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AUTOMOTIVE

Beijing Automotive ends talks with Aston Martin

Talks between Beijing Automotive and Britain's Aston Martin Lagonda – famous for the cars used by James Bond in the British spy films – about joint ventures or direct investments have been terminated. Late last year, Beijing Auto, China's fifth-largest carmaker in terms of sales, hired Royal Bank of Scotland (RBS) to advise it on possible foreign investment opportunities. In October last year Beijing Auto entered talks with Aston Martin Lagonda to diversify its product line. Beijing Auto already has joint ventures with South Korea's Hyundai and Germany's Daimler. Although the hoped-for partnership between the carmakers did not work out, it does not necessarily mean Beijing Auto has given up its ambition of investing abroad. The firm had already tapped investment banks other than RBS to look for new opportunities. Aston Martin Lagonda is also keeping its door open for other investors. Beijing Auto had no interest in acquiring the whole company. The state-owned Chinese carmaker was more interested in technology transfer or forming a joint venture to make new car models together, one person involved in the talks said. Late last year Beijing Auto Chairman Xu Heyi said the company was looking to list its passenger car unit in Hong Kong this year to raise about CNY10 billion.

Haval to become a separate Great Wall Motors brand

The Haval SUV sub-brand from Great Wall Motors will become an independent brand with its own marketing and sales network in the first half of this year, said company President Wang Fengying. The latest model, the H8, made its world premiere at the Guangzhou Auto Show in November. Likely priced between CNY180,000 and CNY200,000, it is expected to go on sale by the end of the year. Another new SUV model called the H2 will also be added to the Haval portfolio. All its models will be made at Great Wall’s Tianjin plant. According to Shang Yugui, Deputy Sales Manager at Great Wall, the rise to a higher consumer segment is natural for the Haval brand. Despite slowing growth in China’s auto market last year – especially for domestic brands – sales by Great Wall increased 28% to 620,000 vehicles. The Haval SUV family sold 280,000 units last year, a 71% increase over 2011. Its H6 was the best selling SUV model in China in each of the final four months of 2012. The company’s recently released annual report showed that the automaker based in Baoding, Hebei province, had a net revenue of more than CNY5.7 billion in 2012, an increase of 62.6% from a year ago. By the end of the year, the carmaker’s assets reached CNY42.58 billion, up 28.5% from 2011.

Many Chinese brands have tried to make the leap to the higher end of the market, but none have made significant inroads. In 2009, Chery launched its first higher-priced car, the mid-sized Riich G5, with a sticker price of about CNY150,000. It sold just a small fraction of the company’s small but popular QQ model priced at around CNY30,000. In 2010, the Riich brand unveiled another mid-sized model, the G6, priced at about CNY200,000, but it also failed to gain much traction. Shenzhen-headquartered BYD, known for its small and battery-powered cars, offered an MPV priced between CNY139,800 and CNY239,000, but sales of the M6 model remained in the doldrums since its introduction. Auto Analyst Jia Xinguang noted that domestic brands should not expect rapid success in their efforts to move up market. For a long-term strategy, domestic automakers should place more importance on improving product quality rather than just emphasizing sales, Jia said, as reported by the Shanghai Daily.

Geely stock rises as sales increase

Geely said its January sales reached an all-time record high of 63,532 vehicles, a 67% increase from a year earlier and 7% up from December. The carmaker’s domestic sales surpassed 55,000 units in January, while its overseas deliveries reached more than 8,400 units. Geely’s high-end brand Emgrand sold 20,318 units, about a third of its total January sales, while its Gleagle brand sold 22,482 cars and its Englon nameplate sold 20,732. In January China’s overall passenger vehicle market increased 48.7% from a year ago to 1.73 million units. The strong industry-wide growth was mainly the result of fewer working days in January last year because of the lunar Chinese New Year holidays. Geely’s stock price has increased by more than 80% in the past six months. Its 2012 sales totaled more than 480,000 units, a 15% increase year-on-year. Previously the company said its target this year is to increase sales by 16% to 560,000 units.

The company headquartered in Zhejiang province became a familiar name in the global auto world with its unexpected take-over of Volvo in 2010. Volvo and Geely will set up a joint research and development (R&D) center in Gothenburg in Sweden to extend their cooperation in technology, according to a statement. The facility will develop a new set of components and modular architecture to save costs of developing, testing and sourcing for future C-segment cars of both companies based on economies of scale. “The modular design allows several different vehicle platforms to be developed from one single architecture. This will be a showcase for cooperation between a Western world premium car manufacturer and a thriving Chinese automotive company,” Mats Fagerhag, CEO of the new R&D center said. The center is set to open by the end of this year and will employ about 200 engineers from Sweden and

China. Li Shufu, Chairman of Geely Automobile, said the company will continue to learn from Volvo but “the sharing of knowledge and technology has to be done without jeopardizing brand integrity and individual product development.” He said a stand-alone joint R&D is the best way to achieve this, a view echoed by Peter Mertens, Senior Vice President for Research and Development at Volvo Cars.

Electric car makers focussing on public transport

Makers of electric and plug-in hybrid cars are delaying their sales plans in the consumer market in anticipation of a new round of government subsidies for buyers of these vehicles. In an effort to meet the government's production target of 500,000 electric and plug-in hybrid cars by 2015, municipal governments of major cities including Shanghai, Shenzhen and Hangzhou have offered buyers subsidies of up to CNY60,000 over the past two years to boost their sales, but the policy ended in December last year with no renewal announcement. Carmakers like BYD, Nissan and Ford are now focusing their efforts on developing the public transport market first. According to the China Association of Automobile Manufacturers (CAAM), 84% of the 27,432 electric vehicles sold in the past two years were taxis or buses, while only 4,400 were bought by individuals. BYD, a local pioneer in electric vehicles, sold only 2,400 such cars last year, compared with the 456,000 petrol cars it sold, although Chairman Wang Chuanfu said earlier that 2013 would be a breakthrough year for the sale of new-energy vehicles. “We aim to sell 6,000 of our e6 electric cars and 2,000 of our K9 electric buses this year,” Liu said, signaling that BYD sought to nearly quadruple its sales of electric vehicles this year. They also hope overseas markets would be a major source of growth.

Chang’an considering JV with Faurecia

Chang’an Automobile Group is considering to set up a joint venture with French auto parts supplier Faurecia this year to improve product quality and cut costs. Faurecia has expertise in emissions control technologies, automotive seating, exteriors and interior systems. The company has to cut its parts costs to foster development of its own-brand passenger vehicles, sources said. Chang’an mostly built minivans under its own brands, but is also developing several sedans and SUVs including the Eado, Raeton and CS 35. Chang’an has also contacted other well established suppliers like Magna and Benteler for possible cooperation. It is a trend for domestic carmakers to cooperate with multinational suppliers as they try to upgrade their products. Last year, Dongfeng partnered with German manufacturer Getrag International to jointly develop and make transmissions. In 2011, Great Wall Motors linked with German component makers Bosch and Borg-Warner on R&D of engine management and braking systems. Faurecia reported a net loss of €5 billion last year, with its automotive division registering an operating loss of €1.5 billion, mostly due to the deteriorating market in Europe. With strong growth in North America and Asia, Faurecia managed to make up for the decline in Europe and increase total sales by 7% to €17 billion last year, but it is carrying €1.8 billion in debt. Faurecia said that by 2016 it expects to generate 20% of its revenue in Asia, where the profit margin will be significantly higher than the group average, the China Daily reports.

BMW and Audi outpace Mercedes in opening dealerships

A recent report by Morgan Stanley says premium German carmakers BMW and Audi continue to outpace Mercedes-Benz in network expansion across China, especially in smaller cities. Based on a four-month survey that began last September, the report found that BMW unveiled 45 new stores in the period and Audi opened 48. Mercedes-Benz added 22 new stores over that time to increase its total number to 242. It now has 30% fewer dealerships in China than BMW and nearly 20% fewer than Audi. The research also shows BMW and Audi each added more than 20 new stores in third and fourth-tier cities while Mercedes-Benz added only five. BMW’s network now reaches 144 Chinese cities, an increase of 13 compared with September last year, while Audi has extended its network to 14 new cities for a total of 133 across the country. Yet Mercedes-Benz added just four cities to its network from last September to reach 87. “The lack of tier penetration may be one of the root factors to explain the disappointing growth of Mercedes-Benz,” said Edoardo Spina, Morgan Stanley Research Auto Analyst. Sales by Mercedes-Benz in China edged up only 4% last year while Audi reported a 30% rise and BMW grew 40%. The survey also shows that 111 cities in China with a population of over 1 million still have no premium car dealerships and 71 cities have only one or two, proving that the market has still “much room for expansion”. But competition is likely to heat up, the report noted, citing the fast dealer network expansion by Jaguar Land Rover and Cadillac. The UK carmaker opened 38 new stores in the four-month survey period, while the U.S. brand added 40. Cadillac is also keen to penetrate into smaller urban areas, with 27 of its 40 new stores in third and fourth-tier cities, the China Daily reports.

China to become Pirelli's largest manufacturing center

Tire manufacturer Pirelli is planning a USD200 million investment to make China its largest global manufacturing center by 2014. Gregorio Borgo, CEO of Pirelli Asia-Pacific, said that the expansion is necessary to keep pace with the huge potential market for its tires coming from China's surging demand for luxury and sports-utility vehicles (SUVs). "By 2014, our manufacturing base in Yanzhou, Shandong province, the only one in the Asia-Pacific, will become the biggest in the world for Pirelli," he said. "From 2012 to 2014, we are investing around USD200 million in China, the world's largest vehicle market." Pirelli reported a turnover of €353 million in the Asia-Pacific in 2011, and it is expecting a 23% year-on-year growth in 2012, helped by rising demand for more expensive vehicles in China. "The Asia-Pacific market contributes 7% of our global turnover, and we are targeting to increase that," added Borgo. The world's fifth-largest tire maker established its Yanzhou plant in 2005, with a first production line manufacturing truck tires. In 2007, it added a passenger tire production line with a 5 million annual capacity, with its tires exported around the world. "We hope to double that production capacity of passenger car tires to 10 million by the end of 2014," said Borgo. The company built a motorcycle tire production line in 2012, delivering 1 million more tires, mostly exported to Japan and Australia. Its overall USD200 million investment will also include considerable spending to expand its dealer network across China. "We have seen strong consumption growth in second and third-tier Chinese cities, and so we will increase our distribution coverage beyond first-tier cities and provide more end user access to our products," said Borgo, adding planned distribution outlets will "be linked with sales, spare parts, service, survey (4S) car stores" in high-income areas. "China's vehicle market is the most promising, especially for luxury vehicles. Its luxury car industry is expanding rapidly and has become the most important market for high-end auto brands," said Borgo. China's total tire production in 2012 is expected to reach 483 million units, a growth of between 5% and 7% on 2011, accounting for almost a third of global output. Xiang Hanxue, a Tire Industry Analyst with research firm Forward Business and Intelligence Co, predicted China will reinforce its leadership in the sector by producing more than 550 million tires by 2015, the China Daily reports.

Geely to invest GBP100 million in global taxi project

Zhejiang Geely Holding Group plans to invest GBP100 million over the next five years in a global taxi project that the company expects will make Manganese Bronze Holdings – its newly acquired British taxi maker – profitable within a year, much sooner than the company's previous perspective of three years. The global taxi project will introduce London's iconic black cabs' service and culture to China and cities across the globe, Geely Chairman Li Shufu said. Li Donghui, Geely Group Chief Financial Officer (CFO) and Chairman of Manganese Bronze's London Taxi Co, said the company had sold 400 taxis recently, 200 to Saudi Arabia and 200 to Australia. In 2011, Manganese Bronze sold 1,502 cabs in the UK, down from 1,653 in 2010. Li said that Geely's priority is to restore Manganese Bronze's business back to where it was before its current difficulties and to continue production of its latest model, the TX4.

Geely on February 4 signed an agreement with Kandi Vehicles to set up a 50-50 joint venture for electric vehicles. With a registered capital of CNY1 billion, the joint venture will engage in the investment, R&D, production, marketing and sales of low-speed electric vehicles in China. Geely is also eyeing a majority stake in troubled U.S. electric car maker Fisker Automotive. Dongfeng Motor Group Co is also interested. Sources said both offers were worth between USD200 million and USD300 million. Geely already sent a team of engineers to the U.S. to evaluate Fisker and its technology for battery-powered electric cars with a small gasoline engine used to extend the car's driving range. The Anaheim, California-based maker of the Karma luxury rechargeable car had to halt production last year after its battery supplier A123 Systems filed for bankruptcy. Geely has raised CNY3.7 billion to finance its expansion projects inside China since it completed the take-over of Volvo in 2010. However, the company's profitability is weakening.

Aluminum wheel producer Wanfeng to become global provider

Wanfeng Auto Holding Group, the world's largest automotive aluminum wheel producer by market share, is aiming to become a global service provider. It plans to set up two manufacturing bases, in India and Central or South America, by 2015 and seek mergers and acquisitions in Europe, according to President Chen Bin. Construction work will start on Wanfeng Aluminum Wheels (India), the company's first overseas manufacturing base, by the end of this year. The location has not been announced. Investment in the base is CNY307.4 million, and its annual production capacity will be 3 million motorcycle wheels. The base will also produce auto wheels. The group has been producing 12 million automotive wheels and 18 million motorcycle wheels a year. Wangfeng's second overseas manufacturing base may be set up in Central or South America before the end of 2015, Chen said. Wanfeng has six manufacturing bases in Zhejiang, Shandong, Guangdong and Jilin provinces. Chen said the company is also considering acquiring a European service company with six factories in Russia, Serbia, Germany, Italy, Mexico and Italy. Wanfeng's main clients include General Motors, Ford, Mercedes-Benz, BMW, Volkswagen, PSA, Fiat, Toyota, Honda, Nissan and Hyundai Kia Automotive Group.

China to become largest premium car market

China is expected to become the world's largest premium car market, overtaking the United States, with sales of more than 2.3 million premium cars by 2016, according to a report by McKinsey & Co. The market for premium cars in China has accelerated by 36% a year over the past decade, against 26% annual growth in the overall Chinese passenger vehicle market during the same period. Sales of premium cars in China reached 1.25 million vehicles in 2012, making it the world's second-biggest market after the U.S. McKinsey highlighted 23 top brands as "premium", including Acura, Aston Martin, Audi, Bentley and BMW. Its report forecasts China's premium car market to grow at an annual rate of 12% by selling 3 million premium cars a year by 2020, compared with 8% growth for the overall passenger vehicle market. A fourth of the 1,200 premium car buyers in China who participated in McKinsey's survey said they are willing to spend more on a car because they are confident in their career and business prospects. The research shows that 80% of Chinese premium car owners are considered "affluent", defined as consumers with annual disposable household income of more than CNY200,000. By 2020, there will be 23 million affluent urban households with a compound annual growth rate of 16% in China – 7% of the country's population. 30% of respondents cited "reflection of social status" as the top reason to upgrade to a premium car, while 27% cited "self-indulgence". "New mainstream" households with annual disposable income of CNY100,000 to CNY200,000 are also potential premium car buyers. The report said 300 cities will have consumers with sufficient household income to buy premium cars by 2020, up from about 100 cities today. Premium automakers may need to further localize vehicle specifications, and even nurture indigenous Chinese premium brands with their joint venture partners to offer China-specific car models at appropriate prices, the report concluded as reported by the China Daily.

BYD hit by sales decline, profit slump

Battery and car manufacturer BYD Co experienced a continuous sales decline in the past three years, as well as a record dip in revenue and profits. Net profit slumped 94.15% year-on-year to CNY81 million, the lowest in at least four years, while revenue declined 4.29% to CNY46.7 billion. In 2012, the company sold 450,000 vehicles in China, 3% up on the previous year. However, the figure was much lower than its target of 800,000 vehicles set for 2010. BYD has now set a "conservative" sales target of 500,000 vehicles for 2013, up 10% year-on-year. It also reduced the number of its dealerships from 1,200 to 800, after three years of restructuring and adjustment, said BYD Chairman Wang Chuanfu. Analysts said that the company lacks innovative technology or products that enable it to compete with its domestic and foreign rivals in the passenger car sector. Ling Yun, Auto Analyst with Ping'an Securities, added that the short-term future remains uncertain for China's new energy vehicle industry. "It will take some time before mass production of new energy vehicles takes place in China and they can be accepted by the majority of customers. This poses problems for BYD's short-term development," said Ling.

Short news

- China's passenger vehicle sales in January surged 45.4% from a year earlier, the largest year-on-year growth since April 2010, but the comparison is distorted by the Chinese New Year falling in January last year and in February this year. A total of 1,704,185 cars, sport utility vehicles, multi-purpose vehicles and minivans were delivered in the nation in January, up 9.2% from the previous month, the China Passenger Car Association (CPCA) said. “Such high growth was a result of five more working days in January and more than 10 days of a slack market in January last year due to an early Spring Festival,” said Rao Da, Secretary General of the Association.

- French carmaker Renault has started recalling 61,508 Koleos sport utility vehicles (SUVs) produced between December 16, 2008, and July 10, last year, and exported to China. The cars have faulty fuel level sensors that display incorrect fuel levels on their dashboards. Renault will change the sensors for free. Renault’s vehicle recall was announced on February 6, the second in two months. Renault had recalled 5,097 Koleos cars in January due to welding problems.
- In 2013, with 95 auto brands continuing to fight for their share of China’s market, vehicles sales in the country are expected to top 20 million for the first time. GM and its Chinese partners captured 14.3% of the market in the latest quarter, ahead of Volkswagen. 19.1 million passenger vehicles were sold in China in 2012, for the first time overtaking Europe in total vehicle sales. By 2020, the number is expected to rise to 33 million. The market could be as big as Europe and the U.S. combined, Ferdinand Dudenhoeffer, head of vehicle research at the University of Duisburg-Essen, predicted.
- General Motors Co, which runs 12 joint ventures in China, said it has repurchased a 1% stake in its joint venture with Chinese partner SAIC Motor Corp, which it had sold before its 2009 bankruptcy filing. The move will bring GM’s ownership of Shanghai General Motors Co back to 50%. GM paid USD119 million for the 1% stake. In February 2010, GM sold the stake to SAIC for USD85 million.
- Nissan Motor Co expects its luxury Infiniti business to become profitable in three to four years as it begins production in China and introduces entry-level vehicles to attract customers. Infiniti, which last year relocated its headquarters to Hong Kong from Japan, plans to start building cars in China in the third quarter of 2014 and for global sales this year to rise at least 10% to about 200,000 units, President Johan de Nysschen told Bloomberg.
- Ferrari sold 784 of its sports cars in the Greater China region last year, 4% more than in the previous year, with almost 500 going to mainland consumers.
- BYD's net profit plunged 94.2% to CNY81 million last year on poor sales of its handset components and solar cells, despite a rebound in sales of its cars. The operating loss was CNY319 million, against a profit of CNY1.41 billion the year before.
- BMW will recall over 2,100 sport-utility vehicles (SUVs) in China as part of a worldwide recall due to a brake vacuum pump leak, the General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) said. The recall affects BMW X5 vehicles equipped with the V8 engine from model years 2007-2010 and produced between May 9, 2006 and March 18, 2010, including 2,116 units imported into the Chinese mainland. The defect could result in failure in the power-assist braking system which may lead to a vehicle crash. The recall is due to start on March 18.
- China's car industry more than tripled debt issuance this year as borrowing costs fell and a rebound in economic growth drove forecasts for 2013 vehicle sales above 20 million for the first time. Guangzhou Automobile Industry Group, Zhejiang Geely and Wanxiang Qianchao are among companies that have sold CNY8.2 billion of debt so far this year, compared with CNY2.5 billion a year earlier. LMC said it expected vehicles sales to gain 10%, IHS sees growth of 8.9% and a November report by McKinsey estimated an increase of 8%.
- In the eighth consecutive month of record highs, the average price for a Shanghai car plate shot up to CNY83,571 in February – CNY8,239 more than in January. The city made 9,000 car plates available, the same as in January and the lowest number since last April. The number of bidders rose 18% to 24,651, while the percentage of successful bids fell from 43.2% to 36.5%.
- General Motors Co and its China joint ventures sold 215,070 vehicles in the country in February, down 10.6% from a year earlier, and compared with a 26% year-on-year rise in January. Data for January and February have been skewed due to the timing of the week-long Spring Festival holiday which fell in January in 2012 but came in February

this year.

- A growing number of independent repair shops are posing a challenge to the dominance of authorized dealerships. A recent survey by automotive news website Gasgoo found that just half of car owners now use dealer shops after auto warranties expire. The survey also found that only 15% of cars older than eight years are serviced at authorized outlets. More experienced customers often prefer independent repair shops, saying they offer equally good or even better parts and services than dealers at a much lower price.
- Once the premium car used by national leaders, the iconic Hongqi – or Red Flag – is planning a revival. Last month FAW Car Co held a low-profile ceremony at its headquarters in Changchun, Jilin province, to deliver 13 Hongqi H7 sedans to the provincial government. The listed passenger car unit of FAW Group said it has received a number of orders for the H7 from central ministries as well as more than 10 provincial and municipal governments. Its strategy is to first seize the market for the high-end government fleet before entering the private market. FAW plans to invest CNY10.5 billion from 2011 to 2015 to rejuvenate the once-legendary brand.

METALS

Gold demand dropping in China

The demand for gold on China's mainland dropped for the first time in a decade last year as the economy slowed and demand fell despite growth in investor sentiment. Total gold demand in 2012 dipped 0.5% to 776.1 tons, a World Gold Council report said. Gold bar and coin investments inched up to 265.5 tons from 264.7 tons a year ago while purchases of jewelry dropped 1% to 510.6 tons. In China as a whole, including Hong Kong and Taiwan, demand dropped less than 1% to 817.5 tons as falling demand for jewelry overshadowed growth in investment appetite. However, the report said: "The signs of economic improvement suggest positive signs for gold demand in China this year, indicating a steady firming rather than strong growth." In the fourth quarter last year, jewelry demand in the mainland was up 1% to 103.7 tons and investment demand also grew 2%. Gold bars and coins are selling at CNY336.5 per gram on China's mainland, according to the Shanghai Gold Exchange. Jewelers charge a premium of around CNY70 per gram. There was a 9% overall drop in worldwide gold demand last year, the first time in three years. China is the world's second largest gold buyer behind India and the largest producer after output rose 11.7% to 403.05 tons last year, according to the China Gold Association.

Citic buys 13% stake in Australian alumina producer

China's state-owned Citic Group has bought a AUD452 million stake in Australia's Alumina, giving it an interest in the world's largest alumina business at a time when China has grown more dependent on imports of the mineral. Alumina's shares jumped 17% after the share sale was announced, on relief that the company has been shored up by a strategic investor, allowing it to pay down debt as the aluminum industry struggles with weak prices. "This takes all the pressure off them," said Hayden Bairstow, Analyst at CLSA. Alumina owns 40% of Alcoa World Alumina & Chemicals (Awac), the world's top producer of alumina, in a joint venture with United States Alcoa. Citic, through its listed arm Citic Resources and another subsidiary, will own 13% of Alumina following the placement, in a deal that has already won approval from the Australian and Chinese governments. Under the terms of the agreement, Citic will be allowed to raise its holding to 15%, where it will be capped for two years. After that, the stake can be raised to just below 20%. Alumina said it would use the funds raised to pay down debt at a time when the aluminum industry was struggling with rising energy costs and weak prices, largely because of unanticipated growth in aluminum production in China. China has had to increase imports of alumina after Indonesia clamped down last year on exports of bauxite. "Citic's investment demonstrates their confidence in the alumina industry and their understanding of Alumina's unique position in the global market," Alumina Chief Executive John Bevan said.

Slower growth in non-ferrous metal production

China's non-ferrous metal production expanded at a slower pace last year compared with a year earlier. The Ministry of Industry and Information Technology (MIIT) said that total production of 10 kinds of non-ferrous metals grew 9.3% annually to 36.91 million tons in 2012, down 1.3 percentage points from a year earlier. A total of 8,057 major non-ferrous metal producers tracked by the Ministry cumulatively saw their profits decline 8.9% to CNY155.8 billion. MIIT said the sector faced excessive production capacity, rising output costs and weak market demand in China and the rest of the world. It forecast the sector's total production will continue to grow moderately this year, and there is still no sufficient impetus to support strong rebounds in market demand due to faltering economic recovery globally. China's economy grew by 7.8% in 2012, and the target for this year is 7.5%.

Citic Resources says no to aluminum smelter purchases

Citic Resources Holdings, the energy and metals arm of state-owned conglomerate Citic Group, will continue to look for acquisition opportunities but will pursue them in a cautious manner, Chief Executive Zeng Chen said. The company would not buy aluminum smelting assets because of a global oversupply of the metal and would only consider bauxite and alumina assets, he said. "The decline in the international aluminum price in recent years was due to over-expansion by Chinese smelters, whose output accounted for 40% of the global total," Zeng said. "But aluminum demand is expected to continue to rise, with demand from automobiles being one of the driving forces." Zeng was speaking after Citic Resources announced a 38.8% fall in operating profit to HKD801.2 million for last year, which excluded taxes, non-recurring assets as well as goodwill impairments and gains on investment disposals. The main reasons for the decline in Citic Resources' operating profit were a 12.3% fall in profit from crude production to HKD879 million due to higher production costs; a 94% drop in profit from coal production to HKD15 million due to lower coal prices and the disposal of a stake in a coal firm; and a HKD182 million loss in its manganese mining and smelting unit. These were partly offset by a 59.5% jump in profit at its commodities import and export operation to HKD563 million.

Steel industry still facing overcapacity

China's steel industry will continue to face difficulties to cut costs and boost exports in the first quarter amid growing trade disputes, even though domestic demand is gradually increasing, Li Xinchuang, Deputy Secretary of the China Iron and Steel Association (CISA) said. China's crude steel production capacity has reached 970 million metric tons, as domestic demand for steel products will increase 4.1% this year to 660 million tons. The country's iron ore demand will rise 5.7% to 1.11 billion tons. The inventories of the country's five major steel markets amount to 20.38 million tons, the highest since 2004, said Zhang Tieshan, Analyst at steel information provider Mysteel.com. In previous years, it was common for steel inventories to rise after the Spring Festival holiday and to gradually be absorbed by the market after March. However, Zhang said the rising inventories this time were caused by the increasing output of steel makers. According to figures from the Association, China's steel output in the first 10 days of February reached 1.98 million tons, up 16.7% year-on-year and the highest figure since late October 2012. Meanwhile, steel product prices have been falling. From February 20 to 26, hot-rolled steel products dropped CNY120 a ton from CNY4,084 a ton, according to Wang Guoqing, Deputy Director of the Lange Steel Information Research Center. The central government's property-price controls have led to a pessimistic outlook for the steel market, while the industry is also facing falling exports stemming from anti-subsidy and anti-dumping investigations launched by the United States, the European Union and Australia. Last year, there were nine trade disputes targeting China's steel products. "The global economic recovery is still sluggish and China's steel industry will face bigger obstacles in terms of exports this year," the National Development and Reform Commission (NDRC) said.

Short news

- Sibanye Gold will seek Chinese investors and look to acquire other gold assets in South Africa, Neal Froneman, its Chief Executive said, on its first day as a listed company. "There are benefits to Chinese partners such as being able to access capital," Froneman said.
- Leshan Heima Mining Co, a privately-owned mining company in Leshan city, Sichuan province, has spent €15 million on a 75% stake in Lisa Airplanes, a French aircraft builder. "The acquisition was achieved in early February and the company plans to move the production lines to China in two or three years," said Deng Gang, Director of the Foreign Economic Cooperation Division of the Leshan Commerce Bureau. Leshan Heima Mining Co is in the phosphate rock-trading business. Lisa Airplanes was

established in 2004 and focuses on light-sports aircraft manufacture.

- Australia's Fortescue Metals Group, the world's No 4 iron ore producer, reported a 40% fall in first-half profit to USD478 million due to weak iron ore prices, but flagged resurgent demand from Chinese steel makers.
- China is requiring its non-ferrous metals industry to improve energy efficiency by 18% by the end of 2015 to conserve resources and reduce pollution. The Ministry of Industry and Information Technology (MIIT) said that the country will be able to save energy equivalent to 7.5 million tons of standard coal if energy use per unit of industrial output in the non-ferrous metals industry were to meet the target. The energy use per unit of industrial output fell 19.6% in the non-ferrous metals industry in the five years through 2010. The Ministry also required the industry to slash emissions of sulfur dioxide, which contributes to the production of acid rain, by 10% during the period. The non-ferrous metals industry used energy equivalent to 151.38 million tons of standard coal in 2011, or 4.4% of China's total energy consumption.
- Finnish engineering firm Metso has strengthened its presence in China with the acquisition, for an undisclosed amount, of the manganese steel foundry owned by Quzhou Juxin Machinery Co in Zhejiang province. The transaction covers the acquisition of Juxin's assets as well as Quzhou Chixin Machinery Co, which will be transferred to Metso along with the jobs of 275 workers. The transaction is expected to be completed within six months.
- China's aluminum inventories reached a record high in February, caused by rapidly growing supply and weak demand in the country, resulting in sharp price drops. The main reason for the increasing stockpiles is the new production capacity in western areas of China. In 2011, China's 3.4 million tons of new production capacity for electrolytic aluminum was mainly located in Xinjiang. The aluminum sector saw a 92.7% decline in profit to CNY930 million in the past year.

MINERALS

Citic Pacific over budget on Australian iron ore project

Citic Pacific, the state-backed conglomerate building Australia's largest magnetite iron ore project, and its contractor Metallurgical Corporation of China (MCC), announced that the project is over budget for a fourth time. The size of the final cost-overrun of the Sino Iron project in Western Australia is uncertain, as only one production line is finished and the second line is due to come on stream in May. Another four production lines need to be installed by the end of the year to make their commissioning target of early next year. While this will be managed by Citic Pacific, units of MCC will be invited to bid for the work. Ancillary infrastructure common to all six lines has been finished. MCC, the engineering, procurement and construction contractor, said that the USD3.4 billion budget agreed with Citic Pacific just over a year ago was insufficient, and MCC had advanced the project USD858 million to finish it. Citic Group agreed that the construction cost up to completion of the second line should be kept under USD4.36 billion, MCC said. MCC added that a third party had been engaged to audit the total costs actually incurred by MCC, to come up with the final contract value. The third party was not named. According to a Morgan Stanley research note, MCC is contractually bound to pay Citic Pacific USD5 million per day of delay, which the brokerage estimated to come to around USD400 million. When fully utilized, the project's six production lines will be able to produce 24 million tons of ore, a third of which is expected to serve Citic Pacific's own steel mills, and the rest for other Chinese steel mills.

China's coal imports to decline

China's coal imports will decline 10% year-on-year in 2013, the first drop in five years, due to increasing domestic supply and the country's improved transportation network, a Thomson Reuters survey showed. China – the world's largest coal importer – will import up to 210.8 million metric tons of the commodity in 2013, it said. The country, which accounts for about one-third of the seaborne coal market in the Pacific region, has a growing influence in the region's coal market. In 2011, China imported 234.3 million tons of coal, up 30% year-on-year. The increase was due to the record-low price of thermal coal on the international market at the time, which dropped to USD84 a ton. Last year, China imported 289 million tons of coal, up 29.8% year-on-year, while coal exports declined 36.8% year-on-year, according to figures from the China National Coal Association. Due to increasing coal imports, domestic coal inventories have been growing, which resulted in lower domestic coal prices, the Association said. In 2012, China’s coal output was 3.66 billion tons, up 4% year-on-year. The growth rate fell by 4.7 percentage points compared with 2011. Experts said China has to keep coal imports at a reasonable level to avoid price rises. “China’s coal imports have increased rapidly in the past few years and account for a big share of the global coal market,” said Lin Boqiang, Director of the China Center for Energy Economics Research at Xiamen University. By the end of 2012, inventories of China’s coal companies stood at 31.2 million tons, up 58% year-on-year, the China Daily reports.

Short news

- Zijin Mining, China's largest listed gold miner by output, says its unaudited net profit for last year was CNY5.2 billion, down 9% from 2011. Operating revenue rose 21.9% to CNY48.5 billion. Zijin attributed its first profit decline as a listed firm to lower prices of metal products except gold, losses in some smelting units, lower grades of ores processed and higher production and management costs.

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