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AUTOMOTIVE METALS & MINERALS NEWSLETTER | 31

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AUTOMOTIVE

BYD to manufacture 1,000 electric buses a year in the U.S.

BYD, the first Chinese-owned vehicle manufacturer producing in the United States, has unveiled ambitious plans to eventually build as many as 1,000 plug-in electric buses a year at a refurbished RV manufacturing plant in the Mojave Desert city of Lancaster in LA County, California. BYD purchased a former Rexhall Industries RV factory for its electric-bus manufacturing operations. Rexhall CEO William Rex will stay on as General Manager of the newly formed BYD Coach and Bus. A number of Rexhall employees will be maintained as the plant shifts to new ownership. Senior Vice President Stella Li said the first of 10 zero-pollution vehicles, already on order from the city of Long Beach, should roll off the assembly line next year. Within two years, Li said, BYD Motors expects to be producing 50 buses a year, and it will continue to ramp up production, hoping to reach the plant's capacity of 1,000 buses a year within a decade or two. All the buses will be powered by the company's own iron-phosphate batteries, which will be made at another plant near the bus factory in Lancaster, 100 kilometers east of Los Angeles. BYD is the world's largest maker of rechargeable batteries. It was the first time a Chinese vehicle company is to open a vehicle manufacturing plant in the United States. BYD has invested more than USD10 million in the two plants. When the vehicle plant reaches full production, it could employ as many as 1,000 people. BYD's North American headquarters in Los Angeles now employs about 40 people but will also grow with the bus production, Li said. Building vehicles in the U.S. enables BYD's customers to take advantage of the federal government's "Buy America" subsidies to support domestic production, the China Daily reports.

GM to expand production by 20% in China this year

Despite record sales of vehicles in China, General Motors has posted a 14% drop in first-quarter profits, faced with one-off costs and weaker earnings in its core North American market. Detroit-based GM had 15.2% of the Chinese market during the January-March quarter, and expects to invest at least USD11 billion in China between 2013 and 2016, adding four assembly plants and raising capacity by 30% to 5 million vehicles. It will boost capacity in the country 20% this year from a year ago. Margins at GM's Chinese joint ventures were 11.7%, up from 10.2% in last year's first quarter, compared to margins of about 4% in the U.S. GM has 12 joint ventures and two wholly-owned enterprises in China. As sales of luxury sedan and sport-utility vehicles (SUVs) in wealthy Chinese coastal cities slow, foreign automakers are turning their attention to western China. GM and its Chinese joint venture partners plan to open a USD1 billion factory in Chongqing in 2015 that will produce 400,000 cars a year. GM sold a record 816,373 vehicles in China in the last quarter, a 10% jump from a year ago. As part of its effort to win over Chinese luxury-vehicle buyers who favor German brands BMW, Audi and Mercedes- Benz, the U.S. company in February put its XTS Cadillac sedan on sale in China. GM China President Bob Ferguson has said he expects Cadillac sales in China to triple to 100,000 by 2015. Profits in GM's international operations, including China, fell 5% to USD495 million, and gains in China helped offset weakness in other regions, including India, GM said.

Chinese authorities have approved a USD1.3 billion General Motors plant to make luxury Cadillac cars. Construction of the plant, which will have an annual capacity of 150,000 vehicles, will start in June in Shanghai. It will be run by Shanghai GM, the joint venture of GM with China's SAIC Motor. The company plans to unveil one new Cadillac model a year through 2016 to boost annual sales of the marque from 30,000 vehicles last year to 100,000 by 2015.

Sales growth in the luxury vehicles' sector slows

The central government's clampdown on official waste and extravagance has put the brakes on China's luxury vehicle market in the first quarter of the year. Sales growth for the luxury vehicle sector, dominated by German brands Audi, BMW and Mercedes-Benz, slowed to 4%, far below the 13% annual growth in the passenger car market, according to the China Association of Automobile Manufacturers (CAAM). China's luxury vehicle sector has grown at an annual average of 36% in the past 10 years, according to a report by consulting firm McKinsey & Co. Analysts attributed the decline to new guidelines to improve officials' working style, and strict policies to curb the use of public funds. The question is how strict the rules will be enforced. "The issue may hopefully set off a public trend for less-expensive vehicles in the short term," said Cui Dongshu, Deputy Secretary General of the China Passenger Car Association (CPCA). McKinsey & Co said in its report that China is expected to overtake the United States as the world's largest premium car market by 2016, selling more than 2.3 million units that year and hitting 3 million by 2020. McKinsey found that the average annual disposable income of 1,200 Chinese luxury car owners interviewed was CNY450,000, but those with annual incomes of CNY100,000 to CNY200,000, the minimum income range regarded as able to afford basic luxury cars, is growing rapidly in China. Potential also comes from the quickly developing lower-tier cities in China. According to Morgan Stanley & Co, premium car dealerships still have no presence in 111 large Chinese cities. As the government directly accounts for no more than 2% of the car market, and SOEs contributed about 5%, "favorable consumer sentiment towards luxury vehicles outside of government and SOEs purchasing will likely continue to drive this segment of the market forward," said Thomson. "At the same time, most commentators believe that it will still take at least five to 10 years for a domestic Chinese manufacturer to develop a genuinely competitive substitute offering at the luxury end of the market," the China Daily reports.

Carat Security Group to build first plant in China

Carat Security Group, the Belgian company which specializes in providing armored limousines worldwide, plans to open its first manufacturing facility in China. Carat Security, which produces vehicles under the Carat Duchatelet and Centigon brands, has a 40-year history in the business. It has supplied vehicles to royal families in the Middle East, to African leaders, and to top Western government officials, said Benoit Ceulemans, its Vice President. He said China is becoming its most promising market. "Different from the Middle East and Africa, we are looking for individuals, private businessmen and company owners," said Ceulemans. He added that although the after-tax price of its cars sold in the Chinese market can be as much as CNY8 million, sales are brisk. As well as Lexus cars, the company specializes in producing tailor-made Mercedes Benz S-Classes, Bentleys, and Range Rover vehicles. Every year the company refits about 70 luxury cars, with work including extending their length, and adding armor. The alterations can double the cost of the original. The company's goal is to sell about half of its production to China in 2014. Carat had sales of about €100 million last year, and employs 800 people worldwide in seven vehicle manufacturing facilities, including in Belgium and Brazil, and is now considering one in China. According to the U.S. research company McKinsey & Co, demand for luxury automobiles in China is expected to reach 3 million cars by 2020, up from the 1.25 million sold in 2012. Ceulemans said the company attended the Shanghai International Automobile Industry Exhibition two years ago, where it sold the two cars it had brought to the exhibit. Carat has a partnership with a local importer, Dalian Carat International Trade Co, the China Daily reports.

China's automakers focus on SUVs

This is China's Year of the SUV. Whatever their specialties used to be, automakers ranging from global brands to China's ambitious rookies are scrambling to cash in on the explosive popularity of sport utility vehicles (SUVs). The SUV boom clashes with Beijing's efforts to push automakers to develop electric cars and to sell smaller vehicles to help curb air pollution and demand for imported oil. But the SUV's image of safety appeals to prosperous Chinese drivers who face chaotic city streets, while electrics from BYD and other producers struggle to attract buyers. The fatter profit margins for SUVs are a financial lifeline to a Chinese industry that is being squeezed as global brands make inroads into the market for smaller cars. "You've got almost everyone targeting SUVs," said Analyst Namrita Chow of IHS Automotive. SUV sales in China rose 20% last year to 2.5 million vehicles, more than double the 8% growth of the overall auto market, according to LMC Automotive. SUVs made up 18% of all vehicles sold. That market share could rise to as high as 25% in coming years, according to Yale Zhang, Managing Director of Auto Foresight, a research firm in Shanghai. That would be double the size of SUVs' 12.5% share of the U.S. market last year. General Motors expects annual SUV sales in China to reach 4 million by 2020, said Bob Socia, President of GM's Chinese unit. Global automakers are redesigning SUVs for China with smaller engines in response to government taxes based on engine size. Ford Motor plans to manufacture two of its four SUVs, the EcoSport and the Kuga, in Chongqing. Its Edge SUV will be imported from Canada and the Explorer from the United States. Italy's Fiat, a latecomer to China, is hoping an SUV will help it gain a foothold in a market where it set up its first joint venture just three years ago. The Freemont, based on the Dodge Journey, was unveiled at last month's Shanghai auto show. Mercedes Benz, Nissan, Geely Holding Group and Great Wall Motors also showed new SUVs or SUV concept vehicles. "Chinese consumers love SUVs. They see them as safe family cars," said Chow of IHS Automotive. "The idea is, if I buy the best I can afford, I am buying the safest." Baoding-based Great Wall Motors said SUV sales in the first three months of the year rose 95% over a year earlier and accounted for half the 180,000 vehicles it sold, giving it the global auto industry's fattest gross profit margin at 28%, according to Bernstein Research Analyst Max Warburton.

April’s car sales continue momentum

China’s auto sales in April continued to grow at a double-digit as new launches fueled demand. Deliveries of passenger cars and commercial vehicles increased 13.4% from a year earlier to 1.84 million units in April as sales almost kept the same pace of growth registered in the January-March period, the China Association of Automotive Manufacturers (CAAM) reported. The deliveries included 1.44 million sedans, sport-utility vehicles (SUVs) and multipurpose vehicles (MPVs) in April, up 13% year-on-year. The China Passenger Car Association (CPCA) said the country’s passenger car sales grew 15% in April due to several new rollouts that coincided with the Auto Shanghai 2013 show taking place. “Without intervention from the government, sales of passenger cars (in China) may add 2 million units this year,” Rao Da, Secretary General of the CPCA said, implying that the segment will return to double-digit growth. The sales of domestic passenger car brands in the past four months increased 16.3% from the same period a year earlier, 0.1 percentage point higher than the segment’s average rate, giving them a 42.4% market share. German, U.S., South Korean and French automakers all saw sales surge above 20% while Japanese carmakers suffered a 12.9% drop, the Shanghai Daily reports. Toyota sales fell 6.5% to 76,400 units – its ninth drop in 10 months – while Nissan deliveries fell 8.5%. Honda's eased 2.4% year-on-year. Mazda suffered the most, with sales falling 15%. Nissan's retail sales – sales to end-users rather than dealers – rose 18.8%, giving it some cause for cheer. Andrew Thomson, Partner at KPMG China, predicted an annual 10% rise in passenger vehicle sales in 2013, with SUV sales likely to grow at “around double that rate and the luxury segment also growing ahead of the overall market”. Vehicle sales by General Motors increased 15.3% on an annual basis to an April record of 261,870 units. Its strong performance took the company’s sales for the first four months of 2013 to a record 1,078,243 vehicles, an increase of 10.9% on an annual basis, the first time it had surpassed 1 million units in the first four months of the year. Ford Motor Co also reported a robust 37% growth in April sales, with deliveries of 75,331 vehicles. Its total sales of 261,927 in the first four months represented a 49% sales surge from a year earlier.

Hyundai mulls fourth China plant

South Korea’s Hyundai Motor is considering building a fourth car plant in China, Vice Chairman Hsueh Yung-hsing said. The comment might indicate a change in the group’s attitude toward capacity expansion, but it is not clear whether Group Chairman Chung Mong-koo will approve the move. “We expect our capacity in China to become constrained by 2015 and 2016 and are considering a plant with a capacity of 300,000,” Hsueh Yung-hsing told reporters, adding western China is a candidate location for the new plant. Hsueh, who is in charge of the China operations for Hyundai and its affiliate Kia Motors, said a new plant is needed to maintain both companies’ Chinese market share of around 10% in the 2015-2016 period when the world’s biggest auto market is expected to grow to 20 million vehicles a year. He also said the construction of a third China auto plant by Kia Motors would be brought forward by two months and would be completed in February next year, which will lead to a total manufacturing capacity of 1.8 million vehicles in China for Hyundai and Kia. Managers of the two companies still assume the effective ban Chung placed on a new factory globally will remain intact at least for a while.

Mando China’s IPO to help it expand market share

South Korean car parts maker Mando China’s initial public offering (IPO) in Hong Kong may help it expand market share. Hyundai and Kia were the source of about half of Mando China's revenue last year; with fast-growing brands like General Motors and Geely providing the rest. Mando China – a spin-off from Mando Korea, which has been part of the Hyundai Group since 1980 – said in a 361-page document that it was gaining new orders from Volvo, BYD, Guangzhou Automotive Corp and FAW-Volkswagen. “If you want to know whether a stock is worth investing in, the company's ability to source new clients is one crucial factor to consider,” said John Lu, Car Industry Analyst at Guosen Securities. Sources said the company aimed to raise up to USD350 million to fund two new production plants in Sichuan and Guangdong. Mando’s shares will start listing on May 31. Mando China's financial performance this year has been called into question, however. A 50% income tax waiver for two of its subsidiaries, Mando Harbin and Mando Tianjin, was not renewed after the concession expired last year. The group's other major subsidiary, Mando Beijing Chassis, which still enjoys a 15% waiver on income tax, will lose the tax break when the waiver expires in October next year. The company's net profit rose 28% year-on-year to CNY155 million in the first quarter of this year. Its net profit last year edged down 0.3% to CNY498 million, while the gross profit margin fell 1.6 percentage points last year to 21%, amid vigorous competition, the South China Morning

Post reports. Mando China plans to boost production of conventional brake products – anti-lock brakes and electronic stability control systems – to 22.4 million units next year from 19.4 million this year. Production of suspension products, including shock absorbers, suspension struts and damper spring modules, will increase to 19.7 million units from 17.9 million units.

Volkswagen to build new plant in Changsha

Volkswagen plans to invest CNY12 billion to build its first plant in Central China through its joint venture with SAIC Motor. it will have an annual output of 300,000 units. Production at the new plant, to be located in Changsha, capital of Hunan province, will begin in early 2016. The plant will produce the Skoda Octavia and two other medium-sized sedan models. VW's newly built plants in Urumqi (Xinjiang), Foshan (Guangdong) and Ningbo (Zhejiang) will start production this year. The company will also build parts plants in Changchun in Jilin province and Foshan in 2013. Over the next three years, the German automaker also plans to set up a new vehicle factory in southwestern China. Volkswagen plans to raise output capacity in China from the current 2.6 million to 4 million by 2018, with an average annual growth of 35%. GM also plans to add capacity. "General Motors' manufacturing facilities in China are running at near maximum capacity. We need to add capacity to keep up with the rising demand for its products," said Bob Socia, President of General Motors China.

Geely's sales surpass target

Geely Automobile's sales in the first four months of this year are already well ahead of its target growth rate, and it predicted a strong second half as long as the government did not further limit new car sales in second and third-tier cities. The cap, aimed at easing traffic jams and air pollution in major cities such as Beijing, Shanghai, Guangzhou and Guiyang, has hurt car sales. Geely's sales growth was 21%, taking it to 187,377 units in the four months to April 30, against a target rate of 16% for the whole year. In the second half, the group is due to launch four to five new models, including a brand new electric vehicle, the EC7. Geely is also keen to speed up overseas expansion. The company's car exports could jump another 30% to 50% this year, after 164% growth last year. Geely has set up production plants with local partners in Russia, Ukraine, Indonesia and Egypt in the past two years. It is due to increase production in Uruguay, Ethiopia and Brazil, as cars exported from these countries would enjoy duty exemptions to key markets in Latin America and Eastern Europe. Geely exported more than 100,000 vehicles last year, more than any of its Chinese rivals. Great Wall was a close second at 95,489 vehicles. Production capacity of SUVs at Geely's plant in Chengdu will be boosted to 100,000 cars this year, from the current level of 60,000 cars. The group's net profit jumped 32% last year to CNY2.04 billion.

Short news

- U.S. company Coda Holdings recently filed for bankruptcy protection as it finalizes plans to exit the auto sector and refocus its business in energy storage. Its four-door, five-seat car was built by China's Hafei, a subsidiary of Chang'an Automobile Group, and the battery was developed by Coda's local joint venture with Tianjin Lishen Battery Co. Last year, Coda also agreed with China's Great Wall Motors to co-develop its second product. Analysts said that agreement is expected to lapse as the California company exits the auto industry. Last year only about 13,000 hybrid and electric vehicles were sold in China.
- Ferrari expects the Greater China market plus the Far East region to contribute 2% more turnover in the next five years. By 2017, China will contribute 30% of turnover, up from the current 28%. In 2012, Ferrari sold 784 cars in its Greater China market, a 4% rise, reinforcing the market as its second largest after the U.S. Ferrari has 27 dealerships in the Greater China region, and plans to have 30 by the end of 2013, with three being added on the mainland.
- BWM has set up a third dealer staff training center in Guangzhou, following the existing ones in Beijing and Shanghai. The number of BMW dealer outlets in China is likely to reach 420 by the end of this year, employing about 43,000 staff. Karsten Engel, President and CEO of BMW Group Region China, said that the company needs "professional, experienced and dedicated people" to deliver high-quality services that live up to the expectations of customers. "The days of super-fast growth in China's premium market are over. The key topic of tomorrow is quality," he added.

In April, Mercedes-Benz also opened a new training center in China, the sixth in the country.

- Shanghai reduced the supply of car plates to 9,000 and lowered the price ceiling designed to curb soaring plate prices to CNY79,900 at the May 25 auction. Bids exceeding that price were rejected by the online auction system in the first round of bidding. The average successful bid for a Shanghai car plate fell to CNY80,803, down CNY3,298 from last month, while the lowest price shed CNY3,200 to CNY80,700, according to the Shanghai International Commodity Auction Co. The atmosphere at the auction was less tense than usual. The number of bidders dropped by 3,950 to 22,224. Next month, the upward price limit for the first round of bidding will be set at CNY77,300, down CNY2,600 from this month's maximum.
- Korean automakers Hyundai and Kia will recall more than 175,000 cars due to defective brake light switches, the General Administration of Quality Supervision, Inspection and Quarantine (GAQSIQ) said in a statement. Beijing Hyundai Motor Co will recall 121,835 of its IX35 models manufactured between April 9, 2010, and October 6, 2011, while Dongfeng Yueda Kia, a joint venture of Kia with two Chinese companies, is recalling 53,897 of its Sportage vehicles made between July 8, 2010, and October 15, 2011.
- Audi posted the fastest pace of sales growth among German luxury brands in China in April. Volkswagen-owned Audi deliveries rose 13% to 38,710 vehicles in the mainland and Hong Kong in April. BMW reported an 11% gain to 30,311 units on the mainland. Mercedes-Benz said sales increased 11% to 16,241 units on the mainland and Hong Kong. On the mainland, Audi cornered 29.6% of the market, BMW had 23.6%, while Mercedes-Benz took 20.6% in 2012, according to researcher IHS Global Insight.
- BYD rolled out Hong Kong's first electric taxi fleet. The Hong Kong Taxi & Public Light Bus Association said it is renting from BYD an initial fleet of 45 taxis for HKD8,000 each per month, although only six vehicles had licenses so far. "We expect to increase the number of e6 taxis in Hong Kong to 5,000 in three years," said Liu Xueliang, General Manager of BYD Asia Pacific sales.
- Sales of light vehicles including cars and light commercial vehicles in China will total 34.6 million units in 2020, double the figure in the U.S., according to a recent projection by Finbarr O'Neil, President of consulting company JD Power. He said China's light vehicle sales are expected to reach 19 million units by the end of the year.
- China Grand Auto topped the ranking of the 100 biggest auto dealer groups in China last year with revenue of CNY72.6 billion, according to a recent report by the Automobile Dealers Association. Sinomach Automobile Co, with more than CNY62 billion in revenues, claimed the second spot. Shanghai-listed Pang Da Automobile Trade Co fell to third place with a revenue of CNY57.8 billion.
- Chinese manufacturer of special-purpose vehicles Tri-Ring Group may buy Polish bearings maker FLT Krasnik for about USD95 million in the largest investment yet by a Chinese firm in Poland.
- Dongfeng Motor Corp will inject capital into Fujian Motor Industry Group Co in exchange for an undisclosed stake from the Fujian provincial government. "This is part of the ongoing process for industry consolidation, we should be expecting more deals in the coming years," said Lin Huaibin, Shanghai-based Analyst at IHS Automotive. Dongfeng, which produces Nissan's Teana sedan, Honda Motor's CR-V SUV and Citroen's C5 sedan at its plants in China, is seeking to boost sales of its self-developed brands.
- Prices of imported cars in China fell the most in five months in April, by 3.4% from a year earlier, according to the National Development and Reform Commission (NDRC). That compares with the 0.2% increase for locally-made passenger vehicles.
- All 15 E150EV electric cars produced by the Beijing Automotive Group have been booked within three days of the Beijing launch of a pioneering rental project aimed at promoting the private use of e-vehicles. Based at Tsinghua University's Science Park in Haidian district, the project was initiated by the Beijing Municipal Commission of Science and Technology. Most customers were people working in the park, where lots of high-tech enterprises are based. Customers can rent the electric cars by the hour, day or month. The cars cost CNY49 for two hours, CNY99 per day and CNY1,999 a month. It costs less than CNY19 to fully charge a car, which will then run for 120

kilometers.

- Brilliance China Automotive Holdings said it was likely to exceed its sales growth target of 25% for this year, but analysts said the carmaker's new clean-energy-vehicle project and a product upgrade by rival Mercedes-Benz could pressure short-term profit. Sales jumped 25% year-on-year to 67,000 cars during the first four months of the year. It also forecast that by the end of the year sales could exceed its target of 200,000 units.
- Guangzhou Automobile Group announced that it plans to invest CNY1.7 billion to double the production capacity of its wholly-owned passenger car unit to 200,000 vehicles a year. The company also said it will invest another CNY1.15 billion in product development of the Trumpchi, its own passenger car brand.
- Beijing plans to have 50,000 electric vehicles on the roads by 2015, of which 30,000 will be private cars. The plan calls for 8,000 alternative-energy buses as well as 10,000 green taxis and government cars in the city by that time.
- Continental Tires opened its 13th BestDrive flagship store in China on May 16. The new facility in Wuhan, Hubei province is also the company's 2,900th franchised store in the country. The company plans to aggressively expand its retail network in China this year by adding a total of 1,000 new authorized stores, or approximately three each day.
- Chinese car brands reported strong sales growth in the first fourth months in Russia. Great Wall Motors sold nearly 7,000 vehicles from January to April, up 85.5% from a year earlier. Geely ranked second, with more than 6,500 units delivered in the same period, up 64.4% from a year earlier. Lifan and Chery followed, both reporting sales of more than 6,000 units.
- China's auto sales may start to go flat as early as 2015, with the trend remaining for 10 years, amid an infrastructure bottleneck and doubts on the ability of potential buyers in rural areas to afford a vehicle, UBS Securities predicted. In the past decade, China's auto industry has grown by a 20% compound annual rate.
- Red Flag cars went on sale to the public on May 30 after a USD300 million overhaul, competing against Audi and BMW in the elite segment. FAW Group has already delivered more than 500 Red Flags to government agencies. FAW made about 1,500 Red Flag cars, reserved for high-ranking government and party officials, in the 24 years before the brand was discontinued in 1982 for having excessive fuel consumption. The brand has now been revived.

METALS

Gold-hungry China braces for surge in imports

Chinese gold imports are likely to swell further after rising strongly for a second straight month in May after prices plunged to a two-year low in April. "Consumers and industrial users tend to see price drops as buying opportunities," Zhang Bingnan, Secretary General of the China Gold Association, said. "Investment demand should continue to stay strong through the rest of the year because of limited investment alternatives," said Zhang, adding that gold sales and processing volumes both spiked in April. He said China's gold consumption in the first quarter probably rose 10% to 15% from 255.2 tons last year. Net gold flows from Hong Kong to China, the world's number two gold consumer after India, rose to 223.519 tons in March from 97.106 tons in February, data from the Hong Kong Census and Statistics Department showed. Demand for gold from India and China is a major factor in global prices, with the World Gold Council saying the two countries account for more than a third of global demand. China produced 403 tons of gold last year, but consumption was more than double at 832.2 tons. Gold tumbled to around USD1,321 an ounce on April 16, its lowest in more than two years. The drop in gold prices has prompted a gold rush in China, with Chinese shoppers flocking to retailers to buy jewelry and gold bars. A Spokesman for Hong Kong jewelry chain Chow Tai Fook, the world's largest jewelry retailer by market value, said that traffic at its China stores jumped by 50% during the May Day holidays. Total gold sales in Hong Kong reached about 40 tons during the April 29-May 2 holiday. Gold exports to China from Hong Kong hit an all time high of 557.478 tons last year, the South China Morning Post reports.

Steel industry's profit margin drops further

The profit margin of China's steel industry dropped to 0.9%, delivering industry profits of CNY2.5 billion, in the first quarter. Thirty of the country's 86 large and medium-scale steel companies reported losses in the first quarter, five fewer than in the same period last year, according to the China Iron and Steel Association (CISA). The loss-making companies reported a total loss of CNY6.1 billion during the period, against losses of CNY9.4 billion at the same stage in 2012. During the quarter, the inventories of the 86 large and medium-scale steel companies reached CNY583.1 billion, CNY10.2 billion higher than in the same period last year, which puts increased pressure on their sales and marketing operations to clear the growing stockpiles. According to the Association, the total debts of the 86 major steel companies had reached CNY2.98 trillion by the end of March, CNY188.9 billion more than at the same period last year. The debt-to-asset ratio of the industry has reached about 70%. Losses are likely to continue in April and May as the price of steel keeps on falling to its lowest level in five years, with some major producers having to adjust their product prices to maintain or boost market share. "The steel price adjustments being made by major producers reflect an ongoing weak market," said Lu Huaying, Steel Industry Analyst with price monitoring service Lange Steel Information Research Center. Over the past year, China's major steel companies – which account for 80% of the country's total output – have recorded overall profits of CNY1.58 billion, a 98.22% year-on-year drop. Up to 23 of CISA's major member companies reported annual losses last year, 15 more than the previous year, the China Daily reports.

Baosteel starts construction on blast furnace in Zhanjiang

Baosteel Group Corp has started piling work for the No 1 blast furnace of its Guangdong-based Zhanjiang plant, as part of the project to cut 30% of its capacity in Shanghai. The furnace will become operational by the end of 2015. Construction on a second furnace will start in June next year and be completed in 2016. The building of the other main units, including steel making, hot rolling and cold rolling facilities, will begin between July and September this year. Shanghai-based Baosteel sees the 10 million-ton-a-year Zhanjiang project as a "key battlefield" for its "second pioneering", part of the company's master plan to cut 30% of its capacity in the city over five years. It is also moving operations to Xinjiang where it has acquired a local steel company. Baosteel said it has done a "reexamination and restudy" of the production process, management model and investment control at the Zhanjiang project since May last year when a ground-breaking ceremony was held.

Baoshan Iron and Steel Co has reduced June prices for main products, its first cut in nine months, amid weak demand as economic recovery slows. The company cut hot-rolled steel prices for June delivery by CNY180 per ton and cold-rolled steel prices by CNY150 per ton. Baosteel's pricing policy usually sets the tone for the rest of the market in China. Wang Bei of Mysteel Research Institute wrote in a note that while Baosteel and Wuhan Iron & Steel Co have room to cut June prices, other major mills like Angang Steel Co may maintain prices because they had unveiled price cuts for previous months.

Short news

- Shanxi Taihang Mining Co will become China's first to use coke oven gas as an alternative to natural gas. It signed a contract with Mines and Metals Engineering, owned by the Iranian government and based in Dusseldorf, Germany. Shanxi Taihang Mining will use world-leading processing technology and equipment to lift its iron productivity and reduce emissions. The direct-reduced iron process can raise the purity of iron to 98%. Traditional blast furnace iron-making, which generates 80% of China's total iron and steel output, however, only results in an iron purity of 60% to 70%.
- Steel products inventories in 26 monitored cities increased by 84.57% in the first quarter, compared with the beginning of this year, the National Development and Reform Commission (NDRC) said in a statement. The fundamentals for demand growth are positive as relevant industries such as automobiles and appliances are on track to maintain modest growth this year, but it would be difficult to improve steel enterprises' profit margins due to their large capacity and high costs, it said.
- Trading in gold using the yuan has tripled in Hong Kong this year as the currency's rally to a 19-year high helps limit risks for jewelers. The average daily volume was CNY6.5 billion so far this year, compared with CNY1.8 billion for the same period last

year, according to the Chinese Gold & Silver Exchange Society.

MINERALS

Rare earth rogue miners still in business

Illegal production and smuggling still dog China's rare earth industry despite a long campaign to clean up the sector, contributing to a supply glut that has depressed global prices. “Problems in the industry that have accumulated over the long term have still not been fundamentally resolved,” Su Bo, Vice Minister of Industry and Information Technology, said. “Unplanned exploitation and production of rare earths has affected the normal workings of the market, and illegally produced rare earth products have reached downstream consumers through a variety of channels or been smuggled abroad, leading to a continuous decline in prices.” China, which supplied 97% of the world's rare earths in 2010, launched a nationwide campaign that year to rectify the chaotic and ill-regulated sector to curb environmental damage. Beijing reduced domestic output and shut hundreds of small and unlicensed miners, processors and traders, leading to a four-fold spike in export prices and complaints from buyers in Europe, Japan and the United States. The crackdown has strengthened the position of large state-backed firms in the industry. Su said the top 10 rare earth producers, including China Minmetals, Aluminum Corporation of China (Chinalco) and Inner Mongolia Baotou Steel Rare Earth, now control 99% of national rare earth resources. They also control 81% of national mining of the ores and 61.5% of ore separation and smelting capacity. Rare earth prices hit record levels in 2011 but have since slumped. The rare earth industry recorded profits of CNY10.8 billion last year, 32% less than in 2011, while sales slid 8% to CNY71.3 billion. China's rare earth products exports fell 9.7% last year to 16,800 tons, lower than the permitted quota of 24,000 tons. Vice Minister Su gave no indication of the size of illegal production, but earlier government estimates have suggested as much as 40,000 tons of rare earths have reached the domestic and export market illegally in previous years, the South China Morning Post reports.

Iron ore exchanges CBMX and SGX to cooperate

The Beijing International Mining Exchange (CBMX), the only iron ore spot trading platform in China, has signed a memorandum of understanding with the Singapore Exchange (SGX) to boost cooperation in developing the iron ore markets, the two exchanges said. Both exchanges said it was an important “first” in the global iron ore market, as the agreement brings together an international derivatives clearing platform and a spot trading platform. Since the opening of CBMX on May 8, 2012, more than 13 million tons of iron ore have been traded. SGX AsiaClear is the pioneer commodities over-the-counter (OTC) clearing service in Asia and enjoys over 90% global market share in the clearing of iron ore swaps. SGX cleared a record 109 million tons of iron ore swaps in 2012, a growth of almost 2.5 times over the previous year.

Coal production slowdown reported

Up to half of the coal companies in Ordos, one of the major domestic coal producing regions in Inner Mongolia, are reported to have reduced or stopped production, because of falling electricity consumption and an increased use of hydropower generation. Thermal coal stockpiles are all at a high level, and coal-fired power generation is also not expected to rise this summer as more hydropower is being generated. Last year Ordos produced 596.7 million metric tons of coal, accounting for around 16.35% of China’s total output. Similar coal production slowdowns are being reported in Shanxi province. In the first quarter of the year, Shanxi produced 220 million tons of coal, a 0.6% year-on-year rise. The province’s top five coal companies all suffered losses, which have been blamed on weak demand. China produced 830 million tons of coal in the first three months of the year, a 1% drop from the same period last year. Net coal imports for the first quarter grew 26.3% year-on-year to 77.96 million tons. Analyst say the rapid rise in coal imports contributed to falling domestic coal prices and a crash in profits for Chinese coal producers. Faced with the worsening market conditions, many Chinese coal companies have cut prices and reduced production. By the end of April, the Bohai-Rim Steam Coal Price Index, China’s major coal price benchmark, had dropped 2.8%, from CNY634 a ton at the beginning of the year to CNY614 a ton. For the first quarter, 32 of the 43 listed coal companies on the Shanghai and Shenzhen stock exchanges reported net losses. The government is reported to be making efforts to help them reduce their taxes and other regulatory fees. The government is considering the abolition of coal trading licenses. Since being introduced in 1996, all coal traders have to apply for a license to buy and sell coal in China. The removal of license approval would promote market competition. Analysts predict that coal prices will remain low for the next few months, and prices may drop even further, the China Daily reports.

China April iron ore imports up 4%, 3rd highest on record

China, the world's top buyer of iron ore, imported 67.15 million tons of the raw material in April, the third highest on record and up 4% from March. Despite signs of weak demand and declining margins, China's steel sector, the world's biggest, continued to produce more than 2 million tons a day in April, traditionally the start of the country's peak steel consumption season. China's average daily crude steel output hit a record high of 2.129 million tons in the period April 21-30, data from the China Iron & Steel Association (CISA) showed. The industry body warned that steel demand in China was expected to remain weak in May, but said iron ore shipments were unlikely to be seriously affected, with port stockpiles now low. Despite pessimism in the sector, April imports of iron ore were 16.4% higher than a year ago, customs data showed. Over the first four months of the year, total shipments reached 253.63 million tons, up 3.7% over the same period last year. Prices fell in April, with benchmark 62% grade iron ore dipping 2.3% during the month, according to data provider Steel Index. Steel mills however continue to pursue a cautious strategy of holding low inventory and buying only small volumes of iron ore when needed, the Steel Index said. China exported 5.55 million tons of steel products in April, up 5.1% from the previous month, the General Administration of Customs said.

Laos looks to Beijing to survey minerals

Laos is seeking Beijing's help to conduct detailed surveys of its mineral wealth to help bolster the country's ability to regulate its mining industry, currently rife with firms looking for short-term trading gains. Less than 5% of the 355 mining projects that have been granted mining licenses in Laos have met their contractual exploration commitments to the government, said Somboun Rasasombath, Vice Minister of Energy and Mines in charge of minerals mining regulation. Many of the companies are trading and investment firms, which are sitting on their exploration licenses waiting for their projects to be bought out by others at a premium. "Most of these firms have done a poor job in delivering their promises, while some have caused environmental damage and affected the livelihood of our communities," Rasasombath said. Some firms have managed to extend the validity of their exploration licenses to more than 10 years, although they are supposedly not extendable after six years, as Vientiane has taken an accommodative attitude in the past to encourage more investments. The existence of a large number of unexploded cluster bombs in Laos, dropped by the United States during the Vietnam war, means investors have to spend money to clear them before mining. The government of Laos suspended approvals of new mine exploration licenses in June last year until 2015.

Laos has ample resources of gold, copper, iron ore, potash, lead, zinc and sapphires. Rasasombath asked Chinese Vice Minster of Land and Resources Wang Min at the China-Asean Mining Cooperation Forum for China to give Laos aid to conduct a more detailed survey of its mineral resources. In return, Chinese firms would get priority approval for mine development rights. Liu Jianmin, Vice President of China Poly responsible for new overseas mining ventures, said the company had recently invested in a gold mine in Laos, which its partner has already conducted exploration on for four years. Hao Chuanfu, Vice President of the state-owned China Minmetals Non-ferrous Metals, the parent of Hong Kong-listed MMG, said MMG had no new exploration projects in Laos but would seek to expand its Sapon copper mine. The mine's output grew 7.1% last year to 85,150 tons. With sales of USD806 million and an operating profit of USD491 million last year, it contributed 9% of Laos's gross domestic product (GDP) and 20% of the government's revenue. Hao said MMG is also conducting exploration for bauxite in Indonesia and copper in the Philippines, the South China Morning Post reports.

Clive Palmer wins Citic Pacific lawsuit

Clive Palmer won a lawsuit with Citic Pacific over the timing of royalty payments from an USD8 billion iron ore mine. The payments were due to Palmer for the use of his land when the ore was stockpiled and not, as Citic Pacific claimed, after it went through initial processing, Western Australian Supreme Court Justice James Edelman said in a decision released in

Perth. The judge rejected CITIC Pacific's argument that the royalty is payable only when magnetite ore is delivered to the primary crusher. Palmer's Mineralogy had sued Citic Pacific's Sino Iron unit claiming the company's mining rights and site-lease agreements should be terminated for failing to pay royalties of AUD400,000. Citic Pacific now no longer faces the threat of losing the USD8 billion mine. "The decision will have no impact on the development or operation of the Sino Iron project," Citic Pacific said. Both sides claimed victory, with Palmer winning the royalty fight, while he dropped a threat to terminate the mining rights and services agreements governing CITIC Pacific's hold on the project. A CITIC Pacific source said the company's main concern, termination of agreements over Sino Iron, was no longer an issue. Two other disputes between the Chinese and Palmer, one over "Royalty B", potentially involving around AUD200 million owed, and one over port access, remain to be heard.

Citic Pacific is still working to resolve technical difficulties to get its iron ore mining project in the Pilbara region in Western Australia into commercial operation. Chairman Chang Zhenming declined to say whether the first shipment of ore, already more than three years behind the original target, would be delayed again. "We have been conducting trial production every day. Our priority is to resolve the technical challenges as soon as possible," he said after the firm's annual meeting in Hong Kong. It is the world's largest magnetite iron ore project under construction.

Coal industry facing difficulties

Sublime China Information Co, which runs the commodities website www.sci99.com, warned that the coal industry continued to suffer from dramatic falls in prices and weak demand, caused by domestic overcapacity and growing imports. Liu Dongna, Analyst at Sublime, said that since last year the industry's profits have been "seriously affected" by China's economic slowdown, excessive production capacity and increasing new energy applications. As coal prices face further drops this summer, partly because hydropower generation starts to increase in June and July, Liu added: "There is no clear sign that the domestic coal industry can pick up." She added: "As the profits of coal companies continue to fall, it would be a wise choice to transform their development mode." And she warned that if the gloomy situation continues in the second half of the year, some medium-scale coal mines will go bankrupt. The coal price fell 4.4% during the first five months from CNY548 at the beginning of the year, according to data from Sublime. At a recent coal industry conference, Wang Xianzheng, Chairman of the China National Coal Association, acknowledged that the overcapacity in the industry was "becoming serious, a big challenge". According to Wind Information, total profits of China's listed coal companies on the A-share market dropped 27% year-on-year to CNY18.3 billion. Yankuang Group Co, China's fourth-largest coal mining company, reported a loss of CNY562 million for the first quarter on total revenue of CNY19.49 billion, a 7.83% drop year-on-year. It said its net profit had dropped 35.4% in the past year to about CNY5.58 billion, but added it was facing a loss for the year, the China Daily reports.

Short news

- China and ASEAN countries signed seven mining cooperation agreements valued at about CNY16.3 billion during the China-ASEAN Mining Cooperation Forum and Exhibition in Nanning, capital of Guangxi. The event attracted more than 800 representatives from China and ASEAN countries. The China-ASEAN Mining Talent Exchange and Training Center was founded and is expected to play an important role in training mining talents for ASEAN countries.
- Caterpillar and China-based Mining Machinery said they have settled outstanding issues related to Caterpillar's acquisition of mining equipment firm ERA and its Siwei unit through a reduction in the purchase price. As part of the deal announced, Caterpillar's outstanding payment obligations to Mining Machinery were reduced by USD135 million to USD29.5 million. Caterpillar reported in January that it had found "deliberate, multi-year, coordinated accounting misconduct" at Siwei. The world's largest maker of construction equipment had acquired ERA for USD653.4 million from Mining Machinery last June.
- China's coal imports will continue from a more diversified number of sources over the long-term, exerting a major influence on international coal prices, according to James O'Connell, Editor-in-Chief of Platts' Coal Trader International. The U.S., Indonesia, Australia and Russia are all expected to export more coal to China. In the past year, 40% of China's coal imports were from Australia and 34% were from Indonesia. China

imported 290 million tons of coal in 2012, a 59% rise year-on-year, ranking it as the world's biggest coal importer.

- Chinese steelmakers are questioning the reliability of the main industry price index for ore provided by Platts, expressing concerns about transparency and trading volume. "We are skeptical because we don't know the size of the deal samples and how they work out the indexed prices," said Wang Liqun, Deputy General Secretary of the China Iron & Steel Association (CISA)." Shen Wenming, Vice President of Jiangsu Shagang, said: "We found the indices often dropped slower when the spot market falls, while it always rises quicker when the spot rates move up. Indexed pricing dominates the market. Steelmakers don't have a say but to follow."

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