China’s Copper Consumption

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Main contents

1. Refined copper imports and stock issues
2. Copper usage by individual industry
3. The status of copper fabricators
Refined copper imports increased by 57.9% YoY in the first 8 months.
Bonded warehouse imports increased by 92.1% in the first 7 months.
Macroeconomic view for 2012

- China’s GDP growth for whole year > 8%?
  - Q1 8.1%, Q2 7.6%
  - Economic activity in Q3 was weaker than expected.
  - Continue to expect a modest sequential recovery from Q4.

- Growth of asset investment (FAI) is expected to recover more visibly led by
  - Strengthened implementation of “growth-stabilizing” policies
  - Infrastructure investment

- Foreign trade continue to weaken in August
  - Exports were up to 2.7% (y/y)
  - Imports declined by 2.6% (y/y)
Macroeconomic view - 2012

Government activities

Fiscal policy

- Tax cuts for small businesses
- Subsidies for energy-efficiency appliances and small engine car
- Easing of lending to the property sector
- Approval and launch of more government investment projects

Monetary policy

- Increase of base money supply through RRR cuts and reverse repos
- Increase of banks’ lending quota
- Twice interest rate cuts
Copper usage in power industry-I

The investment in power industry decreased by 0.46% YoY in the first 8 months of 2012

- power generation: -5.3% YoY
- power grid: 5.1% YoY

Source: NEA

Some big projects in western China encouraged more investment in power grid.

SGCC centralized the public tendering of utility power equipment from local authorities this year.

Copper usage in power industry will continue to be one of the main driving forces for China’s copper usage this year.

Due to the unexpected low demand in the summer, we reduced our forecast of copper usage in the power industry this year from 5% to 4%.
Copper usage in building industry-I

No intention of easing or reversing the ongoing restriction on real estate industry

Housing transaction started to pick up in mid of this year

Property activity rebounded and credit conditions improved.

The property sector is stabilizing and the modest recovery is expected in the next couple of quarters.

Copper usage in the building industry should increase by 3% in 2012 and we expect 4% growth next year.
Year-on-year growth of auto production picked up in July and August due to:

- New subsidiary program to small engine size vehicle from June 1st, 2012
- The increased energy-saving vehicles production
- The policy of free tolls on highways during the one-week National Day holiday launched in Sep. 2012
The fixed asset investment in railway industry decreased by 24.1% YoY in the first 8 months.

- Central government approved 25 new urban rail transit and intercity rail line projects ($127 billion) early September.
- At least 67 billion RMB investment a month from September through the end of this year

In the first 8 months, the completed shipbuilding was down by 12.4% YoY, and the new orders were only 52% from a year earlier.

Motorcycle production was down by 11.4% YoY in the first 8 months, while the exports also declined by 13.8% YoY due to sluggish demand outside of China.

Copper usage in transport industry might be very flat this year and we expect a 5% increase for next year.
Production of all major home electrical appliances remained weak year-to-date due to destocking and sluggish demand in both domestic and overseas markets.
Copper usage in general consumer goods

Positive factors

- Current low inventories in the production and supply chain
- Subsidy programs from governments
- Recovered housing sales in recent months
- Strong aircon exports to USA

Negative factors

- Al magnet wire is gaining market share from copper in home electrical appliances
- Low growth rate of home electrical appliances exports
- The demand for most home electrical appliances has been overdrawn in advance by the previous subsidy programs

Copper usage in general consumer goods might fall by 8% this year and recover by 3~5% next year.
Wire rod

- Over capacity– high risk
  - six wire rod lines with 1,320kt/yr capacity have been commissioned
  - Eight wire rod projects with 1,770kt/yr capacity are in the pipeline
  - Capacity utilization rate is less than 60%

- Big wire rod makers with strong financing capability are operating well. Some small wire rod makers cut their production.
  - The magnet wire demand for aircon compressor and auto wire harness was quite weak. It might not pick up shortly.

- Demand from power cable has been improved since June.
  - Building wire demand is still very flat

Wire rod production this year might slightly increase by 2.5% YoY. Increased demand for power cables offset falling demand for magnet wire.
Refined copper tube

- No production high season this year.
- Production was low than expectation due to both low domestic production and exports.
- No strong driven forces from new round subsidy programs yet
- Some small tube makers cut or suspend production
- Current low aircon inventories – Good signs??

- Refined copper tube production might fall by 8% this year due to falling demand from aircon and exports.
Sheet/strip demand is mixed.

- Connector strip demand related to the iphone and ipad production remains strong.
- Connector strip demand for other applications such as PC, home electrical appliances and auto is still soft.
- Connector strip for high-voltage electrical apparatus picked up due to some infrastructure projects. But for middle and low-voltage is still flat.
- Low growth rate for sheet/strip demand for lockset, zipper and other hardware
### Status of copper fabricators-IV

#### Growth rate of fabricators’ main business operating profit in H1 2012

<table>
<thead>
<tr>
<th>No.</th>
<th>Company</th>
<th>Product</th>
<th>growth rate of main business operating profit in H1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ningbo Powerway Group Co., Ltd</td>
<td>Copper alloy rod &amp; Bar</td>
<td>-42.5%</td>
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<tr>
<td>2</td>
<td>Zhejiang Honglei Copper, Co., Ltd</td>
<td>Copper tube &amp; Magnet wire</td>
<td>-41.8%</td>
</tr>
<tr>
<td>3</td>
<td>Zhejiang Hailiang Co., Ltd</td>
<td>Copper tube &amp; brass rod</td>
<td>-7.5%</td>
</tr>
<tr>
<td>4</td>
<td>Ningbo Xingye</td>
<td>Copper alloy sheet/strip</td>
<td>-54%</td>
</tr>
<tr>
<td>5</td>
<td>Guangdong Jingyi Mrtal Co., Ltd</td>
<td>Copper tube</td>
<td>-83.0%</td>
</tr>
<tr>
<td>6</td>
<td>Anhui Xinke New Material Co., Ltd</td>
<td>Copper alloy sheet/strip &amp; wire rod</td>
<td>-91.3%</td>
</tr>
<tr>
<td>7</td>
<td>Anhui Jingcheng Copper Share Co., Ltd</td>
<td>Copper alloy sheet/strip</td>
<td>-384.4%</td>
</tr>
</tbody>
</table>

*Source: Company's half year report*

**Falling profit for main fabricators….**
Copper fabricators’ order books in the summer low season were very disappointing. Demand in September picked up slightly, but the impetus from the Chinese October’s Golden Week holiday and Christmas orders are much softer than in previous years.
Thanks for your attention!

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