



2018: Year of the Dog likely to live up to its name for Chinese mineral consumers

We are entering the Chinese New Year of 2018—the Year of the Dog—a festival that officially lasts February 16–March 2, 2018.

Many Chinese ceramic mineral consumers in the West also hope that it will be a time to take stock and perhaps see what might be in store regarding China's mineral supply outlook for the rest of the year.

Since the mid-1980s, China has been the world's dominant supplier of a range of important ceramic, abrasive, and refractory minerals, such as bauxite, fused alumina, fluorspar, kaolin, graphite, magnesia, refractory clays, silicon carbide, talc, and wollastonite. All that may be about to change.

The closing months of 2017 witnessed an unprecedented period in Chinese mineral trade, particularly regarding refractory and abrasive export minerals—Chinese producers were struggling to reassure customers that they could maintain future supplies of grades in demand.

The problem remains that they cannot—and even the few in a position to continue supply for export markets were having a challenging time trying to fix prices into 2018. This is a nightmare for western traders and consumers, whose normal practice of fixing annual forward contracts simply dissolved as 2017 wore on. Few were lucky to get Q1 2018 contracts concluded.

There are three primary causes for this extraordinary state of affairs, driven by the strategy of China's president Xi Jinping (who was recently rebooted for another five years by the October 2017 Congress). The situation evolved in early 2017 and climaxed towards the year's end: a countrywide and robust program of anti-pollution control on industrial plants; a ban on normal provision of dynamite; and an across the board clean-up of illegal and unlicensed operations.

The net effect has significantly hit the mineral and ceramics industries, with plant closures (a few refractory mineral plants have reopened since they met environmental standards, but there have been province-wide closures in Shanxi and Henan, which host most bauxite and alumina calcination and fusion plants) and reduced primary raw material availability owing to little or no drilling and blasting at mines. In addition, certain suppliers lacking correct documents, licenses, and tax payments are facing business closure.

The upshot has been acute shortages in supply and soaring prices for export minerals, causing panic among traders and consumers.

As January 2018 came around, refractory-grade brown fused alumina was pushing through \$800/tonne free on board (FOB), with abrasive grades priced at \$850/tonne FOB. Calcined bauxite 86–88% Al_2O_3 , ranged \$470–500+/tonne. Fused magnesia remained at >\$1,000/tonne FOB.

Some fusion plants have reportedly resumed production in January 2018, but the brown fused alumina shortage is expected to last another two or three months at least.

Unlike past cycles of Chinese mineral supply ups and downs, which were relatively short-lived, this time is different—forces impacting the mineral industry are driven by the central government and appear to have long-lasting intent. January 2018 witnessed the implementation of a new environmental tax penalizing plant emissions, a new cost input to the complex and unpredictable anatomy of Chinese mineral pricing.

End of year feedback suggested that perhaps by the end of the Chinese New Year, or maybe mid-2018, some of the dust may settle and things can clear somewhat. However, others are bracing themselves for a long haul of short supply and high prices through 2018 and into 2019.

Indeed, for western Chinese ceramic mineral consumers, the Year of the Dog may seem an apt description for the next 12 months.

About the author

Mike O'Driscoll is director of IMFORMED and has over 30 years of experience in the industrial minerals business. IMFORMED has conferences this year covering mineral recycling, magnesia, fluorspar, and China's abrasives and refractory minerals—see www.imformed.com for more information. Contact O'Driscoll at mike@imformed.com. ■

