Volatility, low interest rates, risk of deflation and Chinese REE defiance of WTO

InvestorIntelReport: The markets continued to be marked by volatility in the week, ending on January 9 due to several reasons including continuously declining oil prices, heightened fears of international terrorism and lower wages – as has emerged from labor market data released by the US Government. In Europe, fears of deflation and a Greek exit from the Euro added to the market jitters. Greeks will be heading to the polls in less than two weeks and pollsters are unanimous in predicting that Leftist opposition leader Alexis Tsipras will defeat the Centrist Antonis Samaras. Greek citizens seem confident that a victorious Left gives them the best chance for economic recovery; however, the plan includes Greece's departure from the Euro currency, which is sure to add to volatility in European – and world – markets. Germany, meanwhile, has been so concerned about keeping inflation in check that it now risks deflation – a problem that also looms over Japan. Meanwhile, tensions between Ukraine and Russia continue, maintaining a heightened risk of conflict escalation. The presidents of France and Russia, Francois Hollande and Vladimir Putin, are expected to meet the President of Ukraine by the end of this week to diffuse tensions, possibly leading to a repeal of some sanctions, which should be well received by European markets.

In the United States, investors could grow concerned by stagnant wage levels but it may also persuade the Federal Reserve to maintain low interest rates in order to reduce the risk of deflation (meaning no growth) in the United States as well. The collapse of oil prices continues to defy market fundamentals – it has simply been too fast – and it appears to be politically motivated –perhaps to hurt Russia, Venezuela and Iran. Such is the general background against which the first 2015 season of quarterly earnings reports shall begin next week. The general market summary for the week ending on January 9 is not great but it is not bad either: futures on Wall Street turned upward (+ 0.20% to the S&P 500 and the Nasdaq + 0.35%). The US Dollar was up with the euro / dollar now standing at 1.1782, close to a nine-year minimum. InvestorIntel members overall dropped 2.93% last week and there were no major market fluctuations. The Graphite sector dropped 1.33% and the Agribusiness sector was rather steady losing only 0.32%. The gold and precious metals sector was also rather steady as the sector (based on InvestorIntel members) lost only 0.31%.

Some of last week's rare earth sector highlights include US Rare Earths' ('USRE', OTCBB: UREED), will focus its efforts on developing a europium-rich rare earth deposit based on 'dark monazite' and that production should begin by late 2017. Last week, there was also speculation on how China would respond to the WTO ruling demanding that export tariffs for rare earths to be dropped. Following its conviction before the World Trade Organization (WTO), China has abolished its system of fixed quotas for rare earths. The measures also concern export quotas of tungsten, molybdenum and fluorspar. In other words, the elimination of export quotas could mean that supply of REE's for buyers outside of China will continue to remain uncertain, leading to higher prices in the long term. Jack Lifton has his own view of the situation in this article published on January 5. Ultimately, this means that the United States, EU and Japan (and any other emerging economic power) have all the reasons to continue developing new rare earths resources byond China.

The first full market week of 2015 also bodes well for uranium as NexGen Energy ('NexGen', TSXV: NXE) announced that it has accumulated additional holdings at its Rook I property in the Athabasca Basin. NexGen 's property has tremendous ‘closeology’ potential given that Fission Uranium JV has purchased the Patterson Lake South property and Alpha Minerals and itself. Uranium prices saw a string rally from all time lows last summer thanks to a Japanese economic recovery and the Chinese nuclear program (as well as other ongoing programs, including India, South Africa, Slovakia and even the Republic of Ireland) could push up the price of uranium by 20% in 2015, topping USD 50/lb.

As for the precious metals sector, the risk of deflation and stagnant wages, will cause the Fed to postpone increasing interest rates, which should translate into better market performance for gold and silver. Moreover, geopolitical tensions could flare up at any time and, historically, every time there is a serious geopolitical crisis, gold prices have soared by 8 or 10%. And there is no shortage of potential outbreaks of chaos and tension from Russia and Ukraine and beyond to the Middle East, Japan and China. At worse the precious metals sector in 2015 should be, after all, pretty quiet; after the turmoil of the past two years, maybe it’s a good thing.

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