

RARE EARTHS



- Rare earth elements are now very visibly part of the geopolitical chessboard between the U.S. and China. After the U.S. imposed chip-export controls to China, Beijing delivered a countermove: it rolled out new export restrictions on rare earths, especially those used in defence and semiconductor applications, and tightened oversight of cross-border collaborations.
- Rare Earth ETFs have delivered strong returns so far this year. For instance, the VanEck Rare Earth and Strategic Metals ETF is up by 81% YTD.

What are rare earths?

- Rare earths are a group of 17 metallic elements (including scandium, yttrium and the lanthanides).
- The label is somewhat a misnomer as many of these elements are relatively common in the Earth's crust, but economically viable concentrations are rare.
- Extraction and high-purity processing are capital-intensive, technically demanding and environmentally damaging.
- These elements are central to modern technology, from smartphones, flat-screen displays and LED lighting to motors in electric vehicles, wind turbines and medical devices. They're also critical to defence: advanced platforms such as fighter jets, submarines, missiles, satellites and military lasers incorporate

rare-earth-based components.

China's Dominance

- China dominates the rare-earth value chain. As shown in the chart above China holds a large portion of the rare earth reserves globally with 44M metric tons while the US only has 1.9M metric tons. According to the International Energy Agency (IEA), 61% of mined rare earth production comes from China and the country controls 92% of global processing.
- Scale and state backing have allowed Chinese rare earth companies to maintain a significant cost advantage over global peers.
- It is estimated that the US and its allies would likely need 10-15 years to create a supply chain with the "breadth and depth" to support growing demand.
- Because of China's control over downstream (processing/separation/magnet manufacturing) rather than just mining, it holds significant strategic leverage over global supply chains.

How has the US responded?

- The U.S. response has combined short-term engagement and long-term de-risking.
- On October 30, 2025, President Trump and President Xi met in South Korea, and an understanding was announced that China would

For more information about our services, please contact:

André Chung Shui

Managing Director
+230 52512216
ac@peaqadvisors.com

Ishrat Cheeroo

Senior Investment Manager
+230 55012900
ic@peaqadvisors.com

Keshav Maghoo

Investment Analyst
+230 4687900
km@peaqadvisors.com

Nashini Ramye

Portfolio Analyst
+230 4687900
nr@peaqadvisors.com



Source: FED, ECB, BOE, BoM, Bloomberg, SEMDEX, Statistics Mauritius, MSCI, CNBC, Reuters

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keep rare-earth exports flowing for one year, subject to extension.

- Meanwhile, the US is incentivizing increased production domestically and amongst allies.
- In mid-2025 the U.S. Department of Defense (DoD) announced a major public-private partnership to accelerate a domestic magnet supply chain: the DoD's financing package for MP Materials includes preferred securities and warrants that give the DoD an effective economic stake of 15% to catalyse domestic magnet manufacturing.
- The US also signed agreements with Australia, Malaysia, Cambodia and Japan to bolster the supply of rare earths.

The Outlook

- With the U.S. securing only a one-year export-flow understanding with China, Western governments and industry are likely to ramp up efforts to blunt China's dominance.
- Canada has led a push among the G7 via a new Critical Minerals Production Alliance, expected to formalise commitments at a Toronto summit.
- Given the geopolitical dimension, investors should view rare-earths as a multi-year structural theme and consider exposure through global rare-earth ETFs or diversified portfolios across the upstream and downstream value chain.

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