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Executive Summary

- There were 51kt of refined lead surplus on the global market in Jan.-Oct. 2010. The supply surplus was mainly in developing countries especially in China; the west countries saw a deficit by 35kt. The world lead supply surplus was around 300kt in 2010.
- There were 2 lead smelting projects came on stream in Q4 2010 raises the national total lead smelting capacity by 80ktpy. There totally 440kt of additional lead smelting capacity in 2010. Chinese refined lead capacity touched 4.98Mt by the end of 2010, up by 11.9% y-o-y.
- Antaika estimates Chinese lead in concentrate output was 1.7Mt in 2010, up by 11% y-o-y; the import of lead concentrate was 1.56Mt with 860kt of metal content.
- Antaika estimates Chinese refined lead output was 3.9Mt in 2010, up by 9.9% y-o-y, including secondary lead 1.37Mt, up by 10.8% and primary lead 2.53Mt, up by 9.1%.
- China exported 13kt of refined lead and imported 11kt in Jan.-Nov.; a net import of 400t.
- Lead consumption resumed in UPS sector in O4 that in other fields was stable. The Chinese total lead consumption was 3.65Mt, up by 9.6% y-o-y, Antaika estimated.
- The change of Dollar Index and the European and the United States' economies will keep affecting the LME lead prices. The LME 3-month lead will move at US\$ 2,400-2,700/t in short term.
- In China, the overseas lead price, the domestic economy and the Central Bank's movement for controlling inflation would mostly affect the domestic lead price. The domestic lead price will be stable basically at 17,300 yuan/t in short term.

Global Lead Market Overview

Based on the statistics from International Lead and Zinc Study Group (ILZSG), the world refined lead output was 7.677Mt in Jan.-Oct. 2010, up by 5.0% y-o-y. Meanwhile, the lead consumption was 7.626Mt, up by 5.3%. In the first 10 months, the global lead market was in surplus by 51kt, compared with 72kt in the same period of the previous year. There were still big surplus in developing countries that is the key reason for the remaining supply surplus on the global market. The statistics show that the west world lead production was 3.937Mt, up by m.2% y-o-y; the consumption was 3.972Mt, up by 4.4%. Meanwhile, the west lead market was in a deficit by 35kt in Jan.-Oct. (almost unchanged with 36kt in Jan.-Sept.) compared with a surplus by 125kt in same period a year ago. In one side, the automobile sector in western countries was resuming continuously. In another side, partially western lead smelters, which suspended during the financial crisis, didn't restart.

We estimate the global refined lead output was 8.98Mt in 2010, up by 5.3% compared with 2009; the global refined lead consumption was 8.68Mt, up by 5.5%. Both the production and consumption growth was jointly pushed by developed and developing counties. The world refined lead surplus was around 300kt in 2010, similar with the forecast in the past quarter.

The LME lead inventory kept climbing in the fourth quarter. By the end of 2010, the LME lead inventory touched 208.5kt highest since Sept. 1995.

Table 1: Global lead market balance on quarterly basis in 2009-2010, kt

	2009	2010				Annual
	Annual	Q1	Q2	Q3	Q4	
Refined lead output	8,563	2,059	2,219	2,353	2,344	8,975
Refined lead consumption	8,093	2,121	2,129	2,198	2,226	8,674
Balance	470	-62	90	155	118	301
LME lead inventory	146.1	175.9	190	192		
LME lead spot price (US\$/t)	1,736	2,227	1,952	2,037	2,382	2,147

Sources: ILZSG, LME, Antaike

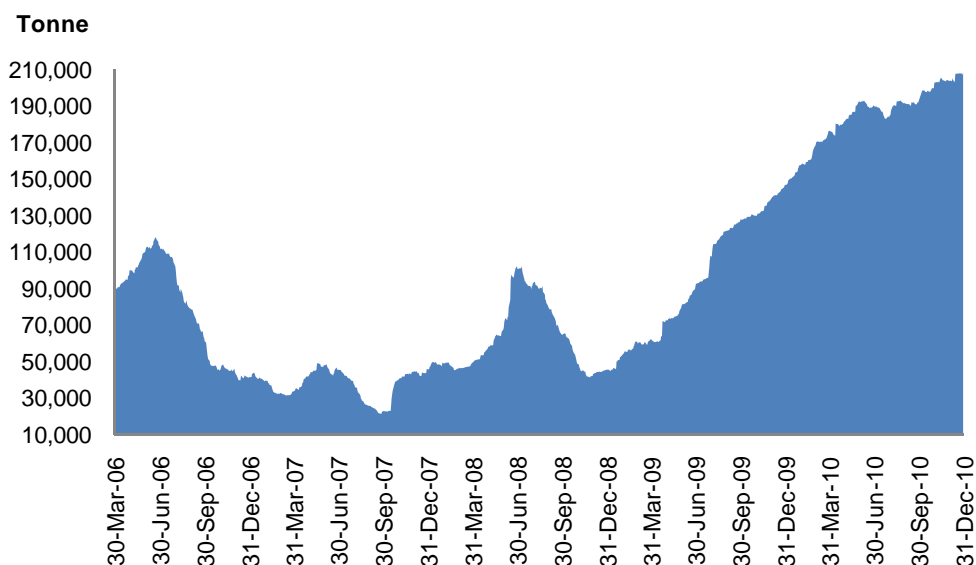


Chart 1: LME lead inventory in Mar. 2006-Dec. 2010

Chinese Lead Market Overview

Construction of Smelting Projects

There is an adjustment in the new lead smelting projects list. Antaika learns three new projects:

Haicheng Chengxin Nonferrous Metals Co., Ltd.: 80ktpy lead smelter came on stream in Dec. 2010 replacing its old 30ktpy operation;

Chihong Zinc & Germanium Co., Ltd.: the 60ktpy lead smelting project to be commissioned in its headquarter in Jun. 2011;

Shandong Huangjin – Zhongse Chifeng Lead Industry Co., Ltd.: 100ktpy lead smelting project restarted.

Among the new lead smelting projects in the primary list, only Anyang Minshan Co., Ltd.'s project came on stream in Q4 2010. The company's 100ktpy oxygen bottom blowing furnace started operating on Dec. 11, 2010, which replaced its old 70ktpy lead sintering system. The other projects were all delayed. The projects of Jiyuan Jinli Group, Wulatehouqi Ruifeng Lead Smelting Co., Ltd., Henan Xinhua Lead Industry Co., Ltd. And Hunan Guiyang Yinxing Nonferrous Smelting Co., Ltd. are delayed to commission in H1 2011 from before the end of 2010. The lead smelting project of Chihong Hulunber Mining Co., Ltd. is delayed to Q4, 2011.

According to Antaika's statistics, there was totally 440kt of additional effective lead smelting capacity in 2010. China's refined lead capacity touched 4.98Mt in 2010, up

by 11.9% compared with the previous year; the utilization rate of the capacity was approximately 78%. If the new projects come on stream in 2011, there will add extra 920kt of lead smelting capacity. Some of the projects may not be commissioned on schedule on fund problem or tough market environment. Antaika estimates the effective additional capacity may be 600kt in 2011. If so, the Chinese total lead smelting capacity would be 5.58Mt in 2011, up by 12% against 2010.

Table 2: Chinese additional lead refining capacity for 2008-2011, ktpy

	Location	Method	Additional capacity	Startup date	Commission date
Commission in 2008			200		
Jiyuan Wanyang Smeltery Group Co., Ltd.	Jiyuan, Henan	Oxygen bottom blowing - reduction	80		Mar. 18, 2008
Chenzhou Yuteng Chemical Co., Ltd.	Chenzhou, Hunan	Oxygen bottom blowing - reduction	80		Oct. 27, 2008
Chizhou Branch of Tongguan Nonferrous Metals Co., Ltd.	Chizhou, Anhui	-	40		End of 2008
Commission in 2009			490		
Shaanxi Hanzhong Zinc Industry Co., Ltd.	Hanzhong, Shaanxi	Oxygen bottom blowing - reduction	80		Mar. 2009
Inner Mongolia Xing'an Silver & Lead Smelter	Xing'an, Inner Mongolia	Oxygen bottom blowing - reduction	80		Aug. 2009
Jinagxi Jinde Lead Industry Co., Ltd.	Shangrao, Jiangxi	Oxygen bottom blowing - reduction	80	Dec. 2007	Aug. 2009
Jiangxi Jinyang Metals Co., Ltd.	Jiangxi	Secondary lead	60		Apr., 2009
Secondary lead projects built by battery producers and expansion projects in secondary lead smelters	Zhejiang, Shaandong, etc	Anhui, Hebei, etc Secondary lead	190		
Commission in 2010			440		
Yuguang Gold & Lead Co., Ltd.	Jiyuan, Henan	Oxygen bottom blowing - slag reduction	(80ktpy, replacing the old system)		May 2010
Qinghai Xiyu Nonferrous Metals Co., Ltd.	Golmud, Qinghai	Oxygen bottom blowing - reduction	(100ktpy, without electrolytic progress)	Jun. 2008	Jun. 2010
Yunnan Tin Group Co., Ltd.	Gejiu, Yunnan	Ausmelt	70	2007	Jul. 17, 2010
Luoyang Yongning Gold & Lead Smelting Co., Ltd.	Luoyang, Henan	Oxygen bottom blowing - reduction	80	2007	Aug. 18, 2010

Henan Xinhua Lead Co., Ltd.	Henan		Flash furnace		100		Dec. 2010
Henan Zhicheng Gold & Lead Co., Ltd.	Lingbao, Henan		Oxygen bottom blowing - reduction		40	Apr. 2008	Sept. 2010
Henan Anyang Minshan Nonferrous Metals Co., Ltd.	Anyang, Henan		Oxygen bottom blowing - reduction		30		Dec. 11, 2010
Chenzhou Jingui Nonferrous metals Group Co., Ltd.	Chenzhou, Hunan		Oxygen bottom blowing - reduction		60	2008	Apr. 2010
Haicheng Chengxin Nonferrous Metals Co., Ltd.	Liaoning		Oxygen bottom blowing - reduction		50		Dec. 2010
Hubei Chukai Metallurgical Co., Ltd.	Hubei		Secondary lead		60		April 2010
Secondary lead projects built by battery producers	Zhejiang		Secondary lead		50		
Commission in 2011					92		
Chihong Hulunber Mining Co., Ltd,	Inner Mongolia		ISA		60		Q4 2011
Jiyuan Jinli Co., Ltd.	Jiyuan, Henan		Oxygen bottom blowing - slag liquid direct reduction		20		H1 2011
Urad Rear Banner Ruifeng Lead Smelting Co., Ltd.	Bayannur, Inner Mongolia		Oxygen bottom blowing - reduction		80	Nov. 2008	H1 2011
Henan Xinhua Lead Co., Ltd.	Henan		Flash Furnance		100		H1 2011
Guiyang Yinxing Nonferrous Smelt Co., Ltd.	Chenzhou, Hunan		Oxygen bottom blowing - reduction		100	Jan. 2009	H1 2011
Henan Anyang Yubei Gold & Lead Co., Ltd.	Anyang, Henan		Rich oxygen lead bath smelting		20		2011
Jiangxi Zhongjin Lead Industry Co., Ltd.	Fuzhou, Jiangxi		Oxygen bottom blowing - reduction		80		2011
Jiangxi Copper Corporation Co., Ltd.	Jiujiang, Jiangxi		Kivcet		100	Jul. 2009	Aug. 2011
Jiyuan Wanyang Co.,Ltd.	Jiyuan, Henan		Oxygen bottom blowing - slag liquid direct reduction		20		H2, 2011
Zhuzhou Smelter Group Co., Ltd.	Zhuzhou, Hunan		Kivcet		20		2011
Guangxi Cangwu Nonferrous Metals Co., Ltd.	Wuzhou, Guangxi		Oxygen bottom blowing - reduction		60	Jan. 2009	H2, 2011
Chifeng Baiyinour Lead and Zinc Mine	Chifeng, Inner Mongolia		Oxygen bottom blowing - reduction		80	2007	2011
Ximeng Shuangyuan Smelting Co., Ltd.	Ximeng, Inner Mongolia		Oxygen bottom blowing - reduction		60	2007	2011
Headquarter of Chihong Zinc & Germanium Co.,Ltd.	Yunnan		ISA		60		Jun. 30, 2011
Mengzi Mining & Metallurgy Co., Ltd.	Mengzi, Yunnan		Oxygen bottom blowing - slag liquid direct		60	Q3 2010	2011

reduction						
Projects on study						
Shandong Gold – Zhongse Chifeng Lead Industry Co., Ltd.	Inner Mongolia	Oxygen blowing -	bottom reduction	100		In plan
Henan Zhonghui Nonferrous Metals Co., Ltd.	Henan	Oxygen blowing -	bottom reduction	80		Less possible to startup
Xinxiang Changming Smelting Co., Ltd.	Xinxiang, Henan	Oxygen blowing -	bottom reduction	80		Less possible to startup
Luanchuan Shibao Mining and Smelting Co., Ltd.	Luoyang, Henan	Oxygen blowing -	bottom reduction	80		Less possible to startup
Xi'an Runji Investment Co., Ltd.	Baoji, Shaanxi	-		60		Study finished
Anhui Tongguan Nonferrous (Chizhou) Co., Ltd.	Anhui			100		In Study

Source: Antaika

Table 3: Chinese refined lead capacity by province in 2006-2011, ktpy

	2006	2007	2008	2009	2010	2011e
National Total	3,428	3,736	3,936	4,446	4,976	5,566
Henan	1,071	1,071	1,151	1,151	1390	1610
Hunan	511	511	591	591	651	771
Yunnan	392	495	495	495	565	675
Anhui	329	319	359	450	450	450
Guangxi	228	231	231	231	250	250
Shandong	150	180	180	250	231	231
Jiangsu	140	145	145	145	176	176
Inner Mongolia	38	40	40	120	175	175
Jiangxi	35	36	36	116	145	145
Shaanxi	41	95	95	175	120	260
Gansu	66	89	89	89	110	110
Ningxia	80	80	80	80	100	100
Guangdong	68	75	75	75	100	100
Fujian	5	65	65	15	89	89
Hebei	50	50	50	100	80	80
Liaoning	50	50	50	50	75	75
Hubei	50	50	50	110	40	40
Qinghai	30	40	40	40	35	35
Chongqing	25	35	35	35	20	20
Tianjin	20	20	20	20	15	15
Others	49	59	59	108	160	160

Source: Antaika

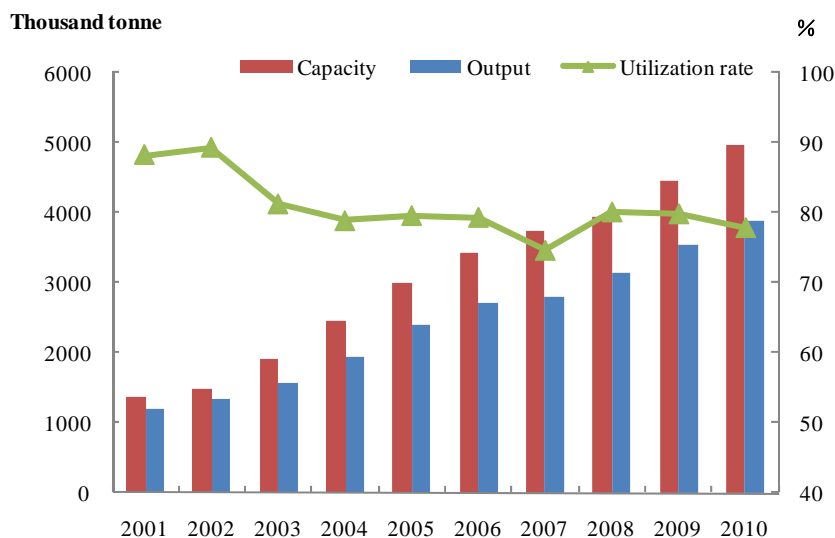


Chart 2: Chinese lead refining capacity, production and utilization rate in China in 2001-2010

Source: Antaike

Lead Raw Material Supply

The domestic lead concentrate supply was still tight in the fourth quarter. The gap between Chinese and overseas lead prices made the lead concentrate import difficult. Though the CNIA's statistics show the lead concentrate production kept relative high speed growth, we think the data should be bigger than the real situation. Both the domestic and imported TC maintained in the same level in Q3-Q4. The TC of domestic lead concentrate (60% lead content) remained at 2,000 yuan per tonne; the TC of lead concentrate import was US\$ 70-80 per tonne. The main reason of the still high operating rate in lead smelters was the hiking silver price.

The CNIA's statistics show that the Chinese lead in concentrate output was 1.698Mt in Jan.-Nov., 2010, up by 41% y-o-y. By regions, the lead mine production increased obviously in Inner Mongolia, Hunan, Guangxi and Sichuan. However, we estimate the data was bigger than the real output. During the survey in key mines, we found the output growth in those mines was short. Most of the production growth was from the small size mines, which is not exact. Moreover, the lead mines reluctant to sell when the price was weak in 2009. When the lead prices picked up in 2010, some of those small lead mines reported the sold stocks as output. Therefore, we still believe the domestic lead in concentrate output was 1.7Mt in 2010, up by 11% y-o-y.

Based on the statistics from the China Customs, China imported accumulative 1.12Mt of lead concentrate (physical weight) in Jan.-Nov., 2010, down by 6.2% y-o-y. From the chart of the domestic and overseas lead concentrate prices, we can see it was

difficult to import lead concentrate in the most time of fourth quarter of 2010. In the first quarter of 2011, the situation would not be changed. By origins, the import from Kazakhstan and Australia increased rapidly, that from other countries was stable.

Generally, the TC of lead concentrate stayed in a relative low level in the whole year that limited the concentrate import. Antaika estimates the lead concentrate import 2010 maintained at the same level with the previous year at 1.56Mt with 860kt of metal content.

Table 4: Chinese lead-in-concentrate output by province in Jan.-Aug. 2010, tonne

Province	Q1 2010	Chn yoy (%)	Q2 2010	Chn yoy (%)	Q3 2010	Chn yoy (%)	Jan.-Nov. 2010	Chn yoy (%)
National total	297,800	68.1	523,400	49.6	517,800	33.30	1,697,500	41.05
Inner Mongolia	53,300	113.3	126,100	60.6	128,200	25.20	387,600	44.55
Hunan	45,800	155.5	80,200	112.0	79,000	90.16	276,600	115.08
Sichuan	44,900	68.3	73,300	92.8	69,900	67.14	209,500	89.55
Guangxi	28,600	137.6	73,400	128.1	52,900	22.27	205,300	36.84
Yunan	22,700	17.9	31,100	-7.4	29,000	-4.19	100,600	-2.27
Guangdong	18,600	-14.3	26,000	-14.0	32,700	56.13	105,400	7.41
Qinghai	13,700	12.1	15,100	2.3	20,400	35.00	60,300	37.61
Fujian	10,900	42.4	16,300	38.8	16,700	-6.40	56,000	0.80
Henan	12,700	14.6	14,800	-33.0	15,400	9.93	54,400	-10.44
Shaanxi	10,000	87.5	11,500	45.5	11,100	-3.55	40,600	19.75
Gansu	9,100	90.8	11,800	58.5	9,000	-5.46	37,200	22.57
Jiangxi	7,400	110.5	10,500	30.6	9,600	15.67	33,800	2.74
Jilin	5,700	91.9	6,000	-19.1	11,400	36.62	30,800	32.84
Zhejiang	8,400	268.3	5,600	-13.5	6,800	-9.22	27,100	41.91
Guizhou	1,100	0.0	8,700	0.0	5,800	0.00	16,000	
Tibet	0	0.0	4,900	26.1	6,900	-18.69	19,700	13.56
Liaoning	2,300	33.3	3,100	57.2	3,200	43.95	11,100	29.21
Hebei	300	-20.0	1,000	-65.2	6,400	386.17	10,500	92.85
Jiangsu	1,700	-32.2	2,400	-31.3	1,800	-25.02	7,500	-23.28
Anhui	400	259.4	700	205.4	900	121.55	2,400	133.45
Xinjiang	300	348.1	900	-15.8	800	-37.41	5,300	51.90

Source: CNIA

Table 5: Chinese lead-in-concentrate output in 2008-2010, kt

2008	CNIA (adjusted)	Output	1,402
	Antaike	Output	1,472
2009	CNIA	Output	1,360
		Chn yoy (%)	18.77
	ANTAIKE	Output	1,524
		Chn yoy (%)	3.5
Jan.-Nov. 2010	CNIA	Output	1,698
	ANTAIKE	Output	1,540

Sources: CNIA, Antaike

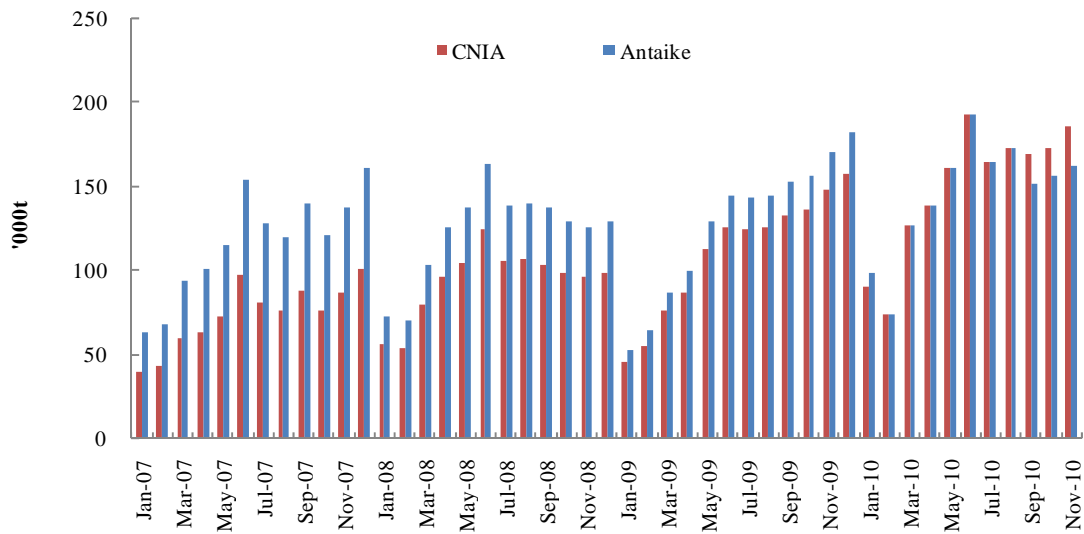


Chart 3: Monthly Chinese lead-in-concentrate output in Jan. 2007-Nov. 2010

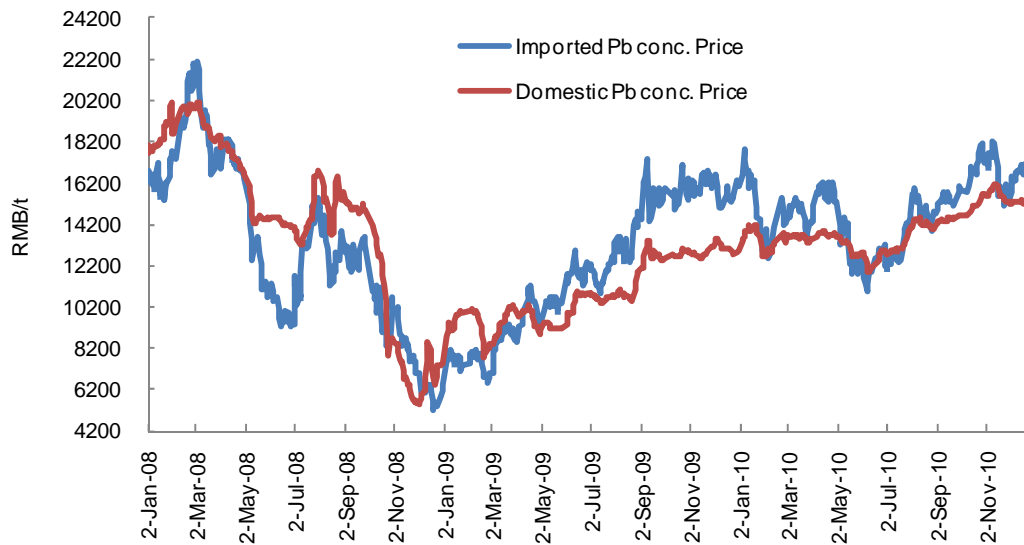


Chart 4: Domestic and imported lead concentrate prices (metal content)

Source: Antaike

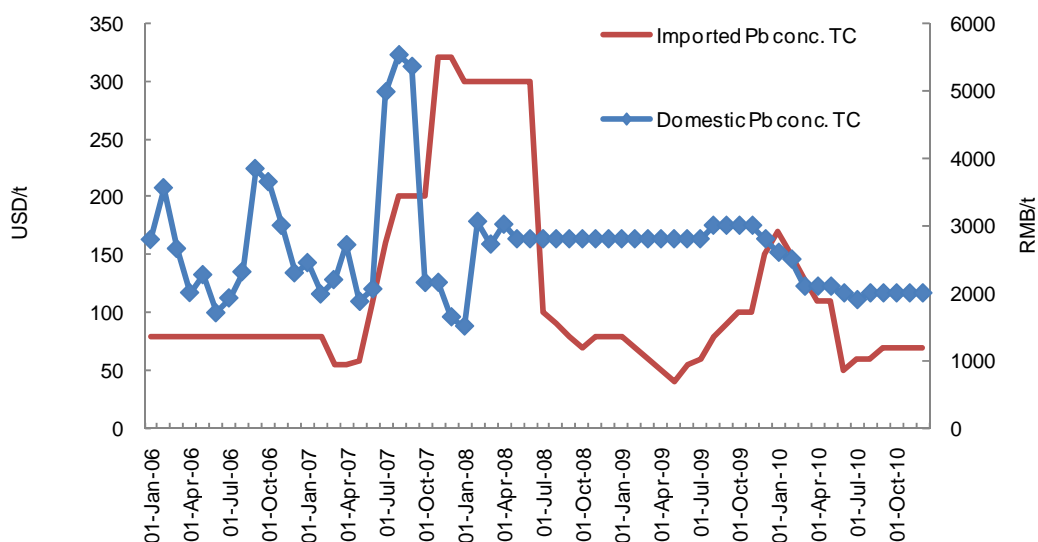


Chart 5: Domestic and imported lead concentrate TC (dry, physical weight)

Source: Antaike

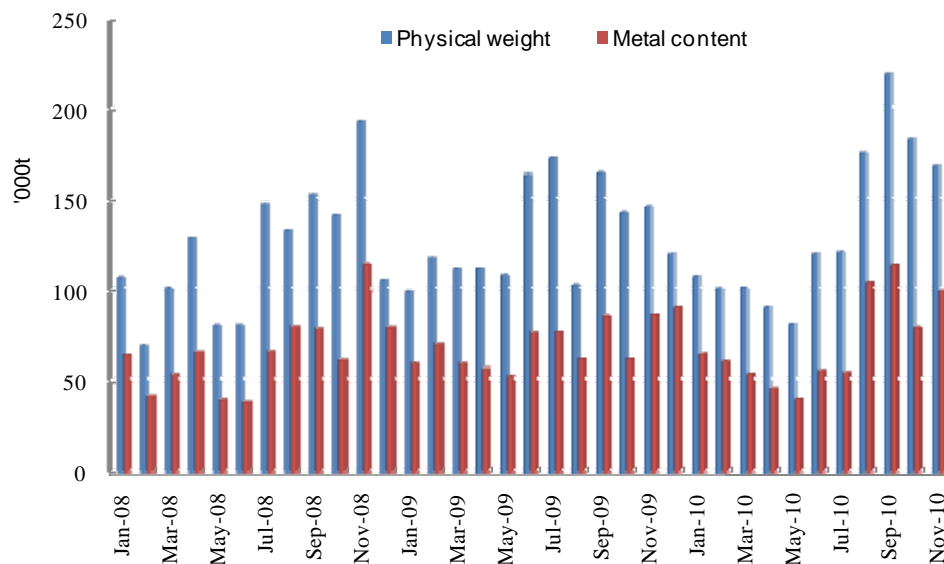


Chart 6: Chinese lead conc. import by monthly in Jan. 2007-Nov. 2010

Source: China Customs, Antaike

Table 6: Chinese lead concentrate import by origin in Jan.-Nov. 2010, Physical weight

Origin	Jan.-Sept. 2010		Origin	Jan.-Nov. 2010	
	Quantity	Chn yoy		Quantity	Chn yoy
	Tonne	%		Tonne	%
Total	1,122,000	-6.17	Total	1,475,000	-0.7
Peru	253,000	2.28	Peru	322,000	5.3
US	156,000	-20.65	US	236,000	-9.36
Australia	131,000	9.41	Australia	195,000	48.25
Russia	72,000	-16.45	Russia	102,000	-3.91
Kazakstan	53,000	300.02	Kazakstan	54,000	117.77
South Africa	44,000	112.6	South Africa	50,000	79.36
Germany	36,000	-9.87	Germany	49,000	20.88
Mexico	35,000	-30.27	Mexico	43,000	-33.33
Nigeria	35,000	346.63	Turkey	37,000	86.78
DPRK	30,000	-	DPRK	37,000	-
Other Regions	276,000		Other Regions	349,000	

Sources: China Customs

Refined Lead Production

The statistics of CNIA show that the domestic refined lead output kept a relative high speed growth in the fourth quarter despite under the pressures of energy saving and emission reduction movement. The Chinese monthly refined lead output remained at around 4Mt in Oct. and Nov. The accumulative output reached 3.782Mt in Jan.-Nov., up by 11.7% compared with the same period of the previous year.

Antaiko think the CNIA's data should be bigger than the real one. We learned the raw materials supply of lead smelting was tight since Q3. Some lead smelters purchased crude lead and secondary lead for re-smelting and refining that caused double account. Antaiko estimates the Chinese refined lead output should be 3.9Mt in 2010, up by 9.9% y-o-y, including secondary lead 1.37Mt, up by 10.8% and primary lead 2.53Mt, up by 9.1%.

By provinces or regions, the secondary lead production in Anhui increased significantly. Anhui's lead output increased by 38% y-o-y in Jan.-Nov. 2010. After rebuilding raw materials stocks in H1 2010, the secondary lead production began to resume in Q3 and represented a stable growth in Q4. Among key primary lead production provinces, Hunan and Yunnan's lead production kept stable growth in 2010, while the No.1 lead production province – Henan saw a continuous decline in lead output against the same period of the previous year. However, the decline range became shorter gradually. In Jan.-Nov. 2010, Henan's refined lead output decreased

by 14% y-o-y, shorter than 21% in Jan.-Sept.

Table 7: Chinese refined lead output by regions in Jan.-Nov. 2010, tonne

Province	Q1 2010	Chn yoy (%)	Q2 2010	Chn yoy (%)	Q3 2010	Chn yoy (%)	Jan.-Nov. 2010	Chn yoy (%)
National total	837,800	13.6	941,200	2.2	1,178,000	6.89	3,781,800	11.66
Henan	215,600	-22.8	248,300	-22.8	296,300	-17.14	953,700	-14.24
Hunan	151,500	7.8	172,500	5.9	249,800	52.19	763,000	25.66
Anhui	164,000	51.1	134,600	9.1	242,700	30.72	737,500	38.26
Yunnan	59,200	41.5	81,400	25.5	112,700	14.52	326,300	14.8
Jiangsu	37,600	24.5	55,800	36.6	47,100	-44.91	164,400	-3.86
Guangxi	31,800	20.1	35,600	-7.4	34,700	-10.41	133,400	8.79
Hubei	21,600	19.1	35,400	128.0	35,100	-2.91	110,200	-9.82
Jiangxi	27,600	190.4	31,000	43.7	26,500	61.68	103,000	59.4
Guangdong	33,800	14.6	29,300	-12.8	24,400	97.59	83,100	27.21
Shaanxi	20,500	23.6	27,300	3.0	8,300	-56.22	79,700	20.44
Chongqing	15,000	5.7	21,800	2.7	25,200	15.74	79,300	17.95
Inner Mongolia	11,900	0.0	17,900	0.0	15,900	17.02	54,300	220.18
Shanghai	13,700	3110.3	14,600	1570.5	13,700	7.56	49,400	179.48
Shandong	8,200	9.6	10,200	98.4	8,700	1.54	30,200	24.12
Liaoning	7,400	44.8	8,900	112.4	9,200	85.74	31,900	64.26
Ningxia	4,700	427.0	7,500	-59.8	12,500	45.77	26,500	-16.38
Gansu	9,500	622.6	3,500	-60.9	7,200	-23.61	25,800	4.8
Guizhou	1,100	45.0	2,200	2.1	1,200	-8.77	6,800	52.6
Zhejiang	2,300	122.5	2,200	98.5	4,300	1,565.38	11,400	724.39
Xinjiang	0	0.0	1,000	38.0	1,100	-56.62	5,200	-24.37
Qinghai	700	0.0	200	13.0	1,700	-52.71	4,300	-18.22

Source: CNIA

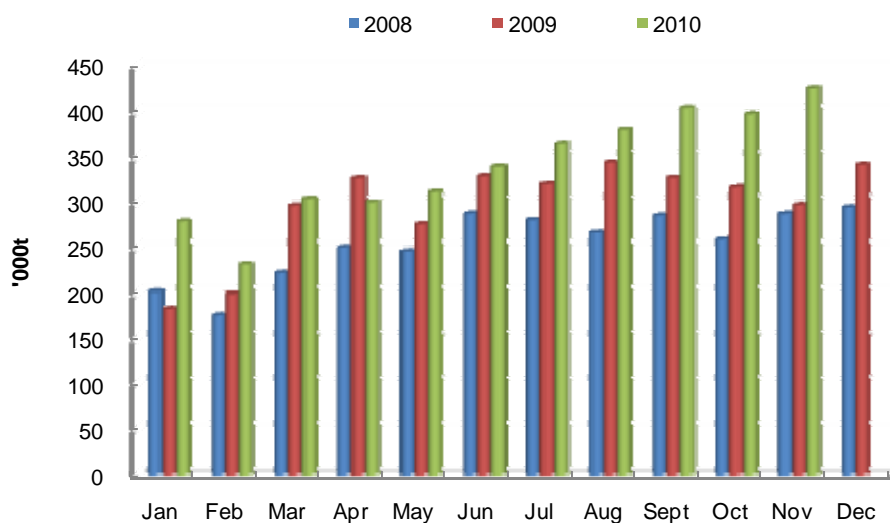


Chart 7: Chinese monthly refined lead output in 2008-2010

Lead Import and Export

As we forecasted, the Chinese refined lead export increased in Q4 2010 and the nation became net exporter in Oct. (net refined lead export 1,900t). China exported 13kt of refined lead and imported 11kt in Jan.-Nov., and represented a net import of 400t.

The refined lead export became profitable in late Sept. on the domestic-overseas lead prices relationship at that time. Accordingly, the export headed up in the following months. From Chart 8, we can see the export became difficult again in Nov., and the export data should turn down in Dec. Totally, the refined lead import and export should be in balance basically.

The lead semis export kept in a relative low level after touching a peak in Q3. The monthly lead semis export was lower than 2kt in Oct. and Nov. compared with a high of near 9kt in Jul. The influence from the cancel of partial lead semis articles' export tax rebate has eased. China exported accumulative 51kt of lead semis in Jan.-Nov., up by 8.2% compared with the same period of the previous year.

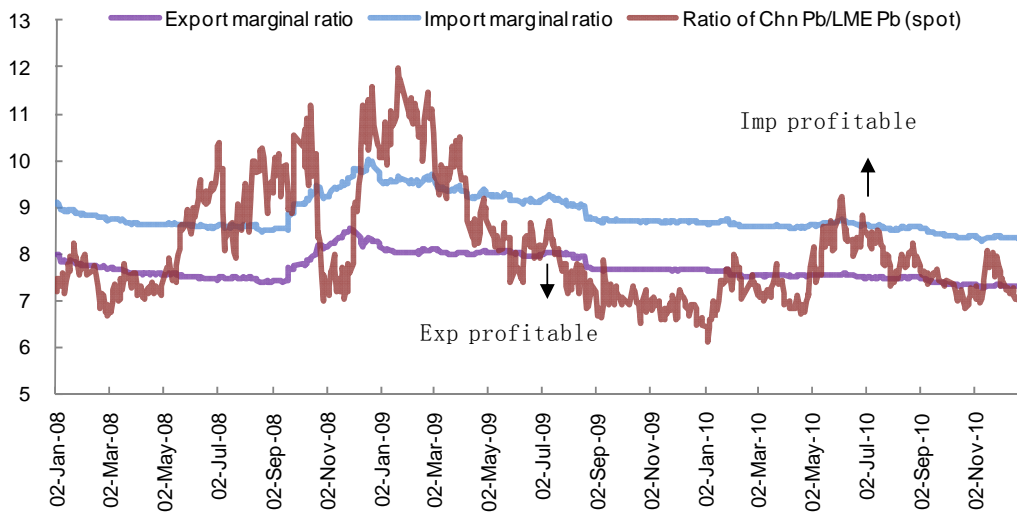


Chart 8: The ratio of Chinese lead price against LME cash-month lead

Note: Export marginal ratio = Chinese spot lead price/Export price; Import marginal ratio = LME cash-month price/Import price

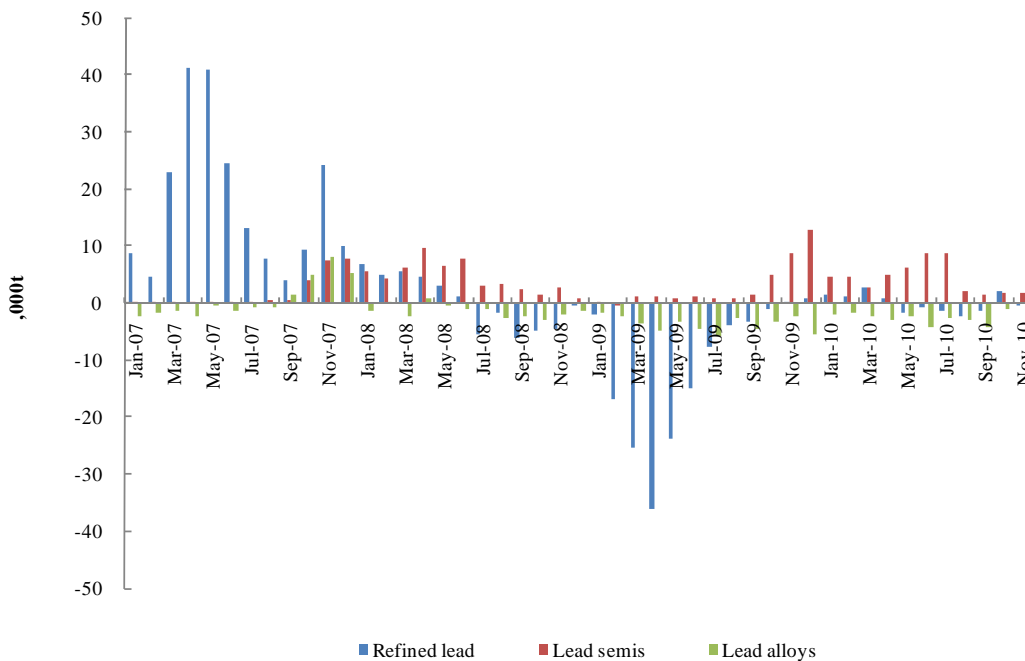


Chart 9: Chinese net export of refined lead, lead semis and alloys

Consumption

The biggest change in Chinese lead consuming fields in Q4 2010 is the UPS. The lead consumption in the sector resumed better than our anticipation. Meanwhile, the situation in other consuming fields unchanged in Q4 against Q3.

The output of communication base stations equipment declined by 1% y-o-y in

Jan.-Nov. against 10% in Jan.-Sept. that implies the lead consumption in UPS should resumed to the same level with the past year. Besides, the contribution rate of original automobile manufacture for lead consumption growth slipped to 1.9% in Jan.-Nov. from 2.1% in Jan.-Sept. The rate of other lead acid battery export declined to 2.0% in Jan.-Nov. In the 11 months, the major lead consuming fields jointly made the Chinese lead consumption increased by 11.5% y-o-y, higher than 10.4% in Jan.-Sept.

According to the China Association of Automobile Manufacturers (CAAM), Chinese automobile production and sales was 18.26mln units and 18.06mln units respectively, up by 32.44% and 32.37% on the yearly basis. There were four key factors promoted the automobile production and sales: the domestic macro economy maintaining smooth and fast growth; favorable policies playing roles; big potential of market – purchasing force enhancing; industrialization and urbanization promoting automobile consumption.

The Chinese automobile market will enjoy a smooth and rapid development in 2011. However, the growth rate of automobile production and sales will slow down. Some favorable policies for automobile industry finished in Q4, 2010. Meanwhile, Beijing govt. began to control the new car purchase number in Dec. 2010 that forced potential buyers urgent to purchase vehicles before the policy affective. As a result, the domestic automobile demand might be affected temporarily in Q1 or a longer term. The Chinese automobile production would see a further increase by 10-15% y-o-y, according to CAAM.

According to the statistics released by CAAM, China produced 26.69 million units of motorcycles and sold 26.59 million units in 2010, up by 4.98% and 4.4% y-o-y respectively. In the year, the export was 8.41 million units, up by 33.89% y-o-y.

The Chinese motorcycle industry suffered tough environment in 2010. Last year, the whole sector hadn't resumed from the financial crisis before faced the effective of the State 3 Emission Standard. During the year, the domestic motorcycle demand was relatively weak, but the export was stable.

According to the statistics of China Customs, China exported 16.22million units of SLI batteries in Jan.-Nov. 2010, up by 42.4% on a yearly basis. In the same period, China exported 128million units of other lead acid batteries, up by 36.9% compared with the same period of the previous year.

The statistics from the Bureau of Statistics show that the Chinese output of communication base stations equipment was 57.019 million channels in Jan.-Nov. 2010, down by 1% y-o-y, lower than 10% of y-o-y decrease in Jan.-Sept..

We estimate the lead consumption in UPS should increase further more or less in Dec. 2010. Meanwhile, lead acid battery export should keep stable. Generally, the Chinese

lead consumption will be 3.65Mt, up by 9.6% y-o-y.

Table 8: Chinese automobile production and sales in Dec. 2010, thousand unit

	Dec.	MoM chn (%)	YoY chn (%)	Jan.-Dec.	YoY chn (%)
Production					
Total	1,864.8	6.27	22.30	18,264.7	32.44
Passengers' car	1,445.3	5.92	22.51	13,897.1	33.83
Commercial car	419.5	7.49	21.60	4,367.6	28.19
Sales volume					
Total	1,666.7	-1.79	17.90	18,061.9	32.37
Passengers' car	1,308.6	-2.33	18.60	13,757.8	33.17
Commercial car	358.1	0.22	15.40	4,304.1	29.90

Source: CAAM

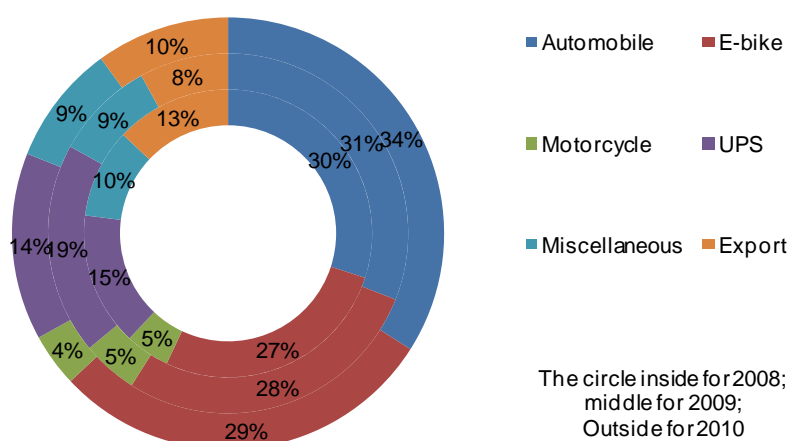


Chart 10: Chinese lead acid batteries consumption structure in 2008-2010

Source: Antaika

Table 9: Chinese lead key using sectors' contribution for consumption growth

	Proportion in lead consumption in 2009	Jan.-Sept. 2010		Jan.-Nov 2010	
		Growth rate	Contributing rate	Growth rate	Contributing rate
Automobile original manufacture	5.7%	36.1%	2.1%	33.7%	1.9%
Automobile replacing batteries	11.3%	23% (19.7% in 2009)	2.6%	23% (19.7% in 2009)	2.6%
E-bike original manufacture	6.6%	9.5%	0.6%	9.5%	0.6%
E-bike replacing batteries	14.8%	30% (33% in 2009)	4.4%	30% (33% in 2009)	4.4%

	2009)		2009)		
UPS	14.8%	-10%	-1.5%	-1%	0%
Lead acid battery export (excluding SLI)	5.5%	40.2%	2.2%	36.9%	2.0%
Total			10.4%		11.5%

Source: Antaike

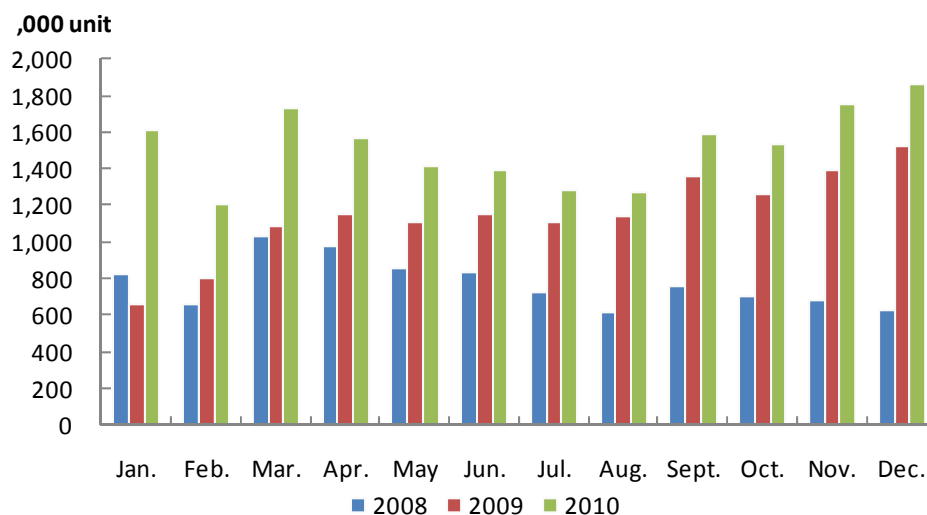


Chart 11: Chinese automobile output in 2008-2010

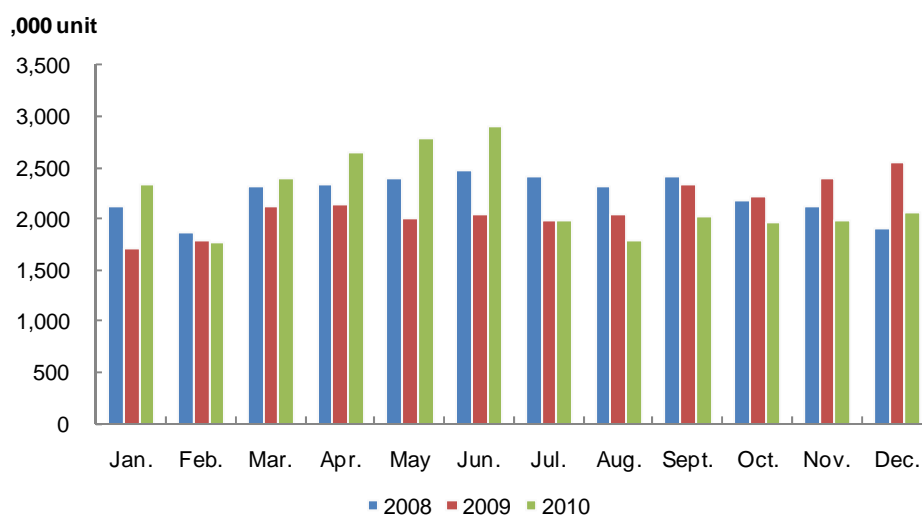


Chart 12: Chinese motorcycle output in 2008-2010

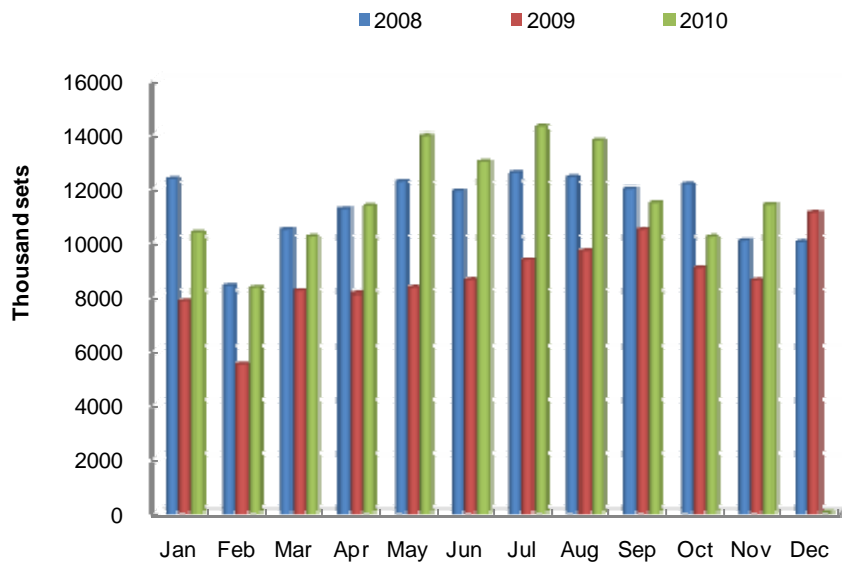


Chart 13: Chinese lead acid battery (excluding SLI) export in 2008-2010

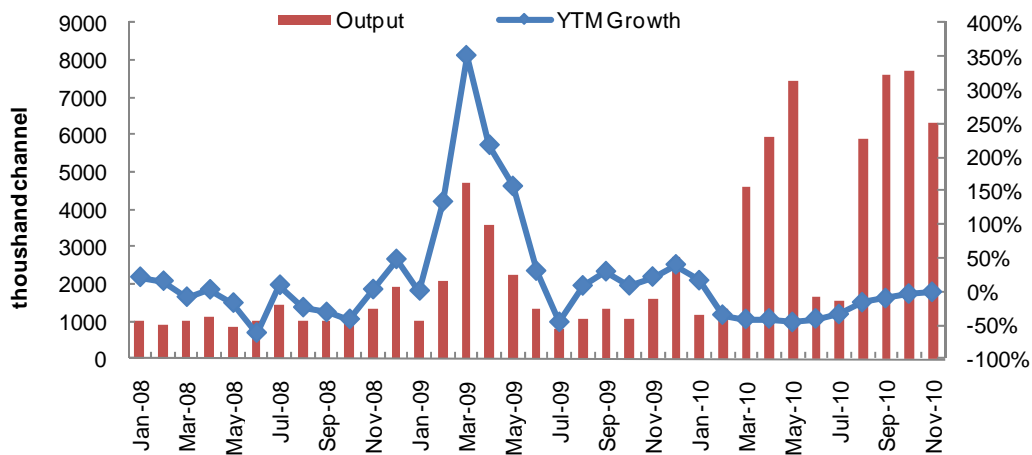


Chart 14: Chinese communicating products production in Jan. 2008-Nov. 2010

Lead Price Review

The most important factor on domestic and overseas lead markets was still Dollar in Q4. And, the economic indicators of European and the United States and the accordingly anticipation for their economies also played big role on the markets. On the contrary, the fundamentals influenced the lead prices little. The LME 3-month lead price was in fluctuating in Q4, which slipped from US\$ 2,410/t in Oct. to US\$ 2,388/t in Nov., then, rebounded to US\$ 2,408/t. The quarterly average price of LME 3-month lead and cash month prices were US\$ 2,402/t and US\$ 2,382/t in Q4 respectively, up by 16.4% and 17.0% compared with Q3.

Affected by the overseas lead prices, the domestic refined lead price was in fluctuation in Q4. The domestic lead price increased to 17,658 yuan/t in Nov. from 17,195 yuan/t in Oct. Then, it returned to 17,184 yuan/t in Dec. The Chinese lead price represented an increase in Q4 against Q3, but the growth speed was much lower than overseas. The domestic average lead price was 17,346 yuan/t in Q4, up by 9% compared with the previous quarter, much less than overseas market. Therefore, the proportion of domestic and overseas lead prices decreased further to lowest 6.5. The key reason was both the domestic macroeconomic environment and lead market supply-demand unbalance were disadvantages to domestic lead price. Moreover, the lead futures contracts haven't been launched, and there was lack of speculation on domestic lead market.

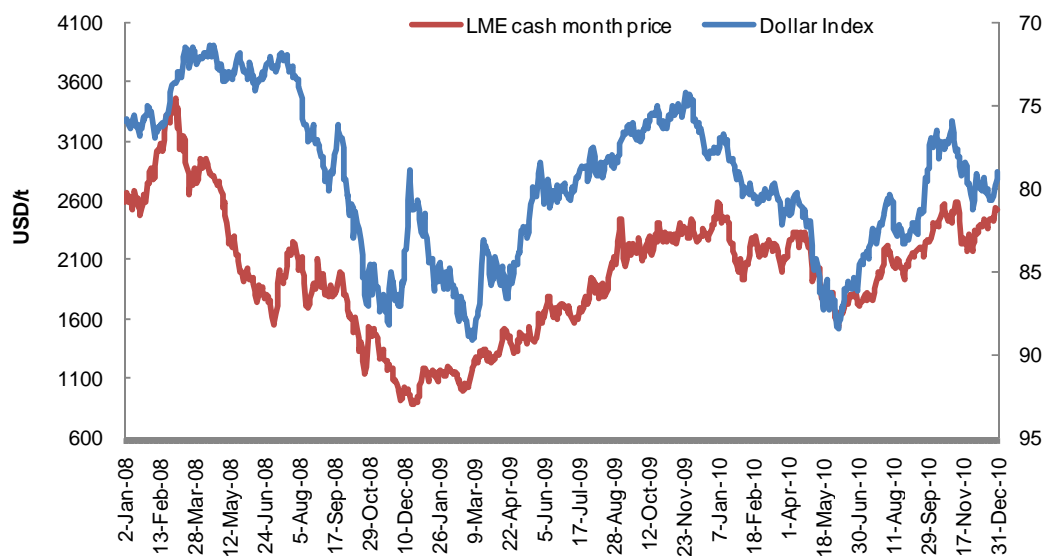


Chart 15: LME cash month lead price and US dollar index

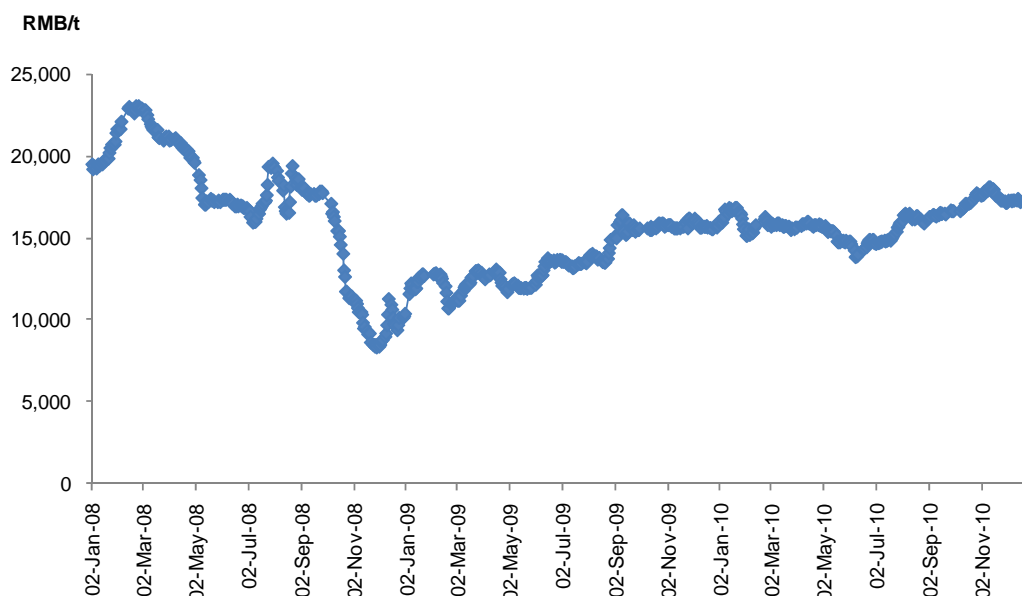


Chart 16: Chinese lead price

Market Balance and Outlook

Though the resuming speed of the world economy is slowly, it is indeed enhancing the market confident for optimistic lead consumption. In another side, those western lead smelters, which suspended in financial crisis and haven't restarted, would re-operate soon or later, and the new lead smelting capacity in developing countries especially China would come on stream. Then, the supply will increase significantly. Therefore, the supply-demand structure would not be improved in short term, and the lead inventory will be still in a high level. However, the lead supply and demand situation doesn't play big role on lead prices presently. The change of Dollar Index and the European and the United States' economies will keep affecting the lead prices.

Currently, the influence of European national debt crisis has been eased, and the confident for Euro picks up gradually. Accordingly, the stress on Dollar is rising. However, the United States' economy is better than European, which drives the Dollar to climb up. So, the Dollar Index would fluctuate around 80.0 in short term. Then, the LME lead price will represent a short range growth in fluctuation. The LME 3-month lead will be mainly at US\$ 2,400-2,700/t.

On domestic lead market, the lead futures contracts will be less possible to be launched in 1-2 months because of the Chinese New Year Vacation. In that case, the domestic economy and the Central Bank's movement for controlling inflation would mostly affect the domestic lead price. Besides, the domestic lead price will go on following the steps of overseas one. For treating the inflation, the Chinese economy growth would slow down that would be bad news for lead prices. However, the LME lead prices would support domestic lead market. So, the domestic lead price will be

stable basically at 17,300 yuan/t in short term.

Table 10: Chinese lead market balance in 2009-2010, kt

Lead concentrate

		Output	Consumption	Balance	Import		Lead content in zinc concentrate
					Physical weight	Metal content	
2009	Annual	1,524	2,439	-915	1,605	860	60
2010	Q1	290	488	-198	312	180	15
	Q2	472	625	-153	293	143	15
	Q3	460	768	-308			15
	Q4	468	790	-322			15
	Annual	1,690	2,671	-981			60

Refined lead

		Output			Consumption	Export	Import	Net export	Balance	Price Yuan/t
		Total	Secondary	Primary						
2009	Annual	3,550	1,223	2,317	3,328	21.7	155.9	-134.2	356	13,743
2010	Q1	810	347	464	884	8	3	5	-79	15,983
	Q2	930	337	594	900	3	5	-2	32	15,154
	Q3	1,073	344	729	924	5	10	-5	154	15,918
	Q4	1,090	339	751	934			4	151	17,346
	Annual	3,904	1,367	2,537	3,642			2	258	16,100

Source: CNIA, China Customs, Antaika

Note: The italics are estimated by Antaika;

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