As the world has begun to focus on new technology to aid in the global energy transition, electric vehicles are becoming more a part of everyday life. S&P Dow Jones Indices (S&P DJI) collaborated with S&P Global Commodity Insights (SPGCI) to launch the S&P GSCI Electric Vehicle Metals, which seeks to track commodities used in the production of electric vehicles.

1. **What drove the creation of this index?**

   The index was created in response to client demand for investable thematic strategies that offer exposure to the global energy transition. The energy transition represents both a significant challenge and opportunity to financial market participants, and nowhere is that dichotomy more obvious than in commodities markets.

   Historically, technology has often worked against commodities, either by encouraging substitution or improving productivity, and thereby requiring less of a certain raw material to meet demand. But in the case of decarbonization, the opposite is true—the adoption of green technologies signals strong demand for many commodities, particularly metals. The switch from internal combustion engine (ICE) vehicles to electric vehicles (EV) is one of the most visible and fastest-moving decarbonization themes. The S&P GSCI Electric Vehicle Metals is designed to allow market participants to measure the performance of the metal components of an EV.

2. **Why launch this index now?**

   EVs have gone mainstream, this is no longer an infant industry and market participants are looking for ways to track EV market performance, evaluate EV investment and develop EV investment strategies. Replicating the tradeable metal components of an EV on a production-weighted basis in an index is an innovative way to meet this investor demand. SPGCI forecasts that plug-in EVs on the roads could displace over 5 million barrels per day of gasoline and diesel consumption globally by 2040. However, demand for metals used in EVs is expected to increase over the same period, especially copper and lithium, which should experience a near 600% increase in demand.

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Cooiondng with the growth in EV production has been the development of new commodities futures markets for EV battery metals such as cobalt and lithium. Liquid futures markets are an essential component of the price discovery mechanism in commodities markets and expand the accessible ecosystem for market participants. Liquid futures markets also make it possible to create an index that seeks to reflect all of the major metal components of an EV.

3. How does the index work?

The S&P GSCI Electric Vehicle Metals is a commodities futures-based index that is designed to reflect the performance of the tradeable metals used in the production of an EV. The expertise of SPGCI is leveraged for data to help determine the index constituents and production weights to ensure the index broadly reflects the relative metal usage in a representative EV. An important characteristic of the index is the flexibility to reweight, add or remove constituents at regular intervals to ensure that it can adapt to changes in EV technology and the launch and adoption of new metals futures contracts.

Constituents in the index are weighted based on their current metal usage in an average EV multiplied by the average per unit price for the metal, thereby representing the relative cost (or value) of the metal components in an EV. Battery metal constituents, as defined by SPGCI but including cobalt and lithium, are capped based on contract trading volume and liquidity requirements to ensure that the index is both replicable and investable.

4. What target audience would most benefit from using this index?

We believe the index could have a wide application across the financial market. It was designed to be used as a benchmark to track the price performance of the major metals essential to the production of EVs and as the basis of financial products such as exchange-traded products. It may appeal to those market participants already active in commodities markets but may also be of interest to investors who have not traditionally held exposure in commodities markets but are interested in strategies that match their interest in the energy transition.

5. What is SPGCI’s role in the index?

As an expert in the field of energy transition, battery metals and EVs and with extensive experience undertaking commodity market assessments, SPGCI is well placed to contribute as a source of information for use in the index. SPGCI will publish the metal usage in a typical EV on a biannual basis. This usage data will be an input into the calculation to determine the individual index constituent weights in the index. SPGCI publishes EV metals components and the corresponding production weights of those components in kilograms. Ahead of publication, SPGCI engages with a range of market participants and industry bodies and may also reference research reports and other relevant resources.

SPGCI’s biannual update on the metal usage in a representative EV may include new commodities, thereby allowing that as EV technology changes, the index has the flexibility for new constituents to reflect those changes. SPGCI will monitor key components of an EV, including changing and evolving battery chemistries, which may result in the inclusion of new index constituents to those in the initial basket.
6. What do you see are the key benefits of this index given its construction?

An important characteristic of the S&P GSCI Electric Vehicle Metals is the flexibility to reweight and add or remove constituents at regular intervals to ensure that the index can adapt to changes in EV technology and the launch and adoption of new metals futures contracts.

Another important characteristic of the index is that it is based on commodities futures, not equities. The presence of equity market beta in thematic indices can make it difficult for these indices to truly reflect the performance of a particular theme or component of the real economy. It may not be possible to know which companies will win the battle for EV supremacy, but measuring the supply and demand dynamics and price performance of the underlying physical components that will be needed to build out the EV fleet is relatively straightforward.

7. What is unique about the S&P DJI and SPGCI collaboration?

S&P DJI is the world’s leading resource for benchmarks and investable indices, and our indices are widely used to track market performance, benchmark portfolios and develop investment strategies. Our series of commodities indices, headlined by the S&P GSCI, offer market participants straightforward measures of commodity beta, commodity sectors, single commodities and commodity thematics.

SPGCI is a leading voice in the commodities market. Each day, SPGCI publishes news, commentary, fundamental market data, research, analysis and thousands of daily price assessments widely used as benchmarks in the physical and futures markets.

The S&P GSCI Electric Vehicle Metals is the first S&P DJI index to incorporate data from SPGCI. It is exciting to bring together the expertise of two analytically independent S&P Global divisions on such an important and relevant segment of the investment landscape. Together, we hope to improve market transparency and offer market participants the ability to build unique investment strategies across a growing segment of the energy transition.

References


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