

Critical Minerals “rightsizing” in reaction to governments’ efforts to regulate market

written by Tracy Weslosky | February 1, 2024

The past week has been pivotal for the critical minerals industry, marked by a notable adjustment in the market for electric vehicle (EV) materials. Jack Lifton, Co-Chairman of the [Critical Minerals Institute](#) (CMI), offers a perspective that contrasts sharply with the more alarmist tones often found in media coverage of this sector. According to Lifton, the recent downturn in prices for key EV component materials, such as those for batteries and magnets, should not be misconstrued as a disaster. Instead, it’s a natural market correction, or “rightsizing,” where supply and demand are finding their equilibrium without the heavy hand of regulatory intervention attempting to influence market outcomes. This view is particularly poignant as it reflects on Western governments’ efforts to regulate the market, which Lifton suggests are largely ineffective in a true market economy driven by supply and demand dynamics.

Recent financial reports from industry leaders like China Northern Rare Earth have underscored this point, revealing a 60% drop in profits due to declining rare earth element prices. This trend is not indicative of strategic market manipulation but rather a response to an overestimated demand for EVs, as evidenced by falling EV sales in significant markets such as California. This recalibration is further exacerbated by the economic climate in America and Europe, where high interest

rates have cooled consumer enthusiasm for major purchases, including EVs.

Despite these challenges, opportunities abound for discerning investors. Lifton advises that only the most efficient, low-cost producers of EV materials are likely to thrive under these conditions. Companies that can maintain profitability despite falling prices, particularly those in the neodymium sector, represent promising investment targets. This approach emphasizes the importance of due diligence, encouraging investors to closely examine the fundamentals of these companies, especially their production costs relative to current market prices.

The January [2024 CMI Report](#) further contextualizes these market dynamics, highlighting the U.S. government's move to ban Pentagon battery purchases from major Chinese companies starting October 2027. This development, alongside global macroeconomic trends and specific updates in the EV sector, paints a picture of a market at a critical juncture. Despite the gloom surrounding EV and battery metals, with depressed prices and surplus inventory, the report suggests a stabilization in lithium prices and potential for recovery in demand and pricing in the coming months.

Recent news from Lynas Rare Earths adds another layer to this complex scenario. The company reported a significant drop in revenue, attributed to falling prices and reduced demand from China. This situation reflects broader market trends but also highlights Lynas' strategic moves to expand capacity and improve efficiency, suggesting a long-term view towards meeting future demand.

In conclusion, the narrative emerging from Jack Lifton's insights, the CMI report, and the latest developments from companies like Lynas offers a multifaceted view of the critical

minerals and EV materials market. While the short-term outlook may appear daunting, with price declines and demand uncertainties, the underlying message is one of resilience and strategic adaptation. For investors and industry stakeholders, the current market dynamics underscore the importance of efficiency, cost management, and the ability to anticipate and respond to evolving demand patterns. As the market continues to adjust, those who remain informed and agile are likely to navigate these shifts successfully, positioning themselves for growth as the sector evolves.