



PERSPECTIVES

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China's EV sector in a higher oil price world





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01

Close to a structural tipping point?

The global electric vehicle (EV) transition appears to be increasingly exhibiting the characteristics of a structural tipping point. Evidence points to a self-reinforcing shift underway in leading auto markets, driven by rapid cost declines, expanding model availability and weakening advantages of internal combustion engine (ICE) technologies: the recent rise in oil prices has focused attention on EV, but it is by no means the only supportive factor. Since around 2019, EV sales have accelerated sharply across major markets, while ICE vehicle sales and model diversity have stagnated or declined, particularly in Europe and China.

Battery costs – the single most important component of EV economics – have fallen about 93% since 2010 according to a survey by BloombergNEF¹, underpinning a rapid narrowing of the total cost of ownership gap between EV and ICE. Once scale effects, cost parity and policy support align in leading markets, the transition has the potential to cascade globally, as lower EV costs and greater vehicle variety spill over into peripheral and emerging markets over the coming decade.

China's electric vehicle (EV) and battery sector has in particular entered a new phase. While short term domestic demand has softened following the withdrawal of subsidies, the combination of a higher oil price environment, accelerating export momentum, deep technological advantages in batteries, and visible industry consolidation is creating a more attractive medium term investment opportunity. Importantly, the sector is shifting from a volume led, price driven extreme competition between producers towards profitability, innovation and overseas expansion.

EV and electrification in general, as part of the transition to more environmentally-sustainable economies, also provides a further bridge between sustainability and more traditional investment drivers. As a result, this is a development that has the potential to deliver overall benefits for populations, economies and investors.

In this report, we outline both the key drivers supporting the investment case for EV and the principal risks that investors should monitor.

02

Key drivers of the EV investment case

1. Higher oil prices improve EV economics

In a higher oil price environment, EV adoption benefits from a structurally improving total cost of ownership profile. Higher fuel prices amplify the relative operating cost advantage of battery electric and plug-in hybrid vehicles versus ICE models, making electrified vehicles increasingly competitive on a lifecycle cost basis despite higher upfront manufacturing costs. Consumer survey evidence in China confirms that lower fuel and maintenance costs are key drivers of EV adoption, underscoring the sensitivity of EV economics to energy price dynamics.²

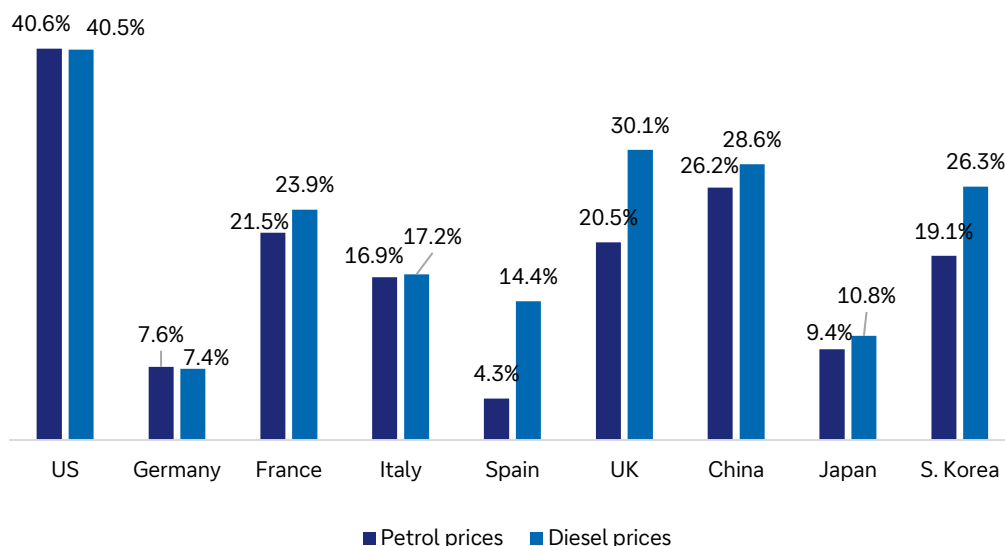
Relative to the 2022 oil shock, the current backdrop in terms of EV technology is more supportive. Battery costs have fallen sharply, with Lithium Iron Phosphate (LFP) battery prices now below USD100/kWh¹, charging infrastructure is significantly more developed, and EV product offerings are broader and more competitive across different price points. As a result, rising fuel costs are now translating more directly into EV demand, rather than being offset by concerns around usability or convenience.

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Figure 1: Changes in petrol and diesel prices since the start of the Iran conflict

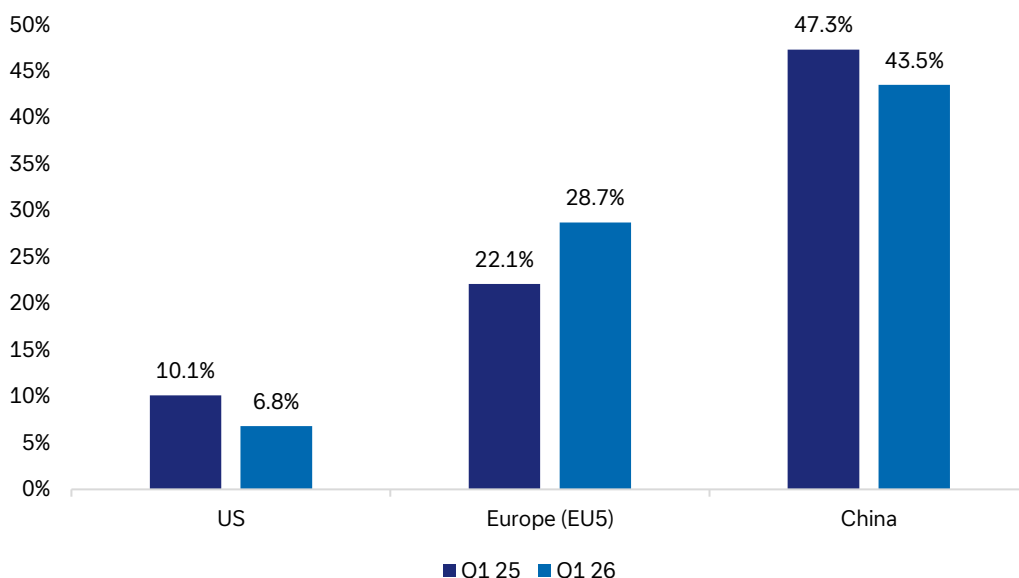
Global petrol and diesel price increase since the Iran conflict (Feb 23, 2026 – Jun 1, 2026)



Source: Global petrol prices, Deutsche Bank AG. Data as of June 1, 2026.

Figure 2: EV penetration rates by region

BEV/PHEV Penetration Rate



Source: SNE Research, Deutsche Bank AG. Data as of April 29, 2026.

EU5: Germany, France, Italy, UK and Spain.

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2. Clear competitive shift towards Chinese EV champions

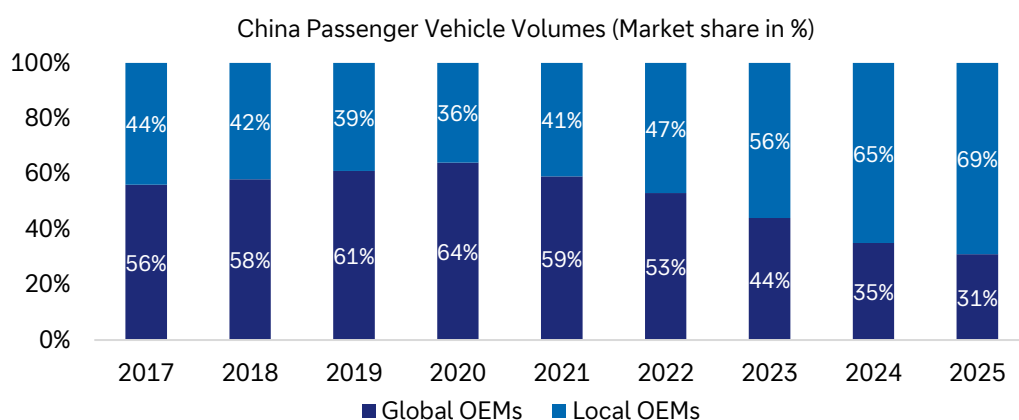
Chinese brands now dominate their domestic EV and plug-in hybrid market, reflecting years of cost deflation, product iteration and software leadership. Local carmakers account for the majority of NEV (new energy vehicle) sales, while foreign brands' combined share has structurally declined compared with 2020 levels. Foreign brands have lost one-third of their market share since 2020 accounting for 31% of overall sales volume currently vs 64% in 2020 while the Chinese OEM share has increased to 69% from 36% in the same period.³ In early 2026, foreign OEMs temporarily regained market share but this has been driven largely by short-term weakness in domestic EV demand following subsidy roll-offs, rather than any reversal in structural competitiveness.

Domestic players have not been spared from this competitive intensity. Industry estimates suggest that around 400 of more than 500 EV startups registered in the late-2010s had exited the market by 2025, as the phase-out of subsidies and an extended price war favoured large, cost-efficient manufacturers. China's EV ecosystem nevertheless remains highly dynamic, supported by rapid innovation cycles, sharply lower battery costs and compressed development timelines. Industry consolidation is set to continue, with only about 15 out of 129 Chinese EV brands currently likely to survive by 2030⁴, leaving a smaller group of well-capitalised, vertically integrated champions positioned to compete both domestically and globally.

At the same time, Chinese manufacturers are moving up-market. At the Beijing Auto Show in April 2026, domestic brands have showcased premium EV and PHEV models targeted directly at existing foreign competition, offering comparable features with superior in-car software and materially lower price points. The focus is shifting from the availability of smart features to their ability to drive demand, support pricing and strengthen brands.

Advanced functions such as assisted driving, memory parking, smart cockpits and AI applications are rapidly moving into the RMB100,000–200,000 (USD14,600–29,200) mass-market EV segment, supported by faster over-the-air (OTA) updates and redesigned electronic architectures. As vehicles evolve into software-defined platforms, competition is moving beyond price toward a combined model of electrification and intelligence, favouring players with strengths in algorithms, chips and system integration. This shift is likely to improve margins and brand perception while broadening addressable export markets.

Figure 3: Global vs. local OEM shares of the Chinese market



Note: Data for 2025 is as of April 2025.

Source: Automobility, Deutsche Bank AG. Data as of April 29, 2026

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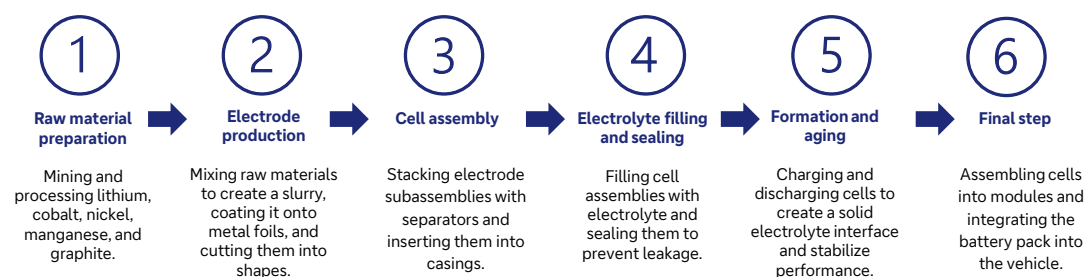
3. Battery leadership and vertical integration remain unmatched

The most enduring competitive advantage of China's EV ecosystem lies in batteries. Deep vertical integration, world-scale production and sustained technological progress have created a structural edge that is difficult for global peers to replicate.

China's battery leadership underpins the entire EV value chain. Manufacturers continue to lead on chemistry innovation, fast-charging and energy-density improvements, while benefiting from scale advantages and tightly integrated supply chains. Battery exports and energy storage systems (ESS) demand are also emerging as an important growth driver beyond passenger EVs.

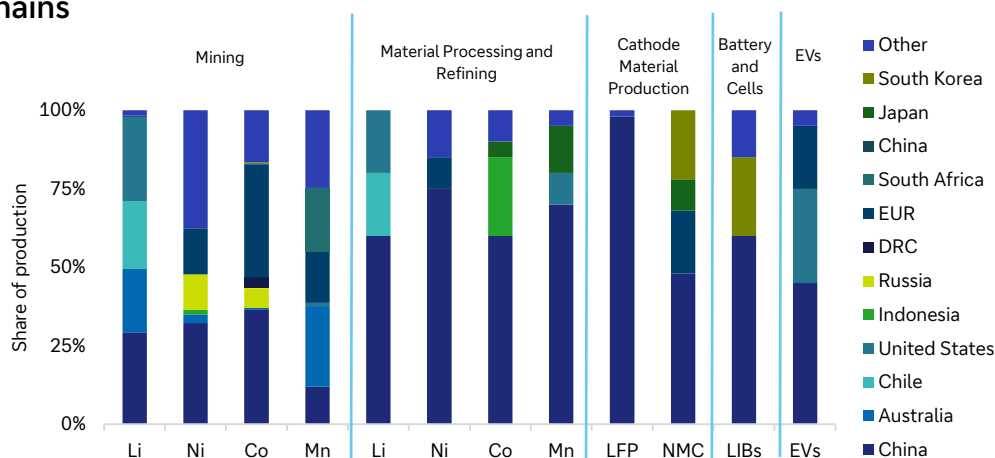
Even as lithium and other raw-material prices rise, battery cost curves continue to decline relative to ICE powertrains. Technological advances – including second-generation blade batteries and ultra-fast charging – are increasingly being monetised in overseas markets, reinforcing China's role as the global EV innovation hub. Incremental improvements in energy density, charging speed, cold-weather performance and reliability could materially expand vehicle range, reduce battery size and lower total system costs.

Figure 4: The battery value chain: six stages



Source: LG Energy Solution,⁵ Deutsche Bank AG. Data as of April 29, 2026.

Figure 5: Ownership distribution of EV, battery and materials supply chains



Source: Journal of Power Sources Advances (February 17, 2025), Deutsche Bank AG.

DRC: Congo.

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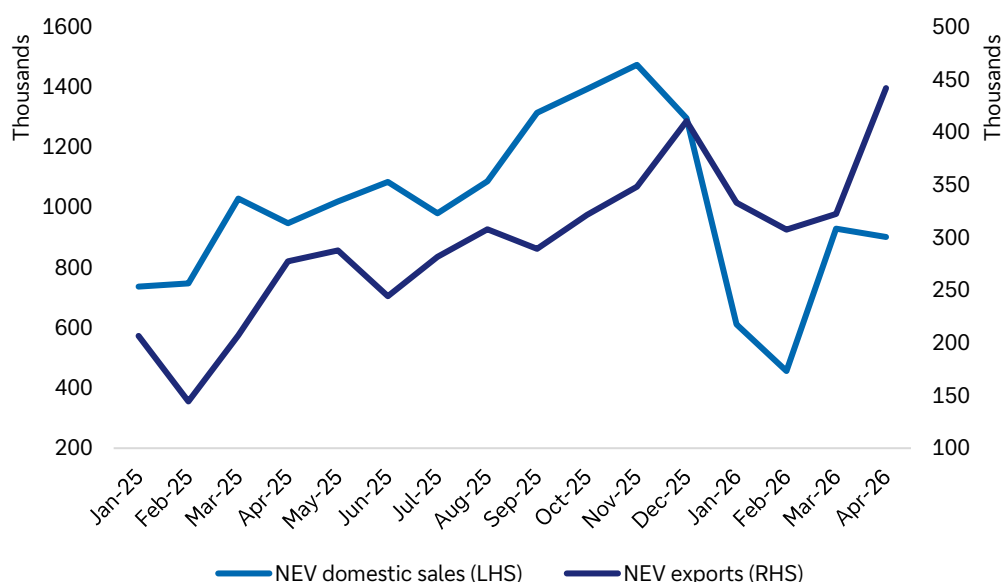
4. Export momentum offsets domestic softness

Domestic Chinese EV demand in early 2026 has been soft, but export growth has accelerated sharply. According to the China Association of Automobile Manufacturers, passenger car exports rose over 80% YoY in March, with NEV exports up 140%, setting new records. Rising gasoline and diesel prices across ASEAN, Europe and Oceania are reinforcing demand for affordable EV alternatives, where Chinese manufacturers appear to hold a decisive cost advantage.

The global tariff regime facing Chinese EV OEMs has become increasingly fragmented, reshaping export strategies and accelerating localisation. The US's 100% tariffs render direct imports commercially unviable, while Europe's tariffs are restrictive enough to pressure margins without fully closing the market. In contrast, most ASEAN markets remain relatively open and have emerged as key release valves for Chinese overcapacity. Overall, tariffs are not halting Chinese EV expansion but are redirecting it – away from direct exports into developed markets and toward overseas manufacturing, platform localisation, and faster penetration of less-protected regions. Importantly Chinese OEMs are not relying solely on exports from China. Overseas production capacity is being established in markets with meaningful local demand (e.g., Europe, Brazil, Southeast Asia) and in hub locations that allow tariff mitigation and regional exports (e.g., Hungary, Thailand). This localized manufacturing should reduce trade friction over time and support more stable cash flows.

At the same time, domestic demand is structurally cooling as EV penetration in China – already among the highest globally – has now exceeded 50% of total car sales. With a large installed base of battery-powered vehicles, incremental growth is slowing. Chinese domestic EV sales in the first three months of 2026 were down -21% year-on-year, according to the China Passenger Car Association (CPCA), reflecting both market saturation and the fading impact of subsidies. The pickup in domestic EV sales in March was largely driven by the resumption of activity following the Lunar New Year holiday. However, the year on year domestic EV sales were still down 10%.

Figure 6: Chinese domestic EV sales vs. EV exports

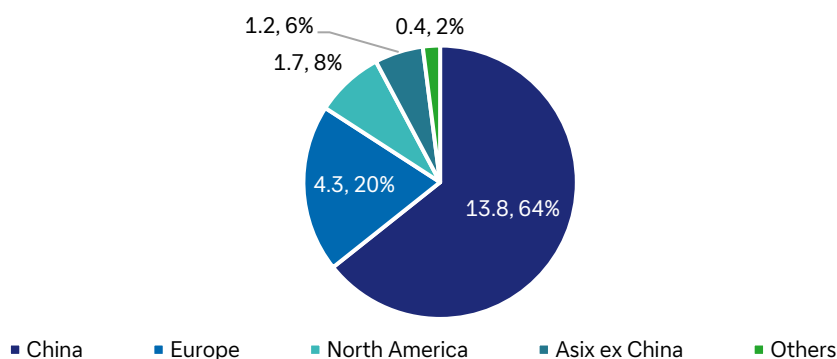


Source: LSEG Datastream, Deutsche Bank AG. Data as of April 29, 2026.

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Figure 7: Total Global BEV/PHEV sales volume per region



Source: SNE Research, Deutsche Bank AG. Data as of April 29, 2026.

5. Policy shift from price wars to profitability

China's EV industry has entered a decisive consolidation phase after years of intense competition via price wars and sustained overcapacity. Around 30 manufacturers have exited the market and, of the more than 100 players still operating, only a limited group is viewed as financially resilient, while many face elevated liquidity pressures, according to industry sources. Financial strain is evident even among leading players, with several reporting losses, and total industry debt is estimated at over USD400bn.

Against this backdrop, Beijing has moved to curb destructive price competition under its "anti-involution" framework. Recent regulatory guidance has focused on restraining excessive discounting, introducing price discipline, and shifting competition toward innovation and product differentiation rather than achieving scale at any cost. Importantly, the objective is not to cap industry growth, but to improve capital discipline, financial stability, and long-term sustainability.

Early signs suggest these measures are beginning to influence industry dynamics. Aggressive price cuts have moderated, weaker players are coming under greater financial pressure, and consolidation is accelerating across the EV and battery value chain. For market leaders, easing pricing intensity is helping stabilise margins and improve return visibility, particularly as fixed costs are absorbed across larger and increasingly global production platforms.

For investors, this transition is structurally significant. Historically, Chinese manufacturing sectors have generated their strongest equity returns during consolidation phases, when excess capacity is removed and competitive intensity eases, rather than during periods of rapid but undisciplined expansion. A clear example is the steel industry following China's 2015–2018 supply-side reforms, when capacity rationalisation, plant closures and stricter environmental enforcement led to a sharp improvement in utilisation, pricing power and profitability, driving a sustained re-rating of leading producers. As policy alignment shifts the industry toward profitability, technology upgrading, and global competitiveness, the environment becomes increasingly favourable for differentiated leaders with scale, balance sheet strength, and innovation capabilities.

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6. China's export-led stabilization supports selective equity opportunities – EVs stand out as structural winners

China's macro backdrop remains characterised by a divergence between resilient external demand and weak domestic momentum. Recent data points to slowing industrial activity and subdued consumption, with retail sales weak and fixed asset investment weighed down by the property sector, even as high-tech industrial production continues to outperform and exports remain a key growth pillar.

This aligns with our broader outlook that exports – driven increasingly by structural competitiveness rather than cyclical recovery – will continue to underpin growth, while domestic demand recovery remains gradual and uneven.

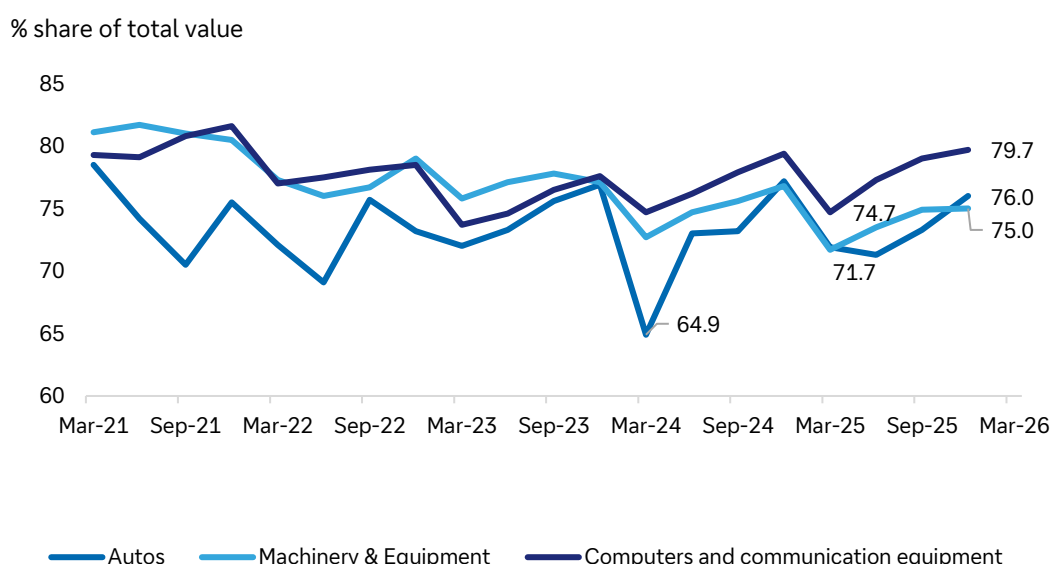
Against this macro backdrop, our view on Chinese equities remains selectively constructive rather than broad-based. Weak domestic demand, ongoing property sector adjustment and uneven consumption recovery continue to cap upside for the broader market, suggesting returns are likely to be driven more by earnings differentiation and sectoral dispersion rather than macro beta (i.e. sensitivity to overall macroeconomic factors).

In contrast, the China EV and battery ecosystem stands out as a structural outperformer within the equity universe. The sector benefits from:

- strong export momentum that offsets domestic softness,
- global leadership in batteries and vertically integrated supply chains, and
- exposure to powerful structural trends including electrification and energy transition.

Importantly, the transition within the EV sector from price-led competition to profitability and consolidation further strengthens the sector's medium-term earnings outlook, supporting a more durable investment case relative to the broader market.

Figure 8: Capacity utilization has improved



Source: Havert Analytics Inc., Deutsche Bank AG. As of: April 2026.



03

Key risks and constraints to the EV investment case

1. Raw material and input cost volatility

Rising prices for lithium, nickel, cobalt and sulphur (used in refining and battery processing) pose margin risks, particularly for sub-scale players without procurement leverage. While battery cost deflation has historically offset commodity inflation, short-term earnings volatility should be expected as a result of changing input prices.

2. Trade barriers and localisation requirements

Foreign market access remains uneven. As noted above, the US has imposed 100% tariffs that make direct imports commercially unviable. Europe has adopted a more calibrated approach, imposing anti-subsidy duties of roughly 17–38% on China-made EVs on top of its standard 10% auto tariff. Large emerging markets such as India and Mexico are using high tariffs and rules-of-origin requirements as a lever to force investment in domestic manufacturing, while Brazil is gradually tightening access via phased tariff increases. These measures complicate and raise execution risk for overseas expansion and may slow near-term volume growth.

3. Overcapacity and financial stress among weaker Chinese OEMs

China's EV sector continues to face excess production capacity, particularly among smaller and less competitive manufacturers, contributing to ongoing financial pressures and periodic market exits. However, rapidly expanding vehicle exports – especially to emerging markets and Europe – are increasingly acting as an outlet for domestic overcapacity, partially offsetting weak pricing power at home.

While this export momentum is helping to stabilise utilisation rates at the industry level, it has not eliminated structural imbalances, particularly for sub-scale OEMs lacking cost leadership or differentiated technology. Over time, these dynamics should support further industry consolidation. That said, continued policy support at both central and local government levels – aimed at preserving employment and strategic manufacturing capabilities – may temper the pace of shake-out. As a result, consolidation is likely to be uneven, with episodic price competition persisting despite improving export absorption and gradually improving industry discipline.

4. Uneven global EV adoption

EV penetration remains low in key markets such as the US, where hybrid vehicles are currently favoured due to regulatory rollbacks. While Europe continues to see structurally higher EV adoption and several ASEAN markets are experiencing accelerating uptake from a lower base, progress remains uneven across regions. A slower-than-expected global ICE-to-EV transition would delay earnings inflection for pure-play exporters.



04

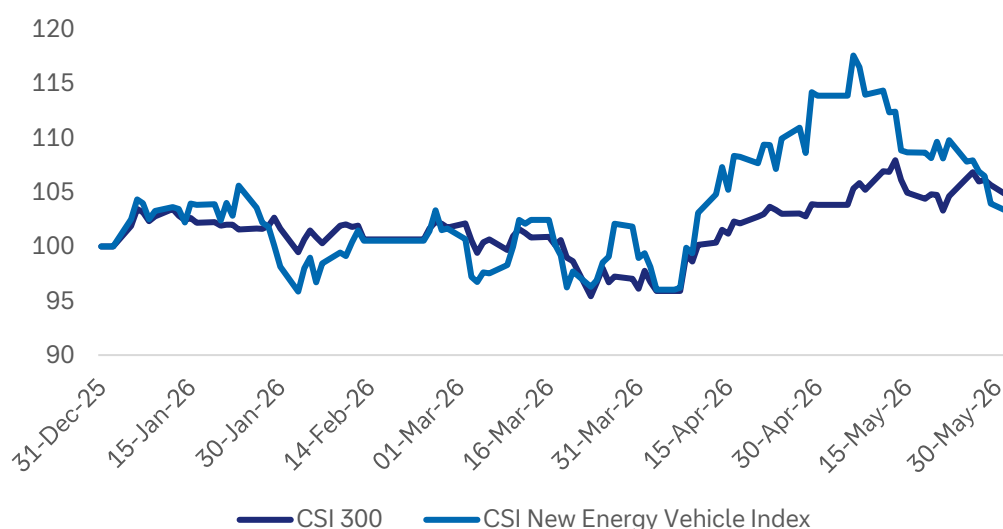
Performance of China's EV and battery sectors

The CSI New Energy Vehicle Index outperformed the CSI 300 through April and mid-May on improving sentiment, but this outperformance has since narrowed, with the EV index retracing alongside the broader market. While policy shifts toward profitability and consolidation remain supportive, the sector continues to be influenced by weak domestic demand and uneven recovery, reinforcing a selective market backdrop. With domestic demand still subdued and the overall recovery uneven, the market continues to favour selective, structurally advantaged themes rather than broad-based gains.

Within the sector, battery manufacturers and vertically integrated leaders appear better positioned to outperform OEMs, supported by declining unit costs, improving export momentum, and rising exposure to overseas EV and energy-storage demand. According to consensus estimates, sector earnings for the OEMs are expected to grow by around 20-25% while for the battery manufacturers by about 70-100% year-on-year in FY 2026.

Against this backdrop, valuations remain reasonable, with OEMs trading at around 16.0x 2026 P/E and battery manufacturers at roughly 35.0x 2026 P/E compared to 10-year average of 23.0x and 41.0x, respectively. Given this disparity, periods of broader market volatility or pullbacks could offer more attractive entry points into higher-quality names.

Figure 9: CSI New Energy Vehicle Index vs. CSI 300 in 2026



Source: LSEG Datastream, Deutsche Bank AG. Data as of June 2, 2026.

05

Conclusion

China's EV and battery sector is transitioning from a subsidy-fuelled growth story to a more durable, globally diversified investment case. Higher oil prices, export momentum, battery leadership and regulatory support for consolidation create an attractive medium-term setup, particularly for best-in-class OEMs and battery champions with strong balance sheets and overseas ambitions. This stands in contrast to a broader China equity backdrop that remains influenced by subdued domestic demand and uneven consumption recovery, suggesting that returns are likely to remain selective rather than broad-based. While policy and commodity price risks remain, the risk-reward balance in the EV ecosystem appears to have improved meaningfully relative to prior years, making targeted exposure to high-quality EV and battery names increasingly attractive to investors.

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Glossary

Alpha refers the gain in the price of a security relative to moves in the relevant overall market index.

Association of Southeast Asian Nations (ASEAN) comprises Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Cambodia, Laos, Myanmar and Vietnam.

Beta measures the volatility of an individual security or sector versus the overall market

Battery electric vehicle (BEV) is a vehicle powered entirely by electricity stored in batteries rather than internal combustion.

Brent is a grade of crude oil used as a benchmark in oil pricing.

Carry investments are intended to deliver higher returns accessed through borrowing in a lower-yielding environment.

Credit default swaps (CDS) are derivatives that provide insurance against credit defaults.

CPCA refers to the China Passenger Car Association, an industry body that tracks passenger car sales and market trends in China.

CSI 300 Index consists of 300 A-shares traded on the Shanghai and Shenzhen stock markets.

CSI New Energy Vehicle Index tracks the performance of Chinese companies linked to the new energy vehicle value chain, including EV makers, battery producers and related suppliers.

Dividends are payments made by a company to its shareholders.

Earnings per share (EPS) are calculated as a company's net income minus preferred dividends divided by shares outstanding.

Exchange Traded Funds (ETFs) are investment funds traded on stock exchanges.

Futures are contracts for buying or selling an asset at a future date and price.

Gross domestic product (GDP) is the monetary value of all finished goods and services produced within a country.

Growth stocks are shares of companies expected to deliver above-average earnings growth.

High yield (HY) bonds are higher-yielding bonds with lower credit ratings.

Internal combustion engine (ICE) is a conventional engine that generates power by burning fuel such as petrol or diesel.

Investment grade (IG) rating indicates that a bond has relatively low risk of default.

Lithium Iron Phosphate (LFP) is a type of lithium-ion battery chemistry widely used in electric vehicles.

Mean reversion refers to the tendency of asset prices to return to long-term averages.

Memory parking is a vehicle feature that allows automated parking based on stored routes.

New energy vehicles (NEV) are vehicles powered by alternative energy sources such as electricity or hybrid systems.

Original equipment manufacturer (OEM) is a company that produces vehicles or components marketed under its brand

Over-the-air (OTA) updates are wireless software updates delivered directly to vehicles without physical servicing.

A **PHEV (Plug-in Hybrid Electric Vehicle)** is a car that combines a rechargeable battery-powered electric motor with a traditional internal combustion (petrol or diesel) engine.

Price/earnings (P/E) ratios measure a company's share price relative to its earnings.

Producer price inflation (PPI) measures changes in prices received by producers for their output.

Purchasing manager indices (PMI) provide indicators of economic health based on surveys.

Risk premia refer to the excess return expected for taking additional risk.

Smart cockpit is an integrated digital interface in vehicles combining infotainment, connectivity and driver assistance.

Software-defined platforms are vehicles whose features and performance are largely controlled and updated through software.

Yield is the income return on an investment expressed as a percentage.



Appendix

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Historical performance

	2.6.2021 - 2.6.2022	2.6.2022 - 2.6.2023	2.6.2023 - 2.6.2024	2.6.2024 - 2.6.2025	2.6.2025 - 2.6.2026
CSI 300	-22.7%	-5.6%	-7.3%	7.3%	28.0%
CSI New Energy Vehicle Index	NA	-22.4%	-29.9%	8.6%	61.3%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; Data as of June 2, 2026.



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