Shanghai Gold Futures Sparkle

The Chinese gold market yesterday joined the global buying spree, as jittery investors rushed to the yellow metal in droves to seek refuge from the weakening greenback and the bleak outlook for the US economy.

Gold futures on Shanghai Futures Exchange rose sharply with the most actively traded gold contract for June delivery rising 0.64 percent to 184.2 yuan per gram. The contract has climbed an aggregate 6.4 percent in the past week. The spot price of Au9995, the most actively traded physical gold product on the exchange, rose 1.2 percent to 186 yuan per gram, with the turnover surging 53.7 percent from the previous trading day to 1.16 billion yuan. Traders and analysts attributed the latest gold price rally in both the spot and futures markets to the rapidly depreciating US dollar against most major world currencies. The decline was also exacerbated by the recent interest rate cuts.

The US Federal Reserve on Tuesday lowered the target range for the benchmark federal funds rate to zero to 0.25 percent. The continuous

The continuous fall in the US dollar has further dented market sentiment, driving larger and larger amounts of international funds to gold.

StreetTracks, one of the world's largest gold funds, yesterday increased its gold positions in the spot market by 3.98 tons to 769.2 tons. On the New York Mercantile Exchange, the most actively traded gold futures for February delivery rose by 1.5 percent to $855.7 per ounce, an increase for the third consecutive day. The somber US economic figures released on Tuesday further deepened investors' pessimistic mood and heightened their need to take refuge in gold, analysts said.

China's Gold Producers Make over 100b Yuan in 2008

China, the world's largest gold producer, registered a total output of 223.08 tons of gold in the first 10 months of this year, up 3.32 percent from a year earlier, official statistics showed.

Gold producers nationwide churned out 100.46 billion yuan ($14.67 billion) of revenue, jumping 76.56 percent year-on-year, thanks to soaring global gold prices this year, according to figures released by the Ministry of Industry and Information Technology.

The country produced 24 tons of gold in October.

Shandong province, which accounts for 20.6 percent of the country's total gold output, is the largest gold producer in China, followed by Henan and Fujian provinces, which account for 10.86 percent and 8 percent of the nation's output respectively.

What next for China iron ore prices?

The latest research weekly from Macquarie 

suggest that iron ore contract prices for China in 2009 will be around 20 percent lower than in 2008, copper TC/RC costs are rising and aluminium imports and exports continue to fall. The 2009 annual iron ore negotiations are approaching, and once again, news headlines are teeming with all kinds of arguments from different iron ore stakeholders. We believe that iron ore contract prices will fall next year, but will not collapse (we are expecting a 20% decline for 2009). Spot business will also be more important in the next year.

Over the past week, steel prices have lost their uptrend momentum. Hot rolled coil prices were unchanged from last week at $456/t ex-Vat, and cold rolled coil prices were down by a slight 0.5% WoW to $543/t ex-Vat. Also, rebar suffered a 0.4% WoW decline to $440/t ex-Vat, and galvanised steel was $548/t ex-Vat, down by 0.8% WoW. Local spot iron ore prices were unchanged from last week. 66% Hebei iron ore fine stayed at $102/t ex-Vat, while the Indian 63.5% iron ore fine prices increased by $5/t to $80/t cif. Copper treatment and refining charges (TC/RCs) have strengthened in the spot market along with smelter production cuts in China and collapsing copper prices.

We heard the average benchmark TC/RC is sealed at US$80/t and US8.0¢/lb (US20.5¢/lb combined) in the spot market compared with US$45/t and US4.5¢/lb ((US11.5¢/lb combined) quoted in October.

According to the preliminary trade data from China customs, China imported 217,214t of unwrought copper and semi-finished copper products in November, down 6% from October and a 3% drop from the same period in 2007. The October number was the highest since April. For the first 11 months of 2008, total imports were down by 8.0% YoY to 2.35mt.

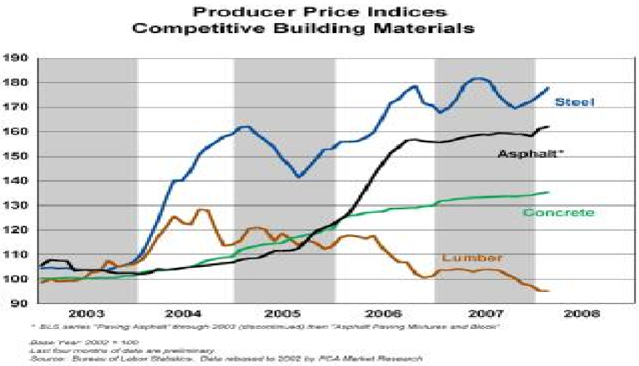
Chinese unwrought aluminium exports, including aluminium alloy, kept falling in November to 30,396t (lowest level in 2008), a 36% fall MoM and a 32% drop from the same period in 2007. The combination of lower prices and the introduction of a 15% customs duty on aluminium alloy exports, effective 20 August, has severely affected Chinese aluminium exports. Chinese aluminium imports also declined. The provisional data from China are for imports of aluminium, alloys and semi-fabricated products combined, and thus are not directly comparable with the export figures. These data show imports falling from 66,000t in October to 54,500t in November. Allowing for an estimated 40,000t of semis imports (down from 45,400t in October), this would imply imports of aluminium and alloys of around 14,500t in November.

China Nov. steel price index rises, sign of short-term re-warming

The steel price index on the Chinese market demonstrated the first year-on-year monthly rise in November since May this year, as the government's stimulus package gradually carries out.

It is a sign showing the steel price is warning again on the Chinese market, but only for a short run. In a long-term view, the steel price is likely to fall, said analysts.

Some small-sized steel plants have resumed production, leading the iron ore demand to rise by a small margin, especially in North China. Some market analysts noted that the recent price rise is resulted from the shortage of some steel products, since a number of steel plants had ceased or reduced production before. Thus, the continuity of the recent price rise is still uncertain.



Analysts also warned that current steel consumption is still limited. As more steel plants resume production and the end users fulfill their demand, the general price on the market is still likely to drop again.

China encourages mergers of steel producers: official

China will encourage mergers in the iron and steel industry, said Minister of Industry and Information Technology Li Yizhong here on Friday, as another move to offset the adverse impact of the global financial turmoil.

Li told reporters that "the industry was one of the hardest-hit sectors amid the deepening financial turmoil" and the government will encourage large domestic steel producers to buy smaller ones.

The government has been urging the industry to rationalize for some time, but there are still nearly 1,000 iron and steel producers, most of which are small. The industry is also operating below capacity.

This year, steel output will be 480 million to 490 million tonnes, against total capacity of 600 million tonnes, Li estimated. The government will extend financing on favorable terms to help the steel industry upgrade its technology, said Li.

China's steel sector has experienced tough times amid the international financial and economic crisis. Steel prices have slumped by nearly half in recent months and there are no signs of recovery.

Li also said that China should have a say in iron ore pricing, adding that Chinese steel makers should work together to avoid pushing up iron ore prices in international negotiations.

Chinese copper imports may be rising defying market belief

Detailed analysis of Chinese import statistics suggest that all is not what they have been believed and imports of copper are stronger than the market has suggested.

The strength of Chinese copper imports in November seems to have defied market expectations, for the second month running. However, the arbitrage between Shanghai and London remained positive for imports last month and that is still the case this month.Moreover, China's continued appetite for refined copper suggests a more complex dynamic than the simplistic "doom and gloom" view of events in the local market.

IMPORTS ACCELERATE

The first snapshot of China's trade figures in November suggested that refined copper imports actually fell month-on-month. The preliminary report aggregates imports of refined metal, alloy, anode and products. November's 217,214 tonnes were 6.0 percent off the pace of October.

However, the second, more detailed breakdown of November trade showed that the decline overly reflected a sharp fall in imports of copper products, which fell to 58,618 tonnes in November from 74,900 tonnes in October. Imports of refined metal, alloy and anode were 158,600 tonnes and, assuming that monthly trade in alloy and anode didn't deviate too far from the average rate of the previous 10 months, imports of refined metal alone were probably around 138,000 tonnes. If this figure proves to be correct it will be the highest monthly total so far in 2008. How do we square such strong copper imports with accumulating evidence of a sharp slowdown in Chinese manufacturing output?

WINDOW STILL OPEN

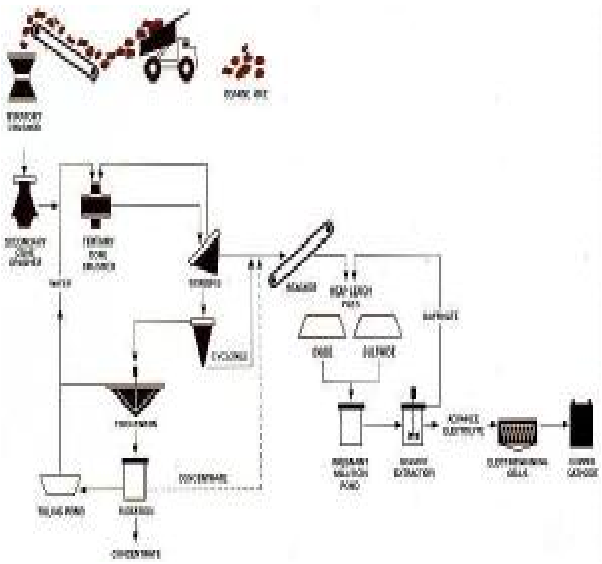
The mechanics of continued robust inflows of refined copper to China are relatively straightforward. Shanghai spot copper traded at a premium to London during much of November, keeping the arbitrage window open.That will have encouraged opportunistic flows of metal into China. Many local players view an import-friendly arbitrage as nothing much more than a fast way of raising cash in dollars. Such players will continue to capitalize on the London-Shanghai differential as long as it exists, which it still does.

Unlike the London Metal Exchange (LME contract, which is in contango, the Shanghai Futures Exchange (SHFE) nearby copper curve remains heavily backwardated, keeping spot prices higher than LME prices.

The backwardation, in turn, is a result of depleted SHFE stocks. At 16,297 tonnes they are still very low by historical standards. The SHFE's recent volatility, resulting in short positions being prematurely closed out on a couple of occasions, has disrupted the functioning of the market and probably acted to hinder a sustained stock rebuild. As such, SHFE stocks may not be as good a barometer of the overall stocks picture in China as desired. That said though, there is little anecdotal evidence of the sort of off-market stocks build that is plaguing the Chinese zinc and aluminium sectors right now.

FALLING PRODUCTION

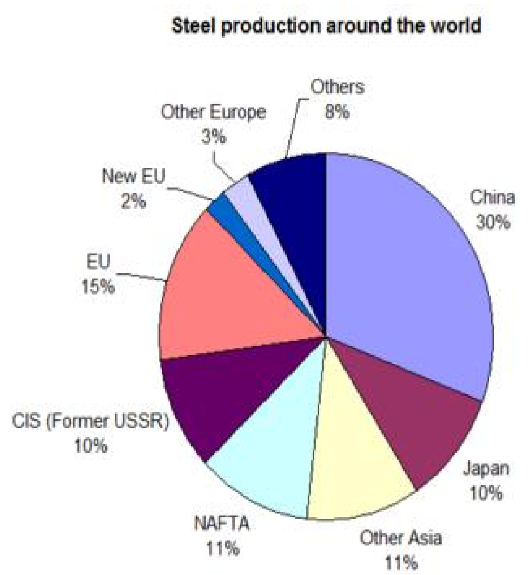
Mitigating against a sizeable build in Chinese stocks of copper has been the recent trend in domestic production of the red metal. Official figures for November showed national production of refined copper rising to a five-month high of 330,200 tonnes.



However, behind the headline figure was a continuation of the recent weak trend in national production. November output was below the year-earlier level for the second consecutive month and for the third time in the last four reported months -- August through November. Cumulative production growth slowed to just 9.6 percent, after running at closer to 20 percent in the second quarter. That's a sharp slowdown. Growth is now at multi-year lows and it shows every sign of decelerating further, particularly with smelters caught in the vice of low prices for their product and the high cost of imported raw materials. China, remember, is highly dependent on imports of copper concentrate to produce refined metal.

Although spot concentrate terms have moved in the smelters' favour over the last couple of months, preliminary talks with international miners on 2009 terms have got nowhere, the smelters balking at what they view as an aggressive stance by the other side.

COMPLEX CONSUMPTION



Moreover, although there is no doubt that Chinese economic growth is slowing rapidly enough to cause serious concern to Beijing, it is by no means a uniform picture. Firstly, there are big differences between specific copper-industry sectors. Any sector dependent on exports is suffering, but those, such as power cable manufacturers, which are more dependent on the domestic market, are said by locals to be buying copper against future orders. Beijing's accelerated stimulus package, boosting infrastructure spending, will likely accentuate this divergence in the coming months. Secondly, the Chinese industrial sector has not yet fallen off the cliff in quite the same way as has happened in most of the developed world.

Headline industrial production growth fell to 5.4 percent year-on-year in November from 8.2 percent. But UK analysts CHR Metals make the useful point that seasonally adjusting the figures shows that output actually grew by 1.1 percent in November after plunging by 4.6 percent in October.

"There may well be some sleight of hand in the presentation of the headline IP data but we take some heart from the fact that October's panic, which prompted severe cuts across a range of industries, did not herald even more drastic cutbacks in November," CHR said in its most recent "Global IP Watch". That's not to understate the problems facing either the Chinese economy as a whole or the local copper sector specifically, but it is to emphasize that there is still an element of resilience on the consumption side, which will be a net positive until the impact of the government's stimulus package kicks in next year.

In short, China's refined copper imports look set to remain more robust in the very short term than widely expected and there are solid reasons for believing that we are not seeing a one-dimensional relocation of surplus metal from the international to the Chinese market place.

China copper smelters seek higher spot, term TC/RCs

Spot treatment and refining charges (TC/RCs) paid to Chinese copper smelters have jumped by 26-48 percent in the past month and by two-thirds from October on increased supply from overseas.

Copper smelters in China, the world's top consumer of the metal, had received TC/RCs of $88.5 per tonne and 8.85 U.S. cents per pound for turning spot imported concentrates into copper, up from $60-$70 and 6-7 cents a month earlier and about $50 in October, traders and smelter officials said. Rising spot TC/RCs were encouraging Chinese smelters to require higher yearly fees for 2009. Smelters were seeking charges of $82-$83 and 8.2-8.3 cents with price participations, or combined charges of $85-$90 and 8.5-9.0 cents, nearly double 2008's $47.2 and 4.72 cents, a smelter official said. The bids have been given to Chile's Escondida mine's majority owner, global miner BHP Billiton, which have offered charges of $52.5 and 5.25 cents without a price participation, the smelter official said。

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