法兰德斯中国商会 FCCC VCKK

FLANDERS-CHINA CHAMBER OF COMMERCE
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

AUTOMOTIVE METALS & MINERALS NEWSLETTER | 24 OCTOBER 2013

AUTOMOTIVE

VW to double capacity at new Foshan plant

Volkswagen plans to double production capacity at its newly opened factory in Foshan, Guangdong province. It is operating the factory under a venture with state-owned automotive enterprise FAW Group Corp. The plant, capable of producing 300,000 vehicles a year, recently started to manufacture the redesigned Volkswagen Golf. "Foshan is part of our 'Go South' strategy," Volkswagen's China CEO Jochem Heizmann said. "Two years ago, we launched our 'Go West' strategy, building a plant in Chengdu." Now Volkswagen is trying to repeat the feat through building a plant in Foshan and expanding it quickly. In a sign that Volkswagen's efforts are paying off, the market share of the Volkswagen brand climbed to 13.6% in southern China in the first half of this year from 11.9% a year earlier, according to consulting firm LMC Automotive. The planned expansion at Foshan aims to boost the plant's capacity to 600,000 vehicles a year with an investment of CNY15.3 billion. The plant is producing the new Volkswagen Golf and is also slated to start producing the Audi A3 hatchback early next year. Volkswagen also plans to raise its stake in the joint venture to 50% from 40%. The expansion in southern China is part of Volkswagen's plan to boost the German group's annual manufacturing capacity in the country to four million vehicles by 2018. Volkswagen increased its China sales by 18.5% last year to 2.6 million vehicles.

"Lemon law" may squeeze small carmakers

A beefed-up vehicle warranty law that took effect in China on October 1 was unlikely to burden global carmakers but will likely raise costs for smaller local players that may add to pressure for eventual consolidation in the country's fragmented car industry. The new "lemon law" gives Chinese consumers nearly as much protection as enjoyed by their counterparts in the United States – free repairs or replacement of defective vehicles. Big global manufacturers such as General Motors or Toyota Motor are well-equipped to take the regulations – no more stringent than those they already face in their home or international markets – in their stride. But for some indigenous players, especially smaller, little-known carmakers with less rigorous quality control, the tougher requirements could sharply increase warranty-related costs. "This will add pressure on many low-quality local brands in 2015 onwards," said Jeff Chung, Hong Kong-based Analyst with Daiwa Securities. He said warranty costs could double for some. China has more than 70 registered carmakers, most competing for just a thin sliver of the market. Many are already feeling the pressure from a slowing economy and tougher fuel economy requirements due to be implemented. Policymakers in Beijing are trying to encourage carmakers to merge and combine operations to create bigger and more globally competitive homegrown firms. Before, dealers and carmakers in China were under no obligation to buy back or replace cars with persistent defects. Two years ago, Great Wall began offering warranties similar to those now required by law, and its warranty costs have nearly doubled to 1.8% of revenue from 1% in 2010, he said. According to Mei Songlin, Shanghai-based Analyst for consulting firm J.D. Power, the new law could prove burdensome for dealerships, too. Mei expects them to have to set money aside as reserves to handle increased warranty claims.

Japanese car sales recover

The three biggest Japanese carmakers finally turned around their annual sales in September. Toyota said its China sales surged 63% to 72,100 units in September – a huge reversal from its 4.2% drop in August. Nissan, whose sales exposure to China is the biggest among all Japanese carmakers, said it delivered 117,100 units last month, up 83% from a 1% gain in August. Honda, whose sales fell 2.5% in August, more than doubled sales to 73,990. Olive Xia, Analyst with brokerage firm Core Pacific-Yamaichi, said the strong growth in September was mainly because of a low base effect, and the Diaoyu Islands dispute was still having an impact on Japanese-branded car sales. Xia said that Honda's sales would recover further by the end of this year as it would launch new models. "But I don't expect significant rebounds in sales for Toyota and Nissan," she said.

Ford Motor expected to overtake Japanese rivals

Ford Motor Co is poised to overtake its Japanese rivals on China's top seller's list. Ford appears likely to sell more vehicles in China this year than two of its main Japanese rivals – Toyota and Honda. Its China sales are also approaching those of Nissan Motor Co. Ford is likely to sell more than 900,000 vehicles, including passenger cars and commercial vehicles, in China this year thanks to its beefed-up product lineup. Ford recently made available its redesigned Focus and Mondeo cars. Ford's sales in China were up 51% in the first nine months of the year to 647,849 vehicles, said David Schoch, Ford's Group Vice President for the Asia-Pacific region. The company expects to double its market share in China to nearly 5% by the end of this year from 2.5% last year, he said. He acknowledged that Ford was "slow" to enter the Asian market, and the plan to expand in China was not in place until four years ago. Before that, Ford was distracted by a lengthy period of serious financial problems and a major reorganization. Ford is building manufacturing hubs in China, India and Thailand and recently relocated its regional headquarters to Shanghai. While those plants will boost Ford's regional capacity of 1.9 million units – which vastly exceeds current sales – the carmaker is also moving ahead with the building of six new regional assembly plants, including four in China. That will bring total capacity to 2.9 million vehicles by 2015. Annual vehicle sales are expected to hit 32 million in China by the end of the decade, more than in the United States and Europe combined, Schoch said.

China's anti-luxury campaign no threat to Ferrari

Ferrari Chairman Luca Montezemolo said the campaign of President Xi Jinping to curb displays of wealth by the country's elite should not apply to purchases of the company's cars. "A Ferrari is not a luxury product. To buy Ferrari is to obtain a piece of art, a piece of technology", he told the South China Morning Post. In its latest financial results, the company reported a significant slowdown on the mainland and in Hong Kong and Taiwan in the first six months of the year, selling under 350 cars – 50 fewer than last year. Despite Ferrari's decision to cut production to below 7,000 units worldwide this year in a bid to protect the value of the brand, it saw a slight increase in sales in most of its key markets, the United States and Europe. The company said it was too early to predict whether it would meet its goal of selling nearly 800 units on the mainland and in Hong Kong and Taiwan this year. Montezemolo said his company's strategy in China was to expand its coverage by opening more dealerships. "Our brand awareness is increasing in China. The number of cars available for sale is fewer than demand," he said. Andrew Thomson, head of automotive in Asia-Pacific and China at KPMG, said Xi's anti-corruption drive would continue to hurt sales of "super luxury" vehicles and demand from Chinese consumers may be shifting downward from "super luxury" to luxury vehicles. Audi, the top-selling luxury-car brand in China, saw sales surge 28% month-on-month in September on the popularity of its Q3 and Q5 sport utility vehicles (SUVs), which cost upwards of USD60,000. Ferrari streetcars cost upwards of USD400,000. Montezemolo said he was in Hong Kong to celebrate the 30th anniversary of the Italian firm's agreement with local distributor Auto Italia and "reinforce" the brand's ongoing commitment to Hong Kong, the mainland and Taiwan.

Tire makers vie for China market share

Tire makers are rapidly expanding their sales outlets to compete for a share of the Chinese market estimated at 120 million replacement units annually. Among them is the Singaporean brand Giti, which opened 1,700 sales and service outlets around the country between 2009 and 2012. By April last year Germany's Continental had 1,680 authorized outlets, according to the industry website Gongchang.com. With about 67% of the cars on the road powered by engines of 1.6 liter or less, top brands such as Continental from Germany and Michelin from France are powering up to meet the demand. Michelin entered the country's medium and low-end segment by introducing its Warrior sub-brand in 2012. Continental introduced an affiliated brand called Virgin in China last February to cater to the same market. According to a recent JD Power study, new vehicle owners who are satisfied with their originally-equipped tires are likely to buy the same brand when their first tires wear out. According to the survey, 47% say they definitely would choose their original brand when replacing tires. Statistics also show that sales volumes in the OEM and replacement segments in China are almost equal, so getting a head start as original equipment is crucial to long-term development in the replacement market. In the first quarter of 2013, Michelin's sales grew 15% year-on-year in OEM tires and 11% in the replacement market. Goodyear reported its sales grew 5% in OEM and 4% in the replacement segment in the first three months, the China Daily reports.

Goodyear eyes public transport

U.S. tire maker Goodyear is aggressively expanding in China's commercial vehicle market as it sees increasing demand for high-quality tires in modern logistics and public transportation. "Chinese cities are growing fast and the needs of their urban transport are also challenging, placing an increasing demand for advanced tires," said David Beasley, Vice President of Goodyear's commercial product business unit in the Asia-Pacific region. After the launch of seven new tire products in March in Dalian, Goodyear last week presented its S800 high-performance tires for China's urban public transport systems. "You may see our determination in China by the aggressive launch of 11 tires within one year," said Beasley. "And we are going to bring at least six new tires to the country next year." He said Goodyear aims to more than double its commercial tire business in China annually from 2013 to 2015. "After that we target a year-on-year growth of 25% for the long run," he said. "In three years, China will be our largest market in the Asia-Pacific." Beasley hopes the company's annual sales of commercial tires in China will reach 1 million units in the second half of the decade. While it was the first foreign tire manufacturer to invest in China when it arrived in 1994, Goodyear was a latecomer to the country's commercial tire market. Its first product in the segment rolled off the production line in its Dalian plant last October, the China Daily reports.

Short news

- Ford's Asia-Pacific President David Schoch said China's top seller of SUVs – Great Wall Motor – is the one company to watch. He made the remarks at Ford's headquarters in Dearborn, Michigan. “They seem to be coming up with good designs and quality, and they've started to export.” Great Wall Chairman Wei Jianjun has signaled Great Wall will eventually outsell Chrysler's Jeep globally and wants to double sales over three years to 1.3 million vehicles by 2015. Ford is on a growth path of its own in China and expects to double its quarterly market share in less than two years.
- China’s auto market expanded 19.7% in September to 1.94 million passenger cars and commercial vehicles, helped partly by a huge gain for Japanese carmakers, according to the China Association of Automobile Manufacturers (CAAM). The year-on-year growth was the highest since January when the annual comparison was skewed by the week-long shutdown of showrooms during the Lunar New Year holiday that fell in January last year but February this year. On an annual basis, Japanese car brands scored the biggest gain in the passenger car segment last month and took 17.5% of the market.
- Shanghai car plate prices rose for the first time in seven months at the October auction, after a price ceiling on first-round bids was removed. The average price was CNY83,723, said auction organizer Shanghai International Commodity Auction Co, up CNY10,231 – just under 14% – on last month. The price ceiling is now only triggered by price hikes of between 3% and 6%. A spike of more than 6% will result in a two-month imposition. For the next two months the upward limit will be set at CNY74,900 – the weighted average of prices in September, August and July. 10,000 plates were auctioned this month, 1,000 more than usual, and the number of auction participants dropped 18% to 28,887.
- The auto industry has mixed views on the possible impact of the opening of the free trade zone (FTZ) in Shanghai. “The most likely influence on the auto industry will be to boost exports,” Industry Analyst Zhang Zhiyong said. Gu Feng, CFO of SAIC Motor Corp, added that “the zone can help cut operating costs and offer a better investment and financing channel.” SAIC’s subsidiary in the zone is expected to help cut export costs by 20% due to the zone's preferential policies. The company will transfer its import and export operations to the zone.
- The biggest-ever Wuhan Motor Show was held this month. First created in 1995, the show is in its 14th year and has established its name as the most influential and attractive auto event in the central region. The six-day exhibition this year closed on October 23, by which time it is expected to have drawn 400,000 visitors. About 300 exhibitors showcased some 600 models. Total annual production capacity of automobiles in Wuhan is expected to reach 3 million units in three to five years.
- Dongfeng's new-energy vehicle plant recently broke ground in Wuhan. With a planned annual production of 160,000 units and first-phase investment of CNY2.4 billion, the facility is scheduled to be operational by the end of 2014. The plant is expected to strengthen the automaker's capability in innovation on new-energy vehicles, said Zhu Fushou, General Manager of Dongfeng Motor Corp. Dongfeng plans to have an output of 100,000 heavy-duty hybrids by 2015 and by 2020 will have energy-saving and new-energy vehicles that compete with conventional vehicles.

METALS

Steel consolidation expected to cause unemployment

Premier Li Keqiang's bid to streamline metal production conflicts with local governments that are reluctant to oversee mass unemployment. Tangshan in Hebei province is the largest steel city in China that alone has almost five times as many blast furnaces as North America. If plants are shut or consolidated many employees will lose their jobs. Cities like Tangshan are marked for cuts. The United States, Canada and Mexico combined have 32 operating blast furnaces for making steel, according to the Association for Iron & Steel Technology. Tangshan alone has 156. Eliminating capacity means winning over regional governments reluctant to crack down on industries that provide tax income. Job losses could also lead to social unrest. “For local governments, unless you really force them, they'd rather not,” said Vanessa Lau, Senior Analyst at Sanford C. Bernstein in Hong Kong. Previous attempts to streamline the steel industry have stumbled. In 2009, the government scrapped the takeover of Linzhou Iron & Steel after workers held an official hostage for four days. The same year, workers at Tonghua Iron & Steel killed an Executive who demanded job cuts as part of a takeover of the company. The buyout was abandoned. Meanwhile, steelmakers boosted capacity and hired more staff, employing about 3.2 million workers in 2011, about 10% more than in 2006, according to a Bernstein report. China added 440 million tons of capacity in the past six years, bringing the total to 976 million tons, broking house UOB Kay Hian said last month in a report, citing data from the China Iron and Steel Association (CISA). An additional 130 million tons will be added in the three years to 2015. But the five-year plan to 2015 also orders the shutdown of blast furnaces smaller than 400 cubic meters. Steelmakers are required to cut carbon-dioxide emissions and energy use by 18% and to consolidate the top 10 producers. “Over the next three years, we believe the overall capacity to be closed is going to be much bigger compared to the last 10 years,” said Goldman Analyst Julian Zhu. Tangshan produces half the steel in Hebei, China's biggest steel producing region that accounts for about 20% of capacity, the South China Morning Post reports.

China copper imports set to rise

China is expected to import more refined copper next year as Beijing steps up building of power networks, rail lines and low-cost homes, while domestic production is likely to be squeezed by tight scrap supply, industry sources said. Refined copper consumption might rise 5% to 6% next year, three large end-users and producers estimated. This would take consumption to about 8.6 million tons, based on 8.1 million tons estimated for this year by state-backed research firm Beijing Antaike Information and Development. Importers are likely to increase orders for term shipments next year to restore stocks, after more than 500,000 tons of bonded stocks were used this year, the industry sources and traders said. This would be a reversal from this year, when importers cut term shipments, depressing copper prices on the London Metal Exchange, which have lost more than 9% so far this year. Metals demand is expected to be boosted by urbanization projects which have been designated by the Chinese government as priorities for growth. Sources at smelters said copper demand was also expected to rise because of a shortage of scrap, which has already limited production at some refined copper producers. China's refined copper production will also increase by more than 200,000 tons next year if Jinchuan Group opens its new 400,000 ton-per-year smelter in the first half.

Meanwhile, aluminum consumption is expected to grow more than 10% next year from about 24 million tons estimated for this year. A manager at a plant that uses primary aluminum to manufacture semi-finished products said the firm’s local and export orders of large aluminum profiles had more than doubled this year and it expected orders to rise further next year. The provincial government of Guizhou was considering requiring all local projects to use aluminum instead of steel moulds from next year. China’s State Reserves Bureau is not expected to buy aluminum for stockpiling next year, after purchasing 300,000 tons this year, so as not to encourage new production. Nonetheless, the increase in consumption may lag capacity, which is expected to grow by about five million tons next year.

China joins efforts to phase out use of mercury

Efforts by Chinese hospitals to phase out instruments that use mercury – such as thermometers – reveal the severity of China's problem with the toxic metal, the scale of which remains sketchy even to experts. China has agreed to phase out all mercury-based devices by 2020. The target is to be agreed in an international treaty to be signed next month in Japan, said Wang Wei from the Beijing Global Village Environmental Education Center. China is among 147 nations that have agreed to control the use and emissions of mercury, a highly toxic metal that is liquid at room temperature, under the framework of the UN Environmental Program's Minamata Convention. The agreement, to start in 2016, is named after the Japanese city that suffered industrial mercury poisoning in the 1950s and '60s. The treaty is expected to have a profound impact in China, the world's largest producer and user of mercury, as it sets timetables to limit or phase out its mining, trading and use. There are many sources of mercury pollution, including coal-fired power plants, industrial boilers, cement plants and non-ferrous metal smelters. Exposure to mercury and its compounds, even in small amounts, can damage the brain, nervous system and kidneys. The metal accumulates in plants and animals and its effects are long-lasting. Despite initial resistance from hospitals which feared higher costs, the replacement plan was going fairly smoothly, Wang said. China produced about 150 million mercury-based thermometers in 2010. Statistics on mercury pollution are sketchy, but in 2007 China emitted about 643 tons of the chemical, according to the China Council for International Cooperation on Environment and Development (CCICED). There has been no official update on mercury pollution figures since 2007. China aims to cut emissions of five types of heavy metals, including mercury, by 15% by 2015 from 2007 levels in key industrial areas. Coal-fired industrial boilers accounted for 33% of the country's total mercury emissions in 2007, while cement plants contributed an additional 14%, yet the country still lacked standards on mercury emissions for the two sectors, the South China Morning Post reports.

China’s output of recycled non-ferrous metals up 3.67%

China’s output of secondary non-ferrous metals, those recycled from scrap metals, rose 3.67% year-on-year in 2012 to exceed 10 million tons, almost one-third of its output of primary non-ferrous metals, according to the China Non-ferrous Metals Industry Association. Last year a total of 6.6 million tons of domestic scrap aluminum, copper, zinc and lead were recycled, up 5.09% annually. China has become the world’s largest importer of scrap non-ferrous metals. From 2002 to 2012, the efforts of Chinese non-ferrous metal recyclers were equal to a saving of 139 million tons of standard coal and 12.3 billion cubic meters of water that would have been consumed in producing the same output of primary non-ferrous metals. Wang Jiwei, Vice President of the Association’s recycling metal branch, said the industry faces many challenges, including a decline of scrap metals resulting from a low recovery rate at home and slumping imports from abroad, as well as limited industry innovation and weak demand. In the first three quarters of 2013, China produced 7.22 million tons of major secondary non-ferrous metals, down 5.1% from the same period last year, according to Wang. The industry will optimize its structure and hone its ability for technological innovation, Wang added.

MINERALS

Tianjin Materials invests in Sierra Leone iron ore mine

Tianjin Materials and Equipment Group Corp (Tewoo) has agreed to invest USD990 million for a 16.5% stake in African Minerals’ Tonkolili mine in Sierra Leone, valuing the project at USD6 billion. The terms of the “strategic, binding” memorandum of understanding also include a 20-year off-take agreement and the creation of a joint venture with the miner to blend and market iron ore through Tianjin's ports. African Minerals said the investment would be made in two stages: first, Tewoo would buy new shares in African Minerals for USD390 million, amounting to a 10% stake in the company. African Minerals will then sell Tewoo a 10% stake in the project for USD600 million. The 20-year off-take deal involves 10 million tons per year of iron ore, or proportionately less if the capacity of the project’s second-phase expansion is less than 35 million tons per year. The deal follows a USD1.5 billion investment from Shandong Iron and Steel Group secured in 2011. Earlier this month, African Minerals was forced to pay Shandong Iron compensation for not fulfilling off-take pacts and output targets set for 2012. “The Tewoo investment should leave African Minerals well placed to pursue a phase two expansion in the coming years,” said Analyst Seth Rosenfeld at Jefferies. “Together with USD502 million of cash on hand at the end of the first half and with strong cash flow generation from current operations, we forecast African Minerals could end 2013 with USD1.5 billion,” the Shanghai Daily reports. “This transaction will provide African Minerals with additional funds at the corporate level, significantly strengthening our balance sheet, and will provide flexibility in financing options for the company's future development,” Chairman Frank Timis said. African Minerals began exporting ore from Tonkolili in 2011 and has since been dogged by operational setbacks. The London-based company cut its sales forecast for this year from Sierra Leone to a range of 11 million to 13 million tons from as much as 15 million tons, having also reduced output targets a year ago.

Citic Pacific’s Australian iron ore project going into production

Citic Pacific said it was moving into the initial production phase at its USD8 billion iron ore project in Australia, following years of delays at one of China’s costliest offshore mining developments. The project is already some four years behind schedule and billions of dollars over budget. Commissioning of the first of its two production lines has been going on since

July, Citic Pacific said, and the project was now moving into the production stage. The project, one of the largest of its kind undertaken by a Chinese entity outside the country, has been marred by legal disputes. It has yet to generate any returns six years after Citic Pacific bought the rights from Australian tycoon Clive Palmer, prompting Beijing to take a much more cautious approach to approving foreign mining investments. Citic Pacific said last month the focus over the next six months would be to ensure the stable running of the first production line and ramping it up to full capacity. The firm had hoped to begin exporting iron ore in May. But problems at its grinding mill, a component in the production of the type of magnetite found in the far west Australian deposits mined by the company, forced it to delay. The development aims to produce up to 24 million tons of iron ore concentrate annually. The material will be used by Citic Pacific's own steel plants and also sold to other steel producers in China. The cost of the project has swelled to almost USD8 billion from USD2.5 billion.

Coal to become No 1 fuel thanks to China

Coal will surpass oil as the world's dominant fuel by 2018, and China will be the dominant contributor to the development, according to energy consultancy Wood Mackenzie. The prediction highlights the difficulty to rein in reliance on coal, given its relative abundance and economic attractiveness. "China and India's aggressive power requirements will be responsible for coal's burgeoning role in energy, but the United States, Europe and the rest of Asia will still contribute to coal demand," said London-based Wood Mackenzie President of Global Markets William Durbin at the sidelines of the World Energy Congress. Driven by urbanization and industrialization, "China's demand for coal will almost single-handedly propel the growth of coal as the dominant global fuel", he added. The consultancy projected that global coal demand would rise 25% between 2010 and 2020 to 4.5 billion tons of oil equivalent, compared with 4.4 billion tons of oil consumed that year. The forecast is based on the assumption that China's coal-fired power generation will satisfy almost half of power demand growth between last year and 2020, which is estimated to average 7% a year. The continuation of coal's dominance as a fuel source is due to a limited supply of domestic natural gas, high cost of gas imports and instability of renewable power output. Durbin said coal's price competitiveness meant its demand would remain stable until the end of the decade even in regions other than China and India. General Electric Chief Executive Steve Bolze told the congress that coal-fired plants would still supply about 30% of power output in the U.S. in a decade, although improved technology had reduced greenhouse gas emissions from new plants by 13% per unit of output.

Myanmar to get bigger slice of profits at China-backed copper mine

Myanmar has signed a revised contract that increases its share of the profits from a controversial Chinese-backed copper mine. The revision is seen as an attempt by the government to appease public anger over the project by giving the country a bigger share of the profits, after protests last year that triggered a violent police crackdown. The new terms give the government 51% of the profits from the Letpadaung copper mine in Monywa, 760 kilometers north of Yangon, far more than its original 4% share. The mine's operators, Union of Myanmar Economic Holdings (UMEHL), which is owned by Myanmar's military, and Myanmar Wanbao, a unit of China North Industries Corp, a Chinese weapons manufacturer, will get 19% and 30% respectively. Under the original contract, UMEHL got 45% and Myanmar Wanbao 51% of the mine's profits. Villagers protested for months last year against the project's expansion on what they said were thousands of hectares of illegally seized land. Buddhist monks joined the protest, saying the project had destroyed or damaged holy sites. The mine contract's new terms provide for USD3 million to be set aside for corporate social responsibility activities. Activists said some villagers would be satisfied with the compensation, but other still wanted the project to be scrapped.

Minmetals submits bid for Peru mine

China's Minmetals has submitted a first-round bid for Glencore-Xstrata's USD5.9 billion Las Bambas copper mine in Peru, said Managing Director Gu Liangmin at a conference in London. "We will be very cautious about our decision. It's unnecessary for Minmetals to buy assets at a crazy price or a price that we believe is not worth it," he added. Glencore-Xstrata agreed to sell Las Bambas this year to meet demands from China's antitrust authorities after Glencore's takeover of mining group Xstrata. The regulator feared the tie-up handed the newly-formed commodities firm too much clout in copper. Glencore has long reported strong Chinese interest in Las Bambas, but there have been questions among analysts and observers over whether Beijing would allow competition between Chinese industrial groups or designate a bidder. The mining company said last month that Chinese suitors might be allowed to compete against each other in the race for the mine. Chinalco Mining and Jiangxi Copper, the country's largest producer of the metal, were among the Chinese groups also interested in the project. Peru's Mines Minister Jorge Merino said that firms from several countries had expressed interest.

China launches iron ore futures

China launched its first iron ore futures contract, posing a threat to the USD28 billion swaps market by exploiting the huge untapped hedging potential at home. The contract to be offered by the Dalian Commodity Exchange likely before the end of the year will be another Chinese attempt at boosting its power to price the world's second-largest traded commodity after oil as a more volatile iron ore market exposes its steel mills to more risks. By launching the first yuan-denominated iron ore futures contract, the Dalian exchange can easily draw on the growing hedging appetite in China, a market that bourses in Singapore, the United States and Europe have been trying to tap for years. Beijing has kept a tight rein on overseas derivatives trading by state-owned firms after many lost billions of dollars in offshore futures during the global financial crisis. The lack of a domestic hedging tool has led Chinese companies to increase their use of the U.S. dollar-denominated cash-settled swaps offered by the Singapore Exchange (SGX) and CME Group. “Dalian's futures will attract a big number of domestic companies because this can help them avoid currency volatilities and restrictions which is a big challenge to Singapore's swaps,” said Zhao Qian, Senior Broker with Citic Securities Futures in Shanghai. “In the longer term, Beijing hopes to gain more pricing power via its own futures and it is hoping it can become a market benchmark.”

China buys at least 60% of the world's seaborne iron ore, reaching a record 744 million tons last year, almost seven times the size of swaps cleared by the Singapore Exchange. With more than 127 million tons traded last year, the swaps market accounts for just over a tenth of the 1.1 billion tons of seaborne iron ore sold annually, but the volume is rapidly increasing. From January to September, nearly 210 million tons of swaps have been traded, valued at USD28.3 billion based on the average price of about USD135 a ton. SGX clears 90% of global iron ore swaps. The Dalian Commodity Exchange secured regulatory approval in mid-September to launch the futures. It will be the first iron ore futures contract backed by physical delivery, the South China Morning Post reports. Physical delivery will be completed with imported iron ore powder which contains 62% iron, or both refined iron ore powder and iron ore concentrates with iron above 60% as replacements. The trade will use stockpiles at ports including Tianjin, Lianyungang, Rizhao, Tangshan, Qingdao and Caofeidian, as well as stocks at some steel mills. The size of each lot will be 100 tons, have a daily trading limit of 4% and be denominated in yuan.

China well-supplied with coal for winter

China’s coal market will remain amply supplied into the fourth quarter despite peak winter consumption, and the fundamentals are expected to remain much the same next year, according to the China Coal Transportation Association (CCTA). China is the world’s top coal producer and consumer. Abundant domestic supplies have kept prices depressed and dampened its appetite for imports. If economic growth weakens, the domestic coal market would easily tip into a state of oversupply, Bin Haoxiang, CCTA Director said at an industry conference. The Association also said China’s coal consumption is expected to grow about 3% per year and reach 4.8 billion tons by 2020. Coal imports in September slipped 0.9% from August to 25.7 million tons. Imports in the first nine months of this year rose 18.5%, down from 34% in the same period last year. China’s steam coal prices edged higher last week, posting their first weekly gain in 11 months as winter restocking by utilities coincided with a two-week planned maintenance of the main coal railway. Domestic coal prices rose CNY1 from a week ago to CNY531 per ton on October 16, the first weekly gain since November 7, according to the Bohai-Bay Rim Steam Coal index. Although that has sparked hopes of a short-term price recovery, trade sources said gains would be capped by plentiful supply, while a resumption of railway operations towards the end of the month could again start to pressure prices, the South China Morning Post reports.

Short news

- China has pledged to shut down at least 2,000 small coal mines by the end of 2015 as it tries to improve safety standards. Mines targeted will be those with an annual output of less than 90,000 tons that fail to adhere to safety rules, and those based on substandard coal resources that are prone to accidents. New coal mines with an annual capacity of less than 300,000 tons will no longer be approved. In China, 1,384 people were killed in coal mine accidents last year, and two-thirds of accidents each year are in small mines. Safety improvements have reduced deaths in recent years, but regulations are still often ignored. China has about 12,000 coal mines.

FOUNDING MEMBERS

STRUCTURAL PARTNERS

Your banner at the FCCC website or newsletter
Companies interested in posting a banner/an advertisement on the FCCC website, FCCC weekly newsletter or bi-weekly sectoral newsletters are kindly invited to contact the FCCC at: info@flanders-china.be

Organisation and founding members FCCC
President: Mr. Bert De Graeve, C.E.O., NV BEKAERT SA
Vice-President: Mr. Stefaan Vanhooren, President Agfa Graphics, Member of the Executive Committee of the Agfa Gevaert Group, NV THE AGFA-GEVAERT GROUP SA
Secretary and Treasurer: Wim Eraly, Senior General Manager, NV KBC Bank SA
Executive Director: Ms. Gwenn Sonck
Members of the Board of Directors and Founding Members:
Mr. Bert De Graeve, C.E.O., NV BEKAERT SA
Mr. Jozef De Mey, Chairman of the Board, NV AGEAS SA
Mrs. Elisabeth Schraepen, Public Affairs Manager, Belgium and Luxembourg, NV AB INBEV SA
Mr. Carl Peeters, CFO, NV BARCO SA
Mr. Kris Verheye, Vice President Corporate Division, NV BELGACOM SA
Mr. Johan Verstraete, Vice-President Marketing, Sales & Services Weaving Solutions, NV PICANOL SA
Mr. Luc Maton, General Manager Asia Region, NV AHLERS SA
Mr. Philip Hermans, Director General, NV DEME SA
Mr. Egbert Lox, Vice-President Government Relations, NV UMICORE SA
Mr. Wim Eraly, Senior General Manager, KBC Bank SA

Membership rates for 2013:
- Large enterprises: €975
- SMEs: €385

Contact:
Flanders-China Chamber of Commerce
Lammerstraat 18, B-9000 Gent
Tel.: +32 9 266 14 60/61 – Fax: +32 9 266 14 41
E-mail: info@flanders-china.be
Website: www.flanders-china.be

Share your story:
To send your input for publication in a future newsletter mail to: info@flanders-china.be

This newsletter is realized with the support of the Federal Government of Belgium, the Flemish Government, the Walloon Government and the Government of the Brussels-Capital Region.

The FCCC Newsletters are edited by Michel Lens, who is based in Beijing and can be contacted by e-mail michel.jc.lens@gmail.com . Disclaimer: the views expressed in this newsletter are not necessarily those of the FCCC or its Board of Directors.