

## Minor Metals

The omens that LME's cobalt and molybdenum contracts would be accepted by producers as a basis for their pricing were good, we noted in a previous report shortly before their introduction. This appears to have been the case.

Certainly, we have noted flurries of activity in both contracts. The metals started trading on February 22 with business for three months out to 15 months and cash trading began on May 19. Metal has been delivered onto warrant – there were 152 tonnes of cobalt (64 tonnes on cancelled warrant) and 186 tonnes of molybdenum (none cancelled) at the end of June.

Both metals started well when cash trading opened and we noted much activity in the spreads. Cobalt has been by far the more active contract. In mid-June, we noted a flare-up in nearby tightness and TOM/next traded at a backwardation of \$325 at one point. Cash-to-three-months molybdenum traded at a contango of \$500.

## Molybdenum

Molybdenum prices reached record highs of around \$39 per lb (\$86,000 per tonne) in mid-2005 amid worries of supply shortages. These faded and, as the global recession began to bite, prices fell significantly to \$10 (\$22,000). But consumers started to restock when they became more optimistic; the market was trading around \$17 (\$37,500) by April. As we write, the LME three-month price is quoted in a very wide range either side of \$30,000.

As the table indicates, the vast majority of global mine output comes from three countries: China, Chile and the US. Between them, these three countries accounted for 78 percent of world production in 2009, the World Bureau of Metal Statistics (WBMS) estimates. Total output has risen by 20 percent since 2005 thanks to a 36-percent jump in Chinese output, which more than offset declines in both Chile and the US.

Global Mine Production of Molybdenum ('000 tonnes)						
		2005	2006	2007	2008	2009
<b>Europe</b>		<b>7.7</b>	<b>9.3</b>	<b>9.5</b>	<b>9.7</b>	<b>9.6</b>
<b>Asia</b>		<b>43.0</b>	<b>46.7</b>	<b>72.0</b>	<b>88.6</b>	<b>99.5</b>
Of which	China	39.8	43.2	67.7	81.3	93.5
<b>Latin America</b>		<b>69.2</b>	<b>63.0</b>	<b>68.1</b>	<b>58.2</b>	<b>56.9</b>
Of which	Chile	47.7	43.3	44.8	33.7	34.9
	Mexico	4.2	2.5	6.5	7.8	9.7
	Peru	17.3	17.2	16.8	16.7	12.3
<b>North America</b>		<b>65.7</b>	<b>66.5</b>	<b>64.0</b>	<b>65.1</b>	<b>57.7</b>
Of which	Canada	7.7	7.1	6.8	9.3	9.2
	US	58.0	59.4	57.2	55.8	48.5

<b>World Total</b>		<b>185.7</b>	<b>185.5</b>	<b>213.5</b>	<b>219.6</b>	<b>223.6</b>
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**Source: WBMS**

The molybdenum market is over the worst and demand is now recovering, according to a recent study by Roskill. Although the UK-based consultancy expects a small supply surplus next year, it expects prices to strengthen to around \$35 per lb by 2014 as the market moves into deficit.

Demand, which is driven by the use of MO3 in steel alloys – principally stainless steels – fell five percent last year because of the global downturn. Roskill forecasts a rebound this year. China and the US between them account for more than half of global demand (25 percent and 27 percent respectively); the former is expected to overtake the US soon.