



# Why Are Investors Amassing Cobalt? It's the Easiest Way to Play This Year's Hottest Commodity

Silvery metal is up 70% year-to-date as use in electric-car batteries soars, but buying cobalt on financial markets isn't easy



Robert Mitchell's fund owns millions of dollars worth of cobalt. PHOTO: CLAYTON COTTERELL FOR THE WALL STREET JOURNAL

By

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Every few months, Robert Mitchell travels from his office near Portland, Ore., to a Connecticut warehouse and checks in on his biggest investment.

Mr. Mitchell's fund owns millions of dollars worth of cobalt. He is so confident that its use in electric-car batteries will cause demand to surge that he has been buying and storing more than a thousand metric tons of the stuff—worth more than \$56 million at current prices.

He feels he has little choice but to hold physical metal, since acquiring a cobalt position in financial markets is so hard.

"There's a lot of money looking for a home in cobalt," Mr. Mitchell said. "They really don't have a great way to play it."

Cobalt has long been a component in tires, magnets and smartphones. Now, it is the latest material, along with lithium and copper, to benefit from its use in the lithium ion-batteries that power electric vehicles.

Slightly more than half of all cobalt bought or sold last year went toward rechargeable batteries, up from 20% in 2006, according to Benchmark Mineral Intelligence.

Battery manufacturers' soaring demand for the hard, silvery metal has propelled cobalt's value to its highest level since 2008. Prices are up 70% this year through Wednesday to \$56,500 a metric ton, making it the top-performing commodity traded on a major futures exchange.

Yet there is a problem for many investors eager to add a position: How do you get it?



About 20% of Mr. Mitchell's portfolio is in shares of companies that produce battery materials. The rest is in physical cobalt, which he stockpiles in two warehouses in 250-kilogram drums. PHOTO: STEPHANIE YANG/THE WALL STREET JOURNAL

Reliable data on cobalt trading is hard to come by, since the majority of transactions occur directly between the handful of specialized trading houses, producers and consumers of the metal. The ranks of traders shrank after the financial crisis and subsequent collapse in commodity prices drove many firms that deal in cobalt out of the business, traders said.

Physical trading activity still exceeds that of the seven-year-old futures market. While volume in cobalt futures on the London Metal Exchange quintupled during the first five months of 2017 over the same period last year, the lack of participants keeps prices vulnerable to sudden swings. On May 4, for instance, prices dropped by more than \$3,000 a ton in one day, driven down by one seller before recovering, traders said.

Instead, some money managers have purchased shares of companies that produce cobalt. But since cobalt is a byproduct of copper and nickel mines, the big producers come with a lot of exposure to other metals. Copper is up 1.6% so far this year, but nickel has dropped by nearly 12%.

The dearth of options has prompted investors like Mr. Mitchell, the general partner of Portal Capital LLC, to buy the mineral instead.

Mr. Mitchell began buying cobalt in April last year, when it was trading at nearly \$24,000 a metric ton. He also has taken positions in a number of minor metals, like uranium and germanium, that he felt were mispriced. Last year he began focusing on cobalt and lithium, in a bid to play the rise of electric cars.

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### A Charged-Up Trade

Cobalt prices are skyrocketing as investors and battery manufacturers stock up, predicting a shortfall in the next few years.

\$60,000 a metric ton



LME cobalt price

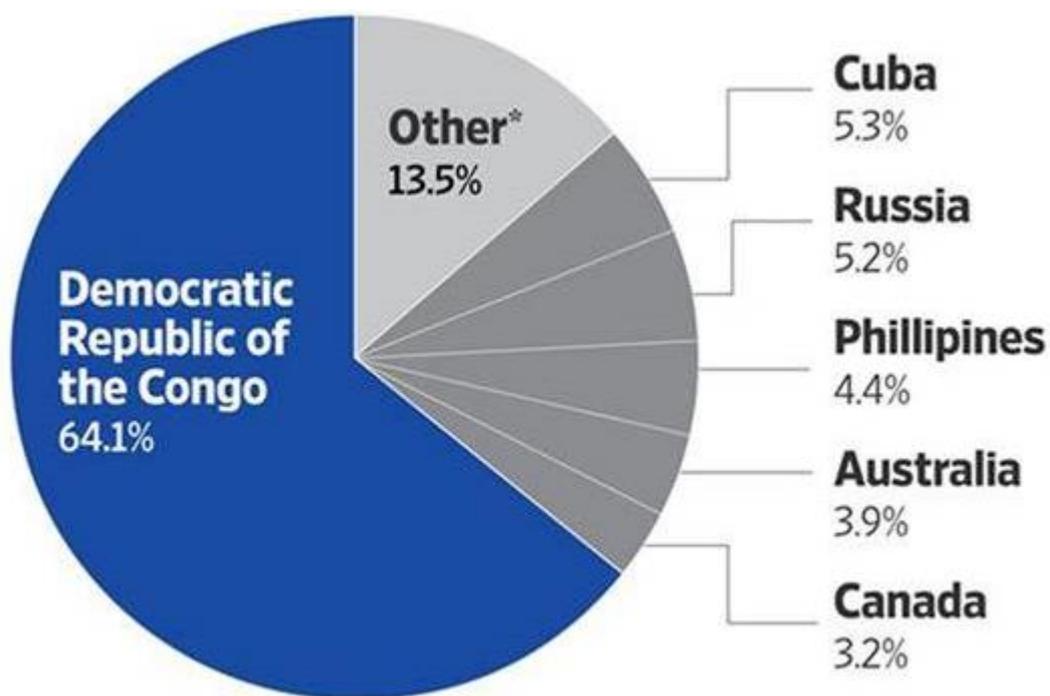
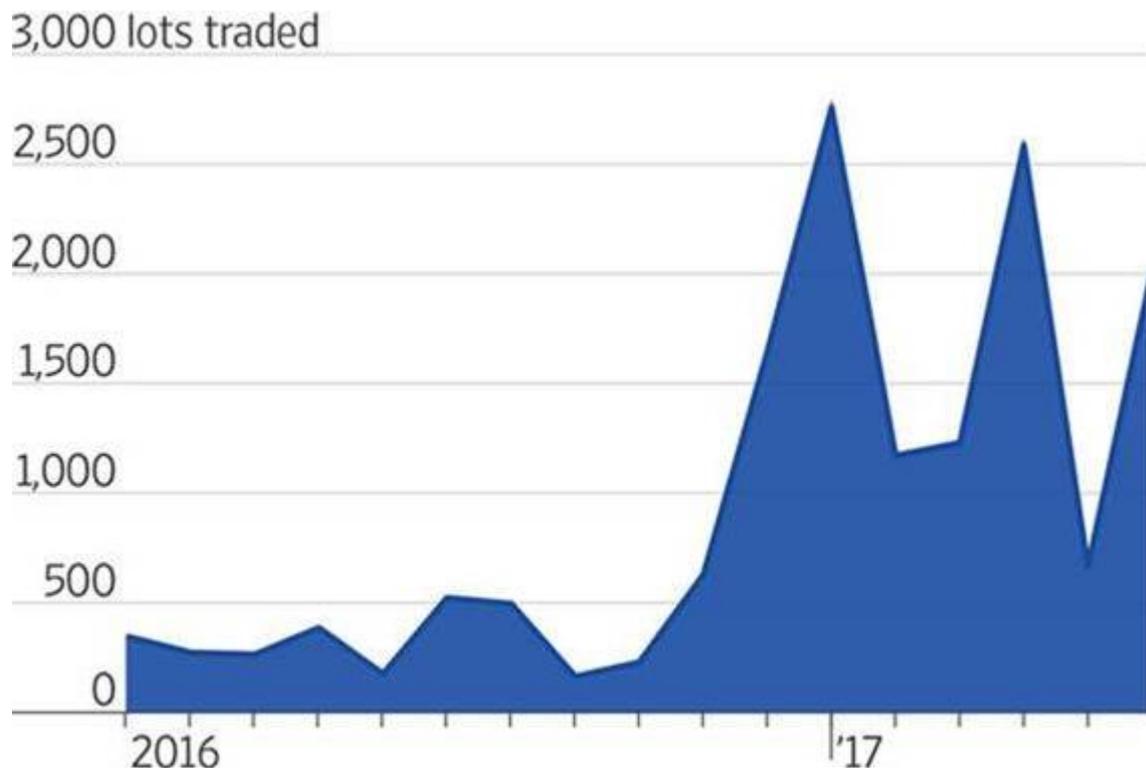
Where "cobalt blue" comes from

**Up until the 20th century, cobalt's main use was to color glass and ceramics blue. While the metal is gray and shiny, oxidized cobalt provides an intense blue pigment.**



**Refined cobalt**

**LME Cobalt trade volume, monthly**



### Cobalt production in 2016

Share by country

\*Other includes Madagascar (2.98%), New Caledonia (2.98%), Papua New Guinea (1.86%), Morocco (1.63%), China (1.02%) and others (3.00%).

Sources: Thomson Reuters (prices); Benchmark Mineral Intelligence (production); London Metal Exchange (trading volume); Cobalt Development Institute (factoids); Clayton Cotterell/The Wall Street Journal (raw); Stephanie Yang/The Wall Street Journal (refined)

## Cobalt sample



He even stores cobalt for other investors who aren't invested in his fund but want to own the metal. He chose to keep his haul in Connecticut because the east coast receives big cobalt deliveries.

Mr. Mitchell said whenever he is in New York for business meetings, he stops by the warehouse to talk with the warehouse managers about what they are "seeing and hearing" about the metal.

Lithium surged early last year as [Tesla Inc. started to grow the market for battery-powered cars](#). Many investors seek to participate in lithium gains by owning shares of producers like [Albemarle Corp.](#) and [Galaxy Resources Ltd.](#)

Metals including copper, aluminum and nickel are also beginning to generate more demand related to electric cars.

Electric vehicles use copper as a conduit for electricity, and [aluminum is expected to increasingly replace steel as manufacturers seek to lighten automobiles](#).

But no other commodity has been moving as fast as cobalt. Matthew Langsford, portfolio manager at Terra Capital, has about 35% of the fund's \$100 million in assets invested in cobalt and lithium stocks.

Mr. Langsford considered buying physical cobalt but was worried that offloading a big pile of cobalt might be difficult if he needed to sell quickly. Instead he purchased shares of cobalt miners like [eCobalt Solutions](#) Inc. and [Equator Resources](#) Ltd. last June.

A Toronto-based firm called Cobalt 27 is hoping to capitalize on the booming demand for cobalt and its lack of investability by creating a publicly traded vehicle that buys the material and royalties on mining assets. The firm said it is in the process of raising money and is seeking a stock market listing.

Battery makers are also purchasing more cobalt themselves, analysts and traders said, to stock up on cobalt before prices rise further.

Cobalt faces other issues that threaten to make it scarcer. A lack of mine investment due to years of low nickel and copper prices could spark a shortage in cobalt supply in the next few years, analysts said.

But some suggest the opposite is more likely: [Morgan Stanley](#) analysts warn that the material's prospects may dim as battery makers buy cheaper metals instead of cobalt, and the restart of major copper mines adds to market supply.

"It's been a rather boring, tedious market," said Guy Darby, owner of U.K.-based cobalt trading firm Darton Commodities. "Now is the fun time."

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