

- - China's metals move a bright spot for sector
 - Chinalco investing nearly \$20-billion in Rio Tinto; deal suggests Canadian resources sector could climb out of doldrums sooner
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 - February 13, 2009
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 - MINING REPORTER

China's blockbuster deal to invest \$19.5-billion (U.S.) in **Rio Tinto Group** bodes well for Canada's resource-driven economy as it shows the world's largest commodities consumer is betting on a faster-than-expected recovery in metals demand.

State-controlled **China Aluminum Corp.** (Chinalco) is buying \$7.2-billion worth of convertible bonds and will pay \$12.3-billion for stakes in eight of Rio Tinto's mines that produce a range of metals including iron ore, copper and aluminum.

The deal will provide London-based Rio with sorely needed cash to reduce the crushing \$39-billion debt load it took on to buy Canada's Alcan in 2007 and will give China a secure supply of metals to feed its factories and mills.

"The Chinese are looking through the cycle," Na Liu, China strategist at Toronto's Scotia Capital, said in an interview.

The largest foreign investment in China's history suggests that the Asian economic superpower believes its own demand for base metals will pick up faster than many analysts and economists expect.

Mr. Liu said that new loans by Chinese banks jumped by 1.62 trillion yuan or about \$237-billion (U.S.) last month, an increase of more than 21 per cent from the month before.

"This shows that raw material demand may be coming back earlier than people thought. Probably in this coming spring," he said.

Plunging demand for raw materials has devastated the value of most metals, forcing the closing of Canadian mines and smelters and the loss of thousands of jobs. Prices for coal, copper, aluminum and nickel have skidded by more than 50 per cent as a global economic slowdown has sapped demand for materials needed to fuel China's factories and infrastructure projects.

China represents the largest market for most minerals and metals. According to research compiled by Canaccord Adams, China accounted for 28 per cent of global demand for copper, 34 per cent of demand for aluminum and 50 per cent of seaborne iron ore demand in 2008. More important, however, was the fact that China's demand for the metals increased by 140 per cent, 83 per cent and 89 per cent, respectively.

The fact that China is willing to make such a large investment in Rio and its assets augurs well for Canadian mining firms hoping for a speedy recovery.

"This is good for the Canadian economy. We are a resource-based economy and if China's story on a secular basis is still ongoing, even though China itself is facing a cyclical downturn, eventually it is going to be good for the Canadian economy as well," Mr. Liu said.

BMO Nesbitt Burns analyst Tony Robson said China got the better of a desperate and cash-strapped Rio on the deal, which will see Chinalco double its stake in the London miner to 18 per cent and gain two seats on the board.

"China is investing almost \$20-billion because it sees its own strength in commodity demand and potentially higher prices to come," he said.

Mr. Robson called China the "swing factor" of metals demand and said the major investment in Rio "sends a strong signal from the swing factor in terms of demand, that the future holds promise."

The deal still faces several hurdles. It will need approval from shareholders as well as Australian regulators who could raise concerns that China will use the influence it gains from the deal to keep prices for commodities such as coal and iron ore low. Mining firms negotiate contract prices for coal and iron ore with customers such as China each year.

As well, BHP Billiton Ltd., the world's largest miner, has signalled it may oppose Rio's plan to sell half of its 30-per-cent stake in the Escondida copper mine in Chile to Chinalco. BHP controls 57.5 per cent of Escondida and believes it has a right of first refusal on the stake.

Rio rebuffed a hostile takeover proposal from BHP last year.

RIO TINTO (RTP)

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