



SFP Cobalt Research

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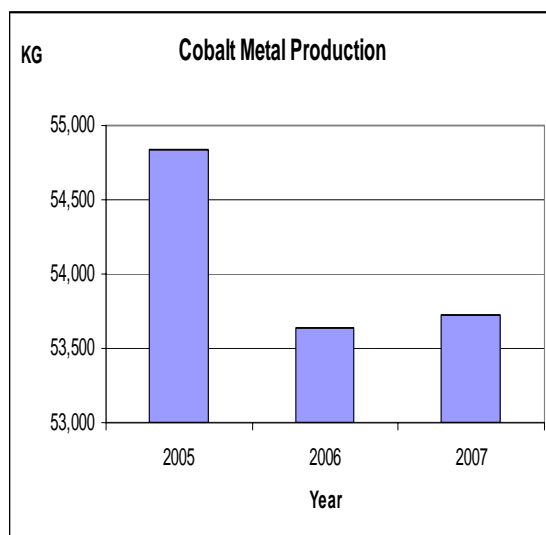
14th April 2008

CDI Production Statistics: Providing Answers to the Cobalt Price Question

- A large number of our readers have approached our research department in the last few days asking for our view on the apparent drop in cobalt prices as reflected in the published prices over the last week.
- Complex analysis, conference presentations, bull and bear propaganda, global economic volatility... all have ventured to offer an explanation to the recent strong price of cobalt, however, like all things in life the truth is often actually very simple.
- In summary, our simple comments would be as follows, all of which we would be pleased to support with the detailed statistics maintained by our research department.

1. Cobalt Metal Production Flat

The CDI 'Cobalt News' publication of this month (see attachment A) confirms that over the last 3 years cobalt metal production has not increased at all but has in fact fallen by 1,111mt (2%).



| Total Refined Cobalt Availability | |
|-----------------------------------|------------|
| Year | Total (mt) |
| 2005 | 54,834 |
| 2006 | 53,632 |
| 2007 | 53,723 |

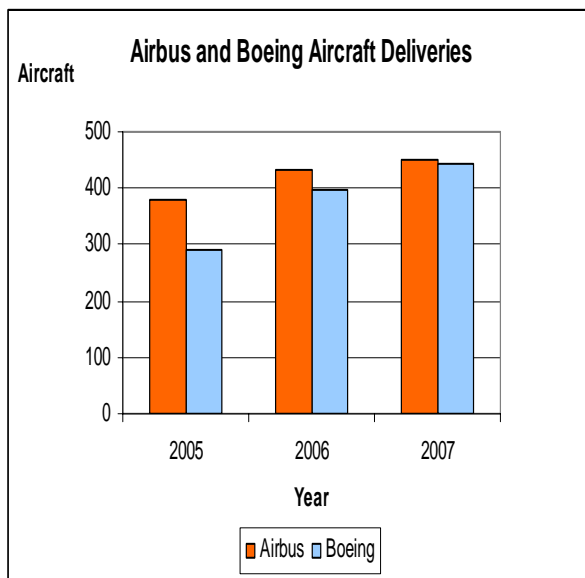
See CDI 'Cobalt News' Report Table 3 p.4

2. Cobalt Consumption Increasing

There can be no doubt that in the same period cobalt consumption in each sector of usage has increased dramatically. Detailed statistics are abundant to support this conclusion but symbolic of these are:

- The Super Alloy Sector

The explosion in aircraft orders is monitored regularly in our weekly cobalt press review. (The power generation industry has also added its significant weight to the super alloy demand).

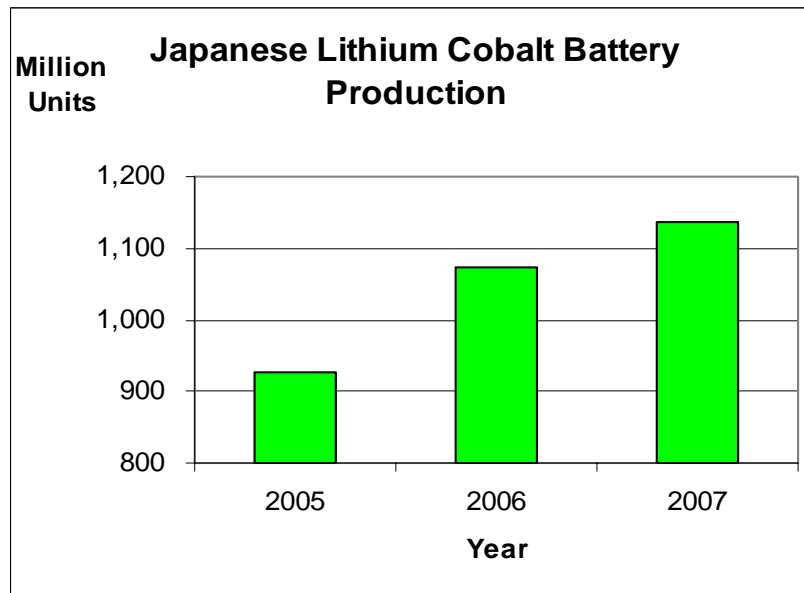


| Year | Airbus | Boeing |
|-------------|---------------|---------------|
| 2005 | 378 | 290 |
| 2006 | 434 | 398 |
| 2007 | 450 | 445 |

Airbus and Boeing show a marked increase in the delivery of aircraft from 2005 to 2007. Airbus increased their deliveries by 16% while Boeing saw an increase in the same period of 34%. The engine maker order books remain full not only for 2008 but for years to come.

- The Chemical Industry

No reminder is required of the rechargeable battery revolution and its comprehensive presence in our everyday life..... and we are only at the first step of the hybrid car generation! (See attachment B)



Japanese lithium cobalt battery production dramatically increased between 2005 and 2007 by 18.5%.

- China

In a presentation at the CDI conference in Hong Kong in 2003 an SFP colleague confirmed China's capacity to consume cobalt had increased to 5,800 mt. 5 years later figures from Antaika indicate that the figure is now 12,000 mt, an increase of 100%, and still growing.

- Should we be surprised therefore, with consumption exceeding production, a dramatic draw down on stocks, a global commodity boom (see attachment C) and a weak US\$ (see attachment C), that the cobalt price has risen to approximately \$50/lb over the last year (in a period when most other raw materials have experienced even greater increases – see attachment D)?

We think not.

- Should we be surprised therefore that the market was recently felt to be entering its tightest supply phase ever as nearby delivery premiums develop and the market holds its breath waiting for concrete news on the long awaited (and delayed) additional productions?

We think not.

- Should we be surprised therefore that certain parties identified within the industry have chosen the last week to ambush the published prices with a wall of carefully scripted negative propaganda?

Well, lets say its certainly curious given the positive fundamentals.

- The LMB, at the centre of the current storm summarised the position below:

...Oh contrary cobalt market

The cobalt market was riddled with allegations of lies, trickery and deceit last week as prices took their first dip since the beginning of the year.

Prices moved lower as producers and traders

alike looked to take profits in the market that has seen a remarkably resilient bull run since January.

But some participants in the notoriously tricky and opaque market cried manipulation, accusing three European traders in particular of shorting the market and transacting business between themselves at lower levels in an attempt to push the market down.

One of the traders in the frame told MB last week that he would not short a market that is still clearly based on strong fundamentals. The move lower is due to market forces rather than manipulation, he countered.

If anything, cobalt bulls should appreciate the pause for breath to pick up cheap material, as others that have less head for heights take profits.

After all, supply-and-demand fundamentals are still solid as a rock and the market is anticipating a comeback on pent-up consumer demand.

Price fluctuations are a sign of a dynamic and healthy market, not an excuse to stage a smear campaign.

Metal Bulletin 14 April 2008 p.3

- Guess we need to watch this space... **but we have certainly placed our bet on the LMB's forecast being correct.**

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