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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

19 August 2023 *Chart comments at Friday's close* Analyst : Warwick Grigor

The wind is no longer in China's sails

Institutional money was being pulled out of the mining market last week with the leading stocks all showing heavy falls. This corresponded with a weaker iron ore price.

Sentiment turned down again just when it would have been reasonable to see it improving. Is this because of increasing concern about the direction of the Chinese economy, interest rates or something else? Read below the views on the latest economic indicators coming out of China, which suggest that there is more pain to come. Whatever, we seem to be lacking leadership at present. There is no compelling reason to buy, so the market is falling.

The End of China's Economic Miracle

Our resources sector was a massive beneficiary of the very high growth rates experienced by China up until Covid. It seemed like the Chinese economy was on the path to becoming the largest in the world, but something happened. China went into a deep lockdown from which it has never fully recovered.

The rest of the world has rebounded aggressively, albeit at the cost of inflation due to supply chain issues and higher energy prices due to the Ukraine War, but growth in China today is actually lower than over the last two years. It hasn't returned to pre-Covid levels. Consumption is down. Imports and exports were markedly lower in July compared to a year ago. The suggested reasons are;

i) weak demographics. The effect of the One Child Policy is starting to bite with there being a shortage of consumers, and

ii) deflation. The post Covid consumption boom never happened in China. People are less confident about the future so they are consuming less. A deflationary spiral has just commenced with similarities being drawn with Japanese performance of the 1980s boom, and we must not forget

iii) the increasing authoritarianism of a country ruled by a dictator.

The earlier Chinese boom was based on investment, not consumption. We are now seeing a decline in China's durable goods consumption with households preferring to direct savings into bank accounts as they are prioritising short term liquidity over investment. Specifically,

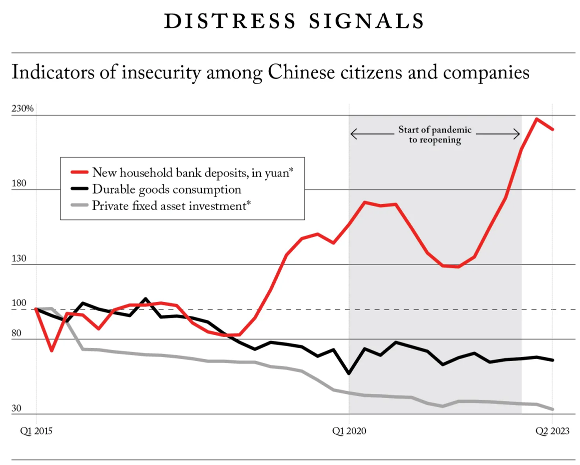
- bank deposits as a share of GPD have risen by 50% since 2015,
- private sector consumption of durable goods is down by 33% since 2015, and falling further, and
- private investment is down by 66%, and falling further

One commentary, from the publication Foreign Affairs, explains what is happening in political terms. It sees the extreme control being imposed by President Xi Jinping is the key factor. "*Economic development in authoritarian regimes tends to follow a predictable pattern: a period of growth as the regime allows politically compliant businesses to thrive, fed by public largess. But once the regime has secured support, it begins to intervene in the economy in increasingly arbitrary ways. Eventually, in the face of uncertainty and fear, households and small businesses start to prefer holding cash to illiquid investment; as a result, growth persistently declines.*" and "*…the chief culprit is the general public's immune response to extreme intervention, which has produced a less dynamic economy.*"

Many Western countries are unhappy with the puerile aggression of the Chinese Communist Party and the trade sanctions that are politically motivated. It seems that the Chinese people themselves are also unhappy.

"*What remains today is widespread fear not seen since the days of Mao—fear of losing one's property or livelihood, whether temporarily or forever, without warning and without appeal.*"

At one point the rest of the world was pleased with the Chinese economic revival but those days are behind us. The economy is underperforming. The Uighur human rights abuses continue. China has become more wolf-like in international politics and generally more threatening to any nation that doesn't toe its line. China is weaponising trade and is increasingly jousting with America. It has taken a sympathetic line with Russia regarding the Ukraine War. None of this augers well for the future.



Note: Chart displays deposits, consumption, and investment as share of GDP, indexed with the first quarter of 2015 equaling 100 percent. | *Indicates four-quarter moving average. *Sources: National Bureau of Statistics of China; People's Bank of China.*

So, the Western world is seeking to reduce its dependence on Chinese supply lines. Rather than being an economic inspiration, China is now the source of increasing geopolitical and economic risk as distrust of China grows every day. The uncertainty about the future is a cloud over our equity markets.

Stop Press: The latest Chinese data

- property investment in China fell for the 17th consecutive month, down 17.8% YoY, in July
- new construction starts by floor are 24.5% YoY in July

Remember when China's property market was performing spectacularly. The opposite is happening now with new home prices falling in July. New home prices in smaller cities fell for the 17th straight month YoY.

What is gallium and what is it worth?

We are seeing exploration companies starting to assay for gallium now, following China's decision to ban gallium and germanium exports, whereas as previously these exotic metals have seldom received any mention. Krakatoa Resources (KTA) is the latest example, reporting rock chip samples as high as 186 ppm at its King Tamba prospect in WA.

We should expect to see quite a few companies offering news flow on gallium and germanium in an attempt to take the spotlight, even though they will only ever be co-products at best.

Gallium is a soft, silvery metal used primarily in electronic circuits, semiconductors and light-emitting diodes (LEDs). It is also useful in high-temperature thermometers, barometers, pharmaceuticals and nuclear medicine tests. Gallium is almost exclusively extracted as a by-product of zinc, aluminium and other metal mining. About 95% of all gallium is used in gallium arsenide products. Interestingly, it becomes a liquid like mercury at a low temperature of about 30 degrees, but it is not toxic like mercury.

Most gallium is obtained as a by-product of the Bayer Process used in the aluminium industry. The starting product is sodium aluminate and sodium gallate dissolved in sodium hydroxide. The gallium is separated in a precipitation process and recovered by electrolysis. Recovery of gallium from mixed metal concentrates may require the development of specific separation processes.

The question we need to ask is "how much is it worth"? Will it be valuable in the context of rare earth discoveries or just another co-product? At the moment, having increased from the long term price range of US$200-$300/kg, it seems to be quoted at > US$600/kg. Grades are reported as a ppm figure (parts per million). One kilogram has 1,000 grams, so it is worth 60¢ a gram. If a company reports grades of 100 grams it is worth $60 in the ground. However, you have to adjust this for the metallurgical recovery and conversion to 99.99% purity for sale to industrial companies. Note that the natural abundance of gallium in the earth's crust is 19 ppm.

The gallium market is small with annual production in the order of 200 tpa. At US$600 kg, this amounts to US$120m p.a. It is predicted to grow but the last time it spiked above US$500/kg, industry went looking for substitutes.

Celsius falls on breakdown of negotiations

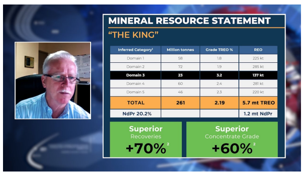
A few months ago Celsius announced a deal with Silvercorp Metals. At the time the transaction looked positive for Celsius shareholders but the share price was still selling at a discount to what was expected to be the final figure. You can put that down to transactional risk. There was no guarantee that the deal would be concluded successfully and in fact, it has been reported that "*The two companies have not agreed on the terms of a definitive agreement in line with those contained in the Term Sheet and currently no negotiation is ongoing*." So, it looks like the deal is dead.

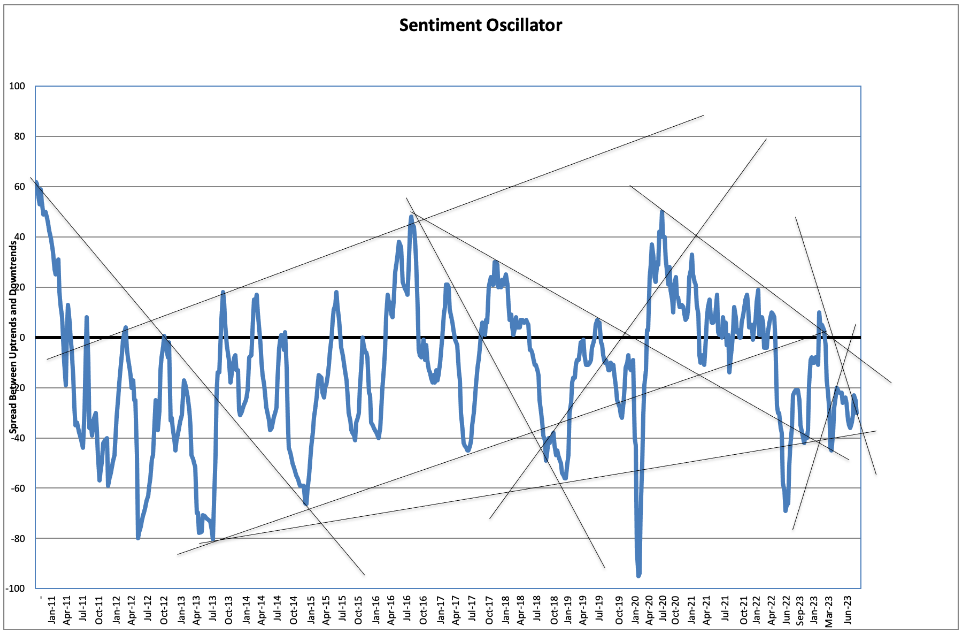
The proposal by Silvercorp to buy the MCB copper project was quite astute at the time, in the pre-permitting stage, knowing that the project had a good chance of being substantially de-risked by the time the acquisition completed. However, it hasn't quite worked out that way for Silvercorp. Celsius shareholders expressed concern that the deal could be improved upon and the Celsius Board has responded accordingly.

The period of exclusivity has expired and it remains to be seen whether Silvercorp are prepared to pay a higher price. In the meantime the shares have come off by more than 50% since the announcement. While it is a kick in the guts for shareholders who were banking on the transaction, the game isn't over. Let us see who else might be interested.

Lindian Commentary

A few people have been concerned about how aggressively the Lindian share price has fallen subsequent to the $35m placement and the announcement of the very good 261 Mt Mineral Resource. Why should this lead to a lower share price and what appears to be breaching of the uptrend support line. I shared my thoughts in an interview last week, the link to which is posted below.





Sentiment Oscillator: Sentiment faltered last week with a number of charts dropping out of uptrends, reflecting the subdued nature of the markets at present.There were 23% (27%) of the charts in uptrend, and 53% (52%) 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. 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		crash downside from wedge	
Metals and Mining	XMM		crash downside from wedge	
Energy	XEJ		edging higher	
Information Technology	XIJ		sideways at highs	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
5EA Advanced Materials	5EA		forming a base, rising gently	boron
92 Energy	92E		new low on placement	uranium
A-Cap Energy	ACB		risen to resistance line	uranium
Alpha HPA	A4N		new high	HPA
Adriatic Resources	ADT		new high	zinc, polymetallic
Advance Metals (was Pacific American)	AVM		back to lows	coal, gold exploration
Alkane Resources	ALK		down	gold
Alicanto Minerals	AQI		steeply higher	base metals, silver, gold
Almonty Industries	AII		weaker	tungsten
Altech Chemical	ATC		new low on placement	HPA, anodes
Anteotech	ADO		new low on placement	silicon anodes, biotech
Alto Metals	AME		at lows with a placement	gold exploration
American Rare Earths	ARR		testing steepest downtrend	rare earths

Antilles Gold	AAU		breached uptrend	gold and copper expl.
Anax Metals	ANX		sideways below 8c	copper
Arafura Resources	ARU		new low	rare earths
Ardea Resources	ARL		testing downtrend	nickel
Aurelia Metals	AMI		back to lows	gold + base metals
Australian Rare Earths	AR3		testing support line	rare earths
Australian Strategi Materials	ASM		steeply higher, then heavy correction	rare earths
Arizona Lithium	AZL		new low	lithium
Azure Minerals	AZS		another surge higher then pullback	nickel exploration
BHP	BHP		down	diversified, iron ore
Barton Gold	BGD		breached uptrend	gold exploration
Beach Energy	BPT		spiked through downtrend	oil and gas
Bellevue Gold	BGL		off its highs	gold exploration
Benz Mining	BNZ		surging out of downtrend	gold
Black Cat Syndicate	BC8		down	gold
BMG Resources	BMG		down	gold exploration
Boab Metals	BML		at resistance line	silver/lead
Calidus Resources	CAI		new low	gold
Caravel Minerals	CVV		testing support line on placement	copper
Carnaby Resources	CNB		testing downtrend	copper
Castile Resources	CST		collapse	gold/copper/cobalt
Cazaly Resources	CAZ		sideways	rare earths
Celsius Resources	CLA		collapse on deal failing	copper
Cobalt Blue	COB		strong surge, then a correction	cobalt
Cyprium Metals	CYM		suspended	copper
Dateline	DTR		down	rare earths
Ecograf	EGR		new low	graphite
Emerald Resources	EMR		rising, new high	gold
Empire Energy	EEG		risen to resistance line	gas
EQ Resources	EQR		placement at a premium	tungsten
Euro Manganese	EMN		new low	manganese
Evolution Energy	EV1		breached downtrend	graphite
Evolution Mining	EVN		off its highs	gold
First Graphene	FGR		down	graphene
Fortescue Metals	FMG		on support line	iron ore
FYI Resources	FYI		down	HPA
Galena Mining	G1A		testing downtrend	lead
Genesis Minerals	GMD		breached downtrend	gold
Genmin	GEN		testing downtrend	iron ore
Gold 50	G50		down	gold exploration + gallium
Great Boulder Resources	GBR		sideways to lower	gold exploration
Group 6 Metals	G6M		down	tungsten
Hamelin Gold	HMG		testing downtrend	gold exploration
Hastings Technology Metals	HAS		bounced off lows	rare earths

Hazer Group	HZR		down on entitlement issue	hydrogen
Heavy Minerals	HVY		down	garnet
Highfield Resources	HFR		down	potash
Hillgrove Resources	HGO		rising gently	copper
Iluka Resources	ILU		heavy fall	mineral sands
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths	IXR		down	rare earths
Jervois Mining	JVR		new low	nickel/cobalt
Jindalee Resources	JRL		at lows	lithium
Kaiser Reef	KAU		sideways through downtrend	gold
Kalina Power	KPO		new low	power station additive
Krakatoa Resources	KTA		secondary downtrend	rare earths
Kingfisher Mining	KFM		testing uptrend	rare earths
Lepidico	LPD		improving	lithium
Lindian Resources	LIN		breaching uptrend	rare earths + bauxite
Lion One Metals	LLO		surge out of downtrend	gold
Li-S Energy	LIS		breached downtrend	Lithium sulphur battery technology
Los Cerros	LCL		on support line	gold exploration
Lotus Resources	LOT		down	uranium
Lucapa Diamond	LOM		testing downtrend	diamonds
Lunnon Metals	LM8		testing uptrend	nickel
Lynas Corp.	LYC		down	rare earths
Mako Gold	MKG		sideways	gold exploration
Marmota	MEU		breached downtrend	gold exploration
Matador Mining	MZZ		down	gold exploration
Mayur Resources	MRL		rising	renewables, cement
Meeka Gold	MEK		rising	gold
Megado Minerals	MEG		breached recent uptrend	rare earths, gold exploration
MetalsX	MLX		down	tin, nickel
Meteoric Resources	MEI		off its high	rare earths
Metro Mining	MMI		rising	bauxite
Midas Minerals	MM1		slump	lithium
Musgrave Minerals	MGV		up on takeover approach	gold exploration
Nagambie Resources	NAG		new low	gold, antimony
Neometals	NMT		breached downtrend	lithium
Newfield Resources	NWF		down	diamonds
Northern Star Res.	NST		down	gold
Nova Minerals	NVA		spiked higher	gold exploration
Orecorp	ORR		rising	gold development
Pacific Gold	PGO		breached short term uptrend	gold exploration
Pantoro	PNR		rising	gold
Panoramic Res	PAN		collapse on placement	nickel
Parabellum Resources	PBL		down - suspended	rare earths
Patriot Battery Metals	PMT		breached uptrend	lithium

Peak Resources	PEK		testing downtrend	rare earths
Peninsula Energy	PEN		collapse	uranium
Perseus Mining	PRU		breached downtrend	gold
Poseidon Nickel	POS		collapse	nickel
Provaris Energy	PV1		spiked higher, then pullback	hydrogen
QMines	QML		testing downtrend	copper
Queensland Pacific Metals	QPM		long term down	nickel/cobalt/HPA
RareX	REE		breached downtrend	rare earths, phosphate
Regis Resources	RRL		collapse	gold
Renergen	RLT		rising gently	gas, helium
Richmond Vanadium	RVT		sideways	vanadium
RIO	RIO		down	diversified, iron ore
Rumble Resources	RTR		secondary downtrend	gold exploration
S2 Resources	S2R		improving	gold exploration
Sandfire Resources	SFR		rising again	copper
Santos	STO		rising	oil/gas
Sarama Resources	SRR		another new low	gold exploration
Sarytogan Graphite	SGA		down	graphite
Siren Gold	SNG		good rise followed by heavy pullback	gold exploration
South Harz Potash	SHP		down again	potash
Southern Cross Gold	SXG		down	gold exploration
Southern Palladium	SPD		down	PGMs
Stanmore Coal	SMR		breaching downtrend	coal
Strandline Resources	STA		collapse on placement	mineral sands
Sunstone Metals	STM		meeting resistance line	gold/copper exploration
Suvo Strategic Minerals	SUV		strong rise out of downtrend	kaolin
Talga Resources	TLG		holding support line	graphite
Tamboran Resources	TBN		down	gas
Technology Metals	TMT		down	vanadium
Theta Gold Mines	TGM		strong rise	gold
Thor Mining	THR		sideways	gold exploration
Tietto Minerals	TIE		still down	gold
Vanadium Resources	VR8		drifting lower	vanadium
Venture Minerals	VMS		down	tin, tungsten
Vintage Energy	VEN		down	gas
Voltaic Strategic Resources	VSR		strong bounce	REO + lithium
West African Resources	WAF		breached downtrend	gold
West Cobar	WC1		down	rare earth + lithium
Westgold Resources	WGX		off its highs	gold
West Wits Mining	WWI		strong rise	gold
Whitehaven Coal	WHC		rising	coal
Xantippe Resources	XTC		down	lithium
Zenith Minerals	ZNC		down	gold exploration
Totals	22%	31	Uptrend	

	53%	75	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 Exploration	**21**	**14.8%**	
Gold	**20**	**14.1%**	
Rare Earths	**17**	**12.0%**	
Lithium	**10**	**7.0%**	
Oil/Gas	**8**	**5.6%**	
Copper	**9**	**6.3%**	
Nickel	**7**	**4.9%**	
Iron Ore/Manganese	**5**	**3.5%**	
Graphite/graphene	**5**	**3.5%**	
Uranium	**5**	**3.5%**	
Silver	**4**	**40.0%**	
Tungsten	**3**	**2.1%**	
Mineral Sands	**2**	**1.4%**	
Vanadium	**3**	**30.0%**	
Zinc/Lead	**2**	**1.4%**	
Coal	**2**	**1.4%**	
Potash/Phosphate	**2**	**1.4%**	
Bauxite	**2**	**1.4%**	

Tin	**2**	**1.4%**	
Cobalt	**1**	**0.7%**	
Diamonds	**2**	**1.4%**	
Other	**10**		
Total	**142**		

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