

“Flash crash” patched, but mining shares are still falling. The diamond sector is having a revival, though.

What just happened over the past six weeks?

The powerful 7.8% rebound of the All Ords from a low of 5,121 on 13/10/14, to 5,522 on 3/11/14, may suggest to some that the “flash crash” was an apparition and a mistake, but to do so would be to ignore the important signal that it gave.

At the low in October, it was actually 9.7% below the peak of 5,672 achieved in August. It rebounded to be within 2.6% of that high, breaking the steep downtrend in the process. However, there is every reason to believe this may be a trap.

At the beginning of October we saw a window into the future. The markets reacted wildly and as fear and volatility charged out of the gates we saw rapid and successful efforts to placate the markets. We were told that interest rates wouldn't really go up prematurely and that the Fed was trying to limit the rise of the US dollar. The markets, particularly in the US, have responded with such vigour that even the news of the QE termination didn't phase investors.

As October progressed the spotlight shifted to the anaemic European economy and the oil price, but few investors have understood that all the factors point to an increasing divergence between the US and the rest of the world, and this must lead to a rising US dollar. The likelihood is that the events of October will revisit us early in the New Year and markets will be crunched again.

Abconomics plus QE mean higher US\$

Was the US QE program successful? Perhaps it was, given that the US economy is growing again, but could the same result have been achieved sooner and more successfully using other policies? The question is academic now but the growth in the US has led to Japan adopting a similar program and there are even suggestions that Europe will do the same.

When Japan surprised the markets with this development last week the Yen fell out of bed. This works for stimulating Japan's exports and is inflationary – just what Abe is looking for. The same result would please Europe if that was the key for getting the wheel turning again. Investment bankers and stock market punters in both jurisdictions would be enthusiastic as it results in a transfer of wealth to these players. We have already seen the great strength in the Nikkei. But think this through. The US dollar will only go higher as a result. That is not what the markets want to see just now.

The bleeding obvious

There continues to be wholesale departure from resource stocks with many of the companies looking like walking dead. The collapse of iron ore producer share prices is creating massive wealth destruction with no bottom in sight. Gold companies are providing continual pain as there is a complete lack of confidence in the gold price. The performance of share prices is akin to that at the depths of the GFC in February 2009, but without any suggestion that the world is falling apart. Could we be seeing another stunning buying opportunity? Probably, but who cares?

Yes, markets do move in cycles and if we wait long enough our time will come again, but who has that much time to waste – or the patience? Different circumstances require a different approach to investing, irrespective of where we are in the cycle. Investors in the mining sector need to understand that as each year passes, the importance of resources in the world economy declines. Technology and general industrial activity become more and more important in the minds of fund managers, who become increasingly less committed to mining.

Uranium market is holding its own

Uranium shares are holding their own at present with the spot uranium prices pushing above US\$37/lb. The pessimism has faded as investors realise that irrespective of Fukushima, nuclear power will continue to be an important source of base load electricity going forward. There will always be an anti-nuclear lobby, as there will always be ferals, but we still have to progress.

However, before you pile back into uranium stocks you should be realistic in your expectations. There are many low-grade situations that were heavily promoted in the past but will never “cut the mustard.” Only the best projects out there will advance to production. Certainly you can forget anything that is down around the 200-400 ppm range. Forget anything that is in an exotic jurisdiction. Grade and costs are the key determinants. Generally, ISL projects will continue to offer the lowest capital risks and better returns. High-grade conventional projects i.e. > 2,000 ppm will attract financing. One that we recently saw that looks very encouraging has enormous grades of > 20,000 ppm. NexGen Energy is listed in Canada with a Canadian project, but there is a chance this may seek a listing in Australia next year. Its about time ASX investors had access to serious grade.

Diamonds are coming back in to focus

With conventional resource sectors such as gold, coal, iron ore and most others out of favour, investors should be looking for situations that are not vulnerable to large institutional money movements that swamp the markets. Specialty products such as graphite, tungsten and vanadium could be candidates but there is very little familiarity with these amongst analysts, the learning curve is very steep and the market is rather opaque.

If you are going to go exotic, perhaps the most titillating commodity is diamonds. There is no doubting that finding and commissioning a commercial diamond mine is about 1,000x more difficult than a gold mine, and there would be very few investors who have successfully backed a diamond exploration play that had a happy ending. Nevertheless, diamond stocks periodically come back into focus about once every decade, in each macro cycle. It looks like the sector may be having another outing.

Very few investors understand diamonds and even amongst mining promoters the knowledge base is undeniably very thin. Optimism and enthusiasm is rife and the lack of experience provides fertile ground for hyperbole to go unchallenged in many cases. Yet the rewards are enormous for those who get it right.

I have been in and around diamonds over the last 30 years both as an analyst and a producer through an ASX-listed company called County Diamonds, which operated successfully on South African alluvials near Kimberley and Bloemhof, but which ultimately didn't make any money. Nevertheless, it was instructive. Subsequently I was appointed chairman of Tawana with the task of extracting that company from diamond projects in Africa which were never going to turn a profit.

The first time I saw the diamond sector get a real kick along was in the late 1970s, inspired by the discovery of the Argyle diamond field in WA. The AK1 pipe, mostly owned by CRA and Ashton Mining, supported the development of a world-class diamond mine. The exploration boom eventually led to the discovery of pipes and through the entrepreneurial efforts of Miles Kennedy, the development of successful mines in the Ellendale region. The Merlin diamond mine was a third success story for Australia with a mine that operated four years from 2000 to 2004, in the Northern Territory. Other efforts to find diamonds have generally failed, with two of the most notable unsuccessful ventures being the efforts of Cambridge Gulf Diamonds and Diamond Joe.

Africa has been a more exotic place in which to explore for diamonds, and it has always had the ability to provide more tangible exploration success for the juniors, but taking the project through to commercial success has always been the challenge. Having diamonds in the ground is not an automatic licence to make money. Auridiam Consolidated (River Ranch diamond pipe in Zimbabwe), County Diamonds (alluvials in South Africa) and Namakwa Diamonds (coastal diamonds in South Africa) have all been casualties.

So, if the uncertainties are so pronounced, why am I taking up your time on the subject of diamonds? Well, the stock market is all about perceptions and trends. At the speculative end it is all about optimism and possibilities. There are clear signs that interest in diamonds is increasing. More companies are coming to the market with projects so you will start to hear more news flow. We already have two diamond stocks under chart coverage – Lucapa Diamond Company and Kimberley Diamonds. Lucapa is just blossoming as a producer while Kimberley is in the twilight years of the Ellendale mine. We have added two more this week – Newfield Resources (exploration in Sierra Leone) and OGI (acquiring an alluvial exploration project in Mozambique). We are aware of others that we may add in subsequent weeks.

Every bull market in a sector requires a champion to lead the way, to show what can be achieved. There will always others that seek to ride on the back of that success. The most recent example of this happening, in a specialised sector, was the amazing performance of Syrah Resources with its graphite success in Mozambique. Syrah has been the pied piper leading the pack (not necessarily rats).

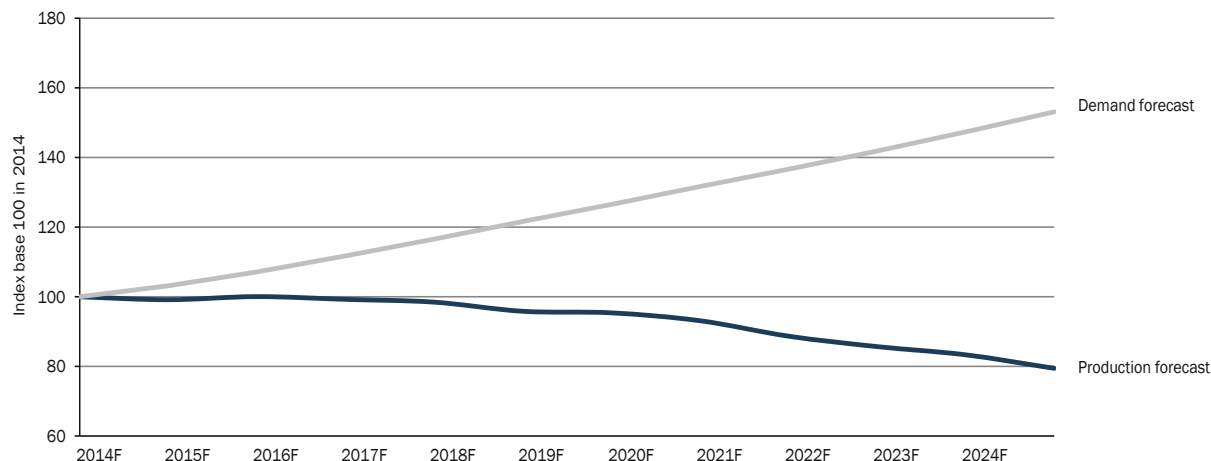
We see Lucapa as the one to watch in the diamond sector this time around as it is the most advanced in its work programs, it has both high value alluvial diamonds and it has found diamondiferous kimberlite pipes in Angola. It is expecting the awarding of a mining licence any week now. The driving entrepreneur behind Lucapa has been Miles Kennedy, who already has the notably commercially successful Ellendale Diamond Mine to his credit. We are sufficiently confident about this one that interests associated with the author have invested substantial funds buying shares in Lucapa. We will add to commentary on the diamonds stocks in coming weeks.

In the meantime have a look at the chart on the following page, lifted from a De Beers presentation made recently. How many commodities show such a compelling picture of favourable divergence between supply and demand? A good diamond deposit is essential for any individual company, but a fundamentally supportive industry thematic is essential to attract the generalist investors into the market.

Changes to our coverage list

We have swept the broom through the list of charts we cover, deleting Azumah Resources, Bannerman, Centaurus, Metminco, Middle Island, Robust Resources, Tigers Realm, Troy Resources and World Titanium. In their place we have added Excelsior Gold (gold north of Kalgoorlie), Geopacific Resources (copper/gold in Cambodia), Newfield Resources (diamonds in Sierra Leone), OGI Group (diamonds in Mozambique) and Toro Energy (uranium in WA).

SUPPLY/DEMAND CURVE BASED ON MCKINSEY FORECASTS



Source: McKinsey Global Institute; McKinsey & Company, Perspectives on the Diamond Industry, September 2014

Sentiment Indicator: The bears are strongly in control with only 10% (14%) of the stocks now in uptrend and 69% (58%) 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.

Stock			Trend Comment (updated comments in bold)	Main Interest
All Ordinaries	XAO		breached downtrend	
ABM Resources	ABU		down	gold exploration
Alacer Gold	AQG		New low	gold – production
Alicanto Minerals	AQI		New low	gold exploration
Alkane Resources	ALK		Testing steepest downtrend	gold, zirconia
Alliance Resources	AGS		Forming a long wedge	uranium
Acacia Resources	AJC		New low	coal
African Energy	AFR		Testing downtrend	coal
Alara Resources	AUQ		New low	zinc
Altona Mining	AOH		Breached downtrend	copper
Amex Resources	AXZ		down	iron sands
Anatolia Energy	AEK		lower	uranium
Anova Metals	AWV		But pulling back with the gold price	gold
Ascot Resources	AZQ		down	iron ore
Atlas Iron	AGO		New low	iron ore
Attila Resources	AYA		down	coal
Atrium Coal	ATU		Bounced but still under downtrend influence	coal
Aura Energy	AEE		down	uranium
Aurelia Resources	AIM		Short term down	gold/base metals
Australian Bauxite	ABX		Holding uptrend	bauxite
Avanco Resources	AVB		down	copper

AWE	AWE	■	Hitting resistance	oil and gas
BHP	BHP	■	New uptrend	diversified
Base Resources	BSE	■	Still down	mineral sands
Bathurst Coal	BRL	■	New low	coal
BC Iron	BCI	■	New low	Iron ore
Beach Energy	BPT	■	down	oil and gas
Beadell Resources	BDR	■	New low	gold
Berkeley Resources	BKY	■	down	uranium
Blackthorn Resources	BTR	■	Fallen to trend line	copper
Buru Energy	BRU	■	Still down	oil
Carnegie Wave	CWE	■	Rising again	wave energy
Cassini Resources	CZI	■	down	Nickel/Cu expl.
Chalice Gold	CHN	■	Down	gold
Cleveland Mining	CDG	■	down	gold
Consolidated Tin	CSD	■	Testing uptrend	tin
Crusader Resources	CAS	■	down	gold exploration
Cudeco	CDU	■	Still in downtrend	copper
Dacian Gold	DCN	■	Short term down, hitting support	gold exploration
Doray Minerals	DRM	■	down	gold
Endeavour Mining	EVR	■	down	gold
Energy Resources	ERA	■	Just holding trendline	uranium
Evolution Mining	EVN	■	Still in downtrend	gold
Excelsior Gold	EXG	■	down	gold
Finders Resources	FND	■	Back to trendline	copper
First Australian	FAR	■	Coming off its peak	oil/gas
Fortescue Metals	FMG	■	New low	iron ore
Galaxy Resources	GXY	■	Bounced off lows	lithium
Geopacific Resources	GPR	■	sideways	Copper/gold exp.
Gold Road	GOR	■	Uptrend breached. ST down	gold exploration
Gryphon Minerals	GRY	■	down	gold
Highfield Resources	HFR	■	Testing downtrend	potash
Highlands Pacific	HIG	■	A less steep downtrend	copper, nickel
Hillgrove Resources	HGO	■	Gently higher	copper
Hot Chili	HCH	■	down	copper
Iluka Resources	ILU	■	Down again	mineral sands
Independence	IGO	■	On support line	gold, nickel
Investigator Res.	IVR	■	down	silver
Karoo Gas	KAR	■	down	gas
Kasbah Resources	KAS	■	New low	tin
KBL Mining	KBL	■	down	copper/gold/zinc
Kibaran Resources	KNL	■	Short term down – resting on support	graphite
Kimberley Diamonds	KDL	■	Rising again	diamonds
Kingsgate Consol.	KCN	■	down	gold
Kingsroze Mining	KRM	■	down	gold
Lambo Resources	LMB	■	down	graphite
Laramide Resources	LAM	■	Still down	uranium
Lucapa Diamond	LOM	■	sideways	diamonds
Lynas Corp.	LYC	■	New low	rare earths
Macphersons Res.	MRP	■	down	silver
Medusa Mining	MML	■	down	gold
Metals of Africa	MTA	■	New low	zinc expl/graph.
MetalsX	MLX	■	down	tin, gold
Mincor Resources	MCR	■	weaker	nickel
Minera Gold	MIZ	■	sideways	gold
Mount Gibson	MGX	■	Back to lows	iron ore
Mutiny Gold	MGY	■	down	gold
Northern Minerals	NTU	■	Strongly higher	REE
Northern Star Res.	NST	■	Breached uptrend	gold
Norton Gold Fields	NGF	■	sideways	gold
Oceana Gold	OGC	■	down	gold
Oklo Resources	OKU	■	sideways	gold expl.
OM Holdings	OMH	■	Strong surge, but hitting resistance	manganese
Orbis Gold	OBS	■	uptrend	gold expl'n
Orinoco Gold	OGX	■	Breached uptrend	gold expl'n
Orocobre	ORE	■	Breached downtrend	lithium
Oz Minerals	OZL	■	down	copper
Paladin Energy	PDN	■	down	uranium

Pacifco Minerals	PMY	down	gold exploration
Pacific Niugini	PNR	Sideways through downtrend line	gold
PanAust	PNA	down	copper/gold
Pancontinental Pet.	PCL	down	oil/gas expl.
Panoramic Resources	PAN	Back to downtrend	nickel
Panterra Gold	PGI	down	gold production
Paringa Resources	PNL	Bounce within downtrend	coal
Peel Mining	PEX	New low	copper
Peninsula Energy	PEN	sideways	uranium
Perseus Mining	PRU	down	gold
Platina Resources	PGM	down	PGMs, gold
Red Mountain	RMX	Down	gold exploration
Regal Resources	RER	Testing downtrend	copper
Regis Resources	RRL	Still down	gold
Renaissance Min.	RNS	Breached downtrend	gold
Resolute Mining	RSG	Down again	gold
Rex Minerals	RXM	Downtrend again	copper
RIO	RIO	Breached ST downtrend	diversified
RNI	RNI	down	Copper expl.
RTG Mining	RTG	down	gold expl.
Saracen Minerals	SAR	Short term down	gold
St Barbara	SBM	down	gold
Sandfire Resources	SFR	down	copper
Santos	STO	down	oil/gas
Senex Energy	SXY	down	oil/gas
Sheffield Resources	SFX	Uptrend breached	mineral sands
Silver Lake Resources	SLR	downtrend	gold
Sino Gas & Energy	SEH	rising	gas
Sirius Resources	SIR	softer	nickel expl.
South Boulder	STB	Breached downtrend	potash
Sthn Hemisphere	SUH	Trying tp hold onto uptrend	copper
Stavely Minerals	SVY	down	Copper
Strike Energy	STX	down	gas
Sunbird Energy	SNY	Bouncing off low	gas/CBM
Sundance Energy	SEA	Resting on support line	oil/gas
Syrah	SYR	down	graphite
Talga Resources	TLG	Testing uptrend	graphene
Tap Oil	TAP	Turning down	oil/gas
Tawana Resources	TAW	Down heavily	iron ore
Tiger Resources	TGS	down	copper
Toro Energy	TOE	Heading lower towards support line	uranium
Trafford Resources	TRF	Forming a base	tin exploration
Triton Minerals	TON	breached uptrend	graphite
UraniumSA	USA	Secondary downtrend	uranium
Valence Industries	VXL	Testing uptrend	graphite
Venture Minerals	VMS	New low	tin, iron
Westwits	WWI	Back to lows	gold exploration
Western Areas	WSA	down	nickel
Totals	10%	14	Uptrend
	69%	93	Downtrend
		135	Total

Split of Companies Charted Amongst Commodities (approx.)

Gold	28 (21%)
Copper	19 (14%)
Oil/gas	13 (9.6%)
Gold exploration	12 (8.9%)
Uranium	10 (7.4%)
Iron ore	7 (5.2%)
Nickel	7 (5.2%)
Coal	6 (4.4%)
Graphite	6 (4.4%)
Tin	5 (3.7%)
Diamonds	4 (3.0%)
Zinc	2 (1.5%)
Silver	2 (1.5%)
Other	14

Total 135

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.

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