Lithium and gold: two safe havens in a storm

Two commodities that are doing so well when almost everything else is not: lithium and gold. While as different as chalk and cheese, they are becoming increasingly valuable in terms of what people are prepared to pay for them. Indeed, last month *The Economist* did a lithium update under the headline “An increasingly precious metal”.

On a day when oil sinks again, nickel subsides below $8000/tonne (compared to $50,000 at its peak), the world groans under surpluses of everything from iron ore to aluminium, the Japanese stockmarket (and others) are in panic mode, and with negative interest rates becoming the central bankers’ last, desperate resort, it is remarkable the lithium and gold stand well away from the pack.

Gold we know about. It rose as much as $56/oz on Thursday, its biggest one-day gain since 2009. London’s *The Daily Telegraph* on Thursday had this shouting headline: “Investors ‘go bananas’ for gold bars as global stock markets tumble”. The second headline then told readers: “Bullion dealers report record sales as buyers ‘queue round the block’ to purchase the precious metal”.

Well, apparently something similar is happening in China to lithium with reports that industrial users there are buying at increasingly high spot prices – the latest report quotes $16,000 for lithium carbonate. While gold is the new (yet again) safe haven, so lithium is seen as the “new gasoline” (in the words of Goldman Sachs). As *The Economist* put it, “the element is a vital component of batteries that power everything from cars to laptops and power tools”.

When the magazine was covering that subject last month, lithium carbonate was fetching $13,000/tonne – that was more than a 100% rise in two months.

Otherwise, the outlook is wretched. Fitch Ratings says the uranium price, now around $35/lb, won't get to $50/lb before 2020. And the slump in commodity prices is a real big problem for the world in that all the commodity exporting countries from Nigeria to Brazil to Australia are doing it real tough as their export incomes shrivel. That is bad news for anyone looking for new signs of green shoots signalling world economic recovery.

Looking down the list of Canadian important export items, the prices that country received for coal was down 32% for the year in 2015, iron ore by 24%, palladium 30%, copper by 25%, zinc 30 per cent and aluminium by 19%.

And oil? What a mess. The United Arab Emirates oil minister tried to steady the price overnight by saying OPEC would look at reducing output, but almost no one believed him.

The reason is that oil producers have piled up so much debt they have to keep pumping just to stay solvent.

The Bank of International Settlements (based in Switzerland and the banker to the central banks) has published a report that claims the oil industry is drowning in debt. Between 2006 and 2014, oil and gas company bonds shot from a total of $455 billion to $1.3 trillion. Over the same period syndicated loans to the sector went from $600bn to $1.6 trillion. As the BIS explained, oil companies with high debt levels are focused on avoiding "corporate distress or insolvency". If they cut production, there will not be enough income to service the debt. So the oil keeps being pumped.

By contrast, gold and lithium share the luxury of being in high demand – gold for wealth preservation and lithium to keep making batteries. In a scary world, they are safe havens – and there are not many mining products you can say that about at present.