

Lithium Spotlight

September 13, 2024. [William Adams](#), head of base metals research

Current situation: The lithium market is in the doldrums with prices weakening across the board on the back of a period of oversupply and weaker than expected demand growth. It is important to emphasize that demand is still growing and has just slowed down. We see this as a temporary phenomenon, given we are just at the start of the electrification era. The medium-to-long term demand profile is huge and the bigger demand gets in tonnage terms the harder it will be for miners to keep up. The latest low price environment has prompted a number of companies to delay, abandon or put on hold investments in supply projects, which will likely lead to supply bottlenecks down the road. As the lithium market is growing fast, these swings from supply surplus to deficit have caused price volatility and the market should be braced for more of the same going forward. Given this, it is not surprising that the use of futures is gaining momentum.

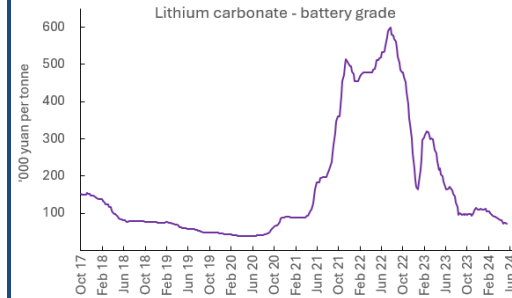
Lithium prices

- Lithium prices have generally been trending lower in all regions with battery grade lithium carbonate, ex-works China prices down 25% so far this year at 72,750 yuan per tonne on September 5. Lithium hydroxide, exw China, was down 17.4% at 71,000 yuan per tonne over the same period.
- Hydroxide prices have been trading at a discount to carbonate prices due to weak demand for nickel cobalt manganese (NCM) cathode material, while demand for carbonate has been relatively stronger due to its use in lithium iron phosphate (LFP) cathode material. NCM batteries tend to be used more in Western EVs, where demand has slowed, while LFP batteries tend to be used more widely by Chinese OEMs, where demand has been more robust.
- LFP is also used globally in batteries for energy storage systems (ESS), where demand is strong.

EV sales growth y-o-y	H1'22	H1'23	H1'24
China	117%	44%	32%
USA	47%	52%	12%
Europe	9%	27%	3%

Lithium forecast Short term (6 mth) Medium term (12mth) Long term (2 yrs+)

Price direction



EV sales growth slows across all regions, especially in the West

While oversupply has been a main driver in weaker prices, weaker demand growth for EVs has been significant too. All major EV markets have experienced slower demand growth. Even though 32% growth in China in the first half of the year is impressive, it is far below the triple digit growth the market was accustomed to and production schedules had planned for. The fall in growth rates in the US and Europe also shocked Western OEMs, prompting many to rein in their production schedules and investment plans. Cathode active material and battery factories have also announced restructuring plans.

Supply

The oversupply came about as China managed to engineer a rapid supply response following the stratospheric price rises seen in 2021 and 2022. Hard rock mines in central Africa and lepidolite mines in China were constructed in record time, which converged with new supply from non-Chinese producers in Brazil, Australia and South America. With SC6 spodumene prices recently around \$745 per tonne, cif China, they are eating into the upper quadrants of the spodumene cost curve and making most lepidolite mines unprofitable. So, more cutbacks should start to be seen in lepidolite and spodumene. Such cuts should start to rebalance the market.

Outlook

- Oversupply dominates, so the market is waiting for demand to catch up, but in turn demand growth has slowed for now.
- Production cutbacks are now expected to start to speed up the rebalancing of supply and demand, but even if we see more cuts, the market will likely remain well supplied as inventories have grown to a significant level in recent months. That said, stocks can be held in tight hands, so those not holding stocks may have to restock into a more balanced market, which could support firmer prices. On balance we expect fairly flat prices for the rest of the year, as the prices build a base.