SECTOR
UPDATE

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Rechargeable Batteries

(NEUTRAL)

Dialogue with the market #42: View on rebound in lithium prices

- Lithium prices have surged 37% since July.
- We attribute the rebound to concerns over supply disruptions at lithium mines in Yichun, China, rather than stronger demand.
- Chinese authorities are likely to resume suspended mine operations to collect taxes, rather than keep them closed to ease oversupply.

WHAT'S THE STORY?

Introduction: This 42nd report in our *Dialogue with the Market* series discusses the rebound in lithium prices, a key driver of the post-July rally across the rechargeable battery value chain. As lithium is a critical raw material for rechargeable batteries, the price rebound might appear to signal rising battery demand. However, given that prices of nickel—a comparable battery input—have remained sluggish over the same period, we attribute the lithium price rebound to supply-side issues rather than stronger demand. Against this backdrop, we examine: 1) the supply-side catalyst behind China's lithium-price rebound; and 2) whether it can meaningfully reduce oversupply.

Trigger of Chinese lithium-price rebound—Supply disruption concerns: On Jul 1, lithium prices were just CNY59.8/kg. They began climbing in mid-July after China's Zangge Mining was ordered by provincial authorities to halt illegal mining, rising to CNY70.9/kg by end-July. Fears of supply disruptions spurred speculative demand, driving Chinese lithium futures to daily upper limits and open interest to record highs, which quickly lifted spot prices. On Jul 27, the Guangzhou Futures Exchange issued guidance to curb speculative trading, sending futures limit down on Jul 28 and triggering corrections until early August.

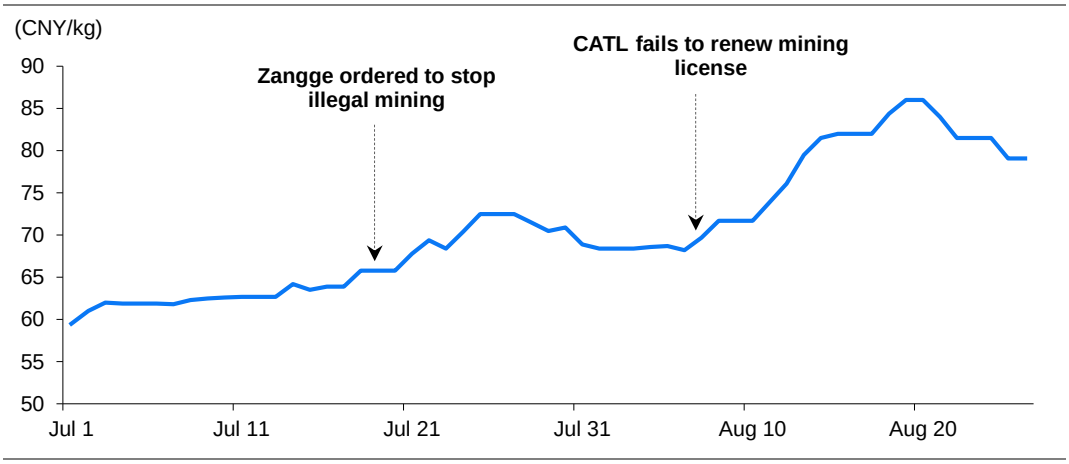
But on Aug 9, news broke that CATL's major Jianxiawo lithium mine would suspend operations for at least three months due to failure to extend a mining permit. Futures again hit daily upper limits and remained elevated for the next ten days. CATL's mine, with 46,000 tonnes *pa* of lithium capacity (based on lithium carbonate; 3% of global supply), is large enough that investors expecting supply disruptions have likely positioned for further price gains.

Major issues related to suspension of lithium mining in China

Date	Issues
Feb 24, 2023	Chinese authorities announce crackdown on illegal lithium mining and distribution, and launch investigations through joint task force
Feb 28, 2023	Certain local authorities order resumption of lithium mining operations
Jul 2025	The state council designates lithium a strategic mineral resource, transferring approval authority from local governments to the central government
Jul 17, 2025	Zangge ordered to suspend operations due to illegal mining, leading to shutdown of eight lithium mines in Yichun City
Aug 9, 2025	Media report that CATL's subsidiary fails to renew mining license for its Yichun lithium mines

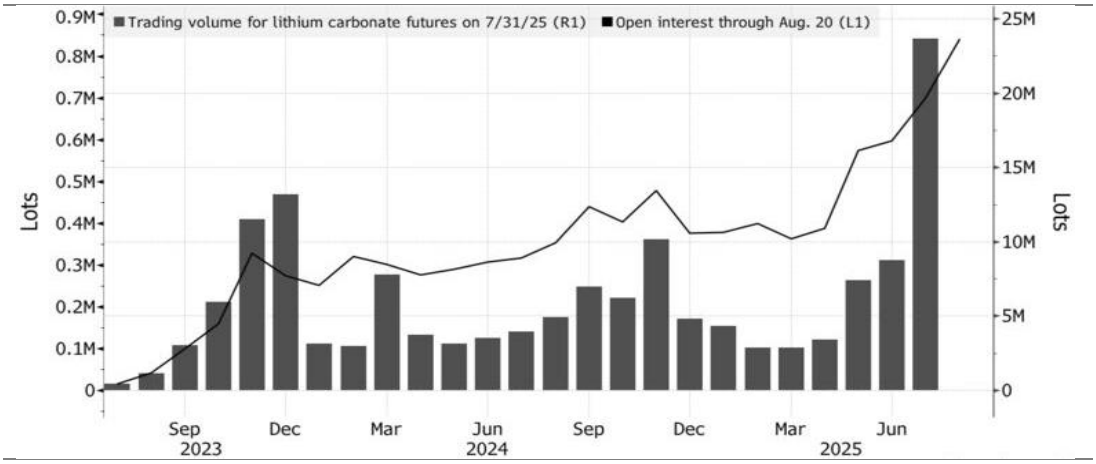
Source: Media, Samsung Securities

Lithium prices since July, with Chinese mining events shown



Source: Bloomberg

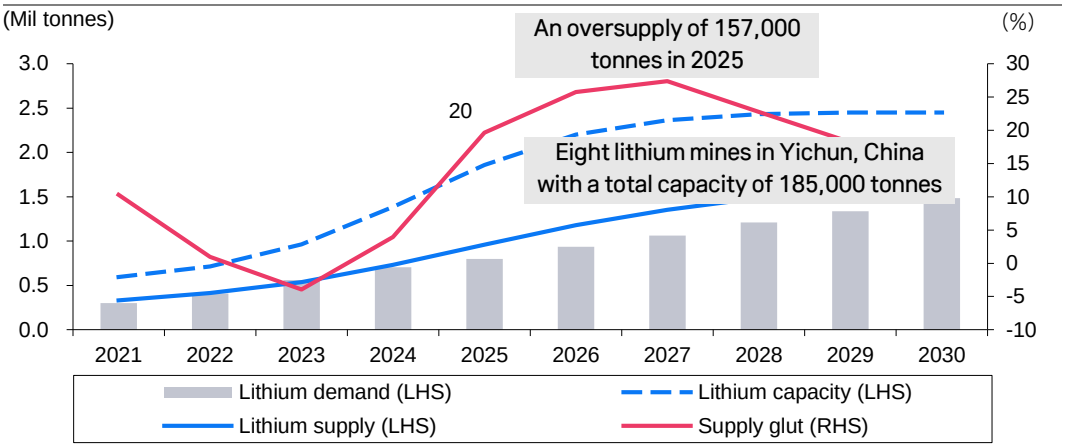
Lithium carbonate futures: Trading volume and open interest



Source: BNEF

CATL's failure to extend Jianxiawo mine permit: According to media reports, the eight lithium mines operating in Yichun, China (including CATL) were only licensed for 'ceramic clay,' not lithium. In other words, CATL was found to be producing lithium outside its permitted scope. If the same rule is applied to the other seven mines, their combined capacity of 185,000 tonnes could also be suspended. Global lithium demand is estimated at 800,000 tonnes in 2025, with supply at 960,000 tonnes (against total capacity of 1.86m tonnes), implying oversupply of about 157,000 tonnes. Suspension of Yichun's eight mines could swing the market into immediate shortage, which explains investor focus on CATL's mine shutdown.

Lithium carbonate: Supply vs demand



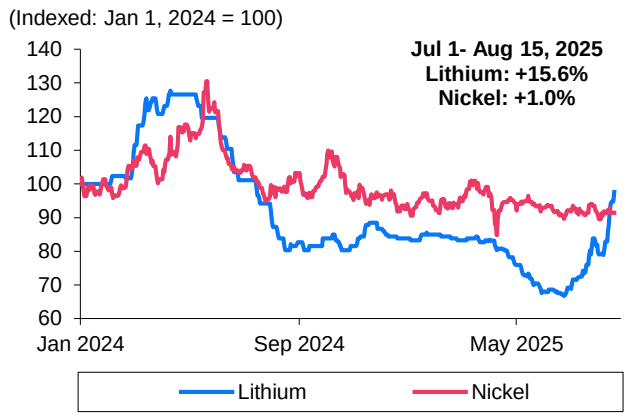
Note: *Supply glut ratio = operating lithium supply capacity as a percentage of lithium demand
Source: BNEF, Samsung Securities

At a crossroads—Suspending lithium production vs allowing it for tax revenue: If CATL's failure to renew its Jianxiawo permit stems from producing lithium outside its licensed scope, the company could resolve the issue by adding lithium to its "excavation list" and obtaining the proper license. Until now, Chinese mines have avoided this step because of the heavy tax burden on low-margin lithium operations. Should mines decide to formalize lithium production and accept the tax cost, the government would likely grant permits. In this case, Chinese mines would ultimately pass on the additional tax burden to consumers.

Alternatively, Beijing could seize the moment to address structural oversupply in the lithium industry (a Chinese sector plagued by chronic overcapacity) by enforcing exacting screening standards. However, this would undermine the competitiveness of China's lithium industry, which is ranked third globally—in contrast to its EV and battery industries, which rank first. On balance, we expect the government to press mines to meet formal licensing requirements and pay taxes, thereby securing fiscal revenues while preserving China's competitive position. This would leave lithium oversupply unresolved, limiting price upside.

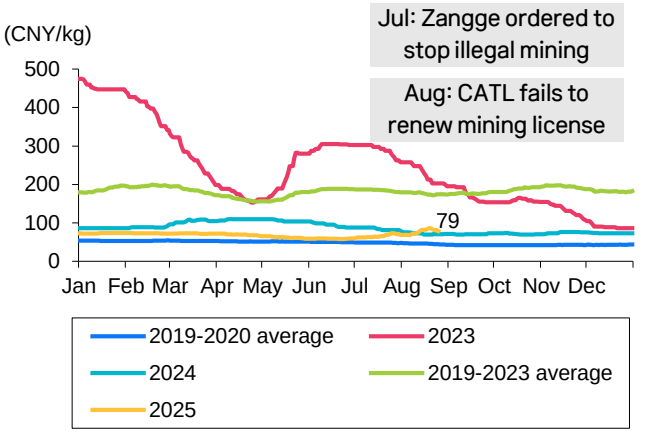
Implications of diverging lithium and nickel prices: Another reason we attribute the rebound in lithium prices to supply disruption fears rather than demand strength is the divergence from nickel prices. While lithium prices surged 37% between Jul 1 and Aug 14, nickel prices remained weak. Given that the two commodities have typically moved in tandem over the past two to three years, the recent divergence suggests the lithium rally stems from factors unique to lithium, not broad-based improvement in battery demand.

Lithium prices vs nickel prices



Note: Based on Aug 25
Source: Bloomberg

Lithium carbonate prices



Note: Based on Aug 25
Source: Bloomberg

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