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Monthly Energy Transition Materials Market Report

July 2023

HANetf & Sprott Asset Management
Sprott Energy Transition Materials UCITS ETF
SETM
75 bps
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For Professional Clients Only. Capital at risk.
All data as of 30/06/2023
This report was written by, and is the opinion of, the Sprott Asset Management.

Energy Transition Materials ETF Key Takeaways

The Energy Transition Materials ETF rose 5.29% in June. At the end of May, there was a mini-selloff across most commodities and commodity-related equities due to disappointing economic data from China and concerns about a possible U.S. recession. By June 30, the market began to price in a more optimistic outlook, including the likelihood of stimulus in China in response to its weak economic data and the fading probability (or delay) of a U.S. recession.

The lithium carbonate spot price rose 1.35% in June to $19.23 per pound, while lithium mining stocks jumped 8.22%. Lithium's performance in June marked a slowdown in its recent rebound. The lithium carbonate spot price has been extremely volatile and is now ~78% above its April 25, 2023, low but ~50% below its November 14, 2022, high. Over a longer horizon, however, the lithium price is still many times higher than its historical levels.

At the start of the year, when the lithium spot price declined from its all-time high, EV sales were weak as China ended its decade-long EV subsidy at the end of 2022. This past month, China released a 520-billion-yuan (US$72.3 billion) package of tax breaks over four years for electric vehicles. These tax breaks, as much as ~$4,000 per EV, have helped improve market sentiment and inventory restocking.

China has been a dominant player in lithium markets, leading both the historical ramp-up in demand for lithium for EVs and, from the supply side, lithium processing. However, China is not the world leader in lithium extraction; at 15% of world mine production in 2022, it lags behind Australia (47%) and Chile (30%). Strategic partnerships are also becoming critical as the U.S. and EU move to reshore lithium supplies. For example, in June the EU began negotiations on a lithium deal with Chile, which boasts the world's largest lithium reserves.

The copper spot price rose 3.12% in June to $3.77 per pound, while stocks of copper miners jumped 10.15%. Copper has traded in line with swings in sentiment in the global macroeconomic environment.

Prior to June, the copper price had been hurt by weaker-than-expected data from China, disappointing those who expected China's post-COVID reopening to boost copper demand. In June, investors started pricing in Chinese fiscal stimulus to combat this weak recovery and monetary stimulus when the People's Bank of China reduced the rate on its one-year loan. These moves created a short-term tailwind for copper.

In the U.S., the copper price gained on the release of May's inflation data, which measured 4.0% year-on-year based on the consumer price index, the smallest increase in two years. Copper prices benefitted from the Fed's decision at its June meeting to leave interest rates unchanged, the Fed's first pause since began raising rates in March 2022. However, Fed Chair Jerome Powell's comments that additional rate hikes in 2023 could not be ruled outweighed on the market.

The recent weakness in the copper price has tightened the copper market. Copper inventories on exchanges are at historic lows as downstream industries restock. Currently, these inventories cover less than three days of global demand. Limited inventories raise the risk of a sudden price increase if buyers make large drawdowns to secure supplies.

The nickel spot price fell 0.43% in June to $9.23 per pound, while stocks of nickel miners jumped 7.12%. Nickel followed a similar path to copper, appreciating in the first half of June due to China's EV tax breaks and improved market and macro sentiment (discussed earlier). That said, nickel sold off more vigorously than copper in the latter half of the month as investor sentiment turned negative on continued hawkish comments from the Fed.

As with copper, nickel inventories on exchanges are historically low, and currently, can cover just over five days of global demand. Nickel price volatility and low exchange inventories continue to be affected by the fallout from the nickel scandal last year on the London Metal Exchange.

Source of all performance data: Bloomberg / HANetf as of 31.05.2023. **All performance figures are showing net data.** Past performance is not indicative of future performance and when you invest in ETFs your capital is at risk.

Macro Outlook

We believe the post-pandemic era marks the beginning of a new supercycle for commodities, especially for the critical minerals covered in this report. The clean energy transition is just one trend driving demand higher. Geopolitical tensions and conflict are prompting global powers to reshore their supply chains and production to ensure industrial security—an about-face after many decades of offshoring.

These trends are commodity- and capital-intensive, creating a demand shock for commodities. They are also inflationary in nature. We expect a steady increase in demand to drive commodities in the medium term. Meanwhile, the commodity demand shock is colliding with a supply situation that is woefully inadequate. Miners and production facilities have faced a decade of underinvestment caused by the low commodity prices that prevailed during an era of record-low interest rates and the long lead times required—often a decade or longer— to bring new production online. Sanctions on Russia, the world's largest producers of many commodities, only aggravate the situation—while also fanning the flames of rising "resource nationalism."

The commodity supercycles of the past arose from varied conditions. In the 1970s, an energy supply shock drove the distress, rooted in OPEC embargoes. In the early 2000s, it was demand shock from an aggressively growing China that underpinned commodity inflation. The emerging supercycle has both supply and demand shocks, prompting heated global competition to secure commodities.

Please remember that when you invest in ETFs, your capital is at risk.

Product Details

Sprott Energy Transition Materials UCITS ETF (SETM) provides exposure to the companies that are providing the critical materials needed for the global clean energy transition.

The fund tracks the Nasdaq Sprott Energy Transition Materials Ex Uranium Index (NSETMU Index).

Visit the SETM fund page for more information.

Exchange	Ticker	RIC	SEDOL	ISIN	Valoren	WKN	CCY	Listing Date
LSE	SETM LN	SETM.L	BMD1W41	IE000K6PPGX7	-	-	USD	14/03/2023
LSE	SETP LN	SETP.L	BMD1WF2	IE000K6PPGX7	-	-	GBP	14/03/2023
Borsa Italiana	SETM IM	SETM.MI	BMX5LF7	IE000K6PPGX7	-	-	EUR	30/03/2023
Xetra	M7ES GY	M7ES.DE	BMX5LD5	IE000K6PPGX7	-	A3DCVJ	EUR	16/03/2023

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