SFP Cobalt Research

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5th March 2009

LONDON METAL EXCHANGE
THE WORLD CENTRE FOR NON-FERROUS METAL TRADING

Cobalt and Molybdenum Conference

- **"Those who would deny the market true transparency often do so not to protect the market as it is, but to protect themselves. The market must work for the many and not the few"**

  – Liz Milan (Commercial Director, London Metal Exchange)

- **"There is scope for these markets to find their place on the LME. Whether they will succeed or not only time is likely to tell"**

  - Martin Hayes (Senior Correspondent, MinorMetals.com)

- **"With cobalt we're looking to list every brand, rather than having a single contract grade with a maximum impurity level"**

  – Chris Evans (Products Manager, London Metal Exchange)

The recent conference organised by the London Metal Exchange and Metal-Pages focused on the launch of cobalt and molybdenum contracts on the LME and attracted some 200 delegates. Below is a summary of press coverage of the event (that includes a webcast by Martin Hayes)…

LME's Milan: strong liquidity in moly, cobalt 'from day one'

The London Metal Exchange, which this week delayed the launch of its contracts in molybdenum oxide and cobalt, believes there will be strong liquidity in the contracts from the moment it releases them to the market, commercial director Liz Milan told delegates at a conference.

“There will be strong liquidity in these contracts from day one,” she said at the London Metal Exchange & Metal Pages Pricing & Risk Management conference.

Participants in the cobalt and molybdenum markets are “entitled to the same services” as those in copper, aluminium and the other metals traded on the LME.

“The market must work for many and not just the few,” she told the traders, brokers, producers and consumers at the conference.

She pointed to the steep decline in molybdenum oxide and cobalt prices in the fourth quarter of last year to illustrate the role the LME could play.

“The LME can’t prevent the collapse of prices but it can make the descent into that fiery hell less painful,” she said, by enabling its users to protect themselves against volatility and value their stock and positions accurately.

The exchange plans to list warehouses in Baltimore, Rotterdam and Singapore for cobalt and moly oxide, she said.

Each brand of cobalt will be listed separately, she said, with producers agreeing to minimum specifications for their brands.

“We’ve put together guidance notes for producers, which will go out in the next month,” she said.

But trading in the contracts may not start till next year, she acknowledged, because of work on software at clearing house LCH.Clearnet and the exchange.

“We are reliant on a number of system upgrades at the LME and the clearing house. I’m referring to the LME’s matching system, Smart, and the clearing house’s system, which will be available in October,” she said.

“Both have to be up and running – as well as [warrant system] Sword – and integrated before we launch,” she added. “This will be by the end of this year or the start of next.”

The soft launch of contracts will take place later than previously scheduled, with the possibility of cash trading possibly delayed until 2010, MB reported on Tuesday. [Metalbulletin.com 04/03/09]

Cobalt Use May Drop 6.3% This Year, Pressuring Prices, CRU Says

Cobalt demand may drop 6.3 percent this year, keeping prices below $20 a pound, according to Eric Taarland, senior consultant at London research company CRU.

“There is a risk of considerable oversupply in the medium term,” Taarland said at a conference in London today.

Consumption fell 1.2 percent last year, according to CRU.

Cobalt rose to a record $52.50 a pound in March 2008, and was at $12 a pound on Feb. 27, according to Metal Bulletin.

Blue-colored cobalt, used in rechargeable batteries, is a byproduct of nickel and copper mining. The “long term” price will be $10 to $12 a pound, Taarland said.

The London Metal Exchange last year approved the addition of cobalt and molybdenum from the second half of this year. The start may be delayed to early 2010 because upgrades to the LCH.Clearnet Ltd. clearing system is behind schedule, LME Commercial Director Liz Milan told the conference today. [Bloomberg.com 03/03/09]

Cobalt trades in ring of London Metal Exchange

Cobalt metal has been traded in the ring of the London Metal Exchange for the first time, months before the exchange launches its contracts in cobalt and molybdenum oxide.

Over 20 tonnes of material changed hands in the ring as producers, traders and consumers seized a small moment of history at a reception on Tuesday, which marked the start of the Cobalt & Molybdenum Pricing & Risk Management Conference, held by Metal Pages and the exchange.

LN Metals’ cobalt trader Tony Southgate sold 2 tonnes of Russian material to a consumer at $11 per lb as they stood in the centre of the LME ring.

“I was tempted, and sold more cheaply than I should have done because it was a historic moment. If he was phoning me up in my office I wouldn’t have dealt at that price,” Southgate told MB after he concluded the deal.

Low-grade cobalt metal is being bought and sold at between $9.90 and $12 per lb.
Southgate was not the only one to conclude a deal.
Keith Dunleavy of Stratton Metals also bought 20 tonnes of metal in the ring during the course of the party, which over 180 market participants attended.
"I probably over paid, but it was worth it to make the first cobalt trade on the LME floor, and in any case, I sold at $12.90 the other day," Dunleavy said, referring to his aborted deal with Shanghai Greatpower.
A consumer source also said that he had moved to fix a purchase in the ring.
"I did not joke. But the deal still has to be confirmed by tomorrow morning. My price is below $10 per lb," he said.
The exchange's launch of its contracts in cobalt and molybdenum oxide is set to take place in October or November, later than planned, an LME spokesman told MB earlier this week.
LN Metals is a category IV member of the exchange, while Dunleavy sits on the exchange's nickel committee. [Metalbulletin.com 03/03/09]

LME pushes cobalt and moly launch back to Q4
The soft launch of the London Metal Exchange's contracts in cobalt and molybdenum oxide will take place towards the end of this year, later than previously scheduled, the exchange's new products manager, Chris Evans, said.
The timetable for the contracts depends on clearing house LCH.Clearnet launching its Synapse clearing system, he said.
"It's in the hands of LCH. They've still slated a completion date for Synapse in the second half so we hope we can launch in the second half too," Evans said, noting that trading is unlikely to begin before the fourth quarter.
Cash trading will not begin till 2010 under this scenario, he said, though ring trading could take place from the first day, Evans said.
"Whether it's a launch in Q3 or Q4 is of limited importance," he said. "The interest in these contracts is not dependent on their launch date but on the need for the products."
The LME had hoped for a soft launch in June or July, with ring trading set to begin around October.
LCH is "working on the LME part of Synapse at the moment", a spokeswoman for the clearing house said, noting that changes to the schedule were agreed jointly by the LME and the clearing house.
"Some of the bottleneck has come from LCH. If it had the opportunity the LME would launch [the new contracts] straightaway. Everything is always bottled up by the clearing house," said one ring dealer. "We are so dependent on the systems that surround clearing and delivery of warrants that we're a bit hamstrung."
While it is frustrating not to be able to give an exact launch date, the exchange is "working closely with LCH to ensure that we get a concrete timetable", Evans added.
The LME will look to list specific brands of cobalt when trading in the metal begins later this year, Evans said.
"With cobalt we're looking to list every brand, rather than having [a single contract grade with] a maximum impurity level," he said.
Each brand of cobalt will be listed with its own specific characteristics, he said.
The LME is in talks with cobalt producers with a view to establishing the exact chemical specifications of the metals they produce.
"We're busy framing the requirements, consulting informally with a few producers," Evans said. "That means when we come to do it for real we can move much more quickly."
The LME said previously that its cobalt contracts will be for material that is 99.3% cobalt and above.
The molybdenum contract will be based on 60% molybdenum oxide and will trade in 1-tonne lots.
When ring trading of the metals begins, it will be at 12.20 pm, replacing floor trading of plastics. Evans said. The new timing of plastics trading has not yet been disclosed.
Molybdenum oxide prices will close with copper in the kerb and cobalt with nickel "to reinforce the links with the by-products", Evans said. [Metalbulletin.com 03/03/09]

LME Molybdenum, cobalt conference opens

Around 200 delegates gathered at a cocktail party at the London Metals Exchange (LME) on Tuesday evening ahead of the Metal-Pages 'Cobalt & Molybdenum Price Risk Management' Conference.

Producers, traders and end consumers among others from across the globe are attending the event put together in association with the London Metals Exchange.

Many of those attending are keen to find out how cobalt and molybdenum will be traded and what it means for them. They are also expected to use the event as a networking opportunity.

Speakers including Eric Taarland from the Commodities Research Bureau will cover topics such as: "Cobalt current supply and demand and future prospects", while CPM Group Commodity Analyst Douglas Horn, is making a presentation entitled: "The Fundamental Outlook for Molybdenum."

In an educational seminar on Wednesday, presentations on the cobalt and molybdenum contracts, as well others, on the history, organisation and services of the LME, in addition to the role of traders and hedging will be made.

The LME announced in September that it will launch minor metals contracts for molybdenum and cobalt in the second half of 2009.

At the reception on Tuesday, delegates were keen to see how the LME will handle the trading of minor metals, a much smaller, specialist market, where production depends heavily on associated base metals.

The launch is being delayed by the implementation of the LME's new electronic clearing system, and may now take place in the fourth quarter of this year, or according to somesources possibly even beginning of 2010. Notwithstanding this a couple of cobalt trades of 20 tonnes and 10 tonnes each were concluded literally "on the LME floor" last night as market participants mingled at the reception.

"I think initally prices will see more volatility, as they will be changing daily rather than, say, twice a week, but hopefully over the long-term prices will actually be more stable," a producer told Metal-Pages.

"We would like to hedge our risks on cobalt and molybdenum prices," a catalyst producer commented.

Generally the LME intitiative is generating interest among producer and consumers who would like to see more transaprent prices, and to be able to forward hedge the metal they buy or sell.

There have also been reservations about the thinness of the markets by comparison with base metals, and the potential excessive influence that banks and hedge funds could have in such small markets, as well as the risks financial institutions could take by playing in such a specialist field. So physical market players are waiting to see how the new contracts will be implemented, and what impact it would have on the free market current pricing mechanisms. [Metal-Pages.com 04/03/09]

LME molybdenum, cobalt trading faces delay

The launch of cobalt and molybdenum trading on the London Metal Exchange may be delayed by until early next year, LME Commercial Director Liz Milan confirmed on Wednesday.

An upgrade to the London clearing house system may force the launch to be put back, although it could go ahead as soon as October should work be completed, Milan said at the Metal-Pages 'Cobalt & Molybdenum Price Risk Management' Conference in London.

The LME announced in September that it will launch minor metals contracts for molybdenum and cobalt in the second half of 2009.

Once trading of cobalt and molybdenum does get off the ground, the LME says it will revolutionise markets, as it previously did with nickel, promoting price transparency and preventing volatility.

Milan said the suspicion is that the market is in the thrall of a few individuals, who can influence the price by talking their book, while research shows that non-exchange metals more volatile and that LME regulation means prices are actually the most representative.

"The market must work for the many not the few" Milan said.

LME is aiming to set the industry reference price, expecting existing business relationships to continue.

Buyers and sellers will be able to hedge risk by using LME cobalt and molybdenum contracts as an insurance policy, Milan said.

“If there has ever been any doubt the collapse of molybdenum prices in the fourth quarter should focus minds,” Milan told around 200 delegates gathered at the conference.

She shrugged off criticism that trading on the LME will lead to greater price volatility because of speculation by hedge funds.

“Hedge funds are not always wrong and long,” she said. [Metal-Pages.com 04/03/09]

Cobalt set to be below $20 a pound this year- CRU

Cobalt prices are expected to be below $ 20 a pound this year against weak demand in consumption sectors such as batteries, aerospace, super-alloys and chemicals, and then increase next year before easing as new supply starts against stronger consumption, industry analysts CRU said at the Metal-Pages/London Metal Exchange (LME) minor metals event in London on Wednesday.

Cobalt prices are already around $ 10-12/lb, which CRU had given as its long-term forecast in recent months. The market has slumped recently in line with virtually all metals since the middle of last year, prompting big cuts in world production.

Speaking on the new London Metal Exchange (LME) cobalt futures contract set to launched later this year, CRU senior consultant Eric Taarland, said: "The current downturn in economic activity will hit demand in key sectors, with recovery not forecast before 2010.

"Currently the market looks like it will register a small surplus in 2009 as one or more of the probable new projects start in 2009/10 a significant supply surplus may start to emerge.

"China is understood to be sitting on a substantial stockpile of concentrates, possibly equivalent to 3 months consumption, which may impact apparent demand through Q1."

The LME will launch the world's first two futures contracts for cobalt and molybdenum in the second half of this year.

"Battery chemicals looks set to be relatively weak in the short term as consumer demand has weakened, leading to a drop in sales of personal electronic equipment and the batteries used to power these devices," he said.

"The crisis in the car sector could have a considerable impact on potential HEV sales. The aerospace sector, in particular, has suffered under the pressure of high oil prices, and now by the collapse of passenger and air freight.

"The poor outlook for mining and manufacturing is likely to reduce demand for super-alloys."

According to CRU analysis, world demand fell slightly at 1.2% in 2008 and will fall another 6.3% this year. The market is typically some 50,000 tonnes a year in terms of supply and demand.

Currently cobalt finds most use in chemical form in a diverse range of applications, primarily in rechargeable batteries, he said.

Around 54% of world cobalt demand in 2007 was in the chemicals sector, with super-alloys accounting for another 19%.

Despite the current climate, further growth from the battery sector is expected as electric and hybrid electric vehicles become more usual, he said. [Metal-Pages.com 04/03/09]

LME cobalt and molybdenum prices will become industry reference - Milan

The LME cobalt and molybdenum prices, when they are launched, will become the industry reference immediately, as they will be the most representative at any point in time, Liz Milan, Commercial Director at the exchange said on Wednesday.

"Already contracts are being written that factor in the future LME price. From day one of trading we will be an industry reference price. Very soon thereafter we will be the industry price, she said at a conference organised by the LME and Metal-Pages.

She said that because the LME markets are widely tradeable, open to all and are regulated, prices are the most representative at any point in time. Exchange-traded contracts will mitigate users from some of the current practices, as well.

"Taking into account the entire supply chain, it’s the consumer who has often borne the brunt of current practices. Simply put, they are at the mercy of formula contracts linked to prices that they have no means of influencing," she said.

"The suspicion is that the market is in the thrall of a small group of powerful individuals able to talk the price higher or lower depending how it suits their book."

At present, minor metals references are based on publication prices. These often reflect reported transactions that are backward-looking and the evidence proffered to prove they took place is often flimsy.

But LME contracts are more transparent, and the introduction of minor metals will revolutionise the cobalt and molybdenum markets, just as the launch of nickel did, 30 years ago. Transparency does not damage a market -- rather it opens up the price to all levels of the industry chain, allowing them to participate and manage their own risk.

"Those who would deny the market true transparency often do so not to protect the market as it is, but to protect themselves. The market must work for the many and not the few, she said.

HEDGE FUND INVOLVEMENT

Meanwhile, the volatility that arises sometimes from the involvement of speculative players should not be viewed as harmful. The assumption is too often made that volatility comes from the involvement of companies outside the market.

"For some in the minor metals industry to lay these claims at the hedge funds is ironic to say the least, and a clear deflection from some of their worst excesses over the years. The injection into a market of other participants ensures not only liquidity but thereby enables industrial users to get in and out of their positions," she said.

The LME is a regulated market, and does not allow market participants to build up dominant positions.

"We have tried and trusted regulation in place to monitor every position down to one lot and require immediate action of anybody with a dominant position to sell their holding and ensure the market is not at risk of distortion by their actions."

She added that the LME is not looking to replace, or even seek to replace, existing business relationships, and buyers will continue to buy from their usual supply sources at premiums or discounts they negotiate.

"The same applies to producers and how they sell -- the LME changes nothing in this respect.

What the LME enables in its purest form is for the market to hedge any risk arising on those transactions," she added.

The LME had originally hoped to start cobalt and molybdenum-oxide contracts in the second half of the year, with a soft launch, followed three months later by a hard launch, but has had to defer, due to delays in the clearing house upgrading its systems.

"We plan to launch trading at the end of this year or early 2010. Consideration had been given to an earlier launch but development work at the London Clearing House on their new clearing system makes it impossible to start sooner," she added.

The actual timing depends partly on the introduction of Synapse, a new clearing system by LCH.Clearnet, who clear business on the LME, and this has been delayed. [Minormetals.com 04/03/09]

Cobalt traders reports business in LME ring, undeterred by launch delay

Exchange-traded cobalt futures may still be some way off, as the LME will not officially launch them until later in 2009 at the earliest, but OTC business has already been traded on the open-outcry floor.

This week an industry conference, organised by the LME and Metal Pages, is taking place in London, and to kick off the event a cocktail reception was held on the exchange's trading floor in its premises in the City of London on Tuesday evening after the market closed.

Some 200 delegates attended, with some taking the opportunity to sit on the red leather benches that, hours earlier, were occupied by LME ring-dealers.

"Business took place in cobalt - Russian 99.30 percent traded at $12.75 a pound, which is a good price," a senior cobalt trader said.

Official trading of LME cobalt, as well as molybdenum, is still some way off. It will be either at the end of this year or early 2010. The actual timing depends partly on the introduction of Synapse, a new clearing system by LCH.Clearnet, who clear business on the LME, and this has been delayed. [Minormetals.com 04/03/09]

Cobalt market could be in significant surplus by year-end - CRU

The cobalt market could be in significant surplus by year-end as demand will not recover from the current economic downturn until 2010 while new projects will improve the supply outlook, Eric Taarland, senior consultant at CRU International said Wednesday.

"Currently the market looks like it will register a small surplus in 2009," he told some 200 delegates at a cobalt and molybdenum conference organised by the London Metal Exchange and Metal-Pages.

"As one or more of the probable new projects come on stream during 2009/2010, a significant supply surplus could start to emerge," he added. Charts in his presentation pointed to a surplus of some 20,000 tonnes at some stage next year, rising to maybe 50,000 tonnes by 2015.

Taarland said China is sitting on a substantial stockpile of cobalt concentrates, possibly equivalent to three months of consumption, which may "impact apparent demand through the first quarter."

CRU sees cobalt demand falling by another 6.3 percent in 2009 to around 55,000 tonnes, after a 1.2-percent decline in 2008, as the current downturn in economic activity hits demand in key sectors, especially rechargeable batteries, other chemicals and also superalloys.

The financial crisis has caused a drop in sales of personal electronic equipment and the batteries used to power these devices, while the aerospace sector has suffered from a collapse in passenger and air freight.

"A true recovery will not happen before next year...but the recovery should be considerable," Taarland said.

CRU forecasts a rebound in cobalt demand by 10.3 percent in 2010 to above 60,000 tonnes, and another 4.8 percent increase in 2011.

"Despite the current climate, further growth from the battery sector is ultimately expected as electric and hybrid electric vehicles become more commonplace," he said.

On the supply side, Taarland said significant production cutbacks in recent months to cope with the slump in demand should be more than offset by new projects set to come on stream in the short to medium term, especially from number one producer the Democratic Republic of Congo.

Some projects, however, are still awaiting significant capital expenditures and are therefore subject to delay and cancellation, he warned.

CRU's long-term price forecast for cobalt remains unchanged at $10-12 a pound. In the shorter term, it expects cobalt to remain below $20/lb in 2009 before firming in 2010 on the back of a demand recovery and retreating again gradually as new supply comes on stream. [Minormetals.com 04/03/09]

Cobalt metal market will not recover till 2010, Cru predicts

The cobalt metal market will not recover till next year and prices are likely to remain below $20 per lb in 2009, Cru consultant Eric Taarland predicted.

“True recovery will not take place before 2010,” Taarland said at the London Metal Exchange & Metal Pages Pricing & Risk Management Conference.

Demand will fall 6.3% in 2009 because of the decline in demand across the industrial sectors that use the metal, he told delegates.

Prices are likely to remain below $20 per lb this year, he forecast, adding that Cru’s long-term forecast for cobalt metal remains at $10-12 per lb.

Low-grade cobalt metal is trading at $9.90-12 per lb, while high-grade is trading at $11-13 per lb.

“All key sectors are likely to be affected in the economic slowdown,” he said.

The battery chemical sector “looks set to be relatively weak in the short term as consumer demand has weakened, leading to a drop in sales of personal electronic equipment and the batteries used to power these devices”, Taarland added.

The super alloys, GTL catalysts and carbides and hard tools sectors are also under pressure, he noted.

But demand will rise 10.3% in 2010 and 4.8% in 2011, he said.

While there is significant potential for new projects to come on stream, particularly in the Democratic Republic of Congo, in the years to 2015, the fall in commodity prices has caused cutbacks in output and made it more likely that projects will be delayed or cancelled.

“Currently, the market looks like it will register a small surplus in 2009,” Taarland said. “As one or more of the probable new projects come on stream during 2009/10, a significant supply surplus could start to emerge.” [Metalbulletin.com 04/03/09]

Cobalt prices notched higher, as LME hosts a marketplace

Somewhat higher bid and offer prices emerged for cobalt this week, although lower priced business has also taken place in the course of the LME and Metal-Pages seminar in London over the past two days.

A two tonne deal was reported concluded at $ 11/lb, and another ten tonne deal is understood to have gone at a price closer to $ 10/lb, however higher price business was also concluded, and today several traders reported bids coming in at $ 12/lb, with offers closer to $ 13/lb.

Market players who were selling aggressively in recent week continue to price below the mainstream market, traders and producers said, however others seem less willing to drop the price.

"We have all seen reports of the Chinese buying at $ 8-9/lb but I don't know anyone who's traded at those prices," commented a trader who reported doing business around $ 11/lb.

"It has become harder to find material now than it was when cobalt was at $ 48/lb," a trader said adding,"The prices are probably up $ 1 on yesterday's quotation, although I am not sure why."

"Offers are being pegged at $ 13/lb while the Chinese buyers are bidding at $ 12/lb, and that's where the market is today," another trader said.

While the LME is postponing the implementation of its cobalt and molybdenum contracts until the first quarter of the year by which time LCH Clearnet'selectronic clearing system synapse is in place, this has not hampered physical trade taking place on the exchange. Not perhaps what the LME had in mind.

"You can say that cobalt was traded on the LME today," a trader told Metal-Pages yesterday, having bought 20 tonnes from a producer on the floor of the ring where delegates met for the reception.

So why do you need the LME?

As Chris Evans, LME's new projects manager pointed out at the Cobalt & Molybdenum Pricing & Risk Management seminar today, only % of the LME trading involves physical delivery of material. What is being discussed here is a pricing mechanism, with the market being opened to non-physical trader which, supporters say, will introduce liquidity (and opponents fear will skew the market).

Details of the contract are still being ironed out, but it is being based on tonne lots and 99.3% grade. Due to a variety of grades and products being traded, rather than introducing a spec, the LME proposes to list several brands that will be deliverable to the exchange.

Cobalt and moly are due to trade in the ring at 12.20-12.25 pm BST, with cobalt also trading in the late afternoon nickel ring at 16.45pm.

The primary reason that people appeared interested in the contract was the opportunity to hedge the purchasing and sales risks associated with not having a transparent forward pricing mechanism.

Contract formulas are currently based on published free-market prices which by their nature are retrospective.

As one of the seminar speakers, Georgie Baker, director of Standard Bank points out, having transparent prices will also ease for producers and traders the process of obtaining finance from banks, who like to deal in a known quantity and a risk they can assess. [Metal-Pages.com 04/03/09]

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http://www.minormetals.com/

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