

Growth in tungsten market deficit will threaten non-Chinese processors

~ Deficit in primary tungsten market likely to grow, despite weaker consumption outlook, according to new study by leading metals consultancy firm ~

London, 25 August 2009. CRU, the leading metals and mining consultancy firm, has identified a clear need for investment in tungsten mining outside of China. In its new report entitled "The outlook for tungsten to 2013", CRU forecasts a growing deficit in the supply of primary tungsten to the global market. It believes there remains a valid case for the development of non-Chinese mine projects, in spite of forecasts for lower consumption growth outside of China over 2009 to 2013. Tungsten consumers outside China therefore need to urgently review their future procurement plans.

With 61% of global reserves and over three quarters of world mine production, China exerts a major influence over the global tungsten market. In the 2000s Chinese government measures aimed at conserving domestic resources and developing downstream processing have led the country to reduce its exports of tungsten ores and concentrates drastically. Instead it has since sought to process and export increasingly higher value tungsten products, resulting in increasing competition for non-Chinese consumers, both in buying raw materials and selling products.

Given the country's importance, CRU's Beijing based team has undertaken extensive research into China's tungsten market. Using data previously only published in Chinese and by calculating new demand and supply estimates that take into account expected projects and ore depletion, CRU forecasts a market deficit to emerge in China as early as 2012, unless proactive steps are taken. The steps that China is most likely to take in response include export restrictions and increased imports of raw materials. These measures will tighten supply to the market outside China for both concentrates and scrap.

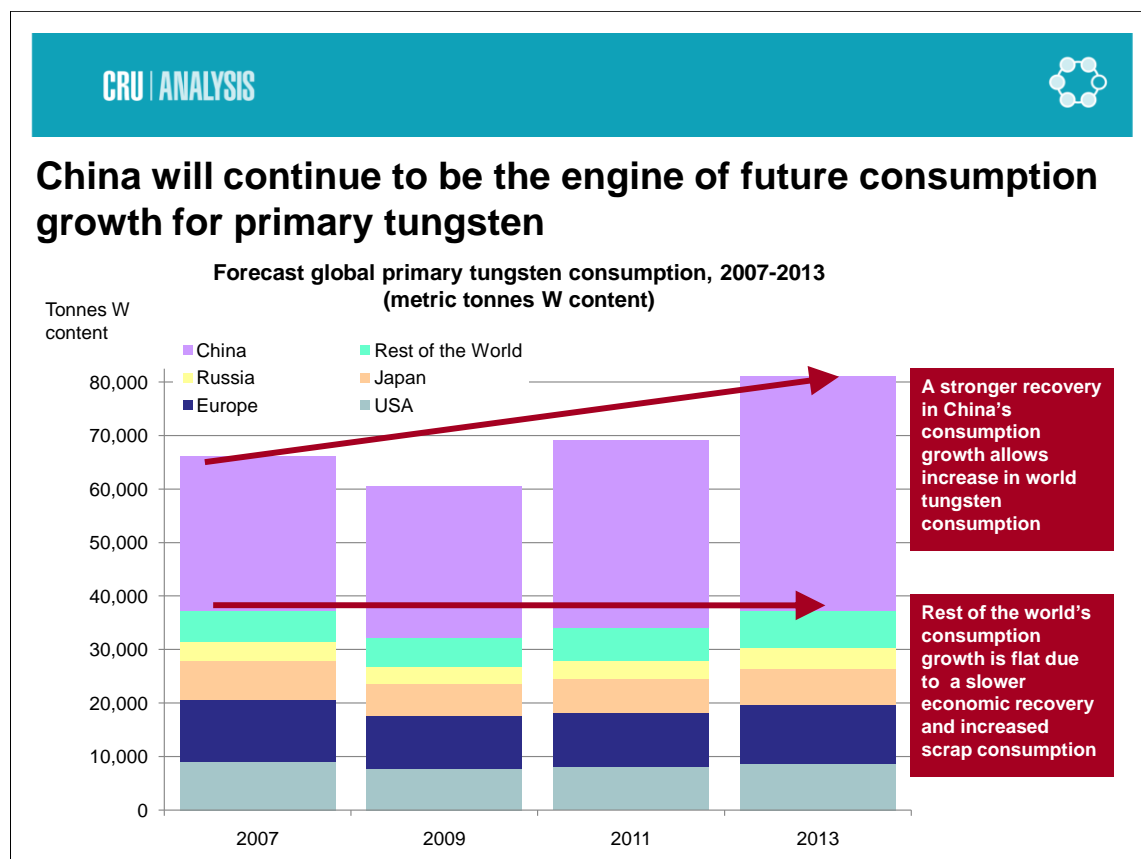
Concerns about China's future ability to supply the rest of world and elevated tungsten prices from 2005 prompted the development of a large number of non-Chinese mine projects. This was until the downturn struck in the second half of 2008, tungsten prices fell lower, and many non-Chinese mine projects stalled, primarily due to difficulties in securing finance. The outlook for the consumption of primary tungsten also became weaker with the downturn.

Josie Dean, Senior Consultant at CRU, believes that the sheer magnitude of the current downturn, combined with slow recoveries in industrial activity and greater use of scrap, means that it will be 2013 before the consumption of primary tungsten in some regions recovers to pre-slowdown levels. China is the exception: China's consumption of primary tungsten, which is mainly used after processing in cemented carbides and tool steels, is set to grow by an average 7.9% a year between 2008 and 2013. Driven primarily by these gains in China, CRU forecasts consumption growth for primary tungsten of 3.8% per year on average between 2008 and 2013. The consumption forecast for selected years is shown in the accompanying chart.

Even factoring in the weakened outlook for tungsten consumption, CRU expects the deficit in the primary tungsten market outside China to grow, as China's capacity to export tungsten products reduces, and non-Chinese mine projects face delays. As a result, processors and consumers are likely to face increasing competition in the supply of tungsten products in the medium to long term.

Josie Dean states “with a larger deficit emerging in the Chinese market, ore depletion issues and the consolidation of Chinese processors and mines into large multinational Chinese companies with overseas ambitions, Chinese processors may increasingly lock into mine production abroad. It is therefore especially important for those overseas processors and consumers currently relying on the supply of tungsten products from China to review their long term procurement strategies”.

CRU’s study, which investigates the implications of the market outlook for various market participants, suggests that one option available to proactive processors is entering into long term supply agreements with exploration companies that are working on tungsten mine projects. Moreover, the mining companies are currently encountering difficulties securing funding to develop projects, and therefore a processor may need to consider providing equity or loan finance to accelerate the project’s development. The CRU study reviews potential new mine projects outside China and stresses that successful mine projects still need to be technically viable, with competitive operating and capital costs. Those mine projects outside of China that manage to come on stream by 2012 and 2013 also stand to benefit from lower capital costs in the short term, as well as a potential spike in prices in the medium to long term.



For more information on the content of this press release and the report "[The outlook for tungsten to 2013](#)", please contact:

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About CRU Group

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