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AUTOMOTIVE

Free car plates for Tesla Model S owners

Electric carmaker Tesla hopes to sell more cars in China following the Shanghai city government's decision to grant free license plates to buyers of its Model S vehicles. The first five Model S owners in the city received free green car plates which saves them more than

CNY70,000 – the cost of a car plate at the monthly auction. It is the first time that an imported electric car model has been granted the same privilege as Chinese-made models. The car plates for Tesla Model S come from a quota of 20,000 free green car plates set by the city government, which has granted fewer than 1,000 so far. The Shanghai Commission of Economy and Informatization said it doesn't mean other imported electric cars will enjoy the same benefits in the future. Tesla said it is on track to deliver 35,000 cars this year after a record output of 7,535 Model S units in the first quarter. With only one Chinese store operating in Beijing, Tesla will soon open a second one in Shanghai. It will also expand its charging station network across the country. The Silicon Valley-based firm officially entered China in April with high-profile ceremonies in Beijing and Shanghai.

Car sales rise 12.7% in April

China's passenger car sales rose 12.7% in April from a year earlier to 1.51 million units – the first double-digit growth in three months, the China Passenger Car Association (CPCA) said. The market started weakly but ended strongly as the Beijing auto show triggered new product releases and advertising campaigns. Sales for the first four months were up 10.4% year-on-year, maintaining growth momentum. Dealers are under pressure from fast-increasing inventories as vehicle producers ship out cars in anticipation of further sales growth. Domestic brands are still losing market share in China and abroad. General Motors said that its sales in China were up 6.3% year-on-year to 278,263 units in April. All its brands – Buick, Chevrolet, Cadillac and Wuling – reached new sales highs. This is the eighth consecutive year and the earliest ever for GM to sell more than 1 million vehicles in a calendar year in China. Ford Motor Co saw sales in China surge 29% to 96,289 in April. The strong growth helped Ford's total sales in the first four months jump 41%. Japan-based Nissan Motor reported April sales of 118,500 units in China, almost 15% higher than last year.

Second delay for Great Wall's Haval H8 SUV

Great Wall Motor pushed back sales of its new flagship Haval H8 vehicle for the second time this year, leading to a drop in its share price. It suspended sales of the H8 after customers reported hearing "knocking noises" in the transmission system when driving at high speeds. Great Wall said it would delay sales of the vehicle until it was able to make the H8 up to "premium standard", without specifying a date. Great Wall's cost-cutting drive helped it generate higher profit margins than any listed carmaker in the world. In January, it delayed the introduction of the H8, its most expensive SUV, after test drives garnered negative reports. "The company faces monumental challenges in trying to move up a league in the automotive world, and the problems faced by the H8 confirm Great Wall is struggling with technology," wrote Max Warburton, Car Analyst at Sanford C. Bernstein in Singapore. "Serious questions will now be asked about Great Wall's growth potential." The H8 announcement prompted Ole Hui, Hong Kong-based Car Analyst with Mizuho Financial, to cut his investment rating on Great Wall to neutral from buy. Citigroup and China International Capital Corp also lowered their ratings on the company. UBS analysts said that other new models were unlikely to be delayed. "But we believe the company has to increase R&D spending in order to remain competitive, even if short-term earnings growth is to be compromised," they wrote in a memo to clients. Great Wall reported that its sales fell 11% year-on-year in April.

China determined to reach new-energy vehicle target

China is determined to fulfill its new-energy auto ambitions. "The national campaign of developing energy-saving and new-energy vehicles will remain unchanged and so will the priority for electric vehicles, the target of their development and the government's favorable policies," said Minister of Science and Technology Wan Gang. Another 100 standards for electric vehicles will be released in the next two years. Wan made the remarks at the founding ceremony on May 5 of the China Electric Vehicle Council, which is dedicated to promoting the development of electric vehicles. The NGO currently has 100 members. China aims to produce and sell 500,000 new-energy vehicles by 2015. The country produced 17,533 new-energy vehicles in 2013 and sold 17,642. Despite a more than 30% growth from 2012, new-energy vehicles manufactured and sold in the two years totaled less than 60,000. In other words, China has to roll out and sell another 440,000 such vehicles in 2014 and 2015 to fulfill the planned target. "Some local governments still do not have a clear understanding and are adopting a wait-and-see attitude," Vice Premier Ma Kai said in March. He mentioned inadequate charging facilities, protectionism and lack of a proper profit model as challenges facing the sector. several cities have set goals for the number of new-energy vehicles and charging stations in the next two years. The Beijing government plans to complete construction of 1,000 public fast-charging poles by the end of the year, covering both downtown areas and suburbs. Despite China's enthusiasm for pure electric vehicles, many automakers feel hybrid models will be more popular for several years to come, the China Daily reports.

Delphi plans to increase its China business four-fold

Delphi Corp plans to grow its business four-fold in China by 2020 from USD2.28 billion in 2012. China now contributes 16% of the company's global business turnover, a ratio it wants to increase to 25%, said Majdi Abulaban, President for the Asia-Pacific region. Delphi's China sales revenue surpassed USD2.6 billion in 2013, a rise of 18.14% over the previous year. The top 10 vehicle manufacturers in China are all Delphi's clients. Delphi will add three new facilities in China including a USD100 million production site in Yantai, Shandong province, and a plant for electrical systems in Shenyang, Liaoning province. Another new plant in Beijing will support Delphi's local client BAIC Group, said Abulaban. “We need to expand our production capacity to meet the rising demand,” he added. In addition to production capacity expansion, Delphi also keeps investing into research and development (R&D) in China. The company has three technology centers in China two in Shanghai and one in Beijing and has begun to gradually use research results from China in its global businesses. Localization is one of the main strategies for Delphi, including its management. Delphi recently moved the global headquarters of its electronic and electrical businesses – which account for 50% of the company’s total revenues – to Shanghai.

Government considering tax cut for imported electric cars

Though details are currently still under consideration, the Chinese government is considering lowering the tax on imported electric vehicles. Miao Wei, Minister of Industry and Information Technology, said the government is also working on regulations to encourage overseas enterprises such as Tesla to develop and produce electric vehicles in China. The Chinese government currently only provides subsidies to locally produced new-energy vehicles, with CNY35,000 to CNY60,000 available to buyers of pure electric passenger vehicles. Last year, the government offered subsidies totaling CNY26.5 billion to stimulate purchase of energy-efficient products, mainly automobiles and household appliances. U.S. electric carmaker Tesla has appealed to the Chinese government to extend the incentives to imported models. According to Tesla, the customs tariff, added value tax and other taxes account for 30.2% of the final price tag of its cars in China. Some experts say localization is crucial to reducing Tesla's cost and price. “It is difficult to reduce the customs tariff especially for Tesla,” said Jia Xinguang, an independent auto analyst in Beijing. Nissan has already decided to localize its electric vehicle production in China through its Venucia brand. The Japanese manufacturer has announced it wants a 20% share of the market. Some domestic automakers oppose cutting the tax on imported vehicles, fearing stiffer competition. But some other automakers said Tesla competes in the high-end market, so a tax cut would not have an adverse impact on domestic brands, the China Daily reports.

Germany’s Freudenberg helps carmakers cut emissions

As air quality becomes a top concern in China, German family business Freudenberg is offering a helping hand to reduce carbon emissions in the auto industry. One of the most important ways to cut emissions is to reduce friction among vehicle parts, said Chen Delin, Manager at the Freudenberg Group China. Chen said the company's seals are found in about 80% of the country's vehicles to help reduce emissions. “Our sealing technology unveils new potential for the automotive industry in China,” he said. He added that the company's latest product a gas lubricated seal can cut 90% of friction, which means a reduction of 0.5 to 1 grams of carbon dioxide per kilometer. Freudenberg also produces air filters. Two of every three new cars that have air-infiltration devices in China use Freudenberg air filters, according to the company. The filters, which cover engines' air intake, already help several Japanese and South Korean brands improve engine performance, said Xu Jia, Sales Director at Freudenberg & Vilene Nonwovens (Suzhou) Co. Freudenberg also offers synthetic and eco-friendly specialty lubricants that make sure everything from door seals to brake systems and steering units run smoothly. A new research and development (R&D) center for specialty lubricants and release agents is due to be inaugurated at Freudenberg's subsidiary Klüber Lubrication in Shanghai. Freudenberg's sales in China rose 33% to CNY5.4 billion in 2013, accounting for 10% of its sales worldwide. The company planned to scale up its investment in China, with CNY50 million put aside for its filtration business alone in the next two years. During the past 10 years Freudenberg invested about CNY2.3 billion in China, the China Daily reports.

PLA procurement to lift domestic car brands

The removal of foreign automobile brands from the People's Liberation Army's procurement list may substantially help Chinese vehicle producers, analysts said. According to the PLA Daily, FAW Car Co has delivered more than 1,000 Hongqi H7 sedans, also known as Red Flags, to the PLA General Armament Department for official use in May, replacing the Audi, Passat and Santana cars made by local joint ventures with German brands. FAW sold no more than 3,000 Hongqi sedans in total last year, indicating that the PLA’s purchase might help revive the brand. The move followed the military's procurement of Trumpchi GA5 models, developed by GAC Motor Co, as well as the Besturn B90, made by FAW Car Co, earlier this year. The PLA has invited only FAW Car, GAC Motor, SAIC Group, Brilliance Auto Group Co and BAIC Motor Co to bid for the official vehicles procurement. Cao He, Auto Analyst with China Minzu Securities Co, said the military procurement's focus on homegrown brands will definitely benefit local automakers, especially listed ones. Analysts said the practice of removing foreign brands from the procurement list may spread to more party and government offices. In the first quarter, homegrown brands' market share dropped 4.54 percentage points year-on-year to 38.72% in the passenger vehicle market, and fell 6.23 percentage points in the sedan segment. Domestic producers' total sales in the first three months in the passenger vehicle sector dropped 1.46% year-on-year.

Great Wall Motor plans to open factory in Russia

Facing fierce competition from foreign rivals, China's privately-owned Great Wall Motor Co plans to invest CNY3.2 billion in building a car manufacturing plant in Russia, its largest export destination. According to a statement filed with the Shanghai Stock Exchange, the company based in Baoding, Hebei province, will sign an agreement with the government of Tula Oblast, and the Tula Oblast Public-Private Partnership Development Group for a wholly-owned subsidiary plant about 200 kilometers south of Moscow. The factory is expected to produce up to 150,000 vehicles a year. An initial investment of CNY2.1 billion will be used in the first phase. The company said investment in the second phase will depend on the commercial success of the project. Company statistics showed that Russia was Great Wall's largest market outside China, and that in 2013, the company's revenue was CNY1.65 billion in Russia, accounting for 34.39% of total overseas revenue of CNY4.79 billion. Great Wall's total export of 74,900 units last year 31,500 pickups, 32,400 SUVs and 11,000 cars was 21.52% lower than the numbers in 2012. In comparison, the company's sales in its home market were up 21% on an annual basis to 754,000 units. Revenue in the domestic market also surged almost 40% to CNY51.94 billion. Wei Jianjun, Chairman of Great Wall, said earlier that the company plans to increase annual sales to 1.3 million units by 2015, with a quarter in overseas markets, representing more than 300,000 units. In 2013, the company's sales outside China were only 8.48% of total sales. Great Wall has established knocked down assembly plants in more than 10 countries, including Russia, Iran, Egypt, Ecuador and the Philippines.

Automotive after-sales services booming

Many companies are chasing opportunities in China's automotive after-sales service sector. Revenue from the market which includes car maintenance, parts, modification and rental exceeded CNY450 billion in 2013. It is forecast to exceed CNY766 billion in 2015. Growth and profits in the Chinese market remain high, Zhang Jing, Analyst at Essence Securities, said. One of the foreign companies that entered the burgeoning market early was Germany-based Wuerth Group. It came to China in 1994. The sales of Wuerth China in its financial year 2013 were €141.9 million, of which 19% came from its auto business. Besides Wuerth's rapid expansion in China, Germany-based Bosch Group has set up more than 500 car maintenance shops. Japan's largest auto dealer Yellow Hat planned to have more than 500 stores in China by 2015. American ACDelco owned by General Motors aims to be the industry leader in east China. Pang Da Automobile Trade Co, an automobile trader listed on the Shanghai Stock Exchange, planned to transform its focus from new car sales to car maintenance, financial leasing, parts, and second-hand sales, according to a statement in April. U.S.-listed automotive retailer Lentuo International said in February that it will enter the domestic second-hand car market and its first step is to build a flagship store in Beijing to provide sales certification, financing and maintenance services to clients. China had more than 137 million cars at the end of 2013 according to the China Association of Automobile Manufacturers (CAAM). In developed countries, automotive after-sales services account for about 60% of the profit of the automotive sector, but the proportion in China is only about 20%.

Car Auto Rental revives IPO plans

China Auto Rental Holding (CAR), China's largest vehicle-leasing company by fleet size and revenue, has revived its Hong Kong initial public offering (IPO) plans. 70% of the IPO proceeds will be used to expand its fleet, 20% to repay bank debt and 10% for operating expenses and other purposes. Between 2011 and 2013, CAR's annual revenue increased 81.6% on average. Revenue for 2013 was CNY2.7 billion. In the first quarter of this year, net profit rose 300% to CNY163 million. As of March 31, the company had a fleet of 55,403 vehicles, with 751 wholly-owned outlets in 69 Chinese cities. Founder and Chief Executive Officer Lu Zhengyao said that CAR would seek to expand its fleet to 100,000 vehicles in 2015. Revenues in China's car rental market have grown by 25% annually during the past five years. The value of the market is expected to surge from USD2.5 billion in 2010 to USD6.1 billion in 2015, according to Roland Berger. Shen Jun, Partner at Roland Berger Greater China, forecast the total fleet size of the rental car market would rise from 220,000 vehicles in 2012 to

430,000 in 2015. The firm also found that at the end of 2013, CAR's share of the individual short-term rental market was 31.2%, the single largest percentage. Last April, the world's biggest car rental operator, Hertz Global Holdings, acquired a 20% stake in CAR. In exchange, CAR took over Hertz's car rental operations in China under an initial five-year license.

Sector of charging facilities opened to new bidders

Companies other than electricity monopoly State Grid can now submit bids to build car charging facilities, according to Xinhua News Agency. More charging facilities are expected to boost sales of electric vehicles. Expanding the charging network has already been a priority for many cities, especially Beijing. Property developers in Beijing are now required to ensure 18% of parking lots in new or renovated communities are equipped with charging outlets, said Niu Jinming, Director of the Beijing committee for promoting new energy vehicles. The Beijing government plans to complete construction of 1,000 public fast-charging stations by the end of the year in both downtown and suburban areas. Two charging stations are being built along the Beijing-Tianjin-Tanggu expressway to help connect charging networks in Beijing and Tianjin, allowing electric vehicles to travel between the two cities. Building additional charging facilities is expected to alleviate worries among potential customers about long-distance travel. The Beijing government is also considering more electric vehicles for its fleet of taxies. The number of taxis in Beijing will be stabilized at around 66,000 until 2015. “It will be better if fully charged electrics can run 300 km or so, otherwise drivers have to charge them in the middle of the day,” Wang Binggang, an expert at China's program on energy-saving and new-energy vehicles said.

Michelin accelerates network expansion

French tire maker Michelin is putting all its efforts into establishing itself in China's automotive aftermarket by expanding its TyrePlus service network. After opening four maintenance centers in Shandong, Jiangsu and Hubei provinces, the number of TyrePlus stores in China stands at more than 1,000, making it the nation's largest auto service network. “It's a milestone for Michelin, further indicating our commitment to Chinese consumers,” said Philippe Videau, Michelin China's Sales Director for the tire replacement market. Michelin started its Tyre-Plus automotive maintenance workshop chain in Australia in 2002 and introduced the brand to China in 2003 with the first store in Shanghai. The company transferred its business model for TyrePlus in China to a franchise in 2009 to provide integrated services including express repairs. Michelin then aggressively expanded the network by adding 100 to 200 new stores per year from 2010 to 2013. After 11 years in China, Tyre-Plus has a presence in more than 230 cities in the country and services more than 5 million vehicles a year. Total sales revenue of Tyre-Plus jumped from 2012's CNY3 billion to CNY4 billion in 2013, an increase of 30%. According to Videau, Michelin will accelerate the expansion of the TyrePlus network to 1,500 shops in the next three years and 2,000 in the next five years. In China, there are huge disparities in the market. At one end automaker-authorized shops, known as 4S shops, dominate the market and at the other end small shops offer poor quality products at low prices. Michelin says it can guarantee quality. “We build strategic partnerships with top brands, such as Bosch, Total, Castrol, Shell and Henkel. We maintain a strict set of processes and requirements in selecting product partners. This ensures that all tires, engine oil and brake parts meet TyrePlus' stringent safety and professional standards,” said Videau.

Short news

- Jebsen Automotive Technik (JAT), which has three joint ventures in Dalian, recently announced plans to open a fourth one. JAT expects 15% to 20% growth this year. JAT’s business is helping major original equipment manufacturers (OEMs) localize domestic production. Jebsen TCG Automotive Systems, JAT's second joint venture in Dalian, with TCG Unitech of Austria, develops and manufactures oil pump systems. Jebsen is also an expert in the distribution of luxury cars, including the Porsche brand. The company currently has eight Porsche centers in China.
- Jaguar Land Rover (JLR) and its local joint venture Chery Jaguar Land Rover Automotive Co announced the establishment of an integrated marketing, sales and service organization. It will be responsible for the development and distribution of the Jaguar, Land Rover and Chery Jaguar Land Rover brands in China. Lu Yi, Chief of Staff at Jaguar Land Rover China, was appointed President of the sales organization. In the first quarter, Jaguar Land Rover China's sales surged 36% year-on-year to 29,500 units.
- Chinese automotive company BAW South Africa aims to overtake Toyota Motor in the fast-growing South African taxi minibus market. Its 16-seater Sasuka minibus has become popular for reliability and affordability. BAW South Africa is a joint venture between Beijing Automotive Works Co, the Industrial Development Corp of South Africa and China Africa Motors. It was set up in November 2012 to assemble minibus

taxis on a semi-knocked-down basis. The Industrial Development Corp of South Africa estimates that annual taxi sales in South Africa will reach 28,000 units next year. Toyota sells 1,100 minibuses every month in South Africa, while BAW South Africa's sales average about 200.

- From September, owners of new cars will no longer have to have their cars inspected for roadworthiness every two years in the first six-year period, the Ministry of Public Security announced. After six years, annual checks up to the age of 15 years are required, six-monthly checks after that, and checks every three months if the vehicle is still on the road after 20 years. The private sector can now also apply for licenses to run test centers. By the end of 2013, there were around 250 million vehicles on the road and every year an estimated 15 million new cars join them.
- About 200 million Chinese now use e-bikes, a 1,000-fold increase from 15 years ago. About 90% of the world's e-bikes were sold in China in 2012, according to Navigant Research, a consulting firm, which estimates that another 249 million will be sold there by 2020. They offer a convenient mode of transportation to beat traffic jams but are also responsible for an increasing number of road accidents.
- Lu Guanqiu, Chairman and founder of Wanxiang Group, which took over Fisker Automotive Holdings, plans to manufacture electric cars in the U.S. and ultimately in China. The Fisker estate included an abandoned General Motors plant in Delaware, providing Wanxiang an entry point for selling and manufacturing cars in the U.S.
- The Shanghai government has extended its incentive program for buyers of environment-friendly cars until the end of next year. Under the scheme, anyone who buys a pure-electric or plug-in hybrid car in Shanghai will be entitled to a subsidy of CNY40,000 or CNY30,000, respectively. Buyers will also be entitled to a free license plate, worth about CNY70,000 at auction.
- BYD Co is offering USD400 million in new Hong Kong-listed shares. The funds would give Shenzhen-based BYD room to step up investments and bolster production of electric vehicles. The sale comes after BYD reported profit tumbled 89% in the first quarter because of declining demand for its gasoline-fueled vehicles. Last year, profit jumped almost seven-fold after Chairman Wang Chuanfu completed a three-year reorganization during which he cut the number of dealerships and narrowed the losses of its solar business.
- The World Trade Organization (WTO) has ruled in favor of the United States in a dispute with China over duties on car imports from the U.S. The U.S. in July 2012 filed a WTO complaint seeking to offset Chinese duties on more than USD3 billion worth of car imports from the U.S. The Chinese government had alleged that the U.S. industry gained an unfair edge in trade by using government subsidies and selling the goods in China below their value, a practice known as dumping. Two months later, the U.S. filed the second WTO case against China alleging the Beijing government subsidized its own car and car-parts makers in violation of global trade rules.
- The success rate among people bidding for private car license plates in Shanghai fell to a record low of 6.5% in the May auction. Of the 114,121 people who took part in the auction, just 7,400 secured a plate, for which they paid an average of CNY74,503 – up CNY390 from April – with the lowest winning bid being CNY74,400. The number of available plates was 700 less than the previous month.
- Chinese automakers SAIC Motor Corp, Dongfeng Motor Group, Great Wall Motors, BYD, Chang'an Automobile Group and Guangzhou Automobile Group are on the 2014 Forbes Global 2,000 list, a ranking of the world's largest public companies rated by a composite score of revenues, profits, assets and market value. The latter two are on the list for the first time.
- Battery and car manufacturer BYD announced on May 21 that it plans to invest CNY3 billion in a new plant in Wuhan to build new-energy vehicles. The plant is designed to have an annual production capacity of 1,000 all-electric buses in the first phase, and will later make new-energy vehicles for logistics use.
- Shenzhen BYD Daimler New Technology Co started accepting orders for its all-electric Denza in Beijing on May 17. Eligible for the national subsidy, its price to buyers is CNY255,000. The first Denza models will be delivered to customers in October. BYD Daimler has already signed an agreement with power and automation technology group ABB for supplying direct-current fast chargers over the next six years that is expected to result in the world's largest fast-charging network for electric vehicles.
- Volkswagen China raised awareness of safety among Chinese parents after it held a child seat program with the China Women's Development Foundation in Beijing on May 22. The group and its joint ventures, FAW-VW and Shanghai VW, donated 320 child safety seats to new mothers and mothers-to-be in the capital through kindergartens and maternal and child care service centers. VW planned to hold similar

programs in 17 cities across the country this year. More than 18,500 people under the age of 14 die in car accidents in China every year.

- BMW Brilliance Automotive rolled out the BMW 328i xDrive, BMW 328Li xDrive and the new BMW 528Li xDrive with six different specifications in Shenyang, Liaoning province. It is the first time BMW has offered its most intelligent all-wheel-drive technology on locally produced sedans, covering both the 3 and 5 Series. Prices for the cars range from CNY458,800 to CNY645,600. More than 340,000 of the current 5 Series were sold in China since it launched in August 2010. In the first four months of this year, sales of the 3 Series increased 45.7% from a year ago to 31,134 units and those of the 5 Series rose 17.2% to 47,198 units.
- China is scrapping more than 5 million cars that fail to meet national emission standards this year as part of its efforts to clean up the country's air. The target for Beijing is 330,000 cars and for Shanghai 160,000. Cars that fail to meet minimum National I emission standards accounted for 7.8% of cars on China's roads but generated more than 35% of the main air pollutants.
- Shanghai is to pay city bus companies from CNY150,000 to CNY550,000 for each energy-saving or new-energy vehicle they purchase, depending on the model. In addition, district governments will pay subsidies of up to CNY165,000 a year for the first eight years for each new-energy bus to cover maintenance and running costs. The city government says at least 60% of new buses added to the city's fleet should be energy-saving or new energy vehicles from this year. The city's two main bus companies own a total of 140,000 buses.
- Shanghai extended its electric car demonstration program from Jiading district to the Pudong New Area. The Shanghai Expo EV Pilot Zone project was launched at the former Shanghai World Expo site in Pudong by State Grid Shanghai Municipal Electric Power Co, Shanghai Expo Group, and Germany's BMW. The partners will jointly develop 50 public charging poles for the 5-square-kilometer area. Customers can test drive the BMW i3 electric car in the newly-established green zone. To date, there are eight charging poles in place in the zone.
- Consumer demand for vehicles in the next few months will be weaker than at the beginning of this year, according to the 2014 China Auto and Auto Parts report by UBS Securities Co. Passenger vehicle shipments will expand 11.8% in 2014, and sales of all types of vehicles will rise 10.7%. Production capacity for passenger vehicles will increase 12% this year. According to Fourin, a Japanese research firm specializing in the vehicle industry, there are more than 700 cars for every 100 kilometers of road in Beijing, 400 in Shanghai and 300 nationally. As the number of cars is rising faster that road length, infrastructure will be the bottleneck for the continuous rapid growth of China's automobile industry.

METALS

PanAust rejects buyout bid by China's Guangdong Rising

Guangdong Rising Assets Management, a state-owned Chinese investment group, offered to take control of PanAust in a cash bid that values the Laos-focused copper producer at AUD1.5 billion. PanAust rejected the bid as being too low and agreed to give Guangdong Rising, its largest shareholder, access to financial information. Some investors fear the deal will fail. Buying PanAust would give Guangdong Rising control of mines in Laos as well as the Frieda River project in Papua New Guinea, described as one of the largest undeveloped copper and gold deposits in the world. PanAust agreed last year to buy Glencore Xstrata's stake in Frieda River in a deal it expects to be concluded before September, estimating the development costs at up to USD1.8 billion. PanAust expected to attract "significant interest" from other groups and the producer's shareholders would expect it to talk to any parties that made competing proposals, Managing Director Gary Stafford said. Offering Guangdong Rising access to information was intended to help "facilitate them perhaps coming back with a better offer, but doesn't indicate that they are close, or nearly there", Stafford said. "It remains to be seen how high they are prepared to go." China's demand for assets may help fuel a doubling in the number of mining deals worldwide this year, according to Jay Leary of law firm Herbert Smith Freehills. Copper, iron ore and coal were the top targets, he said.

Gold sales plummet in Hong Kong

Gold sales at jewelers in Hong Kong have declined this year as mainland Chinese shoppers bought less, according to the Chinese Gold & Silver Exchange Society. Demand dropped about 30% from a year ago during the May Day holiday, according to President Haywood Cheung. There were fewer visitors this year as luxury spending fell and gift-giving slowed, he said. While China surpassed India as the largest gold customer last year, the buying frenzy that was sparked by gold's slump into a bear market last April has not been repeated, according to Heraeus Metals Hong Kong. “Before, when they walked into a jewelry shop, they spend about HKD10,000 and now it's about HKD5,000 to HKD6,000,” Cheung said, citing estimates by the society's members, which include Chow Tai Fook Jewelry Group. An anti-corruption drive in China has hurt gold demand this year, which is back at 2012 levels after an exceptional 2013, said Dick Poon, General Manager at Heraeus, a precious metals trader and refiner. Chinese gold and silver jewelry sales fell 30% to CNY20.8 billion in April from a year earlier when low prices attracted buyers, according to the National Bureau of Statistics (NBS). Goldman Sachs is among banks forecasting further declines for gold as the U.S. Federal Reserve winds back monthly bond buying, predicting a price of USD1,050 per ounce in 12 months. Consumption in China rose 32% to a record 1,065.8 tons last year, making up about 28% of global usage, according to the World Gold Council (WGC).

Non-ferrous metals index futures start practice trading

The Shanghai Futures Exchange (SFE) started simulated trading of the country's first futures contract based on a non-ferrous metals index which tracks the prices of four metals: copper, aluminum, zinc and lead. The simulated trading is intended to raise investors' understanding of the risks involved in index futures. The exchange began work on the underlying metals index in 2004, and the index itself began trial runs in 2010. The index was launched on December 26, 2012. The exchange said that the index futures contract will add a hedging tool to China's commodities market, where hedging options are limited. The contract will help small and medium-sized non-ferrous metal producers hedge their positions and aid in the process of price discovery. Contracts for precious metals and natural rubber will.

Old aluminum plants to be phased out in 3 years

China will phase out high-cost and outdated primary aluminum plants in two to three years, limiting capacity growth. The closures should help prices recover from a sharp drop of almost 30% in the past four years. “Demand and supply in China would be basically balanced in five years or more,” said Yu Dehui, Vice President in charge of the aluminum business at China Power Investment Corp (CPI), the second biggest producer of the metal in China. China is not likely to turn into a big importer of primary aluminum, he said at an industry conference in Hong Kong. Yu estimated China's total primary aluminum capacity at around 40 million tons in about three years, indicating an annual growth rate of less than 10% from 31 million tons last year. This would be significantly below the yearly rise of about 20% seen between 2003 and 2012. The government pledged it would cut at least 420,000 tons of outdated aluminum capacity this year as part of a program aimed at closing obsolete, inefficient and polluting industrial facilities. Building of new capacity will also slow as heavily indebted local governments cut financial support for loss-making aluminum smelters. Chinese banks cut back on loans and pollution control efforts pick up pace, Wang Feihong, Senior Analyst of China Minmetals Non-Ferrous Metals, said.

Short news

- China will close more steel and cement plants this year than originally planned to deal with oversupply in capacity, the Ministry of Industry and Information Technology (MIIT) said. This year will see the elimination of 28.7 million tons of annual steel capacity and 50.5 million tons of cement capacity. China’s crude steel output rose to a record high of 779 million tons last year. The Ministry also said 420,000 tons of annual aluminum capacity and 115,000 tons in lead smelting will be eliminated this year.
- A group of workers in China made more than CNY2 million by secretly using a gold-plating bath at an electronics factory in Chongqing and then selling the precious metal.
- Baoshan Iron & Steel Co has lowered product prices for a second straight month, signaling a lack of confidence in near-term demand. It cut hot-rolled steel prices for June delivery by CNY80 a ton and cold-rolled steel prices by CNY100 per ton. This does not reflect seasonal factors as Baosteel has lowered prices for June only twice since 2006. Baosteel is China’s largest listed steel company, and its pricing policy typically serves as a benchmark for the rest of the industry in China. It supplies about half of the nation’s auto sheet market. Baosteel cited lower steel prices when it reported first-quarter net profit fell 7% from a year earlier to CNY1.51 billion.
- The Shanghai Gold Exchange will launch Shanghai Gold – a spot gold trading mechanism similar to Loco London Gold – in Shanghai’s pilot free trade zone (FTZ) this year. Shanghai Gold is a new international pricing mechanism to boost the city’s position as an international financial center, Xu Luode, Secretary General of the Shanghai Gold Exchange said.
- China's steel industry will face higher financial risks in the second quarter. Zhao Xizi, Chairman of the All-China Chamber of Commerce for Small and Medium-Sized Metallurgical Enterprises, said banks will require at least CNY140 billion of debt to be

paid back by steel companies ahead of schedule. Due to overcapacity and ongoing losses, many steel mills chose to continue production simply in order to keep banks from asking them to repay their loans. Industrial analysts said domestic steel companies have an average debt ratio of more than 70%. In the first quarter, 15 of 35 listed steel companies in China reported losses.

- Australia's Foreign Investment Review Board (FIRB) has given the green light to Baosteel and Aurizon Holdings' takeover bid for iron ore and coal miner Aquila Resources. The deal still requires approval from more than half of Aquila's shareholders. Aquila has advised shareholders to take no action, pending an independent review of the offer.
- The port of Qingdao, China's third-largest foreign trade port, has halted shipments of aluminum and copper due to an investigation by authorities, according to reports, which the port denies. Metal imports have been partly used to raise finance, where traders can pledge metal as collateral to obtain better terms. In some cases the same shipment can be pledged to more than one bank, fueling hot money inflows and spurring a clampdown by the authorities. There might be a discrepancy between documented and physical metal in warehouses of at least 80,000 tons of aluminium and 20,000 tons of copper.

MINERALS

Changsha hosts China Mineral and Gem Show

Changsha, capital of Hunan province, hosted Asia's largest mineral-themed exhibition from May 15 to 20. The China (Changsha) Mineral and Gem Show offered 2,000 booths on a floor space of 65,000 square meters for exhibitors to showcase minerals, fossils, meteorites and handicrafts. Hunan has 22 world-class geological parks. It has reserves of non-ferrous metals that account for two thirds of the country's total and one third of the world's total. The province also discovered more than 90% of the world's antimony deposits. Hunan is home to 141 types of minerals with diverse colors and unique shapes, including some rare and iconic species. The expo attracted huge attention at its first session last year because "collectors and exhibitors across the world have fully recognized the value of Hunan mineral resources and see the profit potential in Chinese markets," industry insiders said. 1,200 exhibitors from 54 countries and regions and 150,000 visitors attended the exhibition in 2013, where CNY1 billion worth of deals were signed.

China Hongqiao eyes African bauxite mine

China Hongqiao Group, the nation's largest non-state aluminum producer, is in talks to buy a bauxite mine in Africa to secure the raw material for the processing of the metal. "We are looking to lock up resources in Africa and may make some concrete progress over the next six months," said Christine Wong, head of corporate finance, without disclosing the target or the price. "We must take a controlling stake to make sure we have the off-take for more than 20 to 30 years." Hongqiao is seeking bauxite supplies after Indonesia banned exports of unprocessed ore in January. The company, one of the lowest-cost smelters in China, is increasing output after rivals including Aluminum Corp of China shut down plants. "Demand is still strong even as China is forecast to slow down this year," Wong said. "We see demand from the construction of social housing, high-speed railways, ultra-high-voltage grids and coal cars." Hongqiao plans to boost production by 30% to almost three million tons this year. The plan may help Hongqiao become China's biggest aluminum smelter by output, surpassing Aluminum Corp, which plans to shut as much as one million tons of capacity out of 3.6 million tons. Hongqiao has 16 million tons of bauxite stockpiles, enough for about 14 months. It also has signed a three-year supply contract with Rio Tinto Group to buy at least three million tons annually from Australia and has supply agreements with India. Hongqiao may increase its aluminum refining capacity to 3.44 million tons by the end of this year from 2.96 million tons in 2013. The company is building a venture for an alumina plant in Indonesia and expects to start production in 2015. Hongqiao's capital expenditure this year will be reduced to CNY8 billion, largely for building power plants, from about CNY15 billion last year. About 95% of Hongqiao's sales are shipped in molten form to customers within a 30 km radius of its Shandong facilities, said Vanessa Lau, Senior Analyst with Sanford C. Bernstein.

Tax changes will drive up rare earth prices

A change in taxes on rare earth producers in the second half of the year could push up the prices of the scarce minerals, an industry source said. Taxes would be imposed based on the value of the minerals, rather than on volume as is the case at present. That shift will mean higher prices at the producer level, which the government hopes will reflect the scarcity of these resources and the environmental costs of their extraction. Higher prices will alter the supply-demand balance, undercut smuggling and reduce high inventories of rare earths overseas, said the expert quoted by the China Daily. Other steps will also be taken, such as a requirement for environmental compliance certificates to export the materials. China, with rare earth reserves accounting for about 23% of the global total, supplies more than 90% of the world's demand, but mining and processing causes much pollution. As a result of a WTO ruling, China is expected to lift export tariffs, while the existing export quota system has become irrelevant in recent years since actual export volumes fell short of quotas. Prices of the minerals were weak in 2013, affecting Chinese producers. In Baotou, Inner Mongolia, which has 34 large-scale producers, the industry's revenue reached CNY1.81 billion last year, down 25.3%. Profits sank 4.7% to CNY210 million, while exports slid 47.2% to CNY31 million. China's leading rare earth producer, Inner Mongolia Baotou Steel Rare-Earth Hi-Tech Co, said net profit slumped 71.7% year-on-year to CNY69.38 million in the first quarter of 2014. Revenue tumbled 52.8% to CNY1.09 billion, the China Daily reports.

Short news

- Though the rate of coal mine accidents in China has declined over the past decade, more coal mines will be closed, Yang Dongliang, Director of the State Administration of Work Safety, said. The death rate per 1 million metric tons of coal has also dropped, from 3.08 to 0.288, a decline of 90%. Yang said coal production in 2013 reached 3.7 billion tons and that the supply of coal in China still exceeds demand, which has brought coal prices down and raised costs for coal enterprises. About 2,000 small coal mines will be closed this year and in 2015. Currently, there are about 13,000 coal mines in China.

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