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Setting Course | Episode 5
Andrea Hotter, Special Correspondent, Fastmarkets

On this week's installment of our Setting Course series, we welcome Andrea Hotter, Special Correspondent at Fastmarkets, into the SmarterMarkets™ studio. Host David Greely sits down with Andrea to discuss what's been happening in the metals markets that are critical to the energy transition including the nickel, copper, and lithium markets – as well as the increasing influence of geopolitics.

Andrea Hotter (00s):
There are so many different nuances. And then it depends on the metal or the raw material, the critical mineral that we're talking about, where the supplier is, where those projects are, what you have in your own country, who you can do business with. So we have been talking here about surpluses. Even if these markets, some of them are in surplus, we still need to see giant leaps in production going forward of copper, of lithium, of nickel because there simply aren't enough raw materials around currently to satisfy future expectations for demand.

Announcer (32s):
Welcome to SmarterMarkets, a weekly podcast featuring the icons and entrepreneurs of technology, commodities, and finance ranting on the inadequacies of our systems and riffing on ideas for how to solve them. Together we examine the questions: are we facing a crisis of information or a crisis of trust, and will building Smarter Markets be the antidote?
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David Greely (01m 12s):
Welcome back to Setting Course on SmarterMarkets. I'm Dave Greely, Chief Economist at Abaxx Technologies. Our guest today is Andrea Hotter, Special Correspondent at Fastmarkets. We'll be discussing what's been happening in the metals markets that are critical to the energy transition, including the nickel, copper, and lithium markets and the increasing influence of geopolitics. Hello Andrea. Welcome to SmarterMarkets.

Andrea Hotter (01m 37s):
Hello Dave. I have to say it's a little bit strange for me to be on the side of the desk answering the questions instead of asking them. I'm not used to that.

David Greely (01m 47s):
I appreciate you getting in the hot seat and letting me ask you the questions because I think there's so much that you have to share. I really enjoy reading your articles in hotter commodities on metals for fast markets and I've been looking forward to getting to ask you some of the questions about some of the big stories that you're following now and expect to be following this year and I really wanted to talk with you about what's happening in the metals markets that are so critical to the energy transition markets like nickel, lithium, copper, we all know the energy transition's going to require a tremendous amount of these materials and these metals, but their prices have been falling for the most part, not rising over the past year. So it begs the question, you know, what's going on and you know, are you seeing this as one common story or is it a bunch of different idiosyncratic stories, a different story for what's happening in each of these markets?

Andrea Hotter (02m 43s):
Yeah, I mean Dave, you're right of the base metals nickel was by far the worst performer last year I think it was down by around 44% outside the base metals lithium was down by over 80% depending on which price you look at. And it has continued to fall. This year copper was just a little bit up to just over 2% and aluminum was more or less flat. But as a whole, commodities as an asset class were the worst performing asset class in 2023 after being the best in 2022. So it really was a massive reversal of fortunes. I think of course as always the supply demand fundamentals for each market played a role. But I think what really went wrong for metals is that everybody got incredibly bullish about the prospect of a post-COVID boom in China when the country reopened at the end of 2022 and it simply

didn't happen. The US dollar also pushed higher interest rates and inflation didn't come down and the macro backdrop in the world X China looked pretty bleak too. So throughout all of this, the metals just continue to work themselves lower throughout the year and if anything it's probably a good job that the energy transition was a source of off take in the background because without it things it could have been an awful lot worse.

David Greely (04m 03s):
Well let's dive in then with the nickel market, as you said down about 40% over the past year. What's been the story behind nickel prices?

Andrea Hotter (04m 13s):
I think with these lower prices, the absolute inevitable happened, right, many producers, particularly in regions with we've talked about, you know, inflation now already high energy and labor costs. They've struggled to cover the costs of production and then in lower cost regions like Indonesia, production has just continued to grow and grow and grow, which has put pressure on the nickel market because it's pushed the market into a surplus. A lot of that Indonesian nickel is what we call class two nickel and a lot of it just to confuse things further, it's being converted into class one production. The class one is that pure nickel metal containing normally over 99.8% of nickel and class two is pretty much everything else. So the main types being fairer nickel and nickel pig iron. And what's happened is we're starting to see the impact of that surplus, the lower prices on nickel producers and they're being forced to cut production or curtail projects altogether.

Andrea Hotter (05m 07s):
I mean there's a long list of projects that are starting to, we're starting to see it's a case Wyloo, which has put its Kambalda operations on care and maintenance or will do from the end of May. That's had a knock on effect on BHP because they have a nickel concentrator which takes all from Wyloo to be refined. So they're putting that on care and maintenance. You've seen first quantum suspend, its Ravensthorpe nickel mine, Panoramic resources has called in the administrators over its Savannah nickel project and IGO has suspended its cosmos mine. All of those are in Australia. We've heard very recently that Glencore has put its Koniambo Mine in New Caledonia under review and has just said it won't fund it from March and it didn't include it in its 2024 production guidance, which might give us a bit of a hint at the future. And despite all of this, all these cuts that we're starting to see, the market is still gonna be in the surplus because of the massive nickel being produced in Indonesia. So it's all a bit of an Indonesia situation.

David Greely (06m 07s):
Right and is it a, a, a story of supply getting ahead of demand that in anticipation of the, the demand that was anticipated to be coming for battery metals that these projects were ramped up or is it something different?

Andrea Hotter (06m 21s):
Yeah, I mean Indonesia is a really interesting situation. The country's production exploded in the last few years and I don't necessarily think it was all about the energy transition. It started because the country banned nickel ore exports in 2020. It was part of an effort to draw onshore investment and to add value to its industrial chains instead of just exporting the ore all the time and I think this is the important thing you need to remember about this. The bulk of those nickel projects in Indonesia have an Indonesian and a Chinese shareholding base. It's normally an Indonesian base in the mining phase and a Chinese in the smelting and refining phase where they're adding the value. There are some western companies active in nickel in Indonesia, but they're very few, I can count them on a hand. So just to give you put it in perspective, the global markets 3.1, 3.3 million tons a year.

Andrea Hotter (07m 15s):
The vast majority of these projects in Indonesia are Chinese and Indonesian owned roughly 2.2, 2.3 million tons of the year and they're adding another 1.4 plus tons that's under construction. So that's a massive amount and I think it's also, the other thing that's really important to think about, this is the foreign entity of concern for the purposes of the inflation reduction. Now we can get into that if you want to, I'm gonna call it FERC foreign entity of concern that includes any foreign entity that is owned by, controlled by or subject to the jurisdiction of a government, of a covered nation. Those covered nations, China, Russia, North Korea and Iran. So all of that capacity in Indonesia was waiting to see what do you mean by control? How much of it, what's the percentage for it to be defined as controlled and finally the US came out with that definition.

Andrea Hotter (08m 12s):
They said companies with a 25% ownership or controlled by a FERC China and that means board seats, voting rights or equity cannot get tax credits under the IRA and so that is kind of the spanner in the works for Indonesia if that status quo remains because they're on track to be supplying 60% of nickel supply to the market by next year and 75% by the end of the decade. So they are critical as things stand right now to the production of batteries for ATE vehicles. So that's a huge amount of nickel that won't be eligible for IRA tax credits and those FERC rules are pretty much put an end to market assumptions that the wall of Indonesian nickel is going to enter the supply chain imminently. It can't, at least not with the tax credits that it can get. So it's gonna be much more expensive to come into the US and it might put a deterrent on a lot of companies from trying to bring it in because it's gonna cost more.

David Greely (09m 08s):
And I wanted to ask you about that market share piece because as you said, you know, six Indonesia's 60 going to 75% of the market and you went through a long list of companies that are pulling back production in response to the lower prices. Are those companies predominantly ones outside of Indonesia and projects outside of Indonesia?

Andrea Hotter (09m 30s):
Yes, those projects, most of them were in Australia. It's the other places where production costs are higher, which is a big problem but they're in Australia, they're in New Caledonia, they're in, they haven't, it hasn't been really seen too much in Canada yet, but Australia's been really badly hurt. The projects that are not Chinese that are in Indonesia are things like there's a joint venture with Vale in there. There's Eramet and BASF. Glencore there are other companies that are building projects of scale in Indonesia, but they're not there yet. But the majority of those projects that are struggling are outside of Indonesia and they're Australian and I would say of the ones I've listed so far, four out the five are in Australia. So labor's a big issue there and inflation has really, really been a problem.

David Greely (10m 18s):
So it seemed like that would accelerate the rise in market share for Indonesia and I guess many of these other miners outside of Indonesia might be looking at the FERC piece of the IRA as a bit of a lifeline.

Andrea Hotter (10m 31s):
Yeah, absolutely and I think the other thing we haven't, we haven't touched on yet, that's probably important to remember that Indonesia doesn't have a free trade agreement with the US and that's also important because they can get EV tax credits through the IRA if it requires batteries to be built with at least 40% of their minerals coming from the US or a country with which the US has a free trade agreement and that percentage is increasing annually. But Indonesia doesn't have a free trade agreement. It's trying to get one but it doesn't have one. There's a lot of domestic pushback on this actually in the US saying we don't think that they should. A lot of that's built around environmental, social and governance concerns around safety and that's another big thing that we could discuss as well but those projects are there but there are potentials roadblocks as you said.

David Greely (11m 20s):
And the other story I wanted to ask you about in the nickel market, there's so many things happening is we're still in the aftermath of the chaos on the LME nickel market back in March 2022 that resulted in the LME canceling trades, then there were lawsuits against the LME. The LME won that lawsuit, which you reported on but I wanted to ask you, is that a bit of a pure victory, you know with the loss of market confidence in the exchange outweighing the benefits of the win in court?

Andrea Hotter (11m 48s):
I think it really depends on your view of the lawsuits. I mean I have quite a strong opinion on it and I know not everybody will agree with me but if we're looking at the lawsuits, I always thought that the exchange would win them for the simple reason that it had its rules on its side. So if you put aside any theoretical rights and wrongs of the arguments, the LME rule book very clearly states that where the exchange considers it appropriate, it can cancel very or correct any trade that's been agreed or contract. So an entity agreeing to trade on the LME knows the rules of engagement and if it doesn't it should and I think that's on those companies that sue the LME to know what they're doing. We can argue back and forth about whether they were right or wrong, but you know, from a pure lawsuits perspective, if the rules say that's in their rule book and they're allowed to do it, and I imagine it's probably in most exchanges if not all exchanges rule books, that they're allowed to do that to create, continue to, to maintain orderly markets.

Andrea Hotter (12m 46s):
You know, on that, from that perspective, I think it was quite an easy, it was an easy choice. Now to be fair also to the exchange, it has been working to restore credibility and liquidity in the nickel contract. It commissioned an independent report, it's got a two year plan to enhance the markets. It's working through a whole number of things and there's obviously a lot more work to be done. I think credibility is probably in some quarters at least particularly the hedge fund, something that needs to be brought back but that doesn't, on the other hand wave away their problems. There could be an appeal of the high court verdict and it's quite likely that will happen if there is an appeal, it's got to be granted by the Court of Appeal and if it's refused then the lawsuits and there are a few others that have been stayed during the Elliot management and Jane Street cases, they all just fall away.

Andrea Hotter (13m 35s):
Now I've read that ruling from cover to cover and I can tell you it seems pretty watertight in its view and favor of the yelling me in all of its claims. So my feeling is that taking it to appeal would probably just enrich the bank accounts with the lawyers on either side. The lawyers are always the winners, right But there are still regulatory reviews by the UK's regulator, the Financial Conduct authority and the clearing regulator, the Bank of England. So the high court verdict will probably have been watched by the regulators but what they're also gonna be looking at, which we haven't heard a verdict on really is what the LME did in the run up to the suspension and the cancellation of those trades. So there might be a slap on the wrist here and there and some bad headlines. Will it bring the LME down?

Andrea Hotter (14m 20s):
I personally don't believe so. There are a lot of people who think if the LME hadn't acted the way it did, it would potentially have led to the bankruptcy of a number of its members and had a massive contagion effect far wider than nickel. And I guess finally I'd like to say that there are alternative ways that have been proposed to trade nickels, such as on Abaxx Exchange as you know, and global commodities holding. And I think the ESE are where it can't just sit on its laurels and expect those market participants that have been very upset with that, the investment community to simply return overnight. So you know, it's a, it's a bit of six of one half a dozen of the other, but I think volumes on the nickel contract are back to where they were pre-match 2022, which suggests they're on the right path.

David Greely (15m 05s):
Alright and I know the one other challenge you've been writing about recently, and I guess this brings back to some of the, the geopolitical issues we were talking about earlier was what to do about the Russian aluminum in LME warehouses, given the sanctions in place against Russia, where do things stand with that and what impact could that have on the aluminum market as a whole?

Andrea Hotter (15m 26s):
Yeah, I mean, let's take a step back because I think we need to look at how we got to this place. Obviously the war in Ukraine began and a lot of traders and consumers have been self-sanctioning against using Russian metals. And as a result, more and more Russian metal just found its way into LME warehouses, which meant that people, when they tried to get metal out of warehouses, didn't want to take Russian metal. So it just continued to build up. It's got to a point now where the data from the exchange shows that around 90% of aluminum stored in its warehouses is Russian origin. So that's our starting point. This has caused a real battle on both sides and the kind of stuck in the middle. You've got western producers like Alcoa arguing that LE warehouses are being used as a dumping ground for unwanted material and that the LME price is completely disconnected from the actual traded price of physical aluminum and therefore it's irrelevant.

Andrea Hotter (16m 20s):
And they want the LME to sanction Russian metal, which they think is gonna restore credibility to the price and it will also restore convergence to the underlying physical market. That's their argument And then on the other hand, you've got some European based consumers and traders who say they need Russian aluminum, not just because they've seen over a million tons cut in capacity over the last couple of years because of costs, particularly energy costs, but also because now they've got these ongoing supply chain issues in the Baltic and Black Sea roots coming from Russia because of the war and also now because of the Red Sea in the sewers canal, because of the tensions in the Middle East, Europe uses about 10%, well 10% of Europe's aluminum needs come from Russia and that's down from about 40% before the war started. So most of aluminum coming from Russia produced by Russo goes to customers in China.

Andrea Hotter (17m 15s):
So it's not everything, it's a lot less than it was, but it's still important and all of this obviously as we said, has put the enemy in a pretty tricky position. They've adopted kind of a cautious line but probably a very sensible one. The only one they really can do is follow the

rules. We talked about them following the rules in their rule book where they're following the rules here too. So in other words, when the UK government takes a decision on sanctions, the LME takes a decision and it followed those rules. It suspended Russian metal in the UK, it kind of got a bit lucky there wasn't any Russian metal on warrant in LME warehouses in the Uk. There were some more measures taken. They had a workaround because traders were allowed to apply for licenses to trade Russian metal. So there wasn't too much of an impact in the US.

Andrea Hotter (18m 00s):
The US government imposed tars, the LME followed with a ban on bringing new Russian metal into LME warehouses in the US. It was also though similarly those traders were allowed to get a license. So it didn't really change anything. It would be very unlikely to do more I think, unless the US or EU decides to fully sanction Russian metal. And even then it only really has to respond to the US because it uses its currency. The UK is actually no longer part of the EU in case you remember that little thing called Brexit. So they kind of have an out there. I'm not saying that they would use it, but they don't have to necessarily obey the EU. They probably would. I think the key thing to remember here is this isn't the LME's first rodeo. It sanctioned Russian aluminum before when the US imposed sanction on the big producer, their RUSAL and its owner Oleg Deripaska.

Andrea Hotter (18m 56s):
That was back in 2018 and the key then was that the US issued trade licenses. So I imagine that if new sanctions were issued then the government go down a similar route and issue new trade licenses there. The EU, this is the big question though. The EU currently has got sanctions on about 12 to 15% of Russian aluminum imports into the EU. There's a bit of lobbying now, as you can imagine by those producers that we talked about earlier, to go the whole hog and impose sanctions on the remaining 85% of aluminum that's imported and that includes the primary aluminum. That would be the big one. The big question mark is now whether that will happen and the second anniversary of the Russian invasion of Ukraine is coming up February the 24th. So the timing for sanctions, a new sanctions package could be pretty good. The biggest change that could come if there are new sanctions and no trade license issued and that means that the LME could be pushed into making a decision, but it had to suspend the aluminum contract. I'm not saying that will happen, but that's kind of the worst case scenario for the exchange. So watch this space I think.

David Greely (20m 03s):
Yeah, stay tuned. I'm curious about the, the implications this is having on pricing. It sounds like Alcoa's stance would be that if 90% of the metal in the warehouses is Russian, the LME prices reflecting Russian metal, which should be trading at a discount to say Alcoa's production, which doesn't have that sanctioning component to it. Are you aware of like what size differentials we're talking about between Russian and non-Russian metals that might exist out there?

Andrea Hotter (20m 34s):
Not sure what the levels are right now, but people do talk about a two-tier market. I mean to a certain extent that two-tier market does benefit some of these companies that are arguing for Russian metal to be banned. So there is a little bit of an interest in in seeing that happen. As you can imagine from a pure commercial perspective, there is definitely a two tier market there. It happened when Russian aluminum was sanctioned in the US the price shot higher immediately and then when those trade licenses were issued, it came back down again. So I think it exists banning it. Would it create more of a differential absolutely does that benefit the companies that would like that differential probably. But it also has that impact of making it potentially more expensive for the European producers who are definitely trying to scrambling to find units in some cases and don't know where they would fill that that production from. They've been getting it from Middle East, from India because they haven't been able to get it and now that's getting hit by the trade routes, the logistics issues. So it's an interesting situation and I think we just have to wait and see what happens.

David Greely (21m 39s):
Yeah and you are putting it in terms of a two-tier market, you then made me think of, you know, back to your, some of your comments about the nickel market with what's IRA compliant nickel versus not IRA compliant nickel. And are we seeing a lot more of this tiering in the metals markets due to whether it's sanctions or different government policies and if we are, how are, how are the commercial participants in these markets dealing with it?

Andrea Hotter (22m 05s):
It's an interesting one. Aluminum was actually really advanced in pushing for a green premium and that's based on ESG credentials more than anything. It's not based on so much sanctions. We have lower carbon emissions from our metal that we're producing, therefore we should be paid more because this is better metal for you and your customers and helps you fulfill your, your targets, your

own ESG targets and tick those boxes properly. There's been a big fight in aluminum over it because a lot of producers, China, not so much China as in the past, but in India, in the Middle East use natural gas and coal. They can't necessarily do this overnight and it's gonna take them time. So they say, well hang on a minute. We have good credentials in sustainability but they might just not be necessarily in carbon. We're doing the best we can, but what about our water management and what about our treatment of communities and so on.

Andrea Hotter (23m 00s):
So that's been going on in aluminum for probably almost a decade. It's been a really long time and there've been some companies that have been very successful at achieving premiums, but they're small and it's not every company that's willing to pay it. Of course every other company has kind of jumped on the bandwagon and said, well we, we are producing metal that's green too, so we'd like to get a premium. And you're starting to see, as you said, these two-tier markets emerge. At least that's what the producers are pushing for. If you talk to them when they're being honest about it, they will say, not yet. It's not there yet. It doesn't exist in lithium yet. It doesn't exist in nickel yet. It doesn't really exist in copper yet. And I think we are gonna be a little way to wait before we get to a situation where if ever people are paying more for metal because it's produced with lower carbon emissions, at the end of the day, I think the target is for everyone to get to that place. In which case there's no need for any premium, but it's maybe to a certain extent wishful thinking, asking people to pay more than they already do. So I think the two tier markets start to emerge when there are these displacement like sanctions more so than when it's for environmental and sustainability target reasons and anything else.

David Greely (24m 14s):
And do you see that happening at all with the inflation reduction act and some of the restrictions it's putting on where metal source, like whether it's Indonesian or non Indonesian or there's a FERC element or not a FERC element?

Andrea Hotter (24m 25s):
Yeah, I don't think it, I think it's too early to tell. I don't think it's kicked in enough yet. People are still trying to work out what it actually means. There are a lot of people who really don't understand it. I'm one of those people who doesn't claim to, he can't claim to understand every ins and outs of it because it's, it's very complex and I think it is a work in progress. So we are not yet seeing that happen as a result. Now you might get companies, I think what you will start to see is OEMs say we will only source metal from X, Y, and Z place because we know that it's produced in sustainable manner or IRA compliant or whatever it may be. But I don't think that means they're necessarily gonna play a premium. It just means it will benefit certain producers and locations, geographical locations. I think that might be the way the market goes rather than paying a premium for it because it's, it's green, it's more likely to be, it doesn't come from a country which is gonna cause us a headache. So if they happen to be the same thing, you know that's fortuitous.

David Greely (25m 28s):
Right and I wanted to talk with you, you know, China and the copper market have come up a couple times. I'd like to focus in on that a little bit. While the energy transitions created a very bullish case for copper over the medium term, you know, it seems like Dr. Copper remains very focused on the Chinese economy, which has been difficult for people to get a read on, particularly given you've had very strong renewables investment at the same time you've had a weak property sector. And I'm curious, you know, is China the story in copper over the past year or has there been more going on than that?

Andrea Hotter (26m 04s):
I don't think it's been the story. I mean we talked earlier about the post-COVID boom that didn't really materialize and it's interesting when I've been doing interviews with CEOs and other executives, they used to always, always point to China as the big savior of the copper market and that was always their kind of like go-to, they don't talk about it in that way anymore, I can assure you and in fact they tried to avoid it and if anything they're trying to reassure me that China still remains an important factor in the copper market. So I don't think it's, it's has been the story in the way that it was definitely not because that just that strength is just not there all round. We're seeing that everywhere. But it's obviously still a really important factor in copper maybe in a different way at the moment because all the actions in the concentrate market, which is different. I can go into that a little bit if you are interested in that.

David Greely (26m 57s):
Please do.

Andrea Hotter (27m 00s):
Yeah, well so you're probably thinking what's concentrate or you are not, but some of your listeners may. What is concentrate is that semi-pro ore which mining companies produce when they basically dig it out of the ground and they give that concentrate to smelters to turn it into finished metal and they pay what are called treatment or refining charges, TCS or RCS and that's actually really important revenue source for either side depending on whether they're high or low on the market fundamentals. The way it works is typically if the concentrate market is very tight with reduced availability, then spot treatment charges fall. So the miners are paying less of the smelters because the smelters need their product more. So they're kind of in the driving seat. And with all of that in mind you are asking why am I talking about this?

Andrea Hotter (27m 42s):
Well the concentrate market right now is really, really very tight indeed. So those TCS have made it to the point where it's so tight they're nearing all time lows. This all actually started with a mining situation that turned really sour in Panama. The first quantum had a massive copper mine there, which it brought Onstream just before COVID, it was 2019. But they had a dispute with the government, which was then turned into a court dispute, which found the first quantum's mine contract to be unconstitutional and they had to close the mine at the end of last year. They're trying to negotiate a deal to reopen it but for now it's shuttered. So all of its concentrates are off the market and that was one thing that was a big blow. Then you had companies like tech resources, Anglo American Vale, Southern Copper, Glenco, all these big producers of concentrates say we're gonna be mining less copper and producing less concentrate for various reasons.

Andrea Hotter (28m 38s):
Whether it was all grades or problems at their assets, whatever it may be, it meant that there's even more concentrate missing. So where are the smelters, well they're in China, a lot of them. Those are the people that want to use the concentrate more to make metal and they are now competing for concentrate. So not only are they competing amongst themselves and with existing smelters, there's an awful lot of new smelting capacity being brought on. We've got smelters in Indonesia. Freeport is bringing on a brand new one due to start later this year and it's already expanded. Its existing smelter there. Adani Enterprises has a project that it says is coming on in India. Ivanhoe mines since engine mining have a joint venture in the DRC and PT Amman, an Indonesian company has a smelter project there too and guess what Chinese smelting capacity is also growing rapidly.

Andrea Hotter (29m 29s):
So there are some mega projects scheduled there. So what this means and why China's important is all of these smelter projects are either gonna be using concentrate that spare from their own minds as feedstock. So they're diverting supplies that would otherwise go to existing customers and they don't like those customers can't use it anymore or they're gonna have to go to that overcrowded spot market because they don't have any of their own minds and source raw materials from there and as a result we're starting to see the wheels come off a little bit. China has started to run its plants at reduced run rates. They are having conversations about taking extended maintenance and curtailing in production. We haven't quite seen that yet, but I think that's around the corner and I think it probably has to happen the kind of Chinese OPEC for the copper smelters.

Andrea Hotter (30m 16s):
They have an alliance called the Copper Smelters purchase team. They negotiate treatment charges with the big miners. They've had an emergency meeting about this and they've said this is all we're, this is as low as we are prepared to pay. They've set a floor for the smelters to buy concentrates but that floor is already way above current spot prices. So I don't know how successful they're gonna be. So in reality we are likely to see potentially smelter closures if operating costs stops become untenable. And even if things stabilize now, I think they could be worse to come because I know our analysts say that TCS and RCS tend to reach their yearly lows around April. And between now and then we've got El Nino weather events that often cause mine disruptions in the first quarter. So that could mean even lower low. So I think copper's really, really interesting. That ones in China, those smelters in China are incredibly important and that's definitely something to keep an eye on because it's great for the miners but it's, it could cause the loss of a lot of that smelting capacity, which means a lot of the copper cover comes off the market. So there's the knock on effect there, which creates that cycle yet again that we always see in commodities.

David Greely (31m 26s):
And it seems like the cycle's getting faster and faster. It seems like, you know the mining companies, the smelt, they're reacting to the prices faster than maybe they used to. Is that true or not true do you think?

Andrea Hotter (31m 37s):
I don't know. I mean it's, it does seem that way and I don't know why that is really, I, maybe it's COVID stole years from us and we kind of miss those cycles. Not realizing it working from home. I don't know. But I think the reactions have to be there quickly because they know that if they don't, we're seeing it in lithium. I mean it's even worse there. It's, if they don't react, the result is they don't have a business.

David Greely (32m 00s):
And I need to ask you about lithium. As you said the prices crashed by over 80%. What happened there and how are the producers and consumers responding to that crash in prices?

Andrea Hotter (32m 12s):
Yeah, I mean it's like we just said, it's that classic commodity cycle. Everybody heard about electric vehicles. Everybody rushed into the market in anticipation of the next big thing. Electric vehicles, they need it for the batteries and lithium supply just exploded. The market moved from being in deficit to surplus just as EV sales started to become more subdued. More restrictions, less incentives, battery chemistry started to turn in favor of ones that reduce lithium intensity slightly and obviously this is not good for lithium miners. Typically nobody wants to curtail production. So we're starting to see cost management through things. You know, we've seen it in copper exactly the same in lithium to deferral of expansions or projects. But if you're a single asset miner and you've just got one project you're kind of done for if you hawk production. So they're trying to mine different parts of the mine, the higher all grades or cut their spending, the bigger miners who have got multiple operations, they're in a bit of a better position to cut output.

Andrea Hotter (33m 16s):
But we really haven't seen too much of this yet either and we need to because unless there are cuts the market will stay in surplus prices will continue to be under pressure and so on. The cycle will continue until something gives and that's going to probably be the bottom line of these companies and things start to move in the other direction again. But I really can't stress enough we need to start to see some real producer discipline and the producers are acting in different ways. I mean I can, I can talk to you about that too. It it's a really interesting situation. Well

David Greely (33m 53s):
I'd like to hear more because it is curious like, you know to some extent have we found out that expanding lithium supply might be in some sense easier or less costly than maybe was anticipated that you could bring a lot more supply on relatively quickly without having to have prices go up a lot, is there something that we've learned as we've tried to expand some of these markets?

Andrea Hotter (34m 16s):
I think it depends where you are. I mean at which stage in which stage in the supply chain you are as well right now it's the survival of the physic on the mining side. You know, there's nothing wrong with being a bit Darwinian, I'm about it. I'm afraid the bigger producers are gonna need to do something significant to move the dial. Obviously no one wants to be that swing producer, but I think they're gonna have to. So we can go through the different stages. But on the mining side you've got big producers, Alba Mall, they've set their cut costs, they'll defer spending on a lithium refinery but they're not gonna stop working on a restart of a big project to North Carolina and commissioning conversion capacity in Australia and in China. Lion Town, another big producer in Australia has said it could defer expanding a big project Kathleen Valley, but it's not gonna delay its construction and derail this startup for mid-2024. Pilgrim Minerals has pretty much said, huh, we can cope with the lower prices.

Andrea Hotter (35m 10s):
Thank you very much. And it's sort of sitting back to watch, in fact its CEO said we've been through soft pricing before, we've got a playbook for this. So okay, we have had some companies take some hits call Lithium is one of them, has not. Again, Australia has seen its production at the grants mine suspended. We've seen Chinese lithium producers issue profit warnings, gang Fang, lithium Group and Ian, which is really quite unusual. So there is that I think the mid-tier level. So that capacity has come on quickly. The mid-tier processing stuff is where there's always been a bit of a crunch point and that's the hard bit. All of that stuff, all of that mid-tier processing capacity is generally in China, a lot of it, China, Korea, Japan and those producers know what they're doing. They've done it for a really long time. The projects that are being brought on stream in Australia, the mid-tier, the processing, the chemical side of it, that next stage in the production chain, they're really struggling.

Andrea Hotter (36m 06s):
They are having problems with the ramping up of these projects. I think they're finding it's less simple to do it and there's a reason why all of that technology is running incredibly well in China and that's because they've been doing it for 20 years and they know what they're doing. And I think there are a lot of teething problems with, with the mid-tier stuff. So we've seen mine capacity explode but we really haven't seen it happen so much in the mid-tier side on the battery manufacturing side and that is yet to come. I think also one of the big main differences between lithium and other markets where it's even more important is the geopolitics side and what I mean by that is even if the economics of projects don't make sense, the desire to reduce production capacities very limited in countries like China because lithium is considered to be strategic or in the US in Australia in the western world where it's also strategic and companies want to access the credits from the Inflation and Reduction Act and other kind of legislative measures which prioritize lithium production.

Andrea Hotter (37m 11s):
Now you've even got talk in Australia that the government's gonna swoop in and provide tax incentives to some of these struggling lithium and also nickel miners to help support them in their time of need. So it's another factor that's just not helping encourage cuts, but it also shows that they're the areas where there's a slight difference. In nuance. We've also seen a huge amount of m and a activity in lithium last year, but that's really slowed down this year and I think companies are now focused on ramping up their own production rather than adding instant units through acquisitions, getting it right for where they are. Of course that might change as we see these lithium companies start to struggle and there might be some kind of some other companies swooping in and picking up assets whilst they're cheap at the bottom of the cycle.

Andrea Hotter (37m 57s):
You know, I don't have a crystal ball even if we hit the bottom and the fast markets analysts actually think that we could just be about there. Either a decent increase in demand or major production cuts are gonna be needed before we're gonna see a big revival. And this of course as well, Dave, it's all really short term. I'm speaking very short term here. Bear in mind we are about to enter the Chinese lunar New Year. We'll see maintenance, we'll see closures, even Chinese battery maker Catalyst said it's gonna suspend production during that period, which he didn't do last year. So they're hoping that helps battery inventories a little. But this is really, really short term. I'm not talking about the bigger, longer picture which says we need all these metals and we're gonna have to find a way to produce them economically.

David Greely (38m 43s):
Right, and completely agree. It's the very early innings and it's kind of interesting as we go through this first cycle but what I find really fascinating and, and I wanted to ask you maybe you could help us see the bigger picture is are we learning something about how the energy transition is affecting or changing the market dynamics for these metals, for example, you know, listening to you this morning hear a lot of, you know, the energy transition demand is there, but maybe is it taking longer to materialize at the levels? It ultimately will is price and supply in some cases getting ahead of itself. You know, and you had a, you know, part of why you had a big drop in lithium prices or nickel prices was because it ran up in a prior year, perhaps prematurely or producers were able to get material to market faster than demand was there. Perhaps that was driven in part by incentives coming from governments who see these as critical and wanting to make sure that that's available. So we have some kind of non-economic strictly speaking activity, you know, is this changing how you're thinking about following these market dynamics or changing how the producers and consumers you talk with are thinking about the dynamics of these metals markets?

Andrea Hotter (39m 59s):
Yeah, I mean look, I think progress is happening. I think it really varies between the regions because of these different policies, because of the different targets, because of their different approaches, because of the different energy sources available to them. Because some of them have further to go than others because some of them aren't doing trade with each other. Some, you know, there are so many different nuances. And then it depends on the metal or the raw material, the critical mineral that we're talking about, where the supplier is, where those projects are, what you have in your own country who you can do business with. So we've been talking here about surpluses. Even if these markets, some of them are in surplus, we still need to see giant leaps in production going forward of copper, of lithium, of nickel because simply aren't enough raw materials around currently to satisfy future expectations for demand.

Andrea Hotter (40m 51s):
So whilst they've got to think about, oh my gosh, I need to reign it in, I need to cut production, they've got to have their eye on the long term as well and say to themselves, this is the transition, it's not a switch we can flip overnight. Our product is still needed. We do still

need to produce this. So we do have to think about where we are going and what we're doing. And so all of those factors are going into it. I think something that I've noticed that I think is really interesting is we need to see better access to financing for companies. I mean I often hear that it's really, really quite difficult still to raise capital or secure funding. And I don't know whether that's because it's become a more crowded market than before or because the system isn't yet efficient enough to streamline projects or what it is.

Andrea Hotter (41m 35s):
But the EU is apparently pretty good for it. The US is more difficult even with the IRA, it's, you've got to sort of filter through lots of different bureaucratic processes to get there and on that front, I mean permitting right from the very beginning, we need to see better permitting systems for projects around the world because they need to speed things up. Targets are never gonna be met if it takes over a decade to give the green light for projects to produce what are called critical minerals. If they're critical, then let's get on with that. So I think all of these factors are going through producers and consumers heads and that supply chain is having to react to all of this as they go through. And that's a quite a tricky balancing act.

David Greely (42m 16s):
Absolutely well first off, I want to thank you for sharing so many of your insights and experiences and the stories you've been covering with us this morning but before I let you go, I wanted to ask you, as you look out into 2024, farther into this year and beyond, maybe you could share with us what you think some of the important stories you'll be following will be and maybe are there any stories that aren't on our radar yet that you think should be, that are gonna probably be a bigger story as we get further into the year?

Andrea Hotter (42m 47s):
Interesting one, I think elections are really important this year. I mean, there are billions voting. I did read somewhere that seven out of the world's 10 most populous nations are voting in elections. You've got the US Indonesia this month, Pakistan, India, Bangladesh, Mexico, so that could impact things significantly depending on how the government approaches critical minerals, how the government's approach, resource nationalism and so on. I don't think we're necessarily gonna see a rollback of regulations, but it will likely change the nuances of policy where the emphasis is put and so I think that's gonna be really interesting to see where that goes. Particularly in the US where we have had four years of going gangbusters on regulation for the critical minerals. What happens to all of that, do we change things, what happens to free trade agreements, do we change our trade policy with different countries and so on?

Andrea Hotter (43m 43s):
I think that's gonna be really interesting as a backdrop, all of that creates disruption. So I think we really need to watch for those disruptions to supply chains. You know, we've also got two wars that could widen out at any minute, Russia and Ukraine, and we've got the Middle East that could draw other countries into a broad war, which means not only tariffs, sanctions, the troubles of war, but also disruption to logistics, access to suppliers and markets. I think we need to watch out for weather impacts. I mean, I know these are typical risks, but I think we're seeing increasing issues due to extreme weather events, flooding, droughts, cyclones. I don't, and I don't think that situation's going to improve in terms of kind of stories. I'm of course watching the Russia sanction situation. We could have things changed this month. If the EU does impose sanctions on the EU. What happens in Panama with first Quantums copper mine, what happens in nickel with the LME lawsuit and those regulatory body reviews as well as, of course, David, those new contracts being lost, which means basically I've got my eye on you and Abba

David Greely (45m 01s):
Well, we are so glad you could come in and share your insights with us today, and we'll be looking forward to reading all of those stories over the coming year.

Andrea Hotter (45m 12s):
Great, thank you for having me. It's been a really fun.

David Greely (45m 19s):
Thanks again to Andrea Hotter, Special Correspondent at Fastmarkets. We hope you enjoyed the episode. We will be back next week with our next episode in Setting Course. We hope you'll join us.

Announcer (45m 28s):
This episode was brought to you in part by Abaxx Exchange. Market participants need the confidence and ability to secure funding for resource development, production, processing, refining, and transportation of commodities across the globe. With markets for LNG,

battery metals, and emissions offsets at the core of the transition to sustainability, Abaxx Exchange is building solutions to manage risk in these rapidly changing global markets. Facilitating futures and options contracts designed to offer market participants clear price signals and hedging capabilities in those markets is essential to our sustainable energy transition. Abaxx Exchange: bringing you better benchmarks, better technology, and better tools for risk management.

Announcer (46m 17s):
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