

## Rare earth elements - still digging a hole?

Chris Benedict, vice president at DataLend, discusses the state of the rare earth elements industry

The rare earth elements industry has seen better days. During the year of 2012 the market price of virtually every stock in the rare earth elements industry decreased significantly after the speculative run ups of 2010-11. The run ups of the previous years can be attributed, in part, to growing manufacturing demand, but the real catalyst was the Chinese government's export ban on rare earth elements which constricted supply and sent rare earth element prices, and the stock prices of the miners of such materials, skyrocketing to unseen heights. Once the export ban was lifted, those lofty mineral values and stock prices came crashing back down to reality; the market value of many of these rare earth minerals have plummeted by more than 80% from their 2011 highs. Is the rare earth mining sector poised for a comeback or will their shares still be digging a hole in 2013?

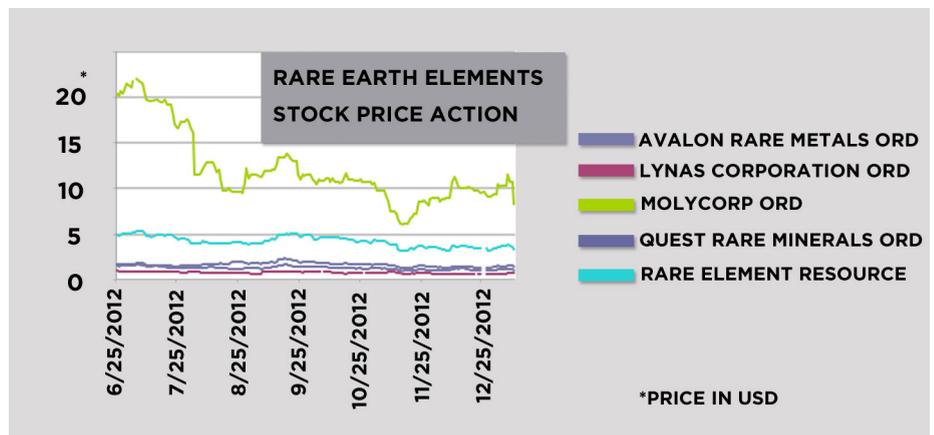
Rare earth elements are a strategic resource comprised of 17 elements in the periodic table that are used in the manufacturing of components used in smart phones, tablets, flat screen televisions, batteries, hybrid cars and other commercial and industrial products integral to modern society. Although not exactly "rare" themselves, these minerals are seldom found in great quantities together in the same geographic location. As a result, mining operations are few, capital intensive, and require prolonged periods of time to come to market.

China has been the dominant rare earth miner for years, producing approximately 95% of the global output in 2012 and commanding some 48% of the world's known reserves of rare earths. Chinese consumption of rare earths is anticipated to grow by 10% per year over the next few years, and as a result, China has begun to import some specific rare earth minerals despite their production dominance, while other countries, deficient in rare earth elements, have

taken steps to stockpile them out of fear of future bans. This hasn't helped set a floor for the prices of rare earth elements, which have continued to plunge from their highs of 2011.

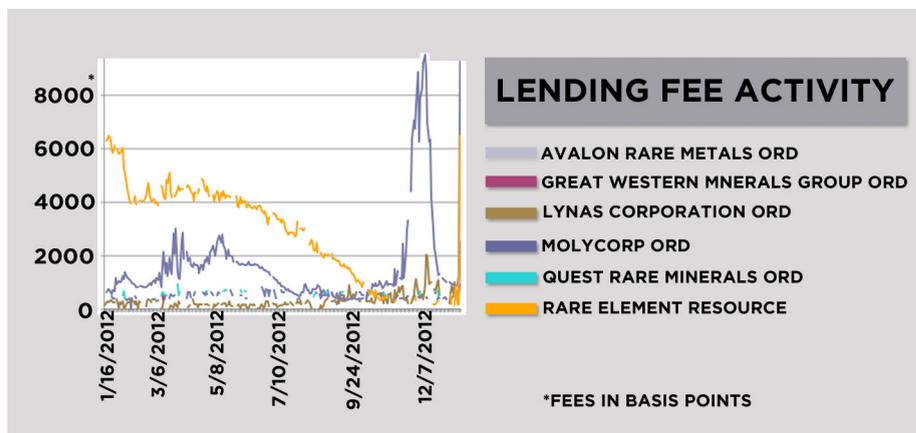
It is with this macroeconomic background in mind that we start to dive into specific securities. Molycorp Inc. (MCP), the largest rare

562 bps and a utilization of 100%. Quest Rare Minerals (QRM) trades at a volume weighted average fee of 514 bps and a utilization of 100% as well. Great Western Minerals Group trades at a volume weighted average fee of 1014 bps but with a lower utilization of 60%. Rare Element Resource (REE) trades a little cooler at a volume weighted average fee of around 225 bps but the utilization is still extremely high at almost 99%.



earth miner in North America, saw its price collapse from a high of \$74.22 in April of 2011 down to a low of \$6.13 last year. The stock price, at the time of this writing, currently hovers around the \$9 per share range but in the securities lending market it trades with a volume weighted average fee of just over 2000 basis points (bps) after reaching a blistering high of 9200 bps to borrow the security in early December; MCP's current utilization is approximately 92% with 22.6 million shares on loan. Australia's Lynas Corporation fares about the same, trading with a volume weighted average fee of around 550 bps and a utilization of close to 82% with 129.8 million shares out on loan. Avalon Rare Metals (AVL) continues this trend trading at close to

Despite the bloodshed of 2012, the overall trends for rare earth element stocks still look fairly bearish for the moment as many of them currently trade with high utilizations and high volume weighted average fees. There may be more downside in the rare earth sector before stock prices truly bottom out. However, macroeconomic factors such as a decision by the Chinese government to once again restrict rare earth exports, environmental concerns or possible industry consolidation as a result of low stock prices, could send the shorts scrambling to cover as these once high fliers take off again. One thing we can say for sure: rare earth element miners will remain volatile in 2013 and beyond, offering trading opportunities for the longs and shorts alike.



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