# Battery Metals Energize the Mining Sector, Fueling Resiliency

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When the world's economies began shutting down at the end of the first quarter, the impact on the mining sector was immediate. From March to early May 2020, commodity prices plummeted, mine site operations came to a halt across the world, supply chains were disrupted and global demand for metals, notably from China, declined. Despite this, the mining industry has remained remarkably resilient.

As of the beginning of the third quarter, most metal prices have returned to pre-pandemic levels. Copper – generally known to be a barometer for the global economy – has not only risen to pre-pandemic levels but also to its highest levels in more than two years (above $7,000 a ton) and gold prices have skyrocketed this summer, rising above $2,000 an ounce. Recent market updates seem to confirm this trend: copper prices are expected to remain high given China's recovery and even surged again this month following the successive reports by Pfizer and Moderna Inc. of a possible COVID-19 vaccine, and analysts are predicting that gold prices will stabilize and supply will rise starting in 2021.

The outlook is equally optimistic for battery metals (e.g., lithium, cobalt, zinc and graphite). The market for such commodities is principally driven by the demand for batteries in electric vehicles (EV), energy storage and electronic devices. Notwithstanding this year's continuing lithium price drop, the expected 20 to 25% decline in global electric vehicles' sales from pre-pandemic forecasts, and the disruption in battery manufacturing capacity in China, demand for battery metals is expected to rise exponentially in the future. In fact, in a report published this year, the World Bank forecasted that, as more countries move towards a large-scale clean energy transition, demand for battery metals will be so high that production of metals such as cobalt, lithium and graphite will have to increase by up to nearly 500% by 2050 from 2018 levels in order to meet it.

Battery metals projects, like other mining projects, are typically financed by capital markets, institutional investors, project finance debt from commercial banks, export credit agencies and multilateral agencies and stream or royalty alternatives pursuant to which investors will provide upfront payments to mining projects in exchange for future payment in revenue or assets. The gradual overlap of the battery metals sectors with the sectors relying most heavily on these raw minerals is expected to usher in new participants in the battery metals space (at the mining project level or at different stages of the supply chain).

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In the case of renewable energy, battery storage is now more frequently integrated with renewable energy projects. For example, battery storage allows energy generated on wind and solar farms to be stored prior to distribution. Traditional renewable energy investors are likely to seek to diversify their portfolios to include battery metals that will ultimately be used in renewable projects. This shift has already begun, with private equity funds and institutional investors that are not typically focused on the mining industry increasingly seeking opportunities in battery metal projects by way of royalty or stream investments – two financing options historically dominated by majors and specialist funds that have traditionally limited their investment targets to the metals sector. Certain private equity investors are also seeing a buying opportunity in the historically low lithium prices. One high-profile example of a non-traditional investor seeking exposure in the upstream battery metal space is Tesla. The company first sought to ensure its battery supply by buying cobalt directly from Glencore's mines in the Democratic Republic of Congo, instead of relying on external battery producers like other carmakers. Subsequently, as announced on Tesla's most recent "battery day," the company turned to mining its own lithium in Nevada. It is too early to conclude that Tesla's novel approach to lithium and cobalt supply is a trend of the future, but it certainly underscores the increased demand for these minerals and the relevance of their supply chain for EV carmakers.

The COVID-19 pandemic has not significantly disrupted the forecast for battery metals. In fact, some of the world's largest economies have reaffirmed commitments to the energy transition. In the US, the election of Joe Biden is expected to boost the country's renewable energy sector; in the UK, the prime minister's decision to ban the sale of new gas and diesel vehicles by 2030 is promising for electronic vehicles; and in China, the largest battery manufacturer in the world, the government has maintained subsidies and incentives in favor of electronic vehicles. It is reasonable to expect that the battery metals market will continue to expand, offering opportunities (and rewards) for traditional and non-traditional players alike.