LONDON COMMODITY NEWS

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CONTACT DETAILS

London Head Office 1st Floor 9 Savoy Street London WC2E 7ER United Kingdom Tel: +44 20 7240 1112 Coal Desk: +44 20 7010 7500 Iron Ore Desk +44 20 7010 7501 Options Desk +44 20 7010 7502 F: +44 (0)20 7240 5122 Email: info@londoncommoditybrokers.com	Clive Murray - CEO Paul Graham-Clarke – Managing Director Stephen Petchey Stuart Thresher Jamie Jones Chris Hudson Kenny Groth Steve Gong Phil Simms Shan Radstone Ben Webb Michael McDermott
Dubai Office Suite no. 3702, Liwa Heights, Jumeirah Lake Towers Dubai T: +97 144534200 F: +97 144534214	Ritunjay Mehta - Dubai Manager Lalit Lodha (Mobile: +97 1554545364) Siddharth Banthia Bhavit Bole
Johannesburg Office Level 2, 17 Baker Street, Rosebank, 2193 Johannesburg South Africa T: +27 11 447 0764 F: +27 86 733 8311	Bevan Jones – Johannesburg Manager Duncan Murray Arlene Tweedie
Singapore Office 137 Market Street, #10-01 Singapore 048943 T: +65 6593 4550 / 4551 F: +65 6604 9029	Gareth Hudson - Singapore Manager James Graham-Clarke Myles Clement Gisele Yan
Hong Kong Office Level 19, Two International Finance Centre (2 IFC) 8 Finance Street, Central Hong Kong T: +852 2816 4326/7/8 F: +852 3010 0087	Stuart Murray - Hong Kong & China Manager Ted Larmour
China Office 2111-B, Flagship Tower, Cyber Port, 40 Hong Kong Mid Road Qingdao, 266071 China T: +86 532 8667 8682 F: +86 532 8667 8683	Becky Bi 中國山東省青島市 香港中路40號, 數碼港旗 大廈2111-B 電話號碼: +86 532 8667 8682 傳真號碼: +86 532 8667 8683

COAL PRICES

Coal Market Overview

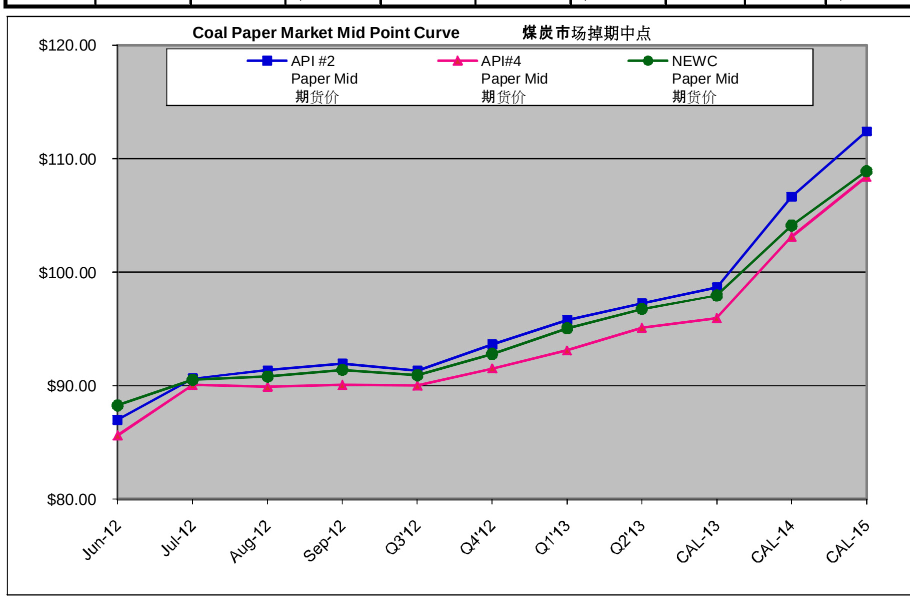
Friday, 29th June 2012, With all macro factors bullish first thing - oil and the Euro reacting aggressively to agreements by EU Leaders to lower the borrowing rates for Spain and Italy and a renewed strategy to shore up troubled banks - and European Power and Gas rallying hard on the same positive sentiment, the only surprise was the fact that coal wasn't even stronger on the day. The first CAL 13 API2 contract changing hands 85c above the previous nights close. With oil gaining $4 day-on-day and the Euro climbing two cents throughout the morning and afternoon, coal swaps remained firm. The only reason we weren't stronger seemed to be down to the thin volumes traded - liquidity - even for a Friday - was slim.

One physical trade to report, RB continuing to firm up, trading today in 50kt for August at $90.00, $3 above the last level traded Wednesday
Macquarie Coal Newsletter

COAL MARKET PRICES

Below is a list of prices that we offered the market **Friday, 29th June 2012, t**he prices are fixed prices, the prices represented by # refer to those that are index based. The coal paper mid rate is the point between the bid and offer spread on coal derivatives.

	DES / CIF ARA 欧洲港口到岸价			FOB Richards Bay 理查湾 离岸价			FOB Newcastle 纽卡斯尔离岸价		
Date 日期	Bid 出价	Offer 供价	API #2 Paper Mid 期货价	Bid 出价	Offer 供价	API#4 Paper Mid 期货价	Bid 出价	Offer 供价	NEWC Paper Mid 期货价
Jun-12			$ 87.00			$ 85.60			$ 88.25
Jul-12			$ 90.60			$ 90.05			$ 90.50
Aug-12	-#$1.60	-#1.40	$ 91.35	-#$0.10	+#0.30	$ 89.90			$ 90.80
Sep-12	-#$0.50	-#0.25	$ 91.95	-#$0.50	-#0.25	$ 90.05			$ 91.40
Q3'12			$ 91.30			$ 90.00			$ 90.90
Q4'12	-#$1.80	-#1.50	$ 93.60	-#$0.70	-#0.40	$ 91.50			$ 92.80
Q1'13	-#$1.75	-#1.25	$ 95.80	-#$0.50	-#0.25	$ 93.10			$ 95.05
Q2'13	-#$1.75	-#1.25	$ 97.25	-#$0.40	-#0.20	$ 95.10			$ 96.75
CAL-13	-#$1.20	-#0.80	$ 98.65	-#$0.35	-#0.10	$ 95.95			$ 97.95
CAL-14			$ 106.65			$ 103.10			$ 104.10
CAL-15			$ 112.40			$ 108.40			$ 108.90



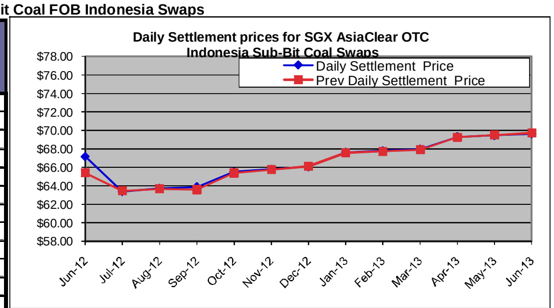
SGX AsiaClear OTC Sub-Bituminous Coal FOB China Swaps

Below are the Daily Settlement prices of SGX AsiaClear OTC Sub-Bituminous Coal FOB Indonesia Swaps as at 8.00pm Singapore times on **Friday, 29th June 2012, 8pm Singapore time.**

Daily Settlement Prices of SGX AsiaClear OTC Sub-Bit Coal FOB Indonesia Swaps

Contract Period	Daily Settlement Price	Prev Daily Settlement Price	US$ Change	% Change
Jun-12	$67.16	$65.42	$1.74	2.59%
Jul-12	$63.38	$63.45	-$0.07	-0.11%
Aug-12	$63.73	$63.67	$0.06	0.09%
Sep-12	$63.88	$63.60	$0.28	0.44%
Oct-12	$65.50	$65.38	$0.12	0.18%
Nov-12	$65.79	$65.75	$0.04	0.06%
Dec-12	$66.05	$66.12	-$0.07	-0.11%
Jan-13	$67.61	$67.57	$0.04	0.06%
Feb-13	$67.79	$67.73	$0.06	0.09%
Mar-13	$67.96	$67.90	$0.06	0.09%
Apr-13	$69.28	$69.27	$0.01	0.01%
May-13	$69.45	$69.50	-$0.05	-0.07%
Jun-13	$69.62	$69.73	-$0.11	-0.16%

 # Above daily settlement prices are for market-to-market open positions on contract month basis



The Indonesian sub-bituminous FOB marker is an assesment of the price of this quality coal delivered into ocean going vessels from a range of East and South Kalimantan load-outs. It represents the types of coal currently supplied by Adaro, Kideco, Bumi Resources (Melawan), ABK (Loajanan) and Straits Asia (Jembayan) amonst others

Indonesian sub-bituminous coal specs: 4,900 NAR, 28% max Total Moisture, 40% Vols, 10% max Ash, 1.0% max Sulphur, 1,200C AFT (IDT), basis 20,000t / day loading
refer: http://cr.mccloskeycoal.com/

Below daily settlement prices are summarized below in quarterly and yearly basis and are for reference only

Period	Average DSP	Prev Averag DSP	US$ Change	% Change
Q312	$63.66	$63.57	$0.09	0.14%
Q412	$65.78	$65.75	$0.03	0.05%
Q113	$67.79	$67.73	$0.05	0.08%
Q213	$69.45	$69.50	-$0.05	-0.07%
Cal 13	$70.23	$70.27	-$0.04	-0.06%

For more information please contact Mr. Desmond Wan at desmond.wan@sgx.com (DID: +65 6236 8146) or Ms. Danielle Tan (danielle.tan@sgx.com, (DID +65 6236 8051).

Source: www.sgx.com/asiaclear/commodities

Product Name	SGX OTC Sub-Bituminous Coal FOB Indonesian Swap
Contract Size:	1 lot = 1,000 metric tonnes
Trade Reg. hours (Sing Time)	8.00am - 4.00am Last Trading Day : 8.00am - 8.00pm
Last Trading Day Final Settlement price	Last publication day (Friday) of IHS McCloskey Indonesian Sub-Bitumous FOB marker in the contract month Cash Settlement using the arithmetic average of all publications of HIS MCCloskey Indonesian Sub-Bitumous FOB marker in the expiring contract month, rounded to 2 decimal places

http://www.sgx.com/wps/portal/marketplace/mp-en/products/asiaclear/commodities

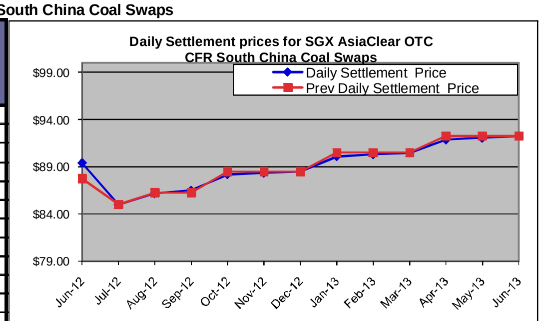
SOUTH CHINA SWAPS

Below are the Daily Settlement prices of SGX AsiaClear OTC CFR South China Coal Swaps as at 8.00pm Singapore times on **Thursday, 28th June, 8pm Singapore time.**

Daily Settlement Prices of SGX AsiaClear OTC CFR South China Coal Swaps

Contract Period	Daily Settlement Price	Prev Daily Settlement Price	US$ Change	% Change
Jun-12	$89.40	$87.75	$1.65	1.88%
Jul-12	$85.00	$85.00	$0.00	0.00%
Aug-12	$86.17	$86.25	-$0.08	-0.09%
Sep-12	$86.50	$86.25	$0.25	0.29%
Oct-12	$88.17	$88.50	-$0.33	-0.37%
Nov-12	$88.33	$88.50	-$0.17	-0.19%
Dec-12	$88.50	$88.50	$0.00	0.00%
Jan-13	$90.08	$90.50	-$0.42	-0.46%
Feb-13	$90.28	$90.50	-$0.22	-0.24%
Mar-13	$90.48	$90.50	-$0.02	-0.02%
Apr-13	$91.85	$92.25	-$0.40	-0.43%
May-13	$92.05	$92.25	-$0.20	-0.22%
Jun-13	$92.25	$92.25	$0.00	0.00%

 # Above daily settlement prices are for market-to-market open positions on contract month basis



SGX OTC CFR South China Coal Swap is based on coal delivered into South China with base calorific value of 5,500 kcal/kg NAR. Each contract is equivalentto an exposure of 1,000 metric tonnes of physical coal into CFR South China. The contract is cash settled using artithmetic average of the IHS McCloaskey/ Xinhua Infolonk South China (5,500 kc NAR) CFR marker.

CFR South China coal specs: 5,500 NAR, 1.0% max Sulphur, min vessel size 50,000mt . refer: http://cr.mccloskeycoal.com/

Below daily settlement prices are summarized below in quarterly and yearly basis and are for reference only

Period	Average DSP	Prev Averag DSP	US$ Change	% Change
Q312	$85.89	$85.83	$0.06	0.07%
Q412	$88.33	$88.50	-$0.17	-0.19%
Q113	$90.28	$90.50	-$0.22	-0.24%
Q213	$92.05	$92.25	-$0.20	-0.22%
Cal 13	$93.03	$93.19	-$0.16	-0.17%

For more information please contact Mr. Desmond Wan at desmond.wan@sgx.com (DID: +65 6236 8146) or Ms. Danielle Tan (danielle.tan@sgx.com, (DID +65 6236 8051).

Source: www.sgx.com/asiaclear/commodities

Product Name:	SGX OTC CFR South China Coal Swap
Contract Size:	1 lot = 1,000 metric tonnes
Ticker Symbol	**CF**
Min Price Fluctuation	US$0.01 per tonne (US$10)
Trade Reg. hours (Sing Time)	8.00am - 4.00am Last Trading Day : 8.00am - 8.00pm
Last Trading Day	Last publication day (Friday) of IHS McCloskey / Xinhua South China (5,500kc NAR) CFR marker in the contract month

http://www.sgx.com/wps/portal/marketplace/mp-en/products/asiaclear/commodities

SUMMARY OF CHINA COAL PRICES

CCIV - Comparative CFR Import Value

Origin 产地	Brand of Coal 煤种	GAR/ NAR	NAR	Specification指标	Terms 价格类型	28-Jun-12	*CCIV US$	21-Jun-12	*CCIV US$	+ / - from prev week	+ / - on CFR US$
Qinhuangdao FOBT - (refer China Coal Resources - Daily Market Watch)											
Qinhuangdao	Datong Premium Blend	NAR	>5,800	CV 5,800, V 25 - 28%, S 0.5 - 1%, Mt 10 - 13%	FOBT	¥ 760.00	$ 91.39	¥ 780.00	$ 93.97	¥ -20.00	$ (2.58)
Qinhuangdao	Shanxi Premium Blend	NAR	>5,500	CV 5,500, V 25 -28%, S < 1%, Mt <12%	FOBT	¥ 680.00	$ 81.06	¥ 710.00	$ 84.93	¥ -30.00	$ (3.87)
Qinhuangdao	**NDRC PRICE CAP**	**NAR**	**>5,500**	**NEW PROPOSED NDRC 2012 PRICE CAP**		**¥ 800.00**	**$ 96.55**	**¥ 800.00**	**$ 96.55**	**¥ -**	**$ -**
Qinhuangdao	Shanxi Blend	NAR	>5,000	CV 5,000, V 24 - 27%, S <1%, Mt <13%	FOBT	¥ 570.00	$ 66.87	¥ 605.00	$ 71.39	¥ -35.00	$ (4.52)
Qinhuangdao	Common Blend	NAR	>4,500	CV 4,500, V 25- 28%, S <1%, Mt <14%	FOBT	¥ 475.00	$ 54.61	¥ 510.00	$ 59.13	¥ -35.00	$ (4.52)
China Coastal Freight 中国沿海运费						29-Jun-12		21-Jun-12		Difference	
Qinhuangdao - Guangzhou, 40 - 50,000 DWT						¥33.40	$ 5.30	¥33.60	$ 5.33	¥ -0.20	$ (0.03)
Qinhuangdao - Shanghai, 20 - 30,000 DWT						¥24.70	$ 3.92	¥25.40	$ 4.03	¥ -0.70	$ (0.11)
Qinhuangdao - Ningbo, 15 - 20,000 DWT						¥26.70	$ 4.24	¥27.60	$ 4.38	¥ -0.90	$ (0.14)

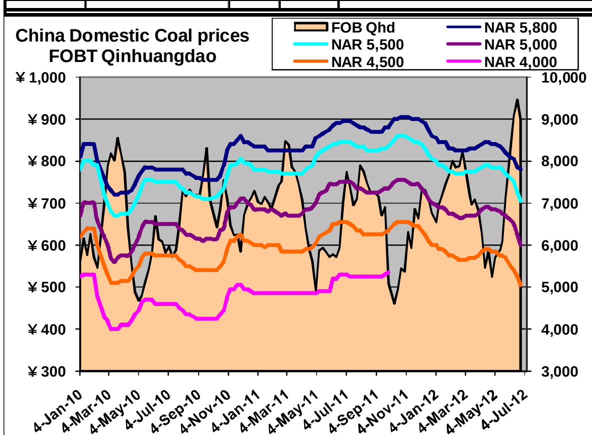
Notes:
From 21 June CCR has revised the specification of their NAR 6,000 Marker down to NAR 5,800 due to the continued deterioration of thermal heating value quality.
To determine landed cost of China coal to other China ports use FOBT Qinhuangdao rate + Local Freight + Allowance of RMB 50.00/mt (US$7.75) for Domestic Coal Port Handling Charges and stock pile rental

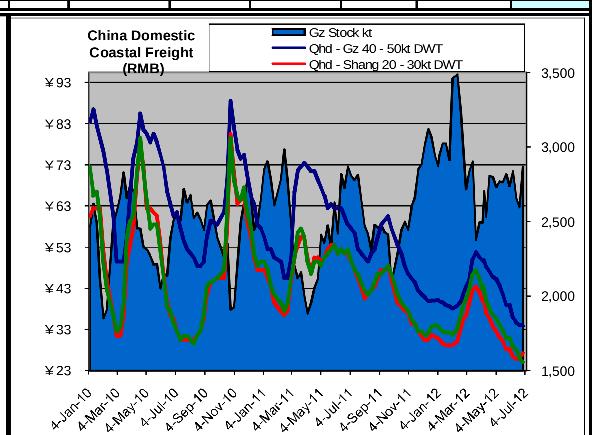
Origin	Brand of Coal	GAR/ NAR	NAR	Specification	Terms	28-Jun-12	*CCIV US$	21-Jun-12	*CCIV US$	+ / - from prev week	+ / - on CFR US$
Indicative Guangzhou Stock Pile Price based on Ex Qinhuangdao FOBT											
Guangzhou	Datong Premium Blend	NAR	>5,800	CV 5,800, V 25 - 28%, S 0.5 - 1%, Mt 10 - 13%	Exstock	¥ 843.40	$ 100.14	¥ 863.60	$ 102.75	¥ -20.20	$ (2.61)
Guangzhou	Shanxi Premium Blend	NAR	>5,500	CV 5,500, V 25 -28%, S < 1%, Mt <12%	Exstock	¥ 763.40	$ 89.82	¥ 793.60	$ 93.72	¥ -30.20	$ (3.90)
Guangzhou	**NDRC PRICE CAP**	**NAR**	**>5,500**	**PROPOSED NDRC 2012 PRICE CAP - EXSTOCK**		**¥ 883.40**	**$ 105.31**	**¥ 883.60**	**$ 105.33**	**¥ -0.20**	**$ (0.03)**
Guangzhou	Shanxi Blend	NAR	>5,000	CV 5,000, V 24 - 27%, S <1%, Mt <13%	Exstock	¥ 653.40	$ 75.63	¥ 688.60	$ 80.17	¥ -35.20	$ (4.54)
Guangzhou	Common Blend	NAR	>4,500	CV 4,500, V 25- 28%, S <1%, Mt <14%	Exstock	¥ 558.40	$ 63.37	¥ 593.60	$ 67.91	¥ -35.20	$ (4.54)
Guangzhou	Common Blend	NAR	>4,000	CV 4,000, V 25 - 28%, S < 1%, Mt <15%	Exstock	¥ 438.40	$ 47.89	¥ 473.60	$ 52.43	¥ -35.20	$ (4.54)

Note: To convert local China coal RMB prices to Comparative CFR Import Values we calculate as follows:
Local China RMB /mt / 1.035 Management Overheads including cost of LC - RMB 65.00* (Allowance for new imported coal Port Handling charges, load / discharge port inspection + stock pile charges) / 1.17 VAT / RMB 6.40 Exchange = CCIV US$/mt
CCIV represents the equivalent US$ CFR value for the coal currently available on stock pile.
Currently Chinese Buyers are bidding at a discount of between US$3.00 - 6.00 to these CCIV values)

SELECTED PORT STOCK PILE PRICES

Origin	Brand of Coal	GAR/ NAR	NAR	Specification	Terms	25-Jun-12	*CCIV US$	18-Jun-12	*CCIV US$	+ / - from prev week	+ / - on CFR US$
Guangzhou Port - Domestic China Coal Prices											
Shaanxi	Shemu Lump	NAR	6,100	CV 6100, A 4%, V 28%, S 0.2%	Ex Stock	¥ 1,100.00	$ 133.25				
Shaanxi	Shemu Premium Blend	NAR	6,000	CV 6000, A 8%, V 28%, S 0.6%	Ex Stock	¥ 890.00	$ 106.16				
Shanxi	Shaanxi Premium Mix	NAR	6,000	CV 6000, A 8 - 10%, V 29 - 31, S 0.4%	Ex Stock	¥ 900.00	$ 107.45				
Shanxi	Shanxi Premium Blend	NAR	5,500	CV 5500, A 14%, V 28%, S 0.6%, Mt 12	Ex Stock	¥ 800.00	$ 94.54	¥ 830.00	$ 98.42	¥ -30.00	$ (3.87)
Shanxi	Shanxi Blend # 1	NAR	5,500	CV 5500, A 12%, V 28%, S 0.3%, Mt 15	Ex Stock	¥ 795.00	$ 93.90	¥ 825.00	$ 97.77	¥ -30.00	$ (3.87)
Guangzhou Port - Imported Coal Prices											
Indonesia	Indonesia Thermal	GAR	5,900	GAR 5,900 NAR 5600 V(ad) 35%, A (ad) 5%, S (tad) 0.31%, M(t) 28%	Ex Stock	¥ 640.00	$ 75.90	¥ 660.00	$ 78.48	¥ -20.00	$ (2.58)
Indonesia	Indonesia Thermal	NAR	5,500	NAR 5500 V(ad) 41%, A (ad) 10%, S (tad) 0.6%, M(t) 15%	Ex Stock	¥ 760.00	$ 91.39	¥ 780.00	$ 93.97	¥ -20.00	$ (2.58)
Indonesia	Indonesia Thermal	NAR	4,200	NAR 4200,8V(ad) 37%, A (ad) 8%, S (tad) 0.9%, M(t) 28%	Ex Stock	¥ 515.00	$ 59.77	¥ 540.00	$ 63.00	¥ -25.00	$ (3.23)
Indonesia	Indonesia Thermal	NAR	3,800	NAR 3,800, V(ad) 38%, A (ad) 3 - 5.%, S (tad) 0.8%,	Ex Stock	¥ 450.00	$ 51.39	¥ 470.00	$ 53.97	¥ -20.00	$ (2.58)
Vietnam	Vietnam 11A	NAR	4,800	NAR4800, V(ad)6%, A (ad) 33%	Ex Stock	¥ 680.00	$ 81.06	¥ 680.00	$ 81.06	¥ -	$ -
Australia	Australian Thermal	NAR	5,500	NAR 5500, V(ad) 28%, A (ad) 20%, S (tad) 0.7%, M(t) 10%	Ex Stock	¥ 800.00	$ 96.55	¥ 855.00	$ 103.64	¥ -55.00	$ (7.10)
Australia	Australian Thermal	NAR	5,000	NAR 5000, V(ad) 25%, A (ad) 25, S (tad) 0.4, M(t) 10%	Ex Stock	¥ 720.00	$ 86.22	¥ 770.00	$ 92.68	¥ -50.00	$ (6.45)
South Africa	South A Thermal	NAR	6,000	NAR 6000, V(ad) 25%, A (ad) 15, S (tad) 0.6, M(t) 7.8%	Ex Stock	¥ 790.00	$ 95.26	¥ 900.00	$ 109.45	¥ -110.00	$ (14.19)
Qingdao - Imported Coal Prices											
Australia	HCC		HCC	HCC, A 9%, V 25%, S <0.6%, G 85	Ex Wareho	¥ 1,600.00	$ 197.77	¥ 1,620.00	$ 200.35	¥ -20.00	$ (2.58)





The above data available from China Coal Resource ("CCR") - refer http://en.sxcoal.com. CCR was founded in 1988 and is the only commercial English website in China's coal and coke industry. CCR has more than 360 staff throughout China. CCR provides current news and related data, consulting services as well as facilitating investments and joint venture arrangements between foreign and domestic enterprises.

COAL MARKET NEWS

INTERNATIONAL

Commodities rally on EU deal

Commodities rallied on Friday after Europe moved to cut soaring borrowing costs in Spain and Italy, lifting investors' spirits on the last trading day of the quarter that is still bound to be the worst in years for some raw materials.

Oil rose by more than $2, gold jumped over 1 percent and copper gained the most since mid-April after European leaders agreed that euro zone rescue funds could be used to stabilise bond markets without forcing countries that comply with EU budget rules to adopt extra austerity measures or economic reforms. That gave a big relief to investors in markets from commodities to equities, who had low expectations the ongoing summit of European leaders in Brussels would yield solid measures to solve the euro zone debt crisis now running into its third year. "It still falls short of a concrete solution, but the removal of severe pessimism over what's going to come out of the EU summit is driving markets higher," said Vishnu Varathan, market economist at Mizuho Corporate Bank. "These are very welcome steps taken forward in terms of addressing tail risks and the imminent crisis triggered by the banking sector that may be knocking on the door."

Brent crude for August delivery touched a high of $93.40 and was up $1.57 at $92.93 a barrel by 0622 GMT. U.S. crude climbed 1.85 to $79.54, pulling away from an eight-month low hit in the previous session. Spot gold rose more than 1 percent to a session high of $1,571.30 an ounce.

But heavy losses since April means Brent crude, which is down more than 24 percent for the second quarter, is still on track to post its worst three-month period since the last quarter of 2008 during the global financial crisis. US oil is also heading for the same milestone with its April-June loss at nearly 23 percent.

Gold has lost more than 6 percent for the quarter, on course for its biggest quarterly drop since 2004. The precious metal has gone the way of riskier assets for the most part of this year, losing out to the US dollar and bonds which investors deemed safer. But some analysts say gold can recover its shine in the second half, and could match last year's high, which was a record. "In the long run we're still bullish on gold. It's still likely to hit last year's high of $1,920. The global economy is not doing well and we expect safe-haven demand to be back for gold," said Lynette Tan, an analyst at Phillip Futures.

Copper rose 1.9 percent to $7,526.50, in what is its largest daily gain since April 12. New-crop December corn rose for a fifth time in six sessions, and is poised for a record weekly gain of almost 15 percent and a monthly increase of 22 percent after baking US Midwest weather ignited a market rally. There is a risk that Friday's rally may not be sustained, with the demand outlook for raw materials staying dim, and investors still waiting for top commodity importer China to launch more measures to stimulate its slowing economy. "It's going to be a pretty bumpy ride in the second half. The underlying demand story is not very compelling at this juncture," said Varathan at Mizuho Corporate Bank. Edited by: Reuters

Oversupply, changing fuel usage could keep prices low

Global coal prices are currently trading at nearly 20-30% below their year-ago levels. The benchmark Newcastle thermal coal fell to a two-year low of $87 per tonne in June 2012, which traded at close to $142 per tonne at the beginning of 2011. Similarly, the Indonesian coal reference price too was trading around $96.65 in June '12 from a peak of $127 in early 2011. Although prices have crashed with no bounce back in sight, a further downside appears limited. "Major reasons for this decline include China's economic slowdown and high coal inventory levels, increased production and exports from Indonesia and Australia, and increased exports by US coal producers due to cheap natural gas displacing coal used in US power generation," according to a Fitch report.

For the power industry, coal is the most critical input. With domestic production falling short of demand, India has been increasingly importing coal, which is estimated to top 130 million tonne in FY13. The slide in the spot coal prices bodes well for power producers. "As a rule of thumb, for every $10 fall in the price of 5,000-kcal grade coal, an Indian power utility's cost of production falls by Rs 0.27 - Rs 0.28 per unit. However, the rupee depreciation is likely to erode this benefit," said Debasish Mishra, senior director, energy & resources, Deloitte India.

While the global oversupply situation is not likely to improve in the near term, most experts reckon that coal prices may not fall much from here. James O'connell, senior managing editor, International Coal at Platts, says that coal prices appear to have a limited downside from here on. "Our understanding is that a further fall in coal prices would gradually make producers cut down production. In fact, in countries like Indonesia, small and medium-sized miners are already scaling back output. Coal prices are already near the marginal cost of production for a few of them," he says. A Fitch Ratings report also echoes this. It forecasts that high-cost producers in Australia and the US would undertake production cuts if the current low price environment spills over into 2013. Such a move would limit production growth and help address oversupply, it argues.

A recent industry overview report on Asia-Pacific coal by Citigroup also says that the coal price correction will prove cyclical. According to it, the only worry is about excess supply. "Prices could stay at the current low levels or move lower as long as the US is adjusting to cheap natural gas," the report says. However, an upturn in prices could well be round the corner.

The Citi report says that their understanding is that around 10-15% of Japanese contract thermal coal demand is on a July-June year-term and that industry sources suggest that fresh deals could be struck at around $105 per tonne, well above the spot prices and prove to be a positive surprise. Source: Economic Times

DSP OF SGX ASIACLEAR OTC COAL SWAP'S THIS WEEK’S MOVEMENTS SLIGHTLY POSITIVE

SGX AsiaClear OTC Coal Swaps have recovered slightly this week and Q4 deliveries are also showing positive direction. SGX’s Indonesian sub-bituminous coal swaps for August delivery gained 2.57% this week but CFR South China coal contracts swaps lost -0.09%. SGX’s Indonesian sub-bituminous coal swaps for August delivery gained 2.57% WoW and CFR South China coal contracts drops only -0.09 percent on W-o-W.

According to DSP of SGX AsiaClear OTC coal swaps, Indonesian sub-bituminous coal swaps for August 2012 delivery closed average at US$ 63.73/ MT on 29 June 2012 (Friday), 8pm SG Time compared to Monday opening of average US$ 62.13/ MT. Indonesian sub-bituminous coal swaps gained 2.57 percent compared to Monday (25/6/2012) opening and Friday (29/6/2012) closing. In the meantime, CFR South China coal contracts closed average at US$ 86.17 on Friday instead of average US$ 86.25 on Monday opening.The August 2012 swap contract for Indonesia sub-bituminous coal was opened on Monday average at US$ 62.13/ MT and closed on Friday average at US$ 63.73/ MT gained US$ 1.60 (2.57 percent W-o-W) , according to SGX AsiaClear OTC Coal Swaps.

CFR South China Coal contracts lost US$ 0.08 (-0.09 percent W-o-W) to average US$ 86.17 per mt for the same period. The Q4 deliver of Indonesia sub-bituminous coal was gained average US$ 0.93 / MT to average US$ 65.78 a metric ton on Friday from average US$ 64.85 on Monday opening. CFR South China Coal contract declined US$ 0.22 (-0.24 percent) per mt to average US$ 88.33 compared to Monday opening of average US$ 88.55, according to data released by SGX. Indonesian sub-bituminous coal swap for August delivery drops average -6.88 percent M-o-M and the meantime CFR South China coal contracts for August delivery dropped average -5.30 percent M-o-M. The Q4 swap contract for Indonesia sub-bituminous coal was also dropped -5.93 percent M-o-M and CFR South China coal contracts dropped -4.76 percent M-o-M.
Indonesian medium scale producers are planning to reduce their production if the coal prices continually fall. “The current selling price levels are already touching our production cost. If the coal prices fall further then we have no option than cut our output to keep our company float”, said a coal producer in Jambi, Sumatra island early this week. Overall this week’s performance is slightly better than last week performance in terms of prices. However the real physical market (spot) for Indonesian coal was not showing any positive rebound this week.(cs). Source: CoalSpot.com

U.S.A

Peabody leases Powder River coal tracts for $793M

Federal land managers have accepted a $793 million bid from Peabody Energy to mine a massive reserve of publicly owned coal in Wyoming, but a critic of the deal said Friday that taxpayers are losing out and the fuel is worth more than twice what the company offered.

St. Louis-based Peabody offered $1.10 per ton for the 721 million ton North Porcupine Coal Tract. The company also will pay 12.5 percent royalties on the fuel it removes by strip mining the tracts in the Powder River Basin.The Powder River Basin, which straddles the Montana-Wyoming border, has become the top coal-producing region in the U.S. as production at many eastern mines has tapered. Peabody controls more than 4 billion tons of coal in the region. But an environmental research group says the deal dramatically underestimates the coal's value. The Institute for Energy Economics and Financial Analysis says the coal is worth $2.79 a ton, meaning the government will lose out on about $1.2 billion in potential additional revenues.

Tom Sanzillo, the group's director of finance said the gap between what the company paid and what the fuel is really worth resulted from a deeply flawed bid process that gives companies too much say in leasing. "The notion that this has resulted in U.S. taxpayers being cheated out of more than a billion dollars in a single day should be a wake-up call for Washington that this broken system is badly in need of repair," Sanzillo said. Earlier this week, Sanzillo's group released a report that claimed taxpayers have missed out on almost $29 billion in potential revenue on undervalued fuel from the basin leased to companies over the past 30 years. Bureau of Land Management spokeswoman Mary Wilson says the Peabody offer met or exceeded the fuel's fair market value. Wilson said the BLM goes into "a fairly exhaustive process" that taps the expertise of its geologists, mining engineers and appraisers to ensure the coal is not undervalued.

In April, the ranking Democrat on the House Natural Resources Committee, Rep. Ed Markey of Massachusetts asked the asked the Government Accountability Office to investigate the BLM's coal leasing program. Markey said he was concerned about how industry efforts to increase coal exports to Asian and other overseas markets will impact the value of federal reserves. Facing weak demand from the domestic power supply market, Peabody and other companies exported 107 million tons of coal last year — the most in two decades. Peabody spokeswoman Meg Gallagher said the company had followed the government's bidding rules. "Peabody Energy, like all Powder River Basin operators, complies with the guidelines of the federal government's sealed bid process for leases, which must have a fair-market value determination by the Bureau of Land Management," Gallagher said. The leases are adjacent to the company's North Antelope Rochelle mine, which Peabody claims is the world's most productive coal mine with 109 million tons shipped last year. Peabody said it has leased more than 1.1 billion tons of reserves near the mine in recent months — enough fuel to keep it active for a decade. The company controls 4 billion tons of coal reserves in the region. Source: The Oklahoman

CONSOL anounces further production cutbacks

In the latest announcement of operation cutbacks and suspensions in the US, CONSOL Energy on Friday announced it would idle its Fola Operations near Bickmore, West Virginia. CONSOL said expects total 2012 production to be reduced by approximately 800kst as a result. Friday's announcement marks the second time in a week the thermal coal producer announced cutbacks. Earlier in the week CONSOL announced it would extend miners' vacations at its Blacksville No. 2and Robinson Run mines. A total of 318 employees will be impacted. "The decision to idle our Fola operations is a difficult one, but in an effort to manage our inventory and to balance coal production with expected utility demand and shipping schedules, we are faced with making adjustments which unfortunately will impact our workforce," president Nicholas DeIuliis said in a release.
"The domestic market for coal remains soft due to weak economic growth and activity. The warm winter resulted in the growth of our utility customers' stockpiles and their inability to accept committed coal shipments. Additionally, the escalating costs and uncertainty generated by recently advanced EPA regulations and interpretations have created a challenging business climate for the entire coal industry."

US-based Doyle Trading Consultants said it suspects industry cutbacks are nearing a climax. "With77.4 mm tons of announced cuts for 2012 and an estimated 25-35 mm tons of 'silent cutbacks' (shorter shifts, overtime cuts, private cutbacks), we believe approximately 100mm tons have been taken out of the market for 2012," DTC said. "Additional announcements are likely to trickle out during Q2 earnings season, but we believe we are nearing the point where supply cuts offset the decline in utility consumption." Source: Energy Publishing

AUSTRALIA

Australia kicks off carbon tax, PM future in doubt

Australia joins a growing number of nations to impose a price on carbon emissions across its $1.4 trillion economy in a bitterly contested reform that offers trading opportunities for banks and polluters but may cost the prime minister her job. Australia's biggest polluters, from coal-fired power stations to smelters, will initially pay A$23 ($23) per ton of carbon dioxide emitted, more than twice the cost of carbon pollution in the European Union, currently trading around 8.15 euros ($10) a ton.

The economic pain will be dulled by billions of dollars in sweeteners for businesses and voters to minimize the impact on costs, with the consumer price index forecast to rise by an extra 0.7 percentage point in the 2012-13 fiscal year. The scheme allows emissions trading from 2015, when polluters and investors will be able to buy overseas carbon offsets, or ultimately trade with schemes in Europe, New Zealand and possibly those planned in South Korea and China. Prime Minister Julia Gillard's minority government says the plan is needed to fight climate change and curb greenhouse gas pollution. Australia has amongst the

world's highest per capita CO_2 emissions due to its reliance on coal-fired power stations. Yet even as it starts, the scheme's future is in doubt. The conservative opposition has vowed to repeal it if they win power in elections due by late next year and have whipped up a scare campaign saying the tax will cost jobs and hurt the economy. Gillard, her poll ratings near record lows and her Labor party heading for a heavy election defeat, hopes that the campaign will quickly run out of steam once the scheme starts. "Cats will still purr, dogs will still bark," Gillard said after Opposition leader Tony Abbott's visit to an animal shelter to warn of higher electricity prices on charities. "The leader of the opposition's fear campaign will collide with the truth."

But voters remain angry that Gillard broke a 2010 election promise not to introduce a carbon tax and many observers think government hopes of a resurgence after July 1 are unlikely. "The damage is already done," political analyst Nick Economou at Monash University said. "What will be interesting is whether Labor takes the lemming option and follows her over the cliff, or whether it decides that she is the cause of their problems and has to go." A poll by the respected Lowy Institute think-tank found 63 percent of voters oppose the carbon scheme. Many big polluters, such as miners, also remain vehemently opposed and uncertainty over its future is crimping investment in the power sector. UBS has cut its earnings estimates for global mining houses BHP Billiton and Rio Tinto by between 3 and 4 percent ahead of the carbon tax and another tax on mining profits also due to start on Sunday. The Australian carbon scheme is the product of years of fierce bargaining with business and political parties. It will initially cover just under 300 companies and councils that comprise about 60 percent of the nation's roughly 550 million tons of CO_2.

For the first three years, polluters will pay a fixed price for CO_2 emissions, reaching A$25.40 a ton in the final year.

From July 2015, emissions trading with regular auctioning of pollution permits will start, along with rules that allow polluters to buy overseas emission reduction offsets, such as Certified Emission Reductions (CERs), part of the United Nation's Kyoto Protocol climate pact. A floor of A$15 a ton and a cap of A$20 above the expected international price will run till 2018.

Despie the scheme's soft start and openness to international markets, bankers and big polluters remain cautious, with opposition leader Abbott's "blood oath" to repeal the scheme stirring deep unease. Traders are also awaiting final rules on implementing the floor price on international units. Morgan Stanley says it is likely there will be very limited trade in international units until there is certainty on the repeal risk, plus clarity on the 2015-18 floor price and whether Australia agrees to a second commitment period under Kyoto. "Since a domestic unit auction will most likely not occur until after the next election in late 2013, if the Opposition is still talking about rescission and repeal, it is unlikely that a forward market will develop in these units," Emile Abdurahman, executive director of Morgan Stanley Commodities in Sydney, said in emailed comments. For now, repeal remains a real possibility because of the way it has polarized the country, Australian National University climate policy analyst Frank Jotzo wrote in a recent commentary. "Australia's carbon pricing mechanism might enter history as one of the best-designed yet shortest-lived policies for climate change mitigation." Source: Reuters

China vents its concerns over Australia's carbon and mining taxes

The Chinese Ministry that approves all the country's major offshore investments - public and private - has raised its concerns with senior government officials over the imposition of the carbon and mining taxes that have been flagged as issues for China's appetite for Australian investment. The political spat over migrant working visas that could affect Chinese workers being employed on major infrastructure projects is also being closely monitored.

China sees the two hurriedly developed new taxes as raising issues around political investment risk in Australia, a key advantage it once held over Africa, South America and parts of Asia, where China's mining investment options include cheap labour. The comments were made by the top two foreign investment officials from China's most powerful economic ministry, the National Reform and Development Commission, at a half-day meeting last week between the West Australian State Development director-general Steve Wood and other officials. Their comments stand in stark contrast with continued assertions by Julie Gillard and Wayne Swan that the two taxes will have no effect on mining investment. But China believes that despite constantly raising their concerns and explaining that major investment may go elsewhere - the Gillard government is not listening. "The MRRT will make it more expensive to start up mines, so of course it will affect investment decisions," one person familiar with the discussions said.

The meeting also focused on the delayed over-budget Oakajee Port and Rail project in the state's Mid-West whose future hangs in the balance, pending a report already three months overdue from sovereign wealth fund China Investment Corporation to the NDRC. Now, Beijing has told Mr Wood that the CIC report on whether China would provide 50 per cent of the $5.9 billion investment in the Oakajee port and rail project is unlikely to arrive until September. The Australian last week revealed that the original report was late, leading to renewed speculation that China may walk away from the project, which is now 100 per cent-owned by Mitsubishi. Representatives from Mitsubishi remain in talks with a number of Chinese companies, including the Mid-West's biggest miner, China-owned Sinosteel, steelmaker Ansteel, which has invested in the Mid-West, and state-owned infrastructure giant China Railways Corporation. Initial discussions between officials from the two sides began in March, when Mitsubishi took 100 per cent control of the project after its former joint-venture partner, Murchison Metals, could not fund its share amid cost blowouts and delays. The Oakajee port and rail project consists of a 570km rail line and a new deepwater port 30km north of Geraldton so it can take bigger ships.

WA Premier Colin Barnett said he was confident of a good outcome, but he has hinted the government may build the port itself to hurry things along.The next discussions between WA and the NDRC will occur once the report has been completed.

The West Australian government declined to offer any comment. Source: Chinamining.org

Tanzania: China to run Kiwira Mine

The Government has accepted China's offer to run Kiwira Coal mine and therefore ditching the National Social Security Fund (NSSF) to run the same. The Minister for Energy and Minerals, Mr William Ngeleja, told journalists here on Sunday that the Chinese government would invest 400 million US dollars (about 600bn/-) under a soft loan arrangement. The minister was briefing the media on current status of power generation in the country and measures taken by the government and Tanzania Electric Supply Company (TANESCO) in addressing the situation. Mr Ngeleja mentioned several criteria used to accept the Chinese government's offer including timing of applications to run the mine and magnitude of investment. Kiwira Coal mine is projected to generate 200MW upon its completion. He revealed that five organisations including NSSF applied to run the project but the government decided to accept Chinese offer. "NSSF applied to develop the mine last December while the Chinese applied before and pledged to invest 400 milliom US dollars through soft loans.

"NSSF advanced several reasons to take over the project including the reason that former investors of the project owe them a lot of money, but the former investors owe various institutions including CRDB Bank," the minister explained. Mr Ngeleja noted

that the government also considered other factors including capital, technology and expertise of applicants in power generation. He further revealed that the government also took into consideration long relations between Tanzania and China. He, however, appreciated the NSSF's offer, welcoming the Fund to invest in other projects such as development of natural gas projects. The minister also urged private entities and individuals to invest in power generation as the Electricity Supply Act of 2008 had opened doors for private entities to generate power. Mr Ngeleja said that the government was still pondering on whether to unbundle TANESCO in generation, transmission and distribution separate entities or not.

"Let me remind you that transmission of electricity is a very sensitive issue. But the private sector is allowed in power generation and they should seize the opportunity to generate power instead of insisting privatisation of TANESCO. "People should not mislead the public that the government is entertaining TANESCO's monopoly, I wonder why private entities have not joined hands to generate power while they're allowed by the law," he stressed. Speaking on the status of power supply in the country, the minister attributed the current power rationing to drought that had forced hydro power plants to operate below capacity. He, however, expressed optimism that the situation would be addressed soon following conclusion of agreements between TANESCO and Agrrieko and Symbion in which the two firms would generate a total of 212.5MW. Mr Ngeleja also stated that Treasury had pledged to release funds by this week to enable ITPL to generate 100MW. He rubbished claims by some people that the government and TANESCO had not been doing enough to address power woes, adding that some people are orchestrating such claims to meet their political interests. Source: Daily News

INDONESIA

Indonesian Coal Miner Toba Bara Shrinks IPO After Investor Snub

Coal miner Toba Bara Sejahtra has slashed the size of its initial public offering after the share sale was snubbed by investors, making it the second Indonesian company to scale back an IPO plan this week. Analysts in Jakarta said that Indonesian companies attempting IPOs have struggled to lure investors amid global uncertainty and the euro-zone crisis.

Reza Priyambada, an analyst with Indosurya Asset Management, said that difficult global market conditions were dampening demand for risky assets, including stocks. “The condition of the market is the trigger for all those scaling down IPOs,” Reza said. Toba Bara cut the size of its IPO to 10.5 percent of its capital from the 15 percent announced two weeks ago. “The reason is because the valuation is so cheap,” Pandu Sjahrir, finance director at Toba Bara, told the Jakarta Globe in a text message. The company has now set its IPO price at Rp 1,900 apiece and expects to raise Rp 400 billion ($42 million) early next month, compared to a potential Rp 763 billion under the earlier plan. Early plans from the company were believed to involve a share offer of up to 25 percent.

Kobexindo Tractors, another coal miner, cut its IPO size to 12 percent from the original plan of 30 percent, an underwriter representing Kobexindo told Investor Daily on Tuesday. Global Teleshop, a mobile-phone distributor, cut its IPO size to 10 percent from 20 percent even before it entered the book-building period.

“Stocks of heavy equipment and mining companies are the ones that we are avoiding right now,” said Edwin Sebayang, head of research at MNC Securities in Jakarta. He said that with more established companies in the same sector already trading cheaply on the Indonesia Stock Exchange (IDX), investors saw little need to buy stocks in the IPOs.

The scaling back in the IPOs of Indonesian companies underlies deteriorating sentiment in the local market, which rose 3.2 percent last year. The benchmark Jakarta Composite Index lost 1.2 percent to close at 3,887.58 in Jakarta on Thursday. The main stock gauge has risen 1.7 percent so far this year. Edwin said that falling coal prices would push investors to sideline mining stocks, including those coal miners. Analysts forecast coal prices to drop further in the next few months before a recovery in the fourth quarter of the year. “The decline in the coal prices will threaten coal miners’ financial performance,” Edwin said.

Fellow analyst Reza said that companies would continue to delay plans for equity raisings, while those that have already completed their pre-offering process will have little choice but to accept lower than expected IPO proceeds. There have been six listings on the Indonesian bourse so far this year, compared to 10 in the same period in 2011. Ito Warsito, president director of the IDX, expressed optimism that the exchange would hit its target of 25 IPOs this year. He said 10 were in the pipeline but did not explain how the gap would be filled. Toba Bara started offering the shares on Wednesday, with a listing on the exchange planned for next Thursday. Toba Bara was founded by former Trade Minister Luhut B. Pandjaitan in 2010. It has hired Mandiri Sekuritas, Morgan Stanley Asia Indonesia and CLSA Indonesia as underwriters for the IPO.

Source: The Jakarta Globe

Borneo Resource starts surface coal harvesting in Indonesia

Borneo Resource Investments has started the surface coal harvesting operations from its PT Integra Prima Coal concession. The Integra concession is estimated to have reserves of 8 million tons of high thermal output coal and has significant quantities of surface and outcrop coal. The company is able to access the coal with relatively low infrastructure and production costs. Borneo Resource Investments CEO Nils Ollquist said independent analysis of coal samples collected from the Integra concession showed extremely high thermal values of up to 7,400 BTU, in addition to relatively low ash and sulphur content. "We believe that the project can create significant positive cash flow immediately, as thermal coal of this calorific output attracts a premium price of well over $100 per tone," Ollquist added.Borneo has accumulated 4,000 tons of initial quantity and is negotiating one year contract to supply 50,000 tons of coal to India based purchaser. The company intends to pursue monetization of its coal assets in short term to develop a sustainable cash flow. Borneo has medium term goals to capitalize on the underlying value of its concession reserves through joint ventures, partial sale, farm out and revenue sharing agreements, and construction of in situ power generation facilities with international energy and trading groups. US based Borneo through its wholly-owned subsidiary Interich International obtains mining concessions to explore and develop coal reserves.

Source: Energy Business Review

INDIA

Worst trade deficit in ages to weigh on rupee

Hopes of a recovery for the battered rupeemay dim if the government fails to come up with a plan to raise US dollar funds soon as the worst external trade position in decades worries investors. Notwithstanding the rupee's biggest gains in three years on Friday, depleting foreign exchange reserves, strong crude oil demand, overseas loan repayments and a fall in services exports growth rate are chinks in the armour in reviving the currency. Revival in global investor appetite for equities and commodities after Europe agreed to fix its banking crisis may play spoilsport for India, which was hoping to benefit from lower commodity

prices. Crude, which constitutes a third of imports, rose $6 a barrel to about $98.
Higher coal imports to offset domestic deficit will, along with crude, worsen India's external trade as the Centre's subsidies cushion the impact of high market prices on consumers. The selling of diesel and cooking gas at below market prices is feeding a consumption boom that's straining both the currency as well as government's finances.
"It's a surprise and a concern," said Brinda Jagirdar, chief of economic research at State Bank of India, after the March quarter current account deficit - the excess of imports over exports - came in at a record 4.5% of the gross domestic product.
"This calls for immediate attention to the external sector, or the problems could escalate. Softening oil and commodity prices could get offset by a rise in coal imports along with depreciation in rupee." The RBI's external trade data released on Friday for the March quarter painted a grim picture. Merchandise exports' growth fell to 3.4% in the quarter from 47% a year earlier, but imports rose 23%, although it was down from 28% in the same period a year ago. This led to a widening of trade deficit to $51.6 billion, up from $30 billion a year ago. Exports of net services fell to 21% from 72% a year earlier.
The rupee that had lost a quarter of its value in the past year had its biggest gain in three years on Friday before the trade data was released. It ended at 55.64. Even the record portfolio inflows in the March quarter were not sufficient to meet the dollar demand and the country had to dip in to $5.7 billion of foreign exchange reserves.
This led to a fall in the foreign exchange cover for external debt to 85%, from nearly 100% a year earlier. Recent RBI measures, such as easing overseas borrowing norms for companies , may not bring in enough US dollars to support the rupee.
Economists are not yet changing their rupee-US dollar target rate as the sharp depreciation of the currency and lower commodity prices than in the last year could lead to a better balance in the next few months.
Source: India Times

Coal block allocation: Three mining, steel firms shortlisted

The Central Bureau of Investigation (CBI), probing the alleged irregularities in the allocation of coal blocks has shortlisted at least three mining and steel companies in this regard. According to sources in the CBI, these companies were allocated coal blocks allegedly in violation of rules; the agency is likely to seek clarification from them in the matter.
Officials from country's premiere investigating agency visited Coal Ministry offices and collected files related to two steel companies and a power company—the alleged beneficiaries of coal blocks allocated during 2006-09—CBI sources said. Sources in the agency further informed that after scrutinising the documents received from the Coal Ministry, Power Ministry and Department of Industrial Policy and Promotion, the agency has found irregularities in the way coal blocks were allocated to certain ineligible companies.However, the CBI sources said that since investigation in the matter is at a preliminary stage, the agency would only seek their point of view on the issues in an informal manner.The central probe agency registered two preliminary enquiries in connection with the case referred to it by the Central Vigilance Commission. Source: The Herald

GVK expects to tie up funds for Alpha coal project by March

GVK Power & Infrastructure Limited, part of Hyderabad-based GVK Group, today said the financial closure for its $10-billion Alpha coal and rail project in Queensland, Australia, was expected by March 2013, as opposed to the original deadline of December 2012. The financial closure was getting deferred due to delays in receiving necessary environmental clearances from the local authorities, said Sanjay Reddy, vice-chairman, GVK Group.
Last month, GVK had received environmental clearance for the Alpha coal mine project that included constructing a railway line to port from the Queensland province. However, objections were raised by the federal government.
Last year, GVK paid $1.26 billion to buy the coal assets and related logistics infrastructure in Australia from Hancock, through a group company GVK Coal Developers (Singapore). The Alpha project, which is expected to generate 4,000 jobs at peak, is being run by Hancock Coal, in which 79 per cent is owned by GVK and the rest by Gina Rinehart, chairman, Hancock Prospecting Pty Limited.
“The project is likely to get the environment clearance approval from the Australian federal government within a month,” Rinehart said, while expressing her interest in raising the stake from the present 21 per cent.
Rinehart, who had sold a majority stake in her Hancock Prospecting Pty’s coal projects to GVK Group last year, said she would be happy to buy back shares in the venture if it needs funds. “I have told GVK, I would love to be in the project more,” Rinehart told reporters during a visit to Hyderabad, where she meet officials of the group. GVK would prefer to sell stakes to companies it plans to supply coal to, she said. “They would like to bring in the market. So, I just need to wait.” Source: Business Standard

Billionaire Rinehart Says She's Willing To Buy Back GVK Shares

Australian billionaire Gina Rinehart, who sold a majority stake in her Hancock Prospecting Pty’s coal projects to India’s GVK Group last year, said she is happy to buy back shares in the venture if it needs funds. “I have told GVK I would love to be in the project more,” Rinehart told reporters on a visit to the southern city of Hyderabad, where she meet officials of the group.
GVK would prefer to sell stakes to companies it plans to supply coal to, she said. “They would like to bring in the market. So think I just need to wait.” The Hyderabad-based company plans to raise $3.5 billion by December by selling stakes in a unit as well as in its Australian mines and rail and port projects in Queensland state, G.V. Sanjay Reddy, the vice chairman of GVK, said in June. Foreign investors and banks have expressed an interest in the coal project, in which GVK owns a 79 percent stake and Hancock has 21 percent, said Rinehart, who is Asia’s richest woman. Her fortune is estimated at $18.4 billion by the Bloomberg Billionaires Index. Revenue from the joint venture with GVK is important for Australia, Rinehart said.
Australia last month halted a federal environmental review of the $10 billion coal mine in Queensland’s Galilee Basin because of a disagreement with the state government.
GVK expects environmental approvals from Australia for the project to come through this quarter, Reddy told reporters in Hyderabad. The project is set to close in the first quarter of 2013, he said. Authorities in Canberra halted the review of the project, which includes a thermal coal mine, a 495-kilometer (308-mile) railway line and expansion at the port of Abbot Point, on concern unchecked development of ports will damage the Great Barrier Reef. GVK has provided all information to win environmental approval and expects to get the mining lease and all environmental clearances by September, Reddy said previously. Shares (GVKP) of GVK Power & Infrastructure Ltd., the group’s listed unit, closed at 15.35 rupees on June 29, up 4.1 percent.

AFRICA

Spotlight may fall on Glencore's SA dominance

Sout Africa's competition authorities may have to take a closer look at the implications of the proposed merger between Xstrata, the world's biggest exporter of thermal coal, and trading house Glencore for the domestic and export thermal coal market.

The proposed merger, which will create one of the world's biggest mining companies if approved by shareholders this month, may increase Glencore's position in the domestic coal market. It will also boost its share of exports through the Richards Bay Coal Terminal (RBCT), which handles the majority of South African miners' shipments.

Glencore, which mines coal in South Africa in partnership with Cyril Ramaphosa's Shanduka Group, may already control around 50% of thermal coal exports and is seen as a price-setter in the domestic market, industry players said. Glencore already owns a 34% stake in Xstrata, which mined 17.1 million tonnes (Mtpa) of coal in South Africa last year. "I would guess Glencore handles also most of the coal shipped through the Quattro allocation by junior miners," one industry insider said. "They offer very attractive financing terms in exchange for favourable off-take agreements, and they're very good at sorting out the logistics and getting Transnet and Richards Bay allocations."

However, calculating the extent of Glencore's influence in the local market is nearly impossible. "From the outside, it's really difficult to see what they have. Unless you know exactly which marketing agreements they have, it's impossible to say what portion of Richards Bay exports are handled by them. I'd estimate it's at least 50% following the Optimum Coal merger," an industry player said, speaking on condition of anonymity. "Shanduka Coal is very much a price-setter when it comes to domestic sales. They'd basically sign quarterly contracts and the rest of us follow," he said.

However, last year the Competition Tribunal estimated Shanduka Coal's share of the export and domestic markets at less than 20%, and its share of the "tied" domestic market – sales to Eskom and Sasol – at less than 10%, when it considered its purchase of Umcebo Mining. The Tribunal included Xstrata in these estimates as it is seen as a related party through the Glencore shareholding.

Shanduka Coal has a production capacity of about 9 million tonnes of run-of-mine coal a year, according to Glencore's website. These numbers exclude Optimum Coal, which mined 4.5Mt of saleable coal in the six months ending December. South African miners produced 257.7Mt of saleable coal last year, according to XMP Consulting. In a letter to Xstrata Coal South Africa, National Union of Mineworkers General Secretary Frans Baleni said the union was concerned about the impact the potential merger would have on pricing in the South African coal sector, which is dominated by a few players. This will have a "direct impact on energy costs and could potentially have a negative correlation on the cost of doing business," the letter stated.

NUM has not yet debated laying a complaint at the Competition Commission, said Lesiba Seshoka, a spokesman. "We hope this has no impact on the coal price, but at the moment we're more worried about the potential impact it will have on employees," he said.

Glencore, through Shanduka Coal, has been building its local mining portfolio steadily since the mid-2000s. Take-overs include the buy-out of copper miner Metorex's coal assets in 2006. This led cement producer PPC and Eskom to raise concerns over domestic pricing and the switching of domestic coal to the export market, Umcebo Mining last year and the recent purchase of Optimum Coal, the country's fourth-biggest exporter. "Glencore does what many others do. They pretend to be small, but they're not. They've been very clever to use the Shanduka name, and using subsidiaries to buy stakes," a second industry player said. "Shanduka only owned 30% of the business – it's really all Glencore." Shanduka Resources increased its stake in Shanduka Coal to 50.01% in December in a deal worth about R700m. The competition authorities approved the deal without conditions.

"They've also been brilliant at identifying underperforming coal assets with great potential – typically where the owners struggled to get the logistics right – turn them around and build them into big operations," the player said. "They've been able to collect quite a lot of coal." The Umcebo bid led to a complaint by junior miner Endulwini Resources to the competition authorities. Endulwini argued that the purchase would remove an effective competitor from the market and restrict access to Richards Bay for other empowerment miners, which benefit from the Quattro allocation scheme. Endulwini also accused Glencore of anti-competitive behaviour in some of its off-take, marketing, financing and joint venture agreements.

The Tribunal dismissed the concerns and approved both the Metorex and Umcebo mergers unconditionally, saying it would not affect pricing. It urged Endulwini to lodge its allegations of anti-competitive behaviour at the Competition Commission. No complaint was ever submitted, said Molebogeng Taunyane, Commission spokeswoman. Endulwini did not respond to a request for comment.

However, the competition authorities have recognised the increasing control of Shanduka Coal and its related entities over RBCT when it considered the Optimum Coal takeover earlier this year. Glencore will cut its annual allocation by a further 204,500 tonnes by March 2015 in favour of BEE miners, after ceding 197,000 tonnes on April 1. The Tribunal's full ruling has not yet been released.

The Richards Bay Coal Terminal, with an annual capacity of 91Mtpa, is controlled by shareholders including Anglo American, Exxaro Resources, Xstrata and BHP Billiton. Export allocations are based on shareholdings in the terminal. To accommodate new and empowerment miners, 4Mt of export capacity have been allocated to black- owned miners under the Quattro scheme. However, access to rail capacity remains the major stumbling block for exporters. Last year, RBCT received 65.7Mt of coal and shipped 65.5Mt.

South Africa's Competition Commission is unlikely to block the Glencore/Xstrata tie- up or impose significant conditions, said Xavier Prevost, an analyst at XMP Consulting. "The South African assets are a very small portion of the merger," he said. Glencore and Xstrata declined to comment on possible competition authority concerns.

The biggest impact the merger may have on its local competitors is the possibility that they too may become takeover targets, analysts said.

"I think it will give the new entity a bigger balance sheet to go after takeover targets, one being Anglo or maybe even Fortescue Metals Group, to get exposure to iron ore. It's the commodity that they don't really have in their portfolio at the moment, other than the Zanaga project [Xstrata's exploration project in the Republic of Congo], which isn't operational as yet," said Clinton Duncan, analyst at Avior Research. Source: Miningmx

Shanduka increases coal exposure

Deal involves acquisition of shares in exchange for cash payment by Shanduka Group and the transfer of its 30% shareholding in Kangra Coal to Shanduka. SHANDUKA Group, which was formed by politician-turned-businessman Cyril Ramaphosa, has

increased its shareholding in Shanduka Coal from 30% to 50,01%, with Swiss-based commodities trading giant Glencore holding the remaining 49,99%. The deal involved the acquisition of shares in exchange for a cash payment by Shanduka Group and the transfer of its 30% shareholding in Kangra Coal to Shanduka Coal. For CEO Phuti Mahanyele, the transaction formed part of the group’s commitment to increase its exposure to coal. "Our view is that our continued partnership with Glencore serves as an advantage, in which both entities will have a hands-on approach to the business by sharing operational and technical expertise," Ms Mahanyele said. Ms Mahanyele would not say what the value of the transaction was, but she did says that funds were raised from the R2,7bn profit generated as a result of the sale of the group’s 11,8% shareholding in JSE-listed manganese and iron miner Assore last year. Shanduka Coal owns 100% of the Graspan Colliery and the Middelburg Townlands Colliery and Extension in Mpumalanga and the Springlake Colliery near Newcastle in KwaZulu-Natal. These operations have a production capacity of 6-million tons a year. They export and supply domestic markets, including Eskom.

Kangra Coal owns the Savmore Colliery in Ermelo in Mpumalanga. It has a production capacity of 3-million tons a year and has capacity for 2-million tons at Richards Bay Coal Terminal. Ms Mahanyele said plans were under way for the development of other coal projects in Mpumalanga, towards which Shanduka Group has earmarked R200m. Shanduka Group holds a diversified investment portfolio which spans resources, energy, financial services, property, industrial and food and beverages.

Source: Business Day

ANC discusses Gigaba’s plan to declare coal a strategic resource

Public Enterprises Minister Malusi Gigaba says he will discuss possibility of limiting exports with Mineral Resources Minister Susan Shabangu next week in bid to contain Eskom tariff hikes. PUBLIC Enterprises Minister Malusi Gigaba has raised his proposal to declare coal a strategic asset, and possibly limit exports of it, at the African National Congress policy conference in Midrand. Mr Gigaba told reporters he had shared his concerns on the issue at the conference and would discuss it with Mineral Resources Minister Susan Shabangu next week. Coal is an important cost driver for Eskom, which could pass on its high cost to consumers. The government wants the state-owned utility to keep tariff increases at relatively low levels.

"The matter was raised in the policy discussions on Friday and we shared our sentiment that coal needs to be considered as a strategic resource for South Africa, given the security of supply issues which we might face and the impact of high coal prices on the multiyear price determination," he said. He was referring to the coming five-year price determination period for Eskom tariffs. Mr Gigaba’s comments reinvigorate the debate about the balance between coal exports and domestic use. Growing interest in South Africa’s coal — especially from India — has affected the quality and cost of coal supplied to Eskom. There has been a shift in the global market to buying lower-grade coal, which has traditionally been sold to Eskom. Mr Gigaba also said state-owned enterprises (SOEs) must "invest beyond what their balance sheets afford" in order to spur economic growth and job creation.

"The government itself has begun to look at working with the SOEs to identify other sources of funding which would help us to achieve this goal. They must invest beyond what their balance sheets afford so that we can stimulate economic activity through the investments of the SOEs." At the same Mr Gigaba told reporters in reply to a question that discussions on the recapitalisation of South African Airways (SAA) were taking place but it was too soon to discuss the outcome. Mr Gigaba is supporting a request by SAA for a cash injection of between R4bn and R6bn from the government to recapitalise the airline and fund its operations. Source: Business Day

RIO TINTO STARTS SHIPPING COAL FRM BENGA IN MOZAMBIQUE

Rio Tinto has started exporting premium hard coking coal from its Benga Mine in the Moatize Basin in Mozambique. The first shipment of 34,000 tonnes left the Port of Beira on Monday (25 June), bound for an Indian steel mill.“Today's shipment marks an important point in the phased development of our tier one coking coal resources in Mozambique,” said Rio Tinto Energy chief executive Doug Ritchie. “It is the first step towards our aim to become a significant supplier of hard coking coal to the seaborne market. “The Moatize Basin is one of the most prospective coking coal regions in the world. We continue to evaluate the most effective means of developing our resources to create value for shareholders and bring benefits to the people of Mozambique. “We are also continuing to work with the Government of Mozambique to secure the development of comprehensive infrastructure for efficient transport of coal from mine to port, which is a priority for the further development of the region.” The Benga Mine, located in the Moatize Basin of Tete in the north of Mozambique, is operated by Rio Tinto and is a joint venture between Rio Tinto (65 percent) and Tata Steel Limited (35 percent). Source: Ports.co.za

TRANSNET FORGES AHEAD WITH INFRASTRUCTURE PROGRAMME

Despite a softening of cargo categories, Transnet is going ahead with its infrastructure build programme. “In the earlier months of the current financial year, we have seen a softening particularly with the container volumes - imports and exports that we handle - for a variety of reasons,” Transnet Port Terminals (TPT) chief executive officer Karl Socikwa said at a breakfast briefing of the Africa Ports and Harbours Show, which was held in Johannesburg this week. Socikwa said TPT was keeping a close watch on developments in Europe. “We are not oblivious to what's happening in Europe at the moment and despite that, we are proceeding with investment but we're watching that closely. “Imports/exports are a function of the level of economic activity that's taking place in the country. [There's] little we can do in driving ... import/export volumes - it's more your transhipment volumes where [with] innovative ways, you can have a handle on it and we're doing that,” he said on Tuesday. Shipping lines had indicated to TPT that they were not overly concerned about the softening as this could be due to a soft blip or a softening of demand from markets they are servicing in Europe. “They themselves are not in a situation where they are saying that they're in crisis mode,” said Socikwa. TPT handles four types of cargo, namely container volumes; car volumes; break bulk and bulk volumes. Transnet is investing R300 billion in the Market Demand Strategy. Through the state-owned freight logistics group's Market Demand Strategy, rail, port and pipeline infrastructure will be expanded over a seven-year period to the tune of R300 billion. Of the R300 billion, TPT will receive about 10% of the amount, translating to just over R33 billion. TPT provides cargo-handling services at seven of the country's terminals. TPT customers include shipping lines, freight forwarders and cargo owners. “The nature of investment in port facilities will be your ship-to-shore cranes, yard cranes ... We also will be investing in new technology in terms of the operating environment and our people,” said Socikwa, adding that the company's annual budget reviews would enable them to analyse the pace at which investment was taking place over the seven-year period.

Should a need to revise or review the investment be identified, this would be possible as there was ‘sufficient flexibility’ built into the system. The focus of the investment will be on human capital, assets and technology.

“So a lot of investment is trying to reverse the historic trends of investment, so that we are not only investing in areas that have received attention in the past, but also starting to look at other areas in the business [to ensure] that there's an even spread of economic activity," said Socikwa. Richard's Bay terminal will receive the lion's share of the spend due to ageing infrastructure. The terminal is a complex one from an operational point of view as it handles a multitude of commodities, unlike Port Elizabeth that handles manganese or Saldanha that handles iron ore. Durban, the busiest and largest container terminal in the Southern Hemisphere, will be second in line, while Ngqura - which has seen major investment in the past, is set to get two more mega-max cranes to be added to the other six cranes at the terminal. At the Cape Town port, R5 billion has been spent in the last couple of years. On talk that rates charged at ports were too high, TPT said it didn't believe this to be true. "We don't believe rates are too high ... We continue to monitor our costs as tightly as we can to make sure we are running an efficient business to generate the level of earnings necessary to fund investment," said Socikwa. – BuaNews. Source: Ports.co.za

ASIA

Sinar Mas Singapore backdoor listing now worth $1.7 bln

The value of Indonesian conglomerate Sinar Mas's planned backdoor listing of its coal assets in Singapore through a reverse takeover of United Fiber System Ltd has been raised to S$2.2 billion ($1.74 billion). United Fiber said on Monday a unit of India's GMR Infrastructure Ltd will sell its 30 percent stake in Golden Energy Mines Tbk to the Singapore-listed firm in exchange for new United Fiber shares valued at S$693.9 million ($547.8 million). United Fiber previously struck a S$1.5 billion agreement with Indonesian coal miner PT Dian Swastatika Sentosa Tbk (DSS) , to buy a 67 percent stake in Golden Energy in exchange for new United Fiber shares. Source: Reuters

Mongolia Mining Bets China Will Double Coal Imports

Mongolia Mining Corp. (975) is betting there's enough demand from China to support the construction of an $800 million railway that will double export capacity to the nation that counts Mongolia as its biggest coal supplier. Expanding transportation links between the adjacent countries "will improve the position of Mongolia as the leading coking coal supplier to China," Battsengel Gotov, chief executive officer of MMC, as the company is known, told reporters in the Mongolian capital of Ulan Bator.

Mongolia, the world's fastest growing economy, overtook Australia as China's biggest coking coal supplier last year, exporting 20 million metric tons of the raw material used to make steel. MMC is building a 250 kilometer (155 mile) rail to add 30 million tons of export capacity direct to China. "There's still room for everybody in Mongolia" to mine and sell commodities, Gotov said from the company's head office. MMC shares rose 3.6 percent to close at HK$4.36 in Hong Kong compared with a 2.2 percent gain in the benchmark Hang Seng index. The stock has dropped 25 percent this year as coal prices declined.

Chinese demand has been curbed by slower global growth and coking coal prices have fallen as much as 15 percent in the first half from the previous six months, Gotov said. Prices, which fell to $206 a metric ton in the quarter ending June 30, may rebound to an average $225 a ton this financial year, based on the mean estimate of 10 analysts, steelmakers and mining companies surveyed by Bloomberg in April. Anglo American Plc (AAL) settled coking coal prices at $225 a ton for the third quarter.

MMC plans to boost output by about 41 percent to 10 million tons this year from its Ukhaa Khudag mine at the Tavan Tolgoi deposit and then to 15 million tons in 2013. It will use about half the export capacity of its planned railway and will lease the rest to mining companies, Gotov said. Mongolia will assume 51 percent ownership of the rail after 19 years.

The rail, due for completion in 2015, will halve the time it takes to transport coal by road from Tavan Tolgoi to China to between two hours and three hours, he said.

Mongolians, a third of who live below the poverty line in a nation of 3.1 million people, went to the polls yesterday. The opposition Democratic Party is leading after early counting though no party has a clear majority, President Tsakhia Elbegdorj said in an interview today. State-owned miner Erdenes Tavan Tolgoi, or Erdenes TT, is developing the East Tsankhi part of the 60-billion-metric ton Tavan Tolgoi deposit, of which MMC's share accounts for about 4 percent. Erdenes TT is seeking to sell shares to raise $3 billion to finance new railways, roads, and power infrastructure. Mongolia has held talks with companies including Peabody Energy Corp. (BTU) (BTU), OAO Russian Railways, and China's Shenhua Group to develop the West Tsankhi part of Tavan Tolgoi. MMC uses some of its production to power an 18-megawatt plant to supply electricity to the mine and surrounding town. Roughly 30 kilometers away, MMC is also developing Baruun Naran mine, which it acquired last June for $464.5 million from a unit of Kerry Holdings Ltd. Source: Bloomberg

Coal prices drop to record low

The price of 5,500 kilocalorie thermal coal at Qinhuangdao port the major coal trading port inthe country dropped to 685 yuan ($ 109) from 695 yuan a metric ton this week,27 yuan lowerthan it was last week, the Securities Daily reported.This is the largest p rice drop since the Bohai Rim Steam Coal Price Index is published.In November, thermal coal prices were around 840 yuan to 850 yuan a ton at the port. The buying price from power generation companies reached 1,100 yuan a ton at that time.

To cool rising coal prices, the National Development and Reform Commission capped 5,500 kilocalorie thermal coal prices at ports in North China at 800 yuan a ton since thebeginning of the year.However, prices keep falling six months after the move d ue to the slowing economic growth which leads to less electricity demand - and the strong hydropower generation this year.

"Demand for thermal coal is still at a low level and coal stocks in the power plants are high,"said Li Ting, analyst at the Distribution Productivity Promotion Center of China Commerce.He said that the coal inventory at the Qinhuangdao port is at 8.9 million tons, which is still considered high. He added that because of the weak market, coal prices are expected to keep falling. Source: China Daily

FREIGHT

Port of Newcastle – Daily Performance Report (as at midnight of 1st July 2012)
There are currently 6 vessels assembled with 33 vessels currently in queue, coal stocks in the port are currently 1,670,000mt. The average waiting time last month was 11 days in June compared to 13 days in May. Actual volume for PWCS in June was 9.153mt with annual forecast of 124.1 MTPA.
Source: Hunter Valley Coal Chain Logistic Team

Richards Bay - Coal loading (as at 0600 on 28th June 2012)
There are 3 vessels alongside this morning. There are 8 vessels at anchorage. There are a total of 6 berths available for loading. Source: LBH South Africa

Cape Market Report
Little to report in the Cape Market today with the index largely flat. In the Pacific, there were reports that a couple of the majors booked tonnage for West Australia-Qingdao at around $6.70 for mid Atlantic, the TARV remianed subdued with a slight build up in tonnage beginning to appear. For Tuabaro – Qingdao the bid remains $17.60 for end July dates whilst pushing into ausgust the bid/offer spread stands at $17.25 v $17.75.
Source: Clarksons Cape Market Update – 28th June 2012

Price Indication:
Capesize – RBCT – Rotterdam $ 6.00 Previous – $ 6.00
Panamax – RBCT – Rotterdam $ 11.02 Previous – $ 11.02
Source: Clarksons Market Update – 28th June 2012

China's Qinhuangdao Port coastal coal freights stabilize after 3 weeks of falls

Coastal coal freight rates for shipping coal from northern China's Qinhuangdao port to the country's southern ports of Shanghai, Zhangjiagang and Guangzhou were stable to higher Wednesday from a week earlier after three weeks of declines. Ocean freight rates for vessels with a capacity to carry 20,000-30,000 mt from Qinhuangdao to Shanghai edged up Yuan 1 week on week to Yuan 28/mt ($4.40/mt) Wednesday, from Qinhuangdao to Zhangjiagang rose Yuan 1 to Yuan 30/mt over the same period, and from Qinhuangdao to Guangzhou slipped Yuan 2 to Yuan 55/mt, Qinhuangdao Port said in a statement.

For vessels with a capacity to carry 15,000-20,000 mt, ocean freight rates from Qinhuangdao to Shanghai rose Yuan 2 week on week to Yuan 32/mt, from Qinhuangdao to Zhangjiagang rose Yuan 2 to Yuan 34/mt and from Qinhuangdao to Guangzhou were flat at Yuan 60/mt.

The stability emerged after some ship-owners opted to suspend shipping services and scrap some old vessels ahead of schedule due to weakness in the coastal coal freight market over May and H1 June, according to the statement. Meanwhile, coal stocks at Qinhuangdao Port stood at 8.93 million mt Wednesday, down from 9.38 million mt from a week earlier and a record high of 9.47 million mt on June 13, figures from Qinhuangdao Port showed. The weekly reference FOB price for 5,500 kcal/kg NAR material was reported by Qinhuangdao Port at Yuan 685-695/mt ($107.6-109.2/mt, or $92-93.30/mt without 17% VAT) Wednesday, down Yuan 30 from a week earlier. The prices are well below the Yuan 800/mt FOB (including 17% VAT) cap set by the central government for 5,500 kcal/kg spot thermal coal at northern Chinese ports from January 1.
Source: Coalworld

Supramax - Freight Rate US$ / MT - I.Ore 29/Jun/2012

Load Port	Discharge Port	Cargo	Last Report on 22 June 2012	Current	Status	
Paradip	Xingang	53K I. Ore	10.7	10.8	0.1	▲
Goa	Xingang	53K I. Ore	11.9	12.1	0.2	▲
New Mangalore	Xingang	53K I. Ore	11.3	11.4	0.1	▲
Chennai	Xingang	53K I. Ore	10.3	10.4	0.1	▲

Bulk Marine Ltd. Tel: +852 2511-6447 Email:mail@bulkmarine.com

Panamax - Freight Rate US$ / MT 29/Jun/2012

Load Port	Discharge Port	Cargo	Last Week	Current	Status	
Goa	Xingang	65K I. Ore	12.5	12.9	0.4	▲
Paradip	Xingang	65K I. Ore	10.6	10.9	0.3	▲
Vizag	Xingang	74K I. Ore	9.5	9.8	0.3	▲

Supramax - Freight Rate US$ / MT - Coal

29/Jun/2012

Load Port	Discharge Port	Cargo	Last Report on 22 June 2012	Current	Status	
Banjarmasin	Tuticorin 10.7m	42K T. Coal	13.6	13.7	0.1	▲
Banjarmasin	Chennai 12m	50K T. Coal	11.5	11.6	0.1	▲
Banjarmasin	Vizag 12.5m	52K T. Coal	11.2	11.3	0.1	▲
Banjarmasin	Navlakhi	52K T. Coal	14.7	14.8	0.1	▲
Banjarmasin	Huangpu	52K T. Coal	9.8	9.7	(0.1)	▼
Richards Bay	Chennai 12m	50K T. Coal	19.4	19.6	0.2	▲
Richards Bay	Kandla	52K T. Coal	19.9	20.1	0.2	▲
Richards Bay	Navlakhi	52K T. Coal	19.9	20.1	0.2	▲
Richards Bay	Paradip	52K T. Coal	19.5	19.7	0.2	▲
Newcastle	Huangpu	52K T. Coal	17.9	17.8	(0.1)	▼
Hay Point	Paradip	52K T. Coal	19.7	19.9	0.2	▲
Hay Point	Vizag 12.5m	52K T. Coal	18.6	18.8	0.2	▲
Newport News	Vizag 12.5m	52K T. Coal	45.4	45.6	0.2	▲
Houston	Chennai 12m	50K T. Coal	48.4	48.7	0.3	▲

Bulk Marine Ltd. Tel: +852 2511-6447 Email:mail@bulkmarine.com

Panamax - Freight Rate US$ / MT - Coal

29/Jun/2012

Load Port	Discharge Port	Cargo	Last Week	Current	Status	
Richards Bay	GOA 14m	74K Coal	16.5	16.6	0.1	▲
Richards Bay	Mundra 14m	74K Coal	16.3	16.5	0.2	▲
Richards Bay	Dahej 13m	68K Coal	18.0	18.1	0.1	▲
Richards Bay	Paradip 12.5m	63K Coal	19.0	19.2	0.2	▲
Richards Bay	Huangpu 14m	74K Coal	18.4	18.3	(0.1)	▼
North Pulau Laut	GOA 14m	74K Coal	9.3	9.1	(0.2)	▼
North Pulau Laut	Mundra 14m	74K Coal	9.0	8.8	(0.2)	▼
North Pulau Laut	Dahej 13m	68K Coal	10.0	9.7	(0.3)	▼
North Pulau Laut	Paradip 12.5m	64K Coal	9.1	8.8	(0.3)	▼
North Pulau Laut	Huangpu 14m	74K Coal	6.3	6.3	0.0	►◄
North Pulau Laut	Hong Kong 13.9m	71.5K Coal	6.2	6.1	(0.1)	▼
Hay Point	Vizag (VSP/Sail)	74K C. Coal	16.1	15.5	(0.6)	▼
Newcastle	Huangpu	74K Coal	13.2	13.0	(0.2)	▼
Newcastle	Huangpu 12.5m	63K Coal	15.1	15.0	(0.1)	▼
Newport News	Vizag 14m	74K C. Coal	30.3	29.7	(0.6)	▼

Source: Bulk Marine

OIL

Oil Falls As Biggest Gain Since 2009 Prompts Selling On Europe

Oil fell in New York as investors sold contracts to profit from the biggest price surge in three years before reports today that may signal Europe's economic slump is deepening. Futures declined as much as 1.5 percent after surging 9.4 percent on June 29. The jobless rate in the currency bloc probably rose to 11.1 percent in May from 11 percent the prior month, a Bloomberg News survey of economists showed before data today. It would be the highest on record going back to 1990. A European ban on the purchase, transport, financing and insurance of oil from Iran started yesterday.

"I suspect all we're seeing is a trimming of long positions," said Michael McCarthy, a chief market strategist at CMC Markets Asia Pacific Pty in Sydney, who predicts oil has climbed to a trading zone of $82 a barrel to $88.50 a barrel. "The question for the oil market is how effective these sanctions will be." Oil for August delivery dropped as much as $1.30 to $83.66 a barrel in electronic trading on theNew York Mercantile Exchange, and was at $83.70 at 12:23 p.m. Sydney time. The contract surged $7.27 on June 29 to $84.96, the highest close since June 6. Prices decreased 17.5 percent last quarter, the biggest decline since the final three months of 2008. Brent oil for August settlement decreased $1.68, or 1.7 percent, to $96.12 a barrel on the London-based ICE Futures Europe exchange. The European benchmark's premium to West Texas Intermediate was at $12.42, from $12.84 on June 29.

Oil is paring gains today amid speculation Europe's slowdown is worsening as the region battles a debt crisis. London-based Markit Economics may confirm its gauge of the euro zone's manufacturing was 44.8 in June on a final reading, unchanged from an initial estimate, according to a separate poll of economists. A level below 50 indicates contraction. Prices surged June 29 on optimism the crisis may be contained after leaders agreed to ease repayment rules for emergency loans to Spanish banks and relax conditions on help for Italy.Hedge funds raised bullish oil bets for the first time in eight weeks before the price rise, according to a Commodity Futures Trading Commission's Commitments of Traders report. Crude's jump brought prices in New York close to technical resistance, prompting investors to sell futures. The August contract has resistance at $85.33 a barrel, the 23.6 percent Fibonacci retracement of the drop to last week's intraday low of $77.28 from the March 1 high of $111.38, according to data compiled by Bloomberg. Sell orders tend to be clustered near chart-resistance levels.

The EU banned the purchase, transportation, financing and insurance of Iranian oil because of the Persian Gulf's nuclear program. The insurance embargo affects 95 percent of the world's tankers because they're covered by the 13 members of the London- based International Groupof P&I Clubs. Iran was producing about 3.2 million barrels a day in May, according to Bloomberg estimates. Full implementation of sanctions will remove about 1 million barrels a day during the second half of the year as buyers disappear and Iranian storage tanks become full, the Paris-basedInternational Energy Agency forecast in a June 13 report. "The impact of Iran's oil embargo has already been factored in to the price, so there's no reason the market should react to the start of the sanctions unless something new happens," Paul Gamble, the head of research at Riyadh-based Jadwa Investment Co., said in a telephone interview yesterday. "Saudi Arabia has kept its production pretty high to cover for Iran, so there's plenty of oil in the market."

A reduction in Iranian exports may become the biggest supply disruption from a member of the Organization of Petroleum Exporting Countries since an armed rebellion all but halted pumping in Libya last year, according to the IEA. A strike by oil workers in Norway is also curbing flows from North Sea fields. Iran called on OPEC to hold an emergency meeting to address the group's production of crude in excess of the targeted 30 million barrels a day, Mehr news agency reported June 30, citing the country's oil minister. Disregard of the target by some members of OPEC "will negatively impact prices in the international market," Rostam Qasemi said, according to the state-run agency's report. "The organization's members must respect the production ceiling to maintain the supply and demand in oil markets," he said.

Source: Bloomberg

STEEL

Poor demand, iron ore supply problems hit steel billet market

Poor demand from producers of long steel and raw material supply problems have choked the steel billet market in the past couple of months. Many manufacturers have either regulated production or cut prices on a bleak demand scenario.
"The reason for the price fall is simple. There is no demand for finished products in the market and it is affecting billet prices. In the past month, we had to reduce prices by Rs 1,000-1,500 per tonne," said Rajendra Sachdeva, owner of Ghaziabad-based billet maker Shivam Steel. Billet prices currently rule at Rs 35,000-36,000 per tonne, depending on grade and size. It is a semi-finished, long steel product, mainly sold by smaller steel plants to larger ones for producing steel meant for construction. Construction activities in the country have received a setback due to muted earnings growth and high interest rates.
"There is no demand for intermediate steel products and industrial production is not encouraging. There is no demand for sponge iron, too, as most steel companies have curbed production," said the marketing official of a state-based billet producer. Buyers have also restricted billet buying due to the current monsoon season, when construction activity normally dissipates, he added. Spot prices of iron ore fines in the international markets came down by three to four per cent recently on poor demand. In Odisha, the largest producer of iron ore in India, prices are expected to fall in the July-September quarter, industry officials said.
However, steel industry sources said the price fall in billets was temporary, as the constraints in iron ore availability would not allow producers to reduce prices below a point. "In Odisha, most of the state-owned and private mines are shut due to lack of statutory clearances, thereby creating shortage in raw material supply. As a result, intermediate steel producers have cut production," said P L Kandoi, president of the All Odisha Steel Federation. From the latest available data, India's Industrial production in April grew by only 0.1 per cent due to a fall in capital goods and manufacturing output. Capital goods output declined 16.3 per cent against growth of 6.6 per cent in the same month last year. The manufacturing sector grew by just 0.1 per cent, much lower than the 5.7 per cent in April 2011. Source: Business Stanadard

China - Domestic steel traders basically cash out by selling goods to withdraw funds

In the whole Jun, domestic spot steel market saw continuous drops, and market sentiment was fragile. Latest market report by Mysteel revealed that steel traders basically cashed out by selling goods in a bid to withdraw funds, and it is predicted that steel market is hard to shrug off its weak trend in the short term, says a report by Xinhua News. As per survey, domestic steel market continued sliding last week, with the composite price index down by 0.61%. Industry players said that despite the bullish news in the macro fundamentals, steel market remained bearish and market sentiment was fragile, numb to bullish news and sensitive to bearish news. Downstream demand remained weak, and given the increasing fund pressure in the month end, steel traders generally cashed out by selling goods.
As per analysis, the drop rate of the prices in the flat steel market slightly enlarged in the past week. Medium plate market extended weak trend, with the prices in cities like Changsha seeing sharp falls of around 100 yuan/tonne. Feedback from local traders disclosed that new cargoes from steel mills were arriving. Currently, the prevailing market offers were at a low level, while the laid-down costs remained high, therefore, there is limited room for prices to drop further, which resulted in unsmooth deliveries. HR market also continued weak trend amid slack downstream demand, with the prices in areas like Tianjin down by more than 50 yuan/tonne in the past week.
Construction steel market posted downward trend, with the drops in some major markets slightly easing. Analysts pointed out that rebar futures market posted overall weak trend despite a short-lived rebound, imposing some pressure on spot steel market. Analysts from relevant agency expressed that the current demand is hard to support sustained transactions in the market and steel traders basically held bearish attitude. However, the thought of the m-o-m decline of domestic crude steel output in mid Jun as well as the slightly eased debt repayment pressure with the entry into a new month may bring a gleam of hope to the market. Source: MySteel.net

Steel minister asks SAIL to adopt three pronged strategy for coking coal

To reduce SAIL's dependency on imported coal, Indian steel minister Mr Beni Prasad Verma asked the PSU to adopt a three pronged strategy

1. Increasing consumption of indigenous fuel
2. Developing blocks allotted to it
3. Fast tracking steps to acquire mines abroad.

Mr Verma, after chairing a review meeting to look into coal requirements of the sector, told PTI that "I have asked SAIL to increase consumption of domestic coking coal and take it to about 60% of the total consumption and also develop two blocks Sitanala and Tasra alloted to it in Jharkhand." Mr Verma said he had also asked the steel major to step up efforts to secure coking coal blocks overseas to ensure the raw material security in the wake of higher demands for its expansion and modernisation plans. Besides, he added that the PSU has been asked to introduce technologies which ensure consumption of low grade coal. Sitanala coal block is said to be housing 108 million tonnes of coal while Tasra, as per estimates, has about 285 million tonne of reserves of the dry fuel.
Out of the total requirement of about 14 million tonnes of coking coal in a year, the Steel Authority of India imports about 10 million tonnes and sources about 3 million tonnes from Coal India subsidiary, Bharat Coking Coal, as per information. The remaining requirement is met through other sources. Source: Steelguru

LONDON COMMODITY NEWS

IRON ORE DAILY UPDATE

Swaps

The swaps market bounced a little today as did other commodities for the last day of month but traders could not shake off the negative sentiment seen in the last week. There were no new tenders to help see a clearer picture while on the Chinese physical platform prices were wide on the day. The feeling was of uncertainty still and while the market moved up by a dollar or so for some periods it was in thin trade. It will be interesting if July is able to show a change of sentiment and allow the market a new sense of direction, the macro from China will be interesting to see as the recent easing on money has a chance to kick in, while the negative news from Europe hopefully will decrease.

铁矿石掉期

掉期周五随着外围的大部分商品一起出现反弹，但是幅度相对较小，负面情绪依旧笼罩市场。由于最近都没有现货的成交，掉期的走向非常不明朗。上周末为期两天的欧盟峰会出人预料地推出了数项提振市场的重大举措，为动荡的欧洲经济形势提供了利好支持。金融市场对此反应积极，欧美股市在上半年最后一个交易日集体大幅上涨，大宗商品更是出现近期的纪录涨幅。但是这毕竟是短期的促进作用，欧洲债务危机前景依然扑朔迷离。TSI下跌0.90报收`134.00， 普氏下跌1.00报收135.25。

Physical

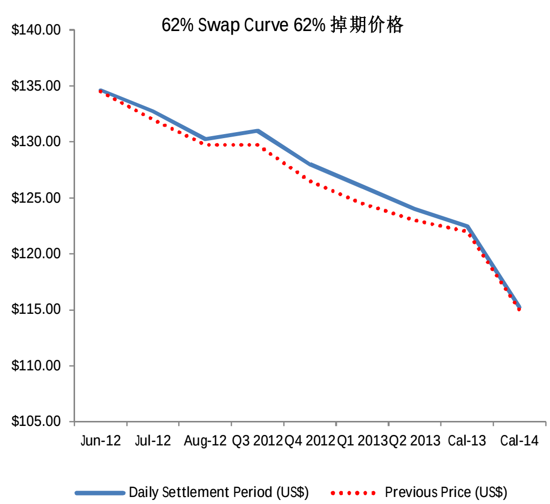
There was little physical news on the day and no new trades were seen on CBMX with prices relatively wide. Having said this, the indices were down with Platts dropping a dollar to $135.25 while TSI was down 0.90 cents to $134.00. The TSI index was down by 1.2% for the month compared to May.

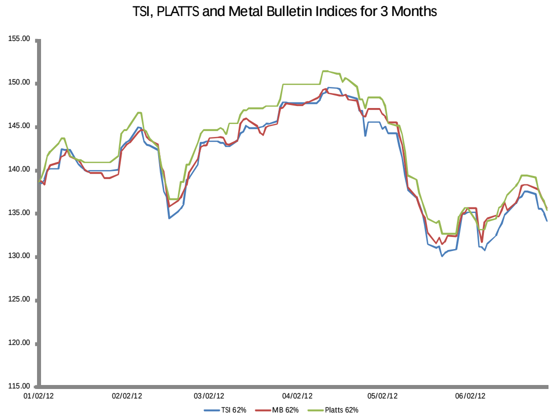
铁矿石现货

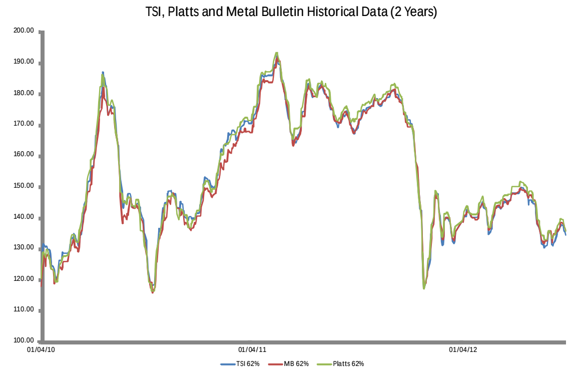
现货市场上周甚少成交，周五也不例外，听闻电子交易平台上的买卖价差也距离较宽。TSI下跌0.90报收`134.00，
普氏下跌1.00报收135.25。

London Dry Bulk 62% Swap Curve

Contract	Daily Settlement Period (US$)	Daily Price Change (US$)	Previous Price (US$)	% Change Day-on-Day (US$)
Jun-12	134.62	0.12	134.50	0.09%
Jul-12	132.75	0.75	132.00	0.57%
Aug-12	130.25	0.50	129.75	0.39%
Q3 2012	131.00	1.25	129.75	0.96%
Q4 2012	128.00	1.50	126.50	1.19%
Q1 2013	126.00	1.50	124.50	1.20%
Q2 2013	124.00	1.00	123.00	0.81%
Cal-13	122.50	0.50	122.00	0.41%
Cal-14	115.25	0.25	115.00	0.22%
May/Jun	1.87	-0.63	2.50	
Jul/Aug	2.50	0.25	2.25	
Q3/Q4	3.00	0.50	2.50	
Q4/Q1	2.00	0.00	2.00	
Cal 13/14	7.25	0.25	7.00	

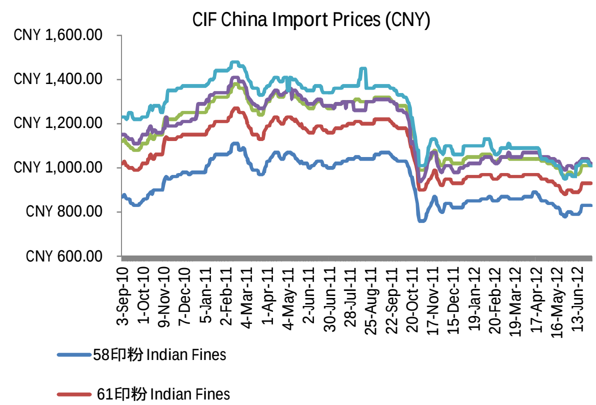




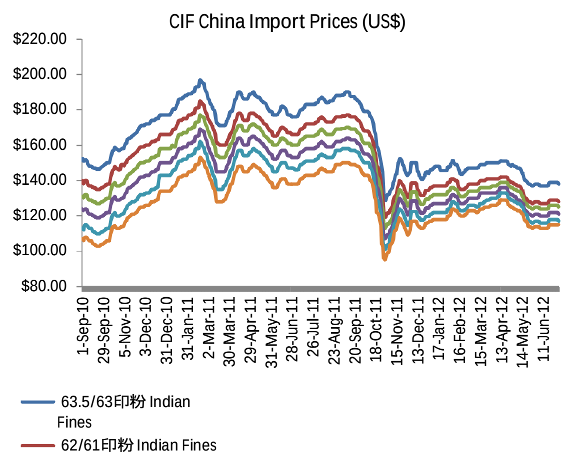


INDICATIVE IRON ORE PRICES IN CHINA
（铁矿石中国现货和期货价）

China Local Spot Prices 中国现货价	Grade品位 Fe %	2-Jul-12	25-Jun-12	WoW diff
58印粉 Indian Fines	58.0%	CNY 830.00	CNY 830.00	CNY 0.00
61印粉 Indian Fines	61.0%	CNY 930.00	CNY 930.00	CNY 0.00
63印粉 Indian Fines	63.0%	CNY 1,010.00	CNY 1,010.00	CNY 0.00
62.5澳粉 Newman Fines	62.5%	CNY 1,020.00	CNY 1,040.00	-CNY 20.00
64.5巴粉 Brazilian Fines	64.5%	CNY 1,010.00	CNY 1,030.00	-CNY 20.00



CIF China Import Prices 中国CIF进口价格	Grade品位 Fe %	2-Jul-12	25-Jun-12	WoW diff
63.5/63印粉 Indian Fines	63.5/63	$138.00	$139.00	-$1.00
62/61印粉 Indian Fines	62/61	$128.00	$129.00	-$1.00
61/60印粉 Indian Fines	61/60	$125.00	$126.00	-$1.00
60/59印粉 Indian Fines	60/59	$121.00	$122.00	-$1.00
59/58印粉 Indian Fines	59/58	$117.00	$118.00	-$1.00
58/57印粉 Indian Fines	58/57	$115.00	$115.00	$0.00



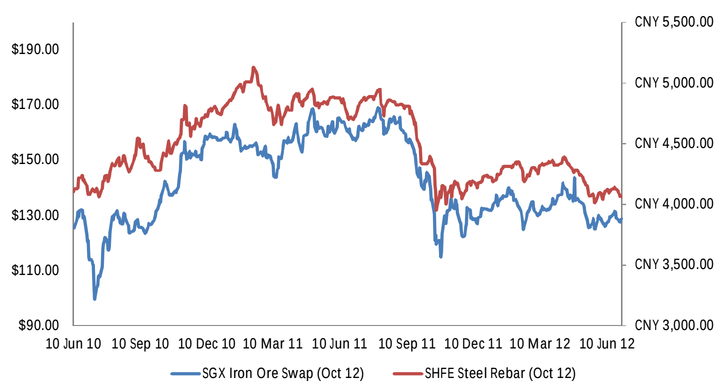
Capesize Freight Routes C3, C5, FFA
(Cape C3,C5运费及远期远费协议)

FFA远期运费协议

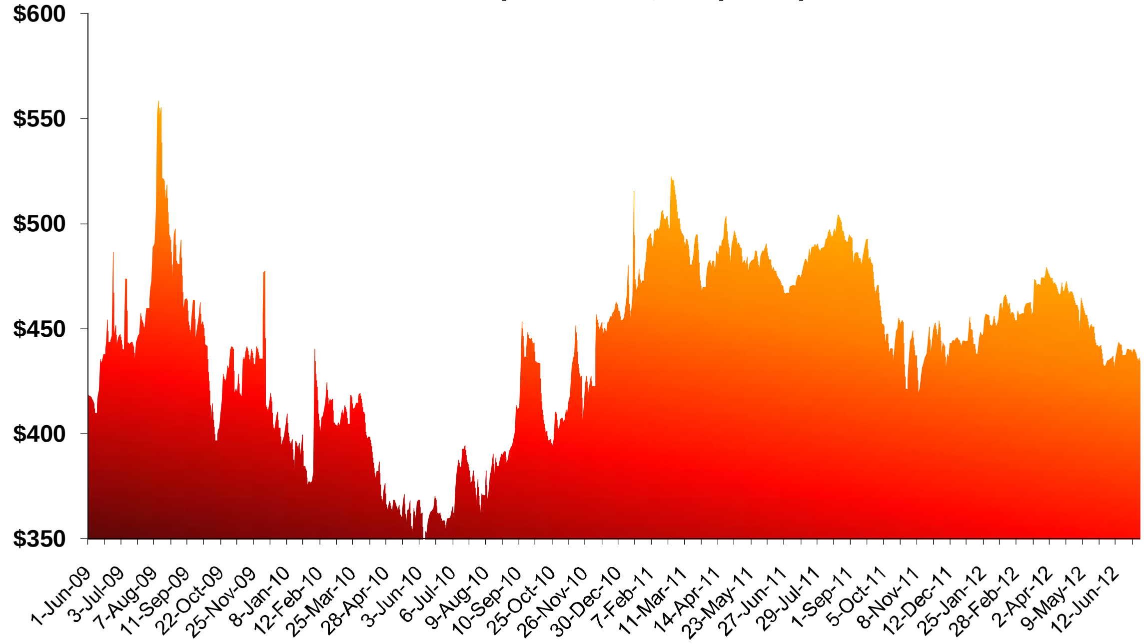
Period 日期	Bid 买价	Ask卖价	Routes 航线	Cost 价格 (US$/t)	Movement 变动 (US$/t)
Jul 12	5,400	5,600	C3 - Tubarao - Qingdao, China中国青岛	17.581	-0.063
Aug-Sep 12	7,900	8,450	C5 - W Australia 澳洲西岸 - Qingdao, China中国青岛	6.733	-0.013
Q3 12	7,300	7,500			
Q4 12	12,000	12,150			
Q1 13	8,900	9,100			
CAL 13	12,000	12,200	*Source: Clarksons 28th June 2012*		
CAL 14	14,700	14,900			

London Dry Bulk Market Metric Date			7/2/2012
Maturity of Rebar Future 螺纹钢期货到期月			Oct-12
Maturity of Iron Ore Swap 铁矿石掉期到期月			Oct-12
TSI 62% Iron Ore Swap 铁矿石掉期价	US$/t	$	128.81
Implied Input Cost Iron Ore to Steel (1:1.6) 钢材隐含价	US$/t	$	206.10
Rebar Shanghai Futures Exchange 上海螺纹钢期货价（人民币）	CNY/t	CNY	4,065
Exchange Rate 汇率	CNY/USD		6.3482
Rebar Shanghai Futures Exchange 上海螺纹钢期货价（美金）	US$/t	$	640.34
London Dry Bulk Red Hot Spread LDB 红色价差	US$/t	$	434.24

Correlation between Iron Ore & Rebar (Oct 2012 Contract)



Red Hot Spread 红色价差 (US$/t)*



IRON ORE NEWS

Iron ore Prices Decline

Spot prices for iron ore cargoes to China fell on Friday as buying interest from steel mills remained tepid, with data showing a fall in industrial profits for a second straight month underlining slower domestic growth. Steel demand in China, the world's largest producer and consumer, has been waning since early April as Europe's debt crisis and a property tightening campaign have slowed economic growth, dragging down steel prices by 6 percent over April to June.

China is expected to grow at the slowest pace in more than three years this quarter and industrial profits fell for a second straight month in May on slackening domestic and external demand. "Traders sealed deals (to buy iron ore) but have found it difficult to sell on market as mills are not buying," said a Shenzhen-based iron ore trader. Prices for Australian and Brazilian cargoes to China fell by $1 per tonne on Friday, according to Beijing-based industry consultancy Umetal. Benchmark iron ore with 62 percent iron content dropped half a dollar to $134.90 per tonne on Thursday, the lowest since June 14, data from the Steel Index showed. It fell more than 8 percent over the April-June period.

Still, there are hopes Beijing will do more to boost the world's second-largest economy, which could lift steel and iron ore demand later in the year. "Some traders are quite positive on the steel market in the second half of this year, and the market should not be as bad as the first half," the trader added. However, any gains in iron ore and steel prices could be curbed by a supply glut in China, which has about 900 million tonnes of annual steel capacity but may only be able to absorb 700 million tonnes this year. Steel output in China has jumped to more than 2 million tonnes on a daily basis since April, but has started to fall since late May. Daily steel output was estimated at 1.971 million tonnes from June 11 to 20, down 1.4 percent from the preceding 10 days, industry data showed. The most active rebar contract for October delivery on the Shanghai Futures Exchange fell 0.42 percent to 4,068 yuan ($640) per tonne, after falling to a more than two-week low of 4,040 yuan per tonne.

Source: Reuters

India: Iron ore exports may fall 75% by 2016

In an indication that many of the iron ore exporters could be out of their businesses in the next few years, the Steel Economic Research Unit (ERU) has estimated that the iron ore exports would fall to 30-40 million tonne (mt) by 2016 from the present level of around 120 mt. "Iron ore exports would decline to 30-40 mt by 2016," said AS Firoz, chief economist, ERU, steel ministry. Though, there is an apprehension about exports going down due to the government's ban, Firoz said it would be only due to the market forces. "Global economies are not doing well. The Chinese economy will also come under pressure, resulting in reduced demand of iron ore," he said at the International Iron Ore and Steel-Making Raw Materials conference.

Iron ore exports have come under tremendous pressure due to a blanket ban on mining in Karnataka. Besides, Goa is facing an inquiry into illegal mining in the state. Firoz said even if there was demand the exports would not be viable due to infrastructure and logistics costs. "If the price is $100 (per tonne of iron ore), most of the mining companies would achieve only a break-even and if current road and railway freight charges are considered, nobody would be making money," he said. Another threat to the iron ore exporters of the country would come from tough competition from countries like Australia and Brazil. "Chinese companies have already tied up with Australian mines for supply of iron ore. In Australia and Brazil, some of the mining projects have been delayed due to environmental issues. But within four to five years, a lot of mining capacity will be created there," he added. Source: Financial Express

Kumba: commodity prices are heading lower

While commodity prices are heading lower and demand from China is slowing, Kumba chief executive Chris Griffith is upbeat about the future. At the opening of Kumba Iron Ore's R8.5 billion Kolomela mine near Postmasburg in the Northern Cape last week he said: “The price environment is still very good for iron ore, it is still very good for the iron ore industry and very recently seen a cut back in the announcement of iron ore projects, that may be the fact that people are cutting back on capital or just may be readjusting because of what the market senses compared to what actually is going to happen.” Kumba's Kolomela mine started shipping products to the port of Saldanha five months ahead of schedule. According to Susan Shabangu, the Minister of Mineral Resource, last year iron ore productions contribution to total primary mineral sales was R62 billion or 17 percent and it employed 20 000 people of 4 percent of total mining production. Stephen Mentjies, an Imara SP Reid analyst, said the demand from China steel demand was expected to double in the next ten years.

During a tour of the mine, Mike Carney, the head of the Kolomela resource team, said that while the life of mine of Kolomela was expected to be 28 years, it would be extended if more ore was found. “We have identified ore bodies on site which were not in our plans and we are currently investigating,” Carney said. Kumba Iron Ore is owned by Anglo American and the company is the biggest miner of the bulk commodity, which is used in the production of steel. Kumba is in discussions with with the government to establish a developmental price for providing steel. Cynthia Caroll, the chief executive at Anglo American, who was also at the launch echoed Griffith, said that they expected sustained growth in China and India would underpin the demand for commodities supplemented with early recovery signs from the United States. However, she said the key was to be aggressive. “We need to be globally competitive which is not easy. Markets are skittish, and stocks are down, this is more reason to be linked up with customers, suppliers, government and infrastructure providers to remain focused.” Kolomela mine, which means digging deeper is Tswana, sold its first shipment to India two weeks ago is expected to produce between 4 and 5 million tons of iron ore this year and ramp up to 9 m tons next year. The Kolomela mine is part of Kumba's growth strategy to increase delivery at its South African operations to 70 m tons a year by 2019. The Kumba board approved the investment in Kolomela in 2008, and roughly 15 000 jobs were created during the construction of the project, and 840 permanent jobs will be created at full production. Kolomela is one of three Anglo mining projects the other two being Barro Alto a nickel mine in Brazil and Los Bronces a copper mine in Chile. Source: Independent

Iron ore inventory at China's major ports below 97 mlnt for 7 consecutive weeks

Mysteel statistics show that imported iron ore stockpiles at China's 30 major ports posted at 96.81 mln tonnes by Jun 29, 2012, up 0.95 mln tonnes from previous week. The inventory has been below 97 mln tonnes for seven straight weeks, yet up 3.64 mln tonnes from a year earlier (July 1, 2011). The number of ports with growing inventory has decreased slightly to 10 ports. Jiangyin port eyed the biggest growth of 0.45 mln tonnes from previous week. Caofeidian, Jingtang and Tianjin ports also increased stocks by 0.40 mlnt, 0.40 mlnt and 0.30 mlnt respectively. 12 ports eyed reduced stocks, most of which are in Eastern China. Lianyungang port eyed the largest slide of 0.30 mln tonnes from previous week. Rizhao and Qingdao port did not see evident change in stocks. In South China, Fangchenggang port dropped 0.20 mlnt of stocks. Australian ore stockpiles surged by 0.88 mln tonnes from previous week; Brazilian ore inventory went down 0.40 mln tonnes; Indian ore stocks gained 0.11 mln. The proportion of stocks from the above-mentioned three main sources has dropped for 4 weeks in a row, and has been lower than 78% for the first time in five weeks. Most steel mills have replenished stocks earlier and the buying interests are soft. Imported iron ore prices fluctuated down last week. CISA data show that predicted national daily output of crude steel reached 1.9705 mlnt in the middle ten-day of June, down 1.4% m-o-m, indicating domestic steel production has reduced slightly and iron ore demand has been also subdued. With the continuous drop of steel prices and the fall back of PMI in June, short-run iron ore demand turns soft, which will depress the consumption of iron ores stocks at ports.

Iron ore tender supply reduced evidently last week. Indian iron ore shipments dropped sharply amid monsoon season. Tender activities for mainstream iron ores have ceased in 2H of last week. There are limited rooms for iron ore inventory to go up in later period. The weakened iron ore prices add to bearish market sentiments on market outlook. Mysteel survey show that the proportion of bears has surged from 25% to 86%, and merely 1% of the market participants believe iron ore market will gain this week. Source: Mysteel.net

As China Slows, Commodities Shudder

Indications that China's economy is beginning to flag more than expected could be a nasty thorn in the side of the commodities sector as hopes for the global economy weaken, analysts said. China, the world's largest consumer of industrial commodities like copper and iron ore and the second-thirstiest oil consumer after the U.S., has long been viewed as the white knight of the commodity markets. While the economies of other demand powerhouses like the U.S. and Europe have languished in recent years, China's economic growth has driven demand for many natural resources. However, recent signs that the Middle Kingdom's economy is weakening have been negative for commodities prices, already under pressure amid concerns over the euro-zone debt crisis and the U.S. fiscal situation. "Given the uncertainties in Europe and the U.S., combined with market concerns about the Chinese slowdown, commodity markets may be in for a rough ride over the next few quarters," said Robin Bhar, an analyst at Société Générale.

China's manufacturing activity deteriorated in June, according to preliminary data from HSBC that indicated global problems have taken a toll on China's export-dependent industries. The HSBC China Manufacturing Purchasing Managers' Index fell to 48.1 in June compared with a final reading of 48.4 in May—the eighth straight month of a reading below 50, which indicates contraction. The drop was mainly driven by deterioration in export orders, which fell 2.6 points to 45.9 in June and its lowest reading since March 2009. Amid mounting fears over a slowdown in global growth, the price of oil has slumped around 20% and the price of copper has fallen 8.5% since the start of May through June 29. On June 22, the price of crude oil hit a 1½-year low of $88.49 a barrel and the price of copper hit a six-month low at $7,219.50 a metric ton. Iron-ore prices have recently hit their lowest spot prices since November. Both oil and copper have seen similar declines in recent years, but the most recent fall has been underlined by weaker Chinese economic data.

"The biggest risk to commodities now is China, since problems in Europe have more or less been priced into the markets. What's not priced in is a hard landing in China," said Daniel Briesemann, a commodities analyst at Commerzbank. "People have been nervous about China for some months now, but the European debt crisis has overshadowed it." Weaker prices for oil, copper and iron ore, however, appear to have brought out Chinese buyers. Imports in China have picked up through May, despite expectations that the slowdown would deepen after two successive months of lower import volumes. China's refined copper imports totaled 301,990 metric tons in May, double the year-earlier level, while iron ore imports were 63.8 million tons, up 20% on the year, and oil imports were up 11.1% on the year to 25.5 million tons in May, according to Chinese customs

officials. But some market participants remain unconvinced of the implications of this data. "These appear to be spot purchases, the topping up of inventories. There doesn't yet appear to be wholesale move by China to restock. That could change, but it's difficult to predict when," said Mr. Bhar.

The increasing use of commodities such as copper in financing deals also negates the usefulness of such data in determining demand, he added. "The fact that copper imports have been higher of late is due mainly to its use in collateral finance," said Mr. Bhar. "People are importing copper not for end-user demand, but simply as an instrument to obtain preferential bank loans."

Other commodities such as oil and iron ore can also be used in this way, he added. Investors' greatest concern over China is inflation, which analysts say has become a permanent feature of the Asian giant's economic picture. Chinese inflation was up 3% from a year earlier in May, according to the National Bureau of Statistics. However, this was slower than the 3.4% rate recorded in April. "With [Chinese] inflation now more structurally a challenge for policy makers over the medium term, it seems unlikely that China can have all sectors firing at once without creating the risk of overheating," said Colin Hamilton, Macquarie's head of commodities research. "This does not mean that growth won't be strong enough to create tightness in commodity markets, but it is unlikely to be across-the-board strong as in the past." The inability to rely on China is leaving commodities in a more precarious position than they have been for over a decade. The possibility that the commodities markets won't be able to fall back on Chinese demand means that a further worsening in conditions elsewhere in the world will now likely have a serious and detrimental price impact. Investors are bracing for the worst. If economic conditions in Europe deteriorate significantly, the price of copper could tumble as low as $4,000 a ton in coming weeks, Mr. Hamilton said. Such a doomsday situation includes an uncontrolled Greek exit from the currency bloc and a big run on Spain's banks, he said.

Credit Suisse analysts outlined an "Armageddon" scenario similar to the financial crisis of 2008. Should the euro-zone crisis cause a collapse in trading and global activity such as that seen four years ago, oil prices could crash to $50 a barrel and fail to recover much beyond $80 a barrel, the bank said. It also downgraded its 2012 base-case price forecast for Brent crude to $106 a barrel from $118 a barrel due to the poor economic outlook. Source: Wall Street Journal

Vale Talks in China to Sell Largest Ore Carriers Slow After Ban

Vale SA (VALE3), the mining company building a fleet of the biggest-ever iron-ore carriers, said talks with Chinese ship owners to buy or hire the vessels slowed this year after the government blocked their access to the nation's ports. The Rio de Janeiro-based company drafted a letter of intent with China Cosco Holdings Ltd. (1919), the nation's largest owner, in June 2009 to build and charter the carriers, Vale wrote in a report sent to Bloomberg June 27. It also signed a "framework agreement" with an unidentified Chinese shipping company in October 2011 to sell as many as four Valemaxes. Talks "slowed down" after the transport ministry said in January that ports needed its permission before allowing the ships to dock. Vale is spending more than $8 billion on the 35 Valemaxes to lower costs on the 35-day voyage to Asia, the destination of about 45 percent of its Brazilian iron ore. Fifteen of the vessels, more than twice the size of conventional carriers, have entered service. Vale will eventually own 19, with the rest hired from other owners. The ships are already calling in the Netherlands, Italy, Oman and the Philippines and ports are being prepared in South Korea and Japan. "China's main ports are world leaders in design and are regularly receiving container and oil tanker ships larger than the Valemax ships," the company wrote in the report. The change of policy "appears to benefit ship owners who voiced a strong opposition to Valemax berthing in China."

The China Shipowners Association said in December that the carriers "arouse safety and environment risks" because Vale lacks experience in shipping, according to a transcript of comments by Zhang Shouguo, vice excutive chairman of the group, posted on its website. Vale says the new ships are the safest available to carry iron ore. Five ports in China can already accommodate the Valemaxes, which can carry about 400,000 metric tons of cargo, and six more are being prepared, according to a map included in the report. Vale opened a floating transshipment station in the Philippines in February that moves cargo from Valemaxes to smaller vessels, bypassing the Chinese ban. A second FTS will be opened in March 2013. China Cosco's Joint Company Secretary Guo Huawei didn't immediately respond to e-mails seeking comment today. Cosco, based in Tianjin, China, operates 376 dry-bulk carriers, according to a quarterly report filed April 26. Source: Bloomberg

China's biggest shipping companies are going head-to-head with the world's largest iron ore supplier in a battle over access to its ports.

The controversy dates to 2007 when Brazilian miner Vale SA started mapping out plans for a fleet of super-sized ore carriers and complementary port facilities to serve Asian customers, mainly Chinese steel makers. Vale's focus sharpened in December 2009 with a project to build distribution centers in China, the world's largest steel producer, and other parts of Asia.

Since then, the company has christened 15 of its specially built, 400,000-ton Valemax ships. It's also started work on an ore distribution center in Malaysia. And it plans to launch another 20 Valemax ships by 2013. The battle, meanwhile, is over a pivotal component of the Vale strategy: Shipping companies such as COSCO Group and Sinotrans&CSC Holding are opposing the company's request for government permission to dock and unload Valemax ships at three seaports — Dalian, Majishan and Qingdao. Companies represented by the China Shipowners' Association have been pressuring the government to ban Valemaxes. But Vale and its allies, including Chinese shipyards hired to build the ships, are lobbying for an open door.

Hints of a possible compromise emerged on May 30, when association Executive Vice President Zhang Shouguo said the COSCO-Vale row could soon end.

Association Chairman Wei Jiafu and Vale CEO Murilo Ferreira "have exchanged correspondence," Zhang said. "The consensus between the two sides is for dialogue rather than confrontation, to negotiate a settlement to resolve the current conflict."

Nevertheless, the ports are still closed to Valemax ships, forcing the Brazilian ore supplier to wonder and wait. Companies represented by the China Shipowners' Association have been pressuring the government to ban Valemaxes. But Vale and its allies, including Chinese shipyards hired to build the ships, are lobbying for an open door. "We hope that in the near future we can directly berth at ports in China," said Joan Mendes Faria, global business development director for Vale in Singapore. "But we're not sure about this." "I don't expect a winner and a loser in this situation," a former COSCO executive said. "The final result will be a compromise." Chinese shipping companies have serious financial issues fueling their complaints: They've seen profits squeezed in recent years and feel threatened by the looming competition from giant Vale ships on critical Brazil-Asia sea routes. In January, the Ministry of Transport issued a circular banning certain large ships from its ports, which ended Vale's hopes of unloading Valemax ships at China ports. In early May, COSCO President Ma Zehua said Vale had been boycotting COSCO's fleet for two months due to its opposition to the Valemax ships. Source: Caixin online

CONFERENCES

Montel is proud to welcome you to our third consecutive UK energy market conference followed by an evening networking cruise on the River Thames.

On 12 September, the market talk begins at Altitude 360° London and continues – more lively and informally – on the The Pride of London cruise boat.

For more information, http://events.montel.no

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» **Helsinki** 7 Jun
» **Berlin** 13 Jun
» **Amsterdam** 28 Jun
» **Oslo** 23-24 Aug
» **Zurich** 5 Sep
» **London** 12 Sep


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Battling the coal shortage
Bringing back the domestic buyers
Investment opportunities
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Sustainability of steel making & mining industry
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THE BIG DEBATE
Key Decision Makers
&
Iron & Steel industry
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