

APR 14, 2009

China produced 42.9mt of crude steel in March, 2.4mt (5.9%) more than February

Daily crude steel production actually declined compared to February considering there are three additional calendar days in March

March crude steel production averaged 1.38mt/day, 4.8% less than 1.45mt in February

China imported 52.08m of iron ore in March, an increase of 5.34mt (11.4%) from the previous monthly record of 46.74mt in February 2008

A shift to importing more low cost foreign iron ore might be taking place, or the increased imports could simply be a ploy to gain leverage in the ongoing iron ore contract negotiations

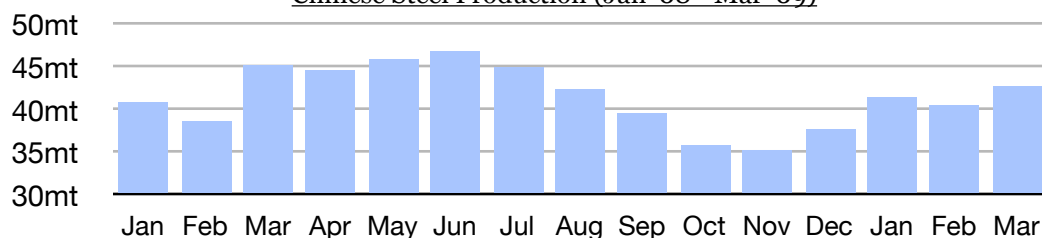
Traders could also simply be averaging down purchases made at higher prices

Iron ore port stockpiles have grown to 68.57mt, an increase of 480,000 tons (0.7%) from a week ago

Daily Crude Steel Production on the Decline

Early reports from the Chinese government estimate 42.9 million tons of crude steel was produced in March, an increase of 2.4mt (5.9%) from February. After taking into account the additional calendar days in March (31 days) compared to February (28 days), daily crude steel production actually declined 4.8% month-on-month (February: 1.45mt/day March: 1.38mt/day). Crude steel production peaked last June at 46.96mt (1.57mt/day).

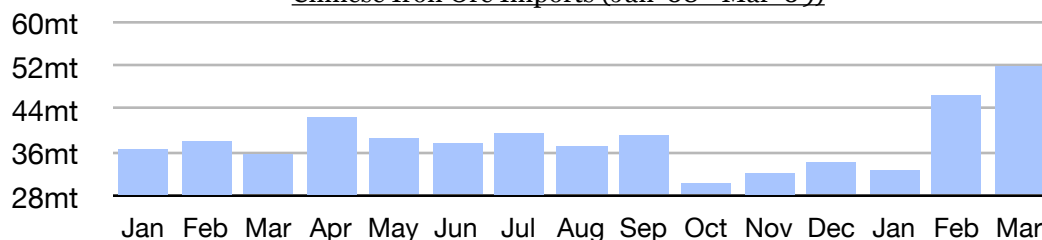
Chinese Steel Production (Jan '08 - Mar '09)



Iron Ore Imports Set New Record in March

China imported 52.08mt of ore in March, an increase of 5.34mt (11.4%) from the previous monthly record of 46.74mt in February 2008. The incredibly large amount of ore imports (well above 2008's monthly average of 37mt) helps explain the significant rise in dry bulk freight rates from early January to the middle of February, as iron ore shipments arrive at Chinese ports one to two months after dry bulk vessels are first fixed. Going forward, the reliance on iron ore imports might continue - the first part of this year has seen a decline in domestic iron ore production. Demand, however, could easily just fall even more.

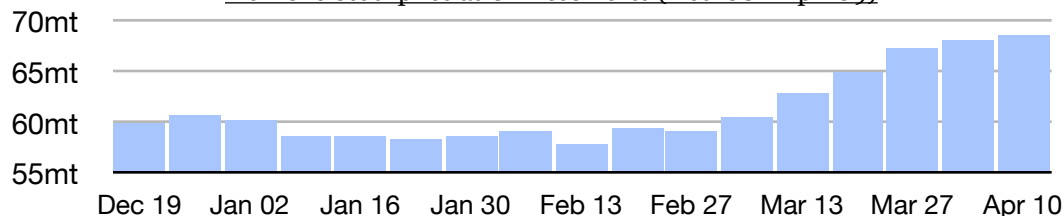
Chinese Iron Ore Imports (Jan '08 - Mar '09)



Iron Ore Port Stockpiles Up Slightly W-O-W

Chinese iron ore port Chinese port stockpiles now total 68.57mt, an increase of 480,000 tons (0.7%) from last week. Stockpiles have been on the rise for the last six weeks.

Iron Ore Stockpiles at Chinese Ports (Dec '08 - Apr '09)



Spot Indian iron ore prices have remained at \$56/ton FOB for the last three weeks

China has announced a new plan to significantly reform its health care system by 2020

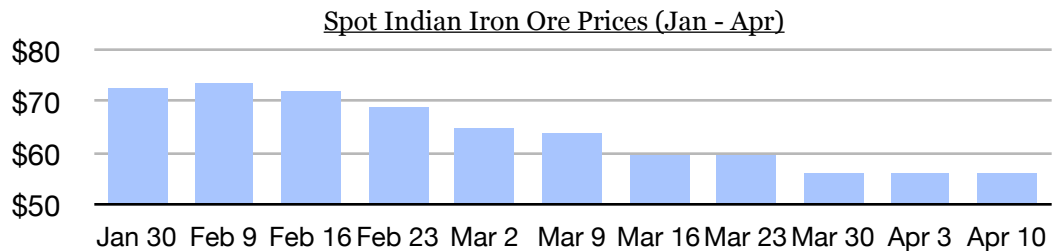
Construction on China's first inland nuclear power plant is set to begin soon, additional nuclear plants may be built throughout China's interior

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Spot Iron Ore Prices Appear to be Bottoming

Indian iron ore import prices appear to be bottoming. Spot iron ore from India has been trading at an average of \$56/ton FOB for the last three weeks. Prices peaked this year at \$74/ton FOB in early February.



Health Care Reform Being Pushed Forward

China's government recently announced a new Guidelines on Deepening the Reform of Health Care System which aims at providing easy and affordable access to health care for all citizens by 2020. Part of the Guidelines' plan is to vastly improve medical care in rural areas. Stricter control and supervision of drug supply is also a major part of the plan. The current health care system in China has largely been unable to adequately care for the poor and elderly (a problem in no way specific to China alone).

More Nuclear Power Plants May Be Built

While construction of China's first inland nuclear power plant is about to start in Hubei province, proposals to build three more nuclear power plants in the counties of Xishui, Yangxin, and Zhongxiang have been submitted to the government. China currently has 11 nuclear reactors (at six separate plants along the east coast), together accounting for 9.07 million kw of capacity. By 2020, China plans to have 40 million kw of nuclear power capacity.

Various industry sources are used when compiling data for this report including public disclosures by the Chinese government, local newspapers, and colleagues in and working with China.