

Metals and Mining - China

Lithium expert: Long-term decline over 2024-2025, eying RMB60k/t

Industry Overview

A short-lived lithium price recovery in Feb-Mar

We hosted an expert call on China lithium market with Alfred Hu of Ze Consulting today. Recently, the Chinese lithium market has been slightly better than expected due to downstream opportunistic restocking as there are some lithium price hike expectations post CNY among cathode / battery producers, leading to 10% sequentially higher cathode production in January. Effectively, refineries have been destocking with >10kt transferred downstream, while cathode producers are holding 1-week higher feedstock and 1-mo finished goods inventory. Interestingly, battery and its other parts production all go lower, with further cuts planned in February, as much as 20% lower month-on-month each. Such divergence could lead to a milder demand recovery during typical peak season, so Mr Hu sees only modest price hikes before edging lower towards RMB80k/t from late March. We would see a much clear picture when March production scheduling is out in late February.

Tepid demand growth expectation

Tier-1 Chinese battery makers have revised down their 2024 volume growth expectations generally <20% for EV and 30-40% for ESS. For example, BYD recently has tendered 200kt lithium carbonate for 1H24, meaning c.24% yoy growth. The procurement strategy has also changed, seeking lowest price for c.70% LFP cathode tenders, reflecting their loosened supply outlook. Mr Hu expects 2024 China cathode production at 1.9mt for LFP and 1.05mt for NCM totaling 2.95mt, up 17% yoy. With sizable additions, cathode and electrolyte are severely over-supplied, and most producers would be loss making, while anode and separator produces could still earn thin margins.

Surging supply suggests a long winter ahead

Upstream lithium expansion has been slower and volume ramp up has merely started in late 2023, with increasing amount surfacing throughout 2024-2025. Mr Hu sees material lithium capacity exits warranted and prices reaching RMB60k/t in 2025 before market rebalancing, since most producers are still profitable at the moment. In the last cycle trough, prices floated around RMB50-60k/t for an extended period of time, and such a floor is unlikely grow too much, instead of RMB80-90k/t that many are calling for. In China, <0.3% lepidolite mines with total cost at RMB90k/t should halt first but we have yet to see such responses since its owners CATL / Gotion are less concerned about margin on lithium alone. High-grade lepidolite total cost would be contained at <RMB60k/t, making it very competitive. Similarly, spodumene price would be marching towards USD400-600/t level gradually in the next 2 years, since virtually all miners are profitable at current levels of USD800+/t.

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CNY Chinese New Year

EV Electric Vehicle

ESS Energy Storage System

LFP Lithium Iron Phosphate

NCM Nickel Cobalt Manganese

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