



Economic Situation and Strategy

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Rare Earths: China's Royal Flush

The best possible combination of cards in poker is called a royal flush. This is the highest "hand" you can possibly have in poker. It's simply unbeatable. With a royal flush in your hand, you automatically win the next round – you're unstoppable, but you can try to "take" your opponent along with you with bets to your advantage, thus maximizing everyone's bets while simultaneously knowing that you can't lose.

A royal flush is very rare in poker, and the same applies to analogies in the political world. For example, when the USA was the only country in the world to possess an atomic bomb in 1945 and had also demonstrated its willingness to use it, it had a geopolitical royal flush. China has now achieved something similar in a sense: with a quasi-monopoly on so-called rare earths. Especially in Germany, many people still don't understand what that means.

In Germany, at least among the general public, the prevailing impression is that economic success primarily depends on having the right products, constantly being innovative, and simply making an effort. And there's nothing wrong with that, quite the opposite. However, that's far from enough.

You also need good locational conditions, and that includes, in addition to functioning authorities, acceptable taxes, and a good education system, such unromantic things as access to affordable energy and raw materials, and on a very large scale. Too often in Germany, we believe that the economy can survive on air and love, and we fail to recognize that virtually nothing in production works without energy and raw materials.

In both areas, we in Germany shot ourselves in the foot several years ago. We have become dependent on Russian gas in an almost satirical way, and we are now paying a very high price for it. And we've taken about a quarter of Germany's electricity production capacity offline by shutting down depreciated nuclear power plants, seriously believing that this wouldn't have a significant impact on shortages and electricity prices.

Unfortunately, there's now a third challenge, and this time it's somewhat less self-inflicted, but at least as dramatic. It's about China's rise as a quasi-monopolist in rare earths. It should be common knowledge by now that rare earths play an existential role in industrial products. Many rare earths are so important that entire product categories are unimaginable without them. Many people don't understand this and assume that technological innovations will make the use of rare earths obsolete. In a few cases, this is actually possible, but there are often applications that require physical and chemical properties that can only be fulfilled by certain atoms and molecular groups. One example is rhenium. Rhenium is a chemical element that does not occur in its pure form in nature, but only appears as a byproduct, for example, in copper production. The extraction process is extremely laborious, and it is not without reason that it is one of the most expensive metals in the world. Global production volume is very small, but it is almost decisive in war (sometimes literally). Without rhenium, it is impossible to produce extremely high-performance alloys, which are used in engine blades, for example. Without rhenium, there would be no powerful and economical aircraft engines, and without rhenium, there would be no efficient gas turbines. Without rhenium, turbines that burn environmentally friendly hydrogen could not be manufactured either.

Now, rhenium mining and production worldwide are not yet completely dominated by China, but the situation is different for the vast majority of other rare earths. In most cases, rare earth mining takes place in China or under Chinese control in other parts of the world. This includes not only access to the mines, but also control over logistics (railways, ports, etc.) and further processing. The US and Europe previously possessed industrial capabilities in this area, which they then happily (and strategically blindly) outsourced piecemeal to China. The reasons for this were superficially obvious: The further processing of rare earths is often a complete environmental disaster, and production is often extremely energy-intensive. However, bringing back such capabilities, including the necessary logistics chains, will not happen overnight. It took China 30 years or more to achieve a quasi-monopoly. In the West (including Germany), we would probably need at least 15 years before we are even remotely capable of taking action here again.

Until then, China holds a geopolitical royal flush. But while in poker you have no idea what your opponent is up to, here it's quite obvious, and yet not everyone wants to admit it. The situation is clear: We are vulnerable to blackmail. In any conflict of any kind, China holds a trump card that cannot be countered. China can bring the industrial production of the Western world to a standstill in a coup. This can be partially mitigated by national reserves, but the fundamental problem remains and will not become structurally smaller for many years to come.

In recent years, China has repeatedly demonstrated that it thinks much more long-term and strategically than we in the West can imagine. We think in terms of legislative periods; in China, they think in terms of decades. We have changing government constellations; in China, the ruling party is set for the next decades. The Chinese president can continue to rule indefinitely - in principle, until the end of his life. Now, the worst-case scenario doesn't have to come to pass. Ultimately, China isn't interested in an escalation of the economic and

geopolitical situation either. But China does have an interest, just like an empire of bygone times, in expanding its power and changing the rules and working methods of global cooperation to its advantage. This suggests that China will repeatedly flex its muscles in the context of rare earths to advance its own interests. And in fact, this is already happening. China has just restricted the export of rare earths to Europe, too. This is no small matter. There are already fears that Europe and the Western world will have to contend with supply shortages of rare raw materials in the coming months. These include samarium, gadolinium, terbium, dysprosium, lutetium, scandium, and yttrium, as well as now holmium, erbium, thulium, europium, and ytterbium. Previously, the industry was accustomed to being supplied with the desired quantity from China at any time, but now a phase of allocation may be beginning.

This cannot pass without its impact on capital markets. Companies that are absolutely dependent on the supply of rare earths must worry about their valuation, as a structural risk is becoming established and more concrete, which, a few months ago, was not a major factor but is now becoming relevant to valuation. And even if they are not directly affected by the restricted supply of rare earths, many companies are likely to be indirectly affected because they, in turn, depend on intermediate products that cannot survive without rare earths. Asset managers are therefore also called upon to examine their portfolios for these looming risks. But this is where the catch lies: There is no simple metric that can be used to directly measure a company's exposure to rare earths. There is a great deal of transparency regarding balance sheet metrics, but there is considerable uncertainty, especially regarding an issue as important as dependence on rare earths. In this sense, China's royal flush is not just a geopolitical coup - it has potentially enormous relevance for capital markets.

Dr. Christian Jasperneite

Market data

	As of 17.10.2025 09:26	10.10.2025 -1 week	16.09.2025 -1 month	Change versus 16.07.2025 -3 months	16.10.2024 -1 year	31.12.2024 YTD
Stock markets						
Dow Jones	45952	1,0%	0,4%	3,8%	6,7%	8,0%
S&P 500	6588	0,5%	-0,3%	5,2%	12,8%	12,0%
Nasdaq	22563	1,6%	1,0%	8,8%	22,8%	16,8%
DAX	23752	-2,0%	1,8%	-1,1%	22,2%	19,3%
MDAX	29405	-2,8%	-2,3%	-4,3%	8,7%	14,9%
TecDAX	3637	-0,6%	2,5%	-6,6%	7,3%	6,4%
EuroStoxx 50	5564	0,6%	3,6%	5,0%	13,3%	13,6%
Stoxx 50	4709	0,2%	3,8%	5,3%	6,3%	9,3%
SMI (Swiss Market Index)	12564	0,7%	4,5%	5,5%	3,0%	8,3%
Nikkei 225	47582	-1,1%	6,0%	20,0%	21,4%	19,3%
Brasilien BOVESPA	142200	1,1%	-1,3%	4,9%	7,9%	18,2%
Indien BSE 30	84100	1,9%	2,1%	1,8%	3,2%	7,6%
China CSI 300	4514	-2,2%	-0,2%	12,7%	17,8%	14,7%
MSCI Welt	4292	1,3%	0,5%	6,4%	14,9%	15,8%
MSCI Emerging Markets	1379	1,0%	2,9%	11,2%	20,5%	28,2%
Bond markets						
Bund-Future	130,00	69	129	38	-420	-344
Bobl-Future	118,89	65	98	132	-58	103
Schatz-Future	107,30	19	29	2	41	31
3 Monats Euribor	2,02	1	0	0	-119	-70
3 Monats \$ Libor	4,02	0	-2	-39	-70	-35
10 year US Treasuries	3,95	-9	-7	-50	-7	-62
10 year Bunds	2,53	-6	-12	-12	35	17
10 year JGB	1,62	-5	2	8	70	54
10 year Swiss Government	0,17	-8	-5	-28	-26	-11
US Treas 10Y Performance	642,58	0,7%	0,8%	5,0%	4,8%	8,6%
Bund 10Y Performance	568,25	0,6%	1,2%	1,7%	-0,5%	0,7%
REX Performance Index	462,20	0,6%	0,8%	1,0%	2,0%	2,1%
IBOXX AA, €	3,01	-6	-10	-8	6	-3
IBOXX BBB, €	3,31	-7	-10	-10	-15	-15
Commodities						
MG Base Metal Index	455,18	-1,9%	2,1%	7,9%	4,8%	12,2%
Crude oil Brent	60,63	-3,5%	-11,5%	-11,0%	-18,1%	-18,9%
Gold	4346,96	8,5%	18,0%	29,8%	62,8%	65,6%
Silver	32,54	0,0%	0,0%	0,0%	2,7%	9,6%
Aluminium	2806,02	1,7%	2,7%	9,0%	10,1%	11,1%
Copper	10635,84	1,4%	5,6%	11,1%	12,9%	22,9%
Iron ore	105,56	-0,2%	0,1%	8,8%	-0,6%	1,9%
Freight rates Baltic Dry Index	2046	5,7%	-5,0%	7,3%	22,1%	105,2%
Currencies						
EUR/ USD	1,1699	1,1%	-0,9%	0,8%	7,4%	12,6%
EUR/ GBP	0,8709	0,1%	0,4%	0,6%	4,1%	5,3%
EUR/ JPY	175,08	-0,8%	0,9%	1,5%	7,7%	7,4%
EUR/ CHF	0,9231	-1,0%	-1,1%	-1,0%	-1,8%	-1,9%
USD/ CNY	7,1265	-0,2%	0,1%	-0,7%	0,1%	-2,5%
USD/ JPY	150,43	-0,5%	2,7%	1,7%	0,5%	-4,3%
USD/ GBP	0,74	-0,9%	1,7%	-0,3%	-3,1%	-6,7%

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