Mixed Signals for the Lithium Market as China Spot Prices Decline but M&A Paints a Bullish Picture

written by Matt Bohlsen | April 12, 2023
So far in 2023, the lithium sector is a mix of good news and bad news.

The bad news relates to the China lithium carbonate spot price collapsing, now down ~65% (see chart below) from its crazy high of CNY 600,000/t (US$87,272/t) in late 2022. Contract prices remain strong and lithium hydroxide (~US40,000/t) and spodumene (US$3,810/t) spot prices have been less impacted, but have still fallen about 1/3 to 1/2 from their recent highs.

The good news relates to the fact that the leading lithium companies and most analysts remain very bullish on lithium in the mid to long term. We saw this very recently with Albemarle Corporation's (NYSE: ALB) A$5.2 billion (US$3.4 billion) takeover offer, at a 69% premium, for Liontown Resources Limited (ASX: LTR). Little wonder investors seem confused. Is the lithium boom over, or is it just getting started?

China lithium carbonate spot price collapsing

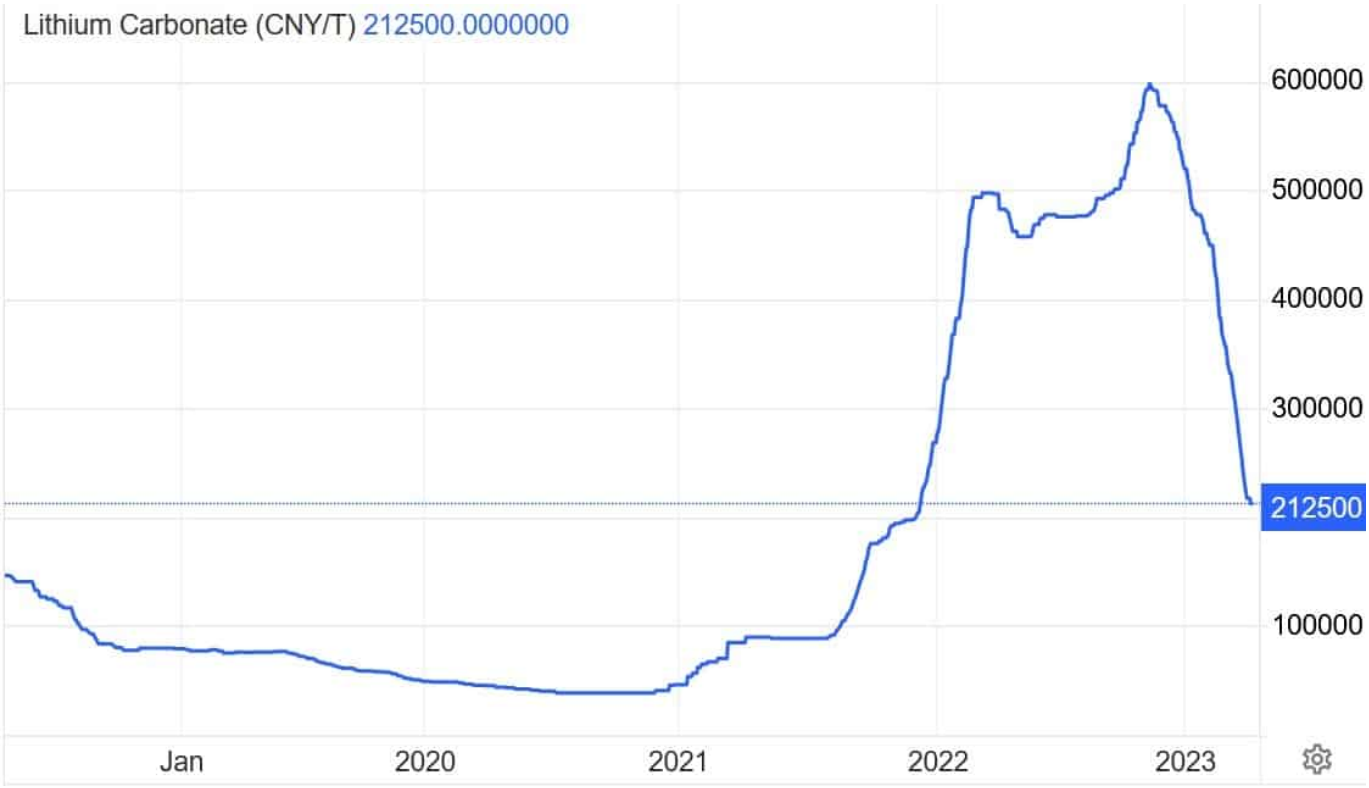
As shown in the chart below, the China lithium carbonate spot price had a meteoric rise in 2022 and is now collapsing in 2023. The main reasons for the downturn in price are a slowdown in China's new energy vehicle ("NEV") sales growth in 2023 and the Chinese cathode and battery suppliers running down inventory

thereby delaying lithium purchases in order to get a lower price. Also, liquidity in the China spot market has been rather low in Q1/2023.

China NEV sales in January 2023 saw an 8% year-over-year ("YoY") fall, due to the China federal NEV subsidies ending, Covid-19 impacts, and the Chinese New Year falling in January. February saw China NEV sales recover and rise by 56% YoY, and March saw sales rise by 34.8% YoY. As a result, in Q1/2023, China saw NEV sales rise 26.1% YoY and reach a total of nearly 1.59 million units. The first quarter is always the slowest month for NEV sales in China, so the seasonal slowdown from Q4/2022 to Q1/2023 was also a significant factor.

The Q1/2023 26.1% growth is not bad considering the poor January; however to keep the lithium market in balance between supply and demand, Trend Investing forecasts we need global plugin electric car growth to be at 36% YoY. In other words, China's NEV sales growth rate in Q1/2023 of 26.1% is lagging below the 36% global growth rate needed in 2023.

China lithium carbonate spot price – 5-year chart



Source: Trading Economics

Albemarle's A$5.2 billion (US$3.4 billion) takeover offer for Liontown Resources

If we are in a lithium bear market, why is the lithium leader, Albemarle, offering to buy Liontown Resources at a 69% premium to its 30-day volume weighted average price ("VWAP")? And willing to outlay A$5.2 billion (US$3.4 billion)?

The short answer is that Albemarle sees the longer-term picture, that is lithium demand is set to grow ~35x from 2020 to 2037 according to Trend Investing, or 13-42x from 2020 to 2040 according to the IEA.

Also, the fact that tier 1 lithium assets are rare. Liontown Resources 100% owned Kathleen Valley Project is a tier 1 global resource, one of the top 5 largest lithium spodumene resources globally. The resource estimate is a massive 156MT @ 1.4% Li2O. The project is at the advanced stage with production set to

begin in mid-2024 and initially ramp up to about 600,000 tonnes per annum ("tpa") of spodumene.

Albemarle is playing the long game and understands the lithium market better than most. They want to secure another tier 1 long-life mine in Australia just as they did when they bought Rockwood Holdings Inc. (former owner of the Greenbushes Mine) for US$6.2 billion in 2014. The reason then was "to capture the upside potential from the electrification of automobiles that's likely to occur over the next several years". The reason to buy Liontown Resources is the same today.

Lithium demand should surge in 2024 and 2025 as new EV segments hit the market

The second half of 2023 should see the Cybertruck from Tesla (Nasdaq: TSLA) finally begin production and a rapid ramp-up in 2024. We will also see in 2024 a strong ramp-up in sales of other pickup trucks in the USA from Ford, GM, Ram (Stellantis), and others. With reportedly over 1.6 million reservations for Tesla Cybertruck and a battery size twice that of a Model 3 RWD, the Cybertruck alone will cause a bump in lithium demand.

Then in late 2024 or 2025, we should see Tesla potentially start production of their compact car, with plans 'reportedly' to produce 4 million per year. BYD is already producing great value compact cars (Dolphin, Seagull, etc) in China at very affordable prices well under US$20,000. BYD plans to sell "at least 3 million" plugin electric cars in 2023. It looks like by 2025, Tesla and BYD alone could be selling 10 million electric cars per year combined, which would be almost the same as the entire market in 2022 of 10.522 million. That's how fast things are changing! Global electric car sales are forecast to almost double in just 2 years from 10.5 million in 2022 to ~20 million in 2024, according to Trend Investing.

The limiting factor for auto OEMs will be securing batteries and their limiting factor is lithium.

Electric pickup trucks will soon be as popular as Tesla Model 3 in the USA, after that will be millions of compact electric cars potentially in 2025

Source: iStock

Closing remarks

So far in 2023, it has been a year of contradictions in the lithium market. Collapsing China spot lithium carbonate price paints a bearish picture, yet a multi-billion dollar takeover offer at a 69% premium price paints a bullish picture.

The conclusion is rather simple. Short-term lithium price action is a result of a China Q1/2023 NEV slowdown in growth, just as a wave of new lithium supply is hitting the markets. Chinese

cathode and battery makers winding down inventory has helped them achieve lower pricing, but cannot go on too much longer. New emissions rules in China come into effect from July 1, 2023 which should boost NEV sales. Combined with strong demand from the USA boosted by the IRA incentives, and Europe embracing EVs, means that H2, 2023 should start to see some strong recovery in global EV sales and hence lithium prices. This assumes we are not in a severe global recession by then.

Looking out to the rest of the decade and it continues to look like lithium supply is the limiting factor for the EV boom, which means quality lithium miners should be the long term winners. But remember as is usual in the mining sector, expect to see large price swings up and down, even in a lithium supercycle.