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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

17 February 2024 *Chart comments updated on Friday's close* Analyst : Warwick Grigor

Mental health of traders could do with an adjustment

An overview of markets and commodities

The stock markets are booming all around the world with many indices at or near record highs. Australia is no different. The All Ords has been very strong, the Energy Index is in a recovery uptrend and the Information Technology Index is surging. So, why is the Metals and Mining Index in downtrend? Is this a temporary market failure or is it telling us something is wrong?

I'm inclined to say that there is nothing wrong - other than severe depression caused by the collapse of prices in battery and green energy commodity prices such as lithium and rare earths. Sure, there is great pain in the nickel sector but this has more to do with oversupply than a collapse in demand, with prices almost half what they were a year ago. The Price of aluminium, copper, lead and zinc have been relatively stable over the past year within their trading ranges. Iron ore prices have been trending higher since mid 2023. Tin has been ticking up more recently. Uranium is in a bull market and gold has been consistently strong. As I said, there is nothing that justifies the extreme pessimism in the mining and exploration stocks - other than the collapse of prices in lithium, rare earth and related commodities.

How much of this pain can be attributed to China, through its weaker property and equity markets, selling on the ASX by Chinese investors, or manipulation of underlying battery input commodity prices? We can only guess. It was not that long ago that we rode the wave of Chinese enthusiasm and booming economic growth, but that period is now relegated to history and sectors that relied on this growth, particularly the exotics, are left floundering.

We can no longer blame interest rate rises for the weakness as the markets are now looking for interest rate falls in 2024. Our market needs to work through this period of depression that has taken share prices to extreme lows. It will turn at some point and hopefully soon, when traders begin to appreciate that the world is not as sick as they are imagining.

Low volumes are a bear market feature

One of the main features of a bear market in the smaller stocks is that volume dries up to the point that if anyone wants to move even a modest line of stock it can have a disproportionate impact on the closing price. Whereas you could move parcels of $50-$100,000 with relative ease in a strong market, a $10,000 ticket in many stocks today can cause the share price to ratchet downwards to a new low. However, there is a flip side. Prices can be equally reactive on the upside in the event of good news. Any such rise can be terminated by stale bulls coming in to take advantage of the liquidity event, so it is important that the news is more than just a breath of fresh air. The market needs to believe that it is a material change in the outlook for the company, sufficient to hold off short term selling.

Gold is moving with interest rate expectations

The gold price continues to be sensitive to inflation news with any tick upwards on USA CPI figures causing a corresponding pushback of expectations regarding interest rate cuts. Such was the case last week, with a brief softening of the gold price below US$2,000/oz being the result. Changes in expectations will have an immediate impact on the gold price as traders respond on a daily basis, with the underlying trend being of more concern to investors.

Tin is another bright spot

Tin is appearing as a bright spot but apart from MetalsX, significant producer, the playing field is very limited. Venture Minerals (VMS) has a tin/tungsten deposit in Tasmania. Its share price has doubled over the past few weeks.

When a commodity starts to shine you will see the old dogs come up for air and brokers will start to preach their merits again, but personally I have found tin a hard sector to make serious money out of. Volumes are thin, both in the metal and the stocks, and the period of focus is usually limited.

Could money be coming back into rare earths?

A few rare earth companies are starting to drag themselves up off the floor. Sector leaders, Hastings Technology Metals and Lindian Resources both ended the week on a stronger note but the real inspiration has been America Rare Earths (ARR). Its share price has tripled in the last week on news that its resource has been increased to 2.2 billion tonnes at 3,100 ppm. While that tonnage increase sounds impressive, it really has no relevance to the NPV of a project, so why the strength in the share price?

As we often say, share prices rise because there are more buyers than sellers. Occasionally the stars align and everyone focuses on one stock. Here, with its rare earth deposit being in the USA, punters in that country have been scrambling to buy ARR shares. The chat rooms have been full of enthusiasm and more than 90% of the buying is coming out of the USA. It is in a sweet spot at the moment.

Uranium is still well-favoured

Uranium, along with gold, continues to be a sector that will predictably be strong in 2024 as the thematic makes sense. A Sydney broker recently released a positive research note on the sector, opining that the nuclear market is in the middle of a bull cycle. It also believes that the uranium price needs to move higher in order to induce a supply response. Let's ponder that suggestion.

There is very little uranium traded on the spot market and that makes it susceptible to manipulation. Real demand come from utilities that look at long term contracts e.g. 5-10 years out. They will review their needs at 12 monthly intervals and buy a bit more, or sell some on the spot market, in a housekeeping exercise. Rarely, if ever, will this activity be based on their future price expectations. Remember that the cost of the uranium in the generation of nuclear power is very small and total power generation costs are largely insensitive to the price of uranium.

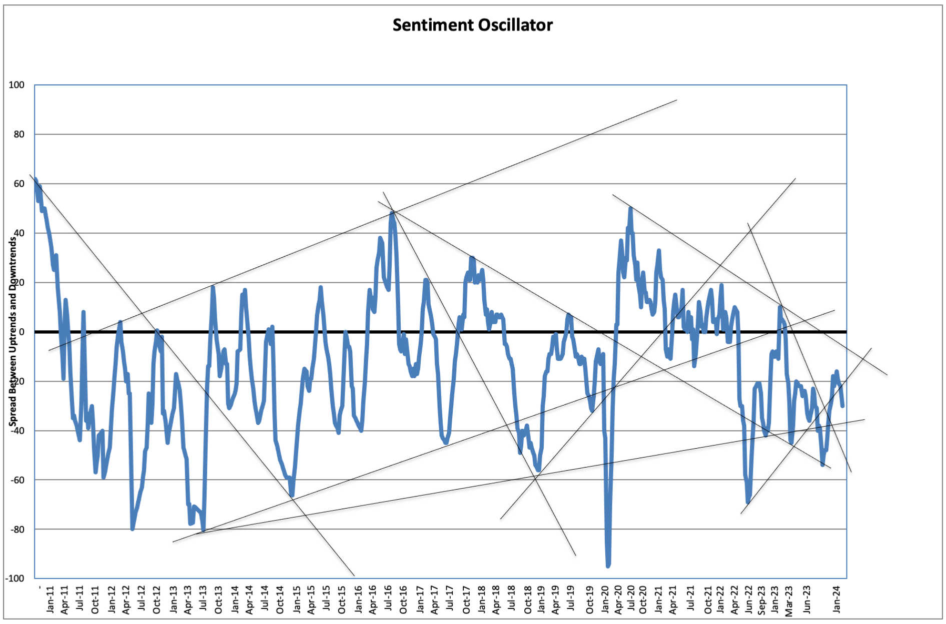
The uranium bull market is a man-made event, with those men being traders and operators in financial markets. The ETFs that are buying uranium on spot, driving the price higher, are self serving. If they stopped buying, or started selling, the price could fall quickly. Ultimately they will sell, but just when will depend upon when new buying appears (other than their own accounts). It is a mistake to think the driver of the spot prices will be utilities.

As for the need for a supply response - the uranium production sector moves so slowly that short term movements in the spot price will have only a minimal impact. Maybe the equities market will make it easier to raise project development finance, but the approval process in getting a new uranium mine up and running is a very lengthy exercise. Debt finance for a uranium mine will be dependent upon a company securing long term sales contracts. These take a long time to negotiate and the ruling spot price on any day will have a negligible effect on long term contract prices.

The bottom line is that the spot price is a play thing that is useful for traders. As we have seen many times in the past, in many commodities, the spot price movements have a magnified impact on the expectation of speculators, and therefore on share prices. While ever traders think the spot price of uranium will move higher, uranium stocks will perform. Don't worry too much about whether any individual company goes on to develop a mine as that is not a precondition to making profits on the stocks market. It is almost delusional to think that the more real a company is in terms of fundamental production plans, the more likely you are to make stock market profits.

The only relevance of a perceived "structural supply deficit" is that brokers will use this line to promote expectations of rising prices. There is no shortage of uranium in the ground, in the long term.

One other point to consider is the relevance of fast breeder reactors. Eventually, in the decades ahead, the installation of the fast breeder reactors will lead to more complete use of the energy contained in uranium and therefor uranium demand could dwindle. I was contemplating this in the noughties but it still hasn't happened yet, so don't hold you breath.



Sentiment Oscillator: Sentiment softened. There were 24% (27%) of stocks in uptrend and 54% (53%) in downtrend at the close of the week.

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		near highs	
Metals and Mining	XMM		heading down	
Energy	XEJ		pullback	
Information Technology	XIJ		strong uptrend	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
5EA Advanced Materials	5EA		another new low	boron
92 Energy	92E		rising	uranium
Adriatic Resources	ADT		new high	zinc, polymetallic
Advance Metals (was Pacific American)	AVM		back to lows	coal, gold exploration
Aguia Resources	AGR		down	phosphate, copper exploration
Alkane Resources	ALK		down	gold
Alicanto Minerals	AQI		back to lows	base metals, silver, gold
Alligator Energy	AGE		rising again	uranium
Almonty Industries	AII		rising	tungsten
Alpha HPA	A4N		turning down	HPA
Altech Chemical	ATC		breaching downtrend	HPA, anodes
Alto Metals	AME		at lows with a placement	gold exploration
American Rare Earths	ARR		surge through downtrend line	rare earths
Anax Metals	ANX		new low	copper
Anteotech	ADO		breached uptrend	silicon anodes, biotech
Antilles Gold	AAU		new low	gold and copper expl.
Arafura Resources	ARU		new low	rare earths
Ardea Resources	ARL		secondary downtrend	nickel
Arizona Lithium	AZL		strong rally	lithium
Astral Resources	AAR		gentle downtrend	gold
Averina	AEV		breaching uptrend	phosphate
Aurora Energy Metals	1AE		sideways through uptrend	uranium
Aurelia Metals	AMI		sideways	gold + base metals
Australian Rare Earths	AR3		at lows	rare earths
Australian Strategic Materials	ASM		continuing lower	rare earths
Azure Minerals	AZS		another surge higher then pullback	nickel exploration
BHP	BHP		down	diversified, iron ore
Barton Gold	BGD		sideways through support line	gold exploration
Beach Energy	BPT		rising gently	oil and gas
Bellevue Gold	BGL		off its highs	gold exploration
Besra Gold	BEZ		breached downtrend	gold
Black Cat Syndicate	BC8		steep rally	gold
BMG Resources	BMG		down	gold exploration
Boab Metals	BML		heavy fall	silver/lead

Cadoux (was FYI)	CCM		testing steepest downtrend	HPA
Calidus Resources	CAI		new uptrend	gold
Caravel Minerals	CVV		strong rally	copper
Carnaby Resources	CNB		secondary downtrend	copper
Castile Resources	CST		new uptrend	gold/copper/cobalt
Cazaly Resources	CAZ		back to downtrend	rare earths
Celsius Resources	CLA		sideways	copper
Cobalt Blue	COB		down again	cobalt
Cyprium Metals	CYM		new low	copper
Ecograf	EGR		turning down at resistance line	graphite
Emerald Resources	EMR		rising, new high	gold
Empire Energy	EEG		fallen to support line	gas
EQ Resources	EQR		breaching downtrend	tungsten
Euro Manganese	EMN		new low	manganese
Evolution Energy	EV1		new low	graphite
Evolution Mining	EVN		crashed lower	gold
First Graphene	FGR		new high	graphene
Fortescue Metals	FMG		off its high	iron ore
Galena Mining	G1A		suspended	lead
Genesis Minerals	GMD		testing uptrend	gold
Genmin	GEN		suspended	iron ore
Gold 50	G50		sideways through downtrend	gold exploration + gallium
Great Boulder Resources	GBR		new low	gold exploration
Group 6 Metals	G6M		down	tungsten
Hamelin Gold	HMG		new low	gold exploration
Hastings Technology Metals	HAS		back to lows	rare earths
Hazer Group	HZR		testing downtrend	hydrogen
Heavy Minerals	HVY		new low	garnet
Hillgrove Resources	HGO		rising gently	copper
Iluka Resources	ILU		heavy fall	mineral sands
ioneer (was Global Geoscience)	INR		new low	lithium
Ionic Rare Earths	IXR		breached downtrend	rare earths
Jervois Mining	JVR		new low	nickel/cobalt
Jindalee Lithium	JLL		back to lows	lithium
Kaiser Reef	KAU		new low	gold
Krakatoa Resources	KTA		new low	rare earths
Kingfisher Mining	KFM		breached downtrend	rare earths
Lepidico	LPD		new low	lithium
Lindian Resources	LIN		new low	rare earths + bauxite
Lion One Metals	LLO		heavy fall - suspension	gold
Li-S Energy	LIS		new low	Lithium sulphur battery technology
LCL Resources	LCL		new low	gold exploration
Lotus Resources	LOT		rising	uranium
Lucapa Diamond	LOM		sideways	diamonds

Lunnon Metals	LM8		new low	nickel
Lynas Corp.	LYC		still down	rare earths
Marmota	MEU		rising	gold exploration
Mayur Resources	MRL		strongly higher	renewables, cement
Meeka Gold	MEK		down	gold
MetalsX	MLX		down	tin, nickel
Meteoric Resources	MEI		down	rare earths
Metro Mining	MMI		improving	bauxite
Midas Minerals	MM1		slump	lithium
Nagambie Resources	NAG		down	gold, antimony
Neometals	NMT		new low	lithium
Newfield Resources	NWF		down	diamonds
Nexgen Energy	NXG		rising	uranium
Northern Star Res.	NST		rising	gold
Nova Minerals	NVA		off its highs	gold exploration
Pacific Gold	PGO		new low	gold exploration
Paladin Energy	PDN		new high	uranium
Pantoro	PNR		breached short term uptrend	gold
Patriot Battery Metals	PMT		bounced off new low	lithium
Peak Resources	PEK		new low	rare earths
Peninsula Energy	PEN		breached downtrend	uranium
Perseus Mining	PRU		testing support line	gold
Poseidon Nickel	POS		new low	nickel
Provaris Energy	PV1		down	hydrogen
QMines	QML		new low	copper
Queensland Pacific Metals	QPM		new low	nickel/cobalt/HPA
RareX	REE		new low	rare earths, phosphate
Regis Resources	RRL		rising	gold
Renergen	RLT		down	gas, helium
Richmond Vanadium	RVT		rising	vanadium
RIO	RIO		off its highs	diversified, iron ore
Rumble Resources	RTR		new low	gold exploration
S2 Resources	S2R		down	gold exploration
Sandfire Resources	SFR		rising again	copper
Santos	STO		weaker	oil/gas
Sarama Resources	SRR		sideways	gold exploration
Sarytogan Graphite	SGA		new low	graphite
Siren Gold	SNG		bounced from lows	gold exploration
South Harz Potash	SHP		new low	potash
Southern Cross Gold	SXG		breached support line, then rallied	gold exploration
Southern Palladium	SPD		testing downtrend	PGMs
Stanmore Coal	SMR		testing uptrend	coal
Strandline Resources	STA		suspended	mineral sands
Sunstone Metals	STM		meeting resistance line	gold/copper exploration

Suvo Strategic Minerals	SUV		stronger	kaolin
Talga Resources	TLG		rallying	graphite
Tamboran Resources	TBN		down	gas
Technology Metals	TMT		down	vanadium
Theta Gold Mines	TGM		breached downtrend	gold
Thor Energy	THR		new uptrend	uranium
Tietto Minerals	TIE		surge on takeover approach	gold
Vanadium Resources	VR8		drifting lower	vanadium
Venture Minerals	VMS		sideways at the bottom	tin, tungsten
Vintage Energy	VEN		breached downtrend	gas
Voltaic Strategic Resources	VSR		new low	REO + lithium
West Cobar	WC1		new low	rare earth + lithium
Westgold Resources	WGX		breeched uptrend	gold
West Wits Mining	WWI		sideways	gold
Whitehaven Coal	WHC		testing uptrend	coal
Xantippe Resources	XTC		suspended	lithium
Zenith Minerals	ZNC		heavy correction	gold exploration
Totals	24%	33	Uptrend	
	54%	75	Downtrend	
		138	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 Exploration	18	13.0%	
Gold	19	13.8%	
Rare Earths	14	10.1%	

Lithium	**10**	**7.2%**	
Copper	**9**	**6.5%**	
Uranium	**9**	**6.5%**	
Oil/Gas	**8**	**5.8%**	
Nickel	**6**	**4.3%**	
Iron Ore/Manganese	**5**	**3.6%**	
Graphite/graphene	**5**	**3.6%**	
Silver	**4**	**44.4%**	
Tungsten	**3**	**2.2%**	
Mineral Sands	**2**	**1.4%**	
Vanadium	**3**	**33.3%**	
Zinc/Lead	**2**	**1.4%**	
Coal	**2**	**1.4%**	
Potash/Phosphate	**3**	**2.2%**	
Bauxite	**2**	**1.4%**	
Tin	**2**	**1.4%**	
Cobalt	**1**	**0.7%**	
Diamonds	**2**	**1.4%**	
Other	**9**		
Total	**138**		

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