# INTERVIEW: Swiss fund CDMR argues investment case for minor metals

LONDON (Metal-Pages) 15-Apr-15.

While investment funds speculating in base metals are a fairly routine occurrence, those same funds rarely get involved with minor metals or rare earths. If they do, they tend to hold an equity stake in the mining companies rather than in the actual metal.

Over the years some smaller funds and hedge funds have made forays into minor metals but those kind of speculative investors are still few and far between. One of them is the Swiss firm Compagnie des Métaux Rares. It operates a Luxembourg-based fund with a stake in physical minor metals, holding 12 metals in warehouses in Rotterdam.

CDMR was set up by Vincent Donnen and Gregoire Teze, two former fund analysts with extensive experience of working in Asia, who took it off the ground with $1mn of their own money and another $4mn raised from their network. Now they are looking to attract a total of $20mn to $25mn into the fund which has been operational since last April.

The attraction of minor metals, explains Donnen, stems from the fact that the majority of them are currently undervalued and yet demand from the industries which used them such as electronics, car manufacturing or aircraft building is on the rise. At the same time most of these metals are not produced on their own but rather as a by-product of base and precious metals such as copper, nickel or platinum.

**Aircraft manufacture, electronics and clean energy will drive minor metal demand**

Some of Donnen's top choices include rhenium, a popular metal in aircraft building, rhodium and ruthenium, both used in catalytic converters in cars, tellurium and several metals used in electronics.

One metal of interest is rhenium, one of the rarest elements in the earth's crust which is used in planes. Airbus, Boeing and other aircraft manufacturers have full order books with demand set to increase over the next few years. Yet rhenium production cannot easily be adapted to match future demand because as a by-product of copper and molybdenum it depends on the demand for the other two metals.

Copper prices fell nearly $2,000/t during the course of last year and several major copper-molybdenum miners said early this year that they plan small production increases to make up for the projected shortfall in income. Because of low copper prices, however, they are keeping their capital spending to a minimum and are cutting exploration and development budgets which means that capacity expansions will be kept to a minimum in the next few years.

There is a similar investment argument for platinum group metals: platinum, palladium, rhodium and ruthenium, all of which are heavily used in cars to reduce emissions. Production costs for these metals, which are to a large extent mined in South Africa, will rise in the medium term over issues such as higher energy costs, issues with unstable power supplies and labour disputes. At the same time legislation in Europe and the US requires higher environmental standards from cars going forward and demand for metals used in catalytic car converters will rise in line with car sales.

Another contributor to future minor metal prices will be rising energy prices and their effect on production costs, argued Donnen. Although it seems counterintuitive that low oil prices will result in higher energy costs in the future, when looking at the effect of it on a five to fifteen-year horizon, this will lead, like in the case of copper, to reduced investment in oil extraction and refining and eventually higher energy prices, he said.

"We have a long term horizon of five to fifteen years so issues like a change in energy costs over that period plays an important role in our forecasts," Donnen said. Oil adds to production cost in open pit mining but also in refining where it is used in form of petrochemicals for treating metals.

Other major issues which will contribute to future price increases are the decreasing grades of ore being mined, resources nationalism, environmental issues and the faster growth of key consumers of minor metals.

“Even if you have low economic growth, which is what we expect, the demand for minor metals will grow at a faster rate because you need to achieve more and more efficiency in various technologies such as mobile phones, batteries, electronics, wind turbines, car production or solar power generation,” said Donnen.

Many of the minor metals are trading at very low prices at present. Gallium, for instance, one of metals on CDMR’s watch list, barely traded in the first two months of this year and in March 99.99pc gallium reportedly traded at around $240/kg, down about $30/kg to $40/kg from late last year. This is barely above the cost of production which is in the range of $200-220/kg and a long way away from the peaks in 2011 when it traded at $970/kg.

Gallium is extracted either from aluminium ore or zinc-bearing ore and primary production of the metal is only around 220t/yr although there is substantial recycling from gallium arsenide wafers used in electronics. German solar research institute Frauenhoffer is working on a three-year project with gallium nitrade transistors as the electronic component of the future not only for solar power but also with uses in aeronautics and in wider electronics.

The company is not yet invested in the metal but is monitoring prices for a good entry point.

On both the supply side and the demand side China continues to play a major role. Looking at China, one of the best indicators to analyse the country’s economic and industrial growth is energy consumption, said Donnen. While GDP figures can be altered, the energy consumption data is a more reliable indicator of the country’s economic growth.

The fund is still relatively new and at present is looking to attract individual investors and small institutional investors.

“Our target market is high net worth individuals, family offices, those who are willing to diversify their assets. We are interested in investors who are looking to invest in the long term because the market has a low liquidity and it is meaningless to look at these metals on a month-to-month basis,” Donnen said.

He believes that one of the main attractions of the fund is the fact that it holds physical stocks of the metal which reduce the speculative element of investing in, for instance, metals futures or metal ETFs. The fund is also sharia compliant.

In March prices for many of the minor metals remained fairly low despite a rise in car production, aircraft building and record high demand for electronic gadgets. Similarly, prices for nickel and tin fell to the lowest level in years. However, this being a cyclical industry any downturn is followed by a recovery, particularly when a fall in prices hits production cost. A number of metals are now at or not far from that level and it is to be expected that they will start moving higher. The one open question is – how slowly or how quickly?