

## China to buy 290,000 t of electrolytic aluminum for reserve by April 15

China State Reserve Bureau (CSRB) will buy 185,000 tons of electrolytic aluminum for reserve at 12,490 yuan/ton and another 105,000 tons at 12,500 yuan/ton by April 15. Altogether 11 enterprises will participate in the tender for selling their electrolytic aluminum, including eight in the last state purchase.

CSRB had earlier purchased 290,000 tons of aluminum ingot at 12,350 yuan/ton on December 25 last year, aiming to absorb 150,000 tons from Chinalco companies including Yunnan Aluminum Co., and Electricity Power Co. The new reserve crude aluminum from Chinalco to support its electrolytic aluminum price.



and 20,000 tons each for seven other and Henan Shen Huo Coal Industry plan will purchase 140,000 tons of operation against downturn of

An analyst with First Capital Futures said despite the two rounds of purchase plan in less than two months, the aluminum price is not expected to recover in a short time due to the lower price of imported aluminum.

## China steel demand may recover in half year, association

China is expected to produce 460 million tons of pig iron, 480 million tons of crude steel and 500 million tons of rolled steel in 2009, predicts [Zhang Xiaogang](#), former chairman of China Iron & Steel Association (CISA) and general manager of Angang Steel Group. The expected output of crude steel for this year represents a drop of 20 million tons from last year.

Zhang estimates that it will still take some half a year for steel market demand to recover.

His estimation is grounded on: "For one thing,

downstream industries such as automobile, shipbuilding, equipment and household appliances are still in a downturn period. For another, it needs time for the government's 4-trillion-yuan stimulus package to take effect." In 2008, price slump resulted a number of steel plants in monthly net loss. Overall net profits of major steel enterprises dropped from 17.83 billion yuan in June to 3.221 billion yuan in September. In October, they saw an overall loss of 5.835 billion yuan. And the loss figure rose to 12.78 billion yuan in November, and 29.122 billion yuan in December.



According to CISA, China's steel industry will face two major problems.

First, production capacity is estimated to exceed the demand greatly. In 2008, investment into the steel industry increased 23.8 percent on year to 324.028 billion yuan (excluding mine investment), which added 50 million tons of production capacity in pig iron, crude steel and hot-rolled steels. Second, whether the prices of imported iron ores will drop to a sensible level is crucial to the operating performance of Chinese steel enterprises.

## Country going for gold as investors play it safe

China led the world in increased purchases of gold jewelry and bars last year as buyers turned to the precious metal as a safe haven.

China, including the and Hong Kong, jewelry, coins and bars than the previous year, said. The increase, 67 of any other country -- Vietnam and Thailand, 38 tons. What makes country's soaring sales whole year and even in the world was gripped In contrast, consumers and the United jewelry as the "Chinese gold jewelry high-purity 24-carat



Shoppers and investors in Chinese mainland, Taiwan bought 432.1 tons of gold in 2008, 18 percent higher the World Gold Council tons, easily exceeded that the next closest were both with a rise of about China stands out is the of gold jewelry over the the fourth quarter, when by an economic crisis.

in the United States, Italy Kingdom spent less on recession took hold. market is dominated by pieces with strong safe haven appeal, while K-gold jewelry takes the lion's stake in developed countries," Wang Lixin, general manager of World Gold Council China, said yesterday.

"That's why buying gold jewelry is still strong in the fourth quarter in China while other developed countries are posting drops." Chinese have long regarded gold not just as jewelry, but as a hedge against inflation, a safe haven and a symbol of fortune. That's why 24-carat gold jewelry, or 99.9 percent pure, dominates the market.

"The investor motive was evident in the strength of 24-carat sales, which contrasted to the decline in sales of

18-carat K-gold in China," the council said. Gold also appealed as an investment. The benchmark Shanghai Composite Index tumbled 70 percent last year. Other commodities such as oil and copper lost ground, but gold remained popular. China's gold sales in the fourth quarter rose 21 percent to 112.7 tons. Its gold jewelry sales rose 10 percent to 92 tons. Elsewhere in the world, gold jewelry sales dipped 6 percent to 538.9 tons in the fourth quarter. The delay in the financial crisis taking its toll in China was another reason for the sustained demand in the fourth quarter, Wang added. Mainland gold jewelry sales jumped 10 percent to 85.1 tons in the fourth quarter. Mainland demand for gold as an investment rocketed 157 percent to 18 tons in the same period. "If the economy slowdown deepens at home, gold jewelry sales may be hit. "But investment gold bars will sustain their strong growth," Wang said.

## **Baosteel to merge with large rivals**

BAOSTEEL Group Corp, China's biggest steel producer, will take over two rivals as part of the nation's plan to create bigger steel makers to gain bargaining power for iron ore, according to the China Iron and Steel



Association. Baosteel will take over Ningbo Iron and Steel Group and Baotou Iron and Steel Group, Chi Jingdong, the association's secretary-general, told an industry group in a closed meeting on Thursday. Bloomberg News received a copy of the speech yesterday. China, which produces one-third of the world's steel, is pushing for consolidation in the industry to boost its competitiveness and raw material purchasing power. The government is implementing a 4-trillion-yuan (US\$586 billion) stimulus package to boost economic growth. "The global recession will help speed up industry consolidations," said Luo Wei, a Shanghai-based

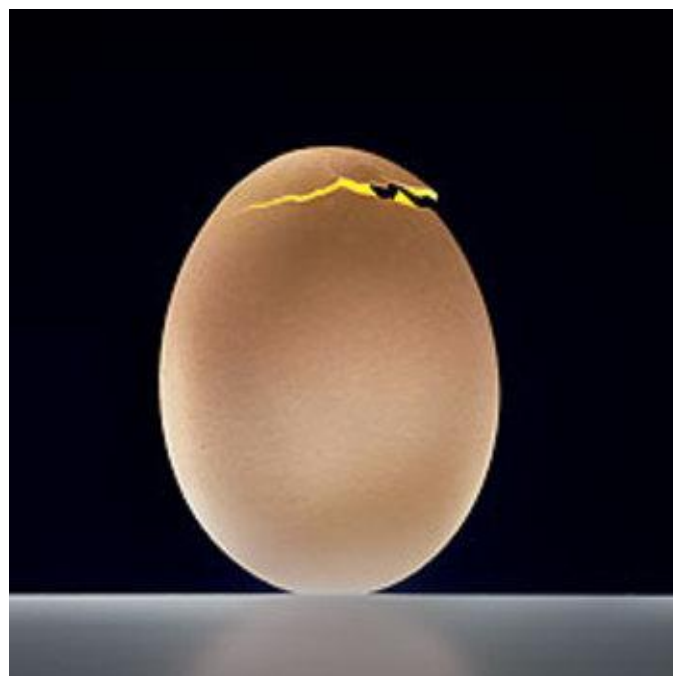
analyst with China International Capital Corp. "Boosting the concentration will increase steel makers' profit and their pricing power." Chinese steel makers are seeking the first reduction in seven years for benchmark contract iron ore prices as demand falls. The government will also push Anben Steel Group, China's fourth-biggest, to merge with Panzhihua Iron and Steel Group, while Taiyuan Iron and Steel Group, the biggest stainless steel maker, will combine with rivals in Shanxi, Chi said.

## The "Five M's" for picking gold stocks

An abridged excerpt from "The Goldwatcher: Demystifying Gold Investing," co-authored by Frank Holmes, CEO and chief investment officer at U.S. Global Investors. The book, published by John Wiley & Sons, is available from amazon.com and in bookstores. Investors can improve their odds by learning how to assess the fundamentals of the gold exploration companies. A good tool for this job is what I call "The Five M's." By using the Five M's, an individual investor can build a simple but powerful model to initially sort through the many hundreds of upstart gold companies to find better opportunities.

### 1. MARKET CAP

If a junior gold company has 10 million shares outstanding at \$1 per share, the company is valued at \$10 million. The question any investor should ask is, "Is this company really worth \$10 million?" If the market pays \$25 per ounce of gold in the ground, the company should be valued at \$25 million. If the company's market cap is only \$10 million, it may look undervalued. If the company's market cap is \$50 million, it may appear to be overvalued. For larger gold companies, an investor can measure a company's market cap against its production level, reserve assets, geographic location and other metrics to establish relative valuation.



### 2. MANAGEMENT

Often the heads of junior companies are geologists or engineers who have no relationships in the brokerage business. This lack of relationships impedes their ability to generate market support. Some of the most successful company builders in the gold-mining industry are what I call the "financial engineers" - people who have the relationships and understand the capital markets and who know how to hire the best geological and engineering teams. We tend to have more confidence investing in them.

### 3. MONEY



A gold exploration company has to deliver reserves per share to have a chance at another round of financing. It has to convince the capital markets that it is an attractive investment on a per-share basis. The gold-equities market is efficient at judging reserves per share, so if the exploration company doesn't come up with the

results necessary to get an evaluation, investors quickly lose confidence. There is an old rule when it comes to exploration companies: don't pay more than two times cash per share if there are no proven assets in the ground.

### 4. MINERALS

Gold companies have the highest industry valuations based on price to earnings, price to cash flow, price to enterprise value and price to reserves per share. Companies operating mines that produce gold and a significant amount of another metal (typically copper) tend to have lower valuations than pure gold companies. But at the top of a gold price cycle, copper/gold deposits end up rising to the same multiples as pure gold companies. So when it comes to picking stocks in anticipation of an upward price move for gold, the investor's margin for error is reduced by selecting companies with both gold and copper production.

### 5. MINE LIFECYCLE

In the exploration and development phase, a price of a gold stock often follows a course that ends up looking like a double-humped camel. First there's euphoria over exploration results that are better than expected. The stock price rises as investors race to buy shares. Then reality sets in - this gold discovery is still years away from being an actual producing mine. At this point, there's a huge correction in the stock price. Assuming the company continues down the path to development, its share price drifts sideways until around six months before the first ounce of gold is expected to be produced. At this point, the stock begins a strong new leg up

when a more sophisticated set of shareholders come into the market. Eventually the price drops off and then levels as the speculative money moves on to the next hot opportunity and the company transitions from explorer to producer.

### **China Mining Industry Co.Ltd**

Sally Fong

Head.Global Account

Add: Room 903, T.P.Plaza No.109

Lihua Road, Guangzhou (510010)

Tel: 020-36315888

Fax: 020-36315428

E-mail: [sally.fong@cnmining.org](mailto:sally.fong@cnmining.org)

Danny Cheung (CEO)

Add: 11/F, Jonsim Place, 228 Queen's

Road Ease, HongKong

Tel: 852-31030188

Fax: 852-28936910

Email: [danny.cheung@cnmining.org](mailto:danny.cheung@cnmining.org)

Website: [www.cnmining.org](http://www.cnmining.org)