Syrah to slash production in response to volatile graphite market

The Balama site. Image: Syrah Resources.

Syrah Resources plans to take "immediate action" in response to the sudden decrease in graphite prices, which may plummet further later this year.

The company attributed the drop in Chinese graphite prices to the depreciation of the Chinese Yuan and Chinese inventory level concerns, which have impacted Syrah's price negotiations and contract renewals.

China, which is the world's largest consumer and producer of natural graphite, transitioned to a net importer of graphite products in January this year earlier than expected.

In the six months to June 2019, China imported 105,000 tonnes of graphite, of which 75 per cent was from Syrah, primarily consumed in the battery supply chain.

Alongside sharp depreciation of the Yuan, additional production from Madagascar and a seasonal increase in domestic Chinese production has added to market supply.

This, coinciding with cuts in Chinese electric vehicle subsidies that have impacted graphite demand, has further pushed the price down.

In response, Syrah intends to significantly reduce graphite production from the Balama mine in Mozambique during the fourth quarter of 2019 to approximately 5000 tonnes per month, down from 15,000 tonnes previously.

The company will also perform an immediate review of further structural cost reduction at Balama.

Syrah chief executive officer Shaun Verner said the company intended to respond immediately to the market conditions, which it expected to affect business.

“In response to the sudden and material decrease in spot graphite prices impacting price negotiations and contract renewals, we have taken immediate action to reduce our production volumes in the fourth quarter 2019 to levels sufficient to maintain operations and continue our production optimisation activities,” Verner said.

“During this period, we will focus on further increases to product grade and consistency to drive our product differentiation.

“Although a difficult decision, we believe that this action is in the best interests of shareholders to preserve long term value.”