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AUTOMOTIVE

China no longer encourages investment in car assembly

The National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) jointly issued a new guideline for foreign investment, moving “finished car manufacturing” from the “encouraged” list to the “approved” list, but the move will not affect existing Sino-foreign joint ventures in China's auto sector. An NDRC official explained that the move was the result of excesses in both production capacity and finished automobile companies in China. "It was a normal adjustment in light of the development of China's auto industry," said the official with the NDRC's Department in charge of foreign investment, who declined to be named. "There is no issue of tightening up, nor will it affect the operations of existing joint ventures in China," added the official. China has been the world's largest auto producer and market by volume since 2009. Sales hit 18.06 million units in 2010, while output rose to 18.26 million units. The country has more than 130 finished automobile producers, more than any other country, but the companies are scattered and not strong enough, as mergers and acquisitions (M&As) have been slow. The government has controlled approvals of new finished auto projects more rigorously in the past two years to curb overcapacity. About 70% of domestically made cars are produced by Sino-foreign joint ventures in China.

ITT to invest in electric vehicles

ITT Corp sees potential business opportunities in China's policies for the development of electric vehicles. The company announced that it will invest USD10 million in a braking technology production base and a research & development (R&D) center in Wuxi in Jiangsu province. Luca Savi, President of the company's Motion Technologies Division, said the sum is just the initial investment and more funds will be made available as the project develops. ITT closely cooperates with BYD Co in the electric-vehicle business. "We will promote our charging-connector products and solutions in China and abroad because there is a continuing demand for electric autos," said Denise Ramos, ITT's CEO and President. Bill Taylor, President of ITT Interconnect Solutions, said the company will promote charging equipment in accordance with Chinese standards in the second quarter of this year, cooperating with BYD. The company has seen total annual revenue of USD2 billion over the past two years, 5% of which came from its businesses in China, according to Ramos.

Volkswagen hits record sales

Volkswagen said its sales on the mainland and in Hong Kong climbed 18% last year to a record, led by deliveries of Lavida and Sagitar and demand for Audi luxury cars. The VW group, which also owns the Skoda and Bentley brands, sold 2.26 million vehicles in the two markets. General Motors, the biggest foreign carmaker in China, increased sales in the nation by 8.3% last year to a record 2.55 million vehicles. China is now the largest market for VW, its premium Audi brand and luxury Lamborghini. "Although we expect tougher conditions for the car industry to come, we want to maintain our leading market position in China," said Karl-Thomas Neumann, Chief Executive of VW's China operations. "We see a great potential for an expansion in China's rural areas where millions of people will benefit from better mobility." Growth in vehicle demand is expected to accelerate this year to about 9.5%, or about 15.87 million units, from the 5.2% pace last year. Car sales rose 33% in 2010 and 53% in 2009. The German carmaker sold 1.72 million of its main Volkswagen brand cars in China, an increase of 14% from a year earlier. This amounts to 34% of the brand's global deliveries of 5.1 million vehicles last year. Audi increased sales on the mainland and in Hong Kong by 37% to a record 313,000 vehicles last year, the company said. It became Audi's largest market globally last year. Audi boosted deliveries of imported cars such as the Q7 sport-utility vehicle (SUV) and the Audi A8L. The carmaker also sold more domestically produced A4L and A6L cars, whose wheelbases were extended to meet the needs of chauffeur-driven Chinese buyers. VW, which has joint ventures with FAW Group and SAIC Motor, was the first foreign carmaker allowed to produce cars in China. The company has said it would add a seventh factory in China as part of plans to invest €14 billion to expand production and models by 2016, the South China Morning Post reports.

Jaguar Land Rover to launch China expansion

Jaguar Land Rover, the British car maker owned by India's Tata Motors, aims to double its sales in Hong Kong over the next five years with an eye on boosting its profile both locally and in the mainland market, according to Joseph Lau, Hong Kong Brand General Manager of distributor Inchcape. "Hong Kong is a unique market because it is not very big ... but there are so many affluent Chinese visitors coming here," said Lau. "They see what is popular among Hong Kong people and view those brands as high quality. That way they get automatic recognition on the mainland." Inchcape is using local launches of new Jaguar Land Rover models to also target prospective mainland buyers. The company hopes to double local sales of JLR vehicles in the next five years, up from an expected 135 Jaguar deliveries this year and

250 Land Rover deliveries. The mainland is set to overtake the U.S. as JLR's biggest market after the UK as early as this year. Land Rover's mainland sales rose 54% in the first 10 months of last year to 27,761 units, while Jaguar's rose 91% to 4,382 cars. JLR plans to open 100 Chinese dealerships by the end of the year, up from 80 at the end of October. Demand for some Land Rover models, such as the newly launched Evoque, is such that Chinese buyers ordering a new car may have to wait up to one year for delivery. Inchcape is in the process of spending around HKD2 billion to add 16 new Chinese dealerships by 2016 to the four it now operates there.

GM to focus on Cadillac sales in China

General Motors will concentrate on luxury sales in China in the next three to five years as increasing wealth drives demand for premium vehicles. GM plans to expand its Cadillac range to compete for affluent consumers who are buying BMW and Audi cars, according to President Kevin Wale. The company aimed to increase production capacity in the country by as much as 40% in the next two years, he said in Shanghai. "Luxury-car sales will continue to grow faster than the overall passenger car market, driven by increasing wealth," Wale said. The segment was "a key area of focus" for the company over the next three to five years, he added. GM was pushing to sell more premium cars to meet the next wave of luxury demand from an emerging class of successful entrepreneurs, Wale said. Overall car sales in China might rise between 7% and 10% next year, with demand for trucks and mini-commercial vehicles rebounding from a probable decline this year to expand 5% next year, according to Wale. The market "remained fairly resilient", he added. China could overtake Germany as the world's second-largest market for luxury vehicles this year, trailing only the U.S., according to research firm LMC Automotive.

Sparkle Roll confident in luxury car market

Sparkle Roll, a luxury car dealer, expects the impact of a global economic slowdown on the high-end market to be small, as it believes more Mercedes-Benz and BMW owners will be trading up to pricier brands. Ivan Tong, Chairman of Sparkle Roll, which sells Bentley, Rolls-Royce and Lamborghini brands, said Chinese customers' demand for super-luxury cars has remained strong. The dealer, which sells luxury brands in Beijing, Tianjin and Dalian, said car sales last month reached a monthly record high of nearly 100 units. Ivan Tong said luxury cars only account for 0.05% of total car sales in China, which is low compared to the developed world. Tong believes the growth potential is huge as Chinese millionaires may purchase more new cars and trade up from their Mercedes-Benz and BMW cars to more high-end brands. Tong said the cars Sparkle Roll sells are priced around CNY3 million to CNY8 million. Most of its customers are mine owners, property developers and senior executives in the finance industry. Sparkle Roll has broadened its luxury business into top-end watches, jewelery and wine. In the six months to September last year, the company recorded a nearly-70% growth in turnover to HKD2.08 billion. Net profit more than doubled to HKD112 million. The car business, which amounts to 94% of its total turnover, grew 67% year on year.

Manufacturers reject new bus rules

Domestic vehicle manufacturers are split on whether China should adopt U.S. standards on school buses, in the wake of several fatal accidents. Premier Wen Jiabao has vowed to attach high importance to the safety of school buses, and ordered related authorities to complete legislation within a month. The Ministry of Industry and Information Technology (MIIT) posted draft technical regulations for school buses on its website on December 26 for public consultation. Car manufacturers complained the proposed standards, based on U.S. regulations, were "not suitable for the realities in China". At least half of the engine should protrude beyond the front window and bumpers must be at least half a centimeter thick. Buses must be designed to run no faster than 60 km/h, have stairs that are at least 70 cm high, and pass stringent tests on how safe they would be if they overturned. Most car manufacturers said adopting the new standards would increase costs by 20% to 30%, and some said they simply could not produce such high-quality vehicles. They also complained the new regulations were drafted by the Yutong Group, China's largest bus producer, which specializes in big coaches. They accused Yutong of ignoring the limitations of small enterprises. Industry Analyst Jia Xinguang said China needed 1.5 million to 2 million school buses, and it would cost hundreds of billions of yuan to buy new ones made to the specifications of the new regulations.

Car sales rose 2.8% last year

Full-year passenger car sales, including sedans, sport-utility vehicles, multi-purpose vehicles and minivans, rose 2.8% on an annual basis to 13.7 million units last year, the China Passenger Car Association said. December sales fell 3.3% to 1.42 million units. The Association predicted China's wholesale vehicle sales would grow 7% to 19.8 million units this year, including 15.6 million passenger cars and 4.25 million commercial vehicles, if the fuel tax remained stable. Retail vehicle sales may rise 12% to 18.6 million units. Rao Da, Secretary General of the Association, projected January's retail vehicle sales overall may drop 20% to 1.25 million units, but "passenger car sales may see positive growth in the second quarter of this year." Last year, SUVs saw the biggest sales increase of 21.2%, compared with a 3.6% gain for sedans and a 8.7% rise for MPVs. Sales of minivans fell 11%. The China Association of Automobile Manufacturers (CAAM) said China retained its crown as the world's largest auto market for a third consecutive year in 2011 despite the growth in sales falling to the lowest in 13 years. CAAM estimated full-year sales for this year to grow 8% to around 20 million units. Automakers sold a combined 18.5 million vehicles in China last year, up 2.5% from a year earlier, said CAAM.

Chinese car sales ended the year on a relatively strong note, with shipments of new passenger vehicles rising last month to their highest levels since last January's record volumes. Makers shipped 1.37 million new cars, SUVs and minivans to dealers last month, a 5.4% increase from a year earlier, according to preliminary data released by the Shanghai-based China Passenger Car Association (CPCA). Car makers appear to have been eager to fill showrooms for the sales boom that typically precedes the Lunar New Year holiday. "The market for passenger cars last month proved better than expected — not only did dealer inventories not climb, they actually fell," CPCA Secretary General Rao Da wrote on his sohu.com blog. "All this is giving a big boost to expectations for the market in 2012."

Shanghai Volkswagen breaks ground on Ningbo plant

Shanghai Volkswagen broke ground on a new 300,000-unit plant in Ningbo, Zhejiang province. Scheduled to begin operations in 2013, the Ningbo plant will be the sixth for Shanghai Volkswagen, the joint venture between the German carmaker and its local partner SAIC Motor Corp. It will have a workforce of several thousand employees by 2015. Volkswagen said that the new plant is part of its strategic plan to invest €14 billion from 2012 to 2016 in capacity expansion and new products at its Chinese joint ventures. The investment will be funded directly by the joint ventures. "With our unprecedented investment program, we intend to increase our combined capacity in China to 3 million vehicles per year by 2013 or 2014," Karl-Thomas Neumann, President and CEO of Volkswagen Group China said. Volkswagen's two joint ventures in China now produce about 2 million units annually. Its partnership with SAIC Motor currently has plants in Shanghai and Nanjing. It is building a factory in Yizheng, also in Jiangsu province, set to begin production at the end of this year with a designed yearly output of 300,000 vehicles. Shanghai Volkswagen sold over 1 million cars from January to November last year, an increase of 13.7% over a year earlier. Of every four cars Volkswagen now sells in the world, one is purchased in China.

Dongfeng aims to sell 3.3 million vehicles this year

Dongfeng Motor Corp, China's second-largest carmaker by sales, announced a 2012 sales target of 3.3 million vehicles, an 8% increase from last year. The auto group based in Hubei province aims to improve sales revenue to CNY420 billion this year, up from CNY400 billion in 2011. Dongfeng has joint ventures with Nissan, Honda, PSA Peugeot Citroen, Yulon Motor and Kia. The company sold 3.06 million vehicles last year, an increase of 12.25% over 2010, significantly better than the modest increase of less than 3% in the overall market. The robust performance lifted its market share by 1.43 percentage points to 16.51%, the company said. Last month Dongfeng announced a planned investment of CNY30 billion to boost sales and quality of its own-brand vehicles over the next five years. The company also said it aims to increase the ratio of R&D investment to 3% of revenues, up from the current 2.36%. Shanghai-based SAIC Motor Corp remains at the top of all domestic auto groups with sales of more than 4 million vehicles last year, an increase of 11.9% over 2010. FAW Group based in Changchun sold about 2.7 million vehicles last year to take the third position following Dongfeng. Chang'an Automobile Group headquartered in Chongqing ranked the fourth after it failed to achieve its original sales goal to deliver 2.4 million vehicles. Beijing Automobile Group, the fifth-biggest carmaker by sales, reported growth of 2.7% in 2011 to 1.5 million vehicles.

Long wheelbase vehicles exported from China

Daimler began exporting its Mercedes-Benz long-wheelbase E-Class sedans – exclusively produced at Beijing Benz Automotive Co (BBAC) – to South America. “The export of our long wheelbase E-Class from China marks a significant step in the development of the China premium auto industry, and demonstrates that BBAC produces cars with the world-renowned Mercedes-Benz quality,” said Ulrich Walker, Chairman and CEO of Daimler Northeast Asia. The extra 14 centimeters of legroom in the rear of the vehicle is appreciated not only in China, but also in overseas markets. BMW announced it will begin exporting its Chinese-made long wheelbase BMW 5-Series vehicle this year, starting on a small scale. BMW is adding a new plant in China, which will begin production in the early part of this year, so capacity shortages will not be an issue. “International automakers are now paying more attention to emerging markets and using existing production bases in China, which is cheaper than exporting from Europe or North America,” said Analyst Namrita Chow at IHS Automotive. General Motors (GM) saw exports from China soar in 2011. In the first 10 months last year, GM exported 25,236 vehicles from China, accounting for around 7% of total vehicle exports from the country. GM has been exporting its New Sail car, produced by its local joint venture with SAIC Group, Shanghai GM, to Egypt and will begin the export of vans to India, provided by its tripartite venture SAIC-GM-Wuling Automobile Co (SGMW). In June last year, PSA Peugeot-Citroen began exporting its 408 model to Egypt. The automaker had exported 1,320 units, as of the end of October. The company had also exported 1,283 units of its 207 model by late 2011, according to statistics from IHS Automotive. Other automakers expected to join the export trend include Hyundai, Nissan, Mazda, Suzuki and Volkswagen, according to IHS Automotive, the China Daily reports.

Short news

- Japanese automaker Subaru is recalling 7,133 vehicles exported to China due to defects in the brake system master cylinders. The cars to be recalled include Legacy models produced from September 21 to November 15, 2011 and Outback models produced from November 29 to December 19, 2011. The problem increases the stopping distance.
- Daimler is planning to sell a 5% to 10% stake to sovereign wealth fund China Investment Corp (CIC) as part of a plan to build closer ties with the government, according to John Zeng, Director of LMC Automotive Asia Pacific Forecasting.
- SAIC Motor announced it has completed the largest asset restructuring in China’s A-share market last year, with the market value of the listed company estimated at CNY29.11 billion. SAIC acquired the shares in its auto component, services trading and new-energy vehicle businesses by issuing shares to SAIC (Group) and SAIC Ltd. The listed company will trade under the new name of SAIC Group. The group sold more than 4 million vehicles last year, up 11.9% from last year and higher than the national average of 2.2%.
- Toyota Motor Corp said its vehicle sales in China slowed last year to 883,000 units, 4% more than the 846,000 units delivered a year earlier. The automaker is targeting sales to exceed 1 million units this year. Production at Toyota’s assembly plants in China fell to as low as 30% of normal following the earthquake in Japan in March. Toyota, which has joint ventures with China FAW Group Corp and Guangzhou Automobile Group Co, began producing its third-generation Prius hybrid last month in China for sale early this year. Toyota had 5.92% of China’s passenger car market, compared with General Motors' 17.9%.
- Car plate prices in Shanghai rose in the first auction of 2012 as demand outstripped supply. The averaged price increased to CNY53,195 this month, up CNY1,758 from December, auction organizer Shanghai Commodity International Co said. The lowest price jumped CNY1,800 to CNY52,800. The plate supply was reduced to 8,000 this month, 500 less than December. The number of bidders fell by 2,177 to 24,354 in January.
- General Motors Co and Ford Motor Co reported record car sales in China last year, outpacing Japanese rivals. Deliveries to Chinese dealers climbed 8.3% from a year earlier to 2.55 million vehicles, GM said. Ford said its sales grew 7% to 519,390 units. GM sold one car or truck every 12 seconds on average in China last year as it started a five-year rollout of more than 60 new and upgraded models.
- Rolls-Royce Motor Cars had the highest sales in its 107-year history in 2011 as China

became its biggest market for the first time. Sales of Rolls-Royce cars in China rose 60% last year. Growth in all regions drove deliveries 31% higher to 3,538 cars in 2011, beating the previous record year of 1978 by 191 vehicles. China became Rolls-Royce's biggest market three years ahead of a target the company set in February.

- Sun Xiaodong was appointed to be Director at PSA Peugeot Citroen Asia. Before Sun joined the group in May last year, he had served in SAIC Motor Corp and its joint ventures with Volkswagen and General Motors for two decades.
- National standards on charging portals and communications protocols for electric vehicles were released at the end of 2011. The new standards set requirements on DC and AC ports, as well as for communications between chargers and vehicle battery management systems. The standards are expected to take effect on March 1.
- Domestic automaker BYD is building a second crash test lab in Shenzhen that is expected to begin operation in August. The 22,000-square-meter, CNY100 million facility will meet the same standards as collision testing labs in Europe and the U.S. BYD already operates a similar lab in Shanghai.
- The 600,000th Hover SUV made by Great Wall Motors recently rolled off the production line, becoming the first domestic SUV to surpass the benchmark. In the first 11 months of 2011, Great Wall sold 434,469 vehicles, a 28.7% increase over the same period last year, with 141,249 Hover's sold, up 6.1%. Sales of its Tengyi sedan reached 181,344 units, up 60.9%, while 111,876 of its Fengjun pickup trucks were sold, 22% more than the previous year. Great Wall exported 76,031 vehicles, a 49.4% increase.
- Clean energy vehicles will form one tenth of the buses on the streets of Shanghai by the end of 2015, the city Transport Bureau pledged. Currently, the 18,000 buses in service in Shanghai include around 300 electric vehicles.

METALS

Zhongwang's orders rise 20% this year

China Zhongwang, Asia's largest industrial aluminum extrusion products maker, said orders this year may rise by more than 20% as it shifts its focus to the domestic market where demand is steady. China "is still in the stage of fast urbanization and industrialization", said Lu Changqing, Executive Director and Vice President of Liaoning-based Zhongwang. Lu did not give an actual forecast for profit or sales. The country is the world's largest producer and user of the metal. "The demand for industrial aluminum extrusion products will grow very fast," said Lu. The firm's gross profit margin will also improve this year from 20% in the third quarter of last year, as it will produce more high value-added products used in the aviation, shipbuilding and energy industries, Lu said, without elaborating. Aluminum prices in China will stabilize after falling for the past two years on potential production cuts at smelters and more demand from industry, Lu added. Zhongwang used 500,000 tons of aluminum ingots last year and the metal accounted for about 85% of its total cost of production.

China sets rare earth, coke and silver export quota

China has set the first tranche of rare earth export quotas for 2012 at 10,546 metric tons, the Ministry of Commerce (MOFCOM) said. The first tranche only included export quota for those enterprises that have passed stringent environmental inspections. Quota have been reserved for other firms — including China's biggest producer, Baotou Steel Rare-Earth Hitech Co — but will be released only if they are found to have complied with regulations. Overall export quota for the whole of 2012 would be unchanged from 2011 "to guarantee international market demand and keep rare earth supplies basically stable". The full-year quota for 2011 was 30,184 tons. However, actual exports totaled only 14,750 tons in the first 11 months amid a nationwide inspection and crackdown on illegal activities in the sector. China accounts for more than 95% of the world's output of the 17 rare earth metals. China also set the first tranche of export quota for coke in 2012 at 4.24 million metric tons. The total quota for 2011 was 8.42 million metric tons, issued in two tranches. China has begun to restrict coke exports as part of an effort to cut pollution. The government has imposed a 40% duty on coke exports, which has contributed to falling exports in recent years. Coke and semi-coke exports in the first 11 months of 2011 stood at 3.2 million metric tons, up 6.59% year-on-year, according to customs figures. The first tranche of silver export quota in 2012 would amount to 3,232 metric tons. Export quota for tin and tin products were set at 10,800 metric tons. The first batch of 2012 export quota for indium was set at 139,000 kg.

Chinalco eyes HK offering for Peruvian copper mine

Aluminum Corp of China (Chinalco), parent of listed Chalco, plans to list its Peruvian copper mining project in Hong Kong. The move may signal it will not inject its copper assets into Chalco as some investors hoped. BNP Paribas, China International Capital Corp (CICC) and Morgan Stanley will arrange the flotation to raise up to USD1 billion. Chinalco has also appointed CICC and UBS to spin off its construction and machinery division in Hong Kong to raise USD500 million, it added. In mid-2008, Chinalco paid USD860 million for Peru Copper, which operates the Toromocho copper project. Chinalco plans to invest USD2.2 billion to bring the mine – which is 142 kilometers east of Lima in central Peru – to production by the end of next year. Last August it was cleared to begin building crushing and grinding facilities at the mine, which has an estimated annual output capacity of 250,000 tons. The mine's estimated 12 million tons of copper reserves amount to 19% of China's domestic copper reserves. China imports more than 60% of its consumption of copper. Chinalco, China's largest aluminum producer, has been diversifying into other metals after low profits and losses in its aluminum operation in recent years because of oversupply and depressed prices. In addition to Toromocho, it has bought a 49% stake in Yunnan Copper Industry and has formed a joint venture with Rio Tinto to explore for copper in China.

China Minmetals' profit almost doubles

China Minmetals Corp’s profit rose 98.5% last year to CNY12.8 billion, breaking through CNY10 billion for the first time. President Zhou Zhongshu said the company’s performance outstripped that of its peers despite the slow global economic recovery and the ongoing European debt crisis. China Minmetals, which generated revenue of CNY355.2 billion last year, is expected to develop into a large global enterprise with stronger influence on the industry within 10 years, Zhou told the company’s annual work conference. The company ranked first in the world in its production capacities for antimonic oxide (used as a flame retardant and pigment), medium-heavy rare earths (used in magnets) and hard metals (also known as cemented carbides and often used for cutting tools). It held onto first place for domestic production capacities of lead and zinc smelt. Minmetals last year won exploration rights at one rare earth mine in Yongzhou, Hunan province, and another in Guangdong province. Zhou said the company would start prospecting in Guangdong this year, part of an overall effort to bolster its rare earth resources. The company will boost preliminary work at the Dugald River lead and zinc mine, which is being conducted by its overseas subsidiary, Minerals and Metals Group, in Australia and a copper project in Peru, the China Daily reports.

Production and consumption of 10 metals to rise

China has forecast that annual output of 10 major metals will rise to 46 million tons by 2015 from 31.21 million tons in 2010, and consumption will reach 49 million tons from 34.3 million tons. The 10 metals are copper, aluminum, lead, zinc, nickel, magnesium, titanium, tin, antimony and mercury. China expects copper output to rise an average 7.3% between 2011 and 2015 and reach 6.5 million tons by 2015, according to the website of the China Nonferrous Metals Industry Association. Consumption of copper may rise by an annual 5.2% between 2011 and 2015 and output will reach 9.7 million tons by 2015. By then, China aims for aluminum output to reach 24 million tons, increasing 8.8% annually on average. Consumption may rise on average by 8.6% annually to 24 million tons by 2015. Zinc and lead output are targeted to reach 5.5 million tons and 7.2 million tons, respectively, by 2015, or an average rise of 6.9% and 5.2% annually over the five years. Consumption of zinc is set to rise 5.2% per year on average to 7.2 million tons by 2015. Lead production will rise on average 7.9% annually during the period to 6.1 million tons by 2015.

Short news

- Hong Kong's High Court has rejected an appeal by Diana Chen in which she sought to avoid answering questions in court about her defunct company Pioneer Iron and Steel Group. As a result, Chen, nicknamed “the steel princess” and one of China's richest women, will be questioned in the High Court by the provisional liquidators of Pioneer and their lawyers. “We want to know why the company was once very profitable and asset rich, but all of a sudden, it allegedly had no assets,” said the Asia Pacific Chairman of FTI Consulting, a business advisory firm.
- Aluminum Corp of China (Chinalco) made a profit of CNY3 billion in the first 11 months

of this year, but profitability has been hurt since October amid a volatile global economic climate, said President Xiong Weiping. He said that Chinalco's diversification of its business portfolio, away from one solely focused on aluminum to a comprehensive mining company with operations in copper, rare earths, iron ore and coking coal, would ward off losses. He also said that Chinalco would accelerate its overseas expansion to achieve its target of having foreign assets account for 30% of the total by 2020, with upstream assets making up more than 50%.

- Mainland China's gold imports from Hong Kong surged to a record in November as consumers bought the metal before the Lunar New Year this month and investors sought to hedge against turmoil in financial markets. The mainland bought 102,779 kilograms from Hong Kong in November, up from 86,299 kilograms in October, according to the Hong Kong government's Census and Statistics Department.

MINERALS

Coal miners sign term contracts for 2012

Chinese miners have signed term-supply coal contracts totaling 1.2 billion tons for 2012 with key buyers from the power and steel industry, exceeding the 835 million ton target set by the government, according to the China Coal Transport and Distribution Association (CCTD). Of the total, thermal coal made up 901 million tons, metallurgical coal used in steel-making reached 153 million tons and the chemical sector accounted for 59.4 million tons. The rest of the volume signed was largely for the residential sector. Miners would likely adhere to the government's November 30 order to cap term price increases at a maximum of 5%, but the key issue was how much of the contract tonnage miners would fulfill should spot prices start to rally. Over the past four years, Chinese miners have failed to meet obligated term-supply volumes, forcing utilities to buy coal in the spot market, where prices are higher than the benchmark in 2012 contracts. Most of the country's top coal miners such as Shenhua Energy, China Coal, and Datong Coal are allocating only 30% of their output to term contracts, with the balance sold on the spot market. David Fang, Analyst at CCTD, said miners fulfilled less than half of the 1.5 billion tons of coal agreed in term contracts last year, and the poor performance could continue. The National Development and Reform Commission (NDRC) has allocated 834.6 million tons of rail capacity for coal shipments signed under term contracts this year, down 10% from last year. A Reuters poll of analysts showed that China's steam coal imports in 2012 was expected to stay at levels of above 120 million tons despite the pace of growth moderating on the back of a weaker economic outlook, the South China Morning Post reports.

Yancoal prepares for takeover of Gloucester Coal

China's Yanzhou Coal Mining (Yancoal) is preparing a takeover offer for Gloucester Coal worth USD2 billion. Gloucester has a market value of AUD1.4 billion and is 64% owned by Hong Kong-based commodities trader Noble Group. A condition of Yancoal's AUD3.3 billion takeover of Australian coal miner Felix Resources in 2009 required it to float at least 30% of the business on the local exchange by 2012. One way to achieve this would be a reverse takeover of Gloucester, because it is already listed in Australia. An AUD2 billion deal would carry a premium of 42%, short of the 47% premium Peabody Energy paid for Macarthur Coal, but higher than the 37% Rio Tinto and Mitsubishi paid for Coal and Allied. Gloucester plans to boost its annual coal production to 12 million tons in less than 10 years by moving to four mining operations from one. It reported production of 1.8 million tons for 2010 and 2011. Coking coal, used to produce steel, will make up 40% to 50% of production. The rest would be thermal coal used in power generation. Coking coal production in Australia is dominated by an alliance between BHP Billiton and Mitsubishi. Yancoal Australia, set up in 2004, is looking to take over Gloucester to combine their thermal and coking coal assets in New South Wales and Queensland and improve its port access. Under the plan, Sydney-based Gloucester will merge with Yancoal Australia, and Yanzhou will own 77% of the new company, the Chinese coal producer said in a statement. Yanzhou's board has approved the transaction. Noble will be left with 13% of the company and is due to receive USD416 million in a special dividend and capital return from Gloucester. Since taking over Felix Resources, Yancoal bought Syntech Resources for AUD203 million and is about to complete a AUD297 million acquisition of Premier Coal from Wesfarmers, the South China Morning Post reports.

Shanxi Coking Coal Chairman fired

Shanxi's provincial government has sacked Shanxi Coking Coal Chairman Bai Peizhong after the arrest of two robbers who stole more than CNY50 million worth of cash and valuables from his home in November. He would be investigated for suspected corruption by the Communist Party's Provincial Discipline Inspection Commission. Ren Fuyao, Chairman of Yangquan Coal Industry, will replace Bai, overseeing the excavation of more than 100 million tons of coal a year and the production of 10 million tons of coke. The robbers were two security guards at Bai's residential compound. While on duty, they often helped Bai's guests carry boxes to his 400 square meter flat. They took more than CNY6 million, €3 million and HKD1 million in cash, seven kg of gold bars and several watches and pieces of jewelery. Bai, 49, became Deputy Major of Xinzhou in 2006, in charge of coal production and heavy industry development. He was appointed Shanxi Coking Coal Chairman in 2008.

Huili Resources uncertain about acquisitions

Huili Resources has warned of uncertainties in acquiring new mining projects as it readies to list in Hong Kong. “One of our growth strategies is to expand and achieve long-term sustainable growth through acquisition of companies with nickel, copper and mines with other mineral resources,” the company's prospectus said. The company booked a net loss of CNY220,000 in the first half of last year, CNY3.37 million in 2010 and CNY6.05 million in 2009. Huili began operations after acquiring two nickel mines in Hami prefecture, Xinjiang, in 2008. It was incorporated in the Cayman Islands in February 2010. As of June 30, the company had 68 employees. “Our existing mines are located in Hami, Xinjiang, and our operations may be adversely affected by political and social instability in Xinjiang”, the prospectus warned. Huili entered into a series of agreements to acquire two mining companies in Shaanxi for CNY210 million in cash but which do not yet generate any revenue. These two companies are applying for permits to an 11.4 square kilometer area in Shaanxi with metal resources including copper and vanadium, as well as a 4.29 sq km area in Shaanxi with metals including gold. Huili plans to invest CNY45.1 million by 2014 in a copper and nickel mine in Hami. The company also plans to invest CNY45 million in a lead and zinc mine in Baiganhu, Hami, this year and in 2013. Huili aims to raise HKD390 million.

Short news

- A large diamond deposit discovered in Dalian's Wafangdian district is estimated to contain 200,000 carats of precious stones and diamonds. It is the largest diamond deposit found in China in three decades. The area already accounts for 54% of the country's diamond output.
- BHP Billiton plans to double its expenditures in China in the next five years. Dirk Van De Putte, Chief Procurement Officer for BHP Billiton, said the company “plans to spend USD6 billion in China to purchase infrastructure facilities and consumables in the next five years”. “China supply is pivotal to the delivery of BHP Billiton’s growth projects,” Van De Putte said. The company’s purchasing budget in China has gone from being non-existent 10 years ago to USD800 million in 2011.
- China launched its first physical iron ore trading platform in Beijing in a bid to strengthen the country’s pricing power over a commodity for which it is the biggest buyer. The China Beijing International Mining Exchange started the online platform along with the China Iron and Steel Association (CISA) and the China Chamber of Commerce of Metals, Minerals & Chemicals Importers & Exporters. “The platform will help establish a trustworthy iron ore pricing system, preventing bad-intention speculation and subsequent price volatility,” the Beijing exchange said. The new platform could rival the globalORE trading exchange, based in Singapore.

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