

Metals and Mining - China

Despite strong demand, lithium recovery facing resistance at RMB120k/t

Industry Overview

Front-loaded Chinese EV production lifts lithium pricing

We host a lithium market update call with Alfred Hu of Ze Consulting. Lithium demand has been stronger than expected post holidays, with March monthly NCM and LFP cathode production revised higher to 85kt and 162kt respectively. Mr. Hu sees high chances of further topping up to 170kt+ for LFP, exceeding historical high in 2023. As such, battery production scheduling in April would go mildly higher sequentially, but a noticeably stronger reading could be a catalyst for lithium price breaking through RMB120k/t in April, since cathode producers lately only procure lithium below RMB115k/t and drawing down its own inventory, currently at 1-2 weeks beyond that. The solid demand could be explained by front-loaded production orderbooks of new model launches by Chinese EV OEMs during the upcoming Shanghai Auto Expo, who in the past produced EV according to customers' orders after launch. In the short term, lithium prices are likely to range-bound shy of RMB120k/t until official production scheduling in April become available by late March.

Demand-Supply in April loosening however

Supply side expansion would pick up in April, likely faster than demand. Tolling production using Australian spodumene has already increased so far. Ganfeng and Tianqi annual overhauls should also end soon, easing the supply tightness. Chile has exported 16kt carbonate to China in Feb and these should be arriving Chinese ports within March, but SQM has not yet sold them as it demands RMB120k+/t pricing. In Jiangxi, 4kt LCE/mo production from lepidolite has been halted due to the environmental inspection and further updates would be expected by mid-Apr. If government classifies the tailings as hazardous waste, these capacities will become prohibitive expensive. Otherwise, we could be seeing 5-6kt+ LCE/mo rejoining supply since prices have gone higher. Mr. Hu notes that most sources of lithium production are profitable at RMB120k/t, so sooner or later lithium prices would have to fall again since global supply additions are ample. Considering this, we think further upside in lithium prices will require substantially stronger underlying demand and EV sales growth acceleration in the near-term. Or, lithium prices would still range-bound in the current intervals, until the current round of downstream inventory transfer from lithium to EV concludes. Lithium price risks are skewed towards the upside next few months before heading south again, in our view.

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