

Proactive Group

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Trade rhetoric uncovers new interest in rare earths miners

As the trade rhetoric heated up between the US and China this week, one sector stands to potentially benefit from all the political posturing: rare earths miners.

Rare earths, particularly rare earths magnets, are likely to be in increasing demand as the world moves away from traditional sources of energy and toward renewables. Rare earths are used in wind turbines and lithium ion batteries, in consumer electronics and in air conditioning units.

That makes them -- and the companies that dig them up -- crucial both to power generation and to transport and, in the context of the pledge of Germany, for example, to cut all coal power generation by 2038, highly strategic.

WATCH: CEO of Medallion Resources sees trade dispute between China and US as an opportunity

Some forecasters were expecting the Chinese to become net importers of rare earths in 2020, as the country moves to clean up or shut down polluting mines, and domestic demand rises.

Despite of the name, rare earths aren't actually that rare. Neodymium and praseodymium, two of the most widely used rare earths, rank 28 and 40th, respectively, in terms of abundance among elements in the earth's crust, ahead of tin, uranium, tantalum, molybdenum and silver.

China accounts for between 70% and 80% of global rare earths supply and is a key global price setter.

Conversely, the US has no current domestic rare earth production, and recently passed the McCain Act, which further complicates the picture by banning the import of certain types of rare earth magnets from countries it wishes to steer clear of, most notably Iran, but also North Korea and China.

What to watch

With that in mind, which global rare earths miners should be on your radar as these two economic giants dig in their heels?

Shares in Arafura Resources Ltd (ASX:ARU) jumped by more than 15% Thursday on the Australian Securities exchange, as Chinese officials explicitly referenced rare earths. The company is at an advanced stage with its Nolans REO (rare earth oxide) project in the Northern Territory, having completed a DFS (definite feasibility study). The project is effectively at the starting blocks pending an expected spike in the NdPr (neodymium and praseodymium) price.

Shares in Mkango Resources Ltd (LON:MKA), which has a rare earths project under development in Malawi, jumped 20% in midday trading in Toronto. The market had been somewhat more cautious in bidding for Mkango, because it isn't in production yet. But more speculative-minded investors might reckon that that makes the upside still more

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attractive.

READ: Arafura Resources' rare earth project has significant catalysts in the current year: Patersons

Lynas Corp's (ASX:LYC) is already well established as arguable the most significant rare earths producer outside of China, with mines in Australia and Malaysia. Its share price had already strengthened considerably before the latest Chinese sabre rattling in response to a A\$1.5bn offer tabled by giant Australian conglomerate Wesfarmers (ASX:WES). Its stock jumped by more than 15% in Australia on Wednesday before pulling back today.

Medallion Resources Ltd (CVE:MDL) is focused on extracting rare earths from monazite, a byproduct mineral of heavy mineral sands mining. Unlike traditional rare earths mining, which can be laborious and expensive, Medallion is pioneering a process that extracts what is known as magnet metals, more specifically neodymium and praseodymium (NdPr), from monazite. Its shares were in retreat in afternoon trading.

Other names for investors to consider include Peak Resources, Alkane, Molycorp and Hastings.

Why rare earths matter

Despite a relatively weak pricing environment, all these names are moving forward with established projects.

If a crunch does come, investors may move on these companies first. After that, blue sky projects will come into play, which presents a much longer proposition.

--Alastair Ford and Tharun George contributed to this report

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