

Global Metals & Mining

Wood Mackenzie Lithium Conference Call
Feedback

Industry Overview

Price declines expected to continue through 2024

Given upstream supply growth, the overall market for lithium Wood Mackenzie (Woodmac) expect the market to remain in a surplus until 2030. Throughout this period, they expect the prices of spodumene to remain around the US\$1,000/t level on average while lithium chemicals are expected to remain between US\$10-15/kg. The focus for 2024 is how existing and new producers react to this low price environment. During 18/19, we saw low cost producers shut down operations in attempts to balance the market / preserve the value of endowments.

Demand growth to outstrip supply in 2027

Woodmac expect that in 2027, annual demand growth for lithium driven by the automotive sector will outstrip supply growth. Importantly, it forecasts that China will be self-sufficient (from a refining perspective). By 2035, they expect that BEV/PHEV penetration rates will be 75% in China, 69% in Europe, 56% in North America and 49% globally. However, they are carefully watching the dynamic of a low lithium price environment and the impact it may have on longer dated lithium projects.

Focusing on the difference between supply growth

Focusing on 2024 market balances, Woodmac expect there will be a dislocation between upstream (technical grade) balances and chemical grade balances. When new upstream supply ramps up, it takes time for refineries to be able to take this product in scale given the product quality requirements of cathode makers. This will ease as time goes on and refineries develop consistent feedstock from a number of producers and optimize blending and required flow sheets to achieve a customer approved product.

National policy and strategy a key theme for 2024

Throughout 2024 and beyond, Woodmac expect that policy and strategy across major players in lithium will remain a key swing factor. Woodmac highlighted that Chinese producers may continue to operate even if loss making to protect jobs, and strategic importance of having domestic lithium supply (as we have seen in steel). Ex-China, the IRA and FEOC will play an important role in how this new supply chain develops. Strategically, low cost operators may curtail production to protect earnings while sole asset producers may opt for winding down monetary reserves rather than mine closure.

Pricing mechanisms are evolving similar to iron ore

Pricing mechanisms is a rapidly evolving consideration in lithium. Woodmac are seeing refineries and producers move toward a portfolio of mechanisms to smooth inventory costs in rising, declining, and flat price environments. More and more, upstream producers are opting for selling linked to a chemical price captured from a range of price discovery agencies and away from trailing period averages.

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IRA = inflation reduction act

FEOC = foreign entity of concern

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