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China steel prices drop in H1, to stay low in H2

By Zhang Yuenan

In the first half of this year, China's steel prices kept falling to an eight-year low under financial crunch and real estate slowdown, while the profits of steel mills started improving from March thanks to much lower iron ore costs.

The steel prices are expected fluctuate at low levels during most time in the second half-year, while periodic rebounds can be expected in front of a re-warming demand from the end-users.

— Dropping steel prices amid weakening demand

China's steel prices in the first half of this year were lower than the same period of last year.

In the beginning of this year, Chinese mills and traders ran as high steel stockpiles as a year ago, albeit a slowdown in the steel demand growth and tight financing conditions.

The steel prices started falling from the beginning of this year and continued with the downward trend during most of the time in H1, except for a short and marginal rebound at March-end and early April.

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In the second quarter, the property market strengthened correction and the iron ore prices extended losses, leading to further falls of the steel prices.

The Myspic, a steel price index compiled by market watcher MySteel, recorded 3,443.7 yuan/tonne in June, hitting the lowest level since March, 2006.

According to monitoring of MySteel, the average price of reinforcing steel bar was 3,197. 82 yuan/tonne in June, down 365 yuan/tonne from half a year ago; the average price of hot-rolled coil was 3,407.09 yuan/tonne in June, down 74 yuan/tonne from half a year ago.

— Rising production in major mills, declining production in small mills

China's daily average crude steel output rose month by month during H1, despite of the dropping steel prices.

In the first six months, the daily average crude steel stood at 2.2757 million tonnes. The total crude steel output of the entire year of 2014 is estimated to be 828 million tonnes.

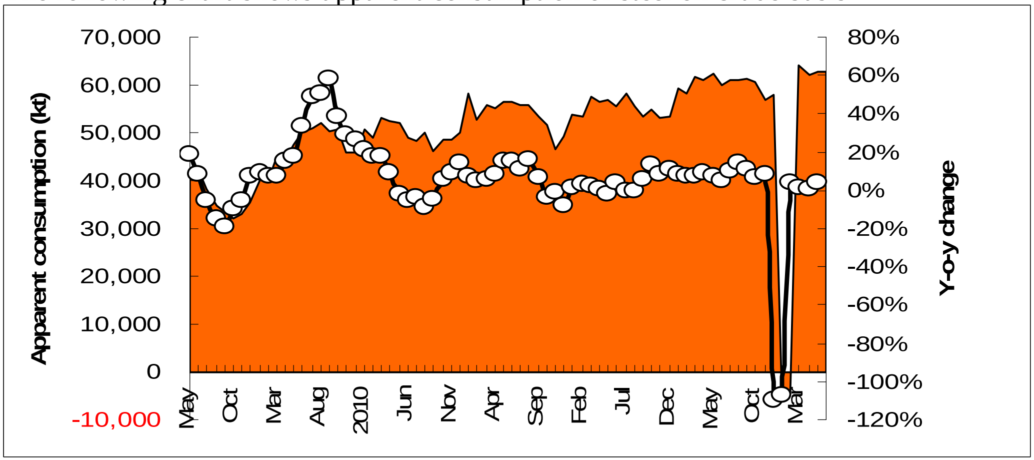
What's worth noting is that the daily production of small steel mills declined month by month, recording 530,900 tonnes in March, 515,900 tonnes in April and 495,900 tonnes in May.

In contrast, the daily production of the major steelmakers climbed month by month, recording 1.7352 million tonnes in March, 1.7752 million tonnes in April and 1.776 million tonnes in May.

The local governments implemented punitive higher power and water prices to those steel mills failing to meet environmental protection requirements. This affected the normal production schedules of the small mills.

Meanwhile, some steel mills were forced to suspend production due to a broken capital chain, under the sluggish steel market and tightened bank loans.

The following chart shows apparent consumption of steel on crude basis



(Source: NBS, GAC, China Metals)

— De-stocking amid financial crunch

The steel sector is bound to a financial austerity this year, which has also spread to its upstream and downstream sectors. De-stocking, as a result, is the top priority for the related firms in these sectors during this year.

By the end of June, the steel stockpiles at traders in major Chinese cities totaled 12.56 million tonnes, down 20 percent versus a year ago; those at the steel mills totaled 15.11 million tonnes, down 12.5 percent from the peak of this year so far.

According to the statistics of China's manufacturing PMI, the raw material stockpile index lingered between 47 percent and 48 percent in January-June, lower than the 50-percent separation between contraction and growth, suggesting a widely-spreading reluctance in raw material purchase, including steel products.

— Slumping iron ore prices

China imported 457.16 million tonnes of iron ores in the first six months, up 19.1 percent from the same period of last year. Its pig iron output, meanwhile, totaled 362.02 million tones in January-June, up 0.5 percent year on year.

Apparently, the iron ore was in an oversupply. Under such a condition, the iron ore price dropped much more significantly than the steel price in the first half-year.

The CIF price of 62-percent-purity-grade Australian ore once dropped to below 90 US dollars/tonne in June from the 158 US dollars/tonne at the beginning of this year.

Amid the slump of global iron ore prices, Chinese iron ore mines had to slash production because their costs are higher than the global mining giants.

The CIF price of 62-percent-purity-grade Australian ore touched resistance at 90 US dollars/tonne, as the domestic mines refused to slash price further at their marginal cost curve.

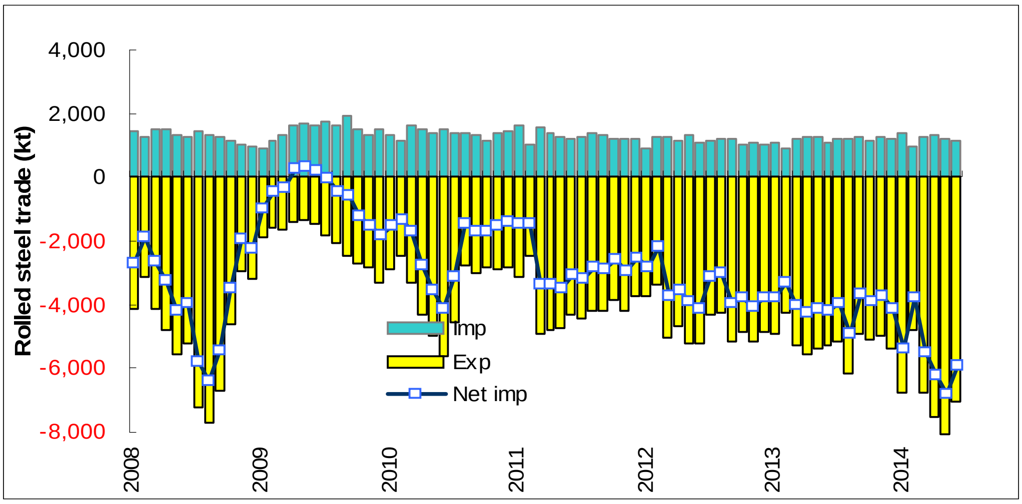
— Soaring steel exports

China exported 41.01 million tonnes of steel products in January-June, up 33.6 percent year on year.

For one thing, the lower steel prices of China than overseas and the depreciation of RMB extended the price advantage of Chinese steel products on the global market.

For another, the recovering U.S. and European economies saw a rising demand for steel products in the first half year, while the Chinese steel mills made efforts to increase exports to the emerging economies, such as the Middle East and South America.

The following chart shows imports and exports of rolled steel trade



(Source: General Administration of Custom (GAC))

— Steel prices expected to fluctuate in H2

China's steel industry will keep adjusting during the rest of this year, under financial crunch, surplus production capacities and a real estate slowdown.

The steel prices are expected fluctuate at low levels during most time in the second half-year, while periodic rebounds can be expected in front of a re-warming demand from the end-users.

1. Stable macro-economy expected for H2

It is expected the Chinese government would continue launching mini-stimulus policies in the second half of this year, control credits to surplus sectors and the real estate sector and lend more financial support to small and mini firms, shanty town reconstruction and high-tech industries.

Investment into the real estate market is likely to continue sliding in H2.

Nevertheless, China's job market is stable and the Chinese people are gaining more income, suggesting a stable growth in the country's spending demand.

The economies of emerging nations are stabilizing after a short financial turbulence at the exit of the U.S. quantitative easing. As such, China's exports are expected to accelerate in H2.

Above all, China's economic growth is expected to keep stable with a marginal slowdown.

2. Low willingness to cut production by steel mills

Chinese steel mills started gaining higher profits from March, aided by the sharp falls of raw material costs, especially that of iron ores.

The improved performance has prompted the steel mills to step up production, with a low intention to slash production despite of the sufficient supply and weakening demand from real estate sector.

3. Financial crunch expected to continue
Bad debts accumulated fast in sectors such as steel and shipbuilding in China in 2013. In order to prevent such risks, the banks have tightened credit loans to the real estate sector as well as the industries with surplus capacities.

The firms in the entire steel industrial chain are bound to a financial austerity, having to place orders only for immediate use.

4. Iron ore price expected to stay low
It is hard to reverse the oversupplied iron ore market in the short term, with new capacities of global miners to be launched gradually and the steel demand growth of China to slow down further.

Eight investment banks have forecast the iron ore market not to rebound in the mid and long term.

Five investment banks estimate an average iron ore price of 95-104 US dollars/tonne in the third quarter, while the rest three predict an average of 95-104 US dollars/tonne for Q3.

Steel e-commerce to boost industry transformation

By Zhang Yuenan

Taobao, a C2C online platform owned by e-commerce giant Alibaba Group, now provides not only small items but also bulk commodities such as steel products.

E-commerce business, highly accepted by the market, is transforming the surplus steel industry of China.

China has 580 bulk commodity e-commerce platforms, about 100 of which are involved in steel business. Steel e-commerce is a bellwether among all the bulk commodity e-commerce, said Cai Jin, vice-chairman of China Federation of Logistics and Purchasing.

The online steel business is estimated to account for 10 percent of China's total steel trades.

For instance, Zhaogang.com has attracted 40 steel mills to do business on the website, which together traded 860,000 tonnes of steel with total value of 2.9 billion yuan.

China Minmetals Corp made its e-commerce platform commercially available in the first half of the year, aiming to create a "Tmall" for steel business.

Tmall is China's top B2C platform under the Alibaba Group.

Steel trade online between steel mills and end-users can cut distribution costs by a half compared to the traditional trader-agenting mode, which particularly fit the present situation of meager-profit, said Wuhan Steel (600005.SH) general manager assistant Huang Zhiming.

China's major steelmakers reversed from losses to profits in May, after losing 1.14 billion yuan in the first four months, according to official data.

Senior analysts said that China's steel industry, with a long-term excess production capacity and tough transformation, is turning into a buyer's market from a seller's one, forcing the steel mills to turn to e-commerce.

This has attracted social capitals to accelerate building steel e-commerce platforms.

In the meantime, experts believe that e-commerce wouldn't replace all the traditional steel distribution channels shortly, despite of its rapid growth.

E-commerce can get quick returns with small margins and is very efficient in selling standardized steel products, while it is still better to buy individualized steel products offline, said Cheng Ming, Dean of Iron and Steel New Technology Institute of New Technology under Wuhan University of Science and Technology.

Analysts also worry the booming development of steel e-commerce platforms could lead to an excess.

Currently, the Ministry of Industry and Information Technology (MIIT) look into and support 30 steel e-commerce platforms, only three to five of which are expected to keep growing and stay influential in the next few years, said MIIT official Dong Baoqing.

Steelmakers grow, overcapacity worsens

By Chen Siwu

Chinese steel companies are growing despite widespread losses and the government's efforts to thin the sector.

Since overtaking Japan to become the world's largest steel producer in 1996, China's steel production reached new heights in June with record -high averages for daily crude steel output. But the country's soaring steel production came as the sector struggles with overcapacity and losses amid an economic slowdown.

The country's average daily output reached 2.31 million tonnes in June, up 1.7 percent from the previous month, according to the latest data from the National Bureau of Statistics (NBS).

Total crude steel output in June was up by 4.5 percent from last year at 69.29 million tonnes, according to the NBS.

The output of pig iron, an intermediary product in steelmaking, also rose 2.3 percent to 60.01 millon tonnes in June, while rolled steel production expanded by 7.1 percent to 98.05 million tonnes.

In the first six months, China produced 411.91 million tonnes of crude steel, or 3 percent more than a year ago. In the same period, pig iron output grew 0.5 percent year on year to 362.02 million tonnes while rolled steel production increased 6.4 percent to reach 552.25 million tonnes.

While output grew, profits from steel production have been sluggish. Combined profits of Chinese steel companies in the first half rebounded to 2.27 billion yuan (about 370 million U.S. dollars) following a loss of 2.33 billion yuan in the first quarter, according to data by the China Iron and Steel Association (CISA).

However, their steelmaking operations incurred huge losses that were offset by 4.32 billion yuan in investment revenues and 3.88 billion in non-operating income.

The record-high production capacity indicated the government's efforts to rein in the sector's growth have been in vain.

This month, the Ministry of Industry and Information Technology (MIIT) again ordered the steel sector to eliminate laggard and excessive capacity by as much as 46.86 million tonnes by the end of September.

According to the MIIT plan, 44 iron smelting companies and 30 steel smelting enterprises must eliminate substandard and excessive capacity.

"Currently, we are in an oversupply situation, so the decree is good for the entire steel sector's future development," said Yi Peng, director-general of PanGoal, a public policy research institution.

Overcapacity has long been a problem for China's steelmakers, which have not only been blamed for polluting China's air, rivers and soil, but for impeding economic restructuring.

Data from the China International Steel Congress showed the steel industry now has excess capacity between 180 million tonnes and 240 million tonnes.

Yi said administrative decrees won't help cut excess capacity if the government continues to overreach by retaining the power for steel project approval.

"We should let players fully compete in the market, which will help find the equilibrium point at which malfunctioning enterprises go bankrupt," Yi said. Yi added that the country's steel companies need to move up the value chain as China still relies heavily on imports for sophisticated steel products.

Li Xinchuang, executive deputy secretary-general of CISA, estimated that the sector needs five to ten years to eliminate the excess capacity.

"It's urgent to control output for the entire sector," Li said. "If this grim situation continues, enterprises that fail environmental standards or those with little liquidity will be knocked out first."

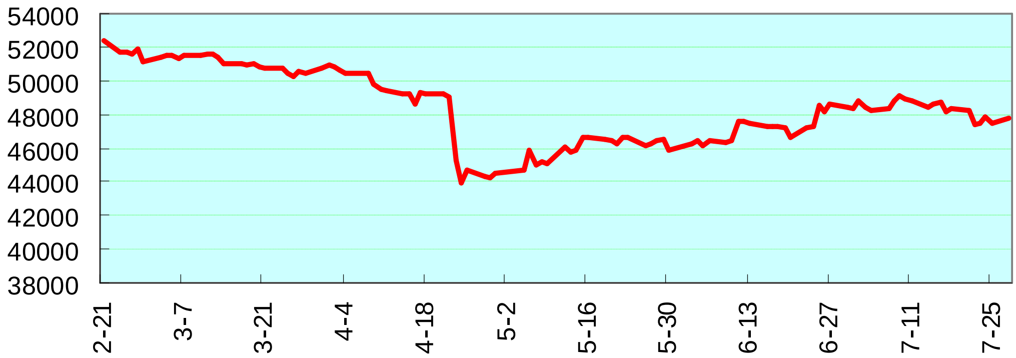
China H1 copper output grows with rise in imports

Hu Pingchao

China yielded about 3.52 million metric tons (tonnes) of refined copper in the first half of 2014, up 7.96 percent year on year. In June, the country produced 623,428 tonnes of refined copper, up 9.71 percent year on year, according to the data from China Nonferrous Metals Industry Association (CNIA).

The rising prices of copper in recent months have stimulated producers to increase output. But the short supplies of scrap copper have led to the limited increase in refined copper output. The June refined copper output was up only 1.32 percent from May's 615,308 tonnes, say analysts.

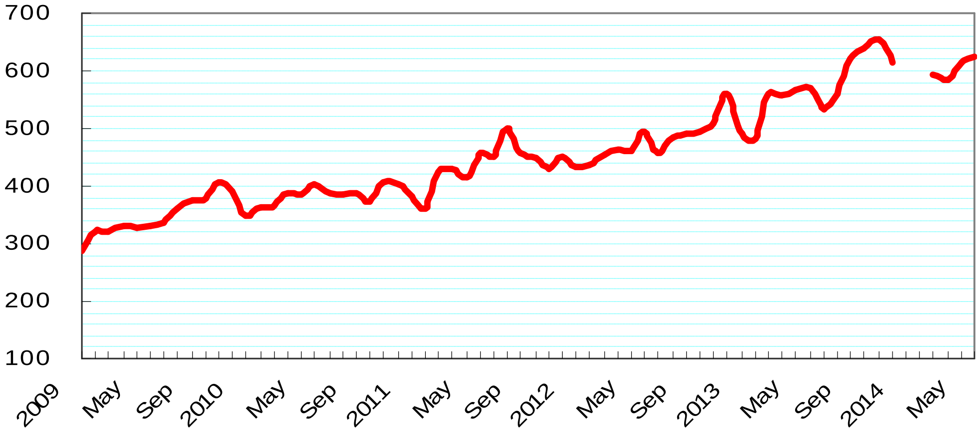
The following chart shows the copper closing prices on the SHFE since the start of 2014. (Unit: yuan/t)



(Source: Shanghai Futures Exchange)

Meanwhile, in the face of traditional off-season for copper consumption, some copper smelters have suspended production to cope with the situation, analysts add.

The following chart shows the country's refined copper output since 2009. (Unit: kt)



(Source: Xinhua Multimedia Database)

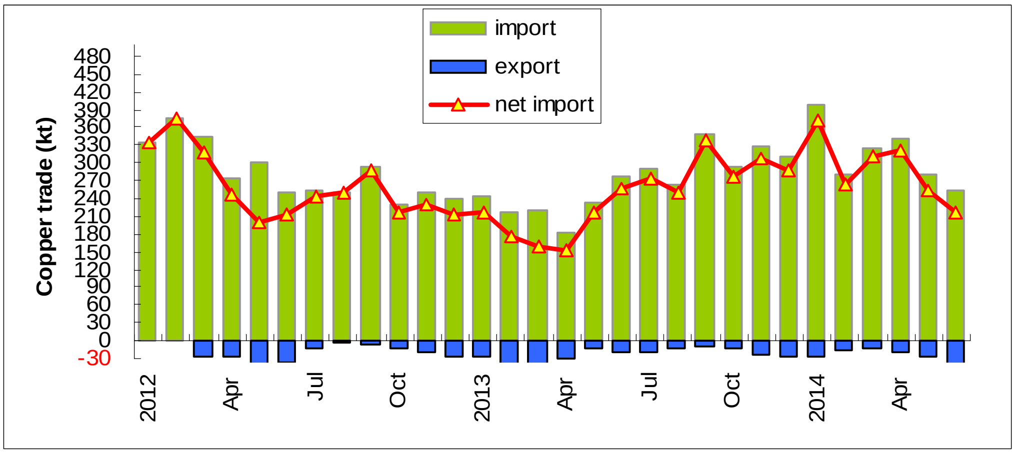
China imported 5.4 million tonnes of copper concentrates in the first half of 2014, up 21.8 percent year on year, while the country's refined copper imports increased 37.3 percent year on year to stand at 1.88 million tonnes in the period, according to the Customs.

In the first half of 2014, the country's copper imports (anode copper, refined copper, copper alloy and semi-finished copper) amounted to 2.52 million tonnes, up 25.9 percent year on year.

The country's refined copper imports in June were down 9.87 percent from May's 282,969 tonnes. In addition, the country's imports of anode copper, refined copper, copper alloy and semi-finished copper amounted to 350,000 tonnes in June, hitting the lowest level in 14 months.

Affected by the investigation about loan fraud by warehouse receipts at Qingdao port, some banks have suspended the business of pledge by warehouse receipts, leading to the increase in copper financing costs. Given this factor, China's imports of refined copper fell in June, say analysts.

The following table shows the country's refined copper imports since 2012. (Unit: kt)



(Source: Xinhua Multimedia Database)

China's economy grew 7.4 percent year on year in the first half of 2014. Growth in the second quarter stood at 7.5 percent, picking up from the 7.4 percent expansion in the first quarter, according to the National Bureau of Statistics (NBS).

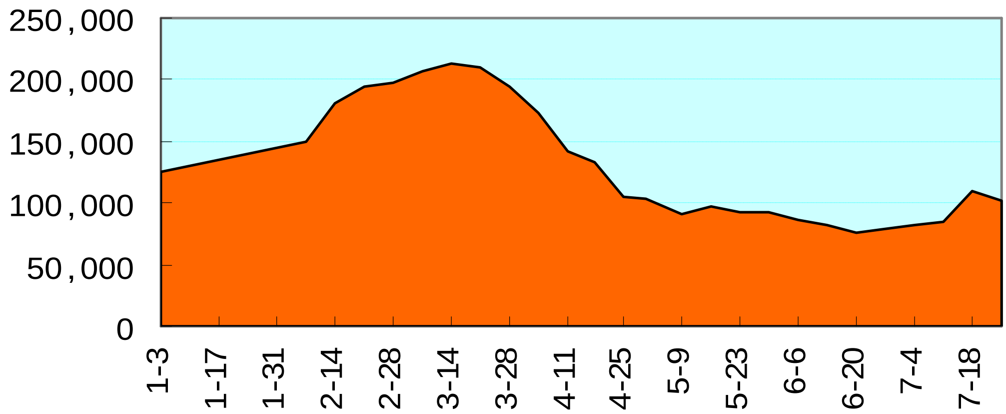
"The Chinese economy showed good momentum of stable and moderate growth in the first half," said NBS spokesman Sheng Laiyun at a press conference.

In order to hit the year's target of 7.5 percent in GDP growth, the Chinese government is likely to roll out some measures, which will exert a positive effect on the metal, says Sun Xiaoqin, an analyst of Hualian Futures.

July is the traditional off-season for copper consumption. Entering July, the weak consumption and increase in supplies have weighed on the red metal. But, expectations for policies to stabilize the domestic economy, low copper inventories, and demands from downstream sectors to replenish stocks will lend support to the red metal, according to analysts.

Since March, stocks in the Shanghai Futures Exchange (SHFE) have declined. By July 25, the SHFE stocks have amounted to 102,145 tonnes.

The following table shows the copper stocks in the SHFE in the first five months of 2014. (Unit: t)



(Source: Shanghai Futures Exchange)

Low stocks to limit decline of SHFE copper

By Hu Pingchao

Copper traded on the Shanghai Futures exchange has recently continued falling after the uptrend for nearly 20 trading days since mid June. Despite the recent fall, by July 22, the SHFE copper was still up about 15 percent from the lowest level on March 20.

Expectations for policies to stabilize the domestic economy, low copper inventories, and demands from downstream sectors to replenish stocks will lend support to the red metal and the room for further fall in copper prices is limited, according to analysts.

— Expectations for steady economy

China's economy grew 7.4 percent year on year in the first half of 2014. Growth in the second quarter stood at 7.5 percent, picking up from the 7.4 percent expansion in the first quarter, according to the National Bureau of Statistics (NBS).

"The Chinese economy showed good momentum of stable and moderate growth in the first half," said NBS spokesman Sheng Laiyun at a press conference.

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— Low copper stocks

Although copper stocks at the London Metal exchange (LME) rebounded a little due to stocks transferred to Busan from Qingdao, the increase is limited. In recent days, the LME copper stocks started falling. By July 17, the LME copper stocks fell by 600 metric tons (tonnes) from the previous day to stand at 158,575 tonnes.

The recent fall in copper prices was also ascribed to the fact that July is the traditional off-season for copper consumption. Data from the National Bureau of Statistics (NBS) shows that China produced 623,428 tonnes of refined copper in June, up 9.5 percent year on year. Entering July, the weak consumption and increase in supplies have weighed on the red metal.

Given the expectations for the future policies and low stocks, the copper prices will remain strong in the mid-term, say analysts.

Meanwhile, the net long positions for copper of COMEX funds were 48,994 contracts by July 15, indicating their bullish outlook for the red metal.

Overall, the expectations for more policies to stimulate the domestic economy, demands for copper is likely to improve in the second half of the year. Copper will find the lowest support level between 49,000 yuan/tonne and 50,000 yuan/tonne, say analysts.

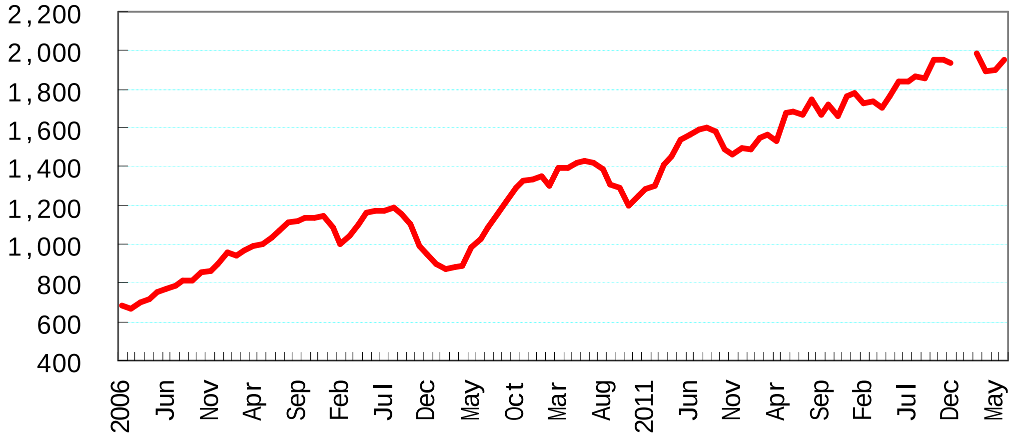
Production of aluminum in China grows in H1

Hu Pingchao

China's production of aluminum in the first half of 2014 increased 7.42 percent year on year to stand at about 11.54 million metric tons (tonnes). In June, the country's aluminum output increased about 6.01 percent year on year to 1.95 million tonnes, according to the data from China Nonferrous Metals Industry Association (CNIA).

The June's aluminum output was up 2.94 percent from about 1.89 million tonnes in May, according to CNIA.

The following chart shows the country's aluminum output since 2006. (Unit: kt)



(Source: Xinhua Multimedia Database)

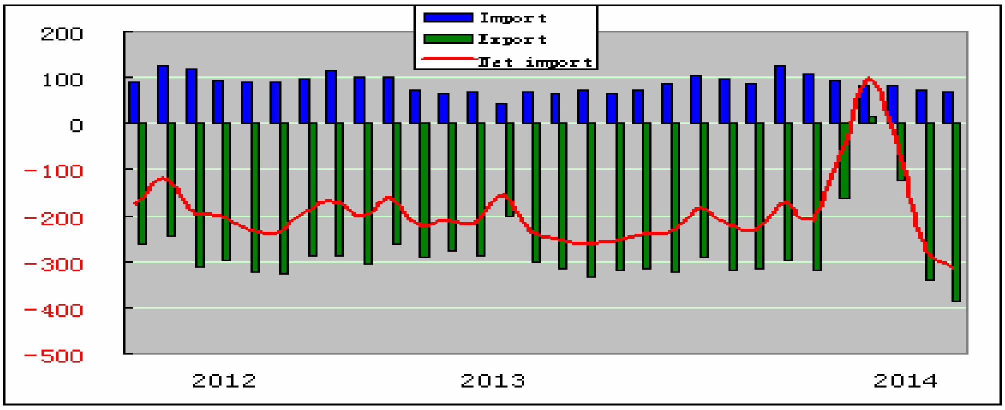
In the first half of 2014, Xinjiang Uygur Autonomous Region produced about 1.91 million tonnes of aluminum, up 91.64 percent year on year, ranking the top among other provinces and cities.

With the new capacity put into operation and benefiting from the abundant resources and advantages in electricity prices, aluminum enterprises in Xinjiang increased their output, say analyst.

In the first half of 2014, China imported 227,172 tonnes of primary aluminum, up 128.47 percent year on year. However, in June, the country's primary aluminum imports went down 20.02 percent year on year to 14,688 tonnes.

Like copper, aluminum is often used as collateral in China for credit. With the outbreak of fraud credit by using the same warehouse receipt for multiple loans, domestic and foreign banks have been cautious about the metal financing. Affected by the investigations about metal financing in Qingdao ports, some banks have suspended the metal financing deals and the country's imports of aluminum in June fell, say analysts.

The following chart shows the country's imports and exports of aluminum alloy, unalloyed aluminum, and aluminum products. (Unit: kt)

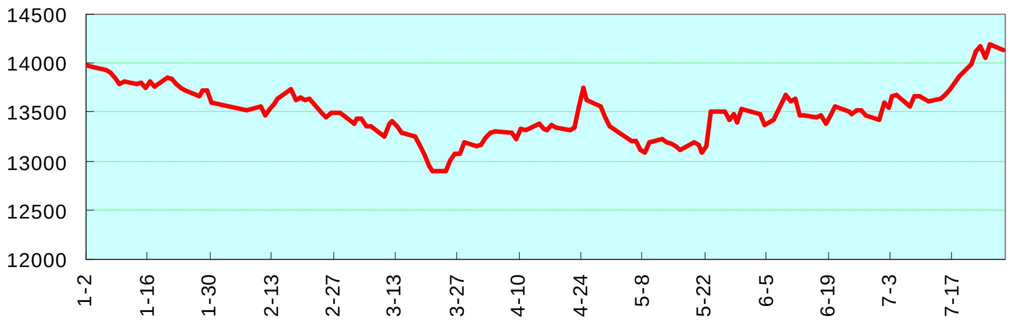


(Source: Xinhua Multimedia Database)

Entering July, aluminum traded on the Shanghai Futures Exchange (SHFE) has seen an uptrend. On July 28, the Shanghai benchmark aluminum contract for October delivery hit the highest level of 14,265 yuan/tonne.

The SHFE data shows that aluminum has increased more than 4 percent since the start of July.

The following table shows the closing price of SHFE aluminum in the first six months of 2014. (Unit: yuan/t)

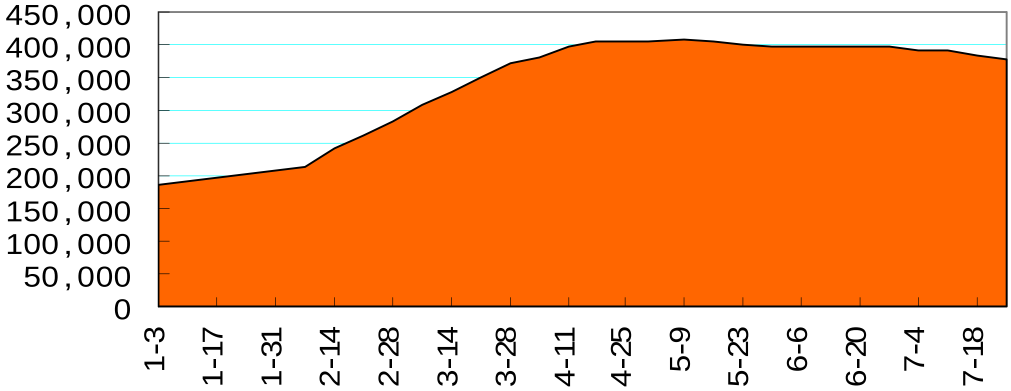


(Source: Shanghai Futures Exchange)

At present, the global aluminum market is in short supply. The overseas stocks have fallen sharply. The auto consumption in the Europe has exceeded expectations. Leading aluminum producers such as UC RUSAL, and Alcoa controlled the output, mainly leading to the short supply. On the domestic market, aluminum stocks have also declined, contributing to the advance in prices, says Zhang Meng, an analyst of Chem99.

Aluminum stocks at the London Metal Exchange (LME) fell to 4.95 million tonnes, hitting the lowest level since September 2012. Meanwhile, the SHFE aluminum stocks are about 380,000 tonnes, down about 6 percent from the highest level.

The following table shows the aluminum stocks in the SHFE in the first six months of 2014. (Unit: t)



(Source: Shanghai Futures Exchange)

With the recovery of aluminum production capacity and newly-added capacity in August, it is difficult for the aluminum to increase more.

The recent increase in aluminum prices is due mainly to the tight supplies. But the price hike did not have the support from the substantial demands. The capacity recovery will make the metal face huge pressure. On the spot market, the metal is likely to meet the resistance at 14,300 yuan/tonne, said Zhang.

Meanwhile, traders are also holding a wait-and-see attitude towards the future market. Some traders are reluctant to sell the goods.

However, with the increasing prices, some traders also wonder whether the prices could continue the uptrend.

“The prices have already hit a high level. The room for further rise is limited and it is inevitable for the metal to fall in the coming days. Besides, with the aluminum production recovering to the normal level in the future, the sufficient supply will weigh on the prices, ” said a trader surnamed Liu in Shanghai.

China alum. prices rise in off-season on short supply

By Hu Pingchao

July is the traditional off-season for aluminum consumption in China. However, the metal rewrites the tradition and has continuously increased since the start of July.

Due to the rising price of aluminum in global market and sharply decreased aluminum stocks, the prices of aluminum in both futures market and spot market have been rising incredibly since July, hitting the highest level of the year.

However, with the recovery of aluminum production capacity and newly-added capacity in August, it will be difficut for the metal to extend the rising trend, say analysts.

—Aluminum price surges since start of July

Entering July, aluminum traded on the Shanghai Futures Exchange (SHFE) has seen an uptrend. On July 23, the Shanghai benchmark aluminum contract for October delivery hit the highest level of 14,250 yuan/tonne.

The SHFE data shows that aluminum has increased more than 4 percent since the start of July.

The overnight rising future prices of London aluminum boosted the Chinese market. The recent rise in alumium prices was also ascribed to the low stocks of aluminum in China, says Zhang Meng, an analyst of Chem99.

In the spot market, aluminum prices also go high. By July 22, the average aluminum price in Shanghai spot market was quoted at 14,080 yuan/tonne, marking the highest level since the start of this year.

At present, the global aluminum market is in short supply. The overseas stocks have fallen sharply. The auto consumption in the Europe has exceeded expectations. Leading aluminum producers such as UC RUSAL, and Alcoa controlled the output, mainly leading to the short supply. On the domestic market, aluminum stocks have also declined, contributing to the advance in prices, said Zhang.

Aluminun stocks at the London Metal Exchange (LME) fell to 4.95 million tonnes, hitting the lowest level since September 2012. Meanwhile, the SHFE aluminum stocks are about 380,000 tonnes, down about 6 percent from the highest level.

In addition, the rising aluminum production costs and expansion in aluminum consumption fields also push up the prices. Since Indonesia banned the bauxite exports in January, the domestic aluminum producers have to face the rising production costs.

— Rising momentum of aluminum price hard to continue

With the recovery of aluminum production capacity and newly-added capacity in August, it is difficult for the aluminum to rise more.

The recent increase in aluminum prices is due mainly to the tight supplies. But the price hike did not have the support from the substantial demands. The capacity recovery will make the metal face huge pressure. On the spot market, the metal is likely to meet the resistance at 14,300 yuan/tonne, said Zhang.

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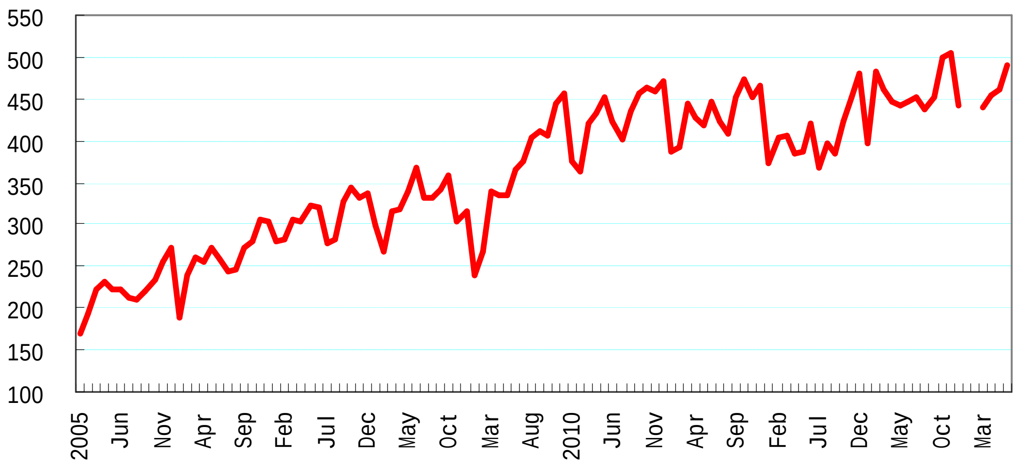
China H1 refined zinc output, imports go up

Hu Pingchao

China’s production of refined zinc in the first half of 2014 edged up 1.34 percent year on year to stand at about 2.67 million metric tons (tonnes) as the rising zinc prices have stimulated many producers to restart operation.

The following table shows the country’s refined zinc output since 2005. (Unit: kt)



(Source: Xinhua Multimedia Database)

Short supply of zinc has pushed up prices in recent months. By July 29, the Shanghai flagship zinc has rebounded about 18.31 percent from the lowest level of 14,690 yuan/tonne in March to 17,410 yuan/tonne, hitting the highest level in the year.

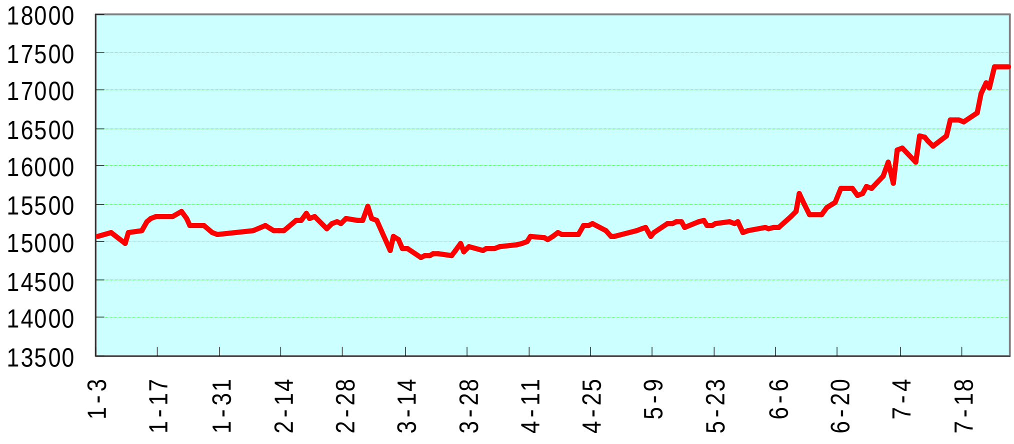
In recent years, the global zinc ore output has been slowing due to the resources exhaustion and rising production costs. Since the second quarter of last year, the global zinc ore output has seen the negative growth. In addition, the zinc market is also faced with expectations of mine closure. Meanwhile, other newly-increased capacities are uncertain and normally below the expected production. Generally speaking, the global zinc market will be in short supply in the next three years, according to Li Qi, an analyst of Everbright Futures.

MMG Limited (01208.HK), a subsidiary of China Minmetals Corp., said recently that it will lower its target of zinc output for 2014 from between 600,000 metric tons (tonnes) and 625,000 tonnes to between 575,000 tonnes and 600,000 tonnes.

The company said that its Australia-based Century zinc mine will be shut down as the mine will be exhausted next year. The closure of the mine will cause a fall of nearly 500, 000 tonnes of zinc supplies in the global market.

"At present, besides the Century mine, several mines will also face the issue of being exhausted," said Adrew Michelmore, managing director of the company.

The following chart shows SHFE zinc prices since the start of 2014. (Unit: yuan/t)



(Source: Shanghai Futures Exchange)

China's purchasing managers' index (PMI) in July rose to its highest level since January of 2013 as new orders surged, adding to signs of economic improvement, according to a preliminary survey by HSBC.

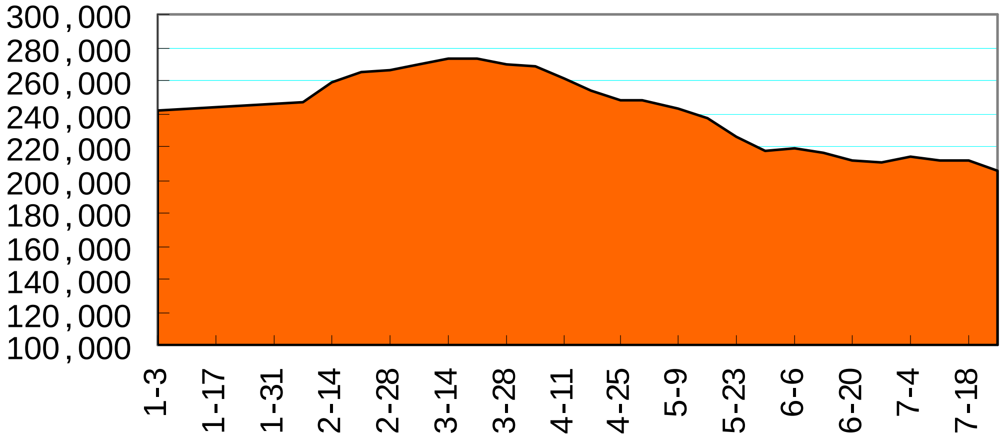
Decision makers in China would maintain relaxed policies in the coming months to bolster economic stabilization, said Qu Hongbin, Chief Economist at HSBC China.

China's economic activity continues to improve in July, suggesting that the cumulative impact of "mini-stimulus" measures introduced earlier is still filtering through, according to Qu.

The improved macro economic situation has stimulated investors' expectations for zinc consumption on the domestic market. Meanwhile, the expectations for the price hike in many minor metals have also pushed up the prices of zinc, say analysts.

The SHFE zinc stocks have fallen to 205,990 tonnes by July 25, implying the recovery zinc consumption amid improvement in macro economic situation.

The following chart shows the zinc stocks in the SHFE in the first six months of 2014. (Unit: t)

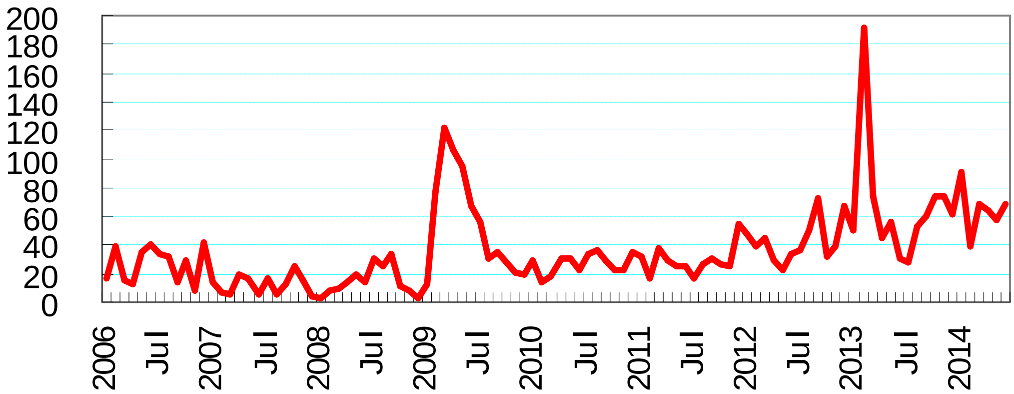


(Source: Shanghai Futures Exchange)

In the first half of 2014, the country imported 379,449 tonnes of refined zinc, up 38.14 percent year on year, the Customs data shows.

The country's refined zinc imports stood at 68,476 tonnes in June, up 123.55 percent year on year, indicating the huge demand from the domestic market and the short supplies on the domestic market, say analysts.

The following table shows the country's refined zinc imports since 2006. (Unit: kt)



(Source: Xinhua Multimedia Database)

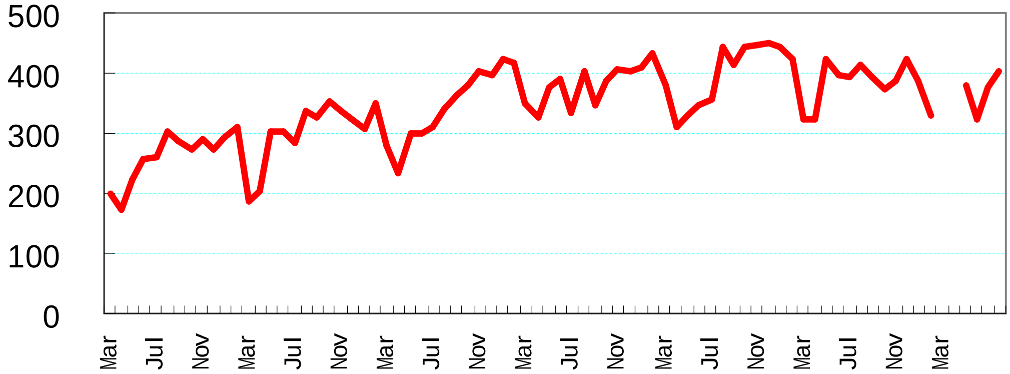
Production of lead in China falls in H1

Hu Pingchao

China's production of lead in the first half of 2014 fell by 2.82 percent year on year to stand at about 2.24 million metric tons (tonnes), according to the China Nonferrous Metals Industry Association (CNIA).

The rising costs of raw materials and high pressure of environmental protection have led to the decrease in lead output, say analysts.

The following chart shows the country's lead output since 2008. (Unit: kt)



(Source: Xinhua Multimedia Database)

Since last December, output of the global lead ores has fallen sharply. In April, this year, the global lead concentrates output has dropped by 15.4 percent year on year, hitting the lowest level since October 2011. In China, the country has seen negative growth of lead ores since February. In the first half, the lead ore output was down 2.59 percent, according to Li Qi, an analyst of Everbright Futures.

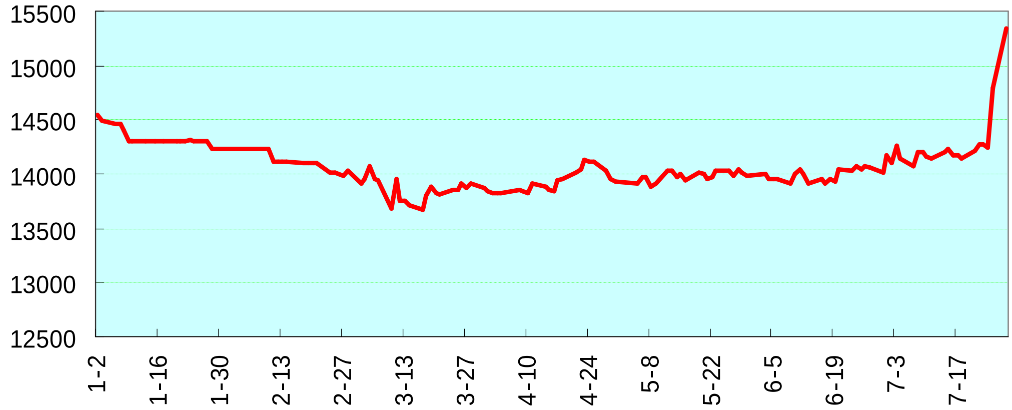
As for the refined lead, the country has seen the negative growth of refined lead since last November. In the first half of 2014, the country's refined lead output was down 2.82 percent year on year. However, although the domestic output declined, supplies in the overseas market mainly featuring secondary lead remained sufficient. Data from the International Lead and Zinc Study Group (ILZSG) shows that in the first five months of 2014, the global saw 20,000 tonnes of refined lead shortage, while it saw 37,000 tonnes of refined lead shortage in the same period of last year.

Lead traded on the Shanghai Futures Exchange (SHFE) was up about 12 percent by July 29 from the lowest at the end of March.

About 80 percent of lead is used for the lead-acid battery and the consumption demands come mainly from auto, electric vehicles, and battery exports. At present, on the domestic spot market, lead supplies are relatively tight. Purchases from downstream battery enterprises have also increase, but are limited, say analysts.

But, some note that the recent abrupt jump in lead prices was due to the speculative money. Investors should be cautious about the market in the future.

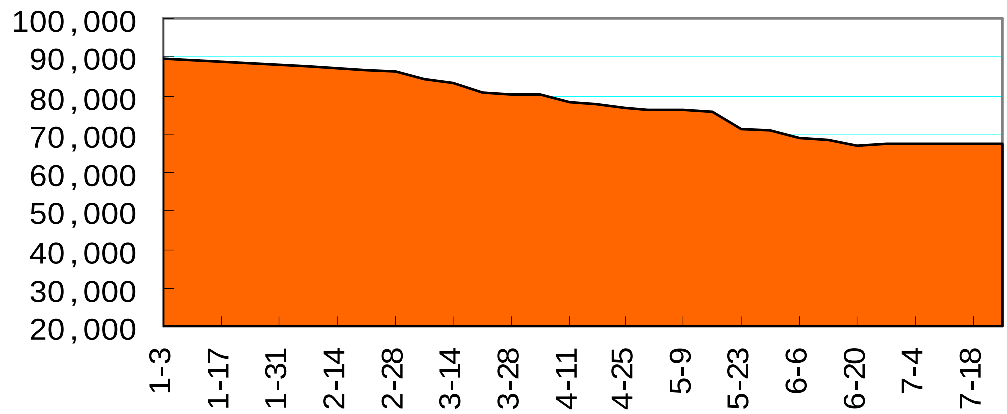
The following chart shows the SHFE lead prices since the start of 2014. (Unit: yuan/t)



(Source: Shanghai Futures Exchange)

The fall in SHFE lead stocks also indicates the recovery in lead consumption. The SHFE lead stocks fell about 24.59 percent from those at the start of the year to stand at 67,650 tonnes by July 25.

The following chart shows the lead stocks in the SHFE in the first six months of 2014. (Unit: t)

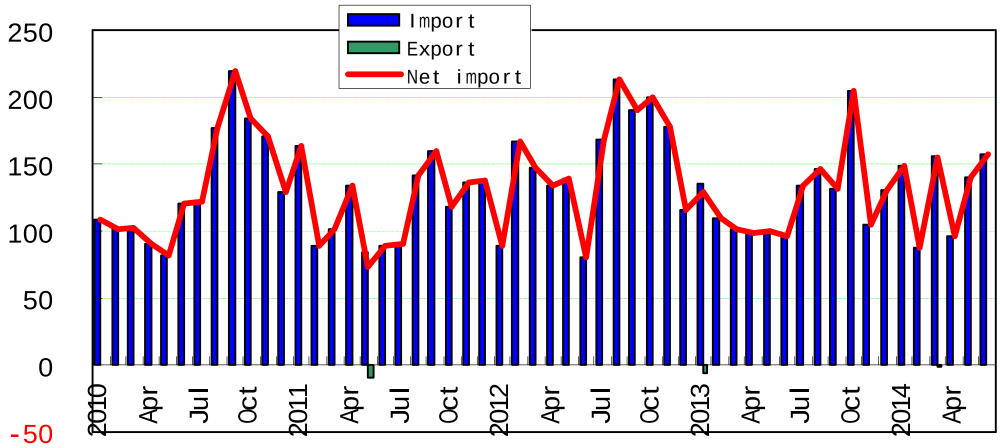


(Source: Shanghai Futures Exchange)

Meanwhile, the country imported 799,318 tonnes of lead in the first half of 2014, up 22.06 percent, according to statistics of China's Customs.

During the period, the country's lead concentrate imports increased 22.29 percent year on year to 783,874 tonnes. In June, the country imported 156,670 tonnes of lead concentrates.

The following chart shows the country's lead concentrate imports and exports since 2010. (Unit: kt)



(Source: Xinhua Multimedia Database)

Plus

Iron ores pile up in China ports on trade financing

By Hu Pingchao

A large amount of iron ores, coal and other commodity resources have been imported and piled up on the domestic ports and industry insiders note that the surge in China's commodity imports is likely caused by the trade financing due to the financial strain, instead of real rising demand.

In the first half of the year, the country's foreign trade data was weak. But, with the implementation of policies to stabilize the economy in the second half, China's foreign trade situation will likely become better, industry insiders add.

In the first quarter, the container volume of global top ten ships in Qingdao port increased by 11.3 percent year on year and the cargo throughout in Qingdao port amounted to 120 million metric tons (tonnes), up 5 percent year on year.

Previously, the iron ores at Qingdao port were directly used for steel mills. But, at present, more than 80 percent of the ores are trade ores. Iron ore stocks at Qingdao port at present stand at more than 15 million tonnes. The stocks are much higher than the previous years. Some ores have been piled here for more than a year, a senior executive of Qingdao port was quoted as saying.

Meanwhile, in Ningbo port, the Beicang port has the designed stockpiling capacity of 3 million tonnes, but now the port has seen about 2.8 million tonnes of iron ores.

"Since May, the iron ore stocks have been much higher. Earlier, the stocks reached about 2.4 million tonnes. About 50 percent to 60 percent of the stocks were been used as collateral for bank loans," says Wang Haiyun, manager of the production department of

Ningbo Port Beicang ore terminal branch.

According to Customs, China imported 457 million tonnes of iron ore in the first half of 2014. The iron ore stocks at domestic ports have already exceeded 113 million tonnes at present, up nearly 30 percent from those at the start of the year, hitting a record high.

However, the domestic steel consumption remained sluggish.

Data from the China Iron and Steel Association (CISA) show that the domestic apparent consumption of crude steel amounted to 313 million tonnes in the first five months of 2014, only up 260,000 tonnes year on year. At the end of May, the social stocks of crude steel dropped by about 3.96 million tonnes, while CISA member steel makers saw stocks increase 278,500 tonnes year on year. The figures mean that the domestic actual crude steel consumption did not increase in the period of January-May.

Weak rare earth prices weigh on listed companies

By Hu Pingchao

Rare earth prices in China showed a downtrend in the first half of 2014 and continued weighing on the performance of related listed companies.

Meanwhile, the country is faced with adjustment in rare earth export policies and accelerating the consolidation in the industry. Some rare earth enterprises even set up a alliance to cope with the export challenges.

— Business performance of listed rare earth companies in H1

China Minmetals Rare Earth Corp (000831.SZ) said that it expected to incur a net loss of 40 million to 45 million yuan in the first half of 2014. In the first half of 2013, the company earned a net profit of about 10.17 million yuan. The company said that the continuous sluggish rare earth market in the first half of the year weighed on its product sales, leading to the weak business performance.

Rising Nonferrous Metals Co. Ltd. (600259.SH) said that its net profits for the first half of 2014 were expected to stand at about 6 million to 8 million yuan, meaning that the company turned losses into profits compared to the same period of last year. In the first half of 2013, it incurred a net loss of 69.22 million yuan. During the first half of this year, the company's sales revenue saw a sharp year-on-year increase and the company also took multiple measures to reduce its comprehensive operating costs, according to a filing to the stock exchange.

However, analysts pointed out that Rising Nonferrous Metals' profit growth was not derived from the improvement in its main business.

Xiamen Tungsten Co. Ltd. (600549.SH) said that its net profit for the first half of 2014 stood at 140 million yuan, up 97.27 percent from a year earlier. It attributed the net profit jump to sharp year-on-year loss reduction in its subsidiary, Fujian Changting Golden Dragon Rare-Earth Co., Ltd.

Xiamen Tungsten said that in the first half of 2014, due to sluggish demand from downstream sectors, prices of tungsten concentrates continued a downtrend, leading to the fall in profits of its tungsten mines and tungsten products. However, its alloy products kept stable and sales of powder and traditional products increased. Sales of its battery materials increased with improvement in profits.

Zhenghai Magnetic Material (300224.SZ) said that its net profits for the first half of 2014 were expected to stand at 44.41 million yuan to 50.33 million yuan, up 50 percent to 70 percent from a year earlier.

JPMF Guangdong (002600.SZ) was expected to incur a net loss in the first half of 2014. According to the Association of China Rare Earth Industry, China's rare earth price index was 151.2 on July 25, while the index was above 200 in last August.

Industry insiders note that against the background of the slowing domestic economy and declining domestic demands, the NdFeB is in the stage of traditional off-season at present. The weak demands have forced some merchants to reduce prices for high sales volume, which has further dampened the prices of rare earth oxide products. Some producers have chosen to suspend production in the hope of the market improvement in the future.

— China rare earth industry embraces policy window

With the WTO ruling against China's rare earth export policies, the country is faced with adjustment in its rare earth export policies.

At present, China still implements the mining quota policy for the rare earth industry. In 2014, the country's quota for rare earth mining and production increased 10 percent from last year, according Huang Libin, an official of Ministry of Industry and Information Technology (MIIT).

Huang said that the campaign launched by Chinese authorities in recent three years have shut down a number of illegal mining plants and producers. With the further standardized development and increasing market demand, the mining quota for rare earth will likely continue increasing in the future.

Meanwhile, in recent months, consolidation in domestic rare earth industry has also accelerated.

Xiamen Tungsten said that the Fujian provincial government had approved its restructuring scheme to build a rare earth group.

According to the scheme, Xiamen Tungsten will extend its rare earth industrial chain, improve the added value of rare earth industry, and drive the development of deep processing and application of rare earth resources in the province.

Xiamen Tungsten is one of the six Chinese rare-earth companies to integrate regional rare-earth resources, under instruction of the MIIT.

In addition, Shandong Economic and Information Technology Commission recently signed a letter of intent with China Iron and Steel Research Institute Group and China Rare Rare-earth Corp. to build “Shandong Rare Earth Group”.

It is worth noting that seven companies including Shenyang General Magnetic Corp., and Ningbo Tongchuang Strong Magnet Material Corp. formed an enterprise alliance to attend the rare earth industry fair held in Japan to promote their products and look for customers.

China is accelerating the rare earth regulation and consolidation. The six rare earth large groups will increase the industrial concentration. In the future, more polices and measures will be released to support the healthy development of the industry. With the demand recovery, prices of rare earths are expected to rebound in the second half of the year and the high-performance NdFeB will likely embrace rapid development, say industry insiders.

Chinese iron-ore basis trading ‘win-win’ for buyer, seller

By Zhang Yuenan

China’s Rizhao Iron and Steel Co. earlier this month signed basis trading contracts of iron ores with two traders, which are the first of its kind in China, marking a big step in China’s iron ore trade business.

The contracts, together involving 15,000 tonnes of iron ores, will be delivered within one month, with the delivery price set on the basis of the September contract traded on Dalian Commodity Exchange.

— ‘Win-win’ approach

Under the basis trading contract, the two sides set the Dalian September iron ore contract price as the benchmark, a particular basis and the delivery time at any given point within one month, instead of settling a particular cash price for the iron ores to be delivered.

As such, the buying side of the contract got access to participating in the pricing process and proceeding risk management via the futures market, while the selling side is happy to see a higher sentiment of the buying side to place orders.

Basis trading is widely used in the agro trades at Chicago Commodity Exchange and the metals trades at London Metals Exchange.

The listing of iron ore futures contracts at northeast China-based Dalian Commodity Exchange makes it possible for China, the largest iron ore consumer in the world, to negotiate for basis trading in the ferrous metals business.

The pricing mode of “futures price plus basis” is expected to spread in China’s iron ore business, which would help facilitate a closer connection between the spot and futures iron ore markets and thus strengthen the pricing and hedging functions of iron ore futures.

— Benefits for buyers, sellers

Head of Dalian Commodity Exchange said the signing of iron ore basis trading contract is a “milestone” for Chinese iron ore business, which would provide a good leverage for Chinese firms to manage risks.

Risk management has become more crucial than ever, against the background of an economic restructuring and transformation.

The basis trading, a good leverage particularly in the bearish market, is set to boost deals and reduce stockpiles of the sellers.

The basis pricing mode gives more freedom to both the buying and selling sides and would encourage them to build stable and cooperative business relations with each other, said general manager Shi Jianjun with Yong An Futures.

For the steel mills, they will have more courage to sell forward steel products with locked iron ore supplies and prices with the basis trading contracts.

It also saves financial costs for both the buyer and the seller.

The mode of basis pricing has just come to the iron and steel industry, while the global market has not settled a widely-accepted futures contract as the benchmark for iron ore basis trading, added Shi.

Company News

Jinchuan Group raises electrolytic nickel price

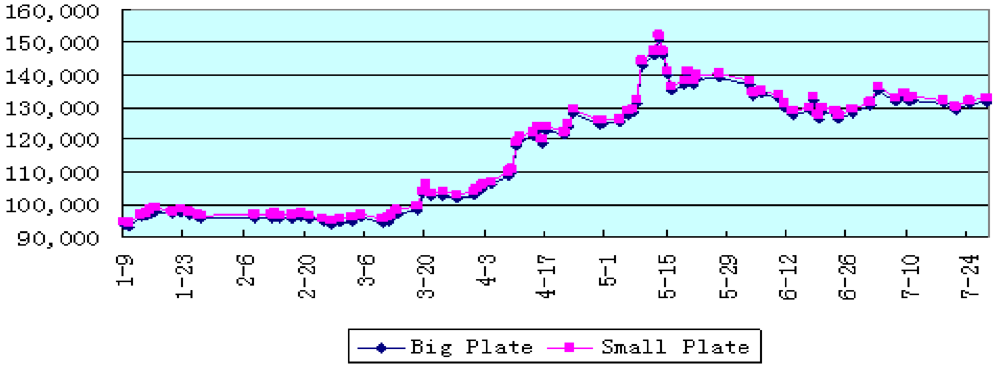
By Hu Pingchao

China's Jinchuan Group Corp. announced on late July 28 a hike of its ex-factory price of electrolytic nickel by 500 yuan/metric ton (tonne).

Specifically, the price of electrolytic nickel (big plate) was raised to 131,500 yuan/tonne from 131,000 yuan/tonne, while the price of electrolytic nickel (small plate) went up to 132,700 yuan/tonne from 132,200 yuan/tonne.

Headquartered in northwest China's Gansu province, Jinchuan Group is the country's largest producer of nickel, cobalt and platinum group metals.

The following chart shows the price adjustment of Jinchuan Group since the start of this year. (Unit: yuan/tonne)



Yunnan Alum. reorganization plan boosts share price

By Hu Pingchao

Yunnan Aluminum Co.(00807.SZ) resumed share trading and released the restruction plan on Monday after three-month suspension. Thanks to the reorganization plan, its share price closed at 3.58 yuan with the highest daily limit on July 28.

According to a filing to the stock exchange, Yunnan Aluminum plans to buy a 100-percent stake in Yunnan Yuanxin Carbon Co., a 100-percent stake in Yunnan Hanxin AluminumFoil Co. and an 88.88 percent stake in Yunan Tietouhengwei Co. by means of issuing shares via private placement to these companies' shareholders.

The company says that it will increase new product lines, achieve almost self-sufficiency in positive pole carbon and stengthen the logistics service after the deals.

In addition, alminum price in China has kept high in recent weeks. Although aluminum price faces an adjustment in a short term, it is expected to go up in a long term, said analysts.

Analysts also point out that since the start of June, expectations for the price hike in many minor metals have pushed up the prices of major nonferrous metals. The nearly three-month share trading suspension and the reorganization plan will likely lend support to the share prices of the Shenzhen-listed company. But the contributions made by the asset reorganization to the company are still in doubt. Investors are suggested to be cautious about the trading.

News in Brief

CNPC inks strategic purchase deal with Taiyuan Iron and Steel Group — China National Petroleum Corp. (CNPC), the parent company of China's top oil and gas producer PetroChina (PTR.NYSE; 00857.HK; 601857.SH), recently signed a strategic purchase agreement with Taiyuan Iron and Steel (Group) Co., Ltd. Both sides would cooperate on strategic cooperation, market supply, product development, information sharing and others. China Petroleum Pipeline Bureau (CPP), a pipeline engineering and construction subsidiary of CNPC has once signed a strategic cooperation agreement with Taiyuan Iron and Steel Group in the end of 2011.

MMG lowers 2014 targets for zinc output — MMG Limited (01208.HK), a subsidiary of China Minmetals Corp., said recently that it will lower its target of zinc output for 2014 from between 600,000 metric tons (tonnes) and 625,000 tonnes to between 575,000 tonnes and 600,000 tonnes. The company said that its Australia-based Century zinc mine will be shut down as the mine will be exhausted next year. The closure of the mine will cause a fall of nearly 500,000 tonnes of zinc supplies in the global market. Due to the short supply concerns, zinc traded on the London Metal Exchange (LME) has soared about 20 percent so far since the lowest level at the end of March.

China steel industry fixed-asset investment falls 15.7pct y-o-y in Q2 — Fixed-asset investments for China's steel industry fell 15.7 percent year on year in the second quarter of 2014, marking the lowest level in recent years. In the second quarter, the steel industry climate index was 95.0, down 2.3 points from that in the first quarter. Due to financial strain and faltering demand, steel industry has been on the verge of loss since 2012. Affected by the weak real estate market and energy saving program, the country's steel industry fixed investments fell accordingly. In the first quarter, the country's fixed-asset investment for steel industry edged up 0.1 percent year on year.

China likely to issue nonferrous metals resource tax reform scheme in 2015 — China's Ministry of Industry and Information Technology (MIIT) is stepping up the formulation of resource tax reform scheme on nonferrous metals and the scheme is likely to be unveiled next year at the latest. The specific duty taxation for nonferrous metals at present will be changed to the valuation taxation, according to the scheme draft. Industry insiders note that the resource tax reform will not have big effects on the nonferrous metals industry at present.

Shanghai Clearing House to launch iron ore, power coal swaps on Aug. 4 — Shanghai Clearing House on Tuesday announced to launch iron ore and power coal swap transactions on August 4. Operation of the new commodity derivatives will follow rules on shipping and commodity derivatives made by the Shanghai Clearing House.

China H1 gold output up 9.47pct y-o-y to 211.073t, association — China produced 211.073 metric tons (tonnes) of gold in the first half of 2014, up 9.47 percent from a year earlier. Of the 211.073 tonnes of gold produced in the first half, about 169.051 tonnes were from gold mines, up 6.15 percent year on year and 42.022 tonnes were a by-product of nonferrous metal smelting, up 25.22 percent from a year earlier.

China's first iron ore basis trading contract signed — Rizhao Iron and Steel Co. on Wednesday signed basis trading contracts of iron ores with two traders, which are the first of its kind in China. The contracts will be delivered within one month, with the delivery price set on the basis of the September contract traded on Dalian Commodity Exchange. The move is expected to promote connection between the spot and futures iron ore markets in China and enhance the pricing and hedging functions of iron ore futures.

China issues 498 national standards in H1 — The Standardization Administration of the People's Republic of China (SAC) announced that it totally approved and released 498 national standards in the first half of this year covering environmental protection, security and logistics. In the first half, the SAC issued more than 30 energy consumption, water use and pollutant-discharge standards to promote energy saving and environmental protection. The compulsory energy consumption standards for copper, lead and zinc smelter further raised requirement for energy use limits to accelerate phasing out outdated production capacity.

SW China Tibet Duolong mining area makes breakthrough in copper prospecting — Two mining areas under the Duolong package exploration area in southwest China's Tibet Autonomous Region are expected to increase additional 3 million metric tons (tonnes) of copper resources, bringing their total copper resources to more than 10 million tonnes. Duolong package exploration area is a state-level package exploration area jointly developed by the Ministry of Land and Resource, the Government of Tibet Autonomous Region, and Chinalco Resources Corp. Chinalco Resources Corp. and Tibet Geological Exploration Team Five plans to invest 70 million yuan this year to intensify the exploration, said the company.

China's ferroalloy sector in overall loss, futures suggested — China's ferroalloy industry is suffering an industry-wide loss with its rate of operation at about 60 percent. Meanwhile, some new projects are still underway and hoped to come on stream before September in some regions. However, due to the excess capacity, faltering demand and increasing pressure from energy-conservation and environmental-protection, ferroalloy industry will likely continue the downturn.

Large gold deposit found in Wuqia County in Xinjiang — A large gold deposit has been found in northwest China's Xinjiang Uygur Autonomous Region. By June this year, the gold deposit located in Wuqia County is reported at 127 metric tons (tonnes) worth more than 40 billion yuan, said the Bureau.

Metal Production, June 2014

(Unit: metric tonne)

	June	Jan-June	% chg
Total	**3,652,181**	**20,889,257**	**5.40**
of which, primary	3,323,356	19,094,277	5.99
Copper	623,428	3,520,616	7.96
of which, primary	413,734	2,366,015	11.86
Aluminium (primary)	1,953,943	11,540,201	7.42
Lead	404,726	2,244,647	-2.82
of which, primary	299,864	1,689,062	-2.31
Zinc	489,033	2,667,810	1.34
of which, primary	474,764	2,583,015	1.11
Nickel	33,288	164,366	27.92
Tin	17,087	92,978	16.80
Antimony	25,802	127,516	-2.84
Mercury	223	1,075	31.08
Magnesium	92,768	473,023	0.01
Sponge titanium	11,884	57,027	-4.23
Precious metals			
Gold by smelter (kg)	0	0	0.00
Silver (kg)	0	0	0.00
Intermediary			
Alumina	3,890,271	22,765,692	6.50
Fabricated			
Copper semis	1,588,670	8,444,058	17.08
Aluminium semis	4,381,143	22,581,722	19.59

Steel Production, June 2014

(Unit: kt)

	June	% Chg	Jan-June	% Chg
Crude steel	69293	4.5	411910	3
Pig iron	60007	2.3	362021	0.5
Iron ore	98047	7.1	552254	6.4
Coke	0		0	
Ferroalloy	139324	7.3	710602	9.9
Rolled steel	3501	5.2	19159	9.3
Railway steel	519	-1.9	3242	6.2
Heavy rail	346	4.2	2206	12.9
Light rail	113	-10.3	679	-9.2
Heavy section	968	-8.3	6917	12.1
Medium/light section	5114	9.1	27258	5.2
Bar	7079	6.6	40181	5.2
Rebar	19040	11.4	106639	10.8
Wire rod	13642	5.4	75803	5.5
Ultra thick plate	687	19.7	3414	-1.8
Thick plate	2320	14.1	12739	5.3
Medium plate	3480	12.2	20590	12.6
HR Sheet	490	-23.8	3083	-12
CR sheet	3193	10.7	17162	13.3
Medium thickness wide strip	10387	0.7	60344	-2.5
HR wide strip	4353	6.8	25272	0.5
CR wide strip	3512	8	20801	6.1
HR narrow strip	5176	3.9	31071	3.6
CR narrow strip	1149	19.6	5912	11.9
Plated sheet/strip	4483	11	24209	12
Coated sheet/strip	737	6.2	3947	8.8
Electrical sheet/strip	708	10.1	4351	8.4
Seamless tube	2847	-0.4	15800	3.9
Welded pipe	5074	5	26507	6.2
Others	3090	15	17020	26.4

Metal Trade, June 2014

(Unit: metric tonne)

	Imports			Exports		
	June	Jan-June	% chg	June	Jan-June	% chg
Copper: Refined	255,041	1,880,548	37.29	39,676	144,880	-22.95
Alloy	2,496	23,882	-9.62	6	21	-39.28
Semis	51,120	300,943	-4.77	44,152	260,568	1.99
Concentrate	990,409	5,430,315	21.67	183	236	8.04
Scrap	263,469	1,759,379	-14.81	40	494	-20.62
Aluminium: Refined	14,688	227,172	128.34	5,648	60,380	11.87
Alloy	7,543	44,460	-13.09	50,369	255,933	20.35
Semis	42,920	244,045	3.35	278,314	1,540,195	3.75
Scrap	163,569	1,093,085	-3.26	43	429	-39.95
Alumina	372,293	2,764,482	67.81	4,198	92,002	-2.85
Lead: Refined	43	137	-71.61	2,618	15,676	79.59
Alloy	2,061	15,258	17.30	99	462	-46.81
Concentrate	156,670	783,874	22.29	0	1,725	-73.41
Zinc: Refined	68,476	379,449	38.14	3,598	4,611	121.50
Alloy	10,447	51,819	-10.89	22	850	6.75
Concentrate	159,174	941,615	-5.40	20	3,331	-69.52
Tin: Refined	634	3,515	-58.42	0	291	-82.99
Alloy	114	460	-24.89	0	2	-
Nickel: Refined	11,014	75,600	-10.81	16,737	38,980	115.01
Alloy	251	387	-13.99	1,328	6,215	39.97

I&S Trade, June 2014

(Unit: metric tonne)

	Imports			Exports		
	June	Jan-June	% chg	June	Jan-June	% chg
Iron ore	74,565,693	457,164,098	18.96	125	1,330	-70.34
Coke	23	167	-99.52	519,413	3,925,728	159.63
Steel scrap	289,123	1,304,652	-49.03	3	100	-29.56
Pig iron	26,957	145,593	-42.18	27,281	151,351	-30.13
Ferro-alloy	162,205	1,311,395	39.38	59,125	249,836	-32.15
Billet, slab & Ingot	33,572	217,210	-32.25	76	4,970	95.23
Finished steel	1,147,806	7,325,575	6.24	7,071,873	41,009,278	33.62
Bars & rods	90,405	490,481	33.57	828,864	5,471,257	27.60
Angle, shape & section	21,711	144,343	-3.89	397,276	2,306,140	8.90
Flat products	934,031	6,046,592	3.50	3,379,611	19,447,430	45.66
Wire	13,320	84,926	11.05	183,653	998,116	8.69
Pipe, tube & fittings	43,345	268,446	22.35	926,124	5,513,079	-2.62
Stainless steel	65,301	448,518	30.07	336,344	1,945,353	50.28
Finished product	60,007	432590	31.97	336,310	1945184	50.27
HR plate >600mm	16,791	168,347	119.83	143,348	906,755	67.97
CR sheet >600mm	17,755	122,100	-4.81	109,326	613,922	53.98

Editor: Sun Yuesong
Metal Editor: Hu Pingchao
Steel Editor: Zhang Yuenan
Associate Editor: Liu Xiaoyun
Manager: Qu Ningning
CEIC also publishes China Auto 2000

Address: **China Metals**, Xinhua News Agency
57 Xuanwumen Xidajie, Beijing 100803, China
Tel: 086-10-63071108, 086-10-63074334
Fax: 086-10-63074642
E-mail: chinametal@xinhua.org