

## Cobalt Mining Oligarchs Control Price Power, SMM Still Bullish On Cobalt in 2018

Cobalt, driven by the demand of new energy vehicles, started the upward trend in 2016. Due to the global cobalt resources concentrated in the hands of several oligarchs, such as Glencore, China Moly and Eurasian Resources, it is a typical seller's market with pricing power at the mining end. Demand, on the other hand, has been boosted by new energy vehicles, with limited new output in the future. According to SMM, there is no gap of global cobalt supply-and-demand from 2018 to 2020, but that gap exists in China. In the context of a surge in cobalt prices, terminal manufacturers, such as Apple, Volkswagen and Tesla, are also negotiating with the mine side to maintain stable supply and price. As the largest supply country of cobalt, Congo (DRC) maximizes its own interest by increasing resource tax and promoting resource nationalization.

SMM reiterates its previous view that bullish on cobalt in 2018 and the revised expected average annual price about Rmb600, 000 / ton in 2018 (YoY+50.37%)

**Table 1. Global Cobalt Supply-and-Demand Balance (2016-2020E, 000 tonne)**

(000 tonne)	2016	2017E	2018E	2019E	2020E
Global Cobalt Output	115	129.6	147.8	159.8	167.1
Global Cobalt Consumption	114.7	120.9	129	139.5	156.2
<b>Balance (Short-/Surplus+)</b>	0.3	8.8	18.8	20.3	10.9

Source: SMM

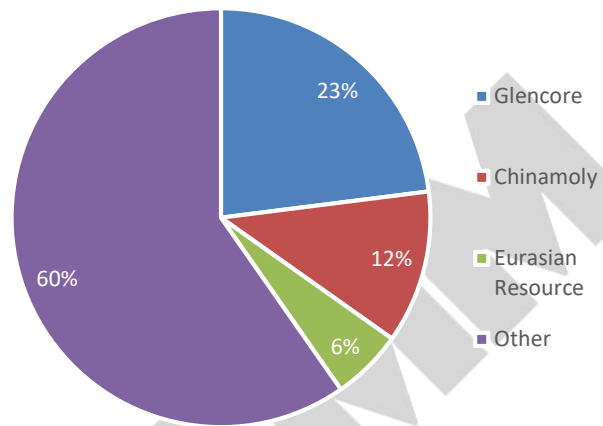
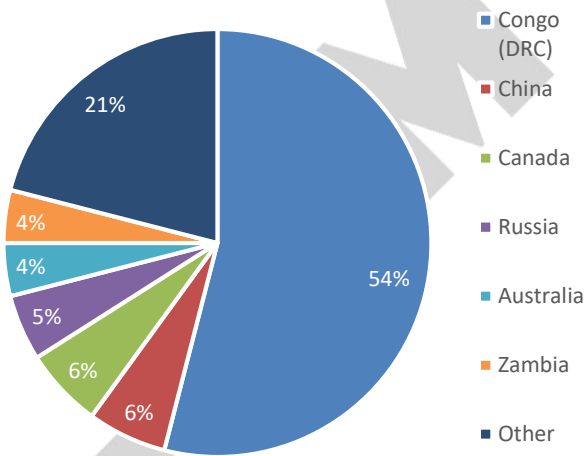
**Table 2. China Cobalt Supply-and-Demand Balance (2016-2020E, 000 tonne)**

(000 tonne)	2016	2017E	2018E	2019E	2020E
China Cobalt Demand	41.5	47	51	56.4	63.2
China Cobalt Supply	5	7.5	9.5	12.5	16.5
Import	43.3	41.5	41.9	44.7	49.8
Export	0.7	2.1	3.1	3.8	4.5
<b>Balance (Short-/Surplus+)</b>	6	0	-2.7	-3	-1.4

Source: SMM

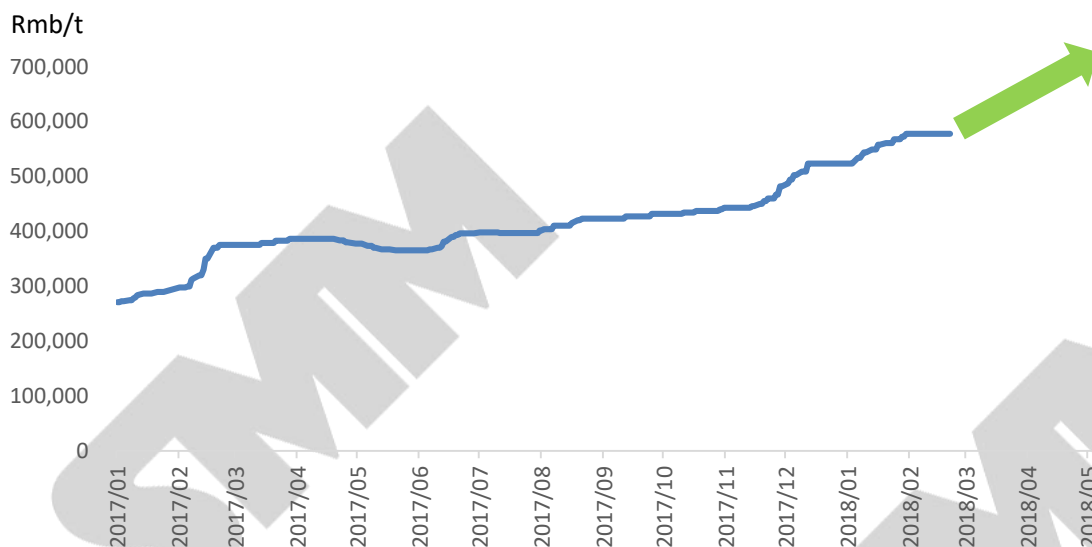
**Chart 1. 2016 Cobalt Output (By Region)**

**Chart 2. 2016 Cobalt Output (By Company)**



Source: SMM

**Chart 3. Cobalt Spot Price (Rmb/t)**



Source: SMM

## Lithium Salt Price Return Rational for New Capacity Release Concentrated at 2H18

SMM holds that 2018 will be the turning point of domestic lithium supply and demand pattern. Due to the concentrated release of lithium carbonate capacity in 2H18, it will turn into an oversupply situation. SMM expects to add about 120,000 tons of lithium carbonate capacity in 2018 (YoY+69.2%). The main

increments are expected to be: (1) 30,000 tons of Jiangxi Longzhou; (2) 20,000 tons of Wudi Golden Bay; (2) 17,500 tons of Ganfeng Lithium.

From the perspective of global supply and demand, SMM thinks that the global supply increment of lithium salt in 2018 will be dominated by the ore extraction process, but there may be a delay in the production schedule. SMM reiterated the early view of the rational correction of lithium salt in 2018. The average annual price of lithium carbonate is Rmb140, 000 /ton in 2018 (YoY-3.05%)

**Table 3. Global Lithium Supply-and-Demand Balance Sheet (2016-2020E, 000 tonne)**

(000 tonne)	2016	2017E	2018E	2019E	2020E
Global Lithium Output	36.3	55.4	79.8	88.9	100.8
Global Lithium Consumption	41.9	46.7	52	58.8	66.6
<b>Balance (Short-/Surplus+)</b>	-5.6	8.7	27.8	30.1	34.2

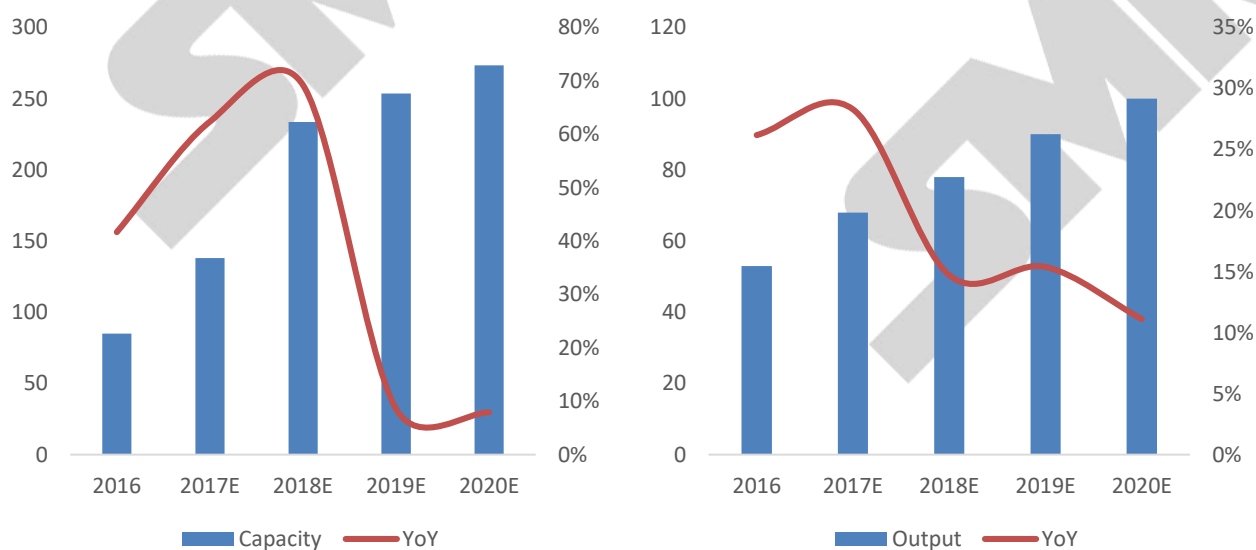
Source: SMM

**Table 4. Global Lithium Supply-and-Demand Balance Sheet (2016-2020E, 000 tonne)**

(000 tonne)	2016	2017E	2018E	2019E	2020E
China Lithium Demand	15.6	17.7	20.5	24	28.5
China Lithium Supply	6.2	8.4	8.4	12	15.6
Import	11.7	25.6	24.2	16.3	14.8
Export	0.1	0.1	0.1	0.1	0.1
<b>Balance (Short-/Surplus+)</b>	2.2	16.2	12	4.2	1.8

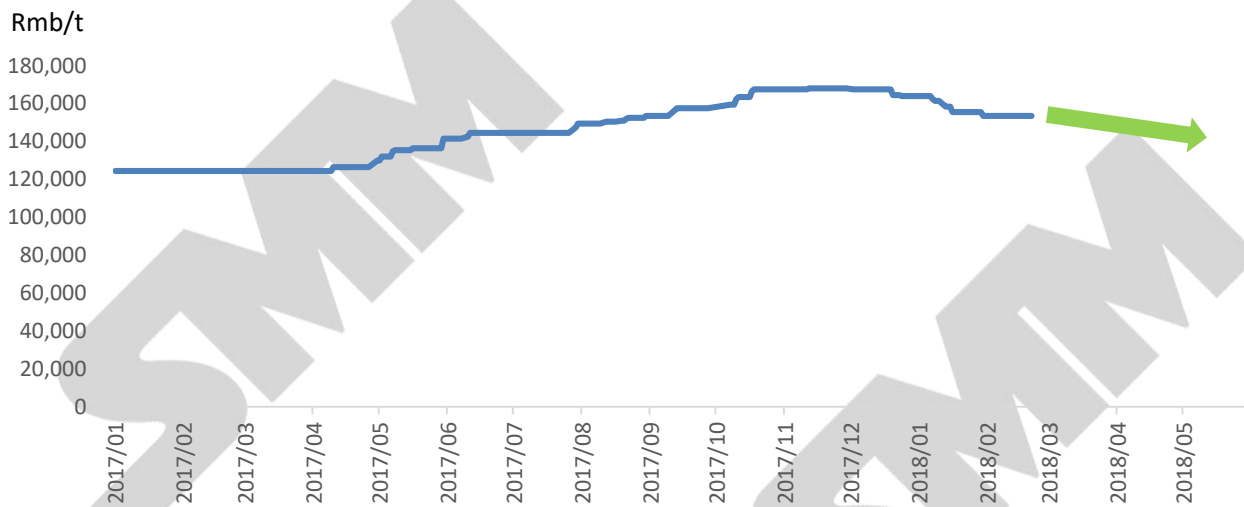
Source: SMM

**Chart 4. Li<sub>2</sub>CO<sub>3</sub> Capacity (2016-2020E, 000 tonne)**      **Chart 5. Li<sub>2</sub>CO<sub>3</sub> Output (2016-2020E, 000 tonne)**



Source: SMM

**Chart 6. Li<sub>2</sub>CO<sub>3</sub> Spot Price (Rmb/t)**



Source: SMM

SMM has a comprehensive **China Cost Database** for nonferrous and ferrous metals, by conducting regular field trips and interviews with a majority of Chinese metal producers, from large-scaled to small-scaled, from SOEs to private-owned. We collect their detailed cost breakdown for individual plants/mines and for the whole production process, and update the database regularly as well as keep close track of any updates/changes.

We also have the **Cost Database** for Steel, Iron Ore, Aluminum, Copper, Copper Mine, Nickel, Nickel-Pig-Iron (NPI), Tin, Manganese, Lead and Lead Ore, etc.

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