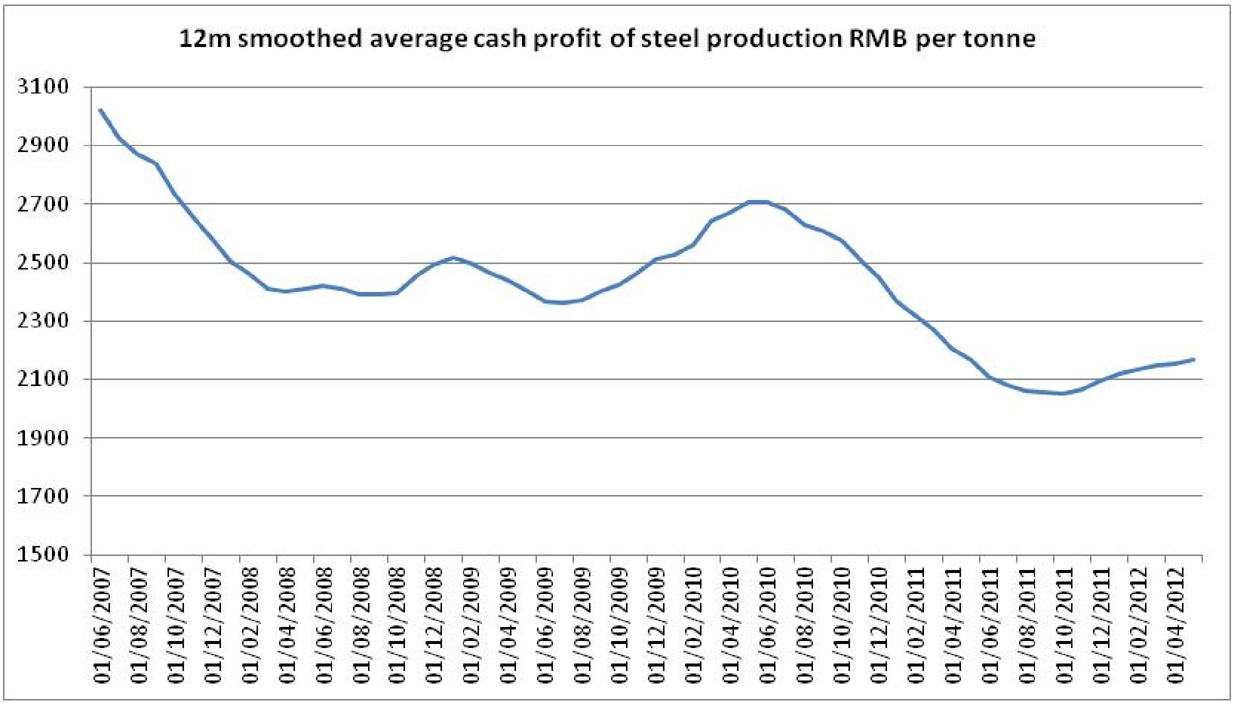
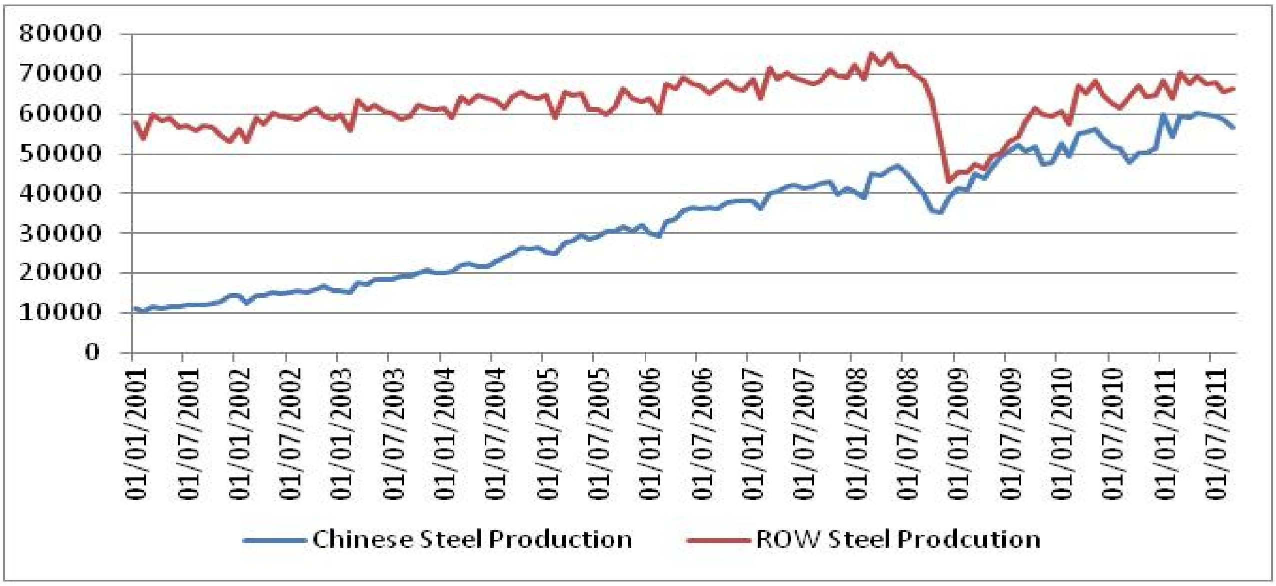
The End of the Iron Ore Bubble

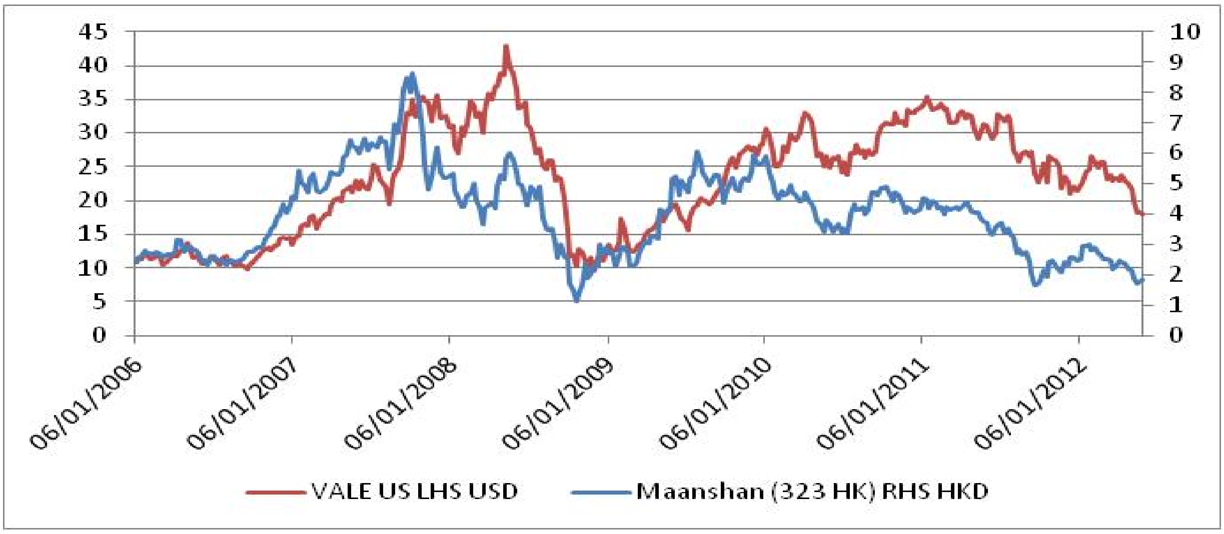
Mining and mining related areas have been very weak over the last few months. While the bullish sentiment on mining that was apparent in the first quarter of the year has disappeared, the problem remains that the fundamental mismatch in the industry remains.

As shown below, the Chinese steel industry has continued to see cash margins remain compressed, with recent spot pricing showing that margins have not improved in June.



This may seem odd to some investors as iron ore and metallurgical coal prices have weakened of late, but every cost reduction to Chinese steel makers has been lost in price completion in China. Despite such fierce competition and increasing signs of slowing growth, Chinese steel production has continued at all time high levels.





Chinese steel industry profitability has not improved. Angang Steel (347 HK, 000898 CH) – reported a loss of 2.1bn RMB in 2011. It has followed up this full year loss with 1.9bn loss in the 1st quarter of 2012 alone. I have no reason to believe this trend has changed. Debt ratios have continued to climb.

While mining names have been weak – they have yet to catch up with the performance of their main clients, Chinese steel producers. The risk reward in shorting miners still looks compelling.

Information

- Issue date: 11th June 2012
- Source: Bloomberg, unless otherwise stated

- Investor Relations: Alain Zakeossian, Carol Brown
- Email: info@horsemancapital.com
- Telephone: +44 (0)20 7838 7580
- Website: www.horsemancapital.com
- Business and registered address: Horseman Capital Management Limited, 9 Chester Close, Chester Street, London SW1X 7BE, United Kingdom

- Registered in England and Wales - Company number: 04034280
- Horseman Capital Management Limited is authorized and regulated by the Financial Services Authority (“FSA”)