



The World Trade Organization (WTO) recently ruled against China and its trade policy with respect to molybdenum and other strategic metals. The molybdenum market has responded in a way that was in line with the expectations and conclusions presented in CPM Group's **Molybdenum Market Outlook 2013** released December 2013. Below are comments by Catherine Virga, CPM Group's Director of Research and lead author of the molybdenum report, in response to the recent ruling and price moves in the molybdenum market. For more information on CPM Group's long-term molybdenum report please contact Matt Taub at mtaub@cpmgroup.com or 212.785.8320.

Molybdenum's Dramatic Price Response

Molybdenum prices in Europe have risen rapidly following the World Trade Organization's confirmation that the export duties and quotas imposed by China on molybdenum are incompatible with its WTO obligations. This report concludes a dispute initiated in March 2012 when the European Union, Japan, and the United States filed a formal request with the WTO for consultation with China over its restrictions on exports of rare earths, tungsten, and molybdenum. As of 16 April molybdenum prices have jumped nearly 31% to \$13.20 (basis *Metal Bulletin*, US\$ per pound Mo contained) since the 26 March report. Prices in China meanwhile are up just 4.2% over this same period.

China has yet to announce a formal response to the WTO's ruling. There is a possibility that China may remove the export duties on some molybdenum products as a concession in order to keep duties and quotas on tungsten and rare earths. As part of a January 2013 response to a WTO ruling on a separate case regarding export taxes on silicon metal, silicon carbide, manganese, magnesium, zinc, bauxite, coking coal, fluor spar and yellow phosphorus, the Chinese government removed the 20% duty on the export of EMM as well as *some* of the duties of other metals.

China may be pushed to reduce or remove the current duties on molybdenum product exports, as had been the case with the electrolytic manganese (EMM) export duty. EMM exports rose strongly in response, possibly due to exporters officially reporting their goods at customs rather than smuggling them out of the country. Official EMM prices also fell.

The case for molybdenum differs from EMM, however, as it is a metal under consideration for a national resource classification. Official regulations for the molybdenum

industry could be shifted to the Ministry of Land and Resources, which also manages tungsten and rare earths. There also are government concerns with regard to the price stability of these specialty metal markets. In the past, the Chinese government has adamantly opposed lowering prices for its raw material exports, particularly in instances related to price competition by a large number of domestic exporters. That said, there have been major producers voicing support for lowering trade barriers as they seek to expand sales internationally in response to the lack of orders for the surplus metal in the domestic market.

In 2013 China's domestic molybdenum prices traded at premium (~14.3%) to western world prices so there was no incentive to export molybdenum. This trend remained in place until the run up in western world prices in the first two weeks in April. According to *Metal Bulletin*, Chinese prices held on average a \$0.91 or 9.2% premium over western world price between 1 January and 21 March. Since the ruling, however, western world prices are at a premium to China. As of 16 April, *Metal Bulletin* reported western world molybdenum at \$13.20 and Chinese molybdenum at roughly \$10.55, a premium of \$2.65 or 20%. Obviously both markets need time to process the news. However, western world prices have risen to levels that will likely encourage exports from China in the near term. Even with current duties in place on various molybdenum products, some of which are as high as 20%, arbitrage opportunities still exist for Chinese exporters. The current sizable price differential may act as an incentive for the Chinese government to keep present taxes in place to help disincentivize exports of their national molybdenum resource.

Furthermore molybdenum prices in the western world are being bolstered by robust demand, which has been

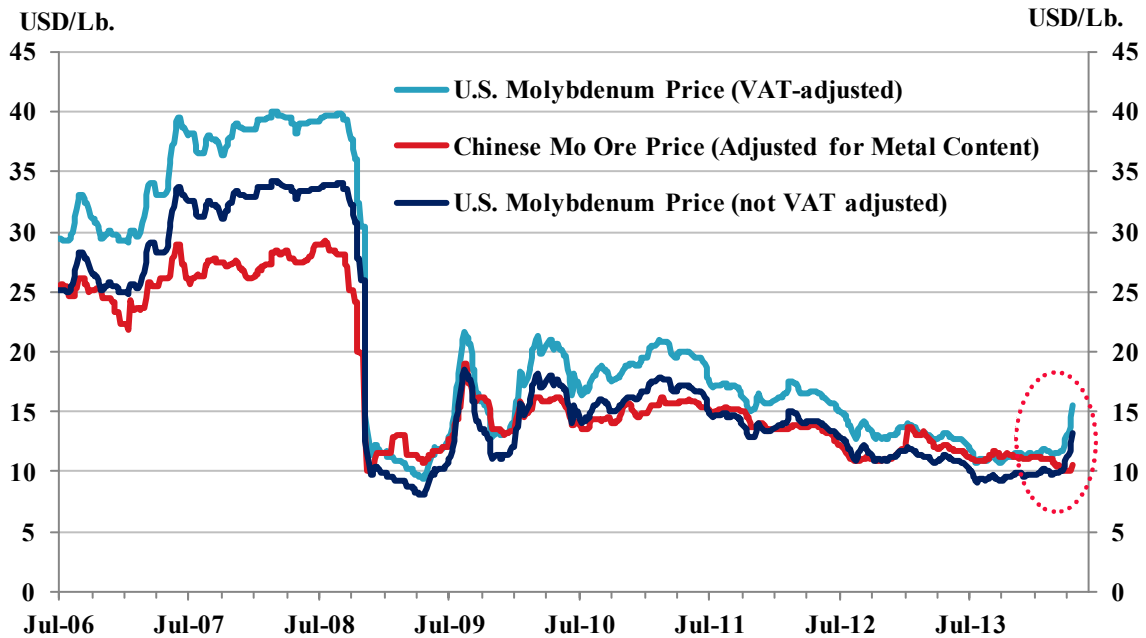
Molybdenum's Dramatic Price Response (cont.)

strengthening in regions outside of China. This is most notable in Europe and South Korea, which have seen a strong rebound in steel production during first two months of 2014 growing 6.5% and 3.9% year-on-year,

respectively, compared to -2.2% and -4.8% in all of 2013. Crude steel production is also strengthening in Japan, with output rising 3.8% in the first two months of 2014 from year ago levels.

Chinese Mo Ore & U.S. Mo Prices (Metal Content)

Bi-weekly, Through 16 April 2014



Source: Metal Bulletin. CPM Group

Chinese Mo Net Trade & Spread between Chinese and Western World Mo Prices

Monthly trade data (Contained Metal), Avg. Monthly Spread in Regional Prices (not VAT-adjusted)
Trade Data thru Feb. 2014, Spread data for March 2014 thru 16 March 2014

