First rare earths, now antimony – it's all about China

Here we go again. A critical metal where China wants to keep control and yet still cannot prop up prices. It's rare earths déjà vu all over again, as Yogi Berra might have put it, only this time it involves antimony (which, apart from the present situation, has proved a far better performer than REE of late).

The bottom line: China is trying to corner the antimony market according to one recent report. But this still hasn't prevented prices falling and China's own industry is hurting economically.

But before we go any further, a quick guide to this metal. Antimony is used as a fire retardant (in children's clothing, toys, aircraft and auto seat covers), it extends the life of lead-acid car batteries, and its other uses include anti-friction bearings, glass and even pharmaceuticals. In fact, the storage battery sector was becoming increasingly important in the antimony picture. The flame retardant and lead-acid battery sectors accounted for 80% of all use of the metal in 2010.

Until recently, the antimony price was surging. It has risen by more than 400% over the past 10 years. An Australian company, Artemis Resources (ASX:ARV) last week produced a maiden resource for an antimony lead project in Western Australia. One interesting presentation by that company shows how antimony can be potentially profitable at what would be low grades for other metals. At $10,500/tonne, in order to achieve $105 value for every tonne of ore that is mined, antimony grades need to be just 1%. Lead, though, at $2,100/tonne would need to grade at 4.7%, gold at $1,300/oz would need to be grading 2.5 grams/tonne, silver at $22/oz would need to grade 148 grams/tonne and copper, using $7,200/tonne, would require a grade of 1.5% to produce $150 for every tonne of ore mined.

At the beginning of 2010, both copper and antimony were priced at around $8,000/tonne. Copper made it to $10,000 later that year. But antimony climbed to over $16,000/tonne.

Even lately the metal has been trading around $10,000/tonne. But last week Chinese smelters dropped their asking prices below $9,400. Some are reportedly closing down completely, or cutting their capacity. Many are running at a loss.

The scope of this Chinese situation mirrors the consequences from the country's REE policies. Antimony has been slammed with similar export quotas and duties as rare earth elements, and it seemed this was the opportunity for new Western producers to get back into the business. In the case of both, these policies could not prevent prices sinking. (After all, we are in a secular bear market for metals: one might have thought critical metals might have escaped the worst of that, but seemingly not. Which is food for thought about the state of the global economy.)

But this story has a complexity absent from the REE saga. Chinese smelters kept the lid on non-Chinese antimony mining for many years by not paying for the gold contained within the antimony concentrate. This was a killer for Anglo American when, in the 1970s, it operated the Blue Spec mine inland from Karratha in Western Australia (where the concentrate was almost equally divided between gold and antimony). That company spent millions trying to separate the two – and then walked away. But there was a game-changer last year. Those same smelters were struggling to get enough concentrate just as world demand is forecast to go from 199,500 tonnes a year in 2010 to 246,800 tonnes in 2016. So then the smelters were prepared to pay for the gold content. Where they stand now with closures and cutbacks is so far unclear.

But the Chinese by their actions have made the antimony situation more confusing, especially for the investors who will be called on to put up the money for non-China projects.

What all this underlines is – as is the case with REE – that the world needs production, and dependable production, from dependable jurisdictions. While China produces 85% of the world, the only other large producers are Tajikistan, Russia, South Africa and Bolivia.

But China clearly wants to keep control: you can see this from M&A activity. In 2009 Hunan Nonferrous Metals spent C$29.5 million to buy the Beaver Brook antimony mine in Newfoundland (and subsequently idled it). Then in 2011 China Shandong Jinshunda Group bought 96% of Anchor Resources (ASX:AHR) which owned the Wild Cattle Creek antimony project in New South Wales. (Now Anchor seems to have sidelined that project and is focusing on gold). Then a Hong Kong company bought the mothballed Hillgrove antimony-gold mine, also in NSW.

Simon Tonkin, an analyst with Perth-based brokers Patersons, thinks antimony prices could reach $12,500/tonne, with Chinese global production share dropping to 71%. He sees global demand increasing but there are two real threats.

One is that illegal mining in China continues and increases. The other is that rising prices force consumers to use substitute products.

Like with REE, China can throw a spanner into the antimony works. It just depends to what extent that country wants to keep its grip on the world market. Meanwhile, we just have to have to hope that Western miners can start bringing some transparency to this market.