

A rare earths war – What should investors do next?

This past week the Chinese press has hinted that China may limit the supply of rare earths to America. Although quotas/bans haven't been implemented (yet), tensions escalated Tuesday morning (May 28) when the editor in chief of a Chinese tabloid, Global Times, tweeted: "Based on what I know, China is seriously considering restricting rare earth exports to the US. China may also take other countermeasures in the future." The People's Daily weighed in with a rare Chinese phrase that means "don't say I didn't warn you." What could be ringing alarm bells is, that wording was used by the paper just before China went to war with India in 1962.

China dominates global rare earth production with ~80-90% market share

Used as components in most electronic devices, electric vehicles, wind turbines, and the aerospace industry; Chinese restrictions on rare earth sales to the US could put significant supply strains on these sectors. In 2018 under the National Defence Authorization Act, Chinese rare earth magnets imports were banned in the US, however, the US Administration did a flip less than a month later and left rare earths minerals and the electric vehicle sector metals off a 194-page tariff list.

In what China probably sees as a trade blow to the US, a rare earth ban would risk its reputation as a trade hub with the rest of the world. The global supply chain is so complicated and intertwined it would undoubtedly affect many other countries that rely on rare earths.

What are the alternatives for the US to source rare earths minerals?

The answer is almost zero. Given 80-90% are produced in China the US would then be forced to source from the remaining 10-20%. The US's only domestic mine is California's Mountain Pass rare earths mine, owned by MP Materials. In an unnoticed rare earths switch, China has actually begun importing semi processed rare earth ore from the Mountain Pass mine.

The other main option for the US is Australia's Lynas Corporation. But Lynas already has contractual agreements and may struggle to meet all of the US's needs.

Lynas Corporation stated exclusively to Investorintel this week:

"Rare earths are essential to digital age technologies and Lynas is the world's second largest supplier of rare earth materials. This sustainable position is based on our long life, high-grade resource at Mt Weld in Western Australia, and our proven operating assets. Lynas is well placed to continue to supply high purity rare earth materials to manufacturing supply chains around the world."

Investor options in rare earths (non-Chinese companies)

Below gives the range of choices for investors looking to invest in the non-Chinese rare earth companies, as well as an ETF. The main issue is the vast majority are not yet producers. Below in bold are the companies we follow closely at Investorintel.

- **Alkane Resources Ltd. (ASX: ALK | OTCQX: ANLKY)**
- **Avalon Advanced Materials Inc. (TSX: AVL | OTCQB: AVLNF)**
- Arafura Resources (ASX: ARU)
- **Critical Elements Corp. (TSXV: CRE | OTCQX: CRECF)**
- Lynas Corporation (ASX: LYC)
- Northern Minerals Limited (ASX: NTU)
- Peak Resources Limited (ASX: PEK)
- Rare Element Resources Ltd. (OTCQB: REEMF)
- **Search Minerals Inc. (TSXV: SMY)**

▪ Ucore Rare Metals Inc. (TSXV: UCU | OTCQX: UURAF)

A final thought

Investing in the quality rare earth miners is a good long term strategy, as rare earth demand is set to outstrip supply. That being said investors buying now have missed a great run-up in prices this week, so some caution is required in case we get some pullbacks.

Investors should also be aware in 2014, the World Trade Organization (WTO) ruled that China can't put limits on rare earth exports. Whatever China does next, the US would be sure to counter-retaliate, and we would move into a spiral of trade decline, a global slowdown, and perhaps a global recession. At some point, the US and China will need to both act like reasonable trade partners, which quite frankly is to remove all tariffs and all government interference (including subsidies) in trade. Only then can businesses get back to doing business.