

APR 6, 2009

Iron ore stockpiles at Chinese ports have grown to 68.09mt, an increase of 650,000 tons (1%) from last week

The 1% week-on-week growth is significantly lower than the 3.23% average seen during the previous four weeks

The amount of dry bulk vessels anchored at Chinese ports is also on the decline

Spot Indian iron ore prices have fallen to \$56/ton FOB, a decrease of \$18 (-24%) from two months ago

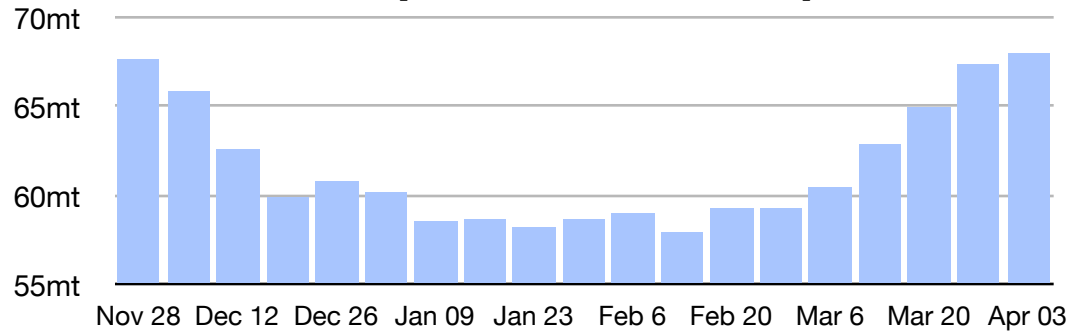
Baosteel recently announced steel price cuts of around 7% from April's levels; hot-rolled coil will cost \$481 in May, \$36 less than \$517 in April

Chinese steel mills and foreign miners have not yet agreed to 2009 iron ore prices; a cut of 30 to 50% is still expected

Iron Ore Stockpile Growth Finally Slows

The amount of iron ore stockpiled at Chinese ports has increased for the fifth week in a row -- the pace of growth, however, has slowed. China now holds 68.09 million tons of iron ore at its ports, an increase of 650,000 tons (1%) from last week. Although a single data point does not make a trend, it is important to point out stockpile growth averaged 3.23% during the previous four weeks. The amount of dry bulk vessels anchored at Chinese ports is on the decline as well.

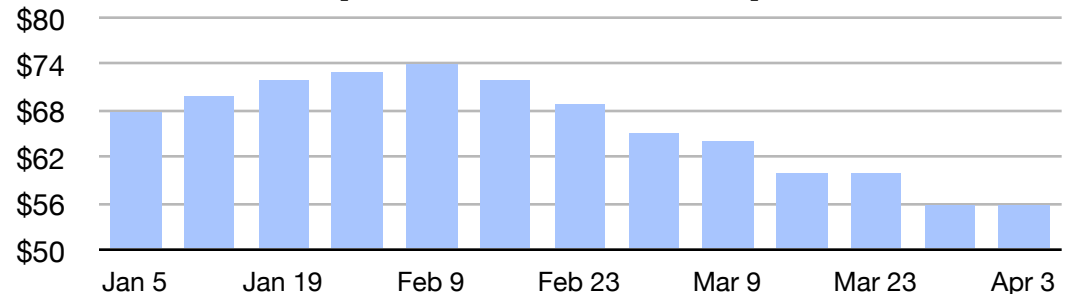
Iron Ore Stockpiles at Chinese Ports (Nov '08 - Apr '09)



Iron Ore & Steel Prices Maintain Low Levels

Indian iron ore import prices (India is the only major ore exporter that imports primarily on a spot basis) continue to fall. Indian iron ore import prices currently average \$56/ton FOB, a decrease of \$18 (-24%) from two months ago. Steel prices in China are still falling as well. Baosteel recently announced another series of price cuts with steel product prices set to fall by around 7% from April's levels. Hot-rolled coil will be priced at 3,292 yuan/ton (\$481), a decrease of 250 yuan (\$36) from April.

Spot Indian Iron Ore Prices (Jan - Apr)



Iron Ore Contract Negotiations Wage On

Reports of a settlement being reached between Chinese steel mills and international iron ore miners have been premature. According to various sources on both sides, the contract negotiations continue to wage on with a yearly price cut between 30 to 50% the most likely outcome.

Chinese banks issued 1.3 trillion (\$190 billion) in loans in March, a huge increase from 2008 averages

China's Purchasing Managers Index (PMI) reached 52.4 in March, the first plus-50 level (which indicates an expansion in manufacturing) since July

Citizens in Shanghai and Beijing will have easy access to loans for new businesses; 85% of all rebuilding in Sichuan is expected to be completed by September 2010

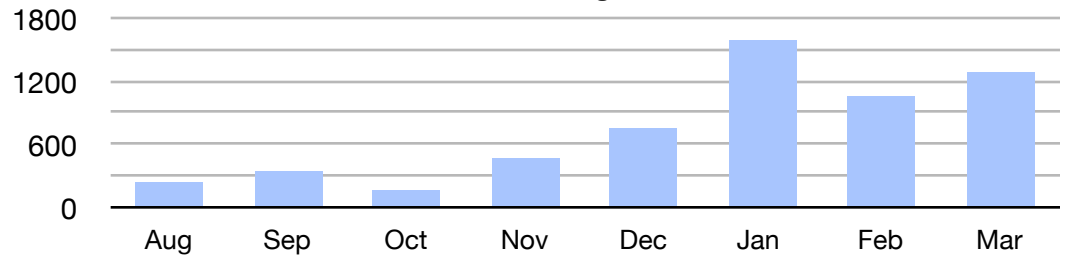
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Massive Bank Lending Spree Continues

Chinese banks gave 1.3 trillion yuan (\$190 billion) in loans in March, 230 billion yuan (\$33 billion) more than the 1.07 trillion yuan (\$156 billion) issued in February. A huge portion of 2009's massive lending spree will go towards building infrastructure which should help increase Chinese steel production and raw material demand in the coming short-term and medium-term future. *Monthly data below (numbers in billion yuan):*

Chinese Bank Loans (Aug '08 - Mar '09)



March Purchasing Managers Index Bullish

China's Purchasing Managers Index (PMI) increased to 52.4 points in March, the first time since July 2008 that Chinese PMI rose above the all-important 50 point level. A PMI above 50 indicates manufacturing activity is increasing (February PMI reached 49 points). Month-on-month, Chinese manufacturing output, domestic orders, and export orders all increased.

Additional Stimulus Measures Announced

Additional stimulus plan initiatives have been announced in Shanghai, Beijing, and Sichuan. Citizens in Shanghai will easily be able to receive new loans of 100,000 yuan (\$14,630) to start new businesses. Citizens in Beijing will be able to receive new business loans of 180,000 yuan (\$26,330). Sichuan province is also receiving a great deal of focus. According to the local government, 90% of transportation projects, 98% of power grid construction, 99% of public facility construction (together accounting for 85% of total rebuilding) is expected to be completed by September 2010.

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.