

Oversupply misconceptions

- ◆ Our EV battery supply-demand models for each region suggest that concerns about oversupply are overblown
- ◆ Given stricter regulations on supply chains, a local supply-demand mismatch should persist despite the global surplus
- ◆ Korean players stand to benefit from accelerating supply chain localisation, especially in the US and EU

Why looking at local supply-demand makes more sense

Surplus battery volume in one region can't easily be transferred to another

The market has been concerned about EV battery overcapacity due to seemingly too aggressive investment plans by battery makers relative to realistic levels of EV demand. But we think concerns are overdone. Simply looking at global nameplate capacity and comparing this with demand can be misleading. We think local supply-demand analysis makes more sense given that the situation in each region is different in terms of supply-demand mismatches. A supply glut in one region, such as China, would have limited impact on other regions like the US and EU. In contrast to standardised products, EV batteries are based on long-term contracts and highly customised products. As such, surplus volume in one region can't be easily transferred to other regions where there are deficits.

In addition, when potential yield issues, commissioning delays, and projects being abandoned are taken into consideration, effective capacity would be much smaller than nameplate capacity, which includes battery makers' somewhat ambitious targets. With the glut ratio set to peak in 2023e, we expect global EV battery supply to tighten. With a 10-20% oversupply ratio, delays in commissioning, yield issues, or supply chain disruption could cause a supply shortage.

We now assess the situation in the three key regions – China, Europe, and the US.

Exhibit 52. Global: EV battery supply and demand – supply to get tighter after the oversupply ratio peaks in 2023e

