THE AUSTRALIAN

Rare earths a victim of Japan-China islands spat

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T lets is causing more angst in Tokyo because it appears to be leading to a trade w ar w ith China. Picture: AFP. Source: AFP

WE may see two mineral commodities significantly affected by what should be nothing more than a ridiculous dispute over a group of uninhabited islets.

With China and Japan now threatening to go mano-a-mano over these islands (they can't even agree on the name -- to the Japanese they're the Senkakus, to the Chinese they're the Diaoyus) there's already some stern noises being made about rare earths.

The Hong Kong Economic Journal is reporting that Beijing is planning to halt sales to Japan of rare earths, a serious threat seeing that Japan is the second-largest use of these elements (after China). It was also interesting that one of the slogans being shouted outside the Japanese embassy in Beijing by protesters was "Stop the sale of rare earth elements to Japan".

They've got form on this, the Chinese. They cut off all those vital elements like dysprosium, neodymium and the like in 2010 when the Japanese coastguard arrested a Chinese trawler near the islands.

Since then Japanese companies have been frantically seeking supplies from elsewhere, which is why money flowed into Lynas Corp (LYC), with a $225 million loan from a government agency in Tokyo and trading house Sojitz, in return for which the Japanese have been guaranteed a minimum 8500 tonnes a year for 10 years. That may not sound much, but China's total yearly exports -- which are almost all the world's exports -- are just 31,000 tonnes.

Also this year, Shin-Etsu Chemical signed to take all the output from the Dubbo rare earths project owned by Alkane Resources (ALK) for its Japanese refinery -- and will have first dibs on as much of the processed rare earths as it wants to buy.

The problem for the Japanese is that Lynas at Mt Weld has predominantly light rare earths. Alk

ll be the heavies which will, therefore, be most affected by any Chinese ban. Without dysprosium and neodymium, for example, bang goes Japanese industry's ability to make the magnets that go into wind turbines, hybrid cars and all those electronic devices with geek appeal.

And we wonder who is keeping a close watch on TUC Resources (TUC) which released more drilling results during the week? Its rare earth project is dominated by those highly sought elements dysprosium, erbium and yttrium.

There's another aggro-factor. Last month ,Japan clamped down on export of high performance magnets and associated equipment and components, aimed solely at preventing China obtaining Japanese know-how.

And gold is the other mineral which could be affected if the Sino-Japanese spat leads to something like warships going to action stations.

International tension is wonderful for the gold price, especially in an era when China is trying to corner the gold market.

Producers' burden

SORRY to go all Greek mythology on you, but the gold sector rather reminds one of poor old Sisyphus.

Just as the legendary king of Corinth was condemned eternally to roll a rock up a hill in Hades only to have it roll down again as it nears the top, so just as soon as Australia gets near to having a viable producer sector, along come predators knocking them off.

Normandy went years ago, then Delta Gold and Goldfields (even though their merger to form Auriongold was meant to prevent such a thing) and there have been plenty since.

Canada's B2Gold is the latest perpetrator, doing a merger deal during the week with CGA Mining (CGX). At least, one might think, the absorption of Integra Mining (IGR) into Silver Lake Resources (SLR) and Allied Gold becoming part of St Barbara (SBM) means ownership stays in Australia. Then you remember Auriongold and think SLR and SBM might have only made themselves even juicier morsels, possibly for the Chinese.

Zijin Mining already has 89 per cent of Norton Gold Fields (NGF) and on Thursday we saw Focus Minerals (FML) surrender 51 per cent control to Shandong Gold for $227.5 million. Focus has four producing goldmines and an existing resource of 4.3 million ounces.

As each gold success story is taken off the board, investors have to go looking for other likely ones for the future.

Deutsche Bank, reporting on its Australian mid-cap gold conference, indicates that investors have a long list of things they need to tick off when looking at gold companies -- valuation appeal, believable production profile, competitive cash costs, low capital options, resource/reserve growth options, and dividends (or at least the potential for them).

Deutsche sees gold at more than $US2000/oz by the first quarter of next year.

Its top picks are Regis Resources (RRL) and Alacer Gold Corp (AQG). With Regis, there is a nine-million ounce resource, the operating Moolart Well mine with the bulk of reserves within 20m of surface, the Garden Well mine which just had its first pour and the recently purchased McPhillamys gold project in NSW. Alacer, meanwhile, has two operating mines in Western Australia and the Copler mine in Turkey.

Iron filings

CHINA has clearly decided it's a buyer's market in the iron ore space. Why not? It makes sense to step in when acquisition values dip. The $435m offer for Western Desert Resources (WDR) and its Roper Bar iron ore project garnered plenty of attention. But you may not have noticed that Condor Blanco Mines (C) has signed with Jiangxi Hongyang Copper to sell iron ore from the Marianas iron tailings project in Chile. First sales are expected in February.

And Foster Stockbroking's Mark Hinsley recently took a close-up look at the Agbaja iron ore project in Nigeria owned by Energio (EIO). He believes Agbaja is shaping up as a multi-million-tonne play.

He says the deposit compares well with regional peers. Unlike most west African iron ore projects, it is well place in infrastructure terms, being less than 70km from a narrow gauge railway line that extends for 300km and is being extended to a port.

The other thing Hinsley likes about EIO is the iron ore experience on the board; Joe Ariti has been at Cape Lambert Resources (C) and two former listed plays, African Iron and Territory Resources, while Ian Burston spent time with Fortescue Metals Group (FMG), NRW Holdings (N) and, again, African Iron.

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