

Lower oil prices are “good news” for the world economy

✘ Lower oil prices are “good news” for the world economy, said the Executive Director of the International Monetary Fund (IMF) Christine Lagarde this week in the wake of OPEC’s decision not to cut production: “There will be winners and losers, but on a net basis, that is good news for the global economy,” said Lagarde during a panel discussion in Washington. Crude oil prices have fallen dramatically and lost about 30% since June, and currently stand at around 70 dollars a barrel, its lowest level in five years. They are poised to drop further still. Oil prices have risen to such an extent in the past decade that the public may have forgotten the concept of low oil prices being good for the economy. Indeed, high oil prices have always been considered a good predictor of future economic difficulties. The Yom Kippur War of 1973 and the Saudi led oil embargo, the Iranian revolution of 1979 and, more recently, the record increase in oil prices in 2008 have all paved the way for periods of great economic difficulties. The question is, then, why have people and the markets responded in a lukewarm or even concerned manner to what would normally have been the kind of news worth celebrating with expensive fermented beverages?

Some analysts had even warned that were oil prices to increase recorded they would have caused new problems to an already unstable international market. Compared to the difficulties 70s, mainly due to abnormalities in the supply, the current ones rely exclusively a problem of global demand, suggests the Nobel laureate economist like Paul Krugman. Since the amount of hydrocarbons present on earth is limited (but not as limited as the ‘peak oil’ preachers have led us to believe), rising imports from developing countries like China and India have created a difficult to eliminate imbalance. Nevertheless,

high oil prices only benefit countries that have few other resources at their disposal. For most, they cause everything to be more expensive from food to cotton and any other commodity that requires transport. In fact, Krugman had warned in 2011 that high oil prices would hurt international economic recovery and generate yet another recession precisely because of excess demand for consumer goods and primary resources.

It comes as no surprise that Christine Lagarde says that the recent oil price collapse will benefit the major economies of the world and bring growth on the globe. "When you have a 30% decline ..., this should result in a surplus (growth, note) 0.8% in most advanced economies which are oil importers," she said. Of course, if she were addressing an audience in heavily oil reliant Russia, Saudi Arabia, Qatar and Kuwait, she would be speaking in less enthusiastic terms. Adding fuel to the fire, Lagarde spoke of 'facts and figures': the lower oil prices next year will push US GDP from 3.1% forecast last October to at least 3.5%. Similar benefits will come for the Eurozone, relieving a stagnant economic situation characterized by slow growth, low inflation and a high unemployment rate. Until the low oil prices, it seemed as if Europe was in a situation from which there is was no escape. Now, there is more impetus also for European leaders to take on structural labor market reforms along with a monetary policy that, according to Lagarde is "more aggressive and innovative"

Consumers are the big winners as the almost 40% drop in crude oil (and 35% for gasoline), will have an effect equivalent to a tax cut, because so much of their monthly budget (which is estimated as 4% for Americans and double that for Europeans) can now be directed to consumer discretionary spending. Saudi Arabia, OPEC's undisputed leader, has been pursuing a tactic of bringing down prices up to render tar sands and shale oil, as well as renewable energy technologies, 'inconvenient' because of the latter's much higher production costs than the

traditional technologies employed in the traditional oil producing countries represented by OPEC and a few others like Russia. However, this strategy will not be very effective in the long term because, despite its efforts to discourage the growth of alternative oil and energy sources, OPEC will fail to disrupt investments in clean energy. Indeed, 'green energy' technology will be the target of 60% of the USD\$ 5,000 billion worth of planned investments in the next decade, following the policy of the US, China and the EU to cut greenhouse gas emissions by promoting wind, solar, geothermal and other renewables – not to mention the dozens of thorium and traditional uranium powered nuclear reactors that China plans to build in the next decade. Green energy investments have been dictated by policy, which is hardly going to change course just because fossil fuels have become cheaper – for the time being – even if these same fossil fuels will still be an important source of the world's energy mix for decades.

Rare Earths and Critical Metals Weekly Review: Don't count on prices staying low for long



The EU Commission last week announced that Europe has been suffering from bottlenecks in the supply of such key raw materials as rare earths. The malaise did not suddenly manifest itself and, in fact, REE shortages partly accounted for the geometric rise of rare earth prices in 2010-2011. Rare

earths were as difficult to come by as platinum, natural rubber or cobalt and most REE had to be imported from China, the DR Congo, South Africa or Brazil. The Commission has therefore asked that more spending be directed to REE research. The focus, admittedly has been on improving recycling; however, mostly on recycling rare earths and reducing waste. However, the technology for recycling rare earths is still largely in the realm of academia and it will have little impact on the actual mining of these resources for the time being. Japan has explored the recycling route with even greater impetus and still its technology companies rely on foreign supplies. The EU commissioner has launched a formal process to improve the supply situation. The proposed approaches, in the short term, have less to do with finding efficient recycling techniques than they do with simplifying trade legislation to speed up the import process.

China, which is still the largest rare earth producer, has continued to exploit this position and the delays experienced by the would-be challengers in Australia, Canada or the United States. China has used its dominance for years hampering, in particular, the electronics industry in industrial powers such as Japan, the USA or EU. Beijing has deployed the scarcity card to impose trade bans sending panic waves across what remains of the West's electronics industry. Concerns with climate change on one hand and political pandering in the form of ill-considered bans on nuclear technology (especially in

Germany) have raised the importance of renewable energy and materials based on the rare earth metals are essential to the future and present currently represents an omnipresent topic especially for manufacturers of such components as batteries or capacitors and the 'invisible' bits that allow for wind turbines or solar panels to convert sunlight or wind power to energy transfer and energy storage, opening up new business opportunities. Demography has also been playing its part in sustaining demand for the kinds of electronics and processes that require rare earths.

Estimates suggest that the number of internet users worldwide will grow from 1.9 billion in 2010 to 3.1 billion in 2015 relying on a multitude of devices and especially mobile ones, generating exorbitant need to manage the flow of data traffic with all that it implies in demand for secure transmission networks, chips, and of course batteries – ever smaller and more powerful. The Nobel winning economist Paul Krugman himself predicted an intensifying technological revolution, noting during an interview that the information age has yet to fulfill the full extent of its impact, meaning that technology is just starting to catch up. Inevitably, where rare earths are concerned, the conclusion is that more mining and more sources are needed. Admittedly, in the past few months, the market for rare earths has been quite turbulent approached and prices have quite a distance from their old highs; global economic woes have combined with 'artificial scarcity' – fueled by a series of Chinese production cuts and export restrictions – and even attempts (largely unsuccessful) to replace rare earths with other materials.

The perception in 2012 was that demand for REE's fell, accounting for the low prices and the difficulty faced by the share prices of the emerging new producers to fulfill their promise; and there are more candidates running in the race. Russia has decided to intensify its sources of rare earth, launching a project in Murmansk. Another, and particular,

cause for optimism comes from the fact that German researchers and industrialists have grown quite concerned by the persistent threat of Chinese rare earth supply disruptions, reflecting the general EU outlook described earlier. Being German, they have wasted no time and are approaching the problem from two different angles. Deutsche Rostoff AG has launched exploration of a potential 38,000 ton REE deposit in Storkwitz, which had been initially investigated by the former DDR (East Germany) in the 1970's. The German Federal government is actively supporting the project given its vital importance to future economic development. German scientists have also been studying a second route involving the extraction of special metals such as indium and germanium and rare earths from tin mining waste products in a process that simultaneously provides for efficient and environmentally sound industrial practices.

Many specialists are involved including metallurgists, chemists, biologists and geologists. In a similar manner but closer to production stage, the Canadian Orbite Aluminae (TSX: ORT), last week announced the formation of a partnership with Veolia Environmental, a France based multinational specializing in waste management with projects all over the world has signed a joint agreement for the treatment and recycling of the 'red mud' from alumina production. More so than the rare earths themselves, Orbite's real potential lies in its patented process, which it can sell to others to, both, resolve a well known and difficult environmental problem and find new ways to extract rare earths. Nevertheless, even as all this research continues and progresses, China's dominance in the market remains structurally strong enough to cause more market disruption and whatever the drop in prices and its effects, the long term picture is more complex and rising prices will result from the likely revival of economic and industrial activity.

The share performance of ProEdgeWire Rare Earth and Critical

Metals sponsors for the week ending on February 8 was overall flat at an average of -2.12%. There were few highlights to report and Matamec Explorations (TSXV: MAT; OTCQX: MHREF) saw the best performance at +13.43%. Matamec has a collaboration agreement with Toyota Motors and the favorable share price also reflects the Japanese car company's desire to evolve its hybrid line-up by launching a new hybrid power Supra sports car in a plan set to increase sales of the entire and considerable range of its hybrid offerings. That should lead to more hybrid competition, prompting a tide that should lift  many other 'boats'...