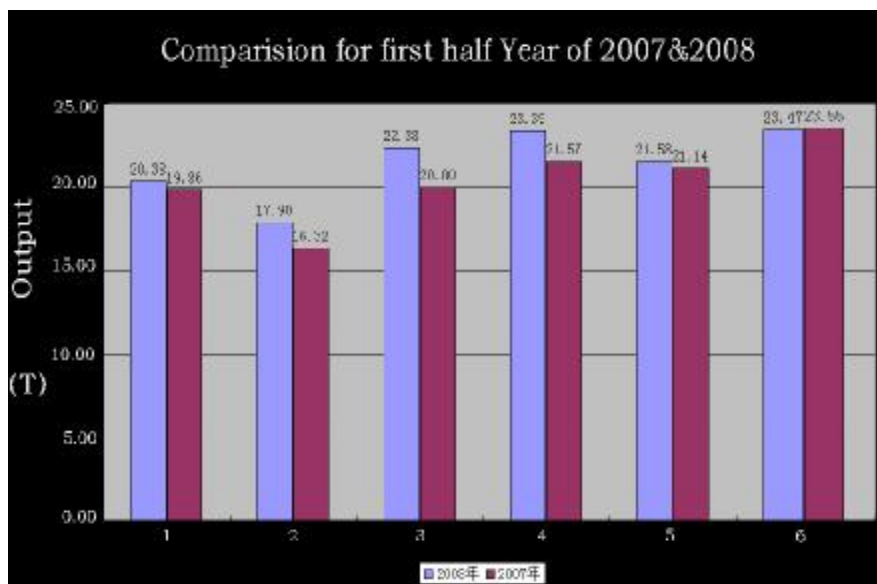


China consolidating position as world No.1 gold producer

China's gold output is still rising, but probably at an insufficient rate to counter the falls in production elsewhere in the world. China's Ministry of Industry and Information Technology has released figures for the country's gold output in November showing that production for the year to end-Nov reached 246.51 tonnes - up only 2.14 percent from the figure for the first 11 months of 2008 - the year in which China's gold production exceeded that of South Africa for the first time, making it the world's top producer.

With South African output continuing to decline, this will have consolidated China's position as the world No. 1, but with declining output in a number of countries, of which South Africa's is the most significant, and only a small increase in China, it looks as if world gold output will likely fall further again in total once full 2008 statistics are available.



This will please those who look to supply demand fundamentals as supporting their positions on predicting higher and higher gold prices in the years ahead, but it should be noted that a slew of demand figures out of the traditional gold buying nations like India, Turkey and the Middle Eastern states have shown a sharp fall in demand over the past few months as high gold prices coupled with the global financial downturn have bitten into sales and imports into those countries. There have also been reports of increasing sales of gold from private holders into the markets as individuals feel that prices are high and not likely to move much higher.

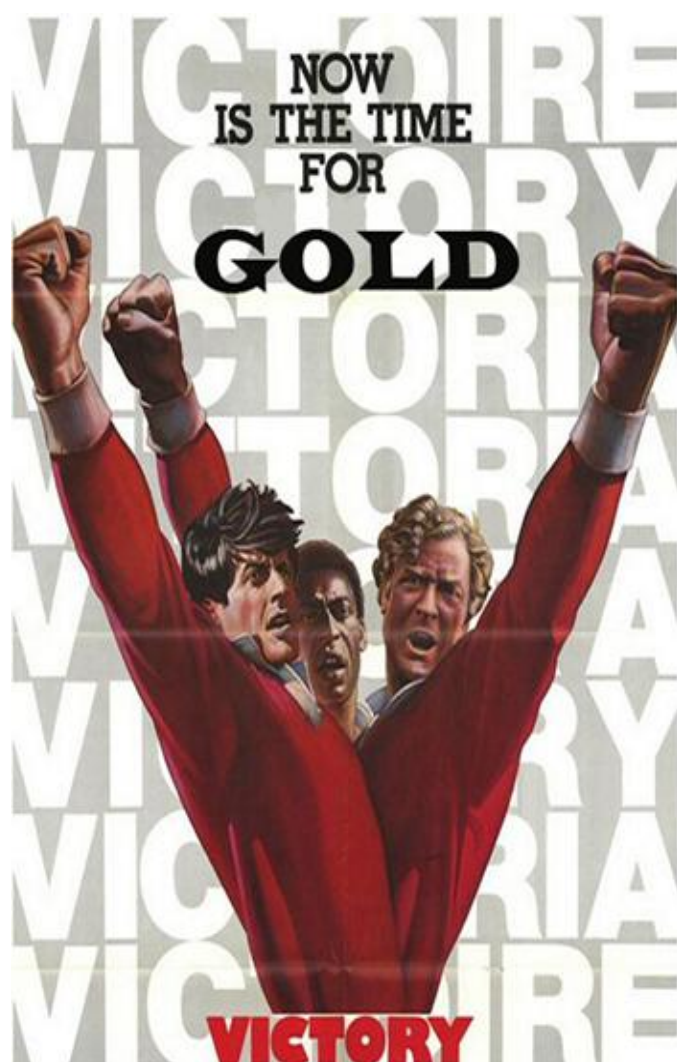
Gold will win the battle of the safe havens

Ultimately, as the realisation worldwide materialises that the U.S economy is hugely overstretched, gold will come to the fore as the true safe haven - but it may take some time to do so.



The gold price is already showing signs of volatility in the New Year with the price rising strongly at the close of 2008 and the first couple of days of 2009 and then falling back fairly sharply. We seem to be looking at gold as usual as a play on the strength of the US dollar against other currencies and to predict the gold price movement this year and will probably be, in reality, largely an exercise in predicting how the dollar will fare. However, the gold price may also be stimulated by other factors from time to time, which could cause sudden sharp upwards or downwards movements.

Where the dollar is going in the short to medium term is not easy to predict. Currently it is showing some strength against other currencies, however unjustified this may seem to be for a dispassionate observer. But the truth is that although the dollar should be weak given all the additional money being pumped into the U.S. economy, which has to be inflationary in the long term, then so are most 'competitor' currencies.



With the U.S. Obama stimulus package likely to help bring the U.S. domestic economy out of its worst recessionary phase quicker than for most other areas of the world, this dollar strength may continue for the time being until other economies start to pick up on the U.S. economy's coat tails. However, once other economies start to stabilize too, and the realisation of the weakness of the U.S. economy's position with its huge deficit really sinks in, the dollar could be in for a major tumble, which would likely push commodities in general, and gold and oil in particular, to big premiums in U.S. dollar terms, if not necessarily in other currencies. However, how long this will take to happen is difficult to ascertain. There are already signs out there that the economic wheels are beginning to turn again - even if very slowly - as it is apparent that some finance is being freed up by the banks - even for some mining projects - albeit at expensive and demanding terms. But, we are probably not out of the financial mire yet. The fact that gold did not rise substantially through the economic turmoil of the past year was largely due to the necessity for financial institutions and some large worth individual investors to offload almost anything that was easily negotiable to maintain their short term liquidity, and gold is always easily negotiable.

Now most of this necessity to liquidate assets is out of the market and there has to be the likelihood that the safe haven aspects of gold will generate new price strength on further bouts of financial upheaval - and there is likely to be more of this in the months and years ahead. What may ultimately give the gold price the major boost that some economists expect will be a wholesale dumping of U.S. assets by investors around the world as they lose patience with the U.S. economy.



The U.K.'s Daily Telegraph comments on a blog by Professor Willem Buiter, one of the world's top economists and a former member of the U.K.'s Monetary Policy

Committee for the Bank of England. In his Blog, Buiter says: "There will before long (my best guess is between two and five years from now) be a global dumping of US dollar assets, including US government assets. Old habits die hard. The US dollar and US Treasury bills and bonds are still viewed as a safe haven by many. But learning takes place." He goes on "The past eight years of imperial overstretch, hubris and domestic and international abuse of power on the part of the Bush administration has left the US materially weakened financially, economically, politically and morally," he said. "Even the most hard-nosed, Guantanamo Bay-indifferent

potential foreign investor in the US must recognise that its financial system has collapsed."



What the above may suggest is that there is a 'battle of the safe havens' taking place in the financial sector. Much of the world is imbued with the 'dollar is king' scenario making it the safest place to invest, and that has come to the fore of late. What Buiter is saying is that the economic chickens will come home to roost and the world will gradually realise that the U.S. economy is inherently almost terminally weak and this will lead to a flight from the dollar, probably starting gradually and then accelerating. Gold will be the likely beneficiary as the other traditional safe haven and the faster the dollar falls, the steeper the rise in gold price in dollar terms at least. In other words gold will ultimately win the battle of the safe havens, but this may yet take a fair amount of time to materialise.

Chinese government may not purchase steel for reserve

The previously proposed steel reserve scheme may not be adopted by the Chinese government for different voices, said a source close to the National Development and Reform Commission (NDRC), quoted by Shanghai Securities News.

The source said none of NDRC, Finance Ministry and China Iron and Steel Association (CISA) approves that scheme. "The reserve scheme was not even mentioned at the January 5 seminar which was about how to invigorate China's steel industry," Shanghua. Currently, there are 100 of which are large and midsize million tons of steel products products. Under such a situation, it reverse quantity, varieties as well proposed reserve quantity of 5 some 20 billion yuan, which is too much for many to accept. Some steel traders say they expect the market demand recovery more than the national reserve policy.



said CISA general secretary Shan over 1,000 steel plants in China, some ones, altogether generating around 500 annually, with over 20 kinds of major is quite difficult to determine the total as the target enterprises. Moreover, the million tons would cost Finance Ministry

Actually, China's steel market already shows a sign of warming up at present. Price of hot-rolled sheets and rolls has risen to 3,500~3,700 yuan per ton from the lowest point of 2,800 yuan per ton in October 2008. China's steel industry has seen a high-speed increase in investment and construction of new production capacity. Production capacity of crude steel is estimated to exceed 60 million tons by the end of 2008.

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