

Buyer Market Dominates China's Iron Ore Industry



With the three global iron ore giants absent at the eighth China International Steel and Raw Materials Conference recently, market demand for iron ore is predicted to go weak in 2009 and a possible buyer market may dominate China's iron ore industry.

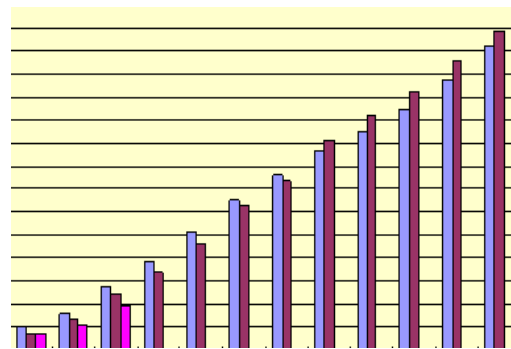
Statistics from China Iron and Steel Association show that, influenced by the disappointing demand, crude steel output in the first nine months of this year climbed only 6.22 percent on year, 11.39 percent lower by growth rate. The demand-dampened supply will tighten a number of iron and steel producers have announced to cut output or even stop production. Based on the production cut plans, iron ore demand in the fourth quarter may drop by 14 million to 15 million tons. Experts believe that the next quarter may see the supply further exceed demand and long term agreement price of iron ore will possibly dive 30 percent and Brazil iron ore price 25 percent.

China's Economy Stimulus Plan to Spur Demand for Overseas

Mineral Resources

China's four trillion yuan economy stimulus plan is expected to drive up the demand for overseas mineral products

The prices of mineral products on inter—national market have kept on falling in price recently. Global financial crisis has exerted great impact on commodity flow, dragging down prices of major raw materials and metals. Some mining giants like Rio Tinto, and Companhia Vale do Rio Doce (Vale) are forced to announce production cut. As soon as China announced the economy stimulus plan, mining stocks in Australian stock markets jumped on Monday, with Rio Tinto and Vale up 7 percent and 7.9 percent, respectively.

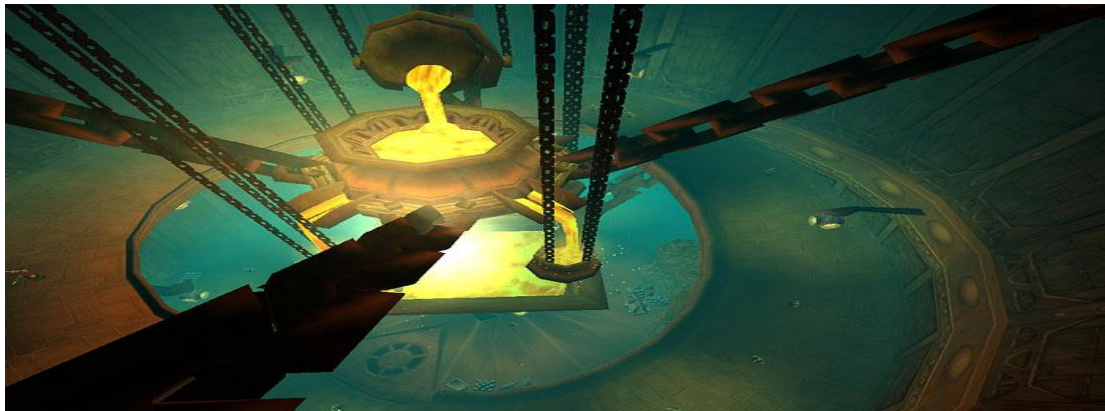


For a long run, China will have a strong demand for raw materials in the process of industrialization and urbanization, and Australia hopes to provide China with high-quality raw materials as well as some technology and services, said Graeme Leslie Meehan, Minister of Australian Embassy in China at China Mining 2008. Compared with the eight mining giants who control almost 50 percent of global mineral products supply, China's mining enterprises are smaller and weaker in pricing

capacity, according to Wang Yan, CEO of BOC International Limited. When the global economy was booming, China faced many restrictions to go out for mining investment and was the passive price receiver, added Wang. Xu Shaoshi, head of the Ministry of Land and Resources (MLR), emphasized the necessity of establishing long-term supply relations with international mining industries especially when price negotiations for iron ore this year has undergone great difficulties. The policy support should not only focus on expansion of production capacity but also stimulation of domestic demand, suggested Jia Qihai, Director of Mining Development Division of MLR. Supporting some mining enterprises for overseas exploration is one approach to optimize resources supply structure, Jia added.

90% Copper Smelteries Unoptimistic about Future Market

Survey of 24 major copper smelteries in China conducted by Ieforex shows that 90 percent of copper smelting enterprises in China are not optimistic about the future copper market, and are waiting for financial environment going stable.



The survey finds that there are several reasons behind low operation rate of copper smelting enterprises: scrap copper suppliers are unwilling to supply; recent copper price slump has increased the production and operation risks; worldwide economic slowdown triggered by financial crisis has made enterprises worry about future demand.

Of the 24 copper smelting enterprises surveyed, 23 hold that copper market will keep going low as a result of influences of financial storm; only one holds unclear opinion about the future. As for the key factors that influence copper price trend in near future, 75 percent of enterprises surveyed hold that copper price trend in near future will be closely related to China's macro economy and the financial market environment, and the supply and demand will produce almost no influence on the price trend of copper; while 25 percent are unclear about the factors that may influence copper price trend.

As for supporting price, 17 percent of the enterprises surveyed hold that there will be support when copper price falls around 45,000yuan/ton; another 17 percent think the price will drop around 40,000yuan/ton; 8 percent hold it will drop to RMB35,000 /ton; and the rest 58 percent retain their opinions until the trend of financial market becomes clear.

Silver Hit by Rising Cost of Production

REFINED silver output in China, the world's third-biggest producer, has peaked and may stop growing as producers halt expansion because of higher costs, lower prices and reduced incentives, according to an industry official. Rising costs of labor and higher taxes on exports had reduced producers' margins, Zhou Juqiu, chairman of the gold and silver division at the China Non-ferrous Metals Industry Association, said. Output may rise to nearly 10,000 tons this year from 9,092 tons last year, he said in an interview with Bloomberg News last Friday. Spot silver prices have more than halved from a record in March after hedge funds and speculative investors sold commodities to raise cash while recession fears have reduced demand for industrial use of the precious metal.



China's annual silver output growth had already slowed to 10 percent last year compared with an average 30 percent between 2001 and 2006, Zhou said. Export rebates". There won't be much growth going forward," he added. While producers are still "doing OK," they are faced with an increasingly difficult environment, including tighter financing and reduced export market, he said.

In July, China revoked export rebates on silver to control use of limited natural resources. The association is lobbying the government to return the incentive to help struggling producers, Zhou said. The country will increasingly rely on imports to fill the needs for silver, he said. Last year, the country's net imports were 1,067 tons, compared with net exports of 1,085 tons in 2006, according to customs data provided by Zhou. "China has the world's biggest potential for silver consumption," said Li Xiaoni, vice president of China Chamber of Commerce of Metals, Minerals and Chemicals Importers and exporters. The country's consumption already accounts for 70 percent of the global total for industrial use, she said. China's consumption of silver has grown by more than 10 percent in "recent years," reaching 4,000 tons last

year, Zhou said. China has 26,000 tons of silver reserves, about 9.6 percent of the global total, and the fifth-biggest in the world, he said. About 60 percent to 70 percent of China's silver is the byproduct of smelting for lead, zinc and copper, he added.

China's Lead and Zinc Industries to Undergo Consolidation

China's fragmented lead and zinc industries are expected to undergo consolidation within the next five years as small-sized miners and smelters are increasingly being forced out of business due to plummeting product prices, an industry analyst told Interfax on Nov. 12. "Booming lead and zinc prices in the last few years led to investment frenzy in the metal mining and smelting sectors.



However, China's ongoing industrial structure optimization, coupled with the current global economic downturn, will likely induce a cool down in investments and accelerate consolidation," Feng Juncong, a senior analyst with Beijing Antaike Information, said. "In particular, since the beginning of October, lead and zinc prices have tumbled by more than 30 percent, causing almost all zinc miners and smelters to rack up losses, while lead smelters are earning just fractional profits. China's lead and zinc industries will likely consolidate within the next five years under the current climate," Feng said.

In 2007, there were only six lead smelters that each had an annual production capacity of over 80,000 tons, accounting for 33 percent of China's total output, while there were nine zinc smelters that each had an annual production capacity of over 100,000 tons, accounting for about 48.7 percent of combined domestic output? Feng said that ideally, large-scale lead and zinc miners and smelters should account for 50 percent to 60 percent of the country's lead and zinc output. Feng also said that even though China is among the richest in the world in lead and zinc resources, ore supplies are relatively tight because mining facility expansion is lagging behind smelting capacity expansion.

Moreover, China's zinc concentrate output is likely to decline by 4.6 percent year-on-year to 3.09 million tons in 2008, due to interruptions by snowstorms in February and the May 12 Sichuan earthquakes, according to Feng. Feng forecast that China's refined zinc consumption will increase by 4 percent year-on-year in 2008, much lower than the average growth of 14.5 percent in the past eight years. Also, production output from China's automobile manufacturers, which are major refined zinc consumers, is expected to grow at a slower pace of 15 percent year-on-year.

The three-month lead contract price on the London Metal Exchange (LME) fell from its peak of \$38,800 per ton in October 2007 to \$12,700 per ton on Nov. 12, while the three-month zinc contract nosedived from \$45,300 per ton in November 2006 to the current.