China disrupts rare earths, minor metals (again) – and where does it stand on gold attack?

China is at the epicentre of two events in the past week. Neither of them is pretty to watch – and both have serious repercussions for several metals, particularly rare earths, technology metals and gold.

Incident No. 1 (Minor metals and REE): Two years ago, there was founded in Kunming, Yunnan province, the Fanya Metal Exchange. It was a method for Chinese investors to take a bet on minor and rare metals, and rare earths: there were contracts for antimony, indium, germanium, selenium, cobalt, tungsten, silver, vanadium, tellurium, bismuth, rhodium and dysprosium and terbium oxides. For example, the exchange had contracts for $1.2 billion worth of indium. The problem was that the exchange, on behalf of the investors, raised loans using the metals as collateral.

As we all know, prices for many of these have fallen – so the Fanya exchange was caught by reduced values for its metal collateral. The end result is that some $6.5 billion has been withheld from investors since April. The only way out, it would seem, is for metal stocks – presumably including dysprosium and terbium – to be liquidated. If so, this is likely to put downward pressure on all the REE (rare earth elements) and minor metals involved.

The irony is that China is, in many cases, the main producer and, consequently, one of the victims. This incident will take some time to unwind, and it is not known whether the Fanya exchange will survive in its present form. But the other victims are those Western companies trying to get into production of metals such as antimony, tungsten and vanadium. This is not going to help.

China has form when it comes to spiking the guns of non-China mining companies. We all know about the flooding of the market in the late 1980s and early 1990s of a range of commodities, forcing mine closures for non-Chinese producers of rare earths, tungsten, graphite, among others. Now Chinese policy has disrupted the global tin industry. China is at present importing 98% of its tin concentrate from Myanmar at undisclosed prices. This has punctured the traded tin price to the extent that no new tin mine development can go ahead at this level of prices. At the London Metal Exchange on Monday, tin closed at $15,550/tonne, well below the price at which any company would commit to developing a new tin mine.

Incident No. 2 (Gold): On late Sunday night, when trading is normally quiet, someone dumped sell contracts totaling 24 tonnes of gold on the Globex exchange in New York. At almost exactly the same time (but Monday morning in China), another large quantity of gold contracts was dumped on the Shanghai Gold Exchange. It had the predictable consequence of sending the gold price plummeting to $1080/oz.

China has an enormous stake in gold. It is the world's No. 1 miner, it is the world's No. 1 importer. Chinese investors have spent billions in recent years acquiring more gold. One way or the other, China is affected by this week's attack on the yellow metal. Chinese investors have already taken a hiding through big falls on their share markets. How will they be feeling with their gold worth a lot less?

We all remember when New York gold trading opened on April 12, 2013, and 3.4 million ounces (or 110 tonnes) of June futures contracts were dumped on the market, sending the gold price plummeting. Two hours later, another 10 million ounces (300 tonnes) hit the trading screens. This had all the hallmarks of a concerted effort to break the back of gold.

Back then, suspicions focused on the leading Western central banks. After all, it was thought, the Federal Reserve and other banks wanted to break apart the credibility of gold as a safe haven, and thus ensure that fiat money ruled supreme.

But why would the Fed and its allies want to hit gold now? The metal has been under pressure from the rising US dollar, and the expectation is that it would suffer further punishment once the Fed moved, as expected, to raise interest rates within the next few months.

But it is interesting that the gold dumping this week followed the announcement on Friday that China's official gold reserves now stood at 1,658 tonnes, a 604 tonne increase on the 2009 figure, the last time the People's Bank of China updated its gold holdings. This was far less than expected: London broker Sharps Pixley believes the PBOC holds closer to 4,000 tonnes; Bloomberg estimates it at 3,510 tonnes. Few believed the figure announced on Friday, but it certainly had the effect of sending the metal's price much lower.

Then we had the Sunday/Monday attack.

Who wants a much lower gold price at this particular point in time?

Moreover, who wants to put out of business many existing gold mining companies who will be feeling the pinch even at just over $1,100/oz (as the metal is in Tuesday Asia trade)? At sub-$1,000, mines would be closing in many of the high cost operations.

Who, and why?