

Dow down and uncertainty is increasing, but gold is surging and the big diamonds keep coming from Lucapa

The rear guard action to save the Dow has failed. The smart money has moved and everyone else is left wondering why the Dow should fall 2% one night then another 3% the next night. The commentators have blamed China and the falling oil price but the real answer is more obvious. The Dow cannot rise if interest rates go up. Investors have been dancing around the issue for many months and finally the reality has sunk home. The rising dollar and rising interest rates will rein in company profits. That is what the fall in the Dow is telling us as a new trading chapter opens.

Does this make it easier or harder for the Fed to cut rates? Do we assume that the adjustment is currently taking place or will there be another sell-off when it actually happens? Will there be a recovery in the Dow if the Fed says "no, not yet"? Welcome to uncertainty.

The rise in the gold price, while pleasing, is a little anomalous. A rise in interest rates would increase the opportunity cost of holding a zero yield asset, but how much do people think about this? Gold is rising and that is sucking in more interest, particularly from those who think it has been oversold. Historically the gold price has risen in tandem with the oil price, but that nexus must surely be dead now. Perhaps it is because of the uncertainty of the Fed's policy on interest rates and the fear that a delay in a rise will enable inflation to get a head start, and so this is why the gold price has been so strong this week.

Another view might be that commodities are all at 4-5 year lows and it is exactly the time in the cycle that you should go long commodities, but only the truly countercyclical investors would have reached this mindset, not the bulk of money managers.

In Australia, the All Ords continued to fall like a stone, hitting levels not seen since last December. The punishment of oil stocks was prominent as crude hit a six year low but the surprising strength in bullion drew greater interest into the gold sector. There is still considerable debate about what is happening in China and its implications for the rest of the world, but I'm having trouble seeing anything convincing in the press.

Those investors who had a spread of gold stocks in their portfolio will be the only ones smiling today. If traders are looking to switch to stocks that are in uptrends, then there are a few gold stocks showing green (with quite a few more that are about to break out of their downtrends). It could be an interesting month of trading coming up, and even longer. Gold producers will be generating good profits through the action of the gold price and the Aussie dollar.

Lucapa could be on the edge of a hard rock pipe

This week LOM announced another batch of large diamonds from its alluvial mining operation in Angola, further confirming the quality of the deposits. The first four days of processing of Block 8 ore returned stones of 53.2, 21.7, 21.1, 12 and 10.8 carats. Immediately prior to these LOM also recovered a 32.7 carat diamond from Area 31.

The recovery of large stones is excellent news. There is every likelihood that the continuing treatment of Block 8 ore will provide more of the same over the coming weeks, but more than that, the proximity to kimberlitic pipes provides great optimism for the discovery of the hard rock source of these diamonds. Anomaly 259, a confirmed kimberlite pipe, is located only 200m away. This is enormously encouraging. LOM could be that close to a rich pipe, confirmation of which would cause a serious re-rating of the stock. If by chance it is not Anomaly 259, there are three or four other kimberlite pipes less than 2 km upstream that could be feeding into Block 8. Any or all of these could be diamondiferous.

The feedback that everyone seems to give LOM is that alluvials are useful, but the real game is in the hard rock. Well, that hard rock source may be closer than you think. Back in the days of the exploration around Argyle AK1 pipe in Australia, the market frequently went crazy with the speculation around the location of the source pipe. That sort of fever doesn't seem to be a factor today. Maybe the market just wants to see more proof, and then it will get excited.

Agua looks impressive on phosphate projects and strong management skills

We added Agua Resources (AGR) to our chart coverage a couple of weeks ago due to the strong signals coming from the market action. This week we met with the Company for a proper presentation and we were seriously impressed with what we saw.

The potash stocks have been amongst the better performing mining stocks this year, led by Highfield Resources, which ran from 52¢ to \$1.97. Phosphate, another source of fertilizer, hasn't featured in the same way. Back when all mining stocks were in favour there were a number of companies pushing phosphate projects both here in Australia and abroad, but nothing really came of them. The stumbling blocks were the logistics, infrastructure and the need to ship the product to the buyers. So, why are we espousing a phosphate stock now?

AGR brought out a positive preliminary economic assessment (PEA) for its Três Estradas project in Brazil last week. There is nothing unique about this, per se, as

that is what junior companies tend to do. However, AGR has a major advantage compared with other phosphate hopefuls. It can sell all of its output in its home state in southern Brazil. Almost all of the phosrock currently consumed in Rio Grande do Sul is imported. No other company is considering a phosphate operation in Rio Grande do Sul. AGR has an open road in front of it. It is a very simple but sound business concept; import replacement with strong operating margins.

The study assesses a 500,000 tpa SSP project (single superphosphate) with a 15 year mine life at a capital cost of US\$184m. While that capex figure might intimidate most Australian investors today, the Company has a few tricks up its sleeve with regard to financing. Let's assume that funding won't be a show stopper for the time being.

Given that Brazil is the fourth largest consumer of fertiliser in the world, and it accounts for only 3% of global production, there is a very large import replacement opportunity. The world price is expected to remain at around US\$280/t. AGR is expecting operating costs of US\$160/t, making it a lowest cost quartile producer.

Look at the share price chart and you will see that it has been very strong in recent months. This coincides with the 17% and largest shareholder, the Canadian company Sulliden Mining Capital, taking over the driver's seat. Justin Reid, from Sulliden, has recently been installed as the CEO and Executive Chairman. He

seems to be making a real difference to the Company. As we know, there are many projects that never go anywhere due to substandard management. The biggest risk with any junior company lies with management quality. Although it was only the first meeting, what I saw of Mr Reid was very impressive. He brings both experience and financial backing to the table. Tick the management box.

AGR is not a one trick pony, having the Joca Taveres, the Cerro Preto and Porteira projects in the same region. All have strong merit but there is some exciting blue sky potential in the Cerro Preto project that is especially appealing. This is a sedimentary-hosted phosphate system covering an area of 30 km x 5 km. Several layers of marine phosphorite have a combined strike length in excess of 12.5 km and thicknesses of 50m to 200m. The Company believes this is analogous to the western potash fields in Idaho, which supply 5.5 mtpa of phosrock (12% of USA production).

The market capitalisation of Agua is just under \$50m. That places it above the sea of struggling penny dreadfuls, and rightly so. It is evolving into an institutional grade stock. When that happens the price and the capitalisation will move much higher. Look at Highfield which now has a market capitalisation of \$360m today. *Disclosure: After seeing the presentation interests associated with the author purchased shares on market.*

Sentiment Indicator: "New low" was the most frequent entry in the chart comments this week. There are 18% (22%) of the stocks in uptrend and 55% (55%) in downtrend.

Key Indices

Stocks		Trend Comment
All Ordinaries	XAO	Testing downtrend
Materials	XMJ	
Metals and Mining	XMM	down
Energy	XEJ	

Detailed Chart Comments

NB: Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant.

Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	Breached one downtrend	gold exploration
Aeon Metals	AQR	New low	copper + cobalt
Alacer Gold	AQG	Short term uptrend	gold – production
Alkane Resources	ALK	Down, but moving sideways for a bit	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
African Energy	AFR	New low	coal
Agua Resources	AGR	uptrend	phosphate
Alara Resources	AUQ	rising	zinc
Alltech Chemicals	ATC	New high	industrial minerals
Anatolia Energy	AEK	sideways	uranium
Anova Metals	AWV	Crunched down	gold

Argent Minerals	ARD	secondary downtrend	polymetallic
Atlas Iron	AGO	New low	iron ore
Atrum Coal	ATU	Collapse on relisting, rights issue	coal
Aurelia Resources	AIM	New low	gold/base metals
Australian Bauxite	ABX	New low	bauxite
Avanco Resources	AVB	New low	copper
AWE	AWE	New low	oil and gas
BHP	BHP	New low	diversified
Base Resources	BSE	New low	mineral sands
BC Iron	BCI	New low	Iron ore
Beach Energy	BPT	New low	oil and gas
Beadell Resources	BDR	Breaching downtrend	gold
Berkeley Resources	BKY	New high	uranium
Blackham Resources	BLK	breached uptrend	gold
Broken Hill Prospect.	BPL	Testing support	minerals sands
Buru Energy	BRU	Down again	oil
Canyon Resources	CAY	Near lows	bauxite
Carnegie Wave	CWE	sideways	wave energy
Cassini Resources	CZI	New low	nickel/Cu expl.
Chalice Gold	CHN	sideways	gold
Consolidated Tin	CSD	Edging higher	tin
Coventary Resources	CYY	Breached steep uptrend	copper
Convergent Minerals	CVG	downtrend	gold
Cudeco	CDU	Collapse on relisting	copper
Dacian Gold	DCN	breached downtrend	gold exploration
Danakiali	DNK	breached uptrend (was south Boulder)	potash
Doray Minerals	DRM	downtrend	gold
Duketon Mining	DKM	New low	nickel
Eden Energy	EDE	Steeply higher	carbon nanotubes
Endeavour Mining	EVR	Crunched down	gold
Energia Minerals	EMX	New low	zinc
Energy Resources	ERA	collapse	uranium
Evolution Mining	EVN	Trying to hold onto uptrend	gold
Excelsior Gold	EXG	down	gold
First Australian	FAR	New low	oil/gas
Fortescue Metals	FMG	Off its lows	iron ore
Galaxy Resources	GXY	down	lithium
Gascoyne Resources	GCY	Testing downtrend	gold
Geopacific Res.	GPR	Rise halted by long term downtrend	copper/gold exp.
Gold Road	GOR	Crunched down but strong rebound	gold exploration
Goldphyre	GPH	Steep uptrend	potash
Gryphon Minerals	GRY	New low	gold
Herron Resources	HRR	down	zinc
Highfield Resources	HFR	New low	potash
Highlands Pacific	HIG	Testing uptrend	copper, nickel
Hillgrove Resources	HGO	New low	copper
Hot Chili	HCH	down	copper
Iluka Resources	ILU	Turned down	mineral sands
Independence	IGO	New low	gold, nickel
Intrepid Mines	IAU	sideways	copper
Investigator Res.	IVR	Sideways	silver
Karoon Gas	KAR	New low	gas
Kasbah Resources	KAS	New low	tin
KBL Mining	KBL	Breached uptrend	copper/gold/zinc
Kibaran Resources	KNL	testing support	graphite
Kin Mining	KIN	downtrend	gold
King Island Scheel.	KIS	New low	tungsten
Kingsgate Consol.	KCN	testing downtrend	gold
Kingsrose Mining	KRM	breached uptrend	gold
Legend Mining	LEG	Rising on corporate transaction	exploration
Lithium Australia	LIT	breached support line	lithium
Lucapa Diamond	LOM	Breaching downtrend then a pullback	diamonds
Macphersons Res.	MRP	Breached downtrend	silver
Medusa Mining	MML	New low	gold
Merlin Mines	MED	sideways	diamonds
Metallum	MNE	Down	copper
Metals of Africa	MTA	New low	zinc expl/graph.

MetalsX	MLX	red	downtrend	tin, gold
Mincor Resources	MCR	red	Heavy fall, new low	nickel
Minera Gold	MIZ	red	suspended	gold
MMJ PhytoTech	MMJ	green	uptrend	medical cannabis
Mount Gibson	MGX	orange	Base forming	iron ore
MRL Corp	MRF	green	Back to uptrend	graphite
Mustang Resources	MUS	red	New low	diamonds
Newfield Resources	NWF	green	rising	diamonds
Northern Minerals	NTU	orange	Testing downtrend	REE
Northern Star Res.	NST	orange	Drifting lower	gold
Oceana Gold	OGC	orange	Surge out of downtrend	gold
Oklo Resources	OKU	orange	Breaching uptrend	gold expl.
OM Holdings	OMH	red	down	manganese
Orinoco Gold	OGX	green	rising	gold expl'n
Orocobre	ORE	red	New low	lithium
Oz Minerals	OZL	red	down	copper
Paladin Energy	PDN	red	down	uranium
Pacific American	PAK	red	downtrend	coal
Pacific Niugini	PNR	red	Strong recovery	gold
Panoramic Res	PAN	red	down	nickel
Panterra Gold	PGI	orange	Testing downtrend	gold production
Paringa Resources	PNL	orange	Coming back down	coal
Peel Mining	PEX	orange	Steep rise, but correcting now	copper
Peninsula Energy	PEN	green	Holding uptrend	uranium
Perseus Mining	PRU	orange	Strong recovery	gold
Pilbara Minerals	PLS	orange	Breached uptrend	lithium/tantalum
Platina Resources	PGM	orange	sideways	PGMs, gold
Potash West	PWN	red	Steep uptrend broken	potash
Red Mountain	RMX	orange	Sideways	gold exploration
Regal Resources	RER	red	New low	copper
Regis Resources	RRL	orange	rising	gold
Renaissance Min.	RNS	red	New low	gold
Resolute Mining	RSG	red	Crunched down	gold
Reward Minerals	RWD	orange	Testing uptrend	potash
Rex Minerals	RXM	orange	sideways	copper
RIO	RIO	red	New low	diversified
RTG Mining	RTG	red	New low	gold expl.
Rum Jungle	RUM	green	Downtrend breached	quartz
Saracen Minerals	SAR	orange	Off its highs	gold
St Barbara	SBM	green	Off its highs	gold
Sandfire Resources	SFR	green	correcting	copper
Santos	STO	red	New low	oil/gas
Senex Energy	SXY	red	New low	oil/gas
Sheffield Resources	SFX	red	Recovering a little	mineral sands
Silver City Minerals	SCI	green	Very strong rise ahead of drilling program	base metals
Silver Lake	SLR	orange	Testing downtrend	gold
Sino Gas & Energy	SEH	red	New low	gas
Sirius Resources	SIR	red	Short term down	nickel expl.
Southern Gold	SAUI	green	New uptrend	gold
Sthn Hemisphere	SUH	red	down	copper
Stavelly Minerals	SVY	red	New low	copper exploration
Strategic Energy	SEY	red	down	graphite tech.
Sunbird Energy	SNY	red	New low	gas/CBM
Sundance Energy	SEA	red	New low	oil/gas
Syrah Resources	SYR	red	New low	graphite
Talga Resources	TLG	red	New low	graphene
Tap Oil	TAP	red	New low	oil/gas
Tiger Resources	TGS	orange	Strong bounce from lows	copper
Torian Resources	TNR	green	rising	gold expl'n
Toro Energy	TOE	red	down	uranium
Triton Minerals	TON	red	Turned down	graphite
Unity Mining	UML	green	Uptrend, but pullback	gold
UraniumSA	USA	red	Secondary downtrend	uranium
Valence Industries	VXL	red	down	graphite
Venture Minerals	VMS	red	New low	tin, iron
Vimy Resources	VMY	orange	testing uptrend	uranium

Westwits	WWI		Rising again	gold exploration
Western Areas	WSA		New low	nickel
Wild Horse Energy	WHE		uptrend	potash
Totals	18%	27	Uptrend	
	55%	81	Downtrend	
		147	Total	

Weighting of sectors represented in company charts (approx.)

Gold	32 (22%)
Copper	20 (15%)
Oil/gas	11 (8.0%)
Gold exploration	10 (6.5%)
Uranium	8 (5.4%)
Graphite	7 (5.1%)
Potash/phosphate	7 (4.4%)
Nickel	6 (4.4%)
Coal	5 (3.6%)
Iron ore	4 (2.9%)
Diamonds	4 (2.9%)
Tin	4 (2.9%)
Mineral Sands	4 (2.9%)
Zinc	5 (2.2%)
Silver	3 (2.2%)
Lithium	3 (2.2%)
Bauxite	2 (1.5%)
Other	11
Total	147

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.

Disclaimer and Disclosure: This Research Report has been prepared exclusively for Far East Capital clients and is not to be relied upon by anyone else. In compiling this Commentary, we are of necessity unable to take account of the particular investment objectives, financial situation and needs of any of our individual clients. Accordingly, each client should evaluate the recommendations obtained in this Commentary in the light of their own particular investment objectives, financial situation and needs. If you wish to obtain further advice regarding any recommendation made in this Commentary to take account of your particular investment objectives, financial situation and needs, you should contact us. We believe that the advice and information herein are accurate and reliable, but no warranty of accuracy, reliability or completeness is given and (except insofar as liability under any statute cannot be excluded) no responsibility arising in any other way for errors or omissions or in negligence is accepted by Far East Capital Limited or any employee or agent. For private circulation only. This document is not intended to be an offer, or a solicitation of an offer, to buy or sell any relevant securities (i.e. securities mentioned herein or of the same issuer and options, warrant, or rights with respect to or interests in any such securities). We do not guarantee the accuracy or completeness of the information herein, or upon which opinions herein have been based. At any time we or any of our connected or affiliated companies (or our or their employees) may have a position, subject to change, and we or any such companies may make a market or act as principal in transactions, in any relevant securities or provide advisory or other services to an issuer of relevant securities or any company therewith. Unless otherwise stated all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice. This document may not be reproduced or copies circulated without authority. Far East Capital Ltd and associated parties are shareholders in Agua Resources Ltd and Lucapa Diamond Company. Copyright © Far East Capital Ltd 2015.