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Commodities boom extends to obscure metals, too

Molybdenum, indium, germanium, cadmium, manganese

Peter Koven, Financial Post

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If one deal in the mining industry raised eyebrows in recent years, it was molybdenum producer Blue Pearl Mining Co.'s \$575-million acquisition of Thompson Creek Metals Co. last October. It raised two questions: How did a molybdenum company raise half-a-billion dollars? And, what the heck is molybdenum?

In fact, the Blue Pearl deal delivered a clear message: that this commodity boom stretches far beyond the "primary" metals. While gold, copper, nickel, coal and zinc get most of the attention, demand for secondary metals such as lead, molybdenum, indium, germanium, cadmium and manganese has been very strong as well.

The most visible of the bunch has been molybdenum, or moly, a silvery-white metal with anti-corrosive properties that has applications in the steel and energy industries. The emergence of pure-play moly companies such as Blue Pearl (now called Thompson Creek Metals) and China Molybdenum Co. Ltd. highlighted the soaring demand for the metal. Even renowned investor Eric Sprott set up a holding company to invest in moly assets.

Lead is also widely known. It trades on the London Metals Exchange, is a crucial component to batteries, and one Canadian company (Ivernia Inc.) produces it as its primary product. Toronto-based Ivernia has been unable to ship product out of Australia for several months because of contamination concerns, helping the price of lead more than double this year. It has been one of the best performers on the LME this year.

Many secondary metals are shrouded in secrecy. Almost nothing is known about the market size, the global demand or the prices. And the companies that produce them want to keep it that way.

"What we know about the specialty metal markets we don't like to share," says Greg Waller, spokesman for Teck Cominco Ltd., the world's biggest germanium producer. "Even the prices quoted in the journals are not indicative of what they really are."

The specialty metals are produced by large companies as byproducts of primary metals, so pure-play companies of a reasonable size do not exist. That makes it fairly easy to keep the data out of the public eye. The markets for some of these metals are also illiquid and very small, in some cases less than \$1-billion.

To a certain extent, demand for these commodities has jumped alongside copper or nickel because of growth in emerging markets. But the specialty metals are affected largely by specific market events, which means that the price fluctuations are much more dramatic. It's not just China.

During the tech bubble, for example, germanium briefly became the rage because of its use in fibre-optic cable. Demand has picked up again in recent years as people try to connect existing fibre-optic capacity to buildings and cities. Likewise, indium is red-hot right now because it is a crucial element of liquid crystal display screens, which are becoming the norm for televisions and computer monitors. The specialty metals interest institutional investors. But because they are produced in small amounts by big companies, nobody has figured out a way to play them.

"I've never woken up in the morning and thought, 'Gee, I've got to have some germanium'," said David Whetham, a resource fund manager at Scotia Cassels Investment Counsel Ltd. "Nobody has been really proactive in trying to figure out which minor metal is going to be the next to have a big run."

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