare earths
Hazer Group	HZR		heavy correction	hydrogen
Highfield Resources	HFR		strongly higher	potash
Hillgrove Resources	HGO		long term uptrend	copper
Iluka Resources	ILU		breached downtrend, back to highs	mineral sands
Image Resources	IMA		a bit stronger	mineral sands

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Independence Group	IGO		new high	gold
ioneer (was Global Geoscience)	INR		new high	lithium
Ionic Rare Earths (Oro Verde)	IXR		recovering long term uptrend	rare earths
Jervois Mining	JVR		shallower uptrend	nickel/cobalt
Jindalee Resources	JRL		down again	lithium
Kairos Minerals	KAI		rallying from lows	gold exploration, lithium
Kingston Resources	KSN		weaker	gold
Kingwest Resources	KWR		just holding uptrend	gold
Legend Mining	LEG		rallied to resistance line	nickel exploration
Lepidico	LPD		testing steepest uptrend	lithium
Lindian Resources	LIN		surge higher	bauxite
Lion One Metals	LLO		sideways	gold
Lithium Australia	LIT		sideways	lithium
Los Cerros	LCL		new low	gold exploration
Lotus Resources	LOT		short term down	uranium
Lucapa Diamond	LOM		new uptrend	diamonds
Lynas Corp.	LYC		new high	rare earths
Magnetic Resources	MAU		sideways	gold exploration
Mako Gold	MKG		on support line	gold exploration
Marmota	MEU		sideways	gold exploration
Marvel Gold	MVL		new high	gold exploration
Matador Mining	MZZ		rallied to hit resistance line	gold exploration
Meeka Gold	MEK		testing downtrend	gold
Megado Gold	MEG		new low	gold exploration
MetalTech	MTC		off the end of a ramp	gold
Meteoric Resources	MEI		down heavily	gold exploration
MetalsX	MLX		new high	tin, nickel
Metro Mining	MMI		sideways at lows	bauxite
Mincor Resources	MCR		new high	gold/nickel
Musgrave Minerals	MGV		testing downtrend	gold exploration
Neometals	NMT		new high then heavy slump	lithium
Northern Minerals	NTU		rising	REE
Northern Star Res.	NST		slump back into downtrend	gold
Nova Minerals	NVA		consolidating after steep rise	gold exploration
Oceana Gold	OGC		back to support line	gold
Oklo Resources	OKU		breached uptrend	gold expl.
OreCorp	ORR		rise on government agreement	gold development
Oz Minerals	OZL		rising again	copper
Pacific American	PAK		back to lows	coking coal
Pantoro	PNR		sideways at highs	gold
Panoramic Res	PAN		surge higher	nickel
Peak Minerals	PUA		new low	copper exploration
Peak Resources	PEK		testing downtrend	rare earths
Peel Mining	PEX		down	copper

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Peninsula Energy	PEN		down	uranium
Poseidon Nickel	POS		testing downtrend	nickel
Perseus Mining	PRU		slump	gold
Pilbara Minerals	PLS		new high	lithium
Queensland Pacific Metals	QPM		downtrend commencing	nickel/cobalt/HPA
Red River Resources	RVR		still down	zinc
Regis Resources	RRL		new low on large financing	gold
Renegen	RLT		rallying	gas, helium
RIO	RIO		new uptrend	diversified, iron ore
Rumble Resources	RTR		still giving up ground	gold exploration
S2 Resources	S2R		consolidating after steep rise	gold exploration
St Barbara	SBM		testing downtrend	gold
Sandfire Resources	SFR		attempting new uptrend	copper
Santos	STO		falling	oil/gas
Saturn Metals	STN		down after another placement	gold exploration
Silex Systems	SLX		rallying	uranium enrichment technology
Silver Mines	SVL		sideways	silver
South Harz Potash	SHP		short term down	potash
Stanmore Coal	SMR		breached uptrend	coal
Strandline Resources	STA		breached uptrend	mineral sands
Sunstone Metals	STM		off its highs	exploration
Talga Resources	TLG		testing downtrend	graphite
Technology Metals	TMT		down	vanadium
Tesoro Resources	TSO		new low	gold exploration
Theta Gold Mines	TGM		down	gold
Thor Mining	THR		downtrend	gold exploration
Tietto Minerals	TIE		strong rise	gold
Titan Minerals	TTM		sideways	gold
Turaco Gold	TCG		sideways	gold exploration
Vanadium Resources	VR8		testing uptrend	vanadium
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		new high	gold
Westgold Resources	WGX		new uptrend	gold
West Wits Mining	WWI		breaching downtrend	gold
Western Areas	WSA		surge higher	nickel
Whitehaven Coal	WHC		secondary uptrend	coal
Wiluna Mining	WMC		gently higher	gold
Yandal Resources	YRL		breached uptrend	gold exploration
Zenith Minerals	ZNC		surge higher	gold exploration
Zinc Mines of Ireland	ZMI		sideways	zinc
Totals	37%	52	Uptrend	
	30%	43	Downtrend	
		142	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	31	21.8%	
Gold Exploration	26	18.3%	
Nickel	12	8.5%	
Copper	10	7.0%	
Lithium	6	4.2%	
Rare Earths	8	5.6%	
Oil/Gas	6	4.2%	
Iron Ore/Manganese	6	4.2%	
Zinc/Lead	4	2.8%	
Mineral Sands	3	2.1%	
Potash/Phosphate	5	3.5%	
Uranium	4	2.8%	
Graphite/graphene	4	2.8%	
Coal	3	2.1%	
Bauxite	2	1.4%	
Silver	2	1.4%	
Cobalt	1	0.7%	
Tin	1	0.7%	
Diamonds	1	0.7%	

Other	7		
Total	142		

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