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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

9 September 2017 *On Friday's Close* Analyst : Warwick Grigor

Commodity prices are strengthening, so it is time to re-weight into the mining sector

Remember when, on 15 July, we said that it was a buyers market? Since then the market gradually, then increasingly, transitioned from the bear to the bull. It was the Sentiment Oscillator that gave the signal when it turned upwards from the low point, at which only 17% of charts were in uptrend and 58% were in downtrend. Now there are 37% of the charts in uptrend and 31% in downtrend. I suppose the buy point is always obvious, in retrospect.

Where do we go from here given the strong market since July? Has the strength been warranted? Have a look at the table below that shows improvements in commodity prices over the last 12 months. Thermal coal, iron ore and copper have been the best movers, but the others have all performed well. That means higher profits and even dividends. Stocks like BHP and RIO have delivered in the market, as have a host of other producers. The enthusiasm is flowing down into the smaller stocks now.

There is always the risk of a pullback as traders take profits, and when a large number of companies go to the market to raise funds it tends to present a speed bump, but these events are digestible.

Table of Commodity Price Movements

Commodity	Low	Recent	Gain
Aluminium	70¢/lb	96¢/lb	37%
	Sept '16	Sept '17	
Coal - thermal	US$54.66/t	US$85.67/t	57%
	April '16	Sept '17	
Copper	$2.10/lb	$3.12/lb	49%
	Sept '16	Sept '17	
Gold	US$1,144/oz	US$1,350/oz	18%
	Dec '16	Sept '17	
Iron Ore	US$41.14/t	US$77.68/t	89%
	Sept '16	Sept '17	
Lead	85¢/lb	113¢/lb	33%
	Sept '16	Aug '17	
Nickel	$4.00/lb	$5.51/lb	38%
	June '17	Sept '17	
Oil	US$42.96/bbl	US$49.09/bbl	14%
	June '17	Sept '17	
Silver	US$15.53/oz	US$18.21/oz	17%
	July '17	Sept '17	
Uranium	$18.00/lb	$20.20/lb	12%
	Nov '16	Sept '17	
Zinc	$1.00/lb	$1.44/lb	44%
	Sept '16	Sept '17	

Venture Minerals Mark II - an exploration play

Venture Minerals was doing the rounds last week, keen to get across its new story, given that the once promising Riley DSO project in Tasmania has been choked by the low iron ore prices and the Mt Lindsay tin/tungsten project has lost appeal. These are good assets for a future time but they lack market relevance at present.

Having fallen back to a market capitalisation of only $7m, Venture is repositioning itself as a grass roots exploration play focusing on a range of commodities. Perhaps the most topical is the Thor prospect in SW of WA, south of the Greenbushes mine, that produces 40% of the world's lithium. Like Greenbushes, Venture's ground has a lateritic cover that hides the underlying geology. Historical drilling has intersected VMS-style massive sulphides in the region and Venture has itself identified a number of new targets that it hopes to drill within the next few months.

The Odin prospect to the east of Thor has been identified as a new pegmatite target with similarities to Greenbushes. It has the same tin/tungsten indicators and geochemical signature, with a 20-30m laterite cover, though Greenbushes' cover was heavily kaolinised. Drilling will be needed to test the primary zone at depth.

Elsewhere, rock chip sampling of the ground it holds in the north of Thailand has produced encouraging results, with very high gold and silver values associated with base metals. Both narrow vein structures and stock work zones have been identified. Follow up trenching is underway now. All up there is a 12 km strike length of mineralised system. It is as good as any grass roots prospect out there. Other exploration projects include nickel and copper targets at Caesar, in WA.

With $900,000 in the bank now, it comes as no surprise that the roadshow was an immediate precursor to a placement that was announced on Thursday. It is only a small one, being $930,000 at 2¢ a share. Normally I would like to offer readers a chance to participate, but it happened too quickly this time. Being a small placement it won't be difficult to digest. The money won't last long though, so it is important that Venture comes up with good results for its next foray into the capital markets. (*Note: the term sheet says that VMS can take oversubscription and these will be subject to shareholder approval. Care must be taken not to satisfy all demand otherwise there will be no subsequent on-market buying).*

Future share price performance will be dependent both upon the enthusiasm they can generate for the projects in the lead-up to the drilling, and then the results. The Venture Mark II journey is just beginning.

Analysts becoming increasingly marginalised

Back in the good old days a smart analyst was a great asset. He would be the forward scout charged with the responsibility of finding good opportunities, defined as situations where there was potential for strong share price appreciation. He would communicate the opportunities to colleagues and clients and he would turn his attention to designing corporate deals, be it capital raisings, mergers or other types of money making opportunities. An analyst that could smell money was given a free reign.

As the power of smart analysts became appreciated, dealing and corporate desks started to seek to influence over their work, through inducements, bullying or any other means they could use to control them. This led to many analysts becoming puppets, and effectively paid journalists rather than insightful researchers.

The regulators stepped in with the concept of Chinese walls in an attempt to promote the independence of analysts. However, it never worked perfectly as the Chinese walls had limited effectiveness. Nods and winks became standard methods of communication. Analysts were left in no doubt as to what was expected of them, particularly junior analysts. Very view individuals have the strength of character, or the moral fortitude, to be totally objective and professional in the hot house broking environment.

We then went through a phase where analysts were in the spotlight for alleged secret briefings. ASIC became confused as to the difference between inside trading and intimacy of understanding of company culture and depth of understanding of operations. ASIC has a problem in realising that ASX releases are highly contrived and sanitised, designed to either comply with strict disclosure or hubristic promotion. They do not contain the detail that analysts need to really understand a company. Hence the need for "private briefings", probably better described as interviews designed to extract the truth.

Just because an analyst gains access to information not freely available, often because it is too detailed for the average investor to understand, it doesn't mean that it is "inside information" according to the legal definition, conferring the ability to preferentially profit from trading. It is not the information per se that is important, it is how the analyst reacts to it and how it influences his opinion and recommendation. Perhaps that is why ASIC regards the release of research as a potential "inside" event. Analysts are not allowed to say what they are working on and they are not allowed to disclose their thoughts ahead of the release. As a consequence, even though good research is expensive and a proprietary asset, ASIC has effectively socialised it by requiring it to be released to everyone at the same time with no selective benefit to a firm's clients - notwithstanding the need for an economic return on the costs of employing an analyst

We all know that the quality of research is very dependent upon the individual who writes it. Securities industry operators know who does good work and who can be trusted. It is a self sorting system. It will never be perfect, but nothing about markets is. Increasing regulation just makes research less valuable and more superfluous. It makes for a highly inefficient system. It takes away innovation and creativity, effectively turning analysts into "bank Johnnies." As one commentator said, having an analyst is like having a clock on the mantelpiece.

When the process is the punishment …

Elmer Funk Kupper made a very good point in the AFR article that appeared last Monday, when he said that *"the process of investigation becomes the punishment*". He was referring to his experience when having done the honourable thing and resigned from his position as CEO of the ASX, upon allegations of improper behaviour in a previous position. It has been 18 months since his resignation and nothing has happened. He has not been contacted by investigators or the police but he is still in purgatory waiting to clear his name. Hence his statement that he has already suffered an 18 month effective sentence. Should he not have resigned in the absence of formal charges? Should he not have toughed it out, notwithstanding that he would have suffered an erosion of his authority through the media and other avenues? Less scrupulous people would have stayed put.

We live in a world where the process is now more important than the outcome. Jumping through the hoops is the order of the day, but why? Consider who are the winners out of process and you will find a regulator working hand in hand with a lawyer, ably backed up by an accountant. Parliament is dominated by lawyers. They pass laws in what amounts to a job creation scheme for their mates. It is a licence to print money as both lawyers and accountants charge by the hour. They have an incentive to make the process, any process, as long-winded as possible. The longer it takes the more money they gain (note, I didn't say "earn") as they are paid by the hour. It is diametrically opposed to efficiency and outcome.

The greatest reform that this nation could ever achieve would be to reign in the rort that is strangling business and society just as effectively as ticks and leaches suck blood out of their victims, but who is prepared to take on this battle? Fighting an army of medusas would probably be easier.

Scant information from Syrah

Last week a number of brokers were getting excited by SYR's announcement that it had a binding agreement with Jixi BTR Graphite Industrial Co Ltd, for the sale of 30,000 tonnes of graphite concentrate in year one. While this is positive addition to the list of sales agreements previously announced, the significance of it is muted due to the statement that "all other terms of this agreement are confidential." We don't know the price, the payment terms or the quality specifications. I suppose we might be able to figure it out eventually after the event, from the accounts, but it doesn't help an analyst to understand what the pressure points are.

The release makes the point that the graphite will be used in the lithium-ion battery market. Interesting maybe, but does it add anything special? I thought this was always the intention. It also says that Syrah is the only large scale fully funded natural graphite project entering production. True, but we wouldn't want too many more because the market would be oversupplied.

As at 30 June, the Balama construction was 90% complete and commissioning activities had begun. Production start-up has been pushed back to October. It will be interesting to see how this goes, as commissioning risk is an issue with every project.

Explaining PAK's rationale in exiting Imagine

I have been fielding a number of queries regarding Pacific American Coal's departure from Imagine IM. It is obvious that there are quite a few shareholders in PAK who came onto the register because they were inspired by Imagine's achievements in the graphene space, and they are now annoyed that PAK has moved on. Perhaps a few words here will explain why it did so.

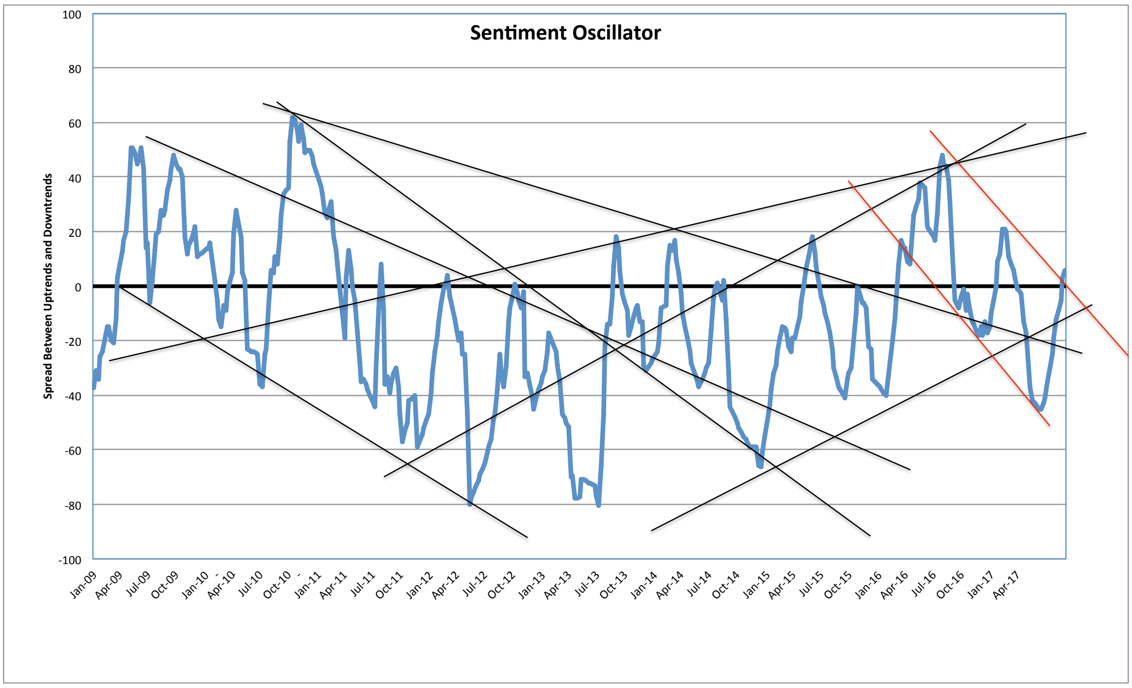
When the decision was made to invest in Imagine, the coal sector was dead. Graphene was a refreshing area of interest. The initiative worked well initially, with the PAK share price being a strong performer. Quite a few traders made good money, but then the playing field changed. Firstly, coal has had a good return to favour. Secondly, the graphene commercialisation path for Imagine was taking longer than PAK first understood. The PAK directors were faced with the prospect of constantly raising money to fund Imagine, but with no clear time frame as to when the business would become profitable. PAK didn't wish to be the banker to a company that hadn't ceded management control. Rather than ponder the uncertainties, PAK decided that it would be in the best interests of its shareholders, and smarter, to get its money back and look for something that was more tangible.

Graphene is great, yes, and I am a strong advocate of the sector, but it is a specialist industrial material, not a conventional commodity. It is not for everyone. There is a great growth curve ahead for operators, but as yet no-one is making profits out of graphene as they haven't had the production or sales volumes.

However, the graphene scene is changing rapidly with FGR dramatically lowering the operating costs of graphene production and opening the door to large volumes, to make it worthwhile for manufacturing industry to proceed with graphene plans knowing it can get supply. Whereas Imagine has a specific focus on geofabrics, FGR's entry into graphene is much more broadly based. It controls its raw material supply, it can make graphene for third party sales and it has the rights to a number of exciting applications that include energy storage devices, fire retardants, polymers, cement and many others.

I am very comfortable with PAK's decision to regroup as a mining company, not a technology company. It will enable better control of its finances, with more certainty. I believe that now that PAK is selling close to its cash backing, it is perfectly poised to advance its coal and to also undertake more conventional initiatives in the mining sector. At 3.2¢ today, PAK is very cheap with no downside. I continue to add to my position at these levels, giving me even more incentive to make sure this one works.

One final point - there has been no decision that Imagine will proceed to an IPO in 2018. In truth, it would rather stay private and not have to spend money on the additional cost and compliance that an ASX listing imposes. The mention of an IPO last week was just the statement of a possibility, not a firm plan.



Sentiment Indicator: The revival is continuing with sentiment improving again this week. There were 37% (35%) of the charts in uptrend and 31% (32%) 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		still sideways	
Metals and Mining	XMM		still rising	
Energy	XEJ		sideways	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		pullback	gold
Aeon Metals	AML		testing uptrend	copper + cobalt
Alacer Gold	AQG		falling from rally	gold – production
Alkane Resources	ALK		spiked higher	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Aguia Resources	AGR		breaching downtrend	phosphate
Alicanto Minerals	AQI		testing downtrend	gold exploration
Allegiance Coal	AHQ		rising	coal
Alliance Resources	AGS		ticked higher	gold exploration
Alltech Chemicals	ATC		pullback after breakout	industrial minerals
Anova Metals	AWV		rallying	gold
Antipa Minerals	AZY		sideways	gold
Apollo Consolidated	AOP		strong rise	gold exploration
Archer Exploration	AXE		pullback	magnesite, graphite
Argent Minerals	ARD		sideways	polymetallic
Aspire Mining	AKM		sideways	coal
Atrum Coal	ATU		heavy pullback	coal
Aurelia Metals	AMI		upside breakout	gold + base metals
Auroch Minerals	AOU		down	exploration
Aus Tin	ANW		testing downtrend	tin, cobalt
Australian Bauxite	ABX		stronger	bauxite
Australian Potash	APC		slump back into downtrend	potash
Australian Mines	AUZ		gentle uptrend commenced	cobalt/nickel
Australian Vanadium	AVL		down	vanadium
Avanco Resources	AVB		nudging resistance line	copper
AWE	AWE		breached downtrend	oil and gas
Azure Minerals	AZS		strong rise	silver
BHP	BHP		new high	diversified
Base Resources	BSE		breaching uptrend	mineral sands
Bathurst Resources	BRL		continuing higher	coal
Battery Minerals	BAT		reached resistance line	graphite
BBX Minerals	BBX		uptrend, but correcting now	gold
Beach Energy	BPT		breached steepest downtrend	oil and gas
Beadell Resources	BDR		testing downtrend	gold
Berkeley Resources	BKY		testing downtrend	uranium
Berkut Minerals	BMT		steeply higher	cobalt
Blackham Resources	BLK		breached downtrend	gold
Broken Hill Prospect.	BPL		down again	minerals sands, cobalt
Buru Energy	BRU		testing downtrend	oil
Canyon Resources	CAY		new low	bauxite
Cardinal Resources	CDV		rising again	gold exploration
Carnegie Clean Energy	CCE		down	wave energy
Cassini Resources	CZI		testing downtrend	nickel/Cu expl.
Chalice Gold	CHN		holding uptrend	gold

Cobalt One	CO1		rally on change of name (from Equator)	cobalt
Cobalt Blue	COB		testing new uptrend	cobalt
Comet Resources	CRL		new high	graphite/graphene
Consolidated Zinc	CZL		downtrend	zinc
Corizon Mining	CZN		steeply higher	cobalt
Crusader Resources	CAS		breaching downtrend	gold/iron ore
Dacian Gold	DCN		breached downtrend	gold exploration
Danakali	DNK		testing uptrend	potash
Doray Minerals	DRM		back in downtrend	gold
Draig Resources	DRG		rising	gold
Duketon Mining	DKM		new low	nickel
Eden Innovations	EDE		breached short term downtrend	carbon nanotubes in concrete
Emerald Resource	EMR		sideways	gold
Energia Minerals	EMX		new uptrend started	zinc
Evolution Mining	EVN		rising again	gold
Excelsior Gold	EXG		new high	gold
Finders Resources	FND		stronger	copper
First Australian	FAR		testing uptrend	oil/gas
First Graphite	FGR		falling	graphite
Fortescue Metals	FMG		short term uptrend	iron ore
Galaxy Resources	GXY		testing downtrend	lithium
Galilee Energy	GLL		down	oil and gas, CBM
Gascoyne Resources	GCY		testing steeper downtrend	gold
Global Geoscience	GSC		back to highs	lithium
Gold Road	GOR		uptrend continuing	gold exploration
Graphex Mining	GPX		new low then strong recovery	graphite
Heron Resources	HRR		drifting lower	zinc
Highfield Resources	HFR		breached downtrend	potash
Highlands Pacific	HIG		down	copper, nickel
Hillgrove Resources	HGO		back to highs	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		testing uptrend	mineral sands
Independence	IGO		breaching downtrend	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoon Gas	KAR		breached support line	gas
Kibaran Resources	KNL		testing downtrend	graphite
Kin Mining	KIN		surge on gold discovery announcement	gold
Legend Mining	LEG		sideways	exploration
Lithium Australia	LIT		pullback after breakout	lithium
Lucapa Diamond	LOM		new low	diamonds
Macphersons Res.	MRP		downtrend	silver
MetalsX	MLX		LT uptrend in play	tin, nickel
Metro Mining	MMI		sideways to higher	bauxite
Mincor Resources	MCR		new uptrend	nickel
Mineral Deposits	MDL		on support line	mineral sands
Mustang Resources	MUS		strong rise	diamonds, rubies
Myanmar Minerals	MYL		rising on re-listing	zinc
MZI Resources	MZI		new low	mineral sands
Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		rising again	gold
NTM Gold	NTM		breached uptrend	gold
Oceana Gold	OGC		down after steep fall	gold
Oklo Resources	OKU		heavy correction	gold expl.
Orecorp	ORR		rising from lows	gold development

Orinoco Gold	OGX		collapse on 1 for 2 issue	gold development
Orocobre	ORE		stronger	lithium
Oz Minerals	OZL		rising	copper
Pacific American Coal	PAK		down	coal, graphene
Pantoro	PNR		new high	gold
Panoramic Res	PAN		surge through downtrend	nickel
Peel Mining	PEX		surge through downtrend	copper
Peninsula Energy	PEN		new uptrend breached	uranium
Perseus Mining	PRU		rising	gold
Pilbara Minerals	PLS		testing downtrend	lithium/tantalum
PNX Metals	PNX		testing downtrend	gold, silver, zinc
Red River Resources	RVR		holding longer term uptrend	zinc
Regis Resources	RRL		confirming uptrend	gold
Resolute Mining	RSG		rallying	gold
RIO	RIO		recovery	diversified
Salt Lake Potash	SO4		breached steepest downtrend	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		still under long term downtrend	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		breached downtrend, then pullback	silver
Santos	STO		under long term support line	oil/gas
Sheffield Resources	SFX		still in downtrend	mineral sands
Silver Lake Resources	SLR		heavy fall	gold
Silver Mines	SVL		down again	silver
Sino Gas & Energy	SEH		down	gas
Southern Gold	SAU		gentle LT uptrend	gold
Stanmore Coal	SMR		breaching long term support	coal
Sundance Energy	SEA		new uptrend started	oil/gas
Syrah Resources	SYR		rallying	graphite
Talga Resources	TLG		spike then pullback	graphene
Tanami Gold	TAM		short term down	gold
Tempo Australia	TPP		breached downtrend	mining services
Teranga Gold	TGZ		sharp rise	gold
Tiger Realm	TIG		falling back to support line	coal
Torian Resources	TNR		new low	gold expl'n
Troy Resources	TRY		new uptrend	gold
Tyranna Resources	TYX		testing downtrend	gold exploration
Vango Mining	VAN		uptrend breached	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		strong rise	gold
Westwits	WWI		rallying	gold exploration/development
Western Areas	WSA		new uptrend	nickel
White Rock Minerals	WRM		sideways	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		still down	gold
Wolf Minerals	WLF		down	tungsten
Totals	37%	53	Uptrend	
	31%	44	Downtrend	
		144	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	23.1%	
Gold Exploration	14	9.8%	
Copper	11	7.7%	
Coal	10	7.0%	
Oil/Gas	9	6.3%	
Mineral Sands	7	4.9%	
Graphite	7	4.9%	
Zinc	7	4.9%	
Silver	6	4.2%	
Lithium	5	3.5%	
Nickel	5	3.5%	
Potash/Phosphate	5	3.5%	
Cobalt	4	2.8%	
Uranium	3	2.1%	
Bauxite	3	2.1%	
Tin	2	1.4%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	9		
Total	143		

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