Steel Consolidation to Pick up Speed in China

The monthly steel products export in the third quarter dropped 20% from the previous quarter to 5.25mln tons, and the export volume was expected to fall further to around 4 mln tons in Q4, a slide of 24% from the quarter before, China Industrial Economy News cited analyst with United Securities as saying.

Market observers cited narrowing price gap between Chinese steel export and U.S. and EU markets as reason for the dwindling steel export as Chinese steelmakers have far less incentive to ship steel products out of the country. Those export-oriented steel mills would be forced to divert the material to domestic market due to the export decline, putting domestic steel price under downward pressure. Currently, the country's steel capacity expansion speed has far exceeded the pace of demand growth. As a result, most commercial steel varieties in China are already moving towards oversupply. In contrast, technology-intensive high-end products are still in severe supply shortfall, Xi Yaping, analyst with Shihua Financial Information.

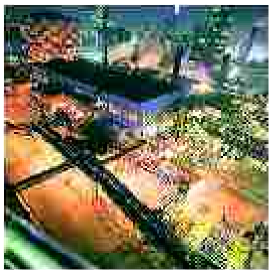
Intensifying competition to survive always comes at the heels of steel glut. Soaring freight rates and iron ore price have greatly squeezed the cost advantages held by those small and medium steelmakers. The annual contract ore price negotiations are drawing near, and the air is thick that the big three are seeking 50% rise for fiscal 2008. Undoubtedly, benchmark ore price is poised to roar up further in days to come.

Export plunge coupled with escalating input costs have started to bite into the profit margin of domestic steel producers, who have reported drastic profit slump in recent months as steel price increase has far lagged behind the soaring cost. Chinese steelmakers have seen their profit growth decline on a quarterly basis. 78 medium-and-large-sized steel mills have boosted their gross profit up 285.57% in the first quarter bolstered by strong steel price increase.

However, the profit growth then falls to 108.75% in the first half due to tumbling steel price and surging raw materials prices. The growth rate drops further to 77.43% in the first eight months calculation. “Therefore, the focus of competition among steel mills has shifted from rapid expansion to all-around competitiveness. The profit squeeze would phase out those less competitive mills out of the sector,” Xi said.

She also noted that, China's steel industry is to see higher industrial concentration in coming years thanks to the market competition coupled with Beijing's efforts to encourage merger&

Analysts Upbeat about Q4 Profit Outlook in Steel Sector



A host of listed Chinese steel mills posted 26.94% decrease on Q3 net profit from the previous quarter as a result of escalating cost of steelmaking raw materials coupled with drastic steel price decline in July and August. As many as 22 listed steel mills out of total 32 steelmakers record Q3 profit decline from the quarter before, among which first-tier steelmakers take the lead.

Baosteel's listed arm Shanghai Baoshan Iron & Steel Co. suffered a 46.73% drop of net profits from the second to the third quarter. Tangshan Iron & Steel Co, the country's second-biggest steelmaker, said its profits in the third quarter were down 25.1 percent from the second quarter. The third largest mill Anshan Iron & Steel, based in northeastern China, said its third quarter net profit dropped 28 percent from the second quarter. Steelmaking costs were rising sharply during July, August and September, while the increase in steel prices was generally lagging behind the upstream market.

Dry Bulk Shipping Rates Expected to Go Uphill in Coming Years

Dry-bulk freight is poised to stay firm in next couple of years while soaring spots for capesize vessels have been the primary focus of the market, strong period charter activity is also driving

the sector, a strong consensus reached at World Shipping (China) Summit.

A host of factors contributed to the bullish freight rates. The demand for commodities like iron ore, coal remains quite strong, and ships are traveling longer distances, but shipbuilders already have full order books not being able to deliver enough new vessels in near future. The port congestion is unlikely to be fixed soon. Record purchases of commodities by China, the world's fastest-growing major economy, have congested ports and caused freight rates to more than double in the past year. Chinese steelmakers and traders are increasing iron ore imports in anticipation that prices will rise next year.

Mr. Wang Chunlin, Executive Director of Pacific Basin Shipping /MD and GM of APMIG (Asia Pacific Maritime and Infrastructure Group Ltd.), also noted that coal has become another driving force for dry-bulk freight after iron ore. The country became a net coal importer for the first time in January, prompting other nations to seek coal supplies elsewhere. For example, Japan and S. Korea have been forced to source coal from farther places like Australia, Indonesia and S. Africa.

Mr. Philippe A. Embiricos, President of BIMCO, Director of Embiricos Shipbrokers Limited, pointed out that China is the key drive of shipping growth.

The Chinese inventory of iron ore is very low and the market thinks it's time for the Chinese to increase their inventories. Chinese importers will likely source iron ore from Australia and Brazil, increasing the distance traveled by ships and tying them up for longer periods.

Japanese shippers highlighted that the shipbuilding capacity has yet to catch up with the soaring demand as ship makers have already been swarmed with orders for Panamax container ships years ago. As a result, the supply shortage of new vessels won't ease in short term.

Coke Export to Converge upon Stricter Policy

The Ministry of Commerce (MOC) has raised criteria for 2008 coke export quota application, which echoes the nation's guideline for the resource intensive products. Coke production is called to meet domestic demand primarily.

Higher Criteria For Export License

According to MOC notice, producer applicants for a coke export quota in 2008 should obey coke industry's access standards and record 250,000t or above up-to-national standard coke (ISO9000 certificate needed) in 2006 or an average of 200,000t or above during 2004-2006. Last year, floor export level was 200,000t.

Meanwhile, the trader applicants should have registered capital of no less than 50mt yuan, average export of 200,000tpy or above during 2004-2006, and those who have domestic sales channels should have supplied at least 400,000tpy to coke exporters during this period. In 2006, the registered capital was required 30mln yuan the minimum and the traders' least annual export volume was 100,000t while supply volume for those with domestic sales was 300,000t.

More Enterprises to Drop Out

This year, the MOC issued two batches of coke export quotas of 9.8mt and 2.35mt respectively, coupled with 1.142mt for foreign owned companies, the total quota recorded 13.292mt, close to year 2005 and year 2006 levels of 14mt. The MOC hasn't revealed next year's license quota but the industry insiders believe the quota is unlikely to change much while with hiked criteria, more enterprises may drop out.

China's Net Coal Imports to Hit 300 MT in 2010

According to forecasts by China National Coal Association (CNCA), China's coal output will increase 3.5% every year by 2010, which means the output will gain 400 million tons to 2.8 billion tons; this also implies that in 2010 China's net imports will reach 150-230 million tons, much more than the 70 million tons previously expected, Wang Chunlin, Executive Director of Pacific Basin Shipping said at the World Shipping (China) Summit 2007.China's coal imports registered 2 million tons in 1990 and 2.12 million tons in 2000 yet the figure recorded 35 million tons in 2006 and expected to hit 50 million tons in 2007. Guangdong and Fujian are major destinations. China saw fresh power generation capacity of 102 million kilowatt last year, equaling to the consumption in whole Britain.

The country is setting up a new coal power station every week and in the meanwhile shutting down thousands of small coal mines. So far 2811 small coal mines have been closed and the trend is still

continuing. As a result, coal supply will be tighter and some enterprises are stocking resources. China Huaneng Group (CHNG), the biggest electric power group, plans to purchase shares of coal mines in North China to ensure fuel supply and aims to lock 30 million tons of coal supply in the region.

Wang noted demand from China and other countries pushes up international dry and bulk cargo transportation. Currently over 90% of coal resources is transported by ships. It has become the main source of electricity with oil, taking a 39% share. The proportion is expected to extend for 30 years.

As China cut exports to South Korea and Japan, the latter two turn to South Africa, Australia and Indonesia for resources; Japan, South Korea and India will strengthen imports from South Africa in view of infrastructure bottlenecks in Australia; Germany and Brazil will raise imports from Russia and Colombia.

Overseas Capital Welcomed in China's Minerals Exploitation : MLR

China expects the overseas large enterprises to participate in exploration and development of China's key metal minerals deposits, China Securities Journal cited deputy director of the Ministry of Land & Resources (MLR) Wang Min as saying lately.

In an interview to the media, Wang noted that China is carrying out assessment of minerals potential across the nation, with the purpose of grasping status quo of the mineral resource and making estimation of unexplored deposits in a bid to reduce mining risks and absorb social capital.

On the basis of the assessment, the Chinese government would make scientific schemes and introduce in powerful enterprises both at home and abroad to complete for taking part in exploitation and mining. On development of gold, iron, copper, lead, zinc etc, the government has held on that the participants should shoulder risks and reap proceeds on their own while China welcomes big overseas companies' investment and would offer them equal National Treatment in this campaign.

Baosteel, NSC Ink Framework Agreement on Auto Sheet Expansion

Built on three decades of mutual trust, China's Baosteel and Japan's Nippon Steel Corporation (NSC) announced signing of a framework agreement last weekend on expanding auto steel sheet production, i.e. building of the third galvanizing line in Baosteel-NSC/Arcelor Automotive Steel Sheet Co. (BNA). Besides, the two parties decided to cooperate in Comprehensive utilization of dust and waste.

This collaboration is regarded a good start between the two parties' new leadership. On the signing ceremony, NSC current president expressed hopes to team up with trusted partners for making closer and more mature relationship while each is operating independently in this fast changing era. Baosteel Chairman Xu Lejiang also noted this cooperation of great significance as improving steel is not only for the enterprise itself, but also taking responsibility of the nation, society and people.

Chinese HDG export prices likely to move up after holidays

It is reported that Chinese hot dipped galvanized coil prices are to improve further after Chinese Spring Festival. They have been climbing up slowly, driven by high raw material costs and the rising demand.

Lat week, in Shanghai market, 1.0mm HDG by Anshan Steel was being quoted at CNY 5630 per tonne to CNY 5650 per tonne, 0.5mm cargo by private producers at USD 5950 per tonne up by CNY 30 per tonne to CNY 50 per tonne than last week.

Most traders are more optimistic now and anticipate price to see another round of increase in the next two months. The price for 1.0mm HDG by Anshan Steel is going to approach CNY 6000 per tonne in Shanghai within 4 to 6 weeks as long as it remains above CNY 5600 per tonne.

It is also the case with export offers. Quotations for 1.0mm HDG was prevailing at USD 790 per tonne FOB up and that for 0.5mm HDG was prevailing at USD 830 per tonne to USD 850 per tonne FOB. Steel makers are eager to export materials at better prices so as to get enough profit for supporting stable production and relieve shortage of funds.

This section is a compilation from various company press releases, business dailies & trade publications.