

Nothing Rare About Chinese Rare Earths

By [The Mogambo Guru](#)

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The Washington Times reports, “U.S.’s Debtor Status Worsens Dramatically”, which I initially thought referred to a recent shopping trip made by my family, but which was not, as I deduced from the subhead “Foreigners hold 50 percent”, which wouldn’t make sense in a story where the central theme was the heartrending tale of “Man sits on curb crying his eyes out because a spendthrift wife and kids spend him into the poorhouse, whereupon he realizes in a flash of enlightenment that he will never get ahead, no matter how much he works, and he is re-evaluating his life and concluding, ‘What’s the freaking point, ya know what I mean?’”

Instead of this pathetic human-interest story, the Times reports that they come to this ugly “U.S.’s Debtor Status Worsens Dramatically” conclusion because the Commerce Department reported that “At the end of 2008, America’s net international investment position was minus \$3.47 trillion. That represents the difference between the value of U.S. assets owned by foreigners (\$23.36 trillion) and the value of foreign assets owned by Americans (\$19.89 trillion).”

The net result is that “At the end of 2007, the U.S. net international investment position was minus \$2.14 trillion. Thus, America’s net indebtedness with the rest of the world increased by \$1.33 trillion, or 62 percent, during 2008”, which was, they say, “by far the biggest annual increase in data that go back to 1976.”

Well, I got a Hot Mogambo Bulletin (HMB) for these Times fellas, because during that same time the national debt was about \$9.2 trillion at the end of 2007, and by the end of 2008 it was \$10.7 trillion, for a gain of \$1.5 trillion in SOMEBODY’S “net investment position”! Hahaha!

And Doug Noland of the Credit Bubble Bulletin reports, “Combined outstanding Treasury, GSE and MBS obligations surged \$1.949 TN, or 15.3%, in 2008 to \$14.709 TN.”

And perhaps it is this increase in foreigners’ “net investment positions” in dollar-denominated assets that is why, as Michael Kosares at usagold.com reports, “China recently expressed its interest in purchasing \$80 billion in gold (about 2600 tonnes).”

Now, although I am a greedy guy who would love to be able to buy 2,600 tonnes of gold because I would be Set For Life (SFL), it is almost nothing in the Big Scheme Of Things (BSOT), and he notes that with “nearly \$1.4 trillion in dollar-based assets, and almost \$2 trillion in total reserves, \$80 billion would consume a paltry 6% of China’s dollar reserves. At the same time 2600 tonnes translates to roughly one-third the U.S. gold reserve – a significant ambition by any measure.”

And if you think that the Chinese are bluffing, then it becomes hard to explain why although “China has quietly become the world’s leading gold producer”, it is also a fact that “most of that

production never leaves China's borders, but goes instead to the national reserves as a hedge against its currency holdings."

This is where it becomes interesting, as "China, by the simple expedient of defending its own interest, accomplishes much for the gold mining industry as a whole. By posing as a gold buyer of last resort, ready, willing and able to scoop up any sizable offer, China may have very well put a floor under the market price"!

And it is not just gold, as Junior Mogambo Ranger (JMR) James R. sent an article titled "Chinese Strategic Plans; Control of the Supply of Rare Earth Metals" from the Contrarian Investor's Journal.

The article says, "Rare earths are the 15 elements within the lanthanide series of the periodic table, plus the elements yttrium and scandium. The best known are lanthanum, cerium, neodymium, praseodymium, gadolinium, europium and samarium", which I gotta tell ya, I never heard of any of them, but they have all kinds of important, specialized, strategic uses and blah, blah, blah, none of which I understand, and I would not be telling you about them now except that I am intrigued by the sentence "China is the largest producer of rare earths. In fact, it is said that China is the Saudi Arabia of rare earths." Hmmm!

In fact, "While about 42% of worldwide rare earths resources are outside China, there are NO non-Chinese sites with any significant processing or refining capacity", and it is likely to stay that way because although "Many people are looking at establishing alternative refineries and sources outside China", they soon learn that "the investment is not necessarily a sound one because of the threat of price revenge by China. If new projects emerge, as they have recently in Malaysia and Australia, China could just drop its prices and force rivals out of business."

This is, of course, predatory pricing, an illegal activity which is "an anti-competitive practice by monopolies to bankrupt their competitors by slashing price so much that everyone makes a loss. Since the loss-making monopoly will eventually outlast their loss-making competitors, it is only a matter of time until competition is eliminated and the monopoly can increase prices."

This, then, is the kind of competitor that we face! And one that is keeping all its own gold and wants to buy more! Wow!

And you want to bravely face what looks like a developing gold standard yuan in the hands of ruthless, unrestrained Chinese competition with a fiat dollar in the hands of a corrupt, spendthrift American government and a Federal Reserve that thinks that creating more money and credit to reflate the bursting bubbles caused by creating too much money and credit is "prudent monetary policy"? Hahaha!

All I can tell you is that if you are not that brave, then forego those wistful, wishful ways, and buy gold, silver and oil, because that is what I am doing and I am not so brave as you!