Big miners on right trend

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What the charts say about BHP, Rio, Fortescue and Newcrest.

By Regina Meani, Your Technical Analyst

Recent global events have not left the Australian sharemarket unmarked, but the overall effects for some stocks were minimal. A review of the share price charts of BHP Billiton, Rio Tinto, Fortescue Metals Group and Newcrest Mining shows there were already signs for a correction or pullback in their prices ahead of recent disasters.

Here are the four charts and analysis. *(Editor's note: The ASX Charting Library has definitions on charting terms used in this story.)*

1. BHP Billiton

BHP Billiton Ltd monthly chart - Jan 1986 to Jan 2010

The world's largest diversified resources group holds significant positions in major commodity businesses. These include aluminium, energy coal and metallurgical coal, copper, manganese, iron ore, uranium, nickel, silver, and titanium minerals. BHP Billiton also has interests in oil, gas, liquefied natural gas and diamonds. It has more than 40,000 employees in more than 100 operations, across more than 25 countries.

The share price has enjoyed a strong upward path from the mid-1970s and looking from a longer-term perspective we find strong momentum similarities to both the early 1980s and from 1989 to 1990, when the price paused as it approached resistance levels and pulled back to consolidate its position.

Although there was a deeper pullback in the early 1980s, we believe the current action resembles more closely the late 1980s when the price oscillated in a 20 per cent range before continuing an upward path. The current pause was instigated early last year when the price first tackled the peak-zone resistance in the $45–50 range.

As the phase has progressed it has seen the price churn between $36 and $48 with a strike towards the peak on April 11 at $49.81. The short-term momentum peaked at that point and the price has reacted back within its previous range. More oscillations may develop with tighter guides on an upward slope, between $45 and $51, as the price recovers its near-term momentum. A breakaway through $51 would signal the next move higher, towards $53 and $56, potentially $60 and possibly significantly beyond.

The risk would be a drop beneath $42, which may delay or threaten the return to the upward path.

2. Rio Tinto

Rio Tinto Ltd monthly chart - Jan 1986 to Jan 2010

Discovering, mining and processing the earth's mineral resources across the globe have established Rio Tinto as one of Australia's leading mining conglomerates. The company's major products include aluminium, copper, diamonds, energy products, gold, industrial minerals (borates, titanium dioxide, salt and talc), and iron ore. It is mainly focused on Australia and North America, but has significant businesses in South America, Asia, Europe and southern Africa.

Like BHP Billiton, Rio Tinto has enjoyed a strong upward path from the 1970s, albeit a far more volatile one. The price reached close to $125 in mid-2008, only to collapse the same year to $23.59.

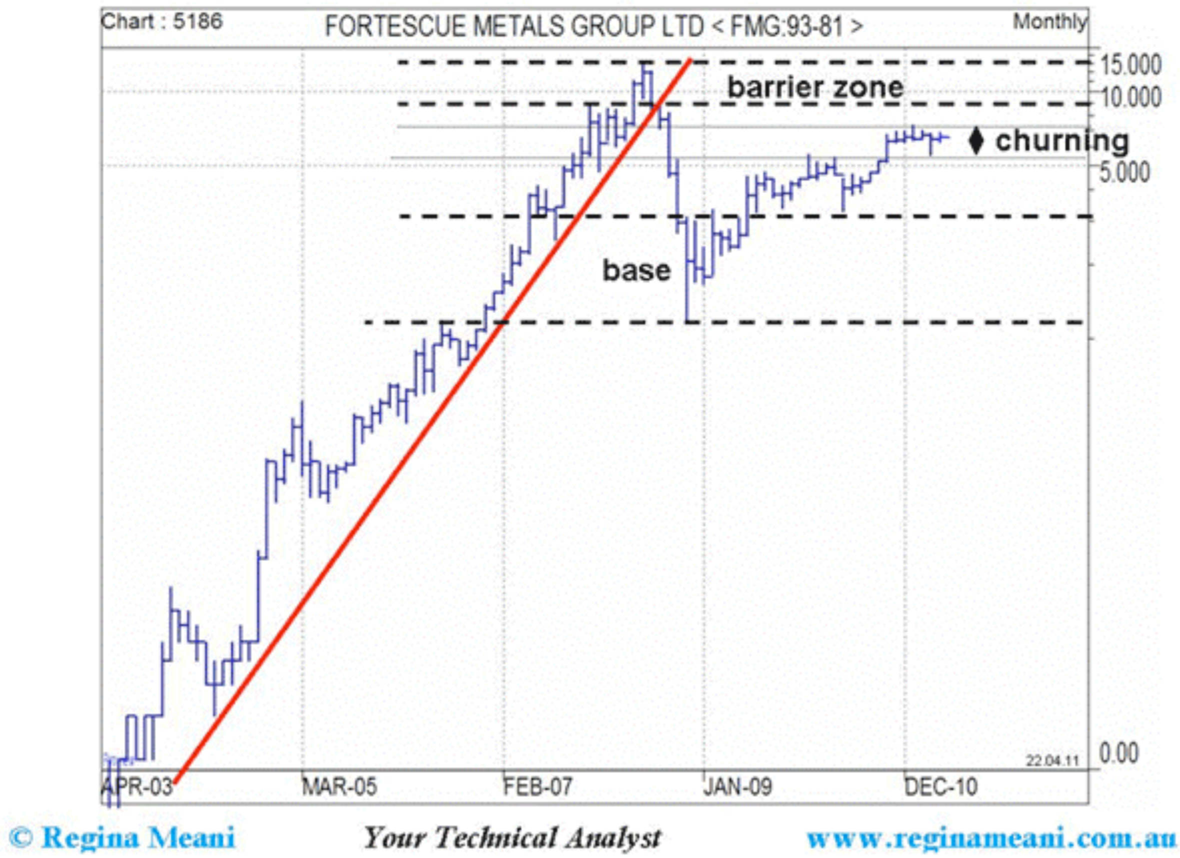
As the price spiked into reversal in December 2008, momentum swung into the positive and supported a rally and broadening of the phase, which led to a stronger recovery and carried the price back to $80 by January 2010. The steep rise sapped momentum and the price stalled in resistance, oscillating sideways before selling off to support around $58 in May. Again spiking into recovery, the price launched itself higher and through the $80 barrier at the end of last year, but the tax on momentum was too high and the price stalled again around $88, which continues to present a barrier.

We expect this situation to continue over the short term but are encouraged by the longer-term positive forces at play. The entire action from early 2006 until September 2010 formed a large diamond pattern which, while a reflection of uncertainty during their development, once finalised have powerful longer-term implications.

The upward break through $75 last September has made an initial upward break from the pattern. As the price wrestles with its next barrier around $88, there is likely to be more churning in the $76–90 range ahead of tackling the final barrier for the pattern around $95. Once clear, the next major advance for the shares would be triggered towards the peak and beyond.

The danger to this scenario would be a fall below $75 signalling a deeper setback within the long-term upward trend.

3. Fortescue Metals Group



Fortescue Metals Group Ltd monthly chart - Apr 2003 to Dec 2010

The company's byline is "the new force in iron ore" and it has become one of the world's largest producers and sea-borne traders of iron ore. Fortescue is focused on the Pilbara region of Western Australia, and its iron ore is an established product for more than 30 international steel mills. Its major projects are at Christmas Creek and Cloud Break.

Fortescue said that in its first full year of operations it mined, railed and shipped more than 27 million tonnes of iron ore to China.

Starting out at 1 cent in 2003, the price spiralled to a high at $13.15 in June 2008. As momentum stretched, the price exhausted its upward run and formed a top during 2008, breaking down in September to simultaneously reverse the upward trend. The price suffered a rapid decline to locate support at $1.16 a few months later, and then rebounded quickly to form a base.

Breaking higher in June 2009, the shares began a new upward path but encountered resistance from the former top around $5.50 early in 2010, which halted the advance. Pushing sideways, the price lacked the momentum to force a break higher and slumped towards base support around $3.25 in the middle of last year. On recovery, the price forged higher and through the previous barrier around $5.50, to extend its run towards its $6.75–7.00 objective.

Early in November the price reached $6.90 and experienced an extreme shift in momentum. It reacted sideways, churning in a band between $6.20 and $7.00 until spiking down on March 10 (the day before the Japanese earthquake), tipping to a double turning point at $5.50 on March 15 and 17. The price has returned to its previous sideways action between $5.70 and $7.00 as it attempts to recover momentum for another move higher, but the action is threatened by uncertainty and a fall below $5.50 could produce a more severe setback.

Over the near term, a rise above $7 would be considered favourable for an advance towards $7.70–$8.00 and potentially higher.

4. Newcrest Mining

Newcrest Mining monthly chart - Jan 1986 to Jan 2010

In terms of market capitalisation, production and reserves, Newcrest Mining is rated one of the world's top 10 gold mining companies and is Australia's largest producer. It has six operating mines: Cadia Hill and Ridgeway in Orange, NSW; Telfer Open Pit and Telfer Underground in the Pilbara region of Western Australia; Cracow in the Gladstone region of Central Queensland; and Kencana in Indonesia.

The company is also exploring for gold and gold-copper deposits in Australia, Indonesia, Fiji, the United States, Canada and Peru.

The share price is underpinned by strong upward momentum, with the recent drop towards $35 in March a return to the support trend in the chart.

If we follow the history we find that from a low at $1.13 in 1997 the price advanced along a strong upward path. In reaching $40.50 in March 2008, momentum reached extremes and a significant correction to the upward path ensued, with the price falling to $16.55 by the following October. The price rebounded and in the later stages of 2009 settled into an oscillation range between $30 and $40.

Breaking free of this range in September 2010 and clearing the previous peak, the upward path carried the shares higher into the initial target range between $43 and $46. But the move sapped momentum, the price halted at $43.71 in November and a minor top formed. Breaking down early in January, the price tested the $35–36 area support, producing a one-day reversal at $35.15 on March 17. This initiated more volatility in the $35–40 range.

Jumping higher at the beginning of April, the push appears to have lifted the volatility range, which may now see the price swing between $37 and $42 as it rebuilds its shorter-term momentum. When the next step higher occurs, the price would head into the $50–60 range but with a significantly higher potential. A fall below $37 may see the price slip back to the more critical support level around $35.

About the author
Regina Meani is a freelance consultant in market analysis. She writes reports for research companies and broking houses, and regular columns in the financial press, and often appears in other media forums. She produces a weekly newsletter, *Charting Perspectives*, for Stock Resource, a leading investment newsletter on resource companies. Her company, Your Technical Analyst, provides private tutoring and larger seminars, training investors and traders in market psychology, CFDs and shares, and technical analysis.

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