

STRATEGIC METALS

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

China's Rare Earths Game Attracts Players Worldwide

Early 2011 saw stock prices of rare earth companies soaring upwards with the share price of Colorado based Molycorp Inc. reaching \$79.16 per share. However, Molycorp share prices fell by 32% over four days in September. The price fall was partly because of falling rare earth prices worldwide combined with excess inventory and partly because of overall market trends. Stock prices of Australia's Lynas Corp have also been adversely hit by falling rare earth prices. Average rare earth oxide prices have fallen almost 20% over the last quarter. Recent developments could however bring about another hike in rare earth prices, which would mean sunny fortunes once again for non-China based rare earth producers.

The world's largest rare earth producer, China's Inner Mongolia Baotou Steel Rare-Earth (Group) Hi-Tech, has halted production for a month in an effort to push prices upwards. A company official said, "Production should resume in a month as it is just a provisional measure." According to the company, the current move to stop supplies of raw materials to its processing units was to "stabilize the market and balance supply and demand." A similar month-long production halt had been called in May 2008 as well. Investors have not reacted positively to the announcement and Baotou's stock price fell by almost 4%.

In September this year, Baotou purchased praseodymium-neodymium oxide at above market rates in spite of being a producer of the oxide. The company stated that the move was to "protect resources and maintain market stability."

Baotou's announcement has been taken with a pinch of salt by the global rare earth community. The Financial Times wrote, "Baotou's move suggests that Chinese efforts to control rare earths prices could be greater than previously thought." Rare earth analyst Sam Berridge of RBS said, "We would expect a month-long shutdown from the largest producer in the world to impact prices reasonably quickly. Rare earth production is quite consolidated and the market

is quite small, so one of the majors could influence the supply-demand balance quite easily."

China's actions could help rare earth prices climb although new supplies from Australia, Canada and the US could once again flood the market bringing prices down. In the meanwhile, companies such as Molycorp will benefit from Baotou's announcement. In fact, analyst Paretosh Misra of Morgan Stanley has predicted that Molycorp's stock price could reach \$90 in the near future. Molycorp's mines will reach full production next year while Canada's Avalon Rare Metals and Quest Rare Minerals are yet to report profits. Both companies are much smaller and more volatile than Molycorp but both have rare earth deposits that would soon be rated as the world's largest.

Rare earth deposits have been discovered at other global regions too. Mongolia has a huge deposit of rare earth metals and most of it is untapped. A 2009 survey by the US Geological Survey (USGS) estimated that Mongolia had about 31 million tonnes of rare earth metals, which places the country just after China in terms of deposit size.

Kazakhstan is another nation that intends to make an entry in the rare earth sector in 2012. The state nuclear company Kazatomprom has signed separate exploration agreements with the French Bureau for Geological and Mining Research, and Japan's Toshiba Corp and Sumitomo Corp.

The USGS has also reported rare earth deposits in southern Afghanistan. The estimates have been pegged at 1 million metric tonnes although Afghanistan's infrastructure and political climate are not conducive to rare earth development right now. Robert Tucker, lead author of the USGS report, said, "I fully expect that our estimates are conservative. With more time, and with more people doing proper exploration, it could become a major, major discovery."

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Investment Demand Powers Silver's Slow Ascent

Silver prices are known to be volatile given its varying demand in the investment and industrial sectors. Recent times have been trying, as demand in both sectors has been slow. In late October, silver traded at \$30.58 per ounce, a fall of 2.08%.

China's industrial sector accounts for 70% of the country's demand for silver but with a slowing economy, the demand for the precious metal has naturally slowed down too. Aaron Back of The Wall Street Journal wrote, "China's trade surplus narrowed in September as exports to the European Union fell, showing that faltering economies abroad are beginning to affect China."

Commenting on China's slowing consumption of silver, commodities analyst Suki Cooper of Barclay's Capital said, "The fundamentals still look very weak. The downside still looks much more vulnerable, given that we're not seeing the same strength in industrial demand that we have seen previously, and given that mine supply still looks very healthy."

The Eurozone's debt issues have also added an element of uncertainty to silver markets. The continuous ambiguities in the European economies, especially those of Greece

and France, are affecting all the markets. Jim Wyckoff of Kitco said, "The uncertainty surrounding the latest efforts by European officials to solve the EU debt and financial crisis have limited buying interest in the precious metals this week. A firmer US dollar index as the trading session progressed Thursday also worked to pressure the precious metals markets."

Opinions about the future of silver over the next few quarters are varied, but not greatly. While participating in a debate at the recent Silver Summit held at Spokane, WA, Jeffrey Christian, managing director and founder of the CPM Group said that he expected silver prices to range between \$26 and \$42 per ounce over the next quarter. He expects quarterly prices in 2012 to average at around \$30 to \$33 per ounce, and between \$26 and \$38 per ounce over the whole year.

Germany's Commerzbank expects silver prices to average at \$35 per ounce in the ongoing quarter and reach \$40 per ounce by the end of 2012. In a statement, the bank said, "The deteriorating global economic outlook has had repercussions on the price of silver, the silver price is likely to recover from its current weakness and resume its upward trend in 2012."

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China Leverages EMM Stockpile Monopoly

In an interview with the Critical Metals Review, the founder-director of Vancouver based J F Zhang Associates, J Peter Zhang, said that the United States ran the risk of not only facing supply constraints in rare earths, but also in manganese. The US Department of Defense listed manganese as a strategic metal over 30 years ago, but so far, the country has not been able to produce any electrolytic manganese (EMM), a critical alloying element. And like rare earths, the US has been sourcing its electrolytic manganese largely from China and small amounts from South Africa. In 2009, China's production accounted for 95% of the global electrolytic manganese production.

Zhang pointed out that if China decided to limit its EMM exports or its domestic demand increased, countries such as the US would be in deep trouble. China's rare earth policies have shaken the global rare earth community and to avoid such a situation with EMM, Zhang said that it was time for the US to build a strategic reserve or initiate production.

Canada's American Manganese Inc. is planning to do just that. The company is currently seeking funds to extract 99% pure manganese from a low grade abandoned mine in Arizona. Reports indicate that the mine has over 15 billion pounds of indicated reserves and over 3.5 billion pounds of inferred reserves. The company aims to begin production in 2014.

EMM is combined with nickel or lithium in batteries, is

used as a colorant in bricks, and as an alloy in copper and aluminum alloys. One of the most promising uses of EMM is in the cathodes of lithium-ion batteries for electric vehicles (EV). Several large automotive manufacturers are already using the technology. It is critical for the US to have access to reliable and competitively priced manganese supplies.

The "high capacity manganese rich cathode" (HCMRC) battery has been jointly developed by the Argonne National Laboratory and Envia Systems and is expected to hold double the charge of currently available lithium-ion batteries, is half the weight of other EV storage batteries, and can be recharged in a matter of minutes.

In the manganese market, prices have been falling largely because of China's large stockpiles. Over the next two years, South Africa will have several world class manganese deposits beginning production and that is another factor that will keep prices down. Johan Kriek, CEO of United Manganese of the Kalahari (UMK), said "While I still believe that manganese is a fantastic business, and that it will recover in time, I think that for the next two or three years, we're in for a rough ride."

However, steel production is expected to grow in China and since each tonne of crude steel uses about 30 kg of manganese ore, the demand for manganese will continue to grow. That fact alone could keep manganese prices from declining too sharply.

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