Exports fall in August

China's exports – August 2007

in '000t	Finished exports			Semi exports		
	2006	2007	y-o-y change	2006	2007	y-o-y change
Jan	1,806	4,376	142%	295	569	93%
Feb	1,854	4,378	136%	300	544	81%
Mar	2,813	5,377	91%	305	664	118%
Apr	2,703	7,155	165%	481	872	81%
May	3,492	6,170	77%	682	958	40%
Jun	4,428	6,357	44%	1039	753	-28%
Jul	3,577	5,938	66%	833	900	8%
Aug	3,857	5,380	40%	1125	340	-70%
Total	**24,531**	**45,131**	**84%**	**5,060**	**5,600**	**11%**

Source: China Customs, CISA

- Export taxes seemed to be taking effect in August as China's exports of finished steel products fell to 5.38m t, an increase of 40% y-o-y, the lowest rate of growth this year. The fall in semis exports was even more dramatic, down by 560,000t from July's figure to 340,000t, a fall of 70% compared to August 2006.
- Imports of finished steel products rose slightly in August to 1.46m t, while semis imports fell to the lowest volume of the decade at just 10,000t.
- China's net exports now stand at 39.0m t for January to August this year, up 133% compared to the same period in 2006.

China's imports – August 2007

in '000t	Finished imports			Semis imports		
	2006	2007	y-o-y change	2006	2007	y-o-y change
Jan	1,573	1,476	-6.2%	17	27	146.7%
Feb	1,255	1,222	-2.6%	34	26	59.1%
Mar	1,786	1,574	-11.9%	52	27	-19.6%
Apr	1,673	1,628	-2.7%	34	23	-17.2%
May	1,458	1,380	-5.3%	34	15	-47.1%
Jun	1,669	1,414	-15.3%	40	22	-44.2%
Jul	1,530	1,392	-9.0%	27	14	-46.2%
Aug	1,627	1,460	-10.2%	46	10	-78.2%
Total	**12,571**	**11,546**	**-8.2%**	**285**	**165**	**-42.1%**

Source: China Customs, CISA

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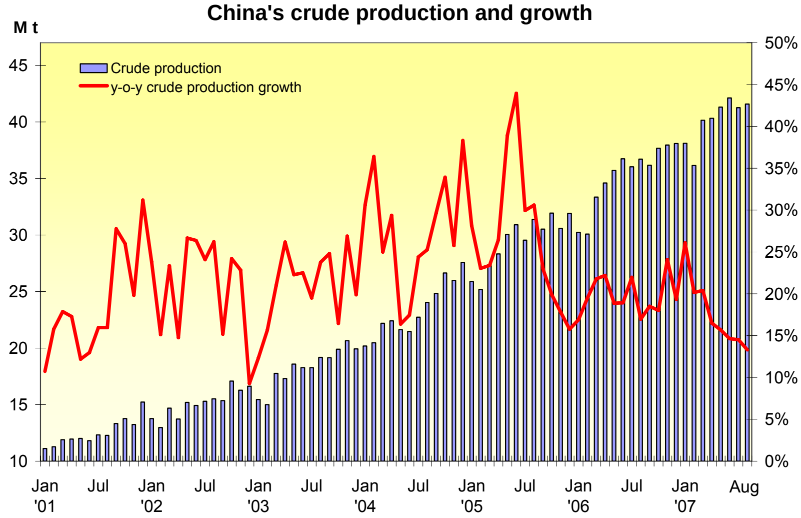
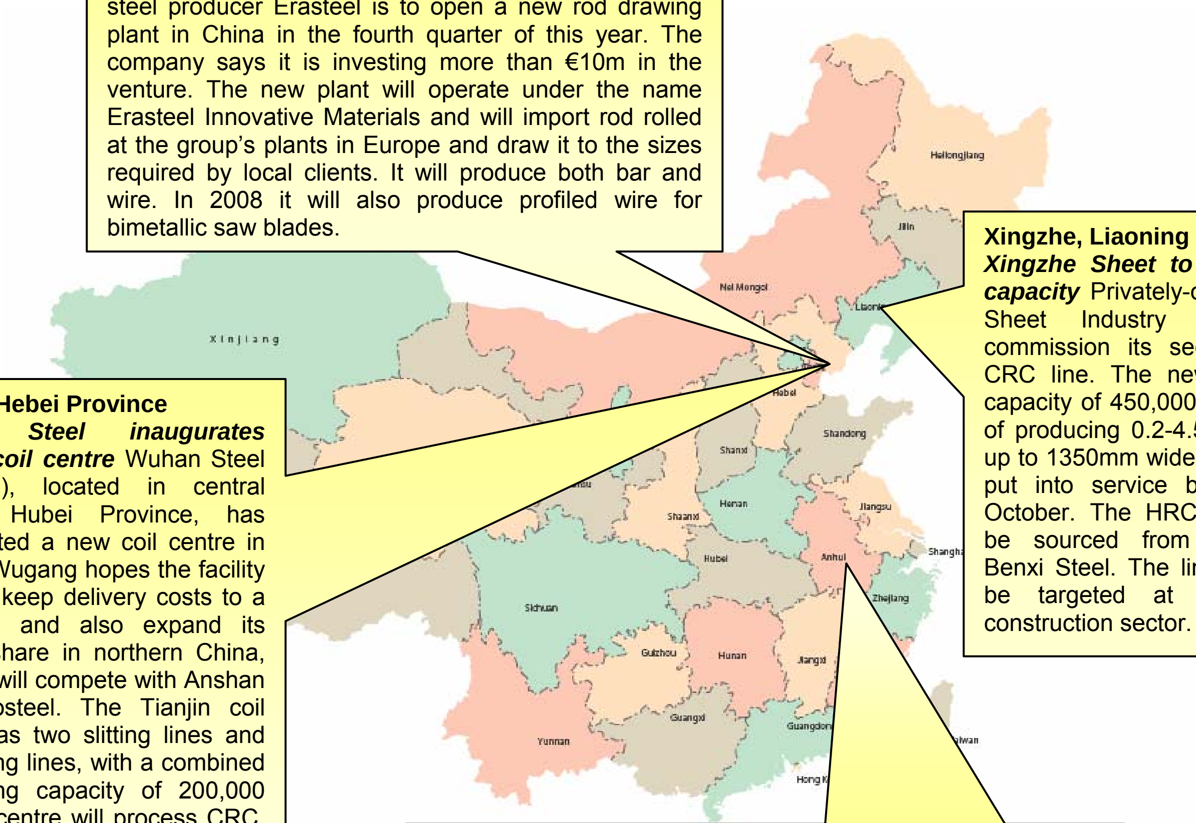
Production growth lowest since Jan '03



The week that was…



Tianjin, Hebei Province

Erasteel to open plant in China French high-speed steel producer Erasteel is to open a new rod drawing plant in China in the fourth quarter of this year. The company says it is investing more than €10m in the venture. The new plant will operate under the name Erasteel Innovative Materials and will import rod rolled at the group's plants in Europe and draw it to the sizes required by local clients. It will produce both bar and wire. In 2008 it will also produce profiled wire for bimetallic saw blades.

Tianjin, Hebei Province

Wuhan Steel inaugurates Tianjin coil centre Wuhan Steel (Wugang), located in central China's Hubei Province, has inaugurated a new coil centre in Tianjin. Wugang hopes the facility will help keep delivery costs to a minimum and also expand its market share in northern China, where it will compete with Anshan and Baosteel. The Tianjin coil centre has two slitting lines and two cutting lines, with a combined processing capacity of 200,000 t/y. The centre will process CRC, HDG, colour coated, silicon steel and stainless steel 0.2~3.0mm thick and 200~1,600mm wide. Most will be supplied by Wuhan .

Xingzhe, Liaoning Province

Xingzhe Sheet to expand CRC capacity Privately-owned Xingzhe Sheet Industry should soon commission its second 1450mm CRC line. The new line, with a capacity of 450,000 t/y, is capable of producing 0.2-4.5mm thick and up to 1350mm wide CRC. It will be put into service by the end of October. The HRC substrate will be sourced from Anshan and Benxi Steel. The line's output will be targeted at the domestic construction sector.

Jiangyin, Anhui Province

Jiangyin Zongcheng to add colour-coating line Jiangyin Zongcheng Steel, a subsidiary of Taiwan-based HDG specialist, Shangxing Steel, has started constructing its first colour coated line. The line, with a design capacity of 120,000 t/y, is capable of producing 0.2-1-2mm thick and 800-1250mm wide products. It is expected to be commissioned by mid-2008. The output will be targeted at domestic construction and appliance sectors. The company will source the CRC internally.

Crude production

- Preliminary production statistics reveal that China produced 41.6m t of crude steel in August, the second highest figure on record. SBB had anticipated production in August would be higher than July as prices rose considerably, encouraging smaller producers to return to the market. However, August production represented y-o-y growth of just 13.6%, the lowest rate of growth since January 2003, continuing the trend of falling y-o-y growth seen throughout 2007.

China's crude production

in m t	2007	2006	y-o-y change
January	38.1	30.2	26.1%
February	36.1	30.1	20.1%
March	40.2	33.4	20.4%
April	40.3	34.6	16.5%
May	41.3	35.7	15.7%
June	42.1	36.7	14.6%
July	41.3	36.0	14.5%
August	41.6	36.6	13.6%
YTD	**321.0**	**273.3**	**17.4%**

Source: CISA

- Falling y-o-y production growth could be an indication that government measures to control the steel industry are having some effect. The NDRC recently published a list of "backward" steel making facilities that were apparently shut down in the first half of 2007 (a summary of the reported closures is printed in the table on the right). Although the total iron and steel making capacities apparently closed are small relative to China's total production volumes, they are still large enough to have impacted on the net rate of growth.
- In addition to enforced closures by the NDRC, Shanxi province has closed an additional 2.98m t of backward iron making capacity. Magang has also closed five 300m3 blast furnaces with a total iron making capacity of 1.75m t and Taiyuan Steel is shutting down two 330m3 blast furnaces with a combined capacity of around 0.7m t. In both these cases, capacity closures are to make way for larger replacements, but as some facilities have been closed, the net contribution of these expansions to Chinese production growth will have been reduced. SBB believes these cases are typical of mills undergoing expansion projects.
- Looking ahead, the NDRC expects closures to continue in the second half. A sustained fall in exports in the second half would also have an effect on production growth, as overall demand for Chinese steel drops. SBB forecasts crude production in China will reach 490m t in 2007, an increase of 15.7% y-o-y over 2006; this forecast takes into account the possibility of further falls in production growth in the final four months of this year.

Capacity closures in China – 1H07

Region	No.of Companies	Capacity to close (m t/y)		
		BFs	Converters	EAFs
Hebei	19	1.86	1.25	1.43
Shanxi	135	6.56		
Liaoning	2	0.35		
Jiangsu	29			0.31
Zhejiang	14	0.13		0.5
Jiangxi	4		1.2	0.75
Shandong	9	0.19		1.36
Henan	2	0.6	1.5	
Xinjiang	10			0.43
Total	**224**	**9.69**	**3.95**	**4.78**

Source: NDRC

Mergers and Acquisitions

Merger and acquisition activity 2007

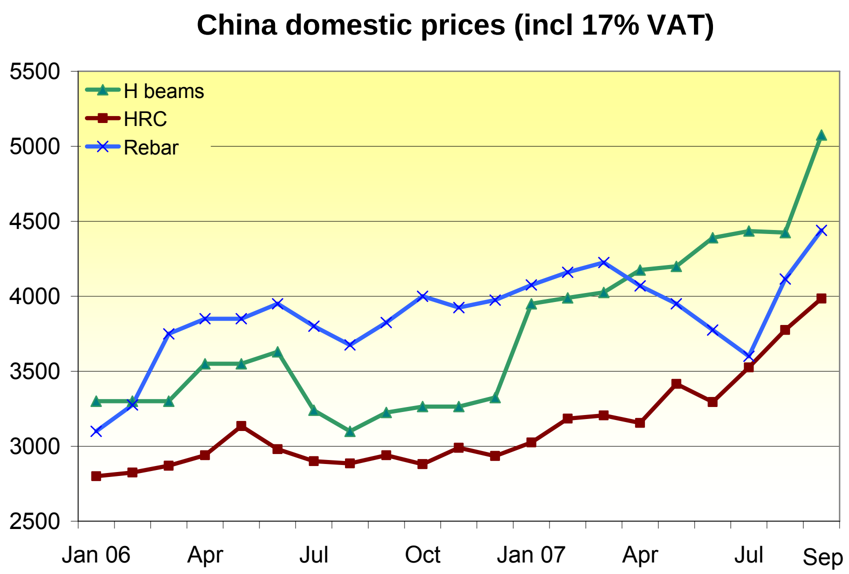
Month	Companies	Region	Action
Feb-07	Smart Triumph Corporation China Oriental Group	Hong Kong Hong Kong	Smart Triumph Corporation announced plans for a take-over bid for China Oriental Group. STC is currently COG's second largest share holder with a stake of 28.11%
Apr-07	Carlyle Group Yangzhou Chengde Steel Pipe	USA Jiangsu	The Carlyle Group acquired a 49% stake in Yangzhou Chengde Steel Pipe from the latter's parent company, Jiangsu Chengde Steel Pipe, for $80m
	Baosteel Group Xinjiang Bayi Iron and Steel	Shanghai Xinjiang	Baosteel acquired a 69.61% controlling stake in Bayi for $385m
Jun-07	Shougang Group Tangshan Baoye Steel Group	Beijing Hebei	Shougang has signed an agreement to take a majority stake in Boaye. The details are still being finalised.
	ArcelorMittal Rongcheng Chengshan Steel Cord Co	Netherlands Shandong	ArcelorMittal is reportedly seeking to buy a 90% stake in Rongcheng Chengshan Steel Cord for $19.63m, although neither side has made any official comments. The deal could be finalised by the end of September.
	Nanjing Steel Jiangsu Tieben	Jiangsu Jiangsu	Nanjing Steel has been given the go ahead to take over the troubled Jiangsu Tieben project.
	Hangzhou Iron and Steel Hangzhou Zijin Industriial	Zhejiang Zhejiang	Hangzhou Iron and Steel, the listed arm of Hangzhou Steel Group, will purchase the 70% stake of Zijin that the parent company currently holds. The purchase should be complete by the end of the year.
	Anyang Iron and Steel Co Ltd 3 subsidiaries of Anyang Steel Group	Henan Henan	Anyang Iron and Steel Co Ltd will buy 3 subsidiaries from its parent company, Anyang Steel Group. After the sale the group will be entirely listed on the Shanghai Stock Exchange.
Jul-07	H&Q Asia Pacific Dalipal Pipe Co	Hong Kong Hebei	Dalipal signed an agreement to sell a 30% stake to H&Q for $35m
	Baoji Petroleum Steel Pipe Liaoyang Steel Pipe	Shaanxi Liaoning	Merged together by parent company China National Petroleum Corporation

Source: SBB research

- The list above shows mergers and acquisitions (excluding joint ventures) that are pending, or have taken place in 2007. In addition to those mentioned above, Baosteel is reported to have restarted talks with Baotou regarding a possible merger. The two companies have signed a strategic agreement, which was likened by an official at Baotou to an announcement “by a couple who wish to marry”. No further details have been released.
- With the exception of Baosteel’s acquisition of Bayi and Shougang’s reported dealings with Boaye, there have been few moves by China’s largest mills to expand their market shares by buying up smaller players. It is a stated objective in the central government’s Steel Industry Development Policy of 2005 that the industry becomes more consolidated through mergers and acquisitions, which should result in a more streamlined and productive industry.
- However, even in cases of significant mergers, it would be hard to argue that the companies have become more streamlined. The merger between Anshan and Benxi in 2005 to form Anben Iron and Steel Group remains the largest move towards consolidation to date. However, Anshan and Benxi still operate as two separate companies with two management teams and do not share profits.

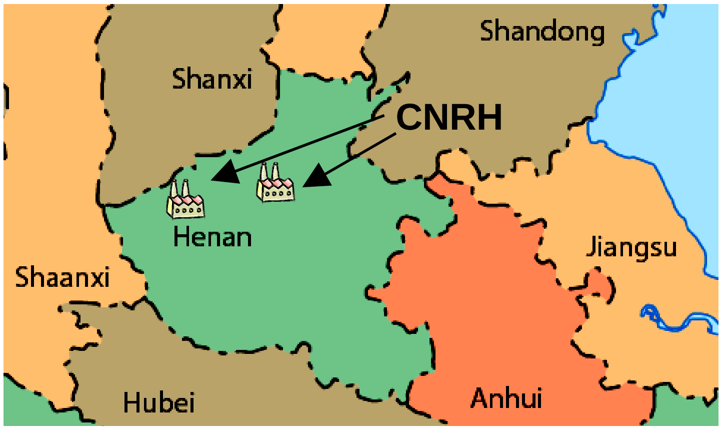
- Boasteel's acquisition of Bayi has raised questions amongst analysts as to what exactly Baosteel stands to gain from the move, beyond being able to report larger output figures. Bayi is more than 3,500km away from Baosteel's operations in Shanghai and so will have very different requirements in terms of raw material acquisition and distribution networks. Bayi also has little to offer in terms of technology and will require considerable investment before it can produce "Baosteel quality" steel. Bayi does offer Baosteel access to the underdeveloped market in western China, but demand in the region is mainly for low valued construction steels that Baosteel does not normally deal with. It also offers the potential for exports into central Asia.

H beam prices soar



- H beam prices have risen dramatically since mid August, up an average of RMB 650/t ($86/t) to RMB 5,050-5,100/t ($671-678/t) inc 17% VAT for 400x400mm (see graph) product. Prices of 200x200mm beams have risen by an average of RMB 420/t ($56/t) over the same period to RMB 4,400-4,450/t ($585-591/t).
- In the three months prior to the sharp rise in prices, H beams prices had remained fairly stable, while prices for other products rose steadily. Mills may now by adjusting their H beams prices to bring them into line with the rest of the market. Soaring raw material costs will also have played a part in pushing up the price.
- Traders report that the new price hikes have constrained buying activity, although demand is reported to be strong and many believe the new prices will be accepted. Mills are said to be continually reviewing prices at present, and further hikes are not unlikely in the future.

In Profile: China Nickel Resources Holdings (CNRH) 中国镍资源控股



Where is it?
China Nickel Resources Holdings have two mills in Henan province, one in Zhengzhou City and one in Luoyang city, in the west of the province.

How much does it produce?
In 2006, CNRH (then known as China Special Steel) produced 270,350 t of finished steel products. In the first half of this year the company produced 155,240t of finished steel products, up 35.7% over the same period last year.

What does it produce?
CNRH is a special steel producer. In 2006 the company produced around 250,000t of bearing steel, 18,600t of spring steel and 1,500t of carbon steel. This year the company significantly changed its product mix to include stainless steel, producing over 100,000t of stainless in the first half. As a result of the shift in product mix the output of bearing steel fell 52% y-o-y to 49,000t and spring steel fell 88% y-o-y to 1,200t in the first six months of 2007

Why is it interesting?
The shift to stainless steel has greatly improved the profitability of CNRH and opened up some interesting opportunities. The company reported first half net profits of RMB 274m, up 508% over the same period last year, and a rise in the net profit margin to 22%, up from 12% in the first half of 2006.
In May this year CNRH completed the acquisition of an Indonesian mining and processing company, S.E.A Mineral, which recently signed a deal for exclusive rights to iron and nickel ore mined by Yiwan Mining, also based in Indonesia. In order to take full advantage of its newly acquired raw material supply, CNRH has announced plans to build an integrated stainless plant in Indonesia. The new plant will melt and roll 200 and 300 series products and is expected to begin production in early 2008 with a capacity of 500,000t/y. The company says it plans additional expansions at the plant, which could bring total capacity up to 3m t/y.

A brief history of CNRH

1993	**The company was established under the name China Special Steel**
1995	**The company began commercial production with a capacity of 150,000t/y**
2005	**China Special Steel was listed on the Hong Kong stock exchange (02889)**
2006	**China Special Steel acquired a 51% stake in Anlong Steel, based in Luoyang City**
2007	**The company changed its name to China Nickel Resource Holdings**
2007	**CNRH acquired Indonesian mining company, S.E.A Mining**

CNRH's facilities in Zhengzhou

For more information visit
www.chinaspecialsteel.com

Data tables

China production statistics – August 2007

In '000 t	July		Volume Change	y-o-y change	January to July		Volume Change	y-o-y change
	2007	2006			2007	2006		
crude steel	41,252.3	36,028.2	5,224.1	14.5%	278,912.5	235,369.2	43,543.3	18.5%
pig iron	39,672.3	35,046.2	4,626.1	13.2%	266,607.3	228,847.5	37,759.8	16.5%
finished steel products	47,725.7	38,519.5	9,206.2	23.9%	318,689.6	256,387.4	62,302.2	24.3%
coke	28,107.9	24,044.4	4,063.5	16.9%	184,555.2	153,285.0	31,270.2	20.4%
iron ore	60,574.2	52,039.7	8,534.5	16.4%	380,418.8	300,251.6	80,167.2	26.7%
ferro-alloy	1,429.8	1,252.0	177.8	14.2%	9,528.5	7,169.7	2,358.8	32.9%
rail track material	245.4	254.6	9.2	-3.6%	1,938.4	1,853.2	85.2	4.6%
of which : heavy rail	162.1	150.2	11.9	7.9%	982.7	1,084.7	-102.0	-9.4%
light rail	39.9	56.2	16.3	-29.0%	659.0	514.8	144.2	28.0%
heavy section	875.1	825.6	49.5	6.0%	5,947.9	5,203.8	744.1	14.3%
medium section	2,453.5	1,608.9	844.6	52.5%	16,373.9	12,566.3	3,807.6	30.3%
light section	3,928.5	3,115.4	813.1	26.1%	24,396.0	21,437.6	2,958.4	13.8%
rebar	8,524.9	7,080.5	1,444.4	20.4%	57,026.0	48,991.4	8,034.6	16.4%
wire rod	7,033.8	6,269.0	764.8	12.2%	46,028.9	39,509.8	6,519.1	16.5%
ultra-heavy plate	359.0	224.9	134.1	59.6%	2,436.7	1,688.6	748.1	44.3%
heavy plate	1,484.6	1,071.9	412.7	38.5%	9,819.4	6,924.8	2,894.6	41.8%
medium plate	2,589.8	1,859.2	730.6	39.3%	17,043.2	12,305.6	4,737.6	38.5%
hot rolled sheet	809.2	574.7	234.5	40.8%	5,429.8	3,062.5	2,367.3	77.3%
cold rolled sheet	1,261.1	1,177.5	83.6	7.1%	8,781.6	6,871.4	1,910.2	27.8%
medium wide steel strip	5,329.4	3,809.4	1,520.0	39.9%	34,399.0	25,537.5	8,861.5	34.7%
hot rolled wide strip	1,142.4	1,012.8	129.6	12.8%	8,161.4	6,482.4	1,679.0	25.9%
cold rolled wide strip	1,473.7	1,046.7	427.0	40.8%	10,043.9	6,874.7	3,169.2	46.1%
hot rolled narrow strip	3,172.4	3,015.6	156.8	5.2%	23,165.9	20,555.4	2,610.5	12.7%
cold rolled narrow strip	525.0	417.3	107.7	25.8%	3,593.1	2,802.7	790.4	28.2%
galvanize sheet(strip)	1,530.7	1,239.4	291.3	23.5%	11,745.1	7,304.2	4,440.9	60.8%
coated sheet(strip)	252.2	223.4	28.8	12.9%	1,650.8	1,301.9	348.9	26.8%
silicon sheet(strip)	352.1	273.8	78.3	28.6%	2,336.5	1,932.6	403.9	20.9%
seamless tube	1,662.0	1,281.4	380.6	29.7%	10,588.9	8,539.4	2,049.5	24.0%
weld tube	2,016.9	1,642.4	374.5	22.8%	12,743.4	11,388.2	1,355.2	11.9%
others finished steel	704.4	483.5	220.9	45.7%	5,041.2	3,307.9	1,733.3	52.4%

Source: CISA

SBB notes that some items may contain elements of double counting

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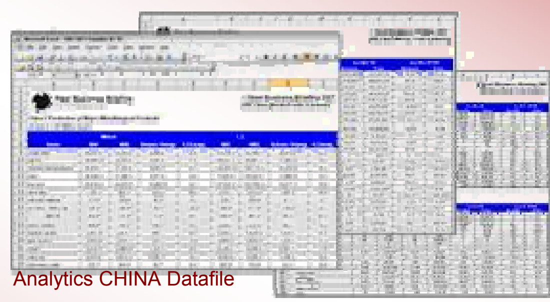

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