

Chalco expects Q1 loss but demand may pick up in H2



Aluminum Corp of China (Chalco), China's largest aluminium producer, said on Monday it expected to post a loss in the first quarter of this year, as it works off stockpiles built up last year when costs were relatively high. Chalco has shut down 40% of its alumina capacity and 24% of its aluminium capacity due to losses, Chalco President Luo Jianchuan told a news conference. Luo also

said, however, that the company may restart some of its halted capacity in the second half of the year as consumption recovers. China's aluminium output is expected to drop 4.4% this year to 12.6 million tonnes, while consumption is seen falling 1.9% to 12.26 million tonnes, Luo said. Chalco sees domestic primary aluminium prices ranging between 12,000 and 15,000 yuan per tonne this year, while London Metal Exchange aluminium prices are expected to move between \$1,300 and \$1,800 per tonne.

Chalco set to cut capital spending after poor net

CHALCO will cut capital expenditure by 34% to 13 billion yuan this year after posting a dismal profit for 2008. To deal with difficult times, Chalco will strictly control M&A and suspend planned projects, Luo Jianchuan, its president, said yesterday. "But we will still target the right firms as the current market condition offers a good opportunity for acquisitions and our cash flow is not bad," he said. Battered by higher raw material costs in the first nine months of last year and slumping aluminum and alumina prices amid a global financial crisis, Chalco's net profit tumbled 99.9% to 9.23 million yuan in 2008 based on international accounting standards. Aluminum prices plunged 35% on the Shanghai Futures Exchange last year as the economic downturn hurt demand from property, automobile and power grid industries. Chalco posted a loss of 2.57 billion yuan in the fourth quarter based on domestic accounting standards, and expects this



quarter to remain unprofitable as it writes down inventories built up when costs were higher. Chalco has shut down 40% of its alumina capacity and 24% of its aluminum capacity, Luo said, adding that the firm may restart some capacities when the demand recovers in the second half of the year. Aluminum prices have risen 11% this year due to the China's stimulus measures, seasonal demand and state reserve purchase. Goldman Sachs said the price increases and a quick drawdown of inventory in the past weeks have indicated demand is picking up. The investment bank rates Chalco a "buy."

China's launch of steel futures changes global pricing system?

Shanghai Futures Exchange started trading of steels futures contracts on Friday, which is hailed as a sign that China's steel industry has taken an important step forward in the process of marketization in the words of Luo Bingsheng, executive vice chairman of China Iron & Steel Association (CISA). The unified steel futures prices formed on the exchange may become the pricing basis for China's steel plants, Luo holds. Last year when steel prices plunged in and outside China, over 100,000 steel traders in China lagged



behind the market and accumulated surprisingly high inventories, which not only cost them great losses but also further deteriorated the market situation. Shang Fulin, chairman of China Securities Regulatory Commission, stated that the launch of steel futures would provide a risk-hedging tool for China's steel plants, traders and consumers; further, it will boost the healthy and orderly development of China's steel industry, and increase competitiveness of China's steel industry on the international market. "Currently, prices of most futures contracts in China are greatly influenced by foreign futures bourses, thus they cannot reflect the real domestic market fundamentals," said Sun Lijian, deputy dean of the Economics School of Shanghai Fudan University. "Although China is a major crude steel exporter in the world, the country has no pricing right on the market. The launch of steel futures will probably change this situation and increase China's influence on the global market," noted Xiao Cheng, general manager of GF Futures.

Steel futures surge in heavy turnover as trading debuts



Yu Zhengsheng, Shanghai's Party secretary, beats the gong to launch the trading of steel futures at the Shanghai Futures Exchange yesterday (March 27, 2009). The event marked another step along the road in the city's bid to become a global financial center.

Shanghai's steel futures jumped on the first day of trading yesterday, as China, the world's top steel maker, joined a global race aiming to set a global benchmark for the metal. The contracts could provide a hedge against financial risks for related industries and improve the overall competitiveness for the nation's steel industry, said Shang Fulin, chairman of Chin Securities Regulatory Commission. On the Shanghai Futures Exchange, steel reinforcement bars for September delivery rose 4.8 % to 3,561 yuan (US\$521) a ton while wire rods

settled 6.2 % higher at 3,398 yuan. Both are widely used in the construction industry. Turnover totaled 12.9 billion yuan for rebars and 3.6 billion yuan for wire rods. "We saw heavy buying in the morning session, and some selling in the afternoon. But generally people were buying," said Ji Wu, head of research at Orient Securities Futures Co. "Trade is somewhat stable and better than we expected. I

think investors were rational." Local spot prices for 6.5-millimeter wire rod were quoted at about 3,220 yuan a ton. Some analysts said the rises in futures prices signaled that gains in demand for construction and prices are expected with government stimulus measures, though others said investors were still uncertain about price trends under current market



conditions. Domestic steel prices tumbled to a six-year low in November from June's record high amid shrinking demand. The government has since announced a 4-trillion-yuan stimulus package which could trigger demand for steel. Still, steel prices fell back to November's low early this month as stockpiles gained. China halted its short-lived steel futures in the 1990s due to massive speculation. And the China Iron and Steel Association, which fears speculators may distort already volatile prices, had been opposing futures until 2007. Zhang Fugui, business manager at steel trading company



Shunchao Enterprise, said he would simply use the futures market as another platform for purchase and sale. "It will take time to familiarize with the contracts and the details. I would still depend for the majority of my business on electronic forward markets, which offer the trade of more product types, and I believe have less risk," Zhang said. Shanghai, having been preparing the steel contracts for

eight years, has now joined other markets, including London and Dubai, in offering steel contracts - another step along the road in the city's bid to become a global financial center.

Datang says no agreement for 09 coal contracts yet

Electricity provider Datang International Power has not signed any major contracts with China's coal miners for this year, its Chairman Zhai Ruoyu said on Tuesday. China's big five power generators -- Huaneng, Datang, Guodian, Huadian and China Power Investment Corporation --- have been embroiled in a dispute with China's big coal miners about 2009 prices. China's power companies want the country's coal miners to cut 50 yuan per tonne from last year's term prices, but coal miners want to raise the price by 80 yuan per tonne, Zhai told reporters at a media briefing. Chinese coal mining giant

China Shenhua Energy Co said on Monday that it had agreed long-term contracts with some Chinese power producers.

China Coal halts \$2.5 billion mine, Shenhua inks 5-year deal



China's top coal miner China Shenhua Group has struck a 5-year supply deal for 85 million tonnes of coal while rival China Coal has suspended a \$2.5 billion project because of the global financial crisis. Shenhua has agreed to offer state-owned conglomerate China Resources Group 85 million tonnes of thermal coal over the next

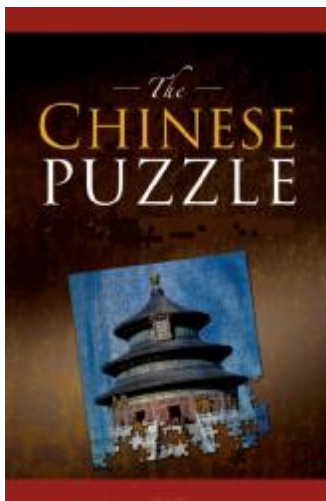
five years, Xinhua news agency reported on Saturday, citing an agreement between the firms. Both companies promised to keep the price "relatively stable" and company representatives at a signing ceremony in Hong Kong said the agreement signaled "a strategic draw" after years of pricing games between coal miners and power plants, Xinhua said. But with prices under pressure because of falling power demand, China's No.2 coal miner China Coal Energy Co Ltd said it was suspending a 17 billion yuan (\$2.5 billion) project in Heilongjiang province.

China Coal issued shares a year ago to fund the project, which would have produced 10 million tonnes of coal, 1.8 million tonnes of methanol and 0.6 million tonnes of alkene a year. It will now try to refine the project to restore its profitability while looking for alternative ways to use the money rose, it said in an announcement late on Friday. China's coal miners are struggling with a downturn in demand from power producers after years of raging growth in the sector. "The supply and demand of coal will become less balanced, coal prices will fall and the reform of value added tax and resource tax may affect the profitability of coal enterprises to a certain extent," China Coal said in its 2008 results on Friday. Officials in Beijing are keen to



clean up the huge, dirty and dangerous coal mining industry and want to use the economic crisis to drive smaller mines out of business. China's top coal producing province, Shanxi, plans to shut 1,500 coal mines with less than 900,000 tonnes of annual production over the next two years, leaving around

1,000 mines in operation, Xinhua quoted provincial coal mining official Wang Chonglin as saying on Sunday. The miners have yet to lock China's five big power generating firms into price agreements for 2009. The absence of a deal between miners and power groups has attracted imports in recent months, worsening the oversupply at home. But Shenhua has locked in 83 % of its coal revenue from contract sales, leaving it better insulated from a spot market than China Coal and Yanzhou Coal.



At an average of 17 million tonnes a year, Shenhua's deal with China Resources would be equivalent to 7 % of 2008 sales by its listed subsidiary China Shenhua Energy Co Ltd, although still only a tiny fraction of China's overall 2.6 billion annual tonne coal production. Xinhua did not mention any price for the deal, but a coal industry association said in December that Shenhua and three small power firms, including China Resources, which is the parent of China Resources Power, had signed 2009 supply agreements at a little over 10 % above Shenhua's 2008 price. Industry officials said the 2008 price was less than 500 yuan (\$73.20) per tonne. The weighted average price of coal sold in 2008 under domestic long-term contracts by China Shenhua Energy was 335.7 yuan per tonne, an 8 % increase on 2007.

China nonferrous smelter to acquire stake in Australian

China Nonferrous Metal Industry's Foreign Engineering and Construction Co., Ltd., announced Sunday to subscribe for 15.5 million shares of Terramin Australia Limited (TZN), a lead and zinc mining firm in Australia. According to the announcement, NFC will invest 10.075 million Australian dollars (or 48.2613 million yuan) for the deal, which represents 2.75 % of the company's net assets by September 30, 2008. The two sides signed the agreement Friday, which provided NFC would buy 15.5 million ordinary shares of TZN at 0.65 Australian dollars per share, at a premium of 43 % on the basis of TZN's closing price Thursday. After the subscription, NFC will become the largest shareholder of TZN, owning 12.29 % shares of the latter, and send a member to TZN's board.

TZN currently has two major zinc and lead mines, with ore resources volume of 61.01 million tons, and zinc and lead volume of 4.05 million tons.

