

28 October 2017

On Friday's Close

Analyst : Warwick Grigor

## Graphite price has turned the corner

Favourable sentiment continues to be the theme at present with the investment environment looking the least dangerous it has been for a long time, across all sectors. This is leading to rising markets all around the world, with the Dow championing those rises.

Yet, the world is full of issues and complications that are affecting a range of societies. Maybe these are not affecting markets much, but how long will this be the case? Can we continue in the business world without suffering the repercussions of events like Brexit and the Catalan independence movement? What is the outlook for the Coalition Government in Australia with the High Court decision to disqualify Barnaby Joyce, and perhaps more importantly, the future of the Prime Minister?

### *Oil shares are making solid gains*

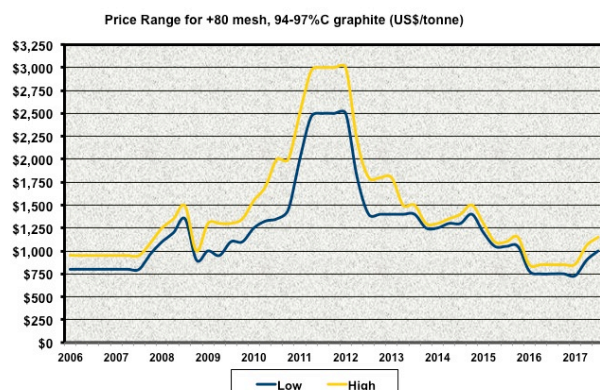
There has been very little news on the oil price recently, with the volatility gone for the time being. Nevertheless, the oil price has been creeping upwards. The latest news is that Saudi Arabia and Russia have agreed to continue production ceilings for another 12 months in the quest for a better price. It seems to be working.

Almost all of the charts for the oil stocks under coverage are showing good movements, though there has been no urgent buying yet - just prudent accumulation.

### *Graphite price has turned the corner*

Graphite prices have been making a good comeback in recent months, with environmental restrictions biting in China at the same time as demand is increasing in Europe. Flake graphite grading 94-97% C, +80 mesh, has jumped by \$200 pt in recent months to a range of US\$925-\$1,070 pt CIF Europe. Prices across a number of categories have risen by 25-30%.

See the chart below, which shows how far the graphite price had fallen whilst there was a boom in graphite shares going on. Normally share prices go up with the commodity price, but for some illogical reason this isn't what happened on the ASX. The successful promotion of the Syrah share price had an intoxicating affect on the sector as punters pushed other graphite stocks to unrealistic prices ... while the graphite price continued to fall.



The graphite sector may have a good future on the back of increasing demand for batteries, but we have to closely watch what is happening with the elephant in the room. Will Syrah successfully commission its plant and flood the market with product, thereby closing the window of opportunity for others to follow in its footsteps? Alternatively, will it suffer commissioning problems for an indefinite period, leaving a shortfall of supply to the market? Unless companies have a specialist graphite product that falls outside the range that Syrah plans to deliver, graphite companies should be sitting and waiting before committing to any new projects.

### *Cardinal does another placement - C\$12m*

Successful gold companies need a constant source of capital. Drilling out an orebody requires plenty of funds with the bigger the ore system, the more rigs required. Next, the engineering studies and feasibility work has to be funded. Eventually the development capital is needed, along with sufficient working capital to take a company through to the cash flow positive status. Thus funding and capital management is a continuous focus for management.

Shareholders quite rightly have a strong vested interest in how management handles the funding issue. There is no point in having the company expand in market capitalisation through the issue of incremental shares if the the share price doesn't appreciate as well. Why would shareholders want to be there for a steady share price? Thus, the operative word is dilution. Management might feel good about building a growing company, but it has to enrich shareholders simultaneously.

Perseus is a good example of a company that has become a successful gold producer, but the share price is back down to where it was when it was still in the early exploration drilling phase. The smart shareholders were the ones who sold out well before the mine development, when the share price was \$3. The share price has since fallen by 90% to be in the range of 30-40¢. So much for being a "successful" gold producer.

These comments have some relevance to the very successful Ghana-based gold explorer, Cardinal Resources. In the last 18 months there have been four placements that have raised approximately \$60m; March 2016, \$5.4m at 12¢; July 2016, \$22m at 29¢; April 2017 \$22m at 50¢ and October 2017, C\$12m at 65¢. The good news is that the share price has kept rising, so shareholders have no reason to complain. Nevertheless, it will need more money and directors should be aiming to make sure that their shareholders have a more pleasant experience than did Perseus shareholders.

**Catalan is another Brexit-style event**

Europe was rocked by the result of the Brexit referendum, because no-one had ever really contemplated that a European member might want to actually leave the Union. No-one had contemplated a devolution.

The Union is now shocked by the momentum the Catalan independence movement has achieved. Just as there is no road map for Brexit, how can we figure out what happens with Catalan. In days gone by events like these have led to civil war. Has modern society grown beyond such skirmishes, or is there a possibility that passions are so high that a war in Europe could be about to happen? Do any of the parties have enough at stake that they are prepared to send men and women in to die for their cause, or does the concept of self determination of ethnic groups lead to a rational divorce? Even if the country splits up, who is to say that a new government would be any better as far as the man in the street is concerned?

Both the Brexit and Catalan events are instructive in demonstrating that people actually need an identity - a cultural identity - without which they just become pawns within a globalised society that only values them as units in the food chain.

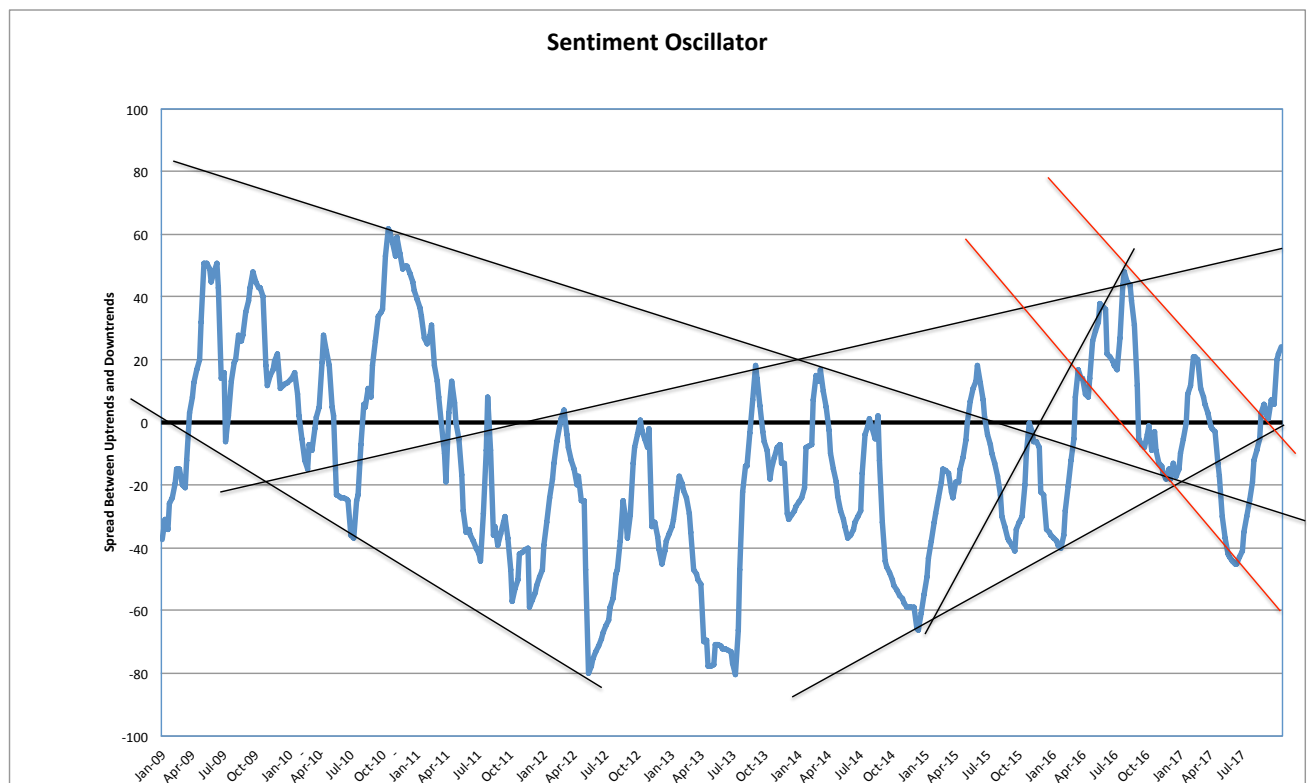
For many decades the various governments around the world have been undertaking social experiments, encouraging as much mixing of races as possible, on the platform that a globally homogenised society is less likely to

want to go to war for nationalist reasons. Freedom of movement of labour in Europe is an example, as is the opening up of previously closed western societies to immigration from all the corners of the globe.

As a concept this approach has merit, but there is a risk that conflict just becomes more decentralised. It occurs in many different pockets in many different countries, because no matter how many times they tell us we are the same, real life tells us that everyone is different. Maybe decentralised conflict is easier to manage and less destructive of human lives, but it can be more confronting if it is on everyone's door step.

The worst outcome of globalisation, especially when it is based on economic rationalism, is the denial of cultures. No economist can model the impact of cultures, but it is the cultures of peoples that are essential for a humane society to exist. If a society was just based on economic efficiency and consumerism alone we would quickly find ourselves in a type of society that has featured in many science fiction movies.

The English obviously see that they are different to Europeans and they want to keep that distinction. Catalans feel the same way about themselves, relative to other Spanish peoples. Yes, they are probably thinking with their hearts rather than their heads, but that is part of being human. To deny it is to be inhumane.



**Sentiment Indicator:** The trend of improving sentiment continued last week. There were 45% (43%) of the charts in uptrend and 21% (21%) in downtrend on Friday's close.



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## 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	holding highs	
Metals and Mining	XMM	still rising	
Energy	XEJ	improving	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	on trend line	gold
Aeon Metals	AML	breached uptrend, but rallying	copper + cobalt
Alacer Gold	AQG	rising	gold – production
Alkane Resources	ALK	down	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Aguia Resources	AGR	back in downtrend	phosphate
Alicanto Minerals	AQI	testing downtrend	gold exploration
Allegiance Coal	AHQ	breached uptrend	coal
Alliance Resources	AGS	sideways	gold exploration
Alltech Chemicals	ATC	stronger	industrial minerals
Anova Metals	AWV	falling again	gold
Antipa Minerals	AZY	sideways	gold
Apollo Consolidated	AOP	new high	gold exploration
Archer Exploration	AXE	rising	magnesite, graphite
Argent Minerals	ARD	sideways	polymetallic
Artemis Resources	ARV	Uptrend	gold, nickel
Aspire Mining	AKM	sideways	coal
Atrum Coal	ATU	heavy pullback	coal
Aurelia Metals	AMI	upside breakout	gold + base metals
Auroch Minerals	AOU	continuing higher	exploration
Aus Tin	ANW	sideways	tin, cobalt
Australian Bauxite	ABX	breached uptrend	bauxite
Australian Potash	APC	slump back into downtrend	potash
Australian Mines	AUZ	working around highs	cobalt/nickel
Australian Vanadium	AVL	sideways	vanadium
Avanco Resources	AVB	sideways	copper
AWE	AWE	breached downtrend	oil and gas
Azure Minerals	AZS	back in downtrend	silver
BHP	BHP	trying to hold trend line	diversified
Base Resources	BSE	rallying	mineral sands
Bathurst Resources	BRL	breached uptrend	coal
Battery Minerals	BAT	reached resistance line	graphite
BBX Minerals	BBX	suspended	gold
Beach Energy	BPT	rising	oil and gas
Beadell Resources	BDR	testing downtrend	gold
Berkeley Resources	BKY	sideways	uranium
Berkut Minerals	BMT	rising	cobalt
Blackham Resources	BLK	crunched down again	gold
Broken Hill Prospect.	BPL	new uptrend	minerals sands, cobalt
Buru Energy	BRU	breached downtrend	oil
Canyon Resources	CAY	correcting of recent high	bauxite
Cardinal Resources	CDV	testing uptrend	gold exploration
Cassini Resources	CZI	rising	nickel/Cu expl.

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Chalice Gold	CHN		surge	gold
Cobalt One	CO1		back in downtrend	cobalt
Cobalt Blue	COB		sideways	cobalt
Comet Resources	CRL		pushing higher	graphite/graphene
Consolidated Zinc	CZL		downtrend being tested	zinc
Corizon Mining	CZN		down	cobalt
Crusader Resources	CAS		softer	gold/iron ore
Dacian Gold	DCN		bounced off support line	gold exploration
Danakali	DNK		bounced off support line	potash
Doray Minerals	DRM		back in downtrend	gold
Draig Resources	DRG		new high	gold
Duketon Mining	DKM		new uptrend	nickel
Eden Innovations	EDE		new low	carbon nanotubes in concrete
Emerald Resource	EMR		sideways	gold
Energia Minerals	EMX		new uptrend breached	zinc
Evolution Mining	EVN		heavy pullback	gold
Excelsior Gold	EXG		new high	gold
Finders Resources	FND		stronger	copper
First Australian	FAR		testing uptrend	oil/gas
First Graphite	FGR		strong breach of downtrend	graphite
Fortescue Metals	FMG		breached short term uptrend	iron ore
Galaxy Resources	GXY		steeply higher	lithium
Galilee Energy	GLL		surge out of downtrend	oil and gas, CBM
Gascoyne Resources	GCY		testing steeper downtrend	gold
Global Geoscience	GSC		new high	lithium
Gold Road	GOR		uptrend continuing	gold exploration
Graphex Mining	GPX		new uptrend	graphite
Heron Resources	HRR		drifting lower	zinc
Highfield Resources	HFR		breached downtrend	potash
Highlands Pacific	HIG		testing downtrend	copper, nickel
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		down	mineral sands
Independence	IGO		stronger	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		breached support line	gas
Kibaran Resources	KNL		breached downtrend	graphite
Kin Mining	KIN		just holding uptrend	gold
Legend Mining	LEG		sideways	exploration
Lepidico	LPD		steep rise	lithium
Lithium Australia	LIT		rising again	lithium
Lucapa Diamond	LOM		testing downtrend	diamonds
Macphersons Res.	MRP		downtrend	silver
MetalsX	MLX		spiked higher	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		bounced off low	mineral sands
Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		rising again	gold
NTM Gold	NTM		uptrend forming	gold
Oceana Gold	OGC		down after steep fall	gold

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Oklo Resources	OKU		heavy correction	gold expl.
Orecorp	ORR		risen off lows	gold development
Orinoco Gold	OGX		collapse on 1 for 2 issue	gold development
Orocobre	ORE		stronger	lithium
Oz Minerals	OZL		bounced off support line	copper
Pacific American Coal	PAK		<b>good bounce to meet resistance line</b>	coal, graphene
Pantoro	PNR		struggling to hold uptrend	gold
Panoramic Res	PAN		surge through downtrend	nickel
Peel Mining	PEX		new high	copper
Peninsula Energy	PEN		new uptrend breached	uranium
Perseus Mining	PRU		rising	gold
Pilbara Minerals	PLS		steeply higher	lithium/tantalum
PNX Metals	PNX		sideways	gold, silver, zinc
Red River Resources	RVR		holding longer term uptrend	zinc
Regis Resources	RRL		testing uptrend	gold
Resolute Mining	RSG		at lows again	gold
RIO	RIO		rising	diversified
Salt Lake Potash	SO4		breached steepest downtrend	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		<b>sideways at highs</b>	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		new uptrend	silver
Santos	STO		new uptrend	oil/gas
Sheffield Resources	SFX		steep rise	mineral sands
Silver Lake Resources	SLR		heavy fall	gold
Silver Mines	SVL		down again	silver
Sino Gas & Energy	SEH		breached steepest downtrend	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		testing uptrend	graphene
Tanami Gold	TAM		sideways	gold
Tempo Australia	TPP		breached downtrend	mining services
Tiger Realm	TIG		<b>spiked higher</b>	coal
Torian Resources	TNR		new low	gold expl'n
Triton Minerals	TON		uptrend	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		testing downtrend	gold exploration
Vango Mining	VAN		down	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		correcting	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		collapse	gold
Wolf Minerals	WLF		testing downtrend	tungsten
Totals	45%	65	Uptrend	
	21%	30	Downtrend	
		144	Total	

### Guides to Chart Interpretations

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- 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.

<b>Weightings of Sectors Represented in the Company Charts</b>			
<b>Sector</b>	<b>No. of Companies</b>	<b>Weighting</b>	
Gold	32	22.2%	
Gold Exploration	15	10.4%	
Copper	11	7.6%	
Coal	10	6.9%	
Oil/Gas	9	6.3%	
Mineral Sands	7	4.9%	
Graphite	8	5.6%	
Zinc	7	4.9%	
Silver	6	4.2%	
Lithium	6	4.2%	
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	8		
<b>Total</b>	<b>144</b>		

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