Volume 2 - Issue #9 September ~ 2011

CRITICAL STRATEGIC METALS

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

Solar Demand Drives Silver Prices Higher

Fears of a declining industrial demand for silver following the financial problems in Europe and the US kept silver prices at modest levels during early August. Prices did rise in mid-August improving the outlook for the precious metal. The risk of increasing inflation in China leading to a slower economic growth in the country is another concern for the global silver industry.

In the last decade, industrial consumption of silver grew by 39% from 349.7 million ounces in 2001 to 487.4 million ounces in 2010. Industrial demand still accounts for 50% of the global silver demand and that is expected to reach 70% over the next decade given the large increase in applications that require silver.

Silver's properties make it an excellent choice for many applications, especially in the electrical and electronics sector. Silver is the best choice of metal for electricity conduction, thermal heat transfer and light reflection. It is also a popular alloy component, catalyst and lubricant. Advances in the clean tech and renewable energy market, particularly in the solar photovoltaic (PV) industry, are fueling the demand for the metal.

Silver market expert David Morgan expects silver prices to rally at around $45 per ounce in Q4 of 2011. In fact, based on rising industrial demands, he expects silver prices to reach $100 per ounce in the long-term.

During a recent interview with Hard Assets Investor, Stephen Leeb, chairman and CIO of Leeb Capital Management, said that he firmly believes China's demand for silver from its solar panel industry will push silver prices to above $100 per ounce. China currently spends almost $1 trillion on alternative energy and the country has a 50% share of the global solar market. So far China has been developing and acquiring polysilicon faster than any other nation and soon it will be silver's turn. Leeb believes that most investors and analysts are not paying enough attention to China's fast growing solar PV industry.

In 'The Future of Silver Industrial Demand', a recent study commissioned by the Silver Institute, research consultancy GFMS said, "The rise in solar power is arguably the most significant development for silver demand in recent years. This year, demand is expected to reach nearly 70 million ounces, an increase of around 40% year-on-year."

According to solar market research group Solarbuzz, the US market for solar PV applications is expected to account for 12% of the global market by 2015, a sharp hike from the current level of 5%. Demand from the Asia Pacific market—comprising Australia, China, India, Japan, and South Korea—is expected to grow from the current 11% to almost 25% by 2015. In fact, the sector could cause silver consumption to rise from the 50 million ounces recorded in 2010 to 100 million ounces in 2015. China currently purchases the highest quantity of silver, and demand in China and India is expected to grow by almost 30% this year. Manikbhai Shah, a silver retailer in Mumbai said, "China imported 245.6 metric tonnes of silver in February. The figure was so close to the 260.6 metric tonnes that the country imported last February and it showed that China was willing to shell out money for the white metal at over $30 per ounce."

Stock analyst Jeb Handwerger reaffirmed that silver's demand rises from two sources – industry and investment. Demand is at an all time high but supply is declining leading to a tight market. Pure silver is rarely produced by itself, it is usually a byproduct of other metals which is why demand is outpacing supply. However, the importance of silver cannot be denied and Handwerger expects silver prices to reach new highs before the end of the year.

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China's Rare Earths Squeeze

China's policy of tightening its rare earth export quota has been causing quite a furor in the rare earth metals market since 2009. With increasing technological advances, the demand for rare earth metals is only increasing worldwide and the declining supply is causing prices to shoot upwards. Prices can come down only if end users reduce production and thereby reduce demand. However, that is an unlikely situation and even if it did happen, the effects are likely to be short lived.

The trend of many end users of rare earth metals moving their manufacturing units to China for easier access to raw materials will change only when western companies begin production. Molycorp is selling rare earth metals left over from earlier mining while Australia's Lynas Corp opened its Mt. Weld mine on August 4. However, there will be no significant production until 2013 at the earliest. Until then, high prices are here to stay. Little change is expected in Q4 of 2011.

Zhang Di of the China Daily reports, "Rare Earth prices will remain bullish in the second half of this year, but won't be higher than the first half's levels, as companies in downstream activities halt production due to expected high operating costs."

In a recent interview, Molycorp CEO Mark Smith said while global demand continues to be high, "supply outside China continues to be tight, as China continues to reduce its net rare-earth-oxide export quotas. We simply cannot produce enough for our customers."

A New York Times report states, "For the last two years, China has imposed quotas to limit exports of rare earths to about 30,000 tons a year. Before that, factories outside the country consumed nearly 60,000 tons a year. China has also raised export taxes on rare earths to as much as 25%, on top of value-added taxes of 17%."

China contributes 97% of the world's rare earth metals production and Japan is the largest buyer of these metals. Prices have been increasing at such a rate that Japanese buyers are no longer signing six-monthly sales contracts but quarterly ones. They are also earnestly looking for alternative sources of rare earth metals.

Tokyo based analyst Shinya Yamada of Credit Suisse AG said that since May this year, prices have increased by almost three times. Such increases will force companies to avoid manufacturing products that require the 17 rare earth metals. Japanese companies such as magnetic and electronic materials maker Hitachi Metals Ltd., hybrid cars and wind turbines maker Toyota Motor Corporation, and trading houses Sojitz Corporation and Sumitomo Corporation are a few companies that have been hard hit by China's tightening export policy. The two trading houses import most of Japan's rare earth requirements.

Fujinori Sato, a deputy manager at Sojitz Corporation said, "China changed its strategy from limiting export quotas to tightening regulations for digging and refining. Prices may go up further later this year."

Most large-scale users of rare earth metals are developing technologies that will enable them to slowly reduce the use of rare earth metals and still make effective products. Sojitz Corporation has begun investing in rare earth mines in Brazil and Australia while Aichi Steel Corporation plans to begin sourcing its rare earth requirements from South Africa.

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Indian Steel Unaffected by Global Crisis

The global steel industry is under great pressure because of the euro zone crisis, the debt crisis of the United States and the fluctuating prices in the global market. However, the Indian steel industry is managing to hold its own and has not been significantly affected by the global situation.

Indian steel makers are expected to increase prices in October this year as many new infrastructure and industrial projects are scheduled to take off. According to a report by the Centre for Monitoring Indian Economy (CMIE), finished steel prices in 2012–13 will be about 7% higher than that of 2011–12. Steel prices went up by 15% in the April quarter this year. CMIE has brought down the 2011–12 growth forecast to 9.5% from the earlier announced 12% given the lower than expected production figures of the June quarter.

The global demand for steel is expected to gradually grow over the rest of 2011 although no numbers have been announced. Strong economic growth and urbanization in the BRIC nations are expected to create growing demand for steel in these nations. CEO Larry Reaugh of American Manganese Inc. said, "We expect steel demand to grow worldwide by 8%, most of that growth will come from China." India's largest steel maker, Tata Steel, made a similar statement when it stated that steel demand over the year would grow by 9%.

During the first five months of 2011, Japan produced almost 35 million tonnes of steel—a drop of 2% y-o-y. The lower production figures are a result of the catastrophic earthquake that hit Japan in March this year.

The China Iron and Steel Association (CISA) recently reported that China's daily crude steel production rose for a second ten-day period in the first week of August. The increased production is a result of the expected revival in demand over the autumn months.

On the other hand, the American Iron and Steel Institute (AISI) reported a 1.4% drop in production in the week ended August 27 in comparison to the previous week.

While addressing the 104th AGM recently, Chairman Ratan Tata of the Tata Group said, "While Asia will continue to be the market driver for the steel industry this year, the Europe and the United States steel market will continue to be moderate." With iron ore and coking coal prices on a rising trend, he expects Tata's European operations to be smoother only when the company begins receiving raw materials from its reserves in Canada and Mozambique. The prices of both iron ore and coking coal show no sign of declining.