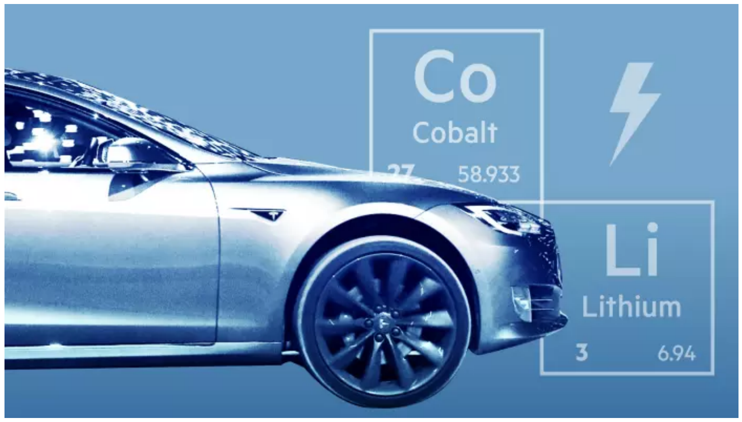
Cobalt

Cobalt miners play a strong hand in price setting

Carmakers struggling to lock down supplies of metals needed for batteries



Manufacturing batteries for electric vehicles such as the Tesla Model S requires large supplies of cobalt and lithium

Henry Sanderson
6 HOURS AGO

Robert Friedland calls it the "revenge of the miners". As demand increases for battery materials, producers will find themselves in the driving seat as carmakers scramble to roll out their electric vehicle fleets, according to the billionaire investor.

"Opening soon at a theatre near you — it's the revenge of the miners," Mr Friedland, who is credited with discovering the giant Oyu Tolgoi copper deposit in Mongolia, told a packed conference in London last week.

Not surprisingly, carmakers such as Volkswagen are having difficulty locking down metals such as cobalt and lithium.

The price for cobalt, a key battery metal, has risen by more than 100 per cent so far this year, and almost all analysts forecast further increases in price since there is little new supply arriving over the next few years. And most new supply is due to come from the Democratic Republic of Congo, one of the world's poorest countries, which increases the risk of disruption.

VW issued a tender in September for a minimum of five years supply at a fixed price, but struggled to get any miner to sign up. Cobalt miners recently attended another round of discussions at the carmaker's headquarters in Wolfsburg and discussions are ongoing.

Cobalt's climb continues

LME 3-month price ($ per tonne)

Source: Thomson Reuters Datastream
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With miners anticipating higher prices, they are unwilling to guarantee supply at a fixed price. Furthermore, almost all carmakers and battery producers are looking for supply of cobalt, so miners are not short of customers.

Miners are also watching battery makers in China, who are being urged to increase scale and production. CATL, a Chinese battery maker that is looking to raise $2bn on Chinese stock markets, wants to expand from an annual production of 7.5GWh to 41.5GWh by 2020. Glencore, the biggest producer of cobalt, is listed as the company's second-biggest supplier in the first half of this year, according to its prospectus.

"The fixed-price route is simply out and off the table," says one cobalt trader.

So what could a deal look like that satisfies both sides?

Analysts say it's likely to have a price floor and a price ceiling, so as to ensure that miners receive the upside but are protected against the downside, should prices turn. Such a collar agreement would also mean that carmakers are protected against excessive price rises.

It could also include a pricing formula, such as a discount on higher prices, so the buyer has some protection against rapidly rising prices.

"It's a trade-off between how much the supplier is protected by the floor and prepared to cap the top price," one trader says.

The picture, however, is not all clear for cobalt miners. Should prices rise too high, that may encourage carmakers to further reduce the amount of cobalt used in batteries and even push for a shift to a new battery technology. That could benefit other metals such as nickel, or even materials such as silicon or sodium.

"We expect car companies to lean on battery makers to spend more R&D dollars to accelerate reductions in cobalt content," Colin Hamilton, an analyst at BMO Capital Markets, says.

Miners may want revenge but could lose their leverage by pushing too hard.

The Commodities Note is an online commentary on the industry from the Financial Times