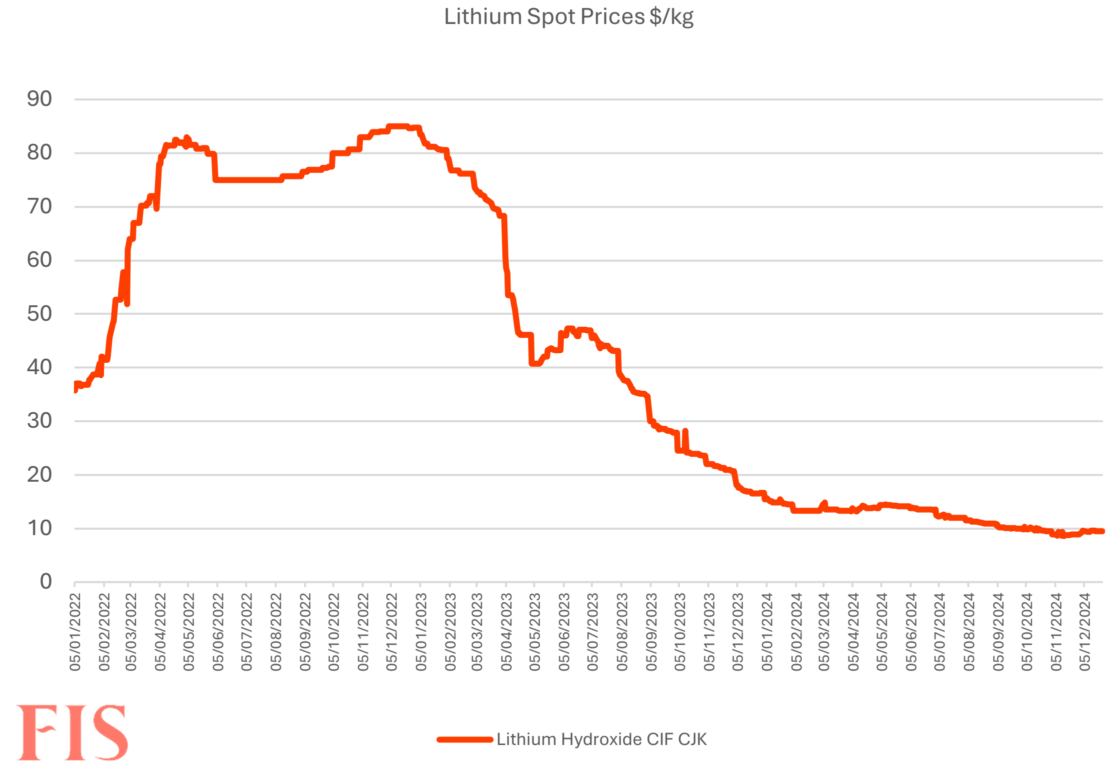
Lithium - An Emerging Market Finding Its Balance

Battery metals, including lithium, nickel, cobalt, and graphite, are critical to the production of batteries, which power electric vehicles (EVs), energy storage systems (ESS), and consumer electronics. As the world accelerates its transition toward decarbonisation and renewable energy, demand for these metals continues to surge at an unprecedented rate.

However, the battery metals market has seen significant fluctuations over the past year, with regional disparities in EVs sales, supply-side disruptions, and shifting regulatory landscapes shaping the outlook.

In this article, we consider the current state of the Lithium market, supply and demand fluctuations impacting the market and what our short-to-long term expectations are.

A Year of Stabilisation and Regional Contrasts



Source: FIS, Bloomberg

2024 was a year of stabilisation for the lithium market. After a volatile 2023, when the Fastmarkets lithium hydroxide index price moved within a $62/kg range, prices in 2024 remained within a relatively narrow $5/kg range, signalling that the market had found a temporary equilibrium.

Regional EVs sales patterns painted a mixed picture. Fastmarkets data indicates a slowdown in EVs sales in key European markets, particularly France and Germany; however, by the end of 2024, a year-on-year (YoY) growth had returned. Meanwhile, China continued to dominate the market, recording a 25% YoY increase in EVs sales, reinforcing its position as the global driver of battery metals demand.

On the supply side, early signs of market reaction to lower prices emerged in January 2024. Nevertheless, it wasn't until September when a major Chinese producer implemented notable production cuts, shutting down three plants. These disruptions marked a key turning point, setting the stage for a tightening market in the coming years.

Mid-to-Long-Term Outlook: A Market in Transition

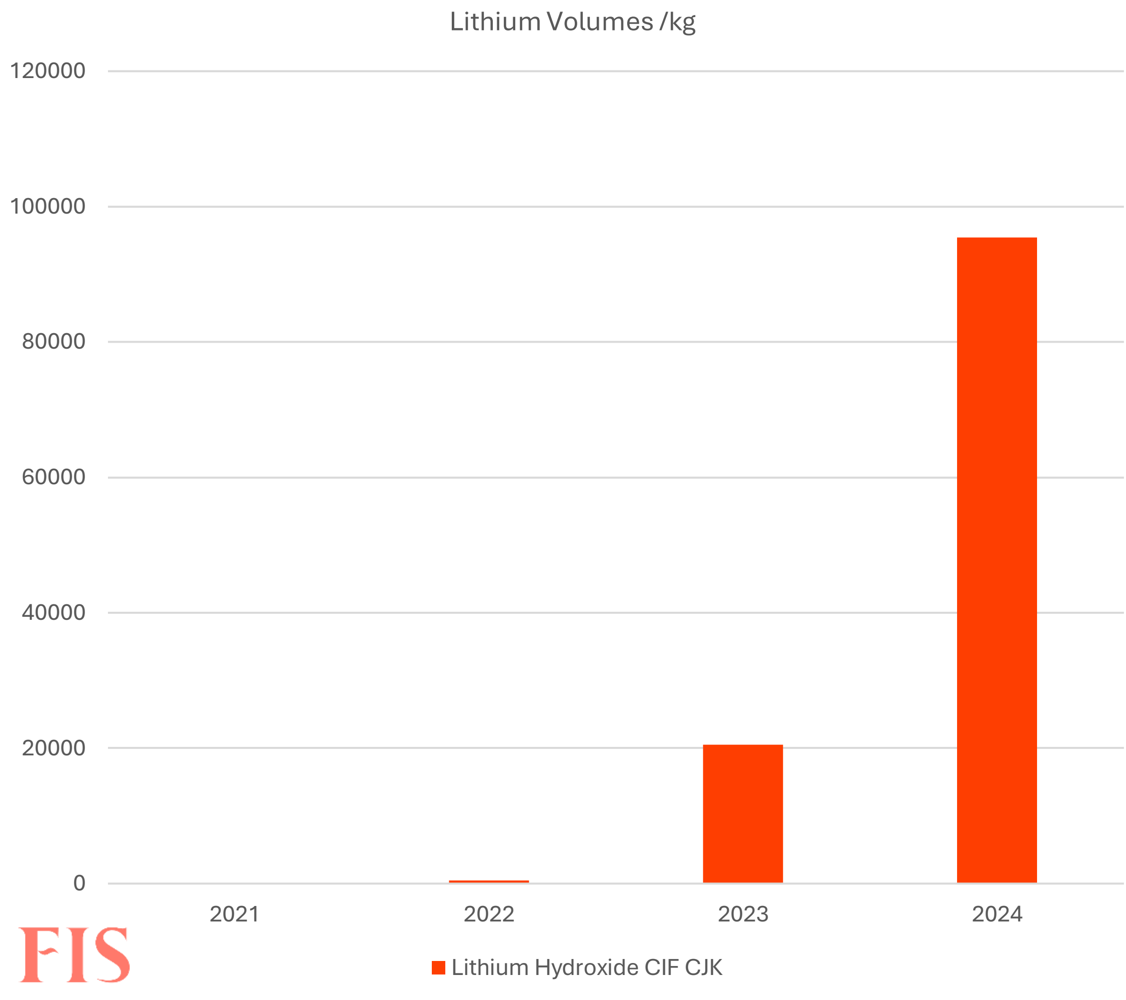
Supply-Side Dynamics: From Surplus to Deficit

The lithium market has been in surplus for the past two years, with Fastmarkets estimating an oversupply of 175,000 tonnes in 2023 and 154,000 tonnes in 2024. However, this surplus is expected to shrink in the coming years, with a projected oversupply of just 10,000 tonnes in 2025, before swinging into a 1,500-tonne deficit by 2026.

Despite this tightening market, analysts caution against expecting a rapid price recovery. Suggesting that the market may be cushioned from any actual shortage because there is considerable inventory still present within the supply chain, especially in China. Additionally, idled production capacity could quickly come back online, further limiting the potential for price spikes.

However, as supply and demand are likely to rebalance over the next year, restocking phases could trigger sudden price volatility. Buyers looking to replenish inventories may struggle to secure material, causing sharp price movements, an important factor to watch in the coming years.

Demand-Side Drivers: Regulation, Stimulus, and Market Growth



Source: FIS, Bloomberg

Ongoing stimulus from the Chinese government is expected to provide further support for the EV and battery sectors. Policies aimed at boosting domestic production and sales could help sustain strong demand in the world's largest EV market.

In contrast, the US market faces uncertainty due to pauses in funding from the Inflation Reduction Act and bipartisan infrastructure law. The future of EV tax credits and regulatory support from the Environmental Protection Agency remains unclear, raising concerns about financing for renewable energy and battery projects in the country.

Beyond EVs, energy storage systems (ESS) are emerging as a significant demand driver. Unlike electric vehicles, ESS demand is less dependent on government subsidies, making it more resilient to policy changes. Growing at a 22% CAGR—outpacing the 16% CAGR of EVs—ESS is becoming an increasingly important factor in the battery metals market, according to data published by Fastmarkets.

Encouragingly, EVs sales in Europe are showing signs of a rebound, with battery electric vehicle (BEV) sales in Germany up 53.5% in January 2025 and up 41.6% in the UK. This is particularly significant for lithium hydroxide demand, as European automakers favour nickel-cobalt-manganese (NCM) lithium-ion batteries. However, whether this recovery will offset potential weakness in the US EVs market remains an open question.

An Evolving Landscape for Battery Metals

The battery metals industry is at an inflection point. While supply disruptions and tightening market conditions suggest a shift toward deficit, inventory buffers and flexible production capacity may prevent extreme price surges in the near term. Meanwhile, new regulations, stimulus measures, and the rise of ESS are reshaping demand dynamics.

As the sector evolves, new financial tools and market mechanisms are emerging to support the green transition, ensuring the battery metals market remains a cornerstone of the global shift to clean energy.

In the next article of this series, we will explore the latest innovations and financial products designed to navigate this rapidly changing market.

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