Rare Earths Seen Growing Less Rare

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SYDNEY -- Demand for rare earth elements that has driven up prices more than tenfold since 2009 is likely to be met by a surplus of supply by 2013, as Western companies start up new mines to compete with the Chinese firms that now dominate the market, Goldman Sachs analysts predicted Thursday.

The forecast calls into question the sustainability of the current boom in rare earths, a suite of 17 elements used in products from high-powered magnets, and fuel refining to energy-efficient light bulbs and mobile phone screens, as well as the shares of companies seeking to produce them.

Prices of rare earths hovered between $5 a kilogram and $20 a kilo from the early 1990s until 2010. But a 40% cut in export quotas by China, which accounts for 90% of global rare earth production, sent prices soaring. The basket price of rare earths held in Lynas Corp. Ltd.'s Mount Weld deposit in western Australia - the largest non-Chinese mine, due to come to production in the next few years - has jumped to an average of $162.66 kilos from just $10.32 kilos in 2009.

Goldman's view differs from that of miners. In a presentation last month, Lynas forecast that global demand for rare earths, which include neodymium, cerium and lanthanum, will outstrip supply by 35,000 tons this year and in 2012. Annual supply shortfalls of around 20,000 tons are expected in 2013 and 2014, it added. It predicted long-term prices in the $120/kg-to-$180/kg range.

Lynas Chief Executive Nicholas Curtis says China is on the verge of becoming a net importer of the elements, a transformation that would be similar to those that drove major shifts in global markets for coal in 2009 and oil in the mid-1990s, and could accentuate the current price spike.

"China will become a net importer because its consumption for its own domestic value-added industry is going to drive very high [demand] growth for these resources. They've explored every inch of China for what's available and if they had more rare earths deposits of any size, it would be being developed now," he said in a recent interview.

Lynas shares have risen fourfold since China announced the quota cuts in July 2010.

Goldman Sachs analyst Malcolm Southwood, however, said the price boom is nearing its peak. The supply deficit will peak at 18,734 tons this year, equivalent to 13.2% of a forecast 141,524 tons of demand, before the market slips into a slight surplus in 2013, he said in the report published Thursday. The surplus will rise to 5,860 tons or 3.2% of projected demand in the following year, the report said.

Initially, at least, prices will likely continue to rise, he said. The basket price for the Mount Weld rare earths should climb to $227 a kilogram next year, a gain of about 40%. Prices may eventually moderate to an average of $82 a kilogram, but that will happen only in 2015, the third consecutive year of a global surplus, the report said.

"We envisage a closely balanced market in 2013, and modest surpluses thereafter - at least, for some of the more abundant light rare earths - with some price softening in the 2013-2015 period," according to the report.

Goldman's view matches the outlook of many other market participants who believe the current boom is overdone. "For [the rare earths such as] cerium and lanthanum, there will certainly be some surplus," said a

major European rare earths trader, who didn't want to be named because of the sensitivity of trading relationships.

"When you have these high prices, people immediately start to look for substitutes, and it takes one to two years, but people can switch out of rare earths."

He cited the glass industry, which has replaced its consumption of cerium with selenium over the past year as prices of the rare earth rose to $135 per kilo currently from just $3.88 per kilo in 2009.

Other analysts see prices falling much closer to historic averages as new projects come onstream, particularly if continued high prices encourage the development of major deposits such as Greenland Minerals & Energy Ltd.'s Kvanefjeld site, which is more than twice the size of Mountain Pass and Mount Weld combined, but located on an isolated mountainside just south of the Arctic circle.

"Lynas has said their production costs are $10 per kilogram. If they think they can sell their material at $150 a kilogram, a markup of 15 times, I don't know customers are going to be prepared to pay for it," said Dudley Kingsnorth, executive director of Industrial Minerals Company of Australia, a rare earths analysis house.

"Once these new mines come onstream, there will be a fall in price, and if miners insist on multiples of 15-20, they're going to face more competitors. They're going to have to face a little bit of reality."