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RESOURCEWORLD

INVESTMENT OPPORTUNITIES AND NEWS **magazine**

Volume 9 Issue 6



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four questions
to ask

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unravelling New
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GREAT PANTHER SILVER

increasing production
and resources

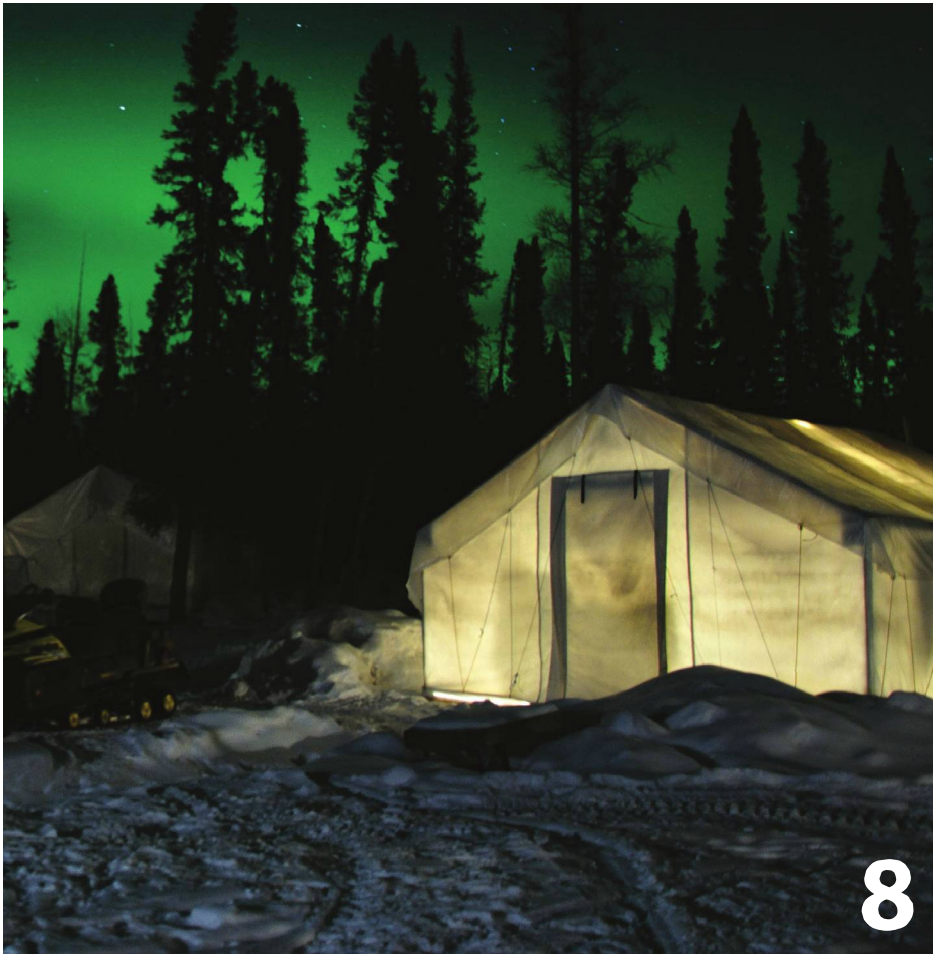
Exploration & mining in QUÉBEC

Robert Archer, President/CEO
Great Panther Silver Ltd.

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GLOBAL IRON ORE DYNAMICS – *four questions to ask*

by Sandy Chim & Can Zou

WHERE WE ARE IN THE CYCLE?

At the beginning of the international financial crisis in 2008, there was a consensus that the global steel industry was going to shrink with China going more or less flat over 2009 and 2010. But the market surprised the world by achieving a historical high in 2010 at 1.4 billion tonnes due to China growing from 500 mtpa (million tonnes per annum) in 2008 to an impressive 630 mtpa in 2010, while the rest of the world was still struggling.

Of course, the US \$600 billion stimulus package announced by the Chinese government in late 2008 helped. Whether or not the budget for the entire program was fully spent is not certain (and not relevant now), the effect was apparent; so much so that the Chinese government had to introduce macro measures, such as the tightening of bank lending ratios and interest rates, to contain the heated real estate sector.

In addition to, and as a result of the volume growth in the iron and steel industry, despite the short-lived dip of the iron ore spot prices late 2008 and early 2009, the spot prices broke historical records quite a few times peaking at about US \$200/tonne

early 2010 and again in early 2011. The iron ore commodity cycle did not end with the international financial crisis, but only suffered some short term corrections, and then continued its course of going up on the curve of this extended mega-cycle. Mindful of the major advanced economies not yet recovered, the strength of such recoveries is expected to add momentum to it.

It is the general view of the market that the iron ore cycle will continue for another three to five years due to the shortage of global supply. Whether the cycle will end then depends on how the Chinese economy will grow in the future and, if India, another major evolving economy highly populated, will take off as China did some 10 years ago (the impact of which was beyond prediction at the time and still is regarding the future). We could be still at the early stage of this mega cycle.

WHEN IS CHINA GOING TO START SLOWING DOWN?

History teaches us that the growth of a steel industry ends when an economy matures. The post-WWII rebuilding of Europe and the American economies plateaued after

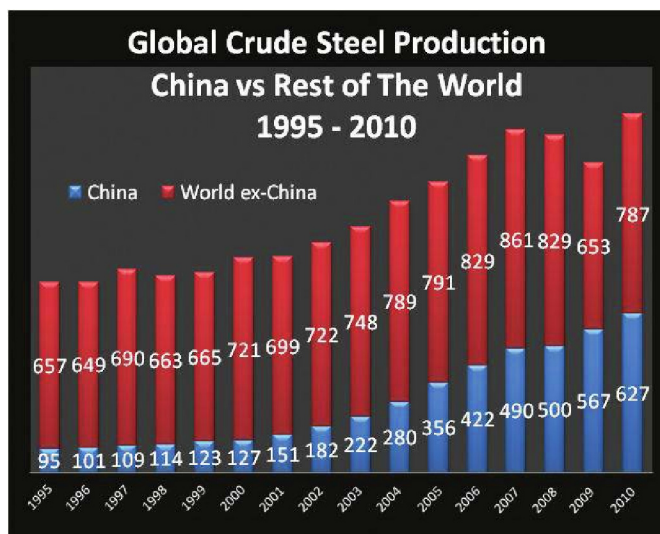
about three decades of declining growth, only to see the Japanese economy overtake them. Then economies like Korea and Taiwan overtook the Japanese. Everyone started out poor; however, when a very large (1.34 billion people) and very poor (about US \$40 per capita income 30 years ago) country begins to industrialize and urbanize, it is impossible to predict the

outcome. The world was surprised at the growth, including China. Economic models do not seem to apply when a homogeneous economy of this size with multiple, highly populated, regions is working itself out of a planned economy to a market economy under a stable and constant government, regardless of the ideology.

Now that China is the second largest economy in the world, after 30 years of growth, when will it start to slow down? From our experience, it is hard to think that demand for steel to build a single economy could last as long as it has; however, there does not seem to be any signs of it ending anytime soon. Nevertheless, every year China surprises us.

We all understand the argument for the end of growth, but there are signs which are not yet observed with sufficient intensity and analysis, that can give us some clues as to how much longer the growth cycle will continue.

One indicator worth discussing is the per capita consumption of steel. South Korea, a much smaller neighbour of China, in 2009 consumed 1,210 kg of steel per capita. There is little doubt that China will continue a growth pattern similar to Korea, having similar characteristics and demographics. By the time China gets to where Korea is today, with its mass population, China will have consumed 1.6 billion of steel tpa (more than the current global production today) and will need an additional 1 billion tpa capacity. From Chart 1, we can see that China has been only able to grow its annual capacity an average of only about 50 mtpa and about 80 mtpa at most, despite the fluctuating percentage of growth. It will take 20 years to add 1 billion tonnes compared with the Korean model. If China's needs 1 billion more tonnes of steel, the impact on the global steel industry will continue for many years to come.



Year	GDP Growth %	Crude Steel				Correlation Steel growth & GDP growth
		Output (mtpa)	Growth (mtpa)	Running average growth (mtpa)	Growth %	
2001	7.3%	151	24	24	19%	2.6
2002	8.0%	182	31	28	20%	2.5
2003	9.1%	222	40	32	22%	2.4
2004	9.5%	280	58	38	26%	2.7
2005	9.9%	356	76	46	27%	2.7
2006	10.7%	422	66	49	19%	1.8
2007	11.4%	490	68	52	16%	1.4
2008	9.0%	500	10	46	2%	0.2
2009	8.7%	568	68	49	14%	1.6
2010	10.3%	627	59	50	10.2%	1.0
2011	9.6%	661	34	49	5.5%	0.6

GLOBAL DEMAND: WE KNOW CHINA BUT WHAT ABOUT INDIA?

Like China, India is a developing economy. India, with a population slightly less, but growing faster than China's, has only one-tenth of the steelmak-

ing capacity of China. With the way that India is industrializing and urbanizing, it will grow in a steadily increasing pattern and will reach that takeoff point in the near future, like China did. For India to be at the 400-500 kg per capita per annum (where China is at today compared with its 60 kg), it will have to grow its capacity by 400-500 mtpa from its 67 mtpa today. Another major steel making country is in the making.

Assuming China catches up with South Korea and India catches up to China, there will be roughly 1.5 billion tpa capacity needed to be added, more than double the global production not counting China and India's current production. It took the world a couple of centuries to get to this 1.4 billion tpa in 2010 due to the industrialization of the Western countries and the global economy.

So we have a scenario of two large neighbouring countries modernizing in succession in the same generation. What is more difficult to estimate is the multiplier economic effect when these two huge countries form the largest trading block ever. Whenever that will come, its coming seems to be written on the wall. When India happens, say in a couple of years, as we saw what China did in that preamble of economic development in the last 15 years, the world will see global steel production at 3 billion tpa.

WILL THERE BE ENOUGH SUPPLY TO MEET THE RATE OF DEMAND GROWTH?

When the world makes 3 billion tpa of steel, the iron ore needed will be approximately 5 billion tpa (the world produces about 2.3 billion tpa of shipping grade iron with over 1 billion sold in the seaborne trade). The world will need to more than double its production during this period or the spot price will go through the roof again and stay there for many years.

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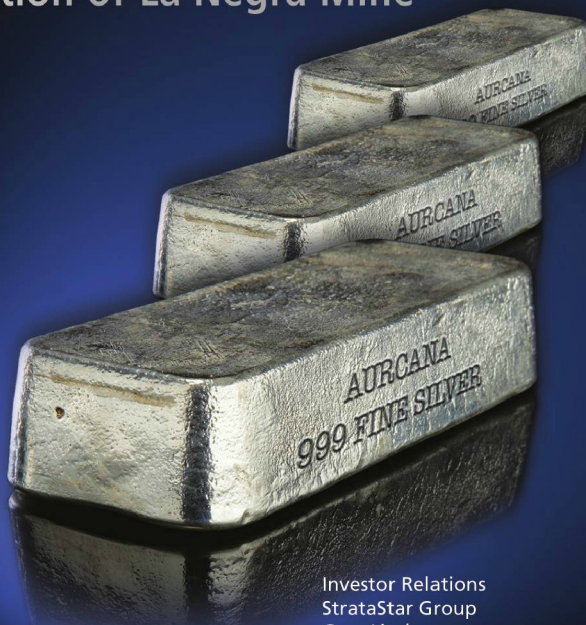
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What does it mean to build new capacities to produce almost 3 billion tpa more? Looking back five years, the world saw only FMG as a major producer of 45 mtpa. And CLM in Canada has 8 mtpa capacity, much smaller, but already a \$5 billion success. The rest of the increase in capacity mainly came from the big three cartel, while many pipeline projects still remain in the pipeline.

The majors will continue to be the big contributors to the increase in production going forward. However, the challenge of taking multi-billion dollar projects to production is not easy. Financing, budget, engineering risks etc. are quite common difficulties, causing delays for the majors as we have seen in the past. Availability of large scale, long term capital and capability of building a project to production from an exploration operation for junior companies are other reasons why the world has not seem many of its pipeline projects finalized in the last five years, even given the favourable conditions of the market. It is not difficult to foresee that there won't be too many junior companies becoming producers in the next few years.

In addition, the objective of the cartel is primarily to increase shareholders' value and not to meet market demand. One would expect these highly profitable companies would only increase production to meet demand when the margin is there. The margin is only there when the supply remains tight. It would not be logical for the cartel to invest billions of dollars to increase production only to see the erosion of their profit margin. It would be in their best interest to keep the supply very tight for as long as possible. ■

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Located in Northwestern Ontario, Canada
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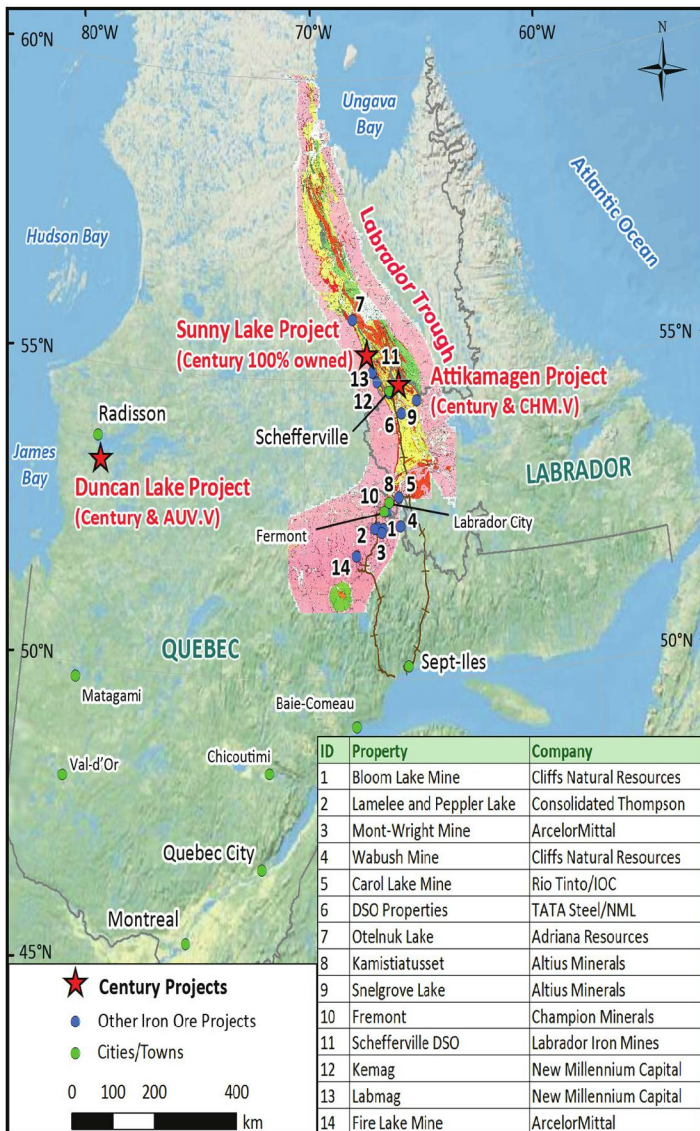


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- Wuhan Iron & Steel Co. Ltd. (WISCO) is ranked 428 in the list of the Forbes Global 500, the third largest steel producer in China.
- MinMetals Resources Ltd. is ranked 332 in the list of the Forbes Global 500.
- WISCO- 25% equity stake and off-take agreement for up to 60% of the production.
- MinMetals— 5% equity stake and off-take agreement for up to 10% of the production.

NI 43-101 mineral resource estimate of:
5.7 million tonnes measured
25.6 million tonnes indicated
821.5 million tonnes inferred

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