This is China’s Top Weapon in the Trade War

So much for cooling trade tensions.

Days after China said they would not retaliate, they retaliated.

All after President Trump followed through with his promise to tack on 15% in tariffs on $110 billion worth of imports. In fact, China responded by rolling out higher tariffs in stages on nearly $75 billion worth of U.S. goods.

“China’s determination to fight against the U.S. economic warmongering has only grown stronger, and its counter-measures more resolute, measured and targeted,” according the Xinhua News Agency. One thing that “White House tariff men should learn is that the Chinese economy is strong and resilient enough to resist the pressure brought about in the ongoing trade war.”

Unfortunately, this may not be the worst of it.

China Could Weaponize its Rare Earth Supply

In early August 2019, China waved its rare earth card again.

Worse, China’s rare earths association said it would support choking off supply to the U.S.

Should China cut off rare earth supply, it could be disastrous.

Rare earths are necessary to build and operate hybrid cars, 700 pounds of neodymium are needed to build a three-megawatt windmill, iPhones, medical devices, computers, and cell phones. "The glass industry is the largest consumer of rare earths. For example, lanthanum makes up as much as 50% of digital camera lenses, including cell phone cameras. Hybrid electric cars use significant amounts of lanthanum in its batteries – 10-15 kilograms per vehicle," said Michael Widmer, metals strategist at Bank of America Merrill Lynch, as quoted by CNBC.

Also, remember that China has the largest rare earth mining capacity in the world, especially after the U.S. pulled back from mining. That only increased our dependence on China’s supply. At the moment, 35% of rare earth global reserves are in China with the country mining 120,000 metric tons or 70% of total rare earths. Meanwhile, the U.S. only mines maybe 15,000 metric tons with a total of 1.4 million metric tons of reserves, as compared to China’s 44 million.

Now, as a result of the threat, rare earth stocks could begin to move aggressively higher.

One way that investors have been preparing for the threat is with the rare earth ETF.

The VanEck Vectors Rare Earth/Strategic Metals ETF (NYSE:REMX)

Should China follow through on its rare earth threat, prices could skyrocket. And one of the best ways to trade that potential opportunity is with the VanEck Vectors Rare Earth/Strategic Metals ETF (NYSE:REMX), which targets an obscure part of the mining market – rare earths metals. The fund is heavily invested in small- and micro-caps, and has significant exposure to emerging-market issuers – the firms you typically find producing cerium, manganese, titanium, and tungsten. REMX's narrow portfolio holds just a handful of names, selected and weighted by market cap.