MORNING NOTES

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Michael A. Berry, Ph.D.

Today's Notes:

1. Is China Real?
2. Rare Earth

1. IS CHINA REAL? (CONTRIBUTED BY CHRIS BERRY, MBA)

There is a great deal of speculation regarding China. China watchers everywhere suggest that China is a bubble of excess capacity – waiting to burst. This may be true of course. No one can deny the record imports of copper for example that are keeping the price of copper above the $3 per pound level. What is very clear and very long term is a secular quality of life cycle that has been forming for about a decade. One might mark the beginning back to Deng Xiaoping end in 1978 – the man most responsible for liberating this Chinese lifestyle tsunami following the dreadful days of the Cultural Revolution and before that the "Great Leap" pogroms of the 1950s.

All has changed in China. After 18 centuries of stony sleep China is expanding its socio economic horizons and the Chinese people are driving the expansion. This process will last for decades till the relative quality of life metrics between East and West roughly equilibrate. China is still a command economy and thus able to maintain its growth trajectory in the short run. The real question is how long Chinese capitalism can coexist with State control. We think for some time.

This AM we note a report from the International Energy Agency. The IEA indicates that Chinese demand fro oil increased 28% YOY in January. This increase was so significant that The IEA has increased its global oil demand forecast for 2010 by 1.8% to 86.6 million barrels per day. Demand in the OECD remained "persistently weak" falling by .3% according to the IEA.

> "***This year's global oil demand growth will be driven entirely by non-OECD countries, with non-OECD Asia alone representing over half of total growth***."

Furthermore while China alone will account for 1/3rd of the emerging world's increased 2010 oil demand while the entire emerging world will increase demand by 4.8%. We think this is just the beginning of a great commodity cycle that will envelop the world in the next few decades and require discovery.

Once again China is signaling her disagreement. She will continue to defend her currency (and export economy) by pegging it to the US dollar. This indicates just how serious China is about her ascendance up the lifestyle spectrum. The New York Times said,

"Premier Wen Jiabao discussed tense relations with the United States over economic disputes. In particular he said the Chinese currency would remain "basically stable," rejecting calls from the United States to allow it to appreciate, and saying that U.S. pressure made it more difficult for China to move toward revaluing the Yuan."

It is clear that the Chinese government is convinced that the dollar must fall. In retaliation to Premier Wen's remarks New York's Senator Shumer proposed a tariff on Chinese goods this AM. In twentieth century history such confrontations have gotten nasty. Most analysts believe that the Yuan is far too cheap and continues to exacerbate tremendous imbalances in the world. This can only last as long as the global export market supports cheap Chinese goods. What would a gold / silver standard do for such a dispute? Please remember that China was on a silver currency standard until pulled off by the Roosevelt Administration in the 1930s.

This stance by the Chinese signals their ability to follow a hard core and resilient policy of pegging their currency to the dollar. This AM Reuters reports that China is also paring its holdings of US Treasuries. The German Bundesbank has apparently quashed an EU proposal to back the Euro with gold. Much is changing in the currency world – a bold shift of influence from developed to developing countries is underway. China's position today is analogous to the post-war US practice of manipulating the reserve currency status of the dollar to take on debt and thus increase the American lifestyle. Plus ca change!

I am focused on a study of three separate areas that are interconnected. These include research on the emerging world, the relevance of discovery in the global commodity cycle and, of course, the junior discovery companies that are the crucial lifeblood of the supply side of the cycle. PLEASE STAY TUNED.

2. BACK TO RARE EARTH: SMALL ISSUE LARGE IMPACT

Many thanks to my friend Mr. Dieter Zander of Bleichroeder for sending this valuable article form the Defense News (February 15th).

There is now pressure on the Obama Administration to source and stockpile rare earth metals for high performance magnet applications domestically. But this is only the beginning. In short the defense industry does not want to be dependent on Chinese sources for the rare earth minerals. I have two companies that I have mentioned in the past. One is Avalon Ventures. I visited AVL.TO last summer in Canada's North West Territories near Yellowknife. I am writing an entire chapter on the evolution of Avalon's unique Thor Lake ore body over the past 50 years. You will be amazed at the number of unique metals contained therein including the even rarer heavy REEs. What a discovery bonanza!

The key message of the Defense News article is the need for a reduction of US metal dependence. We will see this in more commodities in the future. Canada has many, but not all, of these commodities. However Canada is developing her export independence (as she should) from the US. For example China's Jilin Jien has tied up most of the rich Raglan Nickel / copper belt in Quebec with the Canadian company Goldbrook Ventures (a steal at C$.36.). We make 21% of our electricity from nuclear but supply only 7% of the uranium domestically. The Alberta and Saskatchewan oil sands are beckoning Chinese investment.

In a Feb. 4 letter to Pentagon acquisition chief Ashton Carter, the U.S. Magnet Minerals Association wrote that although Defense Department officials are paying more attention to the issue,

"we need you to personally empower and direct senior leadership to take the steps necessary to resolve this situation … that people at Defense and [the] Commerce [Department] understand this is a small issue with large impacts,"

The letter is copied to the U.S. trade representative, the director of the White House's Office of Science and Technology Policy, and assistant secretaries of the Commerce, Energy and State. In the letter, the magnet makers and suppliers ask Washington to:

■ Use agency research to detail "rare earth usage and dependence, and any [U.S.] economic or national security issues that result."

■ Develop a plan "to restore specific holes in the domestic supply chain, to include mining, refining, alloying and manufacturing." DoD and several other federal entities already are doing such analyses.

■ Begin placing rare earths in the government's strategic stockpile "while the domestic supply chain is rebuilt over the next 5 years" in case of "a worldwide shortage."

■ Limit dumping and other forms of "market manipulation" by other nations to create "a level playing field for [U.S.] competitors."

■ Help U.S. mining and refining firms become a "globally competitive rare earth supply chain" through an Energy Department "grant and loan guarantee program" and other steps.

■ Focus on "defense critical components" to "support establishment of domestic manufacturing capability in critical segments of the rare earth market."

■ Support future innovation and work force development by giving money to academic institutions, government labs, companies, nonprofits and industry associations.

Of course these issues will eventually apply to numerous metals foreigners supply to a dependent US. Just examine the Defense Strategic Stockpile Analysis (April 2009) about which I have written about in the past. These important metals include copper, tungsten, molybdenum, manganese and beryllium, to name a few.

By the way, while at PDAC I met with Stans Energy. The company has two excellent heavy rare earth deposits (unfortunately not US domestic but not China either) on which I am now exercising my due diligence. Please stay tuned. Look for more awareness of our domestic extractive industries and their strategic and economic importance to this country.

future events and financial performance of the company which are inherently uncertain and actual events and / or results may differ materially. In addition Dr. Berry may review investments that are not registered in the U.S. He owns shares and in Goldcorp, Senesco Technologies, Natural Blue Resources, Horseshoe Gold, Derek Oil and Gas, Terraco Gold, Neuralstem, Piedmont Mining, MegaWest Energy, CGX Energy, Solares Lithium and Quaterra Resources. Dr. Berry is a paid advisor to Revett Minerals. We cannot attest to nor certify the correctness of any information in this note. Please consult your financial advisor and perform your own due diligence before considering any companies mentioned in this informational bulletin.