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AUTOMOTIVE

Wanxiang Group acquires A123 Systems

China's Wanxiang Group's U.S. subsidiary has won a USD256.6 million bid for assets of car battery maker A123 Systems in a bankruptcy auction. Other bidders included Johnson Controls, Siemens and NEC. A123's automotive business includes facilities in Livonia and Romulus, Michigan. The battery-maker needed a lifeline after recalling faulty batteries supplied to its main customer, Fisker Automotive. A123's government business will be sold separately, for USD2.25 million, to Navitas Systems, of Woodridge, Illinois. The deal must also be approved by the Committee for Foreign Investment in the United States (CFIUS). A123 has about 2,000 employees. Waltham, Massachusetts-based A123, makes lithium ion batteries for electric cars, grid storage and commercial and military applications. Despite opening several plants, developing highly-touted new technology, including a battery that could operate in extreme heat or cold, and signing deals with top automakers like General Motors, Chrysler and India's Tata Motors, the company never posted a profit. In August, it reported an USD83 million loss for the second quarter. At the same time, A123 said it had reached a financing deal with Wanxiang Group for up to USD450 million to help it stay afloat. But the company sought bankruptcy protection in October. A123 said the terms of the deal will see Wanxiang acquire its automotive, grid and commercial business assets, including all technology, products, customer contracts and U.S. facilities in Michigan, Massachusetts and Missouri. It will also get A123's cathode powder manufacturing operations in China and its equity interest in Shanghai Advanced Traction Battery Systems, A123's joint venture with Shanghai Automotive. Excluded from the agreement is A123's Ann Arbor, Michigan-based government business, including all U.S. military contracts. Wanxiang America has been in the automotive and industrial markets in the U.S. since 1994 and currently has more than 3,000 U.S. employees. It is a subsidiary of Wanxiang Group, China's largest automotive components manufacturer and one of China's largest non-state-owned companies. "We are committed to making the long-term investments necessary for A123 to be successful," said Pin Ni, President of Wanxiang America.

Zhejiang Geely bids for Manganese Bronze

Zhejiang Geely Holding Group has submitted a bid to buy Manganese Bronze Holdings, the maker of London's black taxis that is under creditor protection. Zhejiang Geely, which owns Swedish carmaker Volvo Cars, is offering to buy 80.03% of Manganese Bronze. A purchase of the taxi maker will help Zhejiang Geely speed up its overseas expansion. Manganese Bronze, which has made taxis in Coventry, England, since 1948, is fighting for survival after going into administration on October 30 after the tie-up with Geely Automobile Holdings failed to yield savings. Geely Auto, the Hong Kong-traded unit of Zhejiang Geely, owns 19.97% in the taxi maker. The listed unit is not involved in the Group's bid. Geely Auto and Manganese Bronze entered a taxi-making joint venture in 2006 in Shanghai to reduce the costs of producing the taxis. Under the deal, the British manufacturer bought components and body parts from Geely before assembling them in Britain. Geely in return can sell the taxis in China and parts of Asia.

Promising future for green tires, study says

Lightweight materials and "green" tires with lower rolling resistance are more efficient and feasible in the sustainable development of the automobile industry, according a new study, conducted by the China Automotive Technology and Research Center and commissioned by specialty chemicals maker Lanxess. Green tires are of great potential because they can be used in all kinds of vehicles and in both new cars and the replacement market. China is planning to introduce a tire labeling system. Tire companies, including Michelin, have been rolling out green tires in China to help save fuel. According to industry estimates, green tires with lower rolling resistance could save 4% to 6% of fuel consumption without compromising on safety. The China Rubber Industry Association has launched a program which calls for half of China's tire makers to be capable of producing a fuel-efficient tire by 2015 and for a quarter of passenger vehicle tire production to be green tires by the same date. The new study also finds that lightweight materials, such as plastics and plastic-metal hybrids, could make a great contribution.

VW and GM vie to become top seller this year

Volkswagen (VW) will vie with General Motors (GM) for the sales crown among foreign carmakers in China this year, gaining share as Japanese carmakers led by Toyota Motor struggle to recover amid the territorial dispute over the Diaoyu islands. VW has not led sales in the country since 2004 and will probably sell 2.7 million vehicles in the country this year to GM's 2.65 million, helped by eight new or revamped models including the Santana, Golf, Skoda Octavia and Audi Q3, according to industry researcher JSC Automotive Consulting. GM's new offerings include the Cadillac XTS and three Opel models. Passenger-vehicle sales in China will probably increase by as much as 10% next year. SUVs will remain the fastest-growing segment as it is "under-penetrated" and caters to the preference of Chinese consumers for roomier vehicles, while smaller cities will become more important for sales, said Steve Man, Hong Kong-based Analyst at Nomura. "The commercial-vehicle segment could be a beneficiary of any economic stimulus as businesses replace products like trucks for construction projects," said Bill Russo, President of Synergistics. Sales of commercial vehicles, which include buses and trucks, were down 6.8% in the first 11 months of last year, compared with a 7.1% gain in passenger vehicles. The pace of sales may slow in China if more cities implement or tighten measures to control vehicle numbers to curb pollution and traffic congestion. By 2020, another 20 Chinese cities may exceed the car-density threshold of 250 vehicles a kilometer of road, according to management consultants McKinsey, which may prompt officials to impose similar restrictions to those in Beijing, Guangzhou and Shanghai, the South China Morning Post reports.

Shanghai adds incentives to buy electric cars

Shanghai, China's first pilot city for the development of electric vehicles, introduced further incentives for electric car purchases in addition to those of the central government. To encourage individuals to buy new-energy cars before the end of next year, the municipal government will pay a subsidy of CNY40,000 for electric vehicles and CNY30,000 for plug-in hybrids. Each vehicle will also get a free license plate. Initially, 20,000 plates would be awarded. Buyers of new-energy cars in Shanghai can save nearly CNY170,000 in total from the purchase of a car such as the Roewe E50, which was launched in November at CNY234,900. It is China's first self-developed and mass-produced purely electric car, manufactured by Shanghai-based SAIC Motor Passenger Vehicle Co. Legal entities in Shanghai who persuade more than 10 employees to buy new-energy cars at any one time are eligible for a CNY2,000 subsidy for each car to be used to improve facilities for electric car owners, such as building charging facilities. Shanghai was named the country's first pilot city for electric vehicle development in April 2011 at the inauguration of its Electric Vehicle International Demonstration Zone in Jiading district. Still, the city faces an uphill battle marketing electric vehicles as there are not enough test-drive opportunities or support facilities. According to a survey, more than 64.9% of respondents have heard about electric vehicles, but only 9% have driven one. Charging facilities are scarce outside the demonstration zone, but up to 72.1% of potential electric car buyers surveyed wanted to be able to charge their cars at their workplace and shopping centers, the Shanghai Daily reports.

GAC and partners to develop car industry in Yichang

Guangzhou Automobile Group Co (GAC) signed an agreement with China Auto Parts & Accessories Corp and Zhongxing Auto on December 18 to jointly develop the automotive industry in Yichang, Hubei province, and build a new, big auto production base in the city. The companies plan to cooperate in a wide range of areas including R&D on parts and automobiles, energy-saving and new-energy vehicles, international business, and logistics. GAC plans to later buy part or all of Zhongxing and use the smaller automaker's plant in Yichang to build its own-brand vehicles. GAC has no production in Hubei province, so the partnership could help it expand geographically and make inroads in central China. Zhongxing Auto builds pickup trucks and SUVs and has been an active exporter. With existing production facilities in Baoding with an annual production capacity of 100,000 vehicles, two years ago it started to build a 200,000-unit car plant in Yichang that is scheduled to be ready in 2014. But the company's sales have stagnated in 2012. In 2011 Zhongxing sold more than 50,000 vehicles, about 16,000 of them exports. In the first 11 months of last year, its sales were nearly 50,000 units and full-year deliveries are expected to be almost the same as in 2011. GAC is not an expert on pickups, so buying Zhongxing is a faster way than developing the products itself, said Beijing-based analyst Zhong Shi. Cao He, Auto Analyst with Minzu Securities, said that Zhongxing has long wanted to make passenger cars, and the company will probably trade part of its equity to GAC for funding, technology or even a product platform. In the first 11 months last year, GAC's sales totaled some 639,000 units, a decrease of 1.7% from a year earlier, mainly dragged down by the sales decline at its joint ventures with Toyota and Honda. The company reported a 29% fall in net profit for the first three quarters of 2012, the China Daily reports.

China to produce more cars than Europe in 2013

China is poised to produce more cars than Europe in 2013 for the first time, hitting a landmark in the country's rise in the automobile industry and underlining the difficulties for the European vehicle sector. China is in 2013 set to make 19.6 million cars and other light vehicles such as small trucks compared with 18.3 million in Europe, according to projections prepared for the Financial Times by five forecasting groups. In 2012, on the basis of motor industry estimates, Europe made 18.9 million cars and related vehicles, comfortably ahead of China's tally of 17.8 million. The projections are based on data from the IHS, LMC Auto and PwC consultancies together with investment banks UBS and Credit Suisse. They paint a picture of only a slight recovery in 2013 for the world car industry, where output is expected to climb by 2.2% in the coming year, as against 4.9% in 2012. According to the data, Europe will in 2013 make just over a fifth of the world's cars – a figure that is well down on the 35% it recorded in 2001. In 1970 nearly one in every two cars made in the world originated from a factory in Europe – which is generally recognized as the place where the global auto industry began. Car production in China in 2013 is likely to be 10 times higher than in 2000 – when its share of global auto manufacturing was just 3.5% as opposed to a likely 23.8% in 2013.

Renault-Dongfeng JV nearing completion

Renault, the only top 10 international automaker without production in China, is now in the final stages of forming a joint venture with Chinese partner Dongfeng Motor Corp to make vehicles under its brand. The planned CNY7.2 billion facility will have an annual capacity of 150,000 cars and engines in Wuhan, capital of Hubei province. After passing environmental assessment, the project will still need final approval from the National Development and Reform Commission (NDRC). The company previously said it expected to resume production in China before 2016. Despite the apparent late start, Renault was actually among the first international automakers to come to China. In 1993 it established a joint venture with Sanjiang Aerospace Group in Xiaogan, Hubei province. Renault had a 45% stake in the partnership, with Sanjiang holding 55%. The venture began assembling Renault's Trafic wagon in 1995, but sales were sluggish and the plant halted production in 2004. Disagreements between Sanjiang and Renault led to the failure of the joint venture. Even after the partnership was operating for years, Renault insisted in using imported engines, which made its vehicles uncompetitive compared to other locally produced joint venture vehicles. The idea to form a new joint venture with Dongfeng came up in 2004. Renault already has a strategic alliance with Nissan, which set up a joint venture with Dongfeng in 2003. Talks between Renault and Dongfeng lasted more than eight years as both partners found it hard to reach agreement on a range of issues including the plant's location and how to restructure the failed joint venture with Sanjiang. The latest consensus is that Sanjiang Renault will give its production license to Dongfeng Renault and become a parts supplier to the new joint venture. The production site was finally settled in Wuhan, the home base of Dongfeng, despite a push by Renault to build the plant in Guangzhou, home to the biggest passenger car production facilities of the joint venture between Dongfeng and Nissan. Analysts said the model most likely to be first produced at Dongfeng Renault is the Koleos SUV, which now accounts for more than 80% of Renault's imports to China. The company has reported increasing imports in China, up from fewer than 900 in 2008 to more than 24,200 in 2011. Renault plans to import six new models to China before 2015. It also expects to double its sales network to 200 dealerships by 2015, the China Daily reports.

China becomes Jaguar Land Rover's biggest market

China became Jaguar Land Rover's biggest market last year. JLR delivered 73,347 imported vehicles in China in 2012, an increase of 74% over the previous year. In December, it registered a single month sales record of more than 8,200 vehicles. “Since we established the first sales company in China in July 2010, our products have received wide acceptance,” said Bob Grace, President of Jaguar Land Rover's China operations. The Jaguar brand sold 7,451 vehicles in 2012, an increase of 25% over the previous year. The all-new Jaguar XJ and XF models equipped for the first time with two-liter turbo-charged engines have proven popular in China's competitive luxury auto segment. The Land Rover brand sold 65,896 vehicles in 2012, an increase of 83% from 2011. The fuel-efficient Range Rover Evoque led sales with 21,300 units delivered in 2012. The second-generation Land Rover Freelander also sold well. The new-generation Range Rover – the world's first lightweight aluminum-body SUV – that had its China premiere at the Guangzhou Auto Show in November, is expected to also propel sales in 2013. Jaguar Land Rover has 151 authorized dealers in China, 106 of them now operational. Its new regional office in Guangzhou is expected to help strengthen the automaker's foothold in South China.

Decline in Toyota's China sales slowing

Toyota Motor's sales in China fell 15.9% last month from a year earlier, still suffering following a territorial row between the two countries. Toyota and its two Chinese partners sold 90,800 vehicles in December, compared with 108,000 cars in December 2011. In 2012, Toyota sold a total of 840,500 vehicles, down 4.9% from 2011. The company had said at the outset of last year it would try to sell one million vehicles in China, but failed to meet the target. It had originally set that target for 2010. The pace of last month's decline eased more than the Japanese company had expected, a Senior Executive told Reuters, noting that sales had proved "surprisingly resilient." Toyota's December sales fall followed declines of 22% in November, 44% in October and almost 50% in September. The Executive attributed the recovery in part to discounts and other sales incentives the company offered during the month, as well as what he said was receding fear among Chinese consumers over owning Japanese cars. Separately, Nissan Motor and its China joint venture sold 90,400 vehicles in China in December, down 24% from a year earlier, an improvement from November when sales declined 29.8%. Sales came to 1,181,500 for the full year, down 5.3%. Honda Motor, said that along with its China joint ventures it sold 63,264 vehicles in the country in December, down 19.2% from a year earlier, compared with a 29.2% decline in November. For the full year, sales were down 3.1% to 598,577. Mazda Motor said it sold 17,273 cars in China in December, down 26.4% from a year earlier, compared with a drop of nearly 30% in November and 45% in October. In 2012, Mazda sold 187,087 cars in China, down 12.9% from a year earlier, the South China Morning Post reports.

Short news

- Hybrid taxis that run on both petrol and electricity, emitting fewer fumes and charging their own batteries, could be introduced on Hong Kong's roads in February. Crown Motors, sole distributor for main taxi supplier Toyota, said it was talking to the Transport Department about its plan. It had received orders for 20 cars, which would be ready for use before the Lunar New Year. The announcement came three months after Nissan said it planned to introduce 50 Leaf electric vehicles for trial as taxis. A 1,788 cc hybrid taxi, before tax, will cost HKD269,000, which is HKD18,000 more than a regular LPG taxi. Although a hybrid car can travel further on the same amount of fuel, it is still HKD0.13 more expensive to run per kilometer than an LPG cab.
- China's SAIC Motor, MG's parent company, signed an agreement with Thailand's Charoen Pokphand Group to build a joint venture plant in Thailand to make MG cars. The initial investment in the plant, which will have an annual capacity of 50,000 cars, will be CNY1.8 billion, with SAIC taking a 51% stake and CP Group taking 49%.
- Zhejiang Geely Holding Group denied reports that it is in talks to buy an interest in British sports car maker Aston Martin from its Kuwaiti owners who are looking to sell a stake to pay off debts. Geely Spokesman Yang Xueliang said the company was "concentrating on its current business". Italian private equity fund Investindustrial confirmed buying 37.5% of Aston Martin for USD241 million. Japan's Toyota Motor Corp was also interested. Aston Martin celebrates its centenary in 2013. Entering the Chinese market in 2008, Aston Martin's sales surged 80% from a year earlier in 2011.
- A new President has been named to lead BMW's business in China. Karsten Engel, now President of BMW Group Germany, will become BMW's China head in the first quarter of next year, replacing 58-year-old Christoph Stark who will retire after his eight-year tenure.
- Many Chinese car distributors are considering dropping Japanese cars from their offerings, even as showroom traffic and orders rebounded since the dispute over the Diaoyu islands flared. Failing to sign up enough new dealers will hurt Japanese carmakers, benefiting General Motors, Volkswagen and Hyundai Motor as they compete to expand in smaller Chinese cities where the bulk of future demand lies. About 1,800 Toyota, Nissan and Honda-branded cars were damaged during anti-Japanese protests in September.
- Toyota Motor Corp may delay the launch of a new production line at its plant in Tianjin because a decline in its Chinese sales is likely to continue for the foreseeable future. Toyota had hoped to complete its new fourth line at the plant, with annual capacity of 200,000 vehicles, around December 2014. The company is also considering a similar delay for the launch of a third output line, with capacity of about 200,000 units, at its plant in Guangzhou, which was set for a 2015 launch. Toyota said its sales in China fell 22% annually in November.
- Great Wall Motor Co, China's biggest SUV maker, is in talks to set up a wholly-owned business in India and start production of vehicles in 2016. It would be the first Chinese car maker to do so.
- Cars from Dongfeng Honda, Dongfeng Peugeot and Great Wall have been found to contain excessive levels of formaldehyde and acetaldehyde, chemicals which could

pose a health risk. A total of 43 cars of 25 brands, bought by customers in 21 cities, were tested. Forty passed tests which targeted the concentration of eight common compounds. Manufacturers were ordered to fix the problem.

- BYD is partnering Bulgarian energy firm Bulmineral to further explore the European market for green public transport. The two companies will set up a 50-50 joint venture called Auto Group Motors in Breznik, 48 kilometers west of Sofia, which will be BYD's first assembly plant overseas. The plant will produce its first sample electric buses in February and will be able to make 40 to 60 units monthly at full capacity. BYD's car batteries and LED light bulbs will also be produced by the plant at a later stage. The plant will be the second Chinese auto facility in Bulgaria after Great Wall's assembly line in the northern city of Lovech opened in February. BYD also plans to set up a fully-owned plant in California.
- Beijing will continue with its car plate lottery program this year. The city has so far issued 441,195 licenses for private passenger cars through 23 monthly lotteries. The annual quotas have been set at 240,000 for two years, making 20,000 licenses available each month on average. The winning rate for Beijing's car registration lottery fell below 1.5% to its lowest level in November when more than 1.2 million people tried their luck. The capital had nearly 5.19 million vehicles as of the end of November, compared with 4.81 million at the end of 2010. In 2011, only 173,000 new cars were registered, a 78% decrease from 2010.
- The car sales aftermarket, which involves the production, sale, distribution and installation of vehicle parts and accessories for vehicles that have already been sold, will show an average annual growth rate of about 30% in the five years between 2009 and 2014, according to consulting firm Alix-Partners, which predicted that revenue will rise from CNY165 billion in 2009 to CNY369 billion last year and CNY617 billion in 2014.
- Volvo Cars signed a €922 million loan with the China Development Bank (CDB). Volvo has said it will invest USD11 billion as it aims to double total sales by 2020 to 800,000 vehicles. Zhejiang Geely Holding Group bought Volvo Cars from Ford Motor Co in 2010.
- Shanghai's car plate prices hit a record high for the sixth consecutive month in December. The lowest price for a Shanghai car plate surged to CNY68,900, up CNY2,400 on November while the average winning bid rose CNY2,500 on November to CNY 69,346, the Shanghai Commodity International Auction Co said. The number of plates on offer was lowered to 9,300 from 9,500 and the number of bidders dropped by nearly 900 to 18,244, the lowest last year. The average price was up more than 30% on January's figure.
- SAIC Motor Corp plans to double exports of the Maxus model this year to 3,500 to 4,000 units, according to General Manger Lan Qingsong. Overseas sales are expected to account for 20% of overall sales within five years, with Europe to be the next target market.
- High demand for license plates that allow vehicles to travel across the Hong Kong-mainland China border are driving prices up to as much as CNY1.1 million in Guangdong's black market. Duo license plates, issued by Guangdong's Traffic Management Bureau, are difficult to obtain because the high requirements. There were 27,000 vehicles registered with duo license plates as of May. Among those, 25,000 were Hong Kong vehicles.
- Daimler merged two Mercedes-Benz sales units in China to streamline operations. The new unit, Mercedes-Benz Sales Service Co, will coordinate distribution for the brand in China and is a 50-50 joint venture with Beijing Automotive Group Co. Mercedes formerly had separate units overseeing imported vehicles and locally-made cars. The merger is to meet sluggish growth in China. Mercedes-Benz's product portfolio will be expanded with about 20 new and updated models in China by 2015.
- PricewaterhouseCoopers (PwC) expects China's light vehicle assembly volume to increase from 15.4 million units last year to 24.7 million units in 2016 at a compound average growth rate of 9.9% during the period, compared with a 24.9% annual growth in the previous decade. It expects global average growth of light vehicle production to be 6% each year through 2016.
- Xiamen Golden Dragon Bus Co has sold a further 300 rapid transit buses to Iran. The record deal gives the company a strong foothold in Iran's bus market. Golden Dragon

has been a regular exporter to Iran since 2008 and the new order means it has now sold 800 vehicles to the country, giving it a 70% share of its rapid transit bus market.

- Chinese battery and electric carmaker BYD recently delivered three pure electric e6 cars to Thai power company Metropolitan Electricity Authority, the first Chinese automaker to benefit from zero tariffs under the China-ASEAN Free Trade Agreement in Thailand. The electricity authority will use the three e6 cars and charging equipment to research the impact of charging electric cars on the grid.
- SAIC Motor Corp reported it sold 4.49 million vehicles last year, a 12% increase from 2011. The figure includes 1.39 million units sold by Shanghai General Motors and 1.28 million units by Shanghai Volkswagen, up 13.1% and 9.79% respectively from a year earlier. Deliveries of SAIC's minivan joint venture SAIC-GM-Wuling rose 12.1% to 1.46 million units while sales of its self-owned brands Roewe and MG soared 23.5% to hit 200,000 units, worth CNY20 billion. The automaker expects to complete construction of its CNY4.4 billion technology center in Shanghai this year.
- Executives at local and foreign car manufacturers in China predict the overall vehicle market will grow 5% to 10% this year, roughly in line with 2012, when demand was hit by a slowing economy and rising fuel costs. Japanese carmakers will likely continue to struggle this year after they saw their China sales plunge by about half in 2012 after anti-Japanese protests and boycotts of Japanese goods broke out in mid-September over the Diaoyu islands territorial dispute.
- China expects to have 39,700 energy-efficient and new-energy vehicles in operation by the end of March. So far 27,400 energy-efficient and new-energy vehicles are running in 25 cities, including Beijing, Shanghai and Shenzhen, including 23,000 buses, vans and cars in the public service sector and another 4,400 in private use, according to the Ministry of Science and Technology. China has 174 charging stations and 8,107 charging posts.
- Volvo Car's sales in China shrank nearly 11% in 2012 compared with the prior year to 41,989 cars, including a steep 24% year-on-year drop in December alone. The decline was partly the result of fierce competition in the imported luxury segment and the termination of the compact S40 model. Volvo Car said it expects to launch the new V40 model in China in 2013, further its recruitment drive and expand its retail network. The company aims to nearly double global vehicle sales to 800,000 by 2020, including 200,000 cars in China by 2015.
- BYD said it had gained official permission to sell its electric buses in all European Union member states, just weeks after the firm announced a plan to build electric buses in Bulgaria with a local partner.
- The German automaker Volkswagen's service arm Volkswagen New Mobility Services Investment Co acquired Shanghai Zhenlang Transportation Equipment Leasing Co and will officially establish car rental operations across China for corporate clients.
- National Electric Vehicle Sweden (NEVS), the buyer of bankrupt former carmaker Saab that is owned by Chinese-Swedish businessman Kai Johan Jiang, has signed a deal with the city of Qingdao, Shandong province, as part of plans to build and sell electric cars in China. Qingdao would invest in NEVS and get 22% of its shares.
- Passenger cars sales, including minivans, rose 8.6% in December from a year earlier to 1.56 million unit. That brought the full-year figure to 14.68 million units, up 6.8% compared with a 2.8% increase in 2011, the China Passenger Car Association (CPCA) said. Secretary General Rao Da described December's performance as "unexpected" even considering that the month is China's traditional peak season for buying cars. He expects China's car market to grow around 10% this year if market forces are allowed full play. But facing increasing traffic pressure, the government is likely to intervene and keep the growth rate at 5%.

METALS

China is now the world's biggest silver market

China has become the world's biggest silver market, both as a physical investment and in paper trading of silver futures and other similar products, according to the Washington-based Silver Institute. Total silver demand in China increased by more than 100 million ounces (Moz) in the past 10 years, to a record of 170.7 Moz in 2011. China has been liberalizing its silver market since the start of 2000, creating more investment channels for buyers and sellers of silver. In 2009, the country started offering investors the chance to buy silver bullion bars, and within two years the net demand for silver bars and coins soared to 17 million Moz, equivalent to some USD600 million, making up 8% of global net purchases, said the report, compiled by Thomson Reuters GFMS. In May last year, the Shanghai Futures Exchange began trading silver contracts with a standard trading unit of 15 kilograms and a daily price limit of 5% of either side of the previous day's settlement price. The first five months' trading saw total volumes of 17.436 Moz through to the end of November. With an average daily turnover of 123.7 Moz, the Shanghai exchange has already become an important commodity exchange for global silver futures trading, second only to Comex in New York. The report added that an increasing number of commercial banks are now offering silver brokerage services to clients, and many wealth management service providers are including silver in client portfolios. China's share of the global silver supply stood at 14% at the end of 2011, tripling from 94.2 Moz in 2002 to 281.5 Moz in 2011, according to the report. Its share of global silver demand reached 17% by the end of 2011, rising from 67.1 Moz in 2002 to 170.7 Moz, a 154% increase. The electrical and electronics sector, driven by its semi-conductor industry, contributed the largest share of the country's industrial silver demand, rising from 17.1 Moz in 2002 to 40 Moz in 2011. During that year, industrial applications accounted for 56% of the total fabrication demand across the country, which was 159.5 Moz, mainly from cell phone and computer production, the China Daily reports.

Baoshan Iron & Steel takes minority stake in gas pipeline

Baoshan Iron & Steel has bought a minority 12.8% stake in the construction of a west-to-east natural gas pipeline, a move aimed at expanding steel pipe sales. Together with parent Baosteel Group it will invest a total of CNY10 billion. Baosteel Group will get a 3.2% stake. The project entails a 5,220 kilometer pipeline stretching from Xinjiang in the northwest to northern Guangdong province, as well as eight branch and sub-branch lines at an estimated cost of CNY116 billion. Baoshan sold 730,000 tons of steel pipes in the first half, or 6.2% of its total sales volume. The segment earned a gross profit margin of 11.1%, the highest among the company's seven segments. The firm's overall margin is 6.4%. UOB Kay Hian Securities Senior Analyst Helen Lau said Baoshan's participation can help secure orders for its steel pipes although it is not clear whether the orders are subject to tendering. In addition, Baoshan can also share the pipeline's future profit. Baoshan's board has approved the investment despite a cut in the project's estimated return on investment to 8% from 10%. PetroChina's first west-to-east pipeline linking Xinjiang and Shanghai was completed in 2004, and the second one connecting Xinjiang and Hong Kong has recently been finished. Both were wholly owned by PetroChina. It took only a 52% stake in the third pipeline.

Tangsteel focussing on cold-rolled sheets and exports

Tangshan Iron and Steel Group Co plans to further expand its overseas businesses and manufacture more steel products for automobile use as part of its efforts to counter the slump in the Chinese steel industry. Tangsteel, a subsidiary of China's largest steel maker Hebei Iron and Steel Group, reported a profit of CNY260 million for the first 10 months of last year, at a time when most of the other major Chinese steel companies reported deficits caused by shrinking demand and higher raw material prices. By the end of November, Tangsteel's steel product exports had risen to 1.4 million tons covering more than 150 countries and regions. The company's exports of cold-rolled sheets, which are used for automobile manufacturing, reached more than 1 million tons during the first eleven months of last year. The export of hot-rolled sheets, long products and medium and heavy plates, all of which are for automobile use, totaled more than 300,000 tons during the same period. The company plans to double its current output of automobile-use steel products to about 800,000 tons in 2013. In June, the company received a USD270 million structured steel prepayment loan from six international banks led by Deutsche Bank. The loan facilitates the prepayment of USD270 million of its steel exports to global steel producer Duferco, the principal operating trade subsidiary of Duferco International Trading Holding, a global steel trading company based in Luxembourg. "With this loan, Tangsteel is pioneering the use of overseas funds in the domestic iron and steel industry to expand its international business," said Yu Yong, General Manager of Hebei Iron and Steel Group. The company's steel output in 2012 was about 16 million tons, but steel products for automobile use accounted for a very small portion of total output, the China Daily reports.

Steel prices on the rise

Baoshan Iron and Steel Co will raise February prices for main products because of higher raw material prices and rising demand. Hot-rolled steel product prices will go up by CNY160 a ton and cold-rolled steel product prices by CNY120 a ton. This is the third consecutive month for Baosteel to raise prices and the latest increase was bigger than the previous two hikes. Jiangsu Shagang Co, China's leading private steel mill, also raised prices of reinforced steel bar, used in construction, by CNY150 a ton. Prices of iron ore rose 30% in December as steelmakers boosted stockpiles and overseas miners cut supplies during the holiday season. Steel prices gained only 6% in December, so mills need to raise prices to counter the higher ore costs, UBS Analysts Janet Sun and Hubert Tang wrote in a note. Baoshan Iron and Steel Co unveiled a mild increase in January product prices as China's largest listed mill is expecting that demand will improve amid a stable economy. The price for hot-rolled coil will rise CNY80 per ton while that for cold-rolled products will increase CNY60 per ton. Its pricing policy is seen as a benchmark for the industry. Baosteel supplies about half of China's auto sheet market. Crude steel output in China rose 14% annually in November partly due to improved export demand.

Steel makers in the red for 2012, profit reported in November

China's 80 largest steel makers generated a profit of CNY3.28 billion in November, but oversupply and a succession of unprofitable months caused their revenue for the year to remain in the red up to that month, analysts said. In the first 11 months of last year, the 80 major steel makers posted a loss of CNY1.97 billion, Wang Qinghai, Chairman of the China Iron & Steel Association (CISA) said. From January to November, CISA's members saw their revenue fall by 5.37% year-on-year, while their loans increased by 6.58% and their financial costs by 24.38%, Wang said. "The asset-to-liability ratio of the member companies had increased by about 1.64 percentage points year-on-year to 68.67% by the end of November," Wang said. Analysts said they expected the steel industry to extend its good performance into December, but were pessimistic the industry would report a profit for the whole year. Zhu Xi'an, Analyst from the steel information provider mysteel.com, said steel prices weren't keeping up with the soaring price of iron ore, and steel makers were worried the cost of raw materials would increase further and eat up their profits. Despite the trying times for the industry, only a few steel mills have shut down their operations. Yet for the majority of small steel enterprises, to continue operating, they have either had to be merged or incorporated into large steel makers, Zhu said. CISA's Wang estimated that China produced 720 million metric tons of steel in 2012, compared with 683 million tons in 2011.

Short news

- Hebei Iron and Steel Group, China's biggest steelmaker, will lead a group to buy Rio Tinto Group's Palabora Mining Co in South Africa for about USD476 million. Rio will sell 57.7% for USD373 million to the group, which includes Industrial Development Corp of South Africa. Anglo American will divest a 16.8% holding for USD103 million. Hebei Steel makes up 35% of the group, General Nice Development has 25%, Industrial Corp of South Africa 20%, and China's Tewoo Group another 20%. Palabora Mining has magnetite resources used in making steel.
- Two workers were killed and another 13 injured in December after a ladle furnace at MCC Baosteel Technology Service Co in Shanghai toppled as the workers were removing slag from the furnace. The injured workers suffered severe burns.
- Chinalco is planning to level the Toromocho mountain in Peru to exploit is resources of copper, silver and molybdenum worth up to USD50 billion. The town of Morococha, home to 5,000 people, will be relocated, although some villagers do not want to leave. Mayor Marcial Salomé wants Chinalco to pay compensation of USD300 million to the town for the "loss of identity, culture and tradition" from the move. Chinalco bought the land for USD860 million and invested USD2.2 billion in the mine. The old town will be swallowed up by the opencast mine's crater, from which will be extracted 1 million tons of copper, 10,000 tons of molybdenum and 4 million ounces of silver every year for 35 years.
- China's steel industry is facing a problem of overcapacity, with steel prices at 1994 levels. "The steel industry is facing an increasingly difficult time, and the surplus capacity is worsening," said Zhang Changfu, Secretary General of the China Iron & Steel Association (CISA), at the annual meeting of mysteel.com, a steel industry

website. The sales margins of China's major steelmakers averaged a negative 0.18% in the first 10 months of last year, and overall the steel industry is at break-even point, Zhang said.

- Chongqing Iron & Steel says the Chongqing government is granting it CNY500 million in compensation for the forced relocation of its plant to help protect the city's environment. The firm's parent, Chongqing Iron & Steel (Group), has undertaken to help it obtain at least CNY1.5 billion from the government to offset the operating losses incurred during the relocation.
- China National Gold Group Corp, the country's largest gold producer, said in its annual report that its sales reached CNY100.6 billion in 2012, up 27.1% from 2011. Profits of CNY4.45 billion were down CNY55 million year-on-year. Total assets had hit a record-high CNY65 billion by the end of the year, up CNY11.5 billion from a year earlier. The company's gold reserves reached 1,758 tons, up 374 tons from the previous year.
- The world's biggest gold producer, Canada's Barrick Gold, said it had called off talks to sell some of its African assets to China National Gold, a state-owned firm that is the country's biggest gold miner. Barrick did not give a reason for the failure of the deal, which had been estimated to be worth up to USD3.9 billion.

MINERALS

Smuggling of minerals still on the rise

The smuggling of mineral resources out of China, especially rare earths, continues to increase, Chen Jianxin, Deputy Director of the Anti-smuggling Bureau of the General Administration of Customs said. The minerals are mainly smuggled to neighboring countries such as Japan and the Republic of Korea. The first white paper on the rare earths industry, released by the Chinese government in June, said that in 2011, the amount of rare earths smuggled out of China was 20% higher than the amount of products that legally left the country. China exported about 18,600 tons of rare earths products in 2011, accounting for 61% of the rare earths export quota of 30,184 metric tons released by the Ministry of Commerce (MOFCOM) for 2011. At the same time, more than 21,000 tons were smuggled out, according to the report. Of the estimated 21,000 tons, only eight cases involving 769 tons of the minerals were detected as part of a campaign to crack down on rare earths smuggling. China holds about 23% of the world's rare earths deposits, but accounts for more than 90% of the global supply. Chen said most smuggled rare earths come from Jiangxi province, Inner Mongolia and some coastal areas in South China, which are major rare earths production areas. Ma Rongzhang, Secretary General of the China Rare Earth Industry Association, said smuggling of the minerals continued to climb in the first half of the year, when thousands of tons were transported illegally. Smugglers charge about 30% less than the market price for the minerals, according to Ma. Chen said customs bureaus across the country will strengthen efforts against rare earths smuggling to guarantee the country's interests, the China Daily reports. Export volumes of rare earths in 2013 will be similar to those of 2012, Liu Yinan, Vice Chairman of the China Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters, told China Daily. In the first nine months of last year, 9,967 metric tons were exported, just one-third of China's 2012 quota of 30,996 tons.

Hanlong seeks SOE partners for Mbalam development

Sichuan Hanlong Group is in talks with Chinese state-owned companies to develop the Mbalam iron ore project in Africa owned by Australia's Sundance Resources. It also plans to buy the stake it does not yet own in Sundance for AUD1.14 billion. A partnership with a state-owned company might help Hanlong secure financing. Hanlong, which owns 14.15% of Sundance, delayed the acquisition after China Development Bank failed to agree on terms for a loan by a December 13 deadline and asked for time to review a mining convention by the government of Cameroon and a yet-to-be-issued mining permit from the Republic of Congo, countries where Sundance owns assets. Sundance owns the Mbalam iron ore project, which straddles Cameroon and Congo and has a planned annual capacity of 35 million tons. The Australian company also plans to build a 510-kilometer railway line linking the Mbarga mine in Cameroon and the Nabeba mine in Congo to a deep-water export terminal on the coast of Cameroon. Hanlong had discussed construction of the railway link and port, mine development and sales contracts with Chinese state-owned companies.

Short news

- A Hunan company has invested USD20 million in an open-pit gold mining project in North Korea. The Hunan Weijin Investment Group announced that it had joined in building the country's first five-star hotel in order to get Pyongyang's approval to develop the project in Unsan county. It is the first Hunan company to invest in the country.
- China's Shenhua Group has held talks with Australia's Whitehaven Coal about a potential corporate or asset deal. Shenhua, China's biggest coal producer, recently discussed taking an equity stake in Whitehaven in return for Shenhua's Watermark coal assets in New South Wales. Whitehaven said it routinely has talks with other coal companies about opportunities, including corporate and asset transactions. Whitehaven has been under pressure after its biggest shareholder, Nathan Tinkler, scrapped a USD5.5 billion bid to take Whitehaven private last year.
- China abolished a price ceiling on power-station coal on January 1, 2013 as rates have fallen this year amid increased supplies. Prices will have to be negotiated between miners and power plants, according to the National Development and Reform Commission (NDRC).
- Metallurgical Corp of China said the unit running its Cape Lambert magnetite project in Australia will withdraw most of its Chinese staff as it struggles with rising costs. MCC Australia will close its office in Perth by the end January, leaving no more than five people in a smaller location to maintain its Australian mining license.
- The Ministry of Land and Resources allocated CNY26.8 billion from central government and provincial funds to mineral resources exploration in 4,674 projects between 2006 and 2011. A total of 585 new mineral deposits were found during the period, including the discovery of a uranium mine in Inner Mongolia. In 2011, CNY8.5 billion was invested, with funds in mineral resources exploration taking up 86.3% of the country's total fiscal investment in exploration that year.
- The Inner Mongolia Baotou Steel Rare-earth (Group) Hi-tech Co will continue to suspend rare earth roasting and smelting separation operations, which began on October 23, for another month, the company said in a statement filed in late December to the Shanghai Stock Exchange. "The rare earths market recovered a bit in the past two months but did not improve fundamentally," the firm said.
- The Ministry of Commerce (MOFCOM) announced the first round of rare earth export quotas for 2013, which will be 15,501 tons, about half the quota set for all of 2012. Of the total, 13,563 tons are allocated for light rare earths, while 1,938 tons are for medium and heavy rare earth metals. Twenty-four companies will share the quota, including Inner Mongolia's Baotou Steel Rare-Earth Hi-Tech Co, the country's largest rare earth producer. China usually issues the quotas in two batches. China supplies more than 90% of the world's demand for rare earths, but holds only 23% of the world's rare earth reserves. China exported 13,014 tons of rare earth ores, metals and compounds in the first 11 months of last year, less than half of the full-year quota.
- The Guizhou provincial government plans to close 2,100 mines by 2016 and cap the number of operating mines at 4,000. Most of the mines slated for closure are small privately owned operations, with outdated equipment and poor safety records. The government expected the restructuring would strengthen large state-owned mines and reduce the frequency of accidents.

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