

RUDOLPH Danielle

From: Bill Davidson <bill.davidson@roh.com.au>
Sent: Wednesday, 1 April 2015 12:17 PM
To: TAYLOR Kerry; RUDOLPH Danielle
Cc: John O'Connor
Subject: ARWs ex China - more news from Harbor aluminium

Good morning Kerry and Danielle,

Please see below more news regarding over-capacity in China's aluminium industry (despite the industry's losses) and the recent intervention of the State to reduce on-grid power tariffs for China's aluminium smelters as of Q2 2015.

We reiterate that we can only conclude that a market situation for aluminium in China persists to this day and that exports of ARWs from China to Australia will continue to be dumped and subsidised.

5. China materially impacting primary aluminum demand in ROW

China's aluminum scrap imports (down in February 782 kmt on an annualized basis) and China's aluminum semis exports (up in February over 3 million mton on an annualized basis) are headed to increase the supply of aluminum units in ROW by 3.8 million mt in 2015. This is more than four times what we were expecting ROW's primary aluminum demand to increase in 2015 (900 kmt). This is bearish for LME prices and even more so for premiums.

The China factor, the fact that primary aluminum production is expected to increase in 2015-2016 more than in the prior ten years together, and the fact that traders/banks have become aggressive sellers of metals that was under financing deals (as much 5 million mt) has materially impacted the aluminum market.

6. China to reduce on-grid power tariffs as of Q2 2015

China has announced the reduction of on-grid power tariffs. Reduction of on-grid power tariffs in China could decrease production costs for Chinese smelters by \$34 per mton of aluminum. Tariffs will be reduced by an average of \$2.4 per MWh starting Q2 2015. Chinese smelters that buy their electricity from the grid (around half of the country's total primary aluminum capacity) will be the beneficiaries of the measure. HARBOR estimates that the average Chinese cash cost of production stands today at \$2,016 per mton (ex VAT that Chinese smelters pay for electricity, raw materials and services).

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