The End of the Fantasy Demand Cycle in Critical Minerals

written by Jack Lifton | August 5, 2024

In the realm of critical minerals, we've witnessed an extraordinary correction in the market. This shift has profoundly impacted the commodity cycle, which has been heavily influenced by the transition to alternative energy sources, including electric vehicles. For years, companies have been securing substantial financing for critical minerals and materials. However, the market had surged far ahead of genuine demand, primarily due to excessive government intervention.

Jack Lifton is a world renowned critical minerals expert and is the Chairman of the Critical Minerals Institute (CMI).

Governments around the world have set ambitious targets—electric car penetration by a specific date, net zero emissions by another. The industry embraced these goals, assuming their feasibility. Yet, the reality has proven otherwise. These targets were essentially fantasy demands conjured by policymakers and bureaucrats, and the public has not wholeheartedly embraced them. Consequently, we've reached the end of this fantasy demand cycle, and now supply is adjusting accordingly.

The rush to invest in materials like battery metals, rare earths, and other resources for alternative energy has led to an oversupply. Conversely, sectors like nuclear power have seen significant underinvestment. The demand for critical minerals, driven by real markets, has been overshadowed by government policies, which are now losing their grip. This has resulted in a surplus where there once was scarcity.

Take lithium, for instance. The demand surge did not materialize as expected. Numerous companies jumped into lithium production when prices were astronomical, only to see those prices plummet to levels that render most projects economically unfeasible. Last week, Albemarle, one of the largest lithium producers, announced significant cutbacks in production and workforce due to unmet demand expectations. This scenario underscores the extended timeline and substantial investment required to bring a critical mineral from discovery to market.

The green revolution and net zero targets appear increasingly distant. Major producers, the lowest-cost players in the market, are scaling back investments because they cannot produce into a vacuum. The timeline for these transitions now seems much further away than previously anticipated.

Interestingly, the market correction reveals a preference for hybrid powertrains—a combination of electric and fossil fuel—which are emerging as the most efficient solution for our current resources. This suggests a sustained demand for rare earths, albeit with a slower drive towards Western independence from Chinese supplies. The escalating costs and the prolonged effort required for production mean that institutional finance will demand tangible results rather than speculative investments.

Governments, already stretched thin, cannot perpetuate subsidies for alternative energy projects indefinitely. Subsidies, after all, are funded by taxes. As the cost of these technologies rises, so too does the tax burden, which is unsustainable in struggling economies. The notion that subsidies are a form of free money is a fallacy. Ultimately, governments will be unable to continue subsidizing these ventures, and we must acknowledge the limits of such support.

In essence, what we see now is not a mere market correction but the crumbling of dreams that were never grounded in reality. As we move forward, it’s crucial to keep a close watch on these developments and adjust our expectations and strategies accordingly.