Zombies in the Land of Cobalt

It's like *Pet Sematary*. Just when you thought they were buried and gone, just when you come to terms with your losses and say goodbye, they come back. No, not recycled politicians, ex-spouses or 70 year-old rock&rollers on their fourth farewell tour. We're talking about the metals.

There weren't many consistent themes at PDAC in Toronto this year, but one constant credible whisper was that this will be the year gold finally makes a big move. Since hitting its high of over USD$1900 per ounce in late August, 2011, gold has given the market a few reasons to hope but few reasons to believe. The current global macroeconomic factors now in play finally add to the reasons to believe.

As stated by Jeff Currie, Goldman Sach's global head of commodities research in early March, 2019, "We actually think this is a pound-the-table time to be buying gold right now. We're sticking to our $1,450 target."

When gold is alive, all the metals get to suck in a deep breath of fresh air. Our pick for the metal that should have a tremendous 2019 is our old friend, #27 on the periodic table, cobalt.

Our thesis is first, gold's spike will renew interest in the mining sector generally, and second, the globe is facing a shortage of key minerals vital to drive the Green Revolution. The Green Revolution requires cobalt or there won't be mass produced lithium-ion batteries. Without those batteries, there is no Green Revolution. If you think the world will produce more electric cars than last year, then be a cobalt investor.

Our last look at cobalt was in September of 2018. We looked at how the price per tonne on the London Metal Exchange had blown up from roughly $24,000 to $94,000, and then over the past year sank back around $30,000. It was not a happy time to be a shareholder in cobalt explorers, as pricing in their shares tracked downwards with the plunge in cobalt pricing.

At PDAC this year I asked the question to many industry participants, what caused the ill health in the cobalt market? There was no consistent first answer, but it seemed like everyone's second answer was to blame China for some form of market interference.

Artificial market conditions can only continue for so long before they return to the norm. That might be happening now.

In September we looked at six cobalt companies and their performance YTD. Here they are as of today's date.

Name	High	August, 2018	Today
First Cobalt	$1.65	$0.26	$0.165
Cobalt Power *	$0.50	$.045	$0.01
Cruz Cobalt	$0.41	$0.08	$0.05
eCobalt Solutions	$2.10	$0.54	$0.34
Cobalt 27	$14.00	$5.73	$4.30
CBLT **	$0.09	$0.03	$0.025

*Cobalt Power changed its name to Power Group Projects and carried out a 1-for-12 consolidation, and is now trading at $0.13 per share. The price in the table above reverses the consolidation for comparative purposes.

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The numbers show the junior cobalt explorers are still in a coma.

The main reason for continued enthusiasm for cobalt recovery is that the basic economics of supply and demand have not changed. Cobalt is an essential element in lithium ion batteries. The average cell phone, for example, requires roughly 12 times more cobalt than lithium. Tesla’s Model 3 requires 15 kg of cobalt per car. Assuming Tesla hits its production target of 500,000 units, an additional 7.5 million kg of cobalt will be consumed for one model for a minor car producer. That’s roughly 7% of incremental global supply needed for only that one model.

The global market for cobalt is only 100,000 tons per year. That sounds like a lot, but realize that a freighter can take a 100,000 tons of iron ore in one load and ship it across the oceans to India for processing. The cobalt market is comparatively small, leaving it more exposed to kinks in the supply chain.

The car manufacturers understand that vertical integration in their cobalt supply chains will be vital to their success, just as in the rare earths industry. We have seen Volkswagen and BMW announce forays into the cobalt market to secure a long-term cobalt source for their vehicles. They are not content to rely on the Congo (source of 60% of the world’s cobalt) or upon China who processes is more than half of the world’s cobalt.

This is part of the thinking behind FocusEconomics’ latest cobalt projection, which is calling $40,000 per tonne this year for cobalt and then $50,000 in 2021.

We are finally seeing normalization start to play out in the global pricing for cobalt. After a punishing spiral, cobalt has had a 13% jump since March 15/19. While it’s possible these are just zombies stumbling in the dark, we believe this is Life returning to a once buried market.

Trading summary | Current year summary | Price graph | Average prices | Contract specs

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