**Chinese Prebaked Anode Supply & Demand in Xinjiang**

Distinguished guests:

Good morning! Firstly, I want to take this opportunity to say thanks to Asian Metal, the organizer of the summit, for allowing me to give the speech as a representative. Next I would like to express my sincere gratitude to all the peer companies and guests here. My speech today is about the demand and supply of anode for aluminum in Xinjiang.

Prebaked anode in Xinjiang is mainly supplied to local primary aluminum companies and the current primary aluminum capacity in Xinjiang is about 7.67 million tons.

The actual primary aluminum output in 2018 was about 6.77 million tons restricted by national policy and power shortage, with the annual consumption for anode being about 3.25 million tons.

Primary aluminum plants in Xinjiang, except for Jiarun Resource, are all equipped with prebaked anode capacity and the self-sufficiency rate exceeds 85%. Specifically, East hope, Nongliushi Coal Power, Qiya Aluminum & Electricity, Xinjiang Shenhuo and Tianlong Mining could achieve anode self-supply; While Tianshan Aluminum has an anode capacity of about 300,000tpy and plans to construct 600,000tpy capacity in October 2019 when it will realize self-supply completely; But Jiarun Resource and Xinjiang Jointworld have no anode capacity by themselves.

Anode carbon block is the raw material for primary aluminum, and it takes 0.48t of anode carbon block on average to produce 1t of primary aluminum. Pet coke and coal tar pitch, the by-products of petroleum, account for 70% of the production cost for anode carbon block. Xinjiang is abundant in oil, which is the basic condition for anode production. However, the annual supply of pet coke in Xinjiang is only 1.82 million tons and most of the material contains high or medium sulphur. Electrode and silicon plants need about 0.5 million tons of pet coke while aluminum plants need about 2.32 million tons. Thus, Xinjiang needs to consume about 1Mtpa of pet coke with low-to-medium sulfur content, and most of the materials are sourced from Russia, Kazakhstan, Turkmenistan as well as inland smelters in Yumen, Zhoushan and Shandong.

There is no significant difference in the production cost among anode producers in Xinjiang. Historical statistics showed that anode carbon block production lines generated relatively thin profit margins. Since 2017, China has seen a sharp drop in the rate of capacity utilization of anode carbon block, the price of which surged mainly due to the raw material price hike and the strict environmental inspection. Affected by the policy changes and gloomy pet coke market, prebaked anode plants in Xinjiang saw a drastic decline of profitability in 2018, with sales price fluctuating slightly around cost price which was about RMB300/t (USD44.56/t) higher than that of other Chinese plants within the same industry. In addition, anode carbon block producers in Xinjiang have been cutting production or even been out of operation for a long time due to the high price and tight supply of coal tar pitch. Therefore, the supply shortage gives commercial carbon plants in Shandong and Henan the opportunities to supply anode carbon block to Xinjiang. It is believed that primary aluminum producers with high self-sufficiency in anode carbon block would have more obvious cost advantage in the near future.

According to statistics, the total output of anode carbon block in Xinjiang was about 2.8577 million tons in 2018, 924,000t from Nongliushi Coal Power, 608,500t from East Hope, 488,000t from Xinjiang Shenhuo, 306,000t from Tianshan Aluminum, 411,000t from Qiya Aluminum and 120,200t from Tianlong Mining. Most producers within the industry realized self sufficiency, expect for Jiarun Resource and Tianshan Aluminum which together saw deficit of about 450,000t. As mentioned before, the demand-supply gap was mainly filled by commercial carbon plants in Shandong and Henan.

With the trade tension easing between China and the United States staring this year, and also affected by China's massive tax cuts policy and the stronger support for increasing financing for private enterprise, China's economy is expected to gradually stabilize and grow. With more and more good news for real economy, prices for primary aluminum are expected to be supported to some extent.

Xinjiang Government will open the door to more development investment and maintain steady economic growth at the same time. This would be beneficial to the development of primary aluminum enterprises as well as anode carbon plants within the provincial region. However, there are still many uncertainties about China-U.S. trade war, not to mention the severe overcapacity and production surplus in primary aluminum industry last year, especially in late 2018 when the growth of aluminum prices was greatly driven down by the gradual resumption of primary aluminum capacity through capacity replacement projects in Inner Mongolia and Yunnan. Besides, an estimated decline of 157,000t in the supply of pet coke is expected for this year when Xinjiang's five major petrochemical companies would successively suspend production for maintenance. Other factors include the continuously high costs and tight supply of coal tar in Xinjiang and the major overhaul of calcining furnace that has been carried out or to be performed at carbon plants this year. All this led to higher production costs for anode carbon plants in Xinjiang and the situation would continue over a longer period of time. Carbon producers in Xingiang, facing great challenges, are finding themselves in a difficult situation now.

And that's the end of my presentation. Thank you!

Zhang Shaomao

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