

In the rare earths business, a little gold can come in handy – as, no doubt, Alkane has found out

☒ There's nothing like a little diversification, especially if times are tough – which, in the rare earths business, they are right now. Moreover, as Alkane Resources (ASX:ALK) noted in its most recent quarterly report things are not too flash at present in the zirconium and ferro-niobium markets, either, with those two streams part, with REE, of its Dubbo project.

Investor Intel has as one of its main strengths its coverage of the rare earths sector. But I want to draw one or two comparisons between the rare earth sector and the gold business. And the case of Alkane Resources is probably as good an example as you can get – and, perhaps, one of the only ones.

(I must stress here that these are my views alone. Alkane management may or may not agree with them. But it seems to me that perhaps we have seen that company's two streams – REE/zirconium/niobium on the one hand, gold on the other, as really two different stories. But they may be, in terms of maintaining a stable corporate ship, wrapped up together.)

One point of comparison is that there's no sign of there being a limit to the amount of REE available. Just one look at the rare earth companies reported on here at Investor Intel shows that: just add up the combined resource statements by all the non-China players. And then we have been told by the Japanese that there are vast sources of REE under the ocean floor.

But gold? The Nikkei news service today, in a report on how

gold mining is being ramped up in China, makes the point that something around 175,000 tons of gold have been mined over the past 4,000 years. (How this was worked out beats me, but let's run with that estimate.) Then it states the known world gold reserves total slightly less than 50,000 tonnes. No, don't heave a sigh of relief that, whew, we have at least another 1,000 years of supply left. According to the Nikkei, at the present rate of production that global resource could be mined out in between 15 and 17 years.

And what is going to happen between now and then, if you accept that rather gloomy scenario? I suspect gold mining will last a good deal longer but there is no doubt it is getting harder to find gold and more expensive to mine it. According to Incrementum in Liechtenstein, miners between 1830 and 1920 produced gold at an average rate of 22 grams for every ton of ore extracted. Now the average grade is 0.8 grams a tonne.

Moreover, some of the leading producer countries are seeing marked declines in output: South Africa is the most dramatic example of that, but Australia, Canada and the United States have their best gold days behind them. China looks like it is ensuring it heads the same way as it ramps up production at rates far in excess of any new gold discovery.

Increasingly, too, the world will look to mining producing gold as a by-product (of copper, for example) as primary gold output declines.

Another point of comparison with rare earths is pricing. We all remember the stratospheric prices being paid in 2011 for REE and are only too well aware of what those same prices are today.

Since its 2011 high of \$1920/oz, gold has fallen by around 32.5%, and most of that in 2013 and into 2014. In fact, last June I was writing a piece for this site on a day when gold was at \$1233/oz but it is, as this is being written, now

sitting at \$1295/oz. Would that rare earths prices fallen by only 30% and were now still returning profits to all but the highest-cost miners.

Back after the 1980 boom, there was one period when, in just over two sessions, gold tumbled 17.6%. As Crocodile Dundee might say, now that's a fall.

The other thing I have noticed in recent days is, in Australia at least, that cashed-up mining companies are buying up gold projects that are for sale. That doesn't sound like a depressed market sector to me.

China is still buying gold. There is growing expectation that the elections in India will result in a government that will help create a stronger economy; if that happens, expect Indians to have more money to put some more gold aside for a rainy day.

So this brings us back to Alkane. Its recently developed gold mine in New South Wales has a resource in the ground of 901,000oz. According to its latest presentation, the all-in cash cost of production is A\$1,000/oz (about US\$940) which is a comfortable place to be with the metal just under \$1,300.

And, until rare earths pick up, gold is no doubt a comfortable place to be for Alkane.