

MAR 25, 2009

Stockpiles of iron ore at Chinese ports have increased to 65 million tons, an amount last seen in December

Iron ore port stockpiles first reached 65mt in June of 2008 when Chinese steel production was incredibly robust

The Chinese steel market is much different now than it was in June 2008

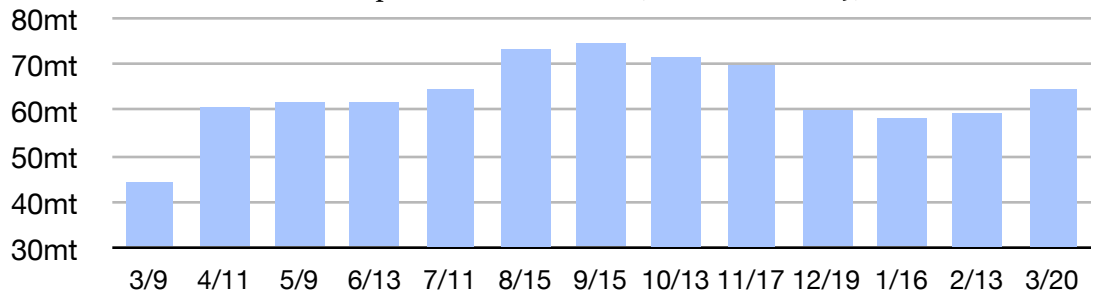
Iron ore stockpiles will likely grow in the next few days as a large amount of cheap spot ore purchased in February is now finding its way to China

Spot Indian iron ore prices have fallen to around \$60/ton FOB, a decrease of 19% from early February highs of \$74

Iron Ore Port Stockpiles Continue to Rise

The amount of iron ore stockpiled at Chinese ports has grown to 65 million tons, a level not seen since December 2008 when dry bulk trade and industrial production slowed and Capesize freight rates averaged less than \$3,000/day. In fairness, Chinese ore stockpiles (which averaged between 30 and 50mt before dry bulk rates began their remarkable climb in spring 2008) reached 65mt in June and grew to over 75mt by September - but those were different times. From March up until the end of last summer, Chinese steel production was incredibly robust and iron ore imports and domestic production remained at healthy levels. This time around, steel production is decreasing and short-term iron ore imports are likely to decline. To make matters worse, more iron ore is expected to come into Chinese ports in the next days as an incredibly large amount of iron ore purchased in February at very cheap prices finally makes its way to China. It remains to be seen if this iron ore will quickly make its way to Chinese steel mills or end up staying at ports for an extended period of time.

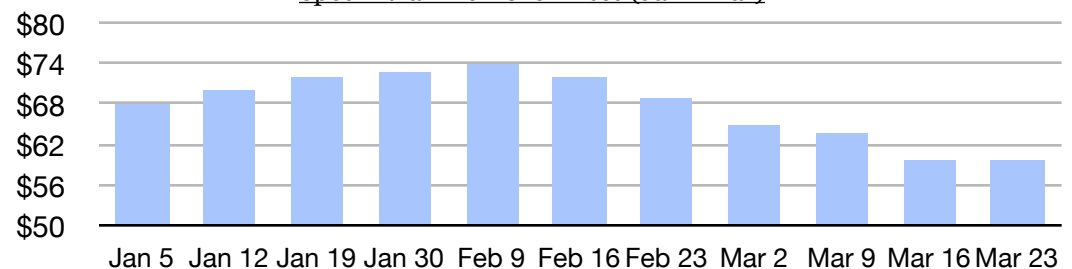
Iron Ore Stockpiles at Chinese Ports (Mar '08 - Mar '09)



Spot Indian Iron Ore Prices Still Very Low

Spot prices of iron ore from India (the only major supplier to export primarily on a spot basis) have fallen 19% from early February highs. Indian iron ore is currently trading for around \$60/ton FOB, a decrease of \$14 from \$74/ton FOB trading only six weeks ago. The decline in Indian iron ore prices has mirrored a similar decline in dry bulk Capesize freight rates. Capesize spot rates peaked this year on February 11, when Capes were being chartered for an average of \$39,538/day (Capes are now averaging \$19,909/day). Indian iron ore prices reached their own 2009 peak of \$74/ton on February 9.

Spot Indian Iron Ore Prices (Jan - Mar)



China imported 329,300 tons of copper in February, 42% more than 232,700 tons imported in January

Oil reserves expected to grow by a large amount by 2011

Several Chinese entities have increased their ownership in various international mining companies including Perilya, Rio Tinto, Fortescue Metals, OZ Minerals, and Murchinson

China imported 3.26mt of soybeans in February, 8% more than last month and 61% more than the same February of last year

Unemployed citizens in Beijing will be able to receive \$26,000 in loans if they want to start a new business; farmers across the country will be given a 10% discount to purchase light trucks and vans

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Aggressive Pursuit of Natural Resources

While there are many possible reasons behind China's growing iron ore stockpiles (gaining leverage in the current contract price negotiations, averaging down from purchases made at much higher levels, a possible significant increase in future steel production) it is clear that China is exploiting the low prices of other commodities. Chinese copper imports reached a high in February of 329,300 tons, 96,600 tons (42%) more than the 232,700 tons imported in January. Oil reserves are also set to increase. China intends to build three large 30mt oil refinery centers in the Yangtze Delta region and six smaller 20mt bases along the coast. By 2011, China plans to increase its strategic crude oil reserve to 281 million barrels and have a 10mt of refined oil reserves. China has also been increasing ownership in several overseas mining companies including: Rio Tinto (aluminum, iron ore, coal); OZ Minerals (zinc); Fortescue Metals (iron ore); Perilya (zinc); and Murchinson (iron ore). It looks like China is quickly becoming the new nation where the sun never sets.

Large Increase in February Soybean Imports

China imported 3.26mt of soybeans in February, an increase of 230,000 tons (8%) from last month and 61% more than 2.02mt imported in February of last year. For the first two months of 2009, Chinese soybeans imports are up 15% compared with the same period last year. With soybean prices down roughly 20% from last year, imports have become more attractive.

Additional Stimulus Measures Unveiled

Beijing's municipal government recently announced a plan to offer unemployed citizens 180,000 yuan (\$26,000) in loans for those wishing to start a new business. The central government has also announced farmers will be given a 10% discount on the purchase of light trucks or minivans. More regional and state-wide stimulus measures are expected to be announced in the coming weeks.

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.