Moly – Damned in Perpetuity?

Mark Anthony in Shakespeare's words declaimed over the body of Julius Caesar:

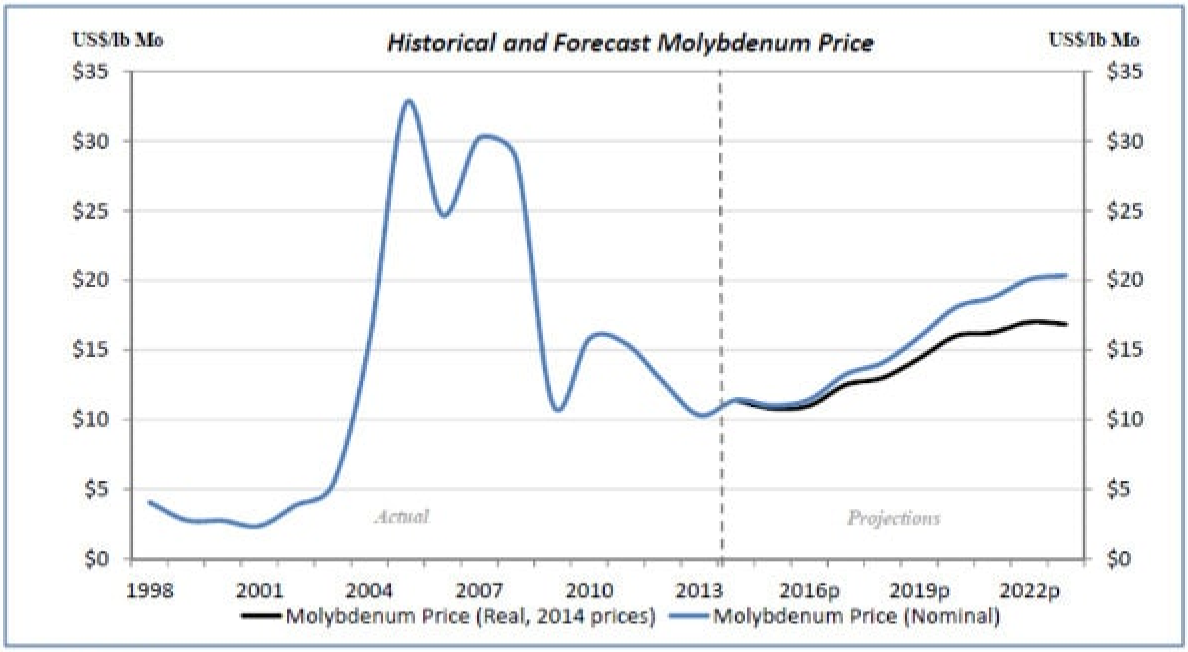
> *You all did love him once, not without cause:*
> *What cause withholds you then, to mourn for him?*
> *O judgment! thou art fled to brutish beasts,*
> *And men have lost their reason.*

Well, may we use the same words to describe the fate of Moly. This once "hot" metal is now the mineral equivalent of a leper in our midst forced to wander along Bay Street ringing a bell, to warn travelers, and crying "Unclean, unclean". Such is the noxious nature of Moly these days. And yet in the run-up to 2008, Moly was the metal investors could not get enough of. In some respects it was hotter than gold. And yet now, how is the mighty fallen.

What Ails It?

I can recall a meeting back in 2008 or even 2008 just before the LME introduced trading in Moly and Cobalt with a company in the Moly space telling us that it would be a disaster. Logic dictated that there was no way that a clearer, more transparent market should result in the end of life as we know it. But curiously Moly has never been the same.

The chart below shows the wild ride the metal has had in the last decade. Currently its price is little changed from the post-2008 lows from which there was a meaningful rally in 2011 before it sank again.



Source: CPM Group

We stumbled upon this chart in a presentation for General Moly, a company that hopes to develop its Mt Hope mine in Nevada. The projection part of the chart (by CPM Group) is interesting and points to a well-nigh 100% appreciation over the next eight years.

We have heard various reasons posited for the weakness of the metal. Prominent amongst these are:

- strong U.S. dollar,
- weaker macro sentiment in Asia and Europe
- demand contraction for “at the wellhead” Moly-based

steels relating to energy production

However, none of these is really convincing and we shall look at some of them here with regards to their credibility. The weakest argument is the strong US dollar argument as the oil price was very strong for the last few years also thus negating any higher cost for Moly in dollar terms, but in any case Moly has been cheap in absolute terms!

Applications

Key to understanding Moly's attractions as a steel alloy is its anti-corrosive qualities. For this reason it is used in clean water systems, pipelines, desalinization plants and other water treatment plants. More prominently promoted though is its role in oil & gas production and infrastructure, such as:

- Pipelines
- LNG storage and transport
- Off-shore oil & gas
- Horizontal drilling and fracking
- Reducing SO_2 emissions (moly as a catalyst)

Demand

Something has just not quite added up in the bull version of Moly in recent years (in fact since 2008). As noted the main driver of Moly is supposedly products known as Oilfield Trade Goods (OFTG) and, excepting the last nine months when oil & gas prices have slumped, drilling and infrastructure in the energy industry has been on an absolute tear since 2010 with the fracking boom. And yet…. nothing has measured up to expectations. The demand has clearly been there so the problem must be there OR other parts of the usage universe for Moly are not pulling their weight.

Production

So if demand is not bad then the problem could be on the supply side. It is worth noting that the amount of molybdenum recycled as part of new and old steel and other scrap may be as much as 30% of the apparent supply of molybdenum.

It is interesting to look at the latest USGS numbers for the metal. The estimated US mine output of molybdenum in concentrate in 2014 increased 8% from that of 2013. U.S. imports for consumption increased by 17% from those of 2013, and U.S. exports increased by 4% from those of 2013. Reported U.S. consumption of primary molybdenum products slightly increased from that of 2013. Apparent consumption of roasted molybdenum concentrates increased by 4% from that of 2013.

As can be seen below, LME warehouse stocks are not that high.

Another part of the problem might be the Chinese. They have been a perpetual thorn in the side of the West with on-again/off-again policies in this metal. This makes planning very difficult. In November of 2014, China cancelled export quotas (25,000 t) for molybdenum for 2015. This came after a World Trade Organization panel concluded in March that China violated the organization’s membership obligation by restricting exports of molybdenum. Unfortunately, more Moly exports from China is exactly what the hard-pressed miners in the West do NOT want to see.

Those is the Moly space that were living in hope of higher prices had been hinging this theory upon a potentially tighter Moly supply environment given that major North American sources of supply in 2014 (the Thompson Creek, Endako, Mineral Park mines) representing around 40 mn lbs of annual production will be largely out of the market in 2015.

Conclusion

Moly is a metal that has not even been able to give a glimmer of hope to its followers in recent years. Most metals have staged rallies then flopped back (while maybe making some ratchet –like move upwards from lows). Moly has provided no such solace. The result is that there are no primary Moly wannabe juniors out there. Like confessing to have leprosy, the faster way to clear a room of investors is to say that one is going to pursue a trajectory as a Moly miner. On the larger scale there are some names like General Moly caught in an eternal holding pattern, while Mercator the owner of Mineral Park went bust and Thompson Creek, the one-time champion of the Moly space, is gradually exiting stage left through putting mines on care & maintenance and others reaching the end of their LOM. Freeport has its Climax mine in cold-storage and that might be the first cab off the rank in the event of a Moly turnaround mainly because there no other potential mines even vaguely likely to get into production with either:

- Three years of sustained better prices
- Those better prices being $13 per lb or higher

Thus we could say that Moly is one of the most extreme examples of feast or famine. There is likely to be an extreme supply crunch but no-one is betting on that being very soon.