



Weekly Wrap 14 April 2023 – Is the lithium boom really over?

Thank you for joining me this Friday the 14th April, I'm Grady Wulff, a Market Analyst with Bell Direct and this is the weekly market update. From being the 'it' word and commodity of 2020, to now having a very dim outlook over the coming years, investor appetite for lithium remains resilient despite the anticipation of supply to outweigh demand in years to come.

According to Bloomberg, total spot value of lithium consumption soared from around \$3bn in 2020 to \$35bn in 2022, but 2023 is turning out to paint a vastly different picture as the price of lithium has fallen 56% over the last year. The initial surge in the price of lithium was sparked by a sharp rise in demand for lithium batteries in China for use in electric vehicles (EV), mobile phones and other technology devices. At that time, global lithium supply couldn't keep up with the soaring demand and a price rally for lithium was born.

Fast forward to 2023 and the outlook for this key commodity is looking dim. A combination of market factors including less demand for EVs, slowing car sales overall, and increasing lithium supply globally, are some of the key factors driving down the price of lithium carbonate in 2023.

Earlier this year, a report emerged that the world's largest lithium-ion battery manufacturer, China's Contemporary Amperex Technology Co. had begun discounting lithium-ion batteries sold to certain Chinese EV companies including Nio and Zeekr, which is further evidence of the ongoing downturn in lithium prices.

On the supply side, fresh facilities are coming on-line for production commencing in regions like Australia, China and Chile to name a few. A number of analysts including Morgan Stanley and JPMorgan Chase anticipated production increases between 22% and 42% in 2023 alone, and while demand remains resilient, it is expected that supply will outweigh demand in the coming years. For new mining entrants to the lithium market, investors are placing value on the companies that have already signed binding offtake agreements and that are looking into downstream options to capitalise on the higher margin stages of the lithium production process.

Goldman Sachs issued a lithium price forecast that shook the market earlier this year, with the leading global investment bank predicting the price of lithium carbonate per tonne to fall from a spot price in 2023 of US\$53,300 to US\$11,000 in 2025. Goldman's outlook for the price of lithium hydroxide per tonne is expected to fall from US\$58,650/tonne in 2023 to US\$12,500/tonne in 2025, and lithium spodumene 6% is expected to tumble from US\$4330/tonne in 2023 to US\$800 in 2025. The release of the outlook sent local lithium stocks tumbling with Pilbara Minerals down to \$3.58/share from a high over \$5/share in February, while Core Lithium is down to 90cps from a high over \$1.23 in February.

With the world shifting focus to a greener, cleaner future, there is no denying lithium plays a large role in aiding the shift to green energy especially through EVs, and investors are still seemingly optimistic about newcomers in the lithium space.

But investor appetite for newcomers in the lithium space proved strong this week after Evergreen Lithium hit the ground running on ASX debut this week, jumping 20% in its debut session and 45% since debut on Tuesday, in another sign the lithium era is far from over. The lithium prospector aims to mirror the success of neighbours Core Lithium and Liontown Resources through its rights to explore the Bynoe Lithium project (flagship project) and Fortune Lithium project in the Northern Territory, in addition to the Kenny Project in WA.

So where do Bell Potter see the opportunities in the lithium space over the next 12-months? Bell Potter has a buy rating on Allkem, and Mineral Resources and a spec buy rating on Liontown Resources.

So while lithium outlook has been dampened in recent months, it's important to remember... as long as EVs are still being produced, there will always be a need for the key 'green' commodity.

Locally from Tuesday to Thursday during this shortened trading week, the ASX200 rose 1.46% as investors shook off fears of a global banking crisis and digested key inflation data out of the US. Materials stocks led the charge this week with the sector rising 3.16% buoyed by iron ore prices rising on the back of a cyclone forming off WA's Kimberley coast, which is a key region of iron ore export for Australia. The utilities sector was the only sector to close the short trading week lower.

The winning stocks were led by Nickel Industries jumping almost 17% after the company's CEO purchased another 2.1 million shares in the nickel company this week. Corporate Travel Management also jumped 13% after announcing it has signed a deal worth \$3bn with UK Home Office for a two-year period.

And on the losing end Imugene tanked 10% from Tuesday to Thursday and Block Inc fell over 6% across the four-days.

Taking a look at the broader market or the All Ords, Jervois Global soared 37% despite no price sensitive news out of the company this week, while Invictus Energy fell 14.3% from Tuesday to Thursday.

The most traded stocks by Bell Direct clients this week were Cleanaway Waste Management, and New Hope Corporation.

Clients also bought into ANZ, NAB, Westpac Banking Corporation, and Rio Tinto, while taking profits from BHP, AGL Energy, Breaker Resources and CSL.

And on the diversification front, the most traded ETFs by Bell Direct clients this week were Vanguard Australian Shares Index ETF, BetaShares Geared Australian Equity Hedge Fund ETF and BetaShares Australian Strong Bear Hedge Fund ETF.

Taking a look at the week ahead, the RBA meeting minutes for April are out on Tuesday which will allow investors to gain an insight into the RBA's thoughts on further rate hikes.

Overseas, US weekly crude oil inventories is out early on Thursday morning AEST which may impact global oil prices as we have seen turbulence in the price of oil over recent times after OPEC+ cut daily output in a bid to stabilise the market.

And that's all we have time for today, have a wonderful Friday and weekend, and as always, happy investing!

- Grady Wulff, Market Analyst