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Glencore PLC

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The rise, fall, and probable rise again of cobalt

The cobalt price has had two major runs in the past twenty years or so. The first was back in the middle part of the last decade, when virtually every commodity imaginable went through the roof.

The correction was severe, and after a peak of over US$50 per pound, the price crashed back, with along with everything else in the financial crisis, to the US$15 per pound level it had been trading at before the Chinese "Supercycle" hype got going.

The second run up in cobalt mirrored the runs in lithium and vanadium, at least broadly speaking, all of which were by investor enthusiasm for the potential of new generation batteries and in particular their application in electric vehicles.

So, between the end of 2016 and the beginning of 2018 the cobalt price once again spiked, hitting a five-year high of just over US$40 per pound before commencing a precipitous decline. There have been declines in the lithium and vanadium price too, but neither metal has been hit quite so hard as cobalt.

Why is this?

The answer comes in two parts.

The first is a standard narrative of over-exuberance, with investors moving too early. There will be significant demand for cobalt in the coming years, but it certainly hasn't arrived as fast as some investors had hoped it would. Indeed, sales of electric vehicles actually fell in key markets like Europe and China in the most recent quarter, as government incentives have been curtailed.

The second is more subtle. Overall, the cobalt market is relatively small, and there are a limited number of players. The bulk of the supply comes out of the Democratic Republic of Congo in central Africa, one of the most unstable and corrupt countries in the world. Buyers don't like their supply chains to be dependent on such a source, primarily for the unreliability of it, but also for ethical reasons.

And on the mining side, cobalt rarely comes in ore without copper, making the economics somewhat dependent on the pricing of another metal. In short, for a metal that's only used in relatively small amounts, it's quite hard work. So, if the shine was really going to come off one of the battery metals, it was always going to be cobalt.

Both vanadium and lithium, while a long way off 2018 highs, are still trading at higher levels than they were at five years ago.

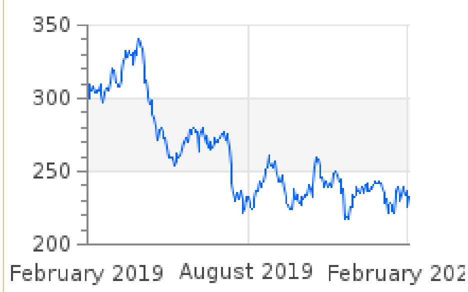
Not so cobalt. After the battery metals hype wore thin, the price tumbled back down once again to below the US$15 level, and sits currently at just over US$13.

The question now is: where will it go from here?

Price: 229.55

Market Cap: £305.06 m

1 Year Share Price Graph



Share Information

Code:		GLEN
Listing:		LSE
52 week	**High**	**Low**
	2334.5	**188.233**
Sector:		**Mining**
Website:		**www.glencore.com**

Company Synopsis:

Glencores is an Anglo-Swiss multinational commodity trading and mining company with headquarters in Baar, Switzerland, and a registered office in Saint Helier, Jersey. The current company was created through a merger of Glencore with Xstrata on 2 May 2013.

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Because although there's no doubt that the investment community did get ahead of itself with cobalt, the fundamental case that lies behind the recent exuberance hasn't gone away. Yes, cobalt is a tricky metal to deal with and some battery makers are keenly experimenting with substitution.

But the lithium-ion cobalt battery remains a staple of the electronics industry, particularly in consumables like phones, laptops and digital cameras. And the likely use of cobalt in electric vehicle batteries for years to come has sparked some extremely excitable headlines, including one from Auto Express that argued that for the UK to hit its target of converting all vehicles to electric by 2050 it will need to consume twice the world's existing supply of cobalt.

Meanwhile, last year the European Commission said that cobalt represented a potential "bottleneck" in the ongoing electrification of Europe's vehicles.

And this dynamic isn't going away soon. Alright, so the hype around Elon Musk's Tesla Corporation got a little overdone. It even got to the point where lithium companies were deliberately denying any connection to Tesla because of a fear of overpromotion.

But Tesla continues to push out new product. The major European carmakers are rushing to convert their production lines to electric in the wake of the diesel emissions scandal, and in China the hotbutton issue of pollution makes electrification of vehicles a no-brainer.

All of this bodes well for cobalt, and lithium too, although with lithium the dynamic is different since the metal is one of the most abundant in the earth's crust.

Short-term relief may even come soon, given Glencore's (LON:GLEN) recent decision to shut down its Mutanda cobalt mine in the Democratic Republic of Congo. The mine is no longer worth the candle for Glencore at the current cobalt price, but the side effect of that decision is that there will also be less supply around.

In part this is what's led analysts at UBS to forecast a cobalt resurgence in the relatively near term.

"We expect the cobalt price to increase around 60 percent over the next 18 months back to US$20 a pound," UBS said in a research note issued early in August.

"We see further material upside in 2024-2025 when the market is set to move into a deficit."

True, new supply from the DRC could fill the gap, but even so, the broader context remains. UBS forecasts electric car penetration to reach 17% or 17mln vehicles in 2025 and for cobalt demand to grow to 270,000 tonnes by then from 130,000 currently.

So how can investors best take advantage of the current low price?

Sophisticated players can take out the LME cobalt contract, of course. But for those with smaller portfolios, the mining equities represent a more obvious choice

Glencore is the biggest producer, followed by Chinese company China Molybdenum (HKEX:3993). Neither of these though, are likely to respond in any dramatic way to a resurgence in the cobalt price.

For real leverage you have to look at smaller companies, like Jervois Mining Ltd (ASX:JRV), which has the Idaho cobalt project in the USA, a rare standalone cobalt project that's been in development for years.

Jervois has only recently got in on the act here, having completed its merger with eCobalt in July, but it also has an attractive portfolio of East African prospects.

Elsewhere, Meteoric Resources Ltd (ASX:MEI) has a portfolio of cobalt projects in Ontario near Cobalt Town, although much of the company's recent emphasis has been on gold exploration.

Also very active is Global Energy Metals Corp (CVE:GEMC), which has projects in Australia, Canada, and the USA.

Others with that offer exposure to cobalt include Mawson Resources (TSE:MAW), Australian Mines (ASX:AUZ), Power Metal Resources PLC (LON:POW), Jubilee Metals Group PLC (LON:JLP), Arc Minerals Ltd (LON:ARCM) and Cobalt Blue Holdings Ltd (ASX:COB).

How much the share prices of any of them will move in the current depressed market is open to question. But just a sniff of a cobalt re-rating could radically transform the picture.