

Flash Notes 30/05/2019

Alex Fusté

@AlexfusteAlex

alex.fuste@andbank.com

Is China's threat on the control of rare earths credible? Just for a very short time

- According to U.S. Geological Survey data, China contains only a third of the world's rare earth reserves.
- Indeed, US imports of rare earth minerals come mostly from China (80%). More specifically the group of 17 minerals used in military equipment and high-tech consumer electronics. But this does not mean that there are no other suppliers where the US can buy them (countries that hold 66% of the rare earth reserves).
- Why the US has been buying mostly to China? Due to China's domination in processing of rare earth. But this problem could be fixed quickly. Although efforts to build rare earth processing plants in the United States are still in the early stages, and there has been a lack of support from Congress and the Trump's administration to build new facilities, this could change rapidly. Something that would not favor China at all.
- We know that at least three U.S. companies already have rare earth processing plants under construction. One is set to open next year at Mountain Pass mine, California (becoming the first sole operating rare earth processor in the United States). The company that owns the Mountain Pass mine (MP Materials) ships the roughly 50,000 tones of rare earth concentrate it extracts each year from California to China for processing.
- Two other U.S. companies are building rare earth processing plants, which are expected to open in 2022.
- Texas Mineral Resources Corp is pushing to develop the Round Top rare earth deposit in the state. The project, would involve an on-site mine and processing facility that would annually process and produce about 3,325 tones of rare earths. The company has seen its stock jump 68% in the past month.
- John Blumenthal, chief executive of Blue Line Corp, signed a memorandum of understanding to build a rare earth processing facility in Texas with Australian-based Lynas Corp. He said: *"It would be important for the U.S., and the world, to have these minerals processed in a place outside of China,"*
- Meanwhile, China has raised tariffs on imports of U.S. rare earth metal ores from 10% to 25%, making it less economical to process the material in China.

Well. At this stage I would say that the socioeconomic system that best adapts, and the one that can offer the best solutions to the challenges that may arise, is one that is based on free market standards, and the freedom of action.

This situation reminds me a lot Putin's stance when the US mine engineers began to work in the extraction of unconventional oil and gas. I perfectly remember when Putin said: "These American guys are dreaming."

Well. Perhaps that is the main virtue of the Americans. They dream. Adding the small detail that they pursue the fulfillment of their dreams ... until they get it.

Thus, I would not bet on a structural shortage of rare earths, or a structural increase in their price. Maybe for a few months, but not beyond.

Best