Lithium not the only battery metal to suffer pricing setback

Spot natural flake graphite prices in China have suddenly and materially decreased across all flake sizes impacting existing contract price re-negotiations and contract renewal discussions says ASX-listed graphite miner Syrah Resources.

China is the world's largest consumer and producer of natural graphite, importing 105 000 t of graphite, of which 75% was from Syrah Resources, primarily consumed in the battery supply chain.

Despite this, recent developments have impacted the graphite market which Syrah Resources says is because of:

- A recent sharp depreciation of the Chinese Yuan and concern over further potential decline is placing downward pressure on US$ denominated pricing negotiations with Chinese customers;
- Additional production from Madagascar and a seasonal increase in domestic Chinese production has added to market supply;
- Cuts in Chinese electric vehicle subsidies, which came into effect at the end of June, have impacted near term graphite demand growth for lithium-ion batteries in China; and
- International trade tensions and tariffs continue to weigh on consumer sentiment.

These factors imply that despite strong demand growth, graphite supply growth has out-paced demand in the current market, consistent with recent observations in other battery raw materials.

Despite near term challenges experienced by the raw material battery sector, lithium-ion battery demand remains positive with significant growth expected, exhibited by the continuing evolution of strategic partnerships and capacity plans in Europe and North America.

LEARN MORE: About lithium demand forecasts

Automotive OEMs continue to focus their production on electric vehicle models and the expected total battery mega factory capacity pipeline to 2023 is 1,234.8 GWh.

LEARN MORE: About recent developments at Syrah Resources

Syrah Resources’ operational response

The near term operational plan is as follows:

- Conduct an orderly reduction in production volume to the end of Q3, 2019.
- Significantly reduce production in Q4, 2019 to approximately 5000 t per month to maintain operations allowing for:

  - Reduced volumes to focus on further increasing fixed carbon grade and product quality to develop value in use differentiation for Syrah; and
  - Manage Syrah supply to allow for pricing differentials based on quality, grade and consistency of Syrah's product.

- Perform an immediate review of further structural cost reduction at Balama and across the company;
- Syrah will work closely with customers, suppliers, employees and other stakeholders in managing the impact of revised operational plans; and
- Conduct a strategic and operational review for 2020, with further details provided in Syrah's Q3, 2019