Cobalt Supply Chain Massively Disrupted by Glencore and China

written by Peter Clausi | March 15, 2018

China-based GEM is reported to have signed an agreement with Glencore PLC for 52,000 tonnes of cobalt hydroxide. This has massive real-world implications for the availability of cobalt and for pricing.

According to Bloomberg (the terminal, not the mayor), "GEM Co., Ltd. collects and recycles cobalt and nickel scraps into ultra-fine cobalt and nickel powder and other products." Revenue for 2016 was 7.7 billion CNY (USD$1.2B). Market cap is roughly 28B Yuan or USD$4.4B. Glencore is a huge commodity trader, ranking 10th on the list of the largest companies in the world for 2015, and in 2016 ranked 16th in global revenue.

Initial reports were that Gem had agreed to buy 52,000 tonnes of cobalt from Glencore per year for 3 years, but other reports later gave it as 52,000 tonnes over three years. There is still a lack of clarity on this point. If it's the former, that's half of the world's cobalt supply being consumed by one consumer – that's highly unlikely given the dynamics of the cobalt market. But even 52,000 tonnes over three years sucks about one-third of the world's supply of cobalt out of the market, an amount that can't help but drive up the price.

Global consumption of cobalt is roughly 100,000 tonnes per year. (Glencore is forecasting a production increase, from which the supply is expected to come.) That's very small. Contrast that with copper production which was about 19.4 million tonnes in

2016 . Such a small market is very vulnerable to supply shocks, and this mass consumption of cobalt is a supply shock.

As with almost anything involving China, there are puzzles wrapped inside conundrums buried inside unreliable data. But this we do know. The world needs cobalt for the high-tech magic that is the cathode in a lithium-ion battery. If it's rapid charge / discharge, that battery has cobalt in it. That includes cell phones, rechargeable smart devices, laptops, toothbrushes, power tools, Bluetooth headphones and, most pointedly, electric vehicles. Hello, Tesla.

This agreement is another example of China looking far ahead – here, it's the pollution issues being solved by mandating electric vehicles. Cobalt is needed for the batteries in those vehicles. That cobalt going over the Big Red Wall through Gem will be consumed in China, and the rest of the world will have to fend for itself.

We've recently seen news that end user manufacturers like Apple, Tesla, Volkswagen and Samsung have been looking to secure long-term supplies of cobalt. You snooze, you lose. Gem pulled the trigger on a strategically critical purchase for a strategically critical metal. Panasonic and LG are back to playing catch-up. And since Panasonic supplies Tesla, expect continued production woes from that marketing machine.

The Congo hasn't helped this market tightness. Remember that the 2016 presidential elections are scheduled to be held sometime this year. Making things worse is the new tax and royalty regime introduced last week, creating a disincentive to produce the element falling as #27 on the periodic table.

Expect the multiyear bull market in cobalt to continue. Expect to see similar but smaller announcements from other multinationals. Expect the interest in northern Ontario (a

geologically bizarre region shockingly rich in cobalt) to continue.