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Natural Resources **30 January 2014**

SOUTHGOBI'S 2013 COAL OUTPUT MORE THAN DOUBLES

Hong Kong listed SouthGobi Resources Ltd (**SouthGobi**) more than doubled its coal production in 2013 after the resumption of its Mongolian operations. Mining at SouthGobi's Ovoot Tolgoi mine was halted in June 2012 following a failed takeover bid by Aluminium Corp. of China Ltd, deteriorating market conditions and a corruption investigation. On restarting production in March 2013 SouthGobi announced it had produced 3.06 million tonnes of the 3.2 million tonnes of semi-soft coking coal it had planned to produce by the end of the 2013 and that it expects sales volumes to decrease in the first quarter of 2014 compared to the fourth quarter of 2013 citing national holidays as the reason for the slowdown. SouthGobi is 56% owned by Turquoise Hill Resources Ltd., which is majority owned by the Rio Tinto Group. (Source: Bloomberg News 16 January 2014)

IEA: GLOBAL OIL DEMAND FOR FOURTH-QUARTER 2013 REVISED UPWARD

According to the International Energy Agency's (**IEA**) global oil consumption in the three months ending 31 December 2013 was 92.1 million b/d. The figure, published in the IEA's most recent Oil Market Report (**OMR**), represents an upward revision of 135,000 b/d, on forecasts contained in the IEA's previous OMR. The IEA cited stronger than expected U.S demand as the reason for the adjustment. Global demand for 2014 is expected to rise by 1.3 million b/d to 92.5 million b/d an increase supported by the likelihood of stronger macroeconomic momentum as the year progresses. Supply from OPEC members increased by 310,000 b/d to 29.82 million b/d in the three months ending 31 December 2013. Iraq was the only member of OPEC to report a decline in production. Non-OPEC supplies for the three months ending 31 December 2013 fell by 335,000 b/d to 55.99 million b/d, primarily because of a seasonal decline in biofuels output. As a whole, global supply was an average 91.57 million b/d in 2013. Non-OPEC growth of 1.36 million b/d offset a decline in OPEC crude production. (Source: www.iea.org 21 January 2014)

NEW SUPPLIERS BOOST CHINA OIL IMPORTS

China is reducing its dependence on certain oil suppliers such as Saudi Arabia in an attempt to achieve supply diversification. In many cases new supplies originate from politically unstable regions such as Iraq and parts of west Africa.

Combined imports from three of China's largest suppliers, Saudi Arabia, Angola and Russia fell from 44% in 2012 to 42% in 2013. During the same period imports from smaller and emerging oil-producing countries increased. Imports from Iraq rose approximately 50% in 2013, ranking it behind Russia as China's fifth-largest source of foreign crude. China's imports from the Republic of Congo rose by approximately 32% in 2013 to 7.1 million metric tons, or approximately 142,000 b/d. More crude is available globally because of weaker demand from buyers in the U.S., Europe and Japan. Energy consumption in the U.S. and Japan is also shifting to natural gas.

Overall, the increase in Chinese oil imports is slowing. Imports increased 4% in the year ending 31 December 2013 compared to 7% in year ending 31 December 2012. The slowdown is the result of several factors, including weaker economic expansion and a fall off in construction of refineries in China.

China's dependence on foreign crude continues to rise. China is expected to import 61% of the oil it consumes by 2015, an increase of 7% since 2010.

CNNC BUYING STAKE IN NAMIBIA URANIUM MINE

The China National Nuclear Corporation (**CNNC**) is set to acquire a stake in a Namibian uranium mine run by Australian ASX listed uranium producer Paladin Energy Ltd (**Paladin**)

China Uranium Corp Ltd, a wholly owned subsidiary of the State-owned CNNC has agreed to purchase 25% of Paladin's Langer Heinrich uranium mine, one of Africa's biggest uranium mines, for US$190 million. The acquisition also involves an offtake arrangement whereby CNNC will be permitted to purchase its pro-rata share of product at the prevailing market spot price.

CNNC is increasing its efforts to develop new nuclear plants as part of China's policy to reduce its reliance on coal and increase production of clean energy. A present China has twenty nuclear reactors with an additional twenty eight under construction. According to the World Nuclear Association China proposes to develop up to one hundred and fifty nuclear reactors by 2025.

Paladin, which operates mines in Africa and is involved in exploration projects in Australia and Canada, has expanded the Langer Heinrich mine twice since it began producing in 2007. The mine is expected to produce 2.36 million kg of uranium concentrate annually over a twenty year life of mine.

The deal has yet to be approved by Chinese regulators, including the National Development and Reform Commission. Paladin has said it expects approval to be received by the middle of 2014. (Source: www. paladinenergy.com.au and www.world-nuclear.org 20 January 2014)

CHINESE PLANNERS WANT MORE OVERSEAS IRON ORE MINE INVESTMENT

China's National Development and Reform Commission (NDRC) has said that China needs to increase investment in overseas mining projects to improve its pricing power.

In an analysis published on its website the NDRC said iron ore imports would continue to rise and that China would remain import dependent.

China has long tried to diversify its supply sources and ease dependence on top producers in Australia and Brazil, including Rio Tinto, BHP Billiton and Vale. China imported 819 million tonnes of iron ore in 2013, an increase of 10.2% from 2012, with Australia and Brazil supplying almost 70% between them. China has accused the big foreign miners of using their "monopoly" status to drive up prices, thereby eroding steel sector margins.

The NDRC said increased investment by Chinese firms in the overseas iron ore projects would improve the balance between iron ore and steel prices and help "form a new model of upstream and downstream cooperation."

The NDRC analysis recommends the establishment of an investment fund to support local enterprises in the development of overseas mining projects, as well as steel mill construction and other heavy industrial projects. (Source: Sydney Morning Herald 27 January 2014)

NEW SOUTH WALES COAL EXPORTS TO CHINA INCREASE BY 30%

New export data shows China's demand for coal from New South Wales (**NSW**) increased significantly in the twelve months ending 30 June 2013. China is NSW's second largest market for coal exports. Data released by Coal Services Pty Ltd reveals that coal exported to China increased by over 30% in the twelve months ending 30 June 2013 bringing the total volume of NSW coal exported to China in the most recent financial year to almost 31 million tonnes. Chinese demand for NSW coal has grown significantly over the last five years. In the twelve months ending 30 June 2008 China accounted for only 1.1% of NSW's coal exports.

China now accounts for almost 20% of all NSW's coal exports, second only to Japan. Demand for NSW coal from Japan rose by 12% in the twelve months ending 30 June 2013. Demand from Korea and Taiwan rose by 19.6% and 6.5% respectively. Japan now accounts of 46% of NSW coal exports, China 19.9%, Korea 16%, Taiwan 9.7% and the rest of Asia for 6.2%. Coal accounts for 20% of all exports from NSW. (Source: Australian Mining Review 20 January 2014)

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