

18 November 2017

On Friday's Close

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## A stronger market and increasing volatility

After surging to new highs the leading indices took a breather mid week in a classic profit taking movement. This coincided with a weaker A\$ and softer oil prices. We saw profit taking throughout the junior mining sector in stocks that had recently been very strong. Thus the volatility at this end of the market is on the rise. These are all symptoms of a good market.

### *A\$ gold price is performing well*

On Friday night the gold price jumped US\$14.80/oz to US\$1294/oz, a useful 1.16% improvement, but look at the A\$ price and you will see it was up A\$25.06/oz. The weakness in the A\$ in recent weeks has been particularly useful to producers, such that our currency is almost back to the 2017 high seen early in July.

### *Dynamic markets require frequent realignment of expectations*

The challenge at this point of the market cycle is to get in step with the current psychology. The bottom fishers are all making good profits, assuming they actually did pick the bottoms and didn't come in too early. In many cases these guys go over-weight in their fishing, so they look for a chance to take some money off the table on an improving market. They provide stock for more cautious investors who wait, to buy on break outs of downtrends.

As more and more people see that the direction has turned the question becomes "when do I get in? Do I buy now, or do I wait for pullback? Will there be a pullback". Fear of falling prices is replaced by fear of missing out. That is the stage of the market cycle that we are entering now. The pendulum has swung in favour of a rising market and this will suck more buyers into the game. The search is on for fundamentals to justify the psychology, not the other way around. That is how emotional markets work.

### *Spot LNG prices up by 55% in two months*

LNG spot prices are at a two year high, rising 55% in the last two months. Demand for clean energy in China is the apparent cause, with Chinese demand expected to show a 44% increase, YoY, in 2017. This is good for Queensland and companies like Santos and Origin. Maybe this is the driver behind stories of an \$11bn bid for Santos. It is time to brush off the files on other gas companies as, along with the oil price, the trend is towards higher prices.

### *Lepidico running hard on new lithium process*

As lithium stocks continue to attract interest there has recently been very strong interest in Lepidico (LPD). It is coming from the technology end of the business, with a process that treats high-quality lithium micas such as lepidolite and zinnwaldite. These have previously been thought of as uneconomic when compared with spodumene or brine deposits. Its L-Max® process allows recovery of battery grade lithium chemicals such as lithium carbonate and lithium hydroxide.

The process involves the acid leaching of lithium mica slurry at atmospheric pressure and modest temperature followed by a series of purification steps, then precipitation of lithium carbonate. It avoids the energy intensive high temperature decrepitation and sulphate roasting needed for spodumene concentrates.

LPD has been carrying out pilot scale work on the process to date with a mini-plant achieving 2-3 kg/hr of lithium carbonate. The next step is to achieve a 3.6 /hr rate, which would give capacity of 3,000 tpa, while also working on a Feasibility Study for a plant that could produce 15-25,000 tpa of lithium carbonate. Results of this are due by mid 2018, which could lead to construction commencing late in 2018, for commissioning late in 2019.

There is the potential for this process to be a game changer for the lithium business as it could enable the exploitation of low cost supplies of mica rich feedstock. This material was previously of academic interest only. It is obviously being taken seriously by existing lithium companies as Galaxy Resources has just taken a 12% stake in the company. LPD aims to be fully integrated from mine site through to production of battery grade lithium materials.

There has been a surge of interest in the shares this week, with volumes of more than 120 mill. shares going through in the first four days, and almost 2,000 trades per day on the ASX. The shares have moved from 3.7¢ to 8.4¢. Thus it has been a feeding frenzy for day traders. The market capitalisation is now \$168m with the shares resting at 5.9¢. Whether or not there is short term value at these prices depends upon whether it is FOMO or fundamentals that is driving the share price. If the process moves to wide-scale commercialisation there is a chance that it will fill any gaps in future supply, at a low cost. So, you should keep it on your radar if you follow lithium stocks

### *Aussie business conditions at 10 year high*

The recent NAB survey last week declared that business conditions in Australia are at a 10 year high. There is no longer any talk of what happens when the property boom turns down, so there is no fear of a collapse. It may soften, but there is no talk of collapse. There is no talk of rising interest rates any more as inflation seems to be under control. Everything seems set for steady sailing. Maybe its a good thing that the government is off in its own introverted world, letting the rest of us get on with our lives.

### *Citizenship shamozzle*

The Federal Government in Australia is crippled by an issue that no-one really cares about. The amount of time and money being wasted on the citizenship shamozzle is a disgrace. It shows us the puerile nature of our politicians and how useless they really are. We should sack them all and appoint an administrator for the next 12 months - or longer. Our Federal parliament and the sitting members are the laughing stock of the world.

*The role of analysts*

Previously I have written about the confused role of analysts in the finance sector. Well, the playing field is going to become even more murky, courtesy of regulators in Europe. The introduction of MIFID II (Markets in Financial Instruments Directive II) is soon to come into play, requiring asset managers to spell out how much they pay brokers for research, rather than having it hidden in overall fees. It could be said that this is part of the trend of asset managers relying less on brokers services and relying on their own resources instead, but the real reason is the increasingly invasive approach of the regulators.

Back in the late 1980s, when County NatWest was Australia's # 1 broker, it had a team of highly paid, very professional analysts. It was the first time that a broking house was built around the quality research model. The analysts called the shots when it came to corporate deals, with quality control of the deal being paramount to investment bankers who focus on underwriting and advisory fees. The business model worked well. It was something that the high integrity analysts were appropriately proud of at the time. However, the goal posts moved with brokerage rates coming under relentless pressure.

Everyone wants the best information. In the past this has been described as the earliest information, but if you get it too early you run the risk of getting inside information. So, the best information should now be described as the best interpretation and analysis of that information that everyone has equal access to. But, how is an investor going to know if that information and analysis is any good ahead of risking his money?

The trouble with sell side analysis is that brokers view it as a cost centre. Very few organisations are prepared to invest in the 10 years that it takes to develop a first class analyst. When a downturn comes along the normal approach is to retrench the better, highly paid analysts in favour of juniors that are less expensive and are more malleable. Experienced analysts become more cautious while junior

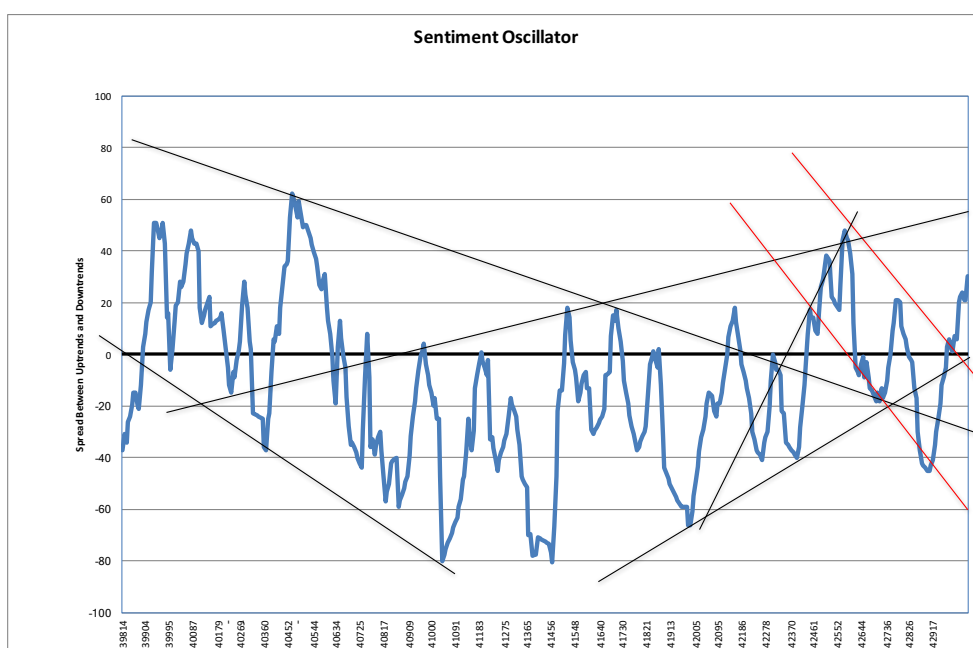
analysts are happy to lead the charge of the light brigade. They are more pragmatic, especially when they learn how bonuses can be tied to corporate fees (even though this is against ASIC policy). At the end of the day, brokers rarely offer high integrity research products because their business models do not facilitate the development of quality analysis.

With the changes coming with MIFID II, it is likely that analysts will become more marginalised. Investors won't want to pay decent money for analysis when quality is so rare, and difficult to assess. Some larger fund managers will build their own analytical teams but they will suffer the same issues that brokers have had troubles with - the time and cost of developing quality research capability.

The regulators are motivated by the desire to remove conflicts of interest as opposed to nurturing better quality analysis. They fail to understand that the markets can form their own views on conflicts of interest, and adjust accordingly. It would be fair to say that the experienced fund manager is more market savvy than your average regulator. They get to know how markets work and who you can trust, otherwise they don't last. Overlaying a proscriptive and paternalistic regulatory regime designed by lawyers removes the market's inbuilt ability to adjust to changing circumstances. It dumbs down the market. In the case of research, it is going to drive most of it from the market place. Markets will become less well-informed and we will see greater volatility and variance as stock movements become even more influenced by spin. They will become even greater casinos than they are now. But hey, the conflicts of interest will be removed, won't they?

*Disclosure: FEC has no interest in the securities of shares listed above.*

This week we have added Blackstone Minerals and Northern Cobalt to our stocks under chart coverage. Both are interesting, high grade cobalt companies.



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**Sentiment Indicator:** The Sentiment Oscillator continued its upwards march last week, suggesting strongly that the market is going to get much hotter before it cools down. Keep an eye on this over the coming weeks for the signal when the market starts to “max-out”. There were 49% (46%) of the charts in uptrend and 19% (25%) 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.*

Indices	Code	Trend Comment	
All Ordinaries	XAO	pullback	
Metals and Mining	XMM	into a steeper uptrend now	
Energy	XEJ	new high	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	breached trend line	gold
Aeon Metals	AML	back to highs	copper + cobalt
Alacer Gold	AQG	testing uptrend	gold – production
Alkane Resources	ALK	breached steepest downtrend	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	testing downtrend	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	strongly higher	magnesite, graphite
Argent Minerals	ARD	testing downtrend	polymetallic
Artemis Resources	ARV	Uptrend	gold, nickel
Aspire Mining	AKM	new low	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	stronger	vanadium
Avanco Resources	AVB	sideways	copper
AWE	AWE	stronger	oil and gas
Azure Minerals	AZS	strong rise	silver
BHP	BHP	stronger	diversified
Base Resources	BSE	rallying	mineral sands
Bathurst Resources	BRL	heading down	coal
Battery Minerals	BAT	testing downtrend	graphite
BBX Minerals	BBX	suspended	gold
Beach Energy	BPT	rising	oil and gas
Beadell Resources	BDR	around lows again	gold
Berkeley Resources	BKY	spike on Cameco suspensions	uranium
Berkut Minerals	BMT	spiked to new high	cobalt
Blackham Resources	BLK	crunched down again	gold
Blackstone Minerals	BSX	steep rise	gold, cobalt
Broken Hill Prospect.	BPL	strongly higher	minerals sands, cobalt
Buru Energy	BRU	strongly higher	oil

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Canyon Resources	CAY		correcting of recent high	bauxite
Cardinal Resources	CDV		testing uptrend	gold exploration
Cassini Resources	CZI		rising	nickel/Cu expl.
Chalice Gold	CHN		surge	gold
Cobalt One	CO1		back in downtrend	cobalt
Cobalt Blue	COB		spiked higher	cobalt
Comet Resources	CRL		pushing higher	graphite/graphene
Consolidated Zinc	CZL		downtrend being tested	zinc
Corizon Mining	CZN		down	cobalt
Crusader Resources	CAS		new low	gold/iron ore
Dacian Gold	DCN		rising again	gold exploration
Danakali	DNK		bounced off support line	potash
Doray Minerals	DRM		back in downtrend	gold
Draig Resources	DRG		new high	gold
Eden Innovations	EDE		new low	carbon nanotubes in concrete
Emerald Resource	EMR		sideways	gold
Energia Minerals	EMX		weak	zinc
Evolution Mining	EVN		gently stronger	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		testing longer 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		testing downtrend	zinc
Highfield Resources	HFR		breached downtrend, but slipping again	potash
Highlands Pacific	HIG		correcting from recent high	copper, nickel
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		spiked higher	mineral sands
Independence	IGO		stronger	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoon Gas	KAR		spiked higher	gas
Kibaran Resources	KNL		breached downtrend	graphite
Kin Mining	KIN		rallying	gold
Legend Mining	LEG		rising	exploration
Lepidico	LPD		another steep rise	lithium
Lithium Australia	LIT		rising again	lithium
Lucapa Diamond	LOM		back to lows	diamonds
Macphersons Res.	MRP		downtrend	silver
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		spiked higher	tin, nickel
Metro Mining	MMI		stronger	bauxite
Mincor Resources	MCR		spiked higher	nickel
Mineral Deposits	MDL		on support line	mineral sands
Mustang Resources	MUS		collapse	diamonds, rubies
Myanmar Minerals	MYL		rising on re-listing	zinc
MZI Resources	MZI		testing downtrend	mineral sands
Northern Cobalt	N27		strong rise	cobalt

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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
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		good bounce to meet resistance line	coal, graphene
Pantoro	PNR		breached uptrend	gold
Panoramic Res	PAN		surge through downtrend	nickel
Peel Mining	PEX		another spike on big zinc hit	copper
Peninsula Energy	PEN		testing downtrend	uranium
Perseus Mining	PRU		breaching uptrend	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		near highs again	gold
Resolute Mining	RSG		sideways	gold
RIO	RIO		rising	diversified
Salt Lake Potash	SO4		new uptrend started	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		sideways at highs	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		short term down	silver
Santos	STO		steeply higher	oil/gas
Sheffield Resources	SFX		correcting after issue	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		stronger	graphite
Talga Resources	TLG		downtrend	graphene
Tanami Gold	TAM		down	gold
Tempo Australia	TPP		sideways to higher	mining services
Tiger Realm	TIG		spiked higher	coal
Torian Resources	TNR		new low	gold expl'n
Triton Minerals	TON		uptrend	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		spiked higher	gold exploration
Vango Mining	VAN		down	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		correcting	gold
Westwits	WWI		new uptrend on Pilbara deal	gold exploration/development
Western Areas	WSA		new uptrend	nickel
White Rock Minerals	WRM		sideways	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		sideways at bottom of steep fall	gold
Wolf Minerals	WLF		testing downtrend	tungsten
Totals	49%	71	Uptrend	
	19%	28	Downtrend	

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		145	Total
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### 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	32	22.1%
Gold Exploration	16	11.0%
Copper	11	7.6%
Coal	9	6.2%
Oil/Gas	9	6.2%
Mineral Sands	7	4.8%
Graphite	8	5.5%
Zinc	7	4.8%
Silver	6	4.1%
Lithium	6	4.1%
Nickel	4	2.8%
Potash/Phosphate	5	3.4%
Cobalt	6	4.1%
Uranium	3	2.1%
Bauxite	3	2.1%
Tin	2	1.4%
Diamonds	2	1.4%
Iron Ore	1	0.7%
Other	8	
Total	145	

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