

Is The Lithium Crash A Buying Opportunity?

From 2021 through 2022, the price of lithium carbonate, a key component of EV batteries, soared 14-fold. At the time, Tesla and other car makers were paying dearly to secure the limited supplies of available lithium and future production. Since then, as the Trading Economics graph below shows, the price of lithium, quoted in Chinese Yuan per ton, has given up much of those gains. In 2021 and 2022, the popular narrative was that EVs will largely displace internal combustion engines over the next ten to twenty years. If true, the current lithium supply is woefully short of what is needed. However, production is ramping up quickly as higher prices incentivize exploration.

Per Mining.Com, *Supply is coming on stream faster than you can say?boo.? Demand remains strong, but prices have been unsustainable for some time now.* While there is a significant supply of lithium coming online in the next few years, which is weighing on prices today, many experts still believe lithium supplies will not be large enough to sate demand. Per Reuters: *Albemarle (ALB), the world's largest lithium producer, is growing rapidly across the Americas, Asia and Australia. Still, it expects global lithium demand to exceed supply by 500,000 metric tons in 2030. Various consultancies and other producers have slightly different projections, but all warn of a looming shortage.* We evaluate ALB below to assess what it may offer long term investors.



What To Watch Today

Earnings

Time	Symbol	Company Name	Market Cap ▼	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
🕒	ZS	Zscaler, Inc.	\$28,056,254,884	Oct/2023	(\$0.29)	10	12/01/2022	(\$0.47)
⊖	KEP	Korea Electric Power Corporation	\$8,961,818,514	Sep/2023		1	N/A	(\$3.44)
⊖	KT	KT Corporation	\$6,549,571,703	Sep/2023		N/A	11/14/2022	\$0.46
⊖	SID	National Steel Company	\$4,283,283,448	Sep/2023		1	N/A	\$0.03
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Economy

Time	Event	Impact	Actual	Dev ⓘ	Consensus	Previous
MONDAY, NOVEMBER 27						
15:00	🇺🇸 USD New Home Sales (MoM)(Oct)	🟡	-	-	0.725M	0.759M 🔔
15:00	🇺🇸 USD New Home Sales Change (MoM)(Oct)	🟠	-	-	-	12.3% 🔔
15:30	🇺🇸 USD Dallas Fed Manufacturing Business Index(Nov)	🟡	-	-	-	-19.2 🔔
16:30	🇺🇸 USD 3-Month Bill Auction	🟡	-	-	-	5.27% 🔔
16:30	🇺🇸 USD 6-Month Bill Auction	🟡	-	-	-	5.23% 🔔
18:00	🇺🇸 USD 2-Year Note Auction	🟡	-	-	-	5.055% 🔔
18:00	🇺🇸 USD 5-Year Note Auction	🟡	-	-	-	4.899% 🔔
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Market Trading Update

Last week, we noted that:

?Market rallies are common heading into year-end, and this rally is no different. However, we are now reaching more extreme levels of typical reflexive rallies, and a consolidation or correction to support should be expected.

We are currently wrestling with the 78.6% retracement level, which is also resistance from the September highs. Given the more overbought conditions, it is not surprising

the market has had trouble advancing over the last several days. Given we are entering a holiday-shortened week, trading volume will be light, and volatility will likely pick up. If the market does correct soon, supports will be the previous 61.8% and 50% retracement levels, respectively. ?

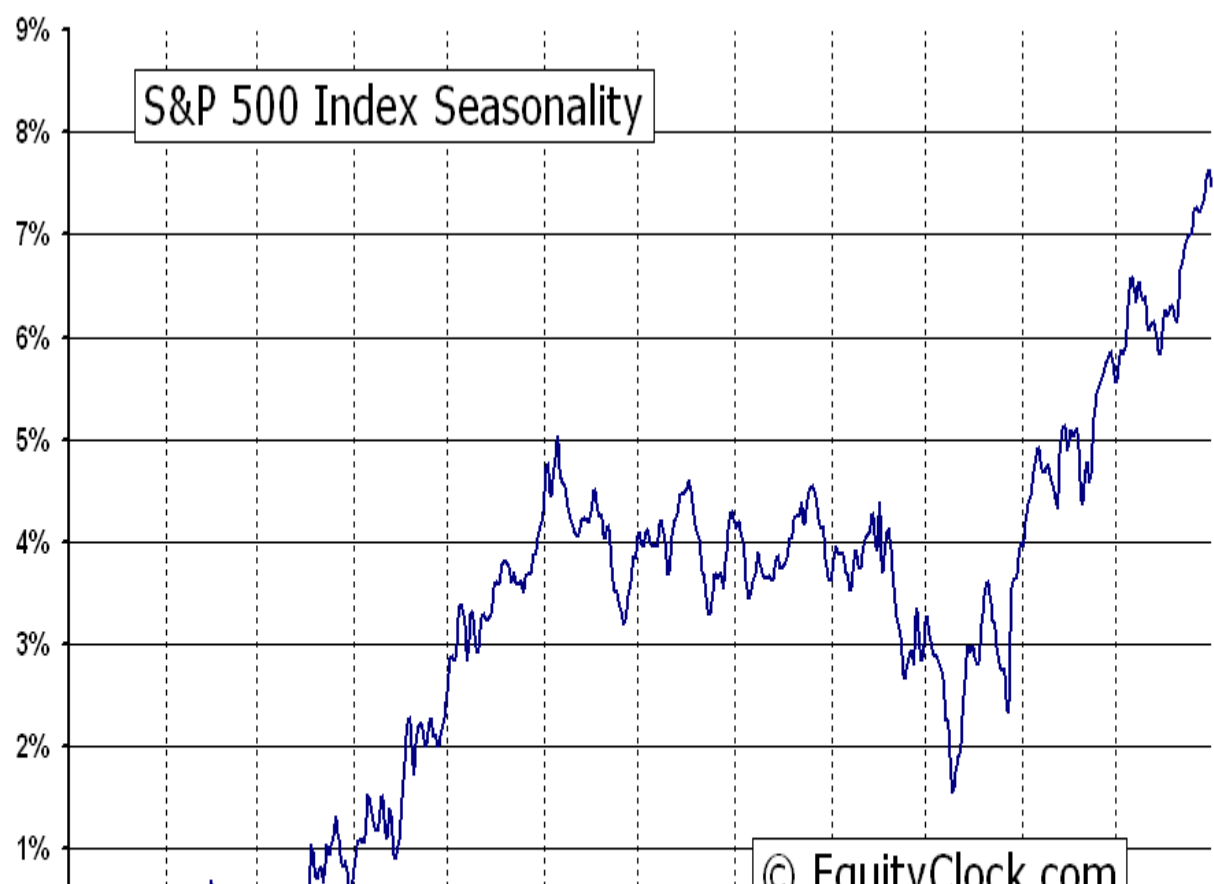
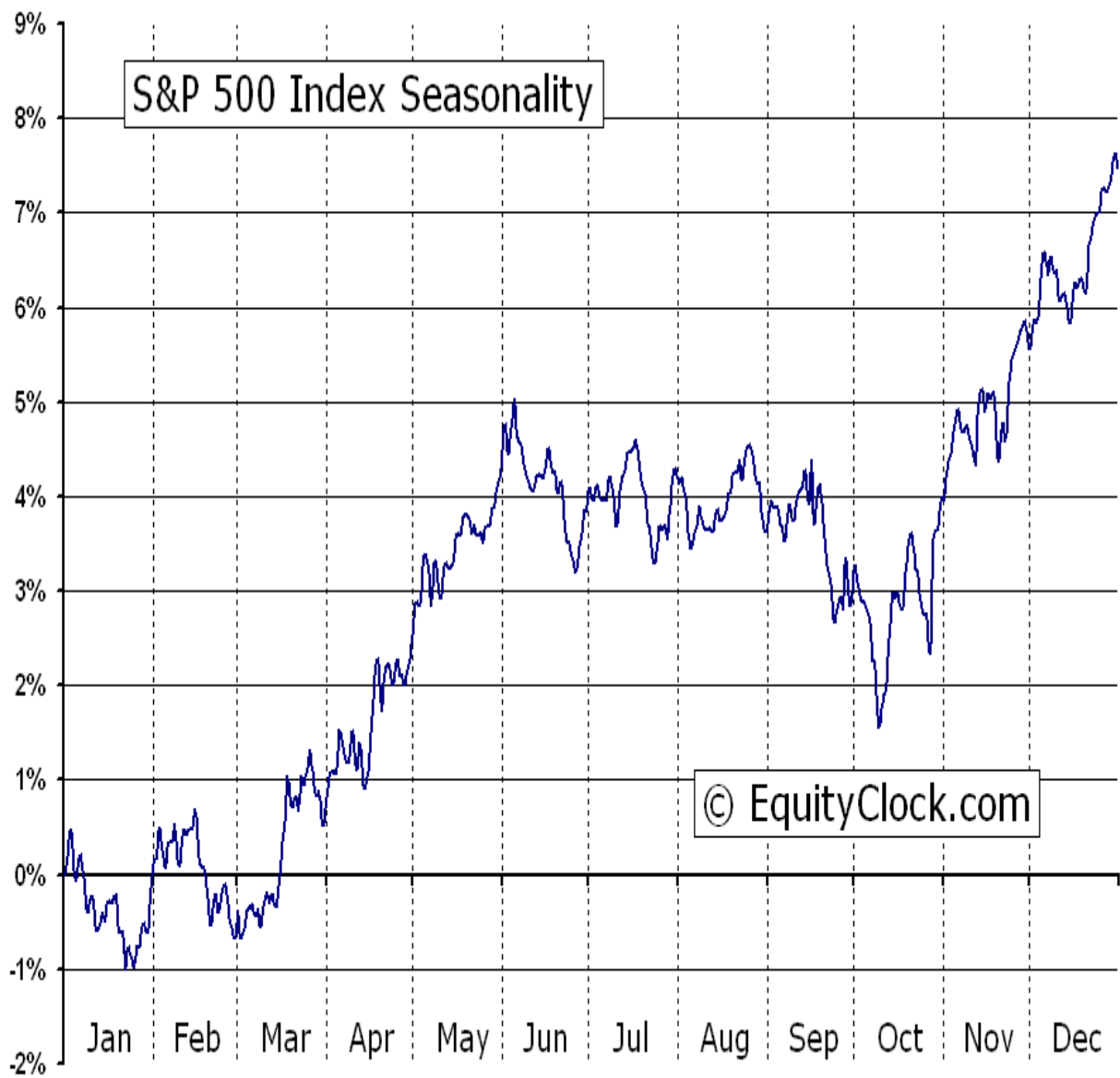
That rally continued this past week, and we are currently approaching the 100% retracement of the July highs. Such changes the dynamics of a pullback to the previous resistance levels of 78.6%, 61.8%, and 50% retracements. With the 50-DMA coinciding with the previous 50% retracement level, we would expect the maximum drawdown of any correction to hold that level going into year-end.



TradingView



As we will discuss in more detail on Tuesday, the normal seasonal trends of the market suggest that a pullback in early December should be expected. (*Notice the early December dip in the chart below.*)



Before Santa Claus makes his anticipated visit to Broad and Wall, mutual funds must distribute their capital gain, dividends, and interest income for the year. These distributions start in late November, but a large number of distributions occur in the first two weeks of December. Again, notice that dip in the seasonality chart above.

While the setup for a year-end rally remains intact, such does not preclude a short-term *dip* to reduce the market's more extreme overbought and deviated conditions currently. Such will provide a much better entry point to increase equity risk accordingly.



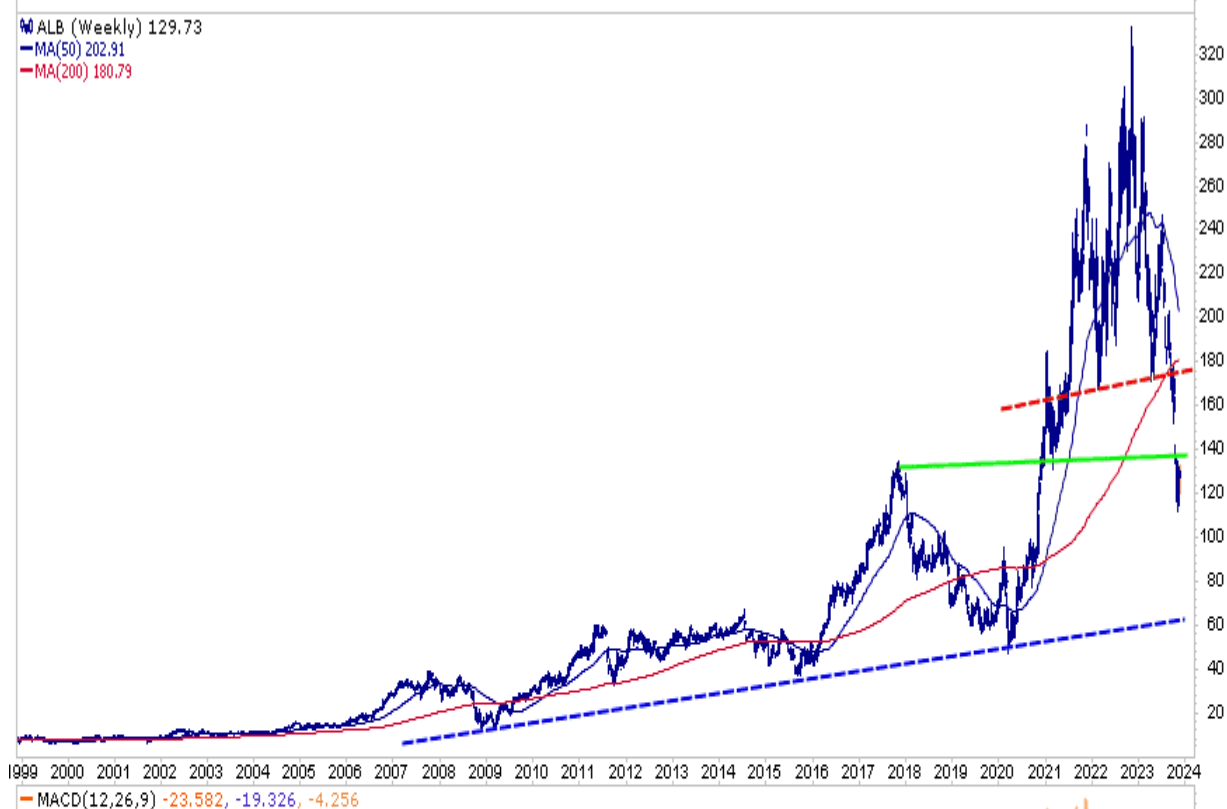
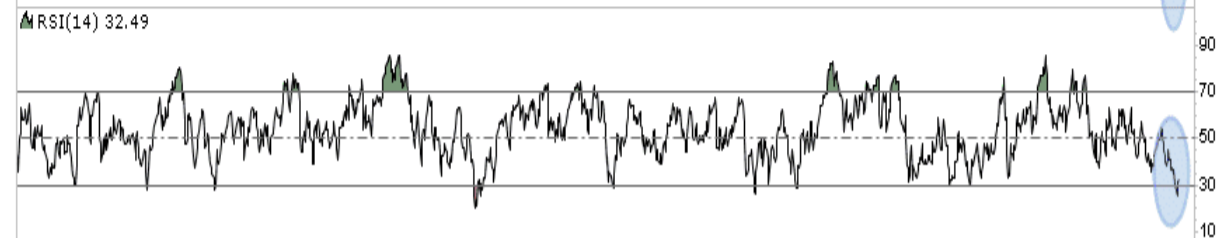
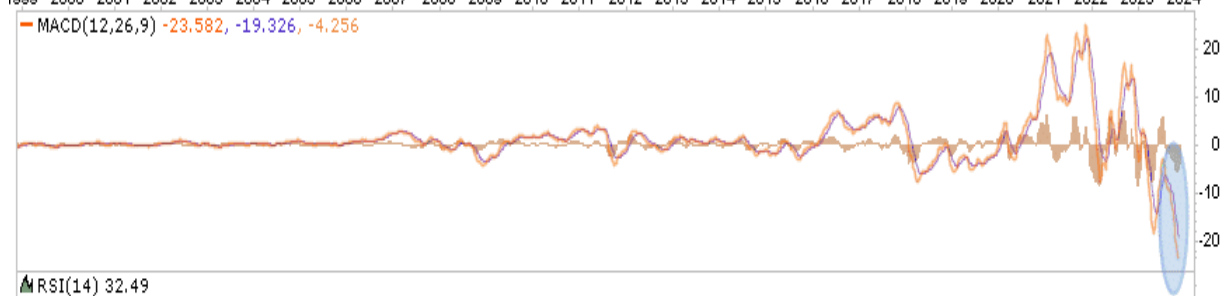
The Week Ahead

As the Fed readies for its coming December 13th FOMC meeting, we will hear many Fed speakers opining on policy. Of most importance will be Jerome Powell on Friday. Thursday, PCE price indexes will help the Fed better assess inflation. Economists expect the PCE price index to decline to +0.2% from +0.4% last month. The BLS labor report will not be released this Friday despite being the month's first Friday. It is scheduled for next Friday.

Albermarle- Technical Summary

If demand for EVs continues at the current pace and the supply of lithium is insufficient to meet demand, the price of lithium will rise, benefiting those companies producing it. North Carolina-based Albermarle (ALB) is the world's largest producer of lithium and has the largest market cap of all public lithium producers. Given its potential, let's review ALB.

As shown below, ALB shares have tracked the recent rise and fall of lithium prices. The weekly chart shows a sloppy head and shoulders pattern above the dotted red neckline. Having now broken its neckline, technically, the stock could fall further to around 100. The share price recently broke below the green line, which marked the prior high in 2017 and provided support in early 2021. From a technical point of view, the blue line connecting three major lows should provide strong support. However, getting to said level entails a 50% decline. The MACD and RSI, below the price graph, are extremely oversold. A short-term bounce is likely, but ALB may not necessarily have reached its ultimate low in the current cycle.



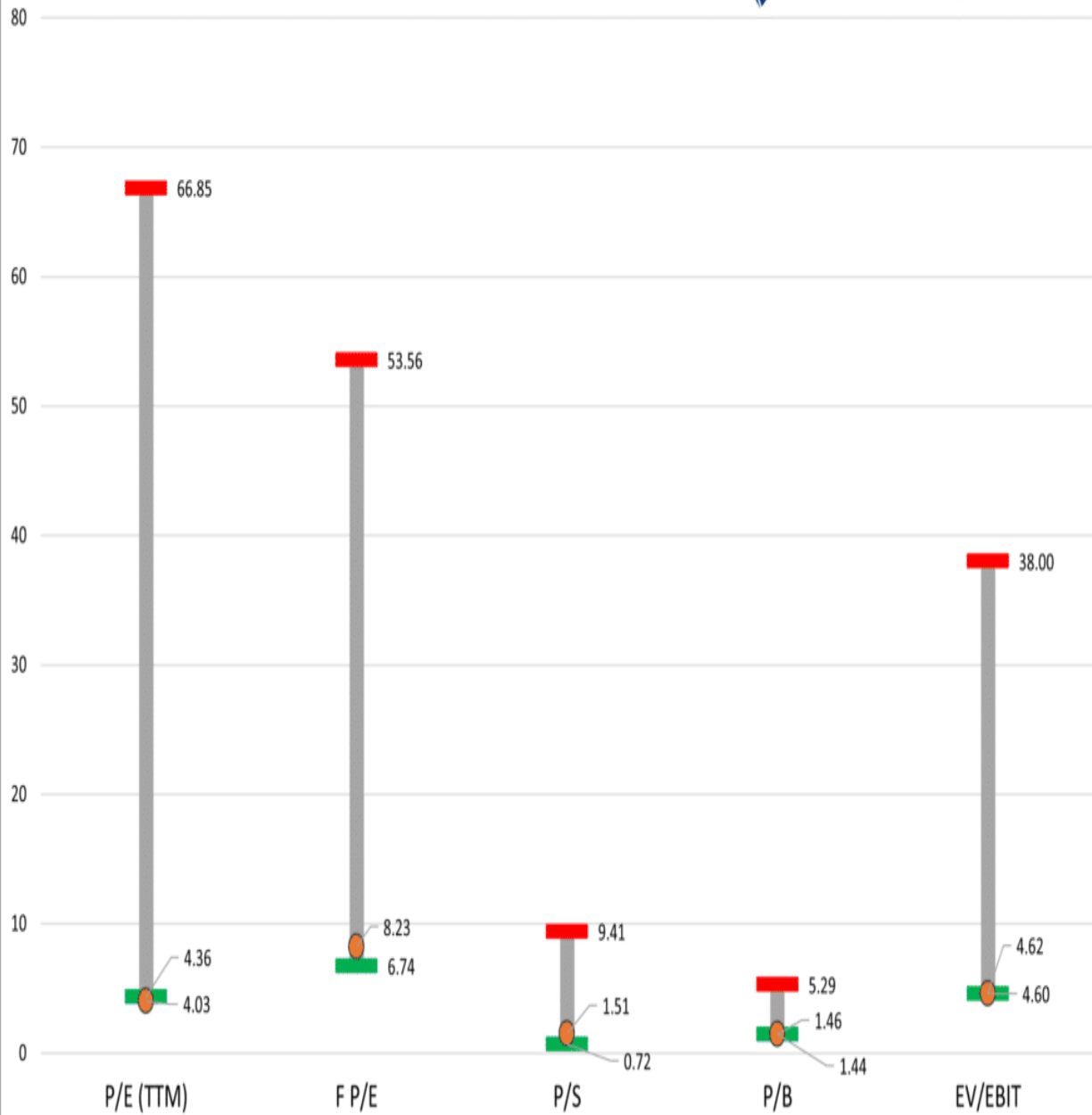
Albermarle- Fundamental Summary

Despite the short-term bearish technical backdrop, the fundamental story is more promising. As shown below, ALB's key valuation ratios are close to 30-year lows. This is essentially a function of its recent explosive revenue and income growth with little stock price appreciation. Since the first quarter of 2021, revenue has increased 3x, and EBITDA by 4x. Over the same period, the stock shot higher by similar magnitudes but has since given it all back and then some.

At current valuations, ALB is well situated to attain much higher price levels if the demand for EVs continues to climb and lithium supplies, over the long run, are insufficient to meet demand. Conversely, there are recent warnings from automakers that demand for EVs is waning. At the same time, there are several new mining operations bolstering supply. While the EV industry's growth is up for debate, and the lithium supply will grow, current valuations provide investors with a healthy margin for error.

To summarize, the bet made by ALB bulls and bears is on the future of EVs. Currently, EVs comprise about 15% of new car sales. Future expectations vary wildly. By 2030, the IEA expects EVs to account for about 35% of sales, as shown in the second graph below. Others think the number could be significantly higher. Beyond the supply and demand for lithium and the market saturation of EVs, ALB also has to maintain its market-leading position and adequately invest in new production, all while managing profit margins. For those with a long-term investment horizon and a positive outlook for EV growth, ALB offers good value.

ALB Valuation Ranges



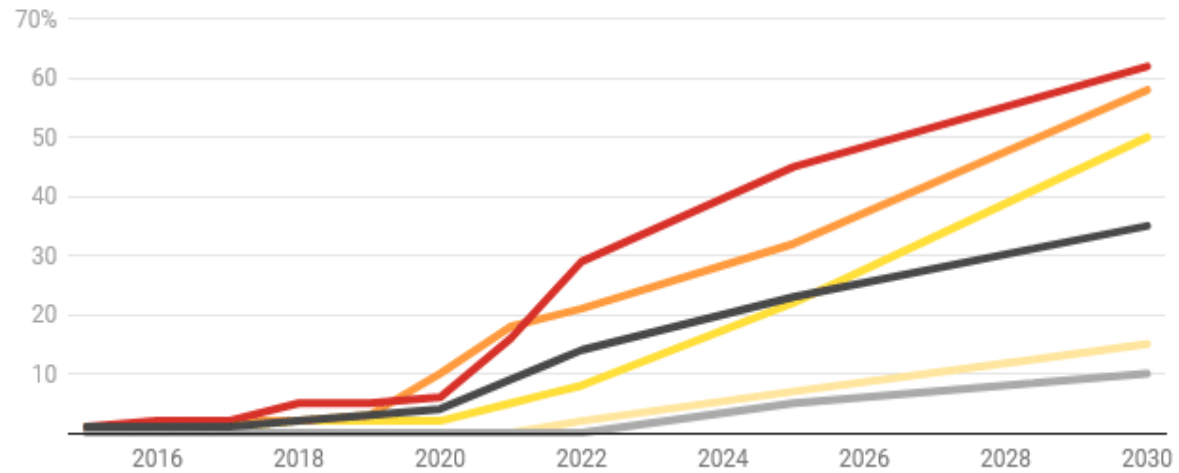
ALB Valuation Ranges



More than one-third of cars sold could be EVs by 2030

Percent of new car sales that are electric, by geography

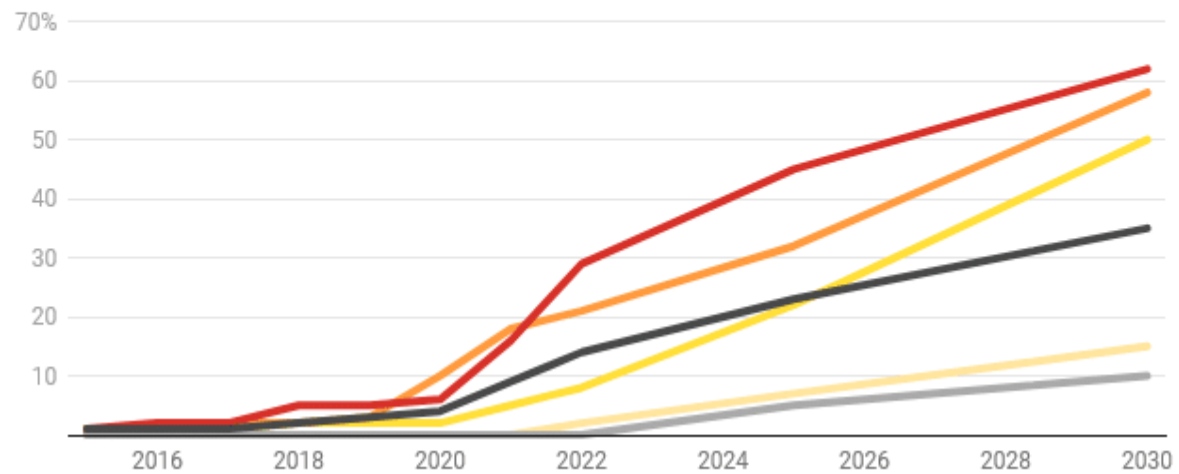
China Europe USA World India Rest of the world



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Tweet of the Day

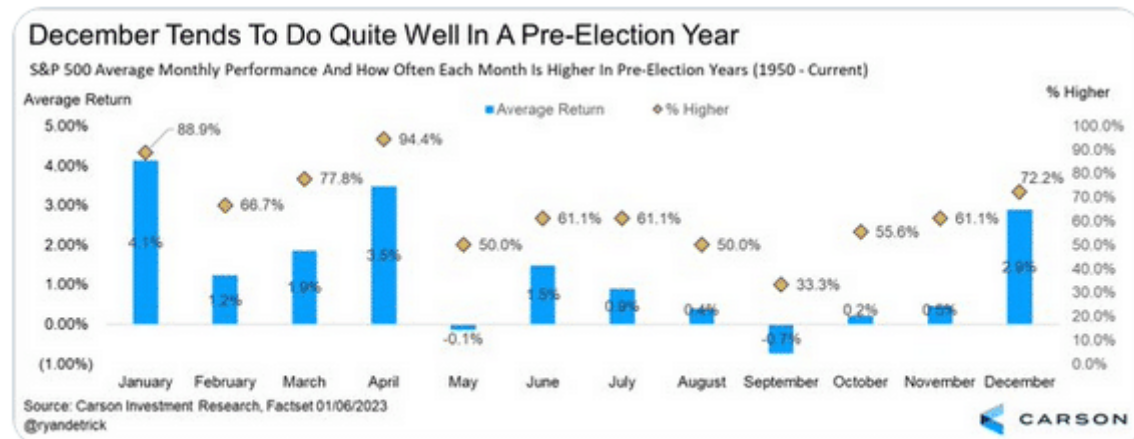


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@RyanDetrick

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We continue to expect a year-end chase, with many money managers missing this new bull market.

One other reason? Stocks tend to do quite well in December during a pre-election year.

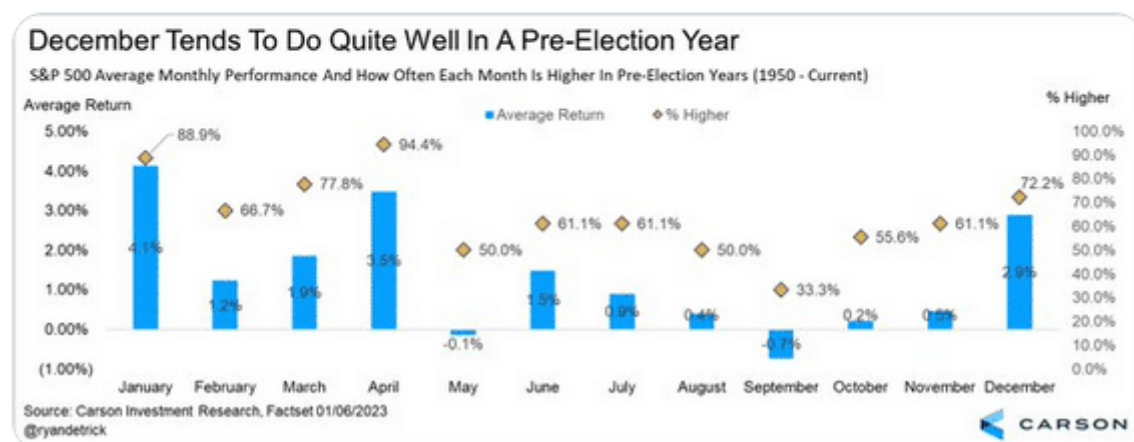


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