Rare earth prices soften on summer trading slowdown

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Chinese plants dump illegal RE on market; prices expected to stay at higher levels

The prices of rare earths from China have have softened in recent weeks due to a lull in trading over the summer holiday season, market sources told **IM**.
At the same time, more illegal rare earths were entering the market as the fear of Chinese government inspections caused factories to dump unauthorised material.

Rare earths are key ingredients in wind turbine motors

Light rare earth, cerium oxide, saw the biggest drop over the last three weeks, falling 20% to a range of $115-125/kg (all 99%, large purchases, FOB China).

At the same time, the price of dysprosium oxide – a heavy rare earth used mainly in high-strength magnets – dropped 12% from mid August to a range of $2,300-2,500/kg.

"The biggest drops were in dysprosium and terbium," said a source that exports rare earths from China. "They skyrocketed from the end of June, but have gone past their extremes, and returned to more realistic levels."

Dysprosium oxide prices tripled in three weeks from the end of June as the Chinese government sped up its crackdown on illegal mining operations.

The price of neodymium oxide, another key ingredient in neodymium-iron-boron (NdFeB) magnets, has dropped 6% since mid-August to $360/kg.

A Europe-based rare earth trader told **IM**: "[...] export prices have shown some signs of weakness in the past few weeks, which I largely put down to buyers inactivity during the summer period."

The first source echoed this, saying the export market had been in a "lull" during August.

Second half quotas

In mid-July, China announced its export quotas for the second half of 2011, nearly doubling the figure year on year to 15,738 tonnes.

This brought the annual quota almost in line with 2010 levels. However, Beijing included ferro alloys, containing by weight more than 10% rare earths, in its quotas for the first time.

"This is hugely significant, as rare earth ferro alloys exports from China were well over 6,000 tonnes for the first half of this year, when they were excluded from the quota," the trader told **IM**.

"The net effect is estimated at a 20% reduction in the H2 export quota – due to more products being included – despite China announcing an annual export quota figure for 2011 which is similar to 2010," the source added.

It is unclear what immediate effect the second half quotas will have on rare earth prices. According to one source, the announcement was a relief, as a "drastic reduction" in exports was widely expected in the industry.

Production crackdown

The Chinese government upped its environmental inspections on rare earth producers in the summer in a bid to shut down illegal operations and prevent smuggling.

Beijing's crackdown on miners and processors, especially in the south and west of China, has led to material being confiscated by the state.

The source active n China told **IM**: "If a factory's material was purchased on the black market they confiscated it. A lot of people were dumping the material to get it out of their warehouse."

This uptick in illegal material being dumped on the market has also had a dampening effect on prices.

"We still see the raw material price softening slightly but I think some of that right now is just because of the environmental regulation," the source continued.

It is expected to become clear by mid October as to which companies have passed environmental inspections and certified by the government as official rare earth producers.

No price collapse expected

Prices also softened in late August for other rare earth elements exported from China.

The price of lightest rare earth lanthanum oxide, used in petroleum refining catalysts, fell 8% to a range of $130-150/kg.

Europium oxide, used as a red phosphor in LCD screens, felt a 6% drop to $5,100-5,480/kg.

Prices of samarium oxide and praseodymium oxide remained relatively stable.

Market sources were unanimous that the softening of prices in August is not indicative of a return to the 'normal' prices of pre-2010, which were, for some elements, less than 10% of today's levels.

Forecasts for next year show there will be increasing disparities between demand outside of China and the current level of Chinese exports.

Domestic Chinese prices have also crept much closer those of exports, increasing China's incentive to direct rare earth supply internally.