

Rare Earths Alert: A correction but not a reversal

Prices over the last few months have continued to rise, giving international investors and prospective producers some much needed relief. However, in China, this sharp rise has caused consternation among Chinese authorities. This somewhat unexpected reaction from the Chinese certainly gives credence to the adage that “one man’s meat is another man’s poison.”

Ironically, China is concerned that if prices are not cooled, we could see a repeat of 2011. What I find remarkable is that the rest of the world believe that the 2011 price surge was a triumph for China and no doubt, if market forces were to let this happen again, that it would be yet another Chinese triumph. But China has to move on with respect to its long-term goals and has aspirations of going from a “dig and deliver” economy to a formidable hi-tech force that offers a vertically integrated, modern and enviable rare earth industry. If prices are allowed to continue unabated, this could destroy the profitability of Chinese downstream industries and thwart China’s plans.

To this end, the Association of China Rare Earths (ACREI) has proposed that China cease stockpiling rare earths and actually release those stockpiles back into the market earlier than originally intended. To date there has not been any comments on this proposal, but the National Rare Earth Office (NREO) has approached the six rare earth giants, urging them to maintain production levels so as to ensure that prices don’t surge any higher, especially in light of the fact that clampdowns on illegal rare earth production and poor-quality output is set to continue thus removing this capacity from the market.

Turning to the US, Rare Earth Salts has successfully

commissioned the first commercial separations unit in Nebraska. The company intends to ramp up production to 18tpm using feedstock from recycled fluorescent bulbs. Going forward the company has entered into an agreement with Medallion Resources and Minera BioLantanidos to treat their feedstock from 2019.

With respect to end-user markets, our last few issues have focused on the fact that China has been focused on the fact that China has been rolling out various policies with the aim of developing its New Energy and Electric Vehicle market. Two months ago, the Ministry of Industry Information and Technology (MIIT), lifted the restriction that a foreign automaker was only allowed a maximum of two JV's with Chinese companies. As such, we have seen a number of new alliances forming, the most recent being the deal between Renault-Nissan Alliance and Dongfeng Motor Group.

Furthermore, China has stipulated that automakers need to ensure a minimum percentage of their car sales are new energy vehicles in order to ensure that they receive credits. Companies that fail to collect sufficient credits will have to buy additional credits from other automakers. The logic here is that it would encourage more and more joint ventures in China as those car makers with insufficient credits seek out Chinese partnerships, giving China the traction it needs to become a global player of choice in the market.

For those bulls calling a market that will be forever increasing, we expect some price correction over the coming two months. The one thing we have come to know about China, is love them or hate them, they set their goals and stick to them. If they say they intend to cool the market, trust me, cool the market they shall. I don't believe that there will be a full price reversal however as crackdowns on illegal mining is set to continue for the duration of 1H17. Rather watch the price correction closely and use this as an investment strategy to buy into the dips.

Note: The Core Consultants Rare Earth Report is the first rare earth report to be written by a Western Company. It presents exclusive market information, provides analysis of key trends and get to the essence of what is happening in the rare earth industry since 2010. To subscribe, [click here](#)