



9th MARE FORUM ITALY 2013 - Quo Vadis? -

Chinese Demand Prospects

(covering coal, iron ore, and soybeans)

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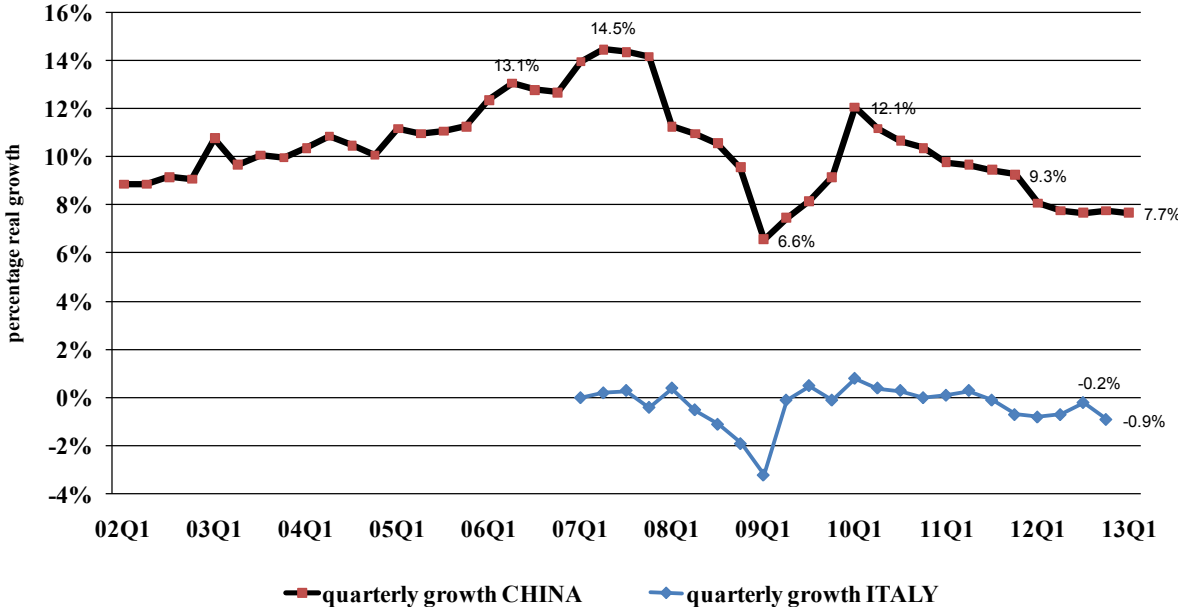
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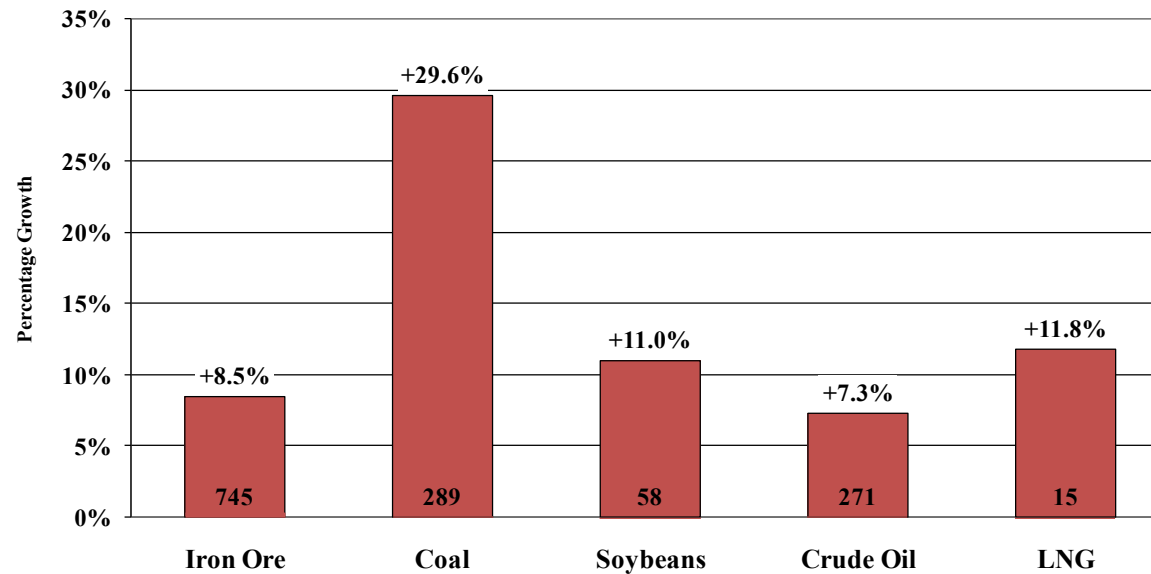
Quarterly GDP Growth (Year on Year)

(source: National Statistical Bureau ; in real inflation adjusted terms)



GDP growth in China slowed down to only 7.7 percent in the Q1 2013. However, that is still an extremely high level of growth if you compare it to any other country. Italy last year had negative growth.

China - Increase in Imports in 2012 (increase year-on-year, and volume in million tonnes)

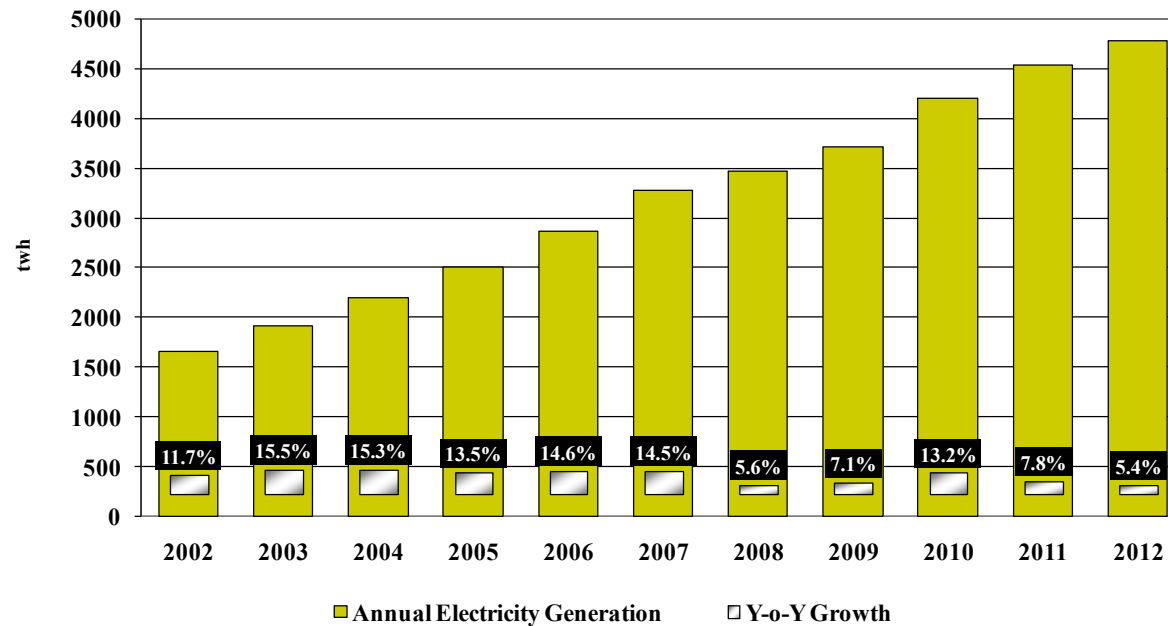


Real growth is clearly reflected in commodity trade: imports to China are still surging. In 2012, coal imports increased by 29.6 percent, iron ore imports by 8.5 percent, oil imports by 7.3 percent.

Coal

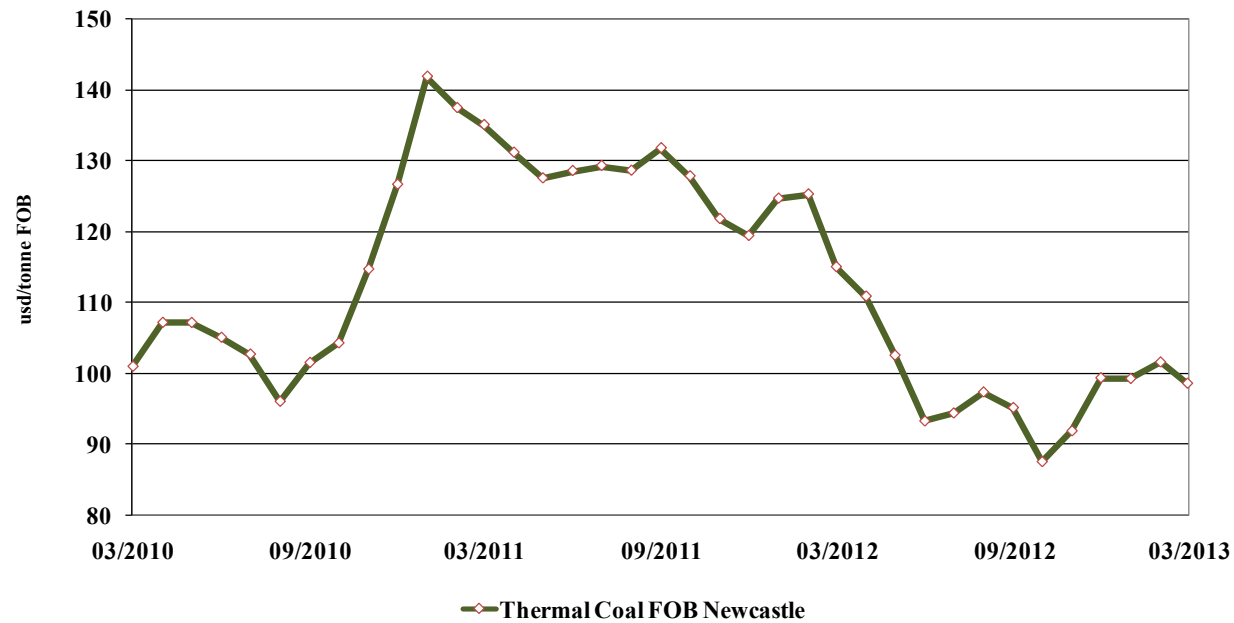
China - Annual Electricity Generation

(source: national statistics bureau ; in terawatt-hours)



Electricity generation growth in China declined to a surprisingly modest 5.4 percent year-on-year in 2012, as a result of economic slowdown, ongoing energy conservation efforts, a structural shift towards a more services-based economy as well as ongoing power generation capacity constraints caused by electricity price caps.

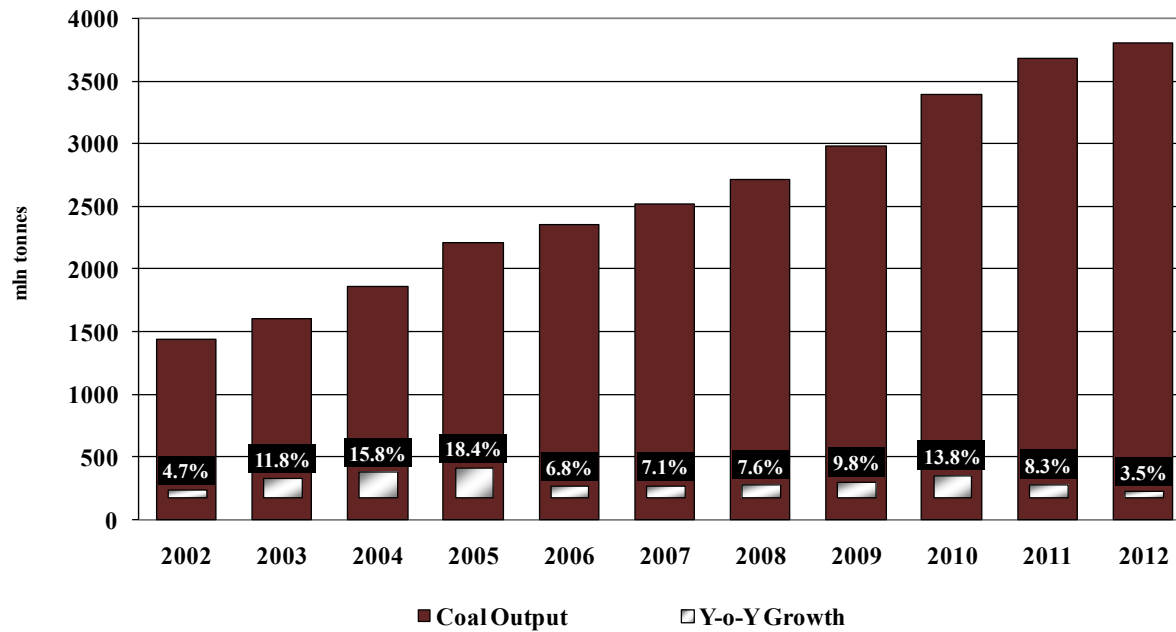
Thermal Coal Newcastle FOB Price - last 36 months (Australian thermal coal, 12000 btu/p, 14% ash, FOB Newcastle/Port Kembla, USD/mt)



International coal prices have declined by more than a third since the peak in January 2011. This obviously encouraged more buying and stockpiling activity from Chinese importers, both traders and end-users.

China - Annual Domestic Coal Production

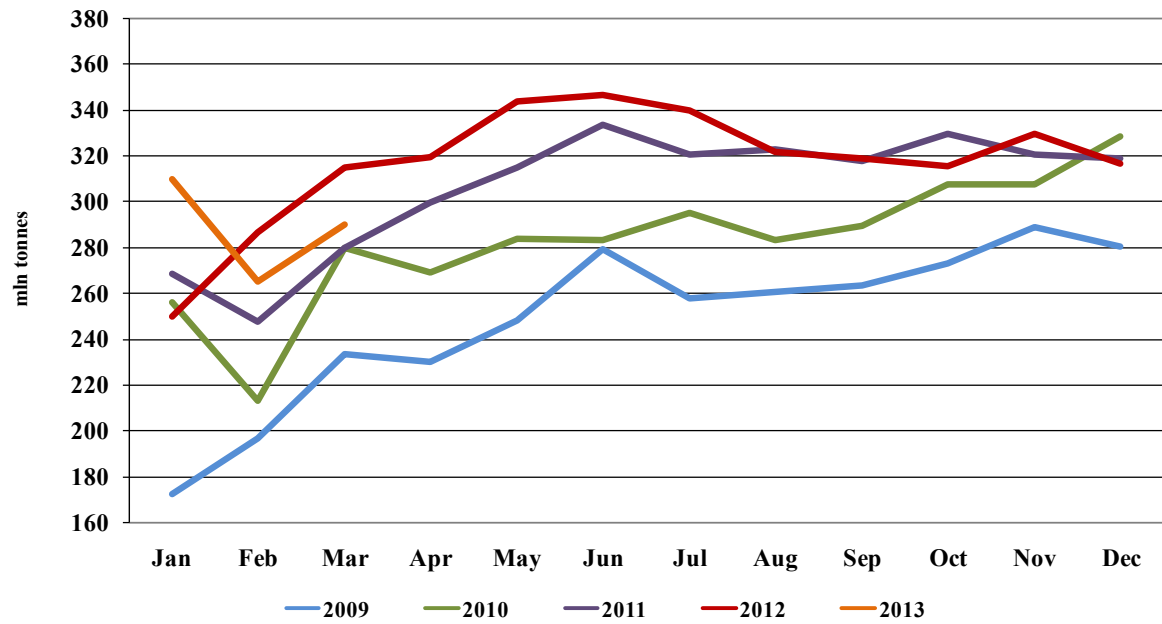
(source: china coal transportation society ; in million tonnes)



China's total coal output rose only 3.5 percent year-on-year in 2012 reaching 3.8 billion metric tonnes. This amounts to 45 percent of the world's total production.

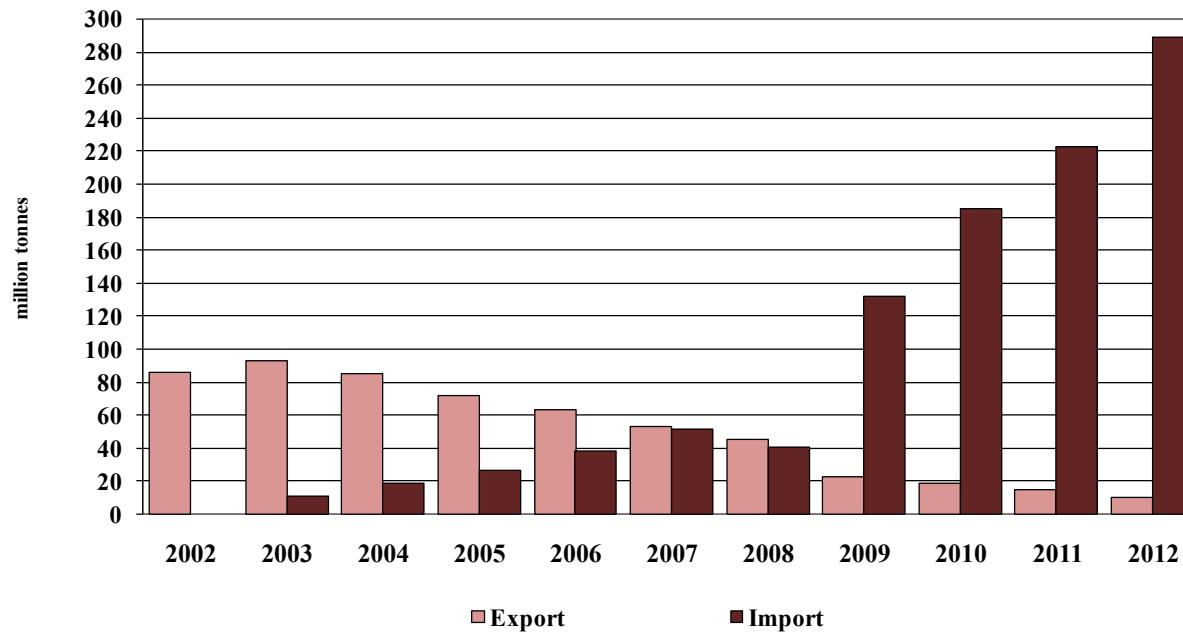
China - Monthly Coal Output - Seasonality

(source: china coal transportation society ; in million tonnes)



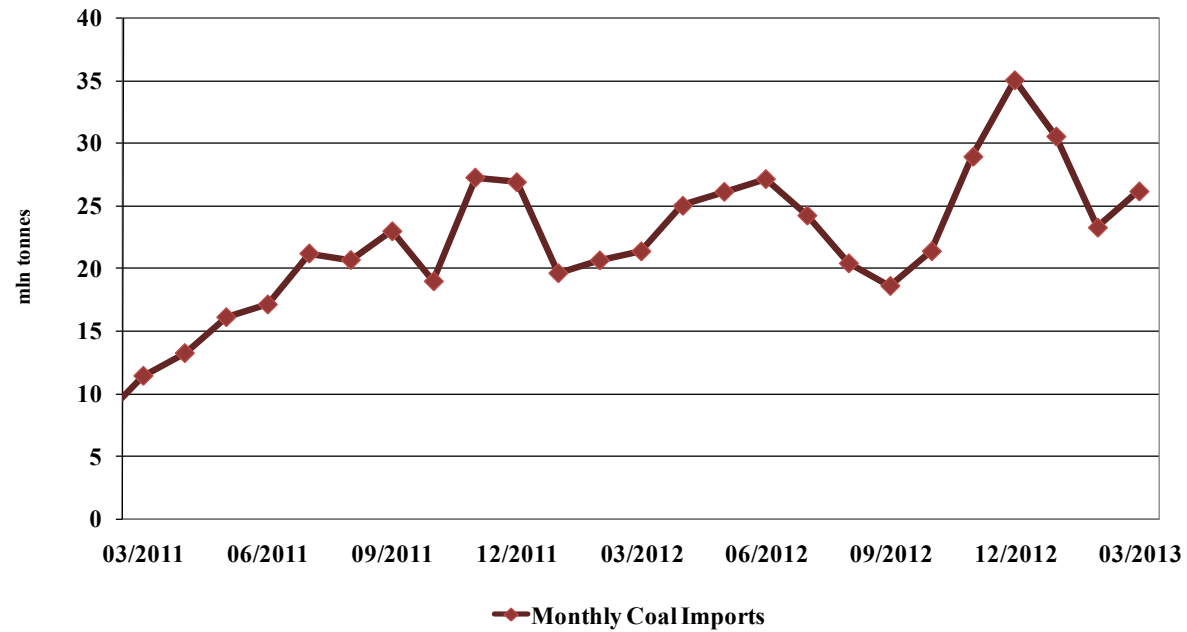
On a monthly output basis we can easily see that production has been basically stable over the last two years. Output in February and March this year has been lower then in the same months last year.

China - Annual Coal Imports and Exports (includes coking coal, steam coal, and lignite ; in million tonnes)



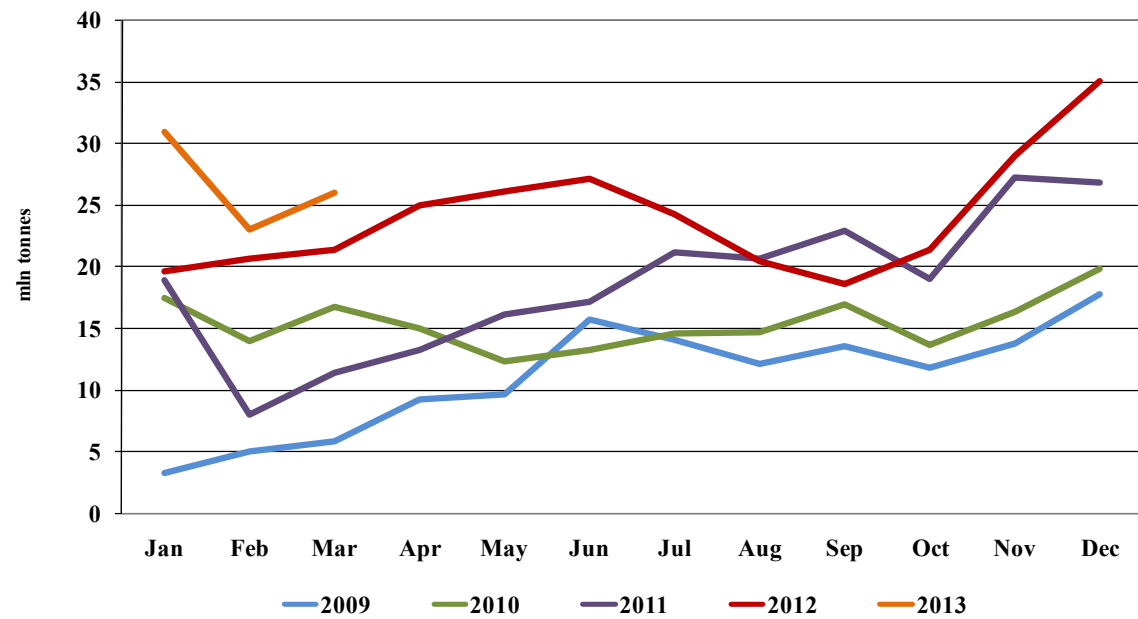
Until 2008 China was a net coal exporter. However, imports have skyrocketed since then, due to a combination of fast growing demand, coal sector restructuring, cheap freight and coal price arbitrage.

China - Monthly Coal Imports - last 36 months (includes steam coal, coking coal and lignite ; in million tonnes per month)



Chinese coal imports have steadily increased over the last twenty-four months except for the third quarter of 2012 when panic amongst traders over falling prices and tight financing from banks led to a sharp slowdown.

China - Monthly Coal Imports - Seasonality (includes steam coal, coking coal and lignite ; in million tonnes per month)

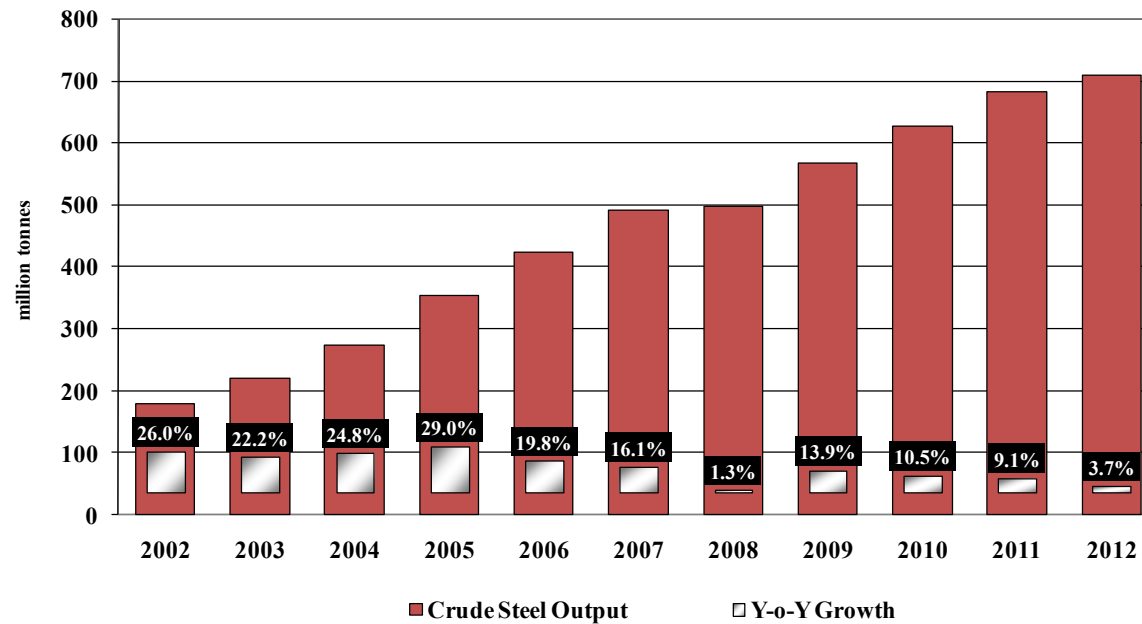


In recent years the second and last quarters were cyclically strong periods for Chinese coal imports as the country requires more energy for the winter heating season and summer air conditioning season.

Iron Ore

China - Annual Crude Steel Production

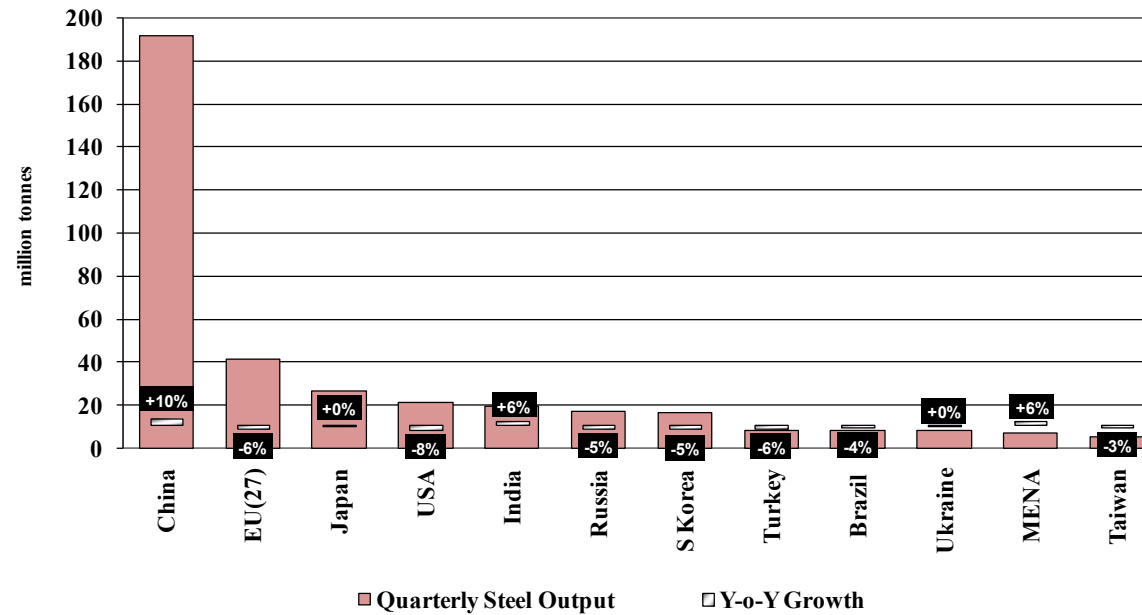
(source: worldsteel, cisa ; in million tonnes)



China produced 708.8 million tonnes of crude steel in 2012. This was just 3.7 percent more than the 683.3 million tonnes produced in 2011, and well below the 17 percent average seen in the previous 10 years.

World - Crude Steel Output - Q1 2013

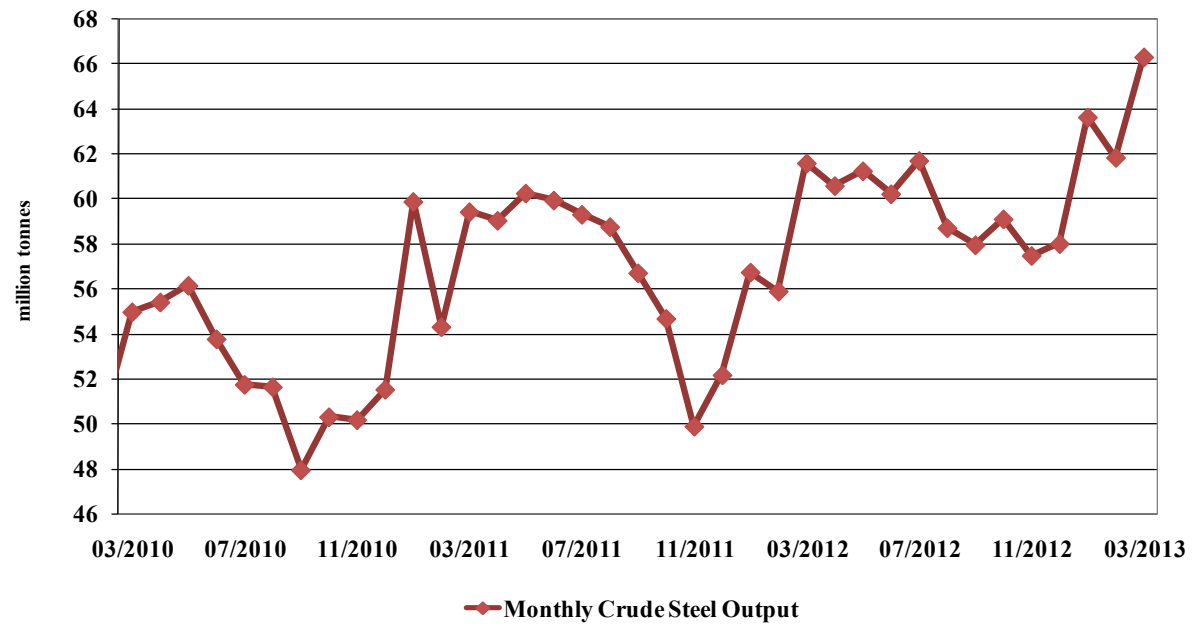
(source: worldsteel ; in million tonnes ; comparison year-on-year)



Crude steel production in China strongly rebounded in the first quarter of 2013. Total output in the three months was 191.89 million tonnes, up 10.16 percent on the 174.20 million tonnes produced in the same period last year.

China - Monthly Steel Output - last 36 months

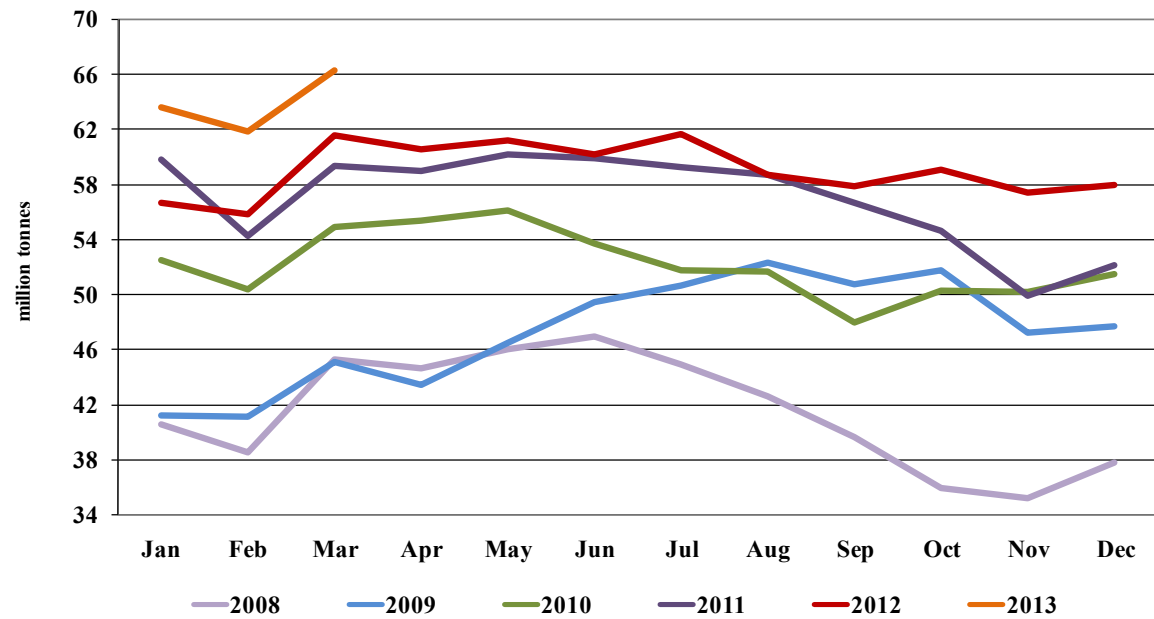
(source: worldsteel, cisa ; in million tonnes)



Crude steel production in China strongly rebounded in the first quarter of 2013, up 10.16 percent on the same period last year. Production in March was an all-time record 66.3 million tonnes, up 7.7 percent on March 2012.

China - Monthly Steel Output - Seasonality

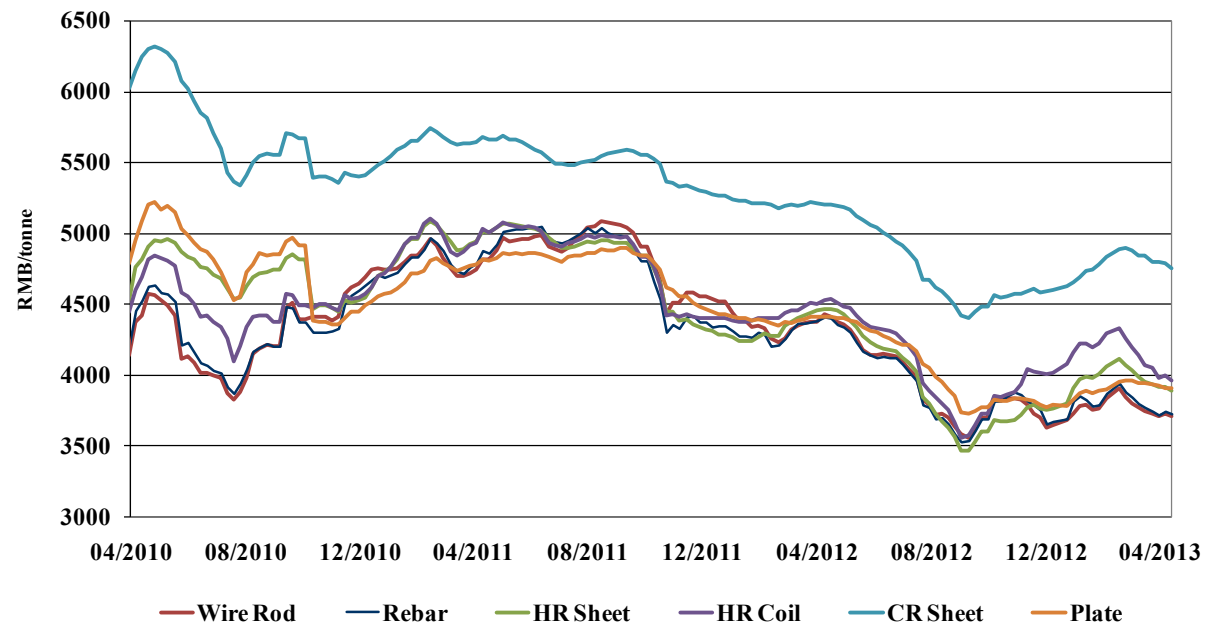
(source: worldsteel, cisa ; in million tonnes)



March and the second quarter have historically been a strong period of the year for steel production in the country, only for activity to slow down considerably in the autumn. A similar pattern is likely also this year.

Steel Product Prices in China - last 36 months

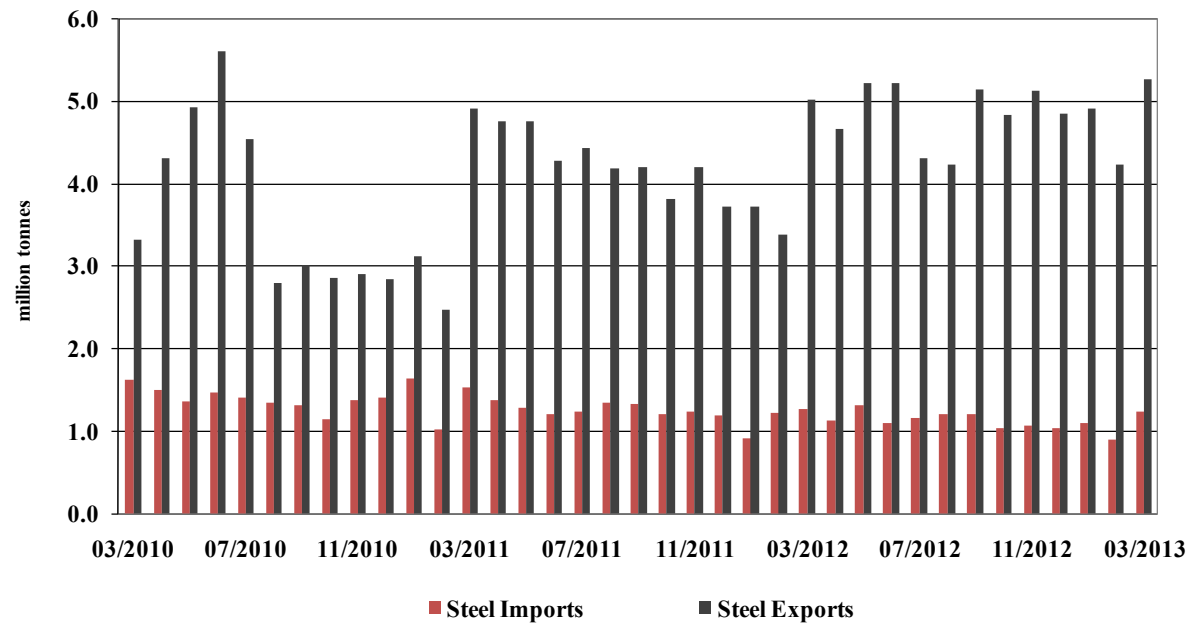
(source: indices from CISA, RMB/tonne)



Steel prices had been declining sharply since the middle of 2011, but begun recovering in the last quarter of 2012. The rally however proved short lived, with prices now again under pressure.

China - Monthly Steel Product Imports and Exports

(source: customs data, in mln tonnes)



Steel exports totalled 55.8 million tonnes in 2012, up 14 percent year-on-year. In the first quarter of 2013, China exported 14.44 million tonnes of steel, up 18.9 percent year-on-year.

Iron Ore China Import Price - last 36 months
 (China import Iron Ore Fines 62%FE spot (CFR Tianjin Port), USD/mt)



Ore prices begun to rally again since October 2012, on a temporary lack of supply availability and surging demand in recent months. Prices reached a peak of 154 dollars per tonne in February 2013, but are now expected to cool off again.

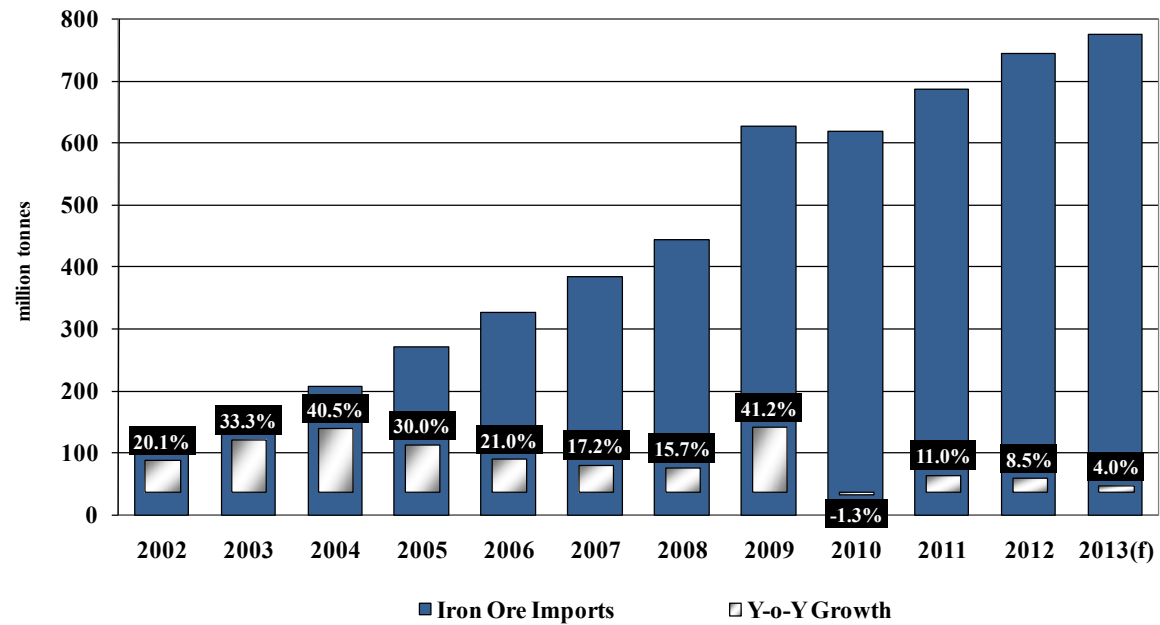
China - Iron Ore Stockpiles at 25 Major Ports (in million tonnes)



Ore stocks at ports sharply declined in the second half of last year, by almost one quarter or about 30 million tonnes, as mills took advantage of lower prices to restock.

China - Annual Iron Ore Imports

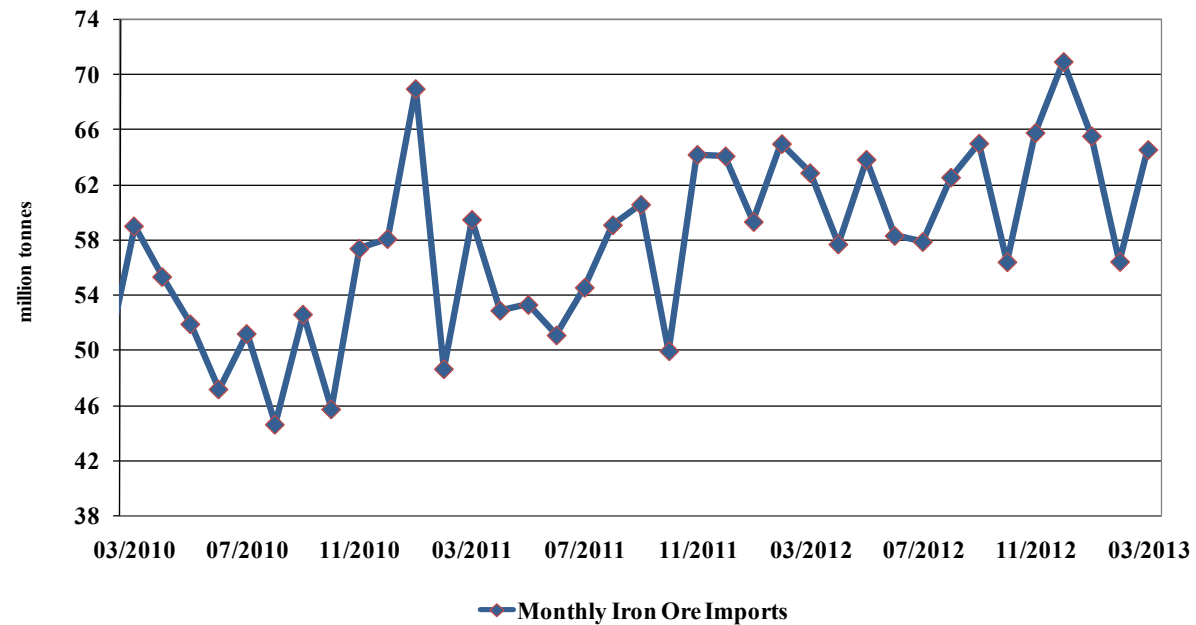
(source: customs data ; in million tonnes)



Imports of iron ore surged last year, with the country importing 745 million tonnes, an increase of 60 million tonnes or 8.5 percent year-on-year, with a record 71 million tonnes in December 2012.

China - Monthly Iron Ore Imports - last 36 months

(source: customs data ; in million tonnes)



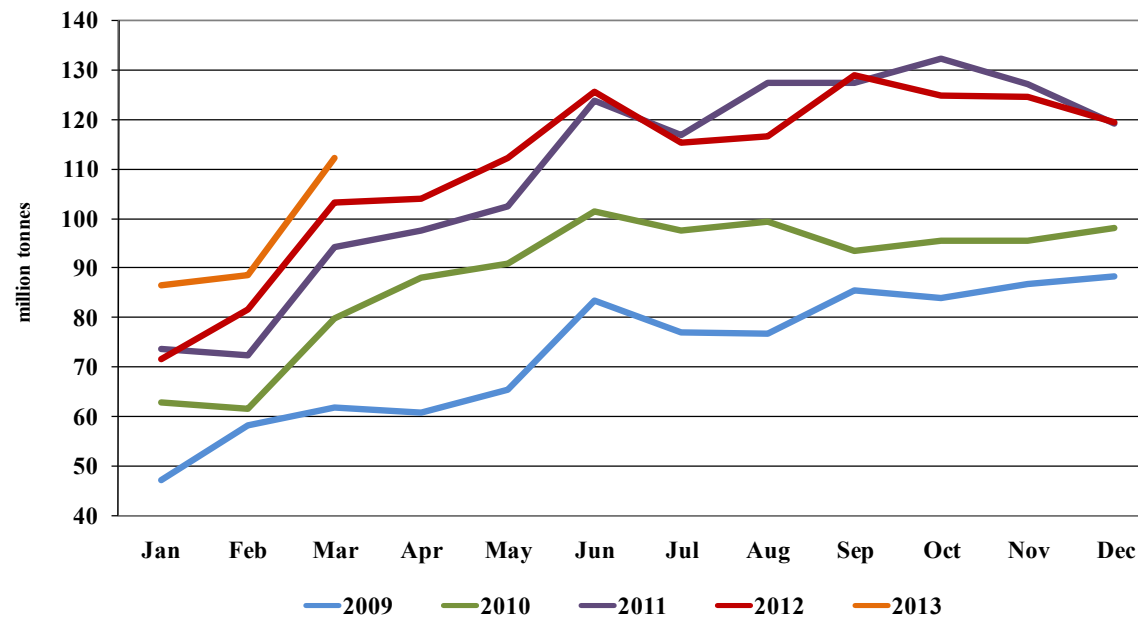
Rebounding prices naturally resulted in a sharp slowdown in imports during the first quarter of this year. In the first three months, China imported only 187 million tonnes of ore, down 0.4 percent on the same period last year.

China - Monthly Iron Ore Output - last 36 months (nominal gross production ; in million tonnes)



Domestic iron ore output slowed down considerably last year. Total gross ore production in China increased by only 1 percent in 2012, compared with 23.6 percent in 2011.

China - Monthly Iron Ore Output - Seasonality (nominal gross production ; in million tonnes)

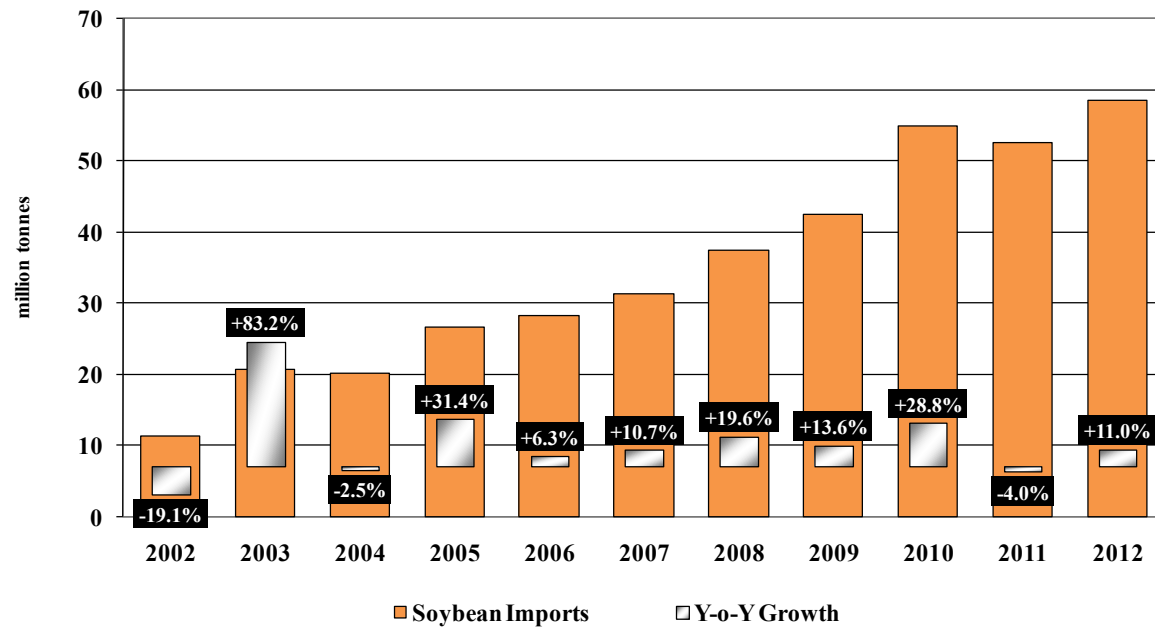


Higher prices encourage domestic miners to re-enter the market. In the first quarter of 2013 domestic ore output increased by 12 percent year-on-year.

Soybeans

China - Annual Soybean Imports

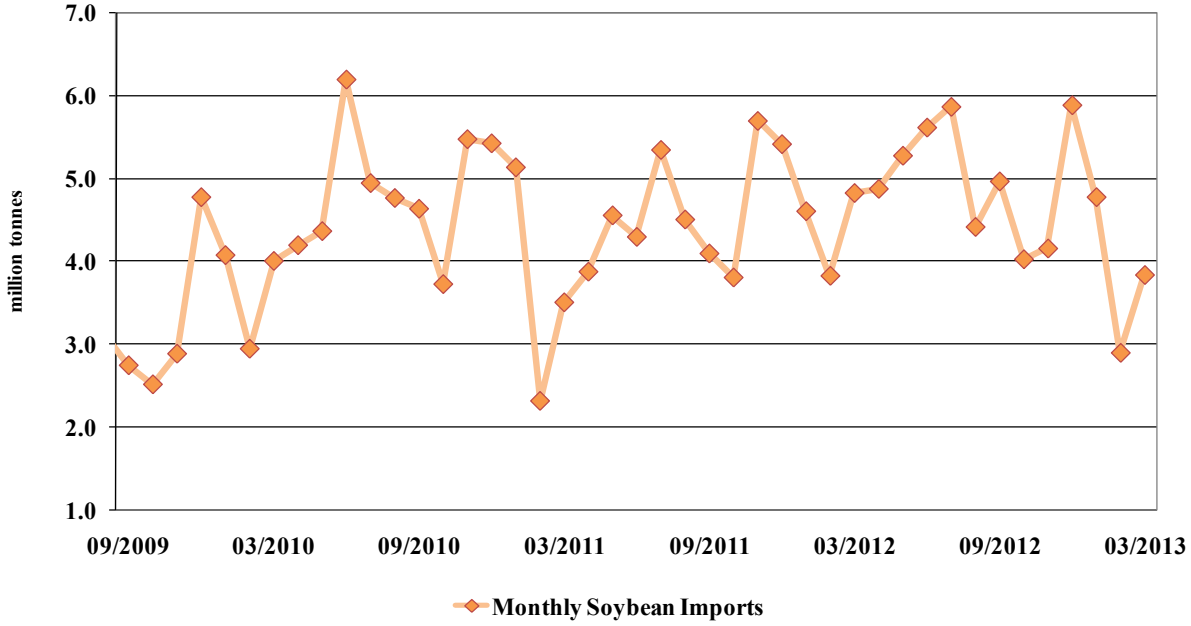
(source: customs data ; in million tonnes per year)



Annual growth in Chinese soybean imports averaged 20 percent over the last 10 years, with volumes increasing more than five-fold. China's soybean imports actually declined 4 percent y-o-y in 2011 but rebounded in 2012.

China - Monthly Soybean Imports

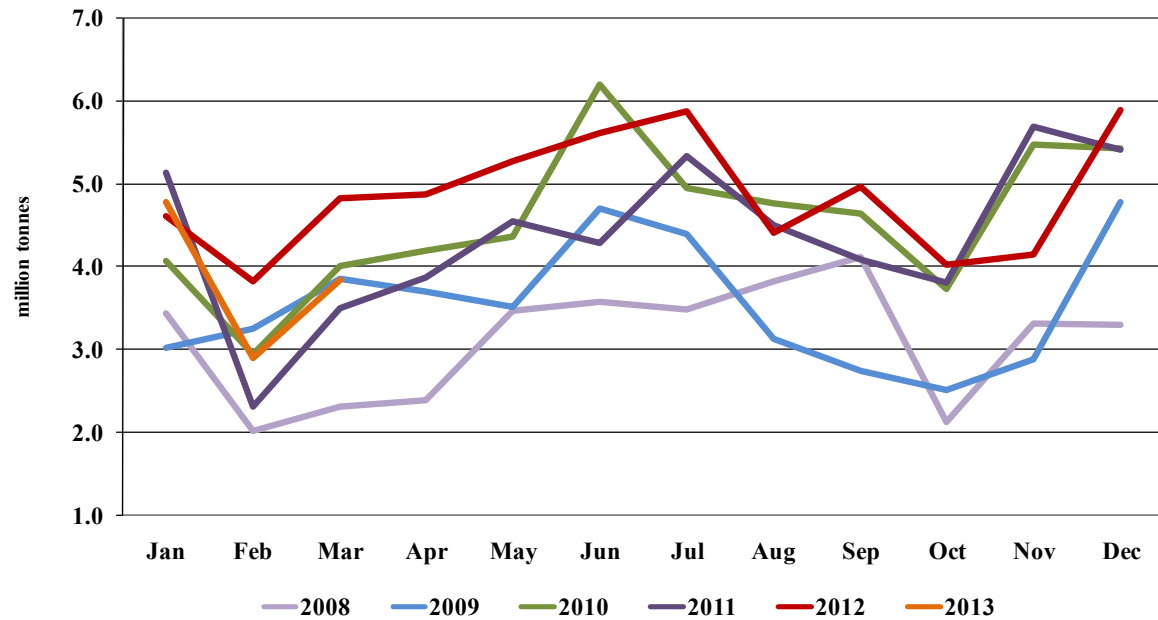
(source: customs data ; in million tonnes per month)



Import volumes in the first quarter of 2013 reached only 11.5 million tonnes, which was 13.2 percent less than in the same period of 2012, and the worst first quarter in three years.

China - Monthly Soybean Imports - Seasonality

(source: customs data ; in million tonnes per month)



In March the country imported only 3.8 million tonnes, which was lower than the 3.9 million tonnes recorded in 2009 and the 4.0 million tonnes in 2010. It's worth noting that the second quarter usually sees higher volumes than the first.

Final Words

(Summary and Conclusions)



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- The Chinese economy is certainly slowing down compared to the growth levels seen over the last two decades.
 - This is in part due to the unfavorable global environment for exports, rising costs, and high debt levels.
 - The long term trend will see a restructuring of the economy towards domestic consumption and services, which will mean the country will be potentially less reliant on steel and energy. Ongoing energy conservation efforts will have a negative effect as well.
 - On the other hand, growth at levels above 7 percent will continue. The trends for further urbanization and development of the central and western provinces will provide plenty of demand for commodities.
 - Price factors and arbitrage are important. China does have significant resources of coal and iron ore, as well as arable land, but costs are increasing and imports will be preferred if prices are competitive.
 - If international prices of iron ore and coal stay low, and they are likely to given the probable ample capacity from suppliers such as Australia over the forthcoming years, than imports will continue to increase are current levels.

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