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Can the stimulus package rescue the nonferrous metals industry?

After Chinese government unveiling the RMB4 trillion (about \$570 billion) economic stimulus package, all chief analysts and experts of Antaika on November 14 had a meeting again to discuss whether the stimulus package can rescue the nonferrous metals industry from the financial crisis. The analysts and experts respectively made analysis and forecast on development trend of copper, aluminum, lead, zinc, tin,



nickel and other important metals under the financial turmoil and the positive impact of the stimulus

package. As the first meeting on October 17 has attracted great attention in the nonferrous metals, the officials and analysts of Chalco International Trade Co., Ltd, COFCO Futures Co., Ltd(COFCO is the short for China National Cereals, Oils and Foodstuffs Corp) and other Chinese top futures brokerage companies are invited to attend the meeting. Some metal traders also participated and made speeches at the meeting.

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Copper price to stay at bottom level until 2010

Wang Zhongkui



The copper market has saw limit down since Oct 11, resulting in much fears from market. Recently, the confidence to market has recovered a little because of the government's bailout.

It is expected that the copper price will keep stable temporarily but on the whole, market demand is still far from being satisfactory.

China's 4trillion bailout will allocate 900billion yuan in building low-rent housing, which saw form a long-term is favorable to nonferrous metal industry, but it can't play a fateful role. Copper output won't fluctuate too much in two years according to the current supplying situation. In a word, copper price is likely to fall down and copper market will surfer turmoil until 2010. overseas giant mining companies. So, China always stayed in a bad situation in talks and overseas suppliers drove up price to obtain rich profits.

Global bailout makes little effect to copper demand

Yang Changhua



Currently, the global bailout is mainly focusing on financial market. In a short term, the financial rescue plan stabilizes and resumes the market confidence, but it makes little effect to

increase the weakened copper demand. At the same time, the financial crisis is going further to tangible economy.

China has unveiled the 4.0 trillion stimulus plan to fuel the domestic demand. The government will inject 900bln yuan investment in low-income

housing, which could push forward development of the whole industry chain including air-conditioner, refrigerator industries. However, projects of railways, airports and other infrastructures have limited function in expanding the copper consumption. Copper is mainly used in power plant projects and energy resource projects etc.

Foreign trade policy aims at enhancing export. The tariff rebate ratio on copper semis export will be increased. But copper demand still depends on order numbers in overseas market. China has lowered the tariff on chemical fertilizer export in order to increase sulfuric acid consumption. It will ease the sales pressure of sulfuric acid, and accelerate capital turnover of the smelters.

In the future, copper demand may still be soft although copper production has already been reduced. Copper price may continue to move at low level. Now mines is not possible to cut output due to the price is higher than their production cost. Antaike estimates LME copper price is going to fall to US\$3,000/t, and domestic price will drop to 25,000yuan/t.

Negative growth of AI Consumption to retain until Q1 2009

Wang Feihong



Aluminum consumption in China recorded a year-on-year decrease in September 2008, which is the first time in recent two decades, and the negative growth of the consumption is expected to continue until

January or February 2009.

It is undoubted that the stimulus package boost short-term demand and long-term as well. Ant it is conducive to the structural adjustment of Chinese

economy in the long run. However, the policy and measure that immediately and directly drive up demand for nonferrous metals are poor. So, it is not optimistic on impact of the government-led investment on nonferrous metals industry. The demand for nonferrous metals is likely to continue to decrease in the next 2-3 quarters.

Based on Antaike's survey on aluminum fabrication enterprises in East China, aluminum consumption in China decreased in September 2008 compared with the same month last year. Since September used to be a traditional month of strong demand for aluminum in China, it is sure that the aluminum consumption will remain weak in October and November. The situation is very severe.

The best situation is that the economy will revive in the second half of 2008 and the domestic demand will rebound as the stimulus package begin to take effect. Generally speaking, the crucial factor is the demand. The stimulus package may shrink the decline scope but it is unlikely to reverse the downward trend of nonferrous metals market.

In recent two months, production cost of aluminum has decreased sharply because of falling prices of coal, electric power and other raw materials. Aluminum smelters are now at the break-even point and even obtaining small profits. The worry has been raised on aluminum market that the smelters may stop cutting output. In view of the fact that the demand remains sluggish, the supply surplus on aluminum market may enlarge if smelters cease the cutback, which will lead to a vicious circle between the dropping aluminum price and production cost in the future. Therefore, it is necessary for aluminum smelters to insist on reducing output, which will help aluminum price to become stable and enable the aluminum sector to survive under the financial crisis.

Al smelters hope the government to remove export tariff or raise export rebate

Yang Xiaowu, director of Futures Department of Chalco International Trade Co., Ltd



It is unlikely for aluminum price to largely rebound under the current market condition as the long side have suffered big loss and not recovered strength. The long side has not sufficient funds to made the rebound.

On the other hand, the short side also lost strength and confidence, like the final stage of a flying arrow, as aluminum price has been very low. Most of the short side have retreated from the market and taken a wait-and-see attitude at present. The aluminum price movement will depend on the two factors: smelters' cutback and the consumption reduction. At present, the speed of consumption reduction seems to be faster than the output curtailment. In order to rescue the market, domestic aluminum smelters hope the government to issue policy that is more direct and effective for the nonferrous metals, such as removing export tariff or raising export rebate of aluminum and other nonferrous metals.

Zinc: grope in darkness



Feng Juncong

Whether Chinese government's stimulus measures designated to rescue the market would have effect on lead and zinc market remains an uncertainty. Such measures are also unreliable. In light of lead and zinc market, China has been restricting its export in recent years, while the supply on western market has been stable. Under such circumstance, prices on western market were underpinned to a certain extent. If Chinese government scraps export tax on lead and zinc, it

will be of key interest to some of enterprises but will not be a blessing to the whole lead and zinc industry.

From the perspective of supply and demand side, zinc price will remain at bottom for a long time. Government's series of relief plan by investing in construction of freeways will spur the demand for zinc, because zinc is applied to galvanize the fence of freeways. However, government is concentrating on developing railways etc. rather than freeways; the room for massive construction freeways is very limited. Accordingly, the consumption on zinc is unlikely to be lifted too much. Moreover, demand for zinc alloys shrank apparently in recent years, and it is estimated that consumption on this sector is hard to recover in five years.

From the production cost side, composite cost for smelters remains high, and main stream prices stands above 11,000 yuan per tonne. Because approximately 80% zinc concentrate as raw materials are import from other countries, only 23% are home produced. Production cost for domestic smelters is unlikely to go down unless there is fall on import zinc concentrate or slash for smelters' operational cost.

From demand side, owing to a stable market for steels industry recently that the prices are less volatile, dealings on zinc products are increasing. This will help to cheer up market confidence.

All in all, hope for recovery of zinc market is vague before Q2 of 2009. On condition that the global financial catastrophe will not get worsen, we estimate that 9,000 yuan per tonne is the lowest price.

Confidence resumed in nickel market, while cobalt price may plunge

Xu Aidong

Currently, participants' confidence is relatively s

tabilized in Chinese nickel market. Nickel



production cost cannot bolster the bottom line and support the nickel price in a short term, but it is still a key factor in the long run. In 2009, nickel price may go

between US\$10,000-15,000/t. It may

be hard for the price to break the level of US\$15,000/t. However, a long time low price may rise suddenly and sharply.

Cobalt price has been fluctuating recently. Antaiko estimates the price may plunge to around US\$15 per pound. Cobalt consumption is discrepant in different regions of the world. Europe and North America need more cobalt products for production of alloy used in aviation industry. In Asia, cobalt consumption in battery industry will rise about 15-20% in the following two years.

China approved the 4 trillion stimulus plan to fight with the economy recession and spur domestic demand. More spending on constructions of railways, airports and other infrastructures will dramatically increase nickel and stainless steel consumption. But it may cost a relatively long time.

Molybdenum: prospect looks bright

Xu Aihua



As the all pervasive impingement result from global financial crisis continuously dragging down the real economy, molybdenum market has

been in the so-called bottom and the decline scope has been limited. But producers are still facing up pressures cash flow problems, major molybdenum producers worldwide have to slash production, postpone construction of green field and brown filed projects. The bottom line for molybdenum-in-concentrate (45% Mo) is US\$ 10 per lb.

Chinese government's 4-trillion-yuan stimulus package has limited effect on the GDP growth in the short term but the market confidence will gradually pick up in the long run.

Recently, export tariffs on steels such as cold rolled steels are scraped, which in turn pushes up molybdenum consumption.

Currently, the price disparity on ferromolybdenum between domestic and international market is about US\$ 6 per kilogram. Under such circumstance, Chinese molybdenum export is expected to increase on that demand from international market is recovering.

Tungsten: decline scope limited



Yang Zhaohui

Tungsten demand and transaction have been tepid since the start of 2008. The market slowdown was fuelled by the exacerbated financial crisis in the half of 2008.

Tungsten concentrate price on Chinese market slid to 56,000-58,000 yuan per tonne on November 17, which is the new low for 2008. At the same time, ferrotungsten price also saw a

record low of 135,000-140,000 yuan per tonne. Global financial woes and adjustment for the industry have been contributing to the downward price. Steel mills and cemented carbide plants reduced Q4 output by 1/3. These moves are having a knock-on effect on tungsten market from demand side. In addition, in recent years, tungsten miners have earned excess profits while fabricators were struggling to make profits. This imbalance situation invites correction to the industry, which is another reason for the slumped tungsten market.

It is anticipated that government's measures by expanding domestic demand and consumption as well as incentives by slashing tax would take some effect on domestic tungsten market. The current tungsten price has been close to production cost and the decline scope seems to be limited due to the pickup of the demand.

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China will take 10 major steps to stimulate domestic consumption and growth as it turns to an "active" fiscal policy and "moderately easy" monetary policy, an executive meeting of the State Council.

Here are the 10 major steps:

-- Housing: Building more affordable and low-rent housing and speeding the clearing of slums. A pilot program to rebuild rural housing will expand. Nomads will be encouraged to settle down.

-- Rural infrastructure: Speeding up rural infrastructure construction. Roads and power grids in the countryside will be improved, and efforts will be stepped up to spread the use of methane and to ensure drinking water safety. This part of the plan also involves expediting the North-South water

diversion project. Risky reservoirs will be reinforced. Water conservation in large-scale irrigation areas will be strengthened. Poverty relief efforts will be increased.

-- Transportation: Accelerating the expansion of the transport network. That includes more dedicated passenger rail links and coal routes. Trunk railways will be extended and more airports will be built in western areas. Urban power grids will be upgraded.

-- Health and education: Beefing up the health and medical service by improving the grass roots medical system. Accelerating the development of the cultural and education sectors and junior high school construction in rural western and central areas. More special education and cultural facilities.

-- Environment: Improving environmental protection by enhancing the construction of sewage and rubbish treatment facilities and preventing water pollution in key areas. Accelerating green belt and natural forest planting programs. Increasing support for energy conservation and pollution-control projects.

-- Industry: Enhancing innovation and industrial restructuring and supporting the development of the high-tech and service industries.

-- Disaster rebuilding: Speeding reconstruction in the areas hit by the May 12 earthquake.

-- Incomes: Raising average incomes in rural and urban areas. Raising next year's minimum grain purchase and farm subsidies. Increasing subsidies for low-income urban residents. Increasing pension funds for enterprise employees and allowances for those receiving special services.

-- Taxes: Extending reforms in value-added tax rules to all industries, which could cut the tax corporate burden by 120 billion yuan (about 17.6 billion U.S. dollars). Technological upgrading will be encouraged.

-- Finance: Enhancing financial support to maintain economic growth. Removing loan quotas on commercial lenders. Appropriately increasing bank credit for priority projects, rural areas, smaller enterprises, technical innovation and industrial rationalization through mergers and acquisitions.

These 10 moves are expected to have positive effects on cement, iron and steel producers amid a boom in infrastructure investment. Commercial lenders will benefit as loan ceilings are abolished, and medium-sized and small companies are likely to benefit from preferential policies.