

Lithium future prices and demand

In the second half of 2020, lithium demand started to rebound, prices continued to fall until late September as the market destocked, but prices fell to unsustainably low levels, which prompted production cuts - these led to a price rebound as the market switched from destocking to restocking. Demand continues to rise in 2021, but supply is still tight. We forecast excess supply of just 3000 tonnes lithium carbonate equivalent (LCE), down from 54,000 tonnes LCE in 2020.

The only way is up for lithium demand. Electric vehicle (EV) demand will continue to drive the lithium market forward: EV penetration will reach 15% in 2025, and we expect to see it rise to around 35% by 2030. Add to that mix growing demand from applications such as energy storage systems (ESS), 5G devices, and Internet of Things (IoT) infrastructure.

The underlying market fundamentals for lithium are straightforward: Increasing and sustained demand will strain supply through 2030. Between now and 2025, supplies from current and planned projects are expected to come online to meet demand; and from 2025 to 2030 new supply sources must come online to support demand.

Find out what's driving demand, where much-needed additional supply might come from, and what market signals to keep an eye on. Get your copy of our latest lithium report, [Why there's still time to avoid a lithium supply crunch](#).

Additional supply will come from multiple sources including investment in hard rock production in Australia, direct lithium extraction and recycling infrastructure. Read our special lithium report, [Why there's still time to avoid a lithium supply crunch](#), to understand likely sources of future supply in more detail.

CME Group has launched contracts that track the price of the raw material for lithium batteries, stepping up its rivalry with the London Metal Exchange for dominance of the global market for battery metals.

Its move marks a new front as the world's largest commodities exchanges compete to be the main venue for producers and miners to trade battery metals as new technologies like electric vehicles spur long-term demand.

Until now the lithium futures contracts available -- in London, Chicago, Guangzhou and Singapore -- have been for processed forms of lithium such as lithium hydroxide and lithium carbonate, which are key ingredients in electric vehicle batteries and for industrial processing. Spodumene is lithium-rich rock dug from the ground, and Australia is the largest producer.

The CME and the LME launched their first lithium hydroxide contracts only in 2021, with the Singapore Exchange offering their own futures the following year. However the CME has pulled ahead of the LME for

contracts such as lithium hydroxide and cobalt.

The CME's cash-settled spodumene futures contract will be launched on Oct 28 if approved by regulators, and is based on an assessment of spodumene delivered into China by Fastmarkets, a commodities data company.

"The opportunity is huge, that's why multiple exchanges are competing in this space," said Koralewski, adding that as the lithium market grows its market structure could become more like oil, where the value of the derivatives traded are many times larger than the sales value of the physical product.

Industry analysts have drawn potential parallels between the lithium market and the iron ore market, which used to be largely traded on annual fixed price contracts until 2010. As China's demand for iron ore surged, causing the annual contracts to break down, trading and hedging iron ore with futures has exploded.

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