

New energy vehicles enter peak season, supporting raw material prices

China's new energy vehicle sales stood at 38,000 and 34,000 units in January and February respectively, up 430% and 95.2% year on year, according to the Ministry of Industry and Information Technology (MIIT). The installed capacity of motive batteries was 1.27 and 1.02 GWh in January and February respectively, up 1,137% and 357% year on year. SMM believes that strong demand would support raw material prices as new energy vehicles enter the peak season of production and sales.

Chart 1. New energy vehicle sales (unit, YoY growth)

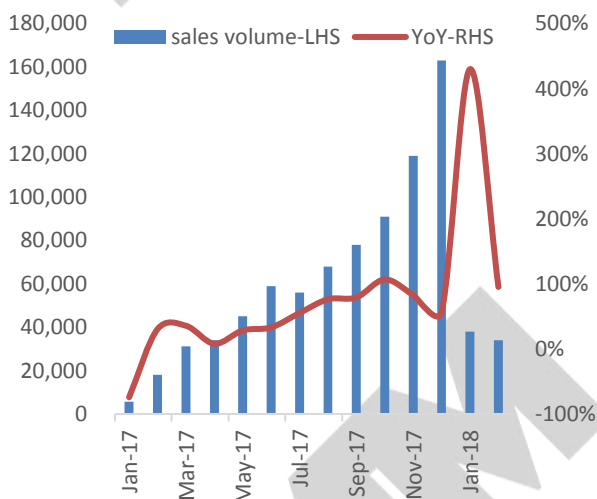
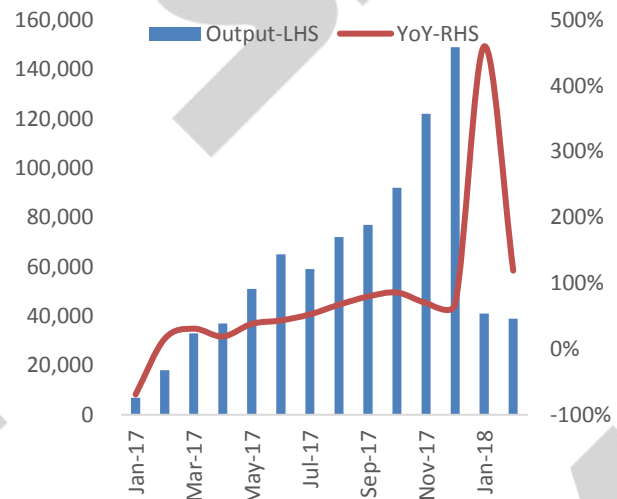


Chart 2. New energy vehicle output (unit, YoY growth)



Source: SMM

Supply oligopoly drives up cobalt prices

Downstream cobalt users have been actively buying cobalt mines or signing collaborative agreements with suppliers since the beginning of the year as they look to secure the supply. Cobalt prices have therefore soared due to strong demand with only a handful of suppliers.

On the demand side, both output and sales of new energy vehicles have grown steadily. As leading automakers lay out their blueprints for new energy vehicles, the trend of high energy density drives up cobalt demand. According to SMM's supply-demand model, cobalt demand is expected to maintain a steady growth rate, reaching 51,000 mt in metal content in 2018, and 56,400 mt and 63,200 mt in 2019 and 2020, respectively.

On the supply side, only a few suppliers dominate the market. SMM estimates that global cobalt resources are mainly concentrated in the hands of Glencore, China Moly and Eurasian Natural Resources. Their market shares stand at 23%, 11.8% and 5.5%, respectively.

SMM reiterates our view that the strong demand and the sellers' market will drive up cobalt prices in 2018, even though there is no deficit this year. SMM remains bullish on cobalt prices and forecast an average price of 600,000 yuan/mt for 2018, up 50.3% year on year.

Table 1. Global cobalt supply-and-demand balance (2016-2020E, 1,000 mt)

(000 tonne)	2016	2017E	2018E	2019E	2020E
Global Cobalt Output	115	129.6	147.8	159.8	167.1
Global Cobalt Consumption	114.7	120.9	129	139.5	156.2
Balance (Short-/Surplus+)	0.3	8.8	18.8	20.3	10.9

Source: SMM

Table 2. China cobalt supply-and-demand balance (2016-2020E, 1,000 mt)

(000 tonne)	2016	2017E	2018E	2019E	2020E
China Cobalt Demand	41.5	47	51	56.4	63.2
China Cobalt Supply	5	7.5	9.5	12.5	16.5
Import	43.3	41.5	41.9	44.7	49.8
Export	0.7	2.1	3.1	3.8	4.5
Balance (Short-/Surplus+)	6	0	-2.7	-3	-1.4

Source: SMM

Chart 3. Top three cobalt supplier market share (%)

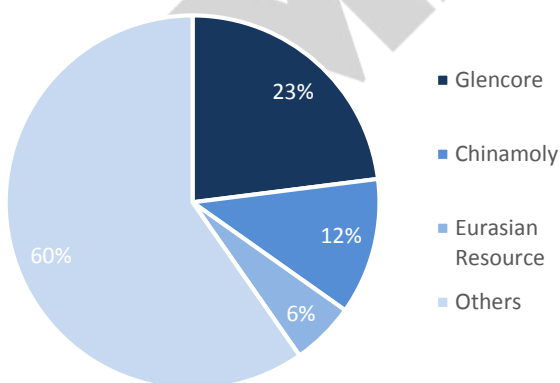
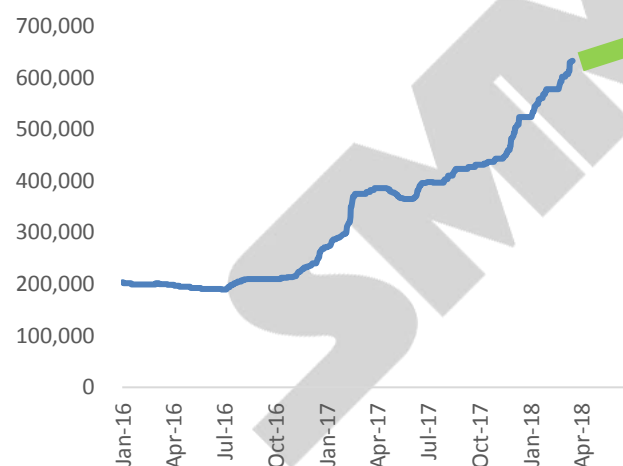


Chart 4. Cobalt price and forecast (yuan/mt)



Source: SMM

Lithium salt capacity faces turning point in H2 2018, pressuring prices

Lithium carbonate and lithium hydroxide prices stood at 153,500 yuan/mt and 147,500 yuan/mt as of March 26, down 6.4% and 0.67% year-to-date respectively, according to SMM survey. SMM believes that this year will be the turning point for China's domestic lithium salt supply and demand landscape. Due to the concentrated release of lithium carbonate capacity in the second half of this year, the market will turn into an oversupply. The main new capacities include: 1) 30,000 mt of Jiangxi Longzhou, 2) 20,000 mt of Wudi Golden Bay; 3) 17,500 mt of Ganfeng Lithium.

SMM expects the average price of lithium carbonate to be 140,000 yuan/mt in 2018, up 3.1% year on year. The average price of lithium hydroxide is expected to be 145,000 yuan/mt, down 5% year on year.

Chart1. Lithium carbonate price and forecast (yuan/mt)

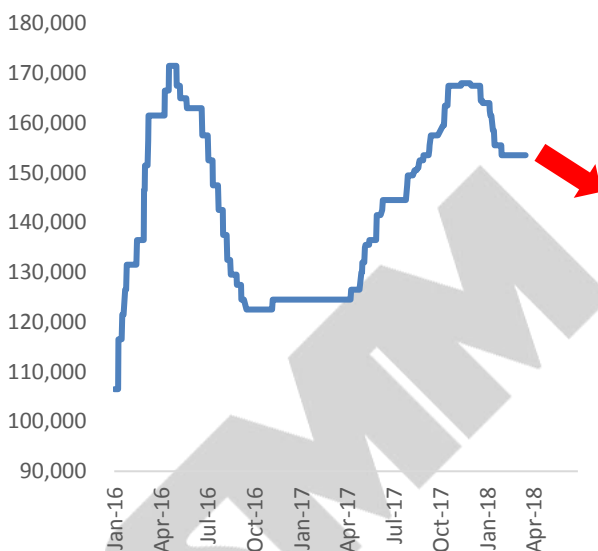
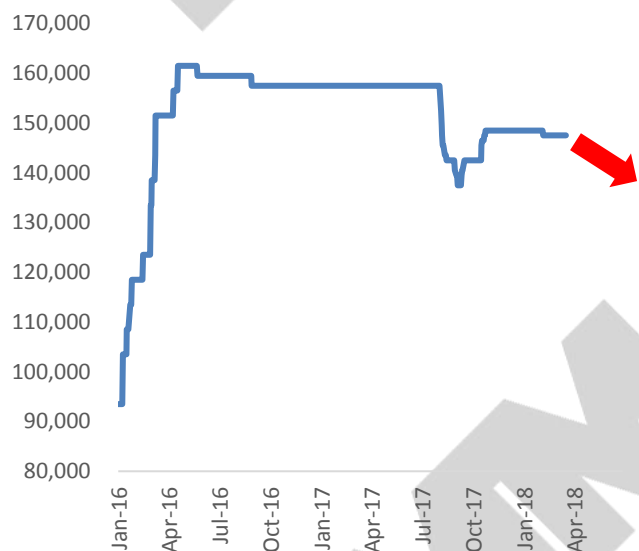


Chart 2. Lithium hydroxide price and forecast (yuan/mt)



Source: SMM

SMM has a comprehensive **China Cost Database** for nonferrous and ferrous metals, by conducting regular field trips and interviews with a majority of Chinese metal producers, from large-scaled to small-scaled, from SOEs to private-owned. We collect their detailed cost breakdown for individual plants/mines and for the whole production process, and update the database regularly as well as keep close track of any updates/changes.

We also have the **Cost Database** for Steel, Iron Ore, Aluminum, Copper, Copper Mine, Nickel, Nickel-Pig-Iron (NPI), Tin, Manganese, Lead and Lead Ore, etc.

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