Australian Standfirst

Relative Magnetism Of Rare Earths For Real-Money Investors:

Green Capex, The Great Pacific War & Digital Revolution

Hedge Fund Insight #837

14 October 2021

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Frank Lloyd Wright in 1953 insisted that clients should never build directly on top of anything and that *superimposition* was a hex, if an architect, then build along the cusp of a hill top and not its peak, as the base was ever so much more important to a client's long-term enjoyment of one of his buildings.

This thinking was further popularised and entrenched by President Eisenhower, who, also in 1953, launched the "*Solarium Project*", a holistic Cold War review of the entire breadth and depth of the American economy, identifying the areas to be strengthened if the United States was to win its competition with the Soviet Union and not unsurprisingly, much of the focus of the project was on *Pax Americana's* Defense Industrial Base, or DIB, a critical component of national security and economic cost-push inflation which stoked activity up and until the ***Nixon Shock*** of 1971.

Cite:- Cross Asset Inflation, 13 March 2019

Cite:- When The Prices Are Not Right: Is Inflation Really That Low?, 11 April 2015

This institutionalised and increasingly myopic focus on base elements drove Developed Market, or DM multilateral commerce (represented by the United Nations, World Bank, BIS, et al) towards prioritising key hard and bulk commodities, namely, Iron Ores, Copper, Aluminium, Coaking plus Thermal Coal and Crude Oils.

Cite:- The Iron Laws & Oily Rags Of The Commodity Complex, 21 June 2014

This megatrend peaked during the early two thousands when China's unprecedented ascent spiked cost-push and demand-pull inflationary pressures across Copper, Steel and Coaking Coal subsets and with it a well-deserved focal attention on what else China was yearning.

Cite:- Copper Still A Reliable Economic Benchmark, 9 May 2015

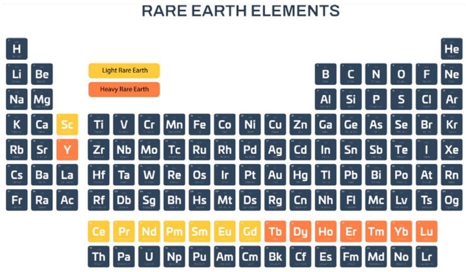
Cite:- Negotiating The New Politics Of Oil, 6 December 2014

Cite:- Timing Mining Of Asia Food Boom, 26 April 2014

What became apparent and inadvertently missed both by "***Real-Money***" Investors – those who are fully funded, unlevered and long-only, traditionally UHNW family groups or Sovereign Pension Entities – and institutional participants alike was the hyperconcentration of what has become known as, "***Rare Earth Elements***", or ***REE's***, which today form a fast growing commodity market used in a wide array of high technology and disparate products, including wind turbines, mobile phones, alloys, ceramics, Electric Vehicles (EV), supersonic aircraft and missile guidance batteries.

Cite:- Defence Complex Investments, 4 July 2018

Cite:- The Investment Theme We Like, For



A Technology We Hate: Facial Recognition Technology (FRT) and Dual-Use Applications, 13 July 2020

Cite:- The Lucrative Investment Question Of Our Time: Chinese Technology – Sino Semiconductors, Digital 元 & Cyber-Sovereignty, 26 April 2021

Rare Earths, covering seventeen elements on the periodic table, are in fact common.

Notwithstanding, China retains a near-monopoly and refines more than ninety percent of the world's current output and according to Citigroup, even the US Pentagon, through its suppliers, are a client.

Whilst China retains its dominant position in both rare earth supply and demand – and retains two-fifths of global reserves to boot – the increase in *Ex-Sino* affiliated mine and refined rare earth production is a key trend, required not only to meet increasing global demand, but to fulfil the changing requirements of downstream consumers with regards to security of supply and ESG regulation, dubbed, "*Green Capex*".

Visit:- Responsible Investing Optimisation

Cite:- Australian Standfirst First To Integrate ESG Into Its Benchmarking, 9 September 2019

Cite:- When ESG Execution Misses The Point, 21 May 2019

In 1992, Dèng Xiǎopíng quipped that, "*the Middle East has oil, China has rare earths*" and crucially, China has translated its control of the raw materials into dominance of the valuable next steps: turning oxides into metals and metals into products.

To extend Dèng's analogy, it is as if the Middle East not only sat on most of the world's oil but also, almost exclusively, refined it and then made downstream final products.

Faced with muscular Chinese industrial policy, governments that long trusted companies to manage their own supply chains are stepping in.

In February Joe Biden's White House issued an executive order to review the vulnerability of supply chains that are key to economic and national security, including critical minerals and batteries.

The European Commission in September launched a public-private alliance to secure vital raw materials and in March, Australia unveiled a plan for processing critical minerals, inviting companies to apply for public funds; Canada published a list of 31 critical minerals, part of a plan to boost supply.

But if minerals show governments' increased appetite for intervention, they also reveal the limits of what that intervention might achieve quickly; China is at least a decade ahead and de-institutionalising the base elements bias of DM State Actors takes time, after all, *a supertanker doesn't turn on a dime.*

For Real-Money Investors – many of whom made their fortunes shorting Nickel during the ***Poseidon Bubble***, going long crude during ***Desert Storm*** and 9/11 or gold bullion when the idiotic Australian Reserve Bank sold almost all of its holdings in 1997 – as the market tightens and prices rise, opportunities for generational wealth creation reappear.

Conflating with this burgeoning commodities opportunity set are the preemptive economic and '*Realpolitikal*' signals harbingering war in the Pacific basin, presciently dubbed, ***The Great Pacific War***, or ***GPW***.

Cite:- Taiwanese War & Markets Fallout, 30 January 2019

Cite:- Military Conflict With China, 6 November 2019

Cite:- Hong Kong Affects Backend Of Australian Wealth Management, 4 December 2019

Cite:- Goodbye Hong Kong, 19 April 2020

Cite:- Australia's Impossible Choice: Taiwan, 13 December 2020

Paradoxically for China, these martial demands are forcing China to consider becoming a net importer of Rare Earths (in concentrate, carbonate, oxide) and new supply is required to meet rest of world demand as early as 2025.

Investment in new projects will be necessary to meet demand for "***NdFeB***" magnets (best value-in-use magnet type) and the emerging supply gap forecasted out to 2030 has extra significance for companies not aligned with the ***Made in China 2025*** dictum.

With ***Bidenomics*** driving the ***Global Reflation Supercycle*** towards remilitarisation of Australia's near-beyond, the Pentagon would probably be able to cope, as an industry joke has it that it can carry its annual supply of heavy rare earths (the kind used in its missiles) in a single suitcase (or an Australian nuclear fuelled submarine?).

Cite:- Evidencing The Continuation Of The Global Reflation Supercycle: Outlining Australians Proximity To The Money Multiplier And What Happens Next In The Pursuit Of Exceptional Investment Returns, 29 July 2021

Albeit magnetic, there is nothing certain surrounding this newest megatrend, for as Frank Lloyd Wright also prefaced, "*An architect's most useful tools are an eraser at the drafting board and a wrecking bar at the site.*"

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