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COMMODITIES

Coronavirus Spurs Demand for Niche Raw Materials

Drop-off in Chinese production boosts prices for thermal coal, vanadium and manganese as consumers scramble to secure supplies

By Joe Wallace

Updated Feb. 12, 2020 7:55 am ET

The coronavirus outbreak originating in China that has weighed on demand for crude oil, copper and soybeans is prompting a rally in some niche commodity markets.

For raw materials including thermal coal, which is burned to generate electricity, or alloys of vanadium and molybdenum, used to toughen up steel, the drop in Chinese output has outweighed any decline in demand. The same goes for manganese, a specialty metal used by steelmakers as well as producers of fertilizer.

The prices of these commodities have climbed as buyers in China and elsewhere try to secure supplies, underlining the country's complex position in the world economy as a major consumer, supplier and processor of raw materials.

China is scrambling to contain an illness that has led to more than 1,000 fatalities and infected over 45,000 people by imposing travel bans, urging people in some regions to stay home, and forcing stores and factories to curtail operations. Even as businesses in some parts resumed operations after an extended Lunar New Year holiday, many people remained stranded far from home.

The shortage of workers has stalled production at mines in China, squeezing supplies of thermal coal and lifting prices.

In the northern port of Qinhuangdao, where thermal coal is loaded onto boats and shipped down the coast to power companies as far south as Guangzhou, the price of the fossil fuel has risen 3.8% in 2020 to \$82.44 a metric ton, according to S&P Global Platts. By contrast, Brent-

crude oil futures, the benchmark in energy markets, have dropped 18% as traders braced for a decline in Chinese fuel consumption.

Neighboring Mongolia may have imposed a ban on sending coal into China, according to Joe Aldina, head of coal analytics at Platts, which could be adding to the squeeze on supplies. Health checks on people, meanwhile, have slowed the flow of ships into Qinhuangdao.

Utility companies in the U.S. and Western Europe have slashed the amount of coal they burn in recent years, cementing China's position as the driving force behind global thermal-coal prices. Mr. Aldina expects the current rise in prices to be short-lived, as China's six largest utilities appear to have sufficient coal reserves that they won't rush to buy the fuel from other countries.

Prices have risen even further in smaller commodity markets where Chinese producers dominate global output.

That includes ferrovanadium, an alloy of iron and vanadium used by steelmakers to improve resistance to heat and corrosion. Vanadium is also used by aircraft makers in jet engines when it is mixed with titanium and aluminum instead of iron.

China produced around 70% of the world's vanadium alloys in 2019, according to Timothy Wood-Dow, an analyst at BMO Capital Markets. The spread of coronavirus has knocked out around 40% of Chinese ferrovanadium production and pushed prices up world-wide.

A pound of ferrovanadium cost \$13 in the U.S. last week, according to commodities consulting firm CRU Group, 20% more than at the start of the year. In Europe, ferrovanadium prices have jumped 26% to \$28.70 a kilogram.

"China supplies most of the global market," said Greg Smart, an analyst at CRU, adding that there were already some shortages of vanadium before the start of the coronavirus outbreak. "Most of it is produced in China, and as a result there's been quite a shock to the market."

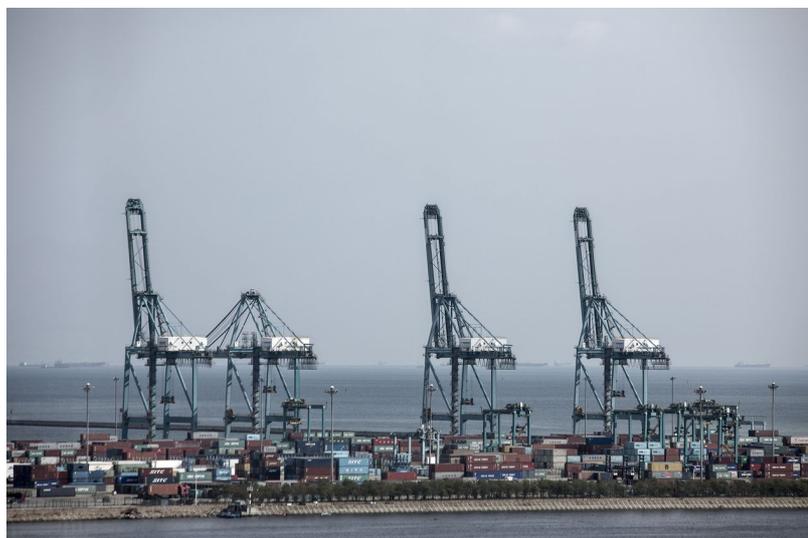
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Is this shift in the markets making you rethink investments? Why or why not? Join the conversation below.

The price of electrolytic-manganese metal—used by makers of stainless and carbon steel, as well as some aluminum producers—has jumped 26% to \$2,087.50 a metric ton this year, according to CRU. China, which accounts for more than 90% of global electrolytic-manganese output, imports unrefined ore from countries including South Africa, Australia, Ghana and Gabon before processing it into refined metal.

Traders have struggled to transport manganese across China because of disruption in the trucking industry. Some traders in China have stopped offering quotes to customers, and some European importers have ceased placing orders due to worries the manganese won't be delivered on time.

“The problem is getting the material to the port,” said Sebastian Kreft, co-founder of Metalshub, a trading platform for specialty metals. “There seems to be lots of logistics problems.”



At the port in Qinhuangdao, China, the price of thermal coal has risen 3.8% in 2020.

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