

STRATEGIC METALS

Your monthly guide to the latest information on the world's strategic metals

US & EU Waking Up to Critical Shortfall in Strategic Metals

On March 17, Rep. Mike Coffman introduced the Rare Earths Supply-Chain Technology and Resources Transformation Act of 2010 (RESTART Act) that aims to reestablish a domestic rare earth supply chain in the US. Rare earth materials are being increasingly used for technological innovation in industry, weapons systems, and in renewable energy generation. The US, however, is completely dependent on imports and any disruption in the supply chain could rock the national security and employment boat.

Coffman pointed out that **China currently produces over 97% of the global rare earth materials.** With no mining taking place in North America and the worldwide demand for rare earths growing exponentially, Coffman alerted the House to the looming crisis that could be warded off if the US acted immediately. He said that the nation had the resources but lacked the ability to extract and process them.

The RESTART Act aims to change the situation by supporting the growth of a domestic supply chain over the next five years through various activities. The Act seeks to classify rare earth elements as critical or strategic to national security.

The United States Magnet Materials Association (USMMA), an association of the major magnet producers and suppliers, has been closely following the proceedings and in a March press release, USMMA stated, "USMMA believes that urgent and collective action is needed by the federal government in order to head off the impending rare earth crisis. It is estimated that Chinese domestic consumption of rare earth materials will outpace Chinese domestic supply as early as 2012. With a three to five year timeline to reestablish a domestic rare earth supply chain, the United States is already in a 'silent crisis'. It is unclear whether rare earth material will be available outside China in the coming years."

On June 22, US Senator Lisa Murkowski introduced legislation to promote the same concept and help the US regain its leading position in the rare earth production

sector. She said, "We have slowly but surely surrendered the front end of the clean energy supply chain. Unless action is taken, we will trade our current dependence on foreign oil for an equally unsettling dependence on foreign minerals."

Industry lobbyist Jeff Green said, "This is a tremendous step in the legislative process and immeasurably increases the bill's chances of being enacted. With the bill's introduction in both the House and Senate, the USMMA's vision for a competitive domestic rare earth supply chain is one step closer to reality."



Rep. Mike Coffman (R-CO)

A European Commission task force recently released a report in Madrid, which claims that several developing nations exclude others from accessing their resources through a variety of investment, tax and trade regulations. The task force listed 14 'critical' materials that could soon be in short supply unless the trade and policy measure of the European Union were modified to ensure steady imports and promoted their domestic exploration and recycling. The report states that EU economies would be hurt if the materials were inaccessible either due to shortage or export embargo, given that they are produced in a handful of nations only. The list includes antimony, beryllium, cobalt, platinum group metals, and rare earths. Although lithium is not included, EC spokesman Fabio Pirotta believes that may soon change if the use of lithium in electric vehicles increases dramatically. The increased use of the materials in new and emerging technologies lends to the idea that demand for them could triple by 2030. Brazil, China, Congo and Russia are the largest producers of these materials.

Antonio Tajani, Vice President of the EC, said, "We need fair play on external markets, a good framework to foster sustainable raw materials supply from EU sources as well as improved resource efficiency and more use of recycling."

Although stockpiling has not been recommended as a policy action, Pirotta said, "Nothing included in the report but that does not mean it won't be a tool."

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Chinese Demand Keeping World Steel Market Red Hot

The World Steel Association (WSA) reported an increase of 35.7% in the April 2010 year-on-year global steel production. Of the 122 million tonnes produced globally, China accounted for 55.4 million tonnes – the country's highest in a single month. China retained its position as the world's largest steel producer and consumer. Most mills are returning to pre-downturn production capacities and the WSA's April 2010 crude steel capacity utilization report shows an increase of 18.9 percentage points over April 2009.

In spite of the surplus production, steel producers are reluctant to implement any significant price cuts despite pressure from traders. However, in early June, the Indian market saw a fall of \$43–65 per tonne in the prices of flat steel, which is used in the white goods and automobile sectors. The drop was in response to China's tightening policy and the euro crisis. An Indian steel maker said that while the demand for cold rolled steel is still high, the demand for galvanized steel is pretty low. Another added that both the import and domestic prices of hot rolled coil (HRC) are now at par.

China's Shanghai Baosteel Group Corporation has announced a 10% cut in July prices. There are reports of possible capacity cuts by Chinese steel makers in July in the face of weak demand and high costs, but there appears to be no indication of any other significant price cut in July. According to a Credit Suisse report, the demand for steel in China and India are at pre-downturn levels. In fact, China expects to see an 8–10% hike in steel consumption this year.

On the other hand, certain global steel majors have increased their July prices. South Korea's Posco intends to implement a 9% hike in the benchmark HRC prices, while Japan's JFE Steel Corporation has already announced a price hike of \$110 per tonne in special wire rods for the July–September period.

China's steel production costs have, however, risen sharply

because of the rise in imported iron ore prices. The former low-priced iron ore inventory has been used up. In fact, the costs of production and sale are almost equal now. Further, iron ore giants such as Rio Tinto and Vale have announced higher prices and average iron ore prices are expected to increase by 30–35% in Q3 2010. If the cost of electricity, coke and salaries similarly rise, there is bound to be an increase in production costs in the short term, which is, in turn, bound to drive steel prices upwards.



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The Critical Crystal Ball

On-going Influences on Prices for Molybdenum, Manganese & Magnesium

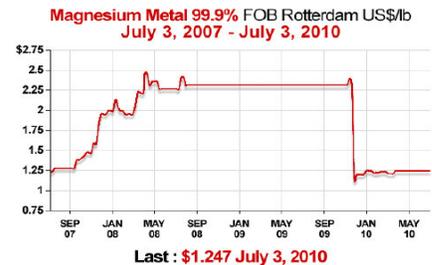
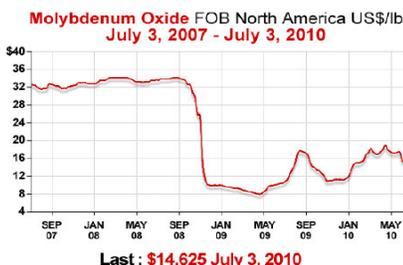
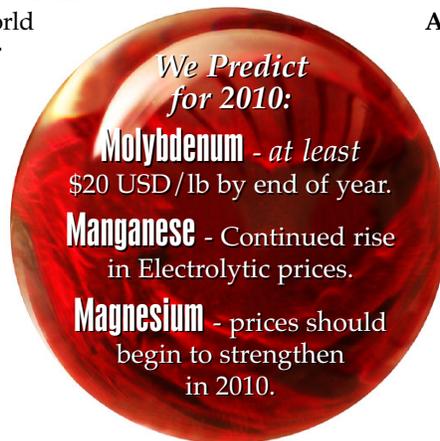
The 2010 FIFA World Cup™ is presenting South Africa with challenges in more ways than one. About 80% of the global manganese reserves are in South Africa and a possible shortfall in power supply to the industry during the tournament may affect production, leading to a hike in global manganese prices. The nation's electricity company Eskom has committed an uninterrupted power supply to the World Cup and the already strained power company is likely to cut back on power supply to the mining companies at the first sign of trouble.

Increasing urbanization, and growth in the automotive sectors of China and India are expected to continue driving the worldwide demand for steel until at least 2012, and consequently, the demand for manganese – an essential component of steel alloys. However, the increased demand has not been able to completely negate the effects of the current glut in the market leading to a downward pressure on steel prices and on manganese prices. The situation is not all bad though. The price drops over June and possibly July are expected to correct over time since demand for both steel and manganese are still rising.

True, steel consumption has increased since 2009 levels but analysts have warned that the numbers may not match up to the double-digit increases predicted in Q1 of 2010. This could explain why Russian molybdenum major, Strikeforce Mining, withdrew from launching an IPO in the Hong Kong market.

As reported earlier, Chinese firms are still on a molybdenum-buying spree, and they are still funding mining operations in various nations. China, however, is not consuming the molybdenum but building a stockpile. Analysts predict that China is waiting for molybdenum prices to rise to the 2008 levels of \$30 and steel makers will then enjoy lower costs of production.

Despite the weak demand for magnesium displayed by most markets, China's magnesium production reached 377,000 tonnes during January to May 2010, an increase of 74.5% over the same period last year. The country produced 78,000 tonnes in May 2010, an increase of 9.9% over production figures of April 2010 and 66% over those of May 2009.



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