

ACCORDING TO BANK OF MONGOLIA ON OCTOBER 28, 2011

- As of Q3 2011 YTD external trade turnover of Mongolia has increased 92.4% yoy and reached 8.2B USD, exports are up by 66.7% yoy and reached 3.3B USD, imports are up by 114.7% yoy and reached 4.8B USD
- 59.9% of total turnover with PRC, 15% is with Russia
- Imports are rising fast. Rate of growth of imports is 2.1 times faster than that of exports. Trade deficit reached 1.47B USD.

Зураг 1. Гадаад худалдааны эргэлт, сараар /сая ам.доллар/

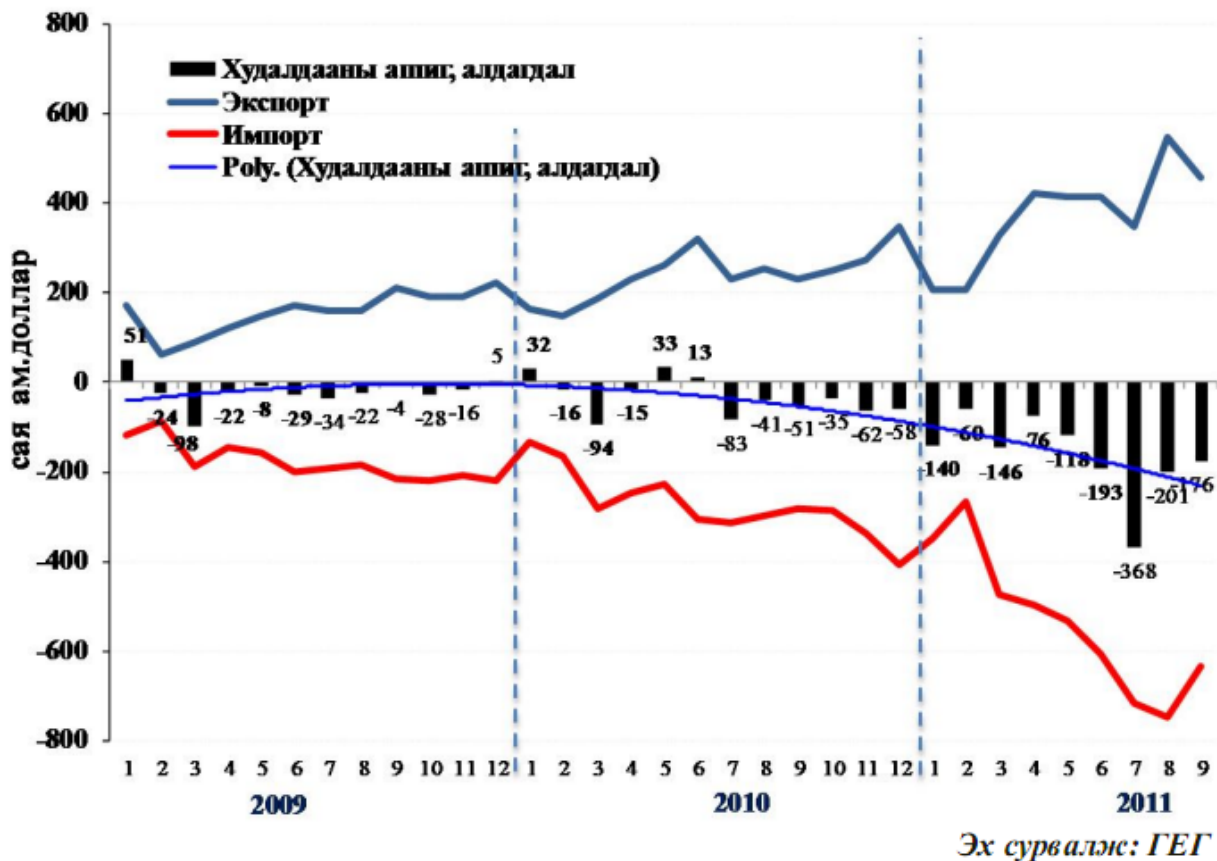


Chart source: General agency of Customs

Legend of Chart of External Trade turnover by months, in millions of USD

Left axis - millions of USD

Black column – trade surplus/deficit

Blue line – exports

Red line – imports

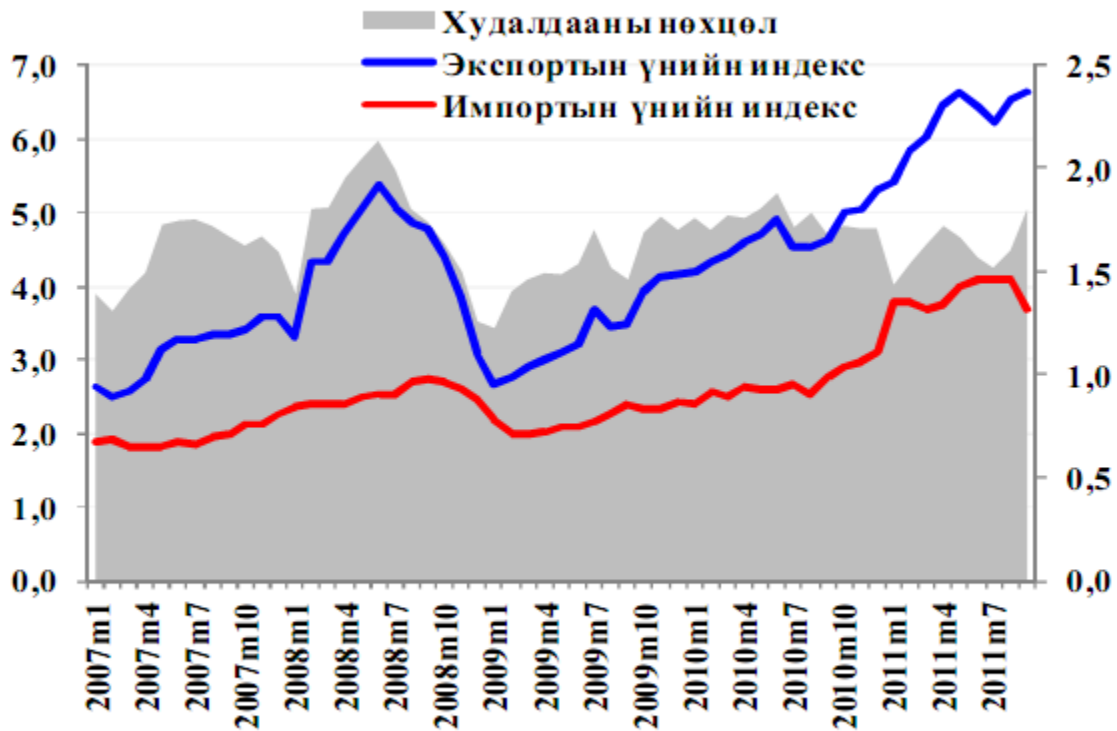
Violet blue line – trade surplus/deficit

- **External trade condition index has increased for the first time YTD**

Trade condition index is calculated using 2000 as a base year and comprises of 10 products that occupy 90% of exports and 7 group products that occupy 88% of imports.

As of Q3 2011 the index reached 1.801 and grew 7.2% yoy primarily due to growth in index price of coal and decline in index price of imported foodstuffs, machines, and electronics.

Зураг 2. Худалдааны нөхцөлийн индекс, сараар



Эх сурвалж: Монголбанк

Source: Bank of Mongolia

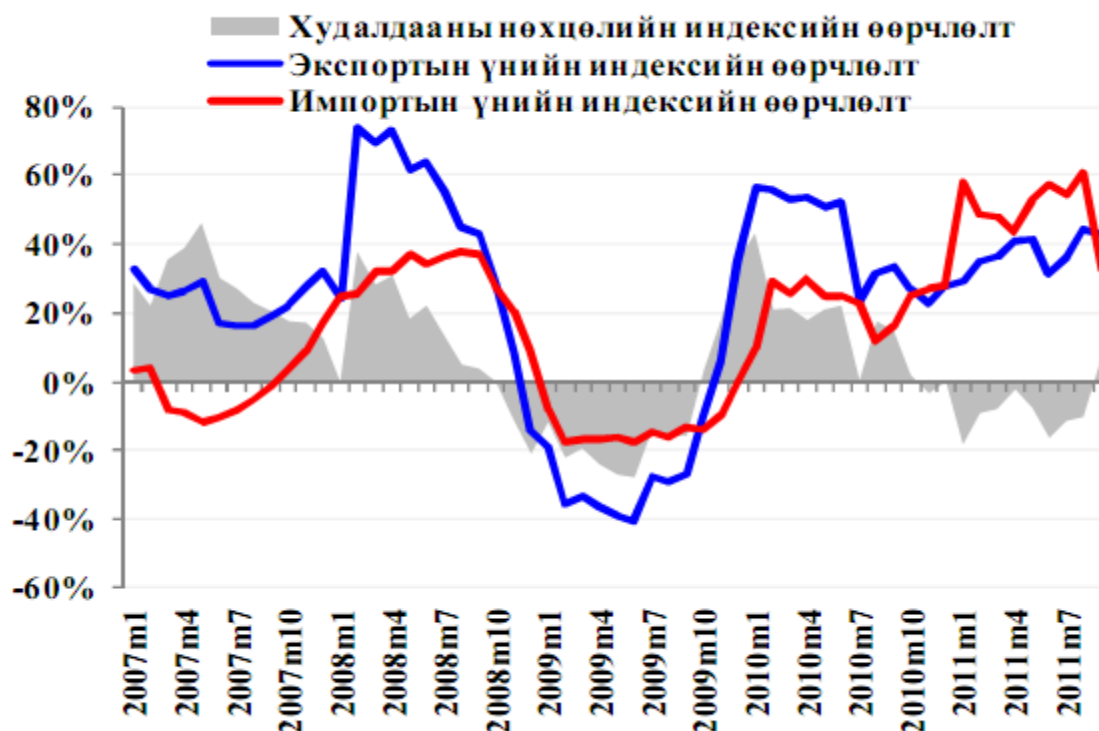
Legend of chart of external trade index by months

Grey area – trade condition

Blue line – exports price index

Red line – imports price index

Зураг 3. Худалдааны нөхцөлийн индексийн жилийн өөрчлөлт



Эх сурвалж: Монголбанк

Source: Bank of Mongolia

Legend of Chart of annual changes of external trade condition index

Grey area – annual change of trade condition index

Blue line – changes in export price index

Red line – changes in import price index

EXPORTS

- 41.8% of exports is coal, 22.3% is copper concentrate, 9.0% is iron ore and concentrate, 5.3% is crude. Boroo Gold LLC (Centerra) exported 1655.9 kg of gold to Canada, Savings Bank 150.8 kg to Korea, 397.8kg to Switzerland, Bank of Mongolia 684.7 kg to UK.
- Growth in exports is primarily due to
 - 1) increase in volume of exports of coal, iron ore, crude, fluorspar and other related minerals
 - 2) price growth of these and other minerals and despite
 - 1) decline in volume of copper concentrate, non-monetized gold, moly and cashmere

Average border price of main 10 export products has increased by 57.9% yoy

Хүснэгт 2. Экспортын барааны гүйцэтгэл /сая ам.доллар/

Нэр төрөл	Эхний 9 сар				Мөнгөн дүнгийн өөрчлөлт /хувиар/
	2010		2011		
	Хэмжээ /тн, баррель/	Мөнгөн дүн	Хэмжээ /тн, баррель/	Мөнгөн дүн	
1 Чулуун нүүрс	10 981 156	550,6	13 758 309	1 398,6	154,0% ↑
2 Зэсийн баяжмал	429 672	563,3	425 116	745,0	32,2% ↑
3 Төмрийн хүдэр ба баяжмал	2 336 695	165,2	4 110 323	300,5	81,9% ↑
4 Боловсруулаагүй нефть	1 550 319	113,4	1 760 096	176,6	55,7% ↑
5 Мөнгөжөөгүй алт	4 213	145,1	2 889	134,5	-7,3% ↓
6 Ямааны угаасан ноолуур	2 976	103,4	2 623	123,7	19,6% ↑
7 Цайрын хүдэр ба баяжмал	86 777	93,9	91 936	112,1	19,4% ↑
8 Жонш, лейцит, нефелинг ба	282 808	45,6	296 934	71,3	56,3% ↑
9 Ямааны самнасан ноолуур	543	35,9	389	40,8	13,6% ↑
10 Молибдений хүдэр ба баяжмал	3 569,9	38,8	2 970,8	34,8	-10,3% ↓
Бусад		170,3		210,2	23,5% ↑
Нийт экспорт		2 025,6		3 348,0	65,3% ↑

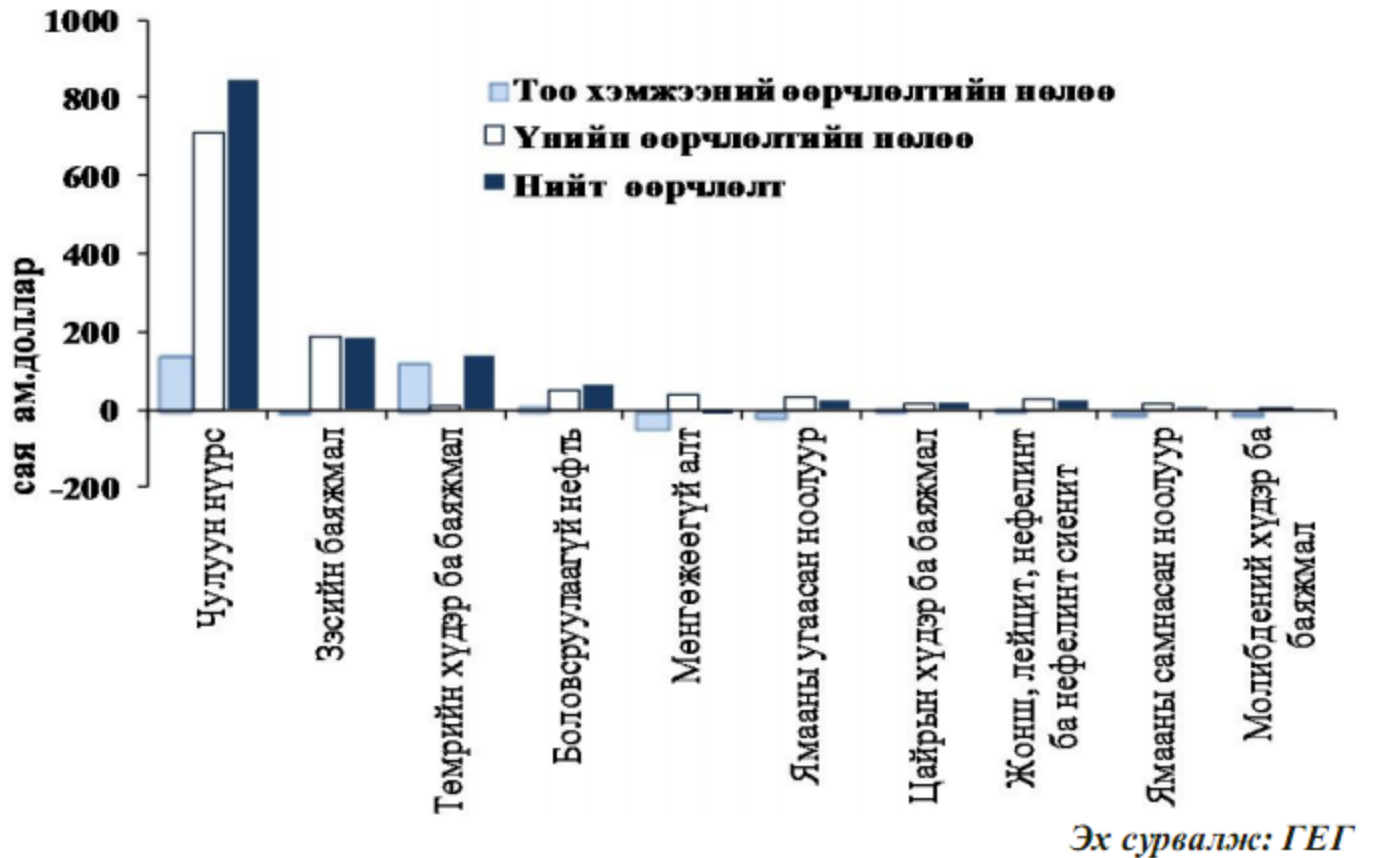
Эх сурвалж: ГЕГ

Source: Customs

Legend of the table of export products execution

1. Coal 2.copper concentrate 3.iron ore and concentrate 4. Crude.5. non-monetized gold 6. Washed cashmere.7. Zinc ore and concentrate 8.Flourspar.9. Combed cashmere.10 Moly ore and concentrate.
2. Columns from left to right- Name a type of export product, 2010 amount, 2010 value, 2011 amount, 2011 value, change in value

Зураг 4. Экспортын өөрчлөлт дэх үнийн болон тоо хэмжээний нөлөөлөл /сая ам.доллар/



Source: Customs

Legend of the chart of impact of price and volumes on changes in exports

Left axis – in millions of USD

Light blue column – impact of change in volume

White column – impact of change in price

Dark blue column - total change

Columns from left to right - Coal, copper concentrate, iron ore and concentrate, Crude, non-monetized gold, Washed cashmere, Zinc ore and concentrate, Fluorspar, Combed cashmere, Moly ore and concentrate.

PRICES OF COMMODITIES HAVE BEEN VOLATILE

Зураг 5. Лондонгийн металлын бирж дээрх зэс, цайр болон дэлхийн зах зээл дэх алтны үнэ /ам.доллар/



Эх сурвалж: Bloomberg

Source: Bloomberg

Legend of chart of price of copper and zinc on LME and world market price of gold (in USD)

Green line – gold

Light blue-zinc

Dark blue-copper (right axis)

Average price of coal in Inner Mongolian market has increased 1.4 times YTD and reached 103 USD. **Price of Mongolian export coal has increased 2 times YTD and 1.1 times mom and reached 118.1USD.**

Зураг 6. Чулуун нүүрсний зах зээлийн үнэ /ам.доллар/



Эх сурвалж: ГЕГ, ЭБЭХЯ

Source: Customs, Ministry of Mineral Resources and Energy

Legend of chart of market price of coal

Dark blue line - Mongolian export coal price

Light blue line - Inner Mongolian coal price

IMPORTS TO MONGOLIA HAVE RISEN 2.1 TIMES

This growth was primarily due to

- 1) increase in imports of heavy machinery and mechanisms, equipment and spare parts of 133.5% or by 860M USD
- 2) increase in imports of petroleum products by 75% or by 799M USD
- 3) increase in imports of transportation vehicles by 214% or by 800M USD

78.4% of imports have been settled by foreign exchange, 18.9% of imports or 912M USD worth of goods settled by investment.

Хүснэгт 3. Импортын барааны гүйцэтгэл /сая ам.доллар/

Нэр төрөл	Эхний 9 сар		Өөрчлөлт /хувиар/
	2010	2011	
1 Хүнд механизм, тоног төхөөрөмж сэлбэг хэрэгсэл	369,5	860,9	133,0% ↑
2 Тээврийн хэрэгсэл	254,9	800,8	214,2% ↑
3 Нефтийн бүтээгдэхүүн	456,4	799,4	75,2% ↑
4 Оффисын болон гэр ахуйн тавилга, хэрэгсэл	75,8	143,3	89,1% ↑
6 Хүнсний бүтээгдэхүүн	116,0	133,6	15,2% ↑
7 Эм болон хими биологийн бүтээгдэхүүн, бордоо	43,3	64,2	48,3% ↑
5 Төмөр хийц, металл бүтээгдэхүүн	16,0	46,3	188,9% ↑
8 Төрөл бүрийн даавуу	1,1	1,4	26,1% ↑
9 Бусад гол нэрийн бүтээгдэхүүн	87,9	156,1	77,6% ↑
Бусад	827,5	1 820,3	120,0% ↑
Нийт импорт	2 248,3	4 826,3	114,7% ↑

Эх сурвалж: ГЕГ

Source: Customs

Legend of the table of import products execution, in millions of USD

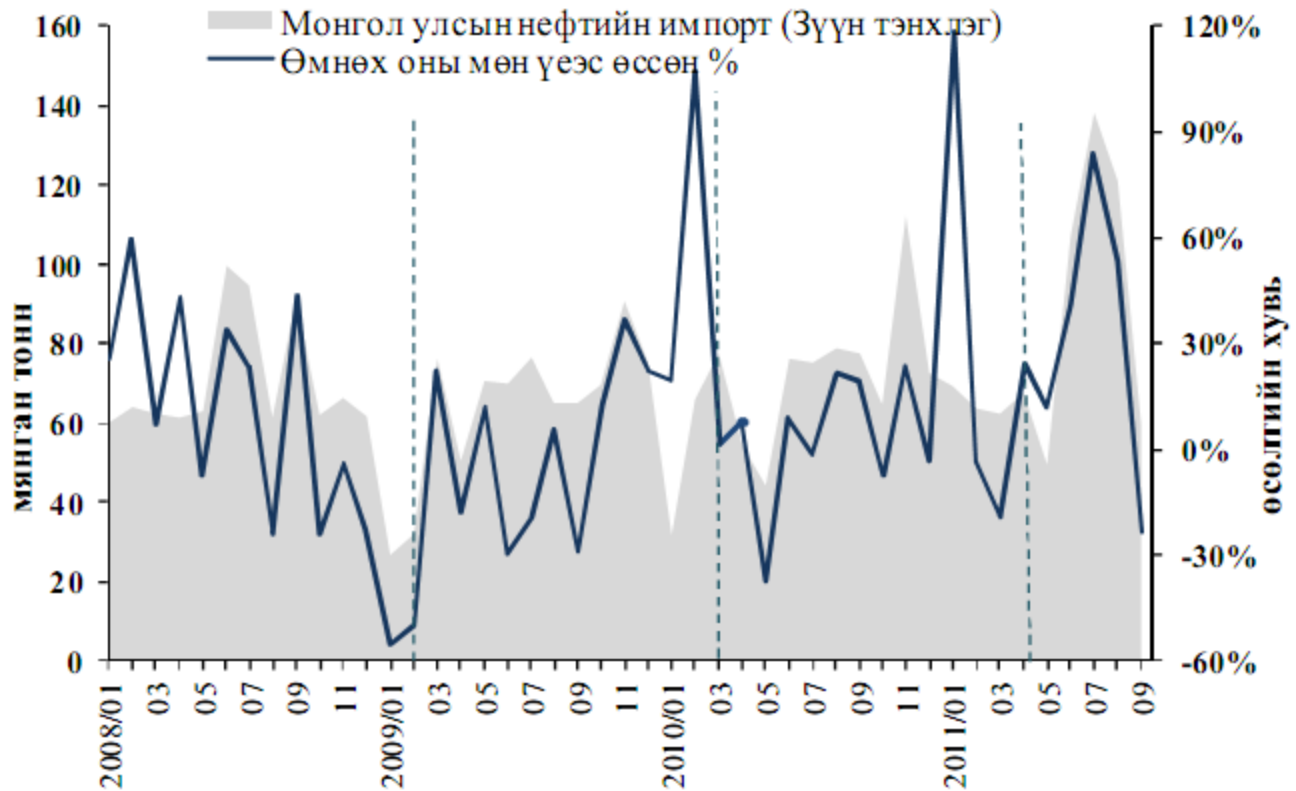
1. Heavy machinery, mechanisms, equipment, spare parts 2.transportation vehicles 3.petroleum products 4. Office and home furniture and items. 5. Food products 6. Pharmaceutical, chemical and biological products, fertilizers. 7. Steel structures and products 8.various textiles. 9. other main imports. Rest. Total Imports

2. Columns from left to right-Name a type of import product, 2010 Q3 value, 2011 Q3 value, change in value

PETROLEUM PRODUCTS IMPORTS KEEP ON RISING

Imports of petroleum imports have risen 75.2% yoy reaching 799M USD as of Q3 2011.

Зураг 7. Монгол улсын нефтийн импорт (сараар)



Эх сурвалж: ГЕГ

Source: Customs

Legend of chart of Mongolian petroleum products by months

Left axis – thousands of tons

Right axis – change in percent

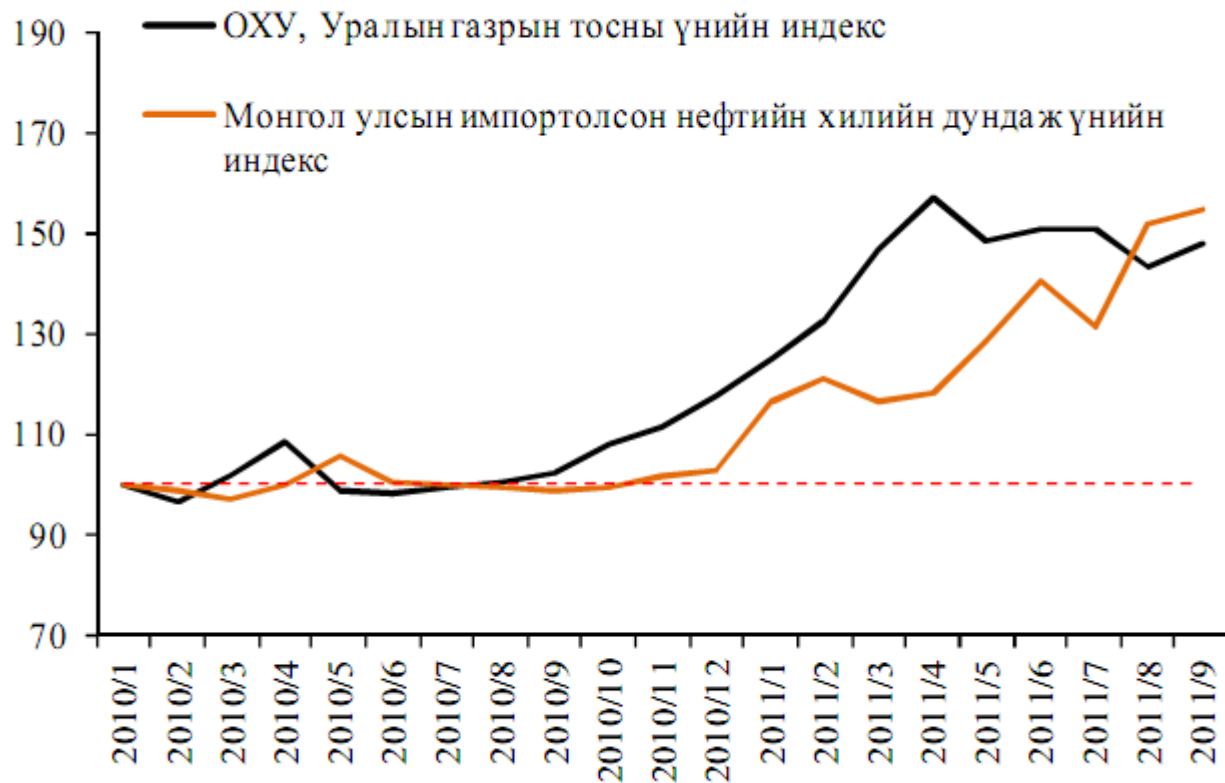
Grey area – imports of petroleum imports in Mongolia (left axis)

Dark blue line – growth yoy

Average price of Russia's Ural crude has increased 13.3% YTD and declined 4.2% mom and reached 104.6USD per barrel. Average petroleum product import price at the border increased 32.8% YTD and 1.9% mom and reached 1228.9USD per ton.

Зураг 8. Газрын тосны зах зээлийн үнэ³

3



Эх сурвалж: АНУ-ын эрчим хүчний мэдээллийн агентлаг

Source: Energy Information Agency of the USA

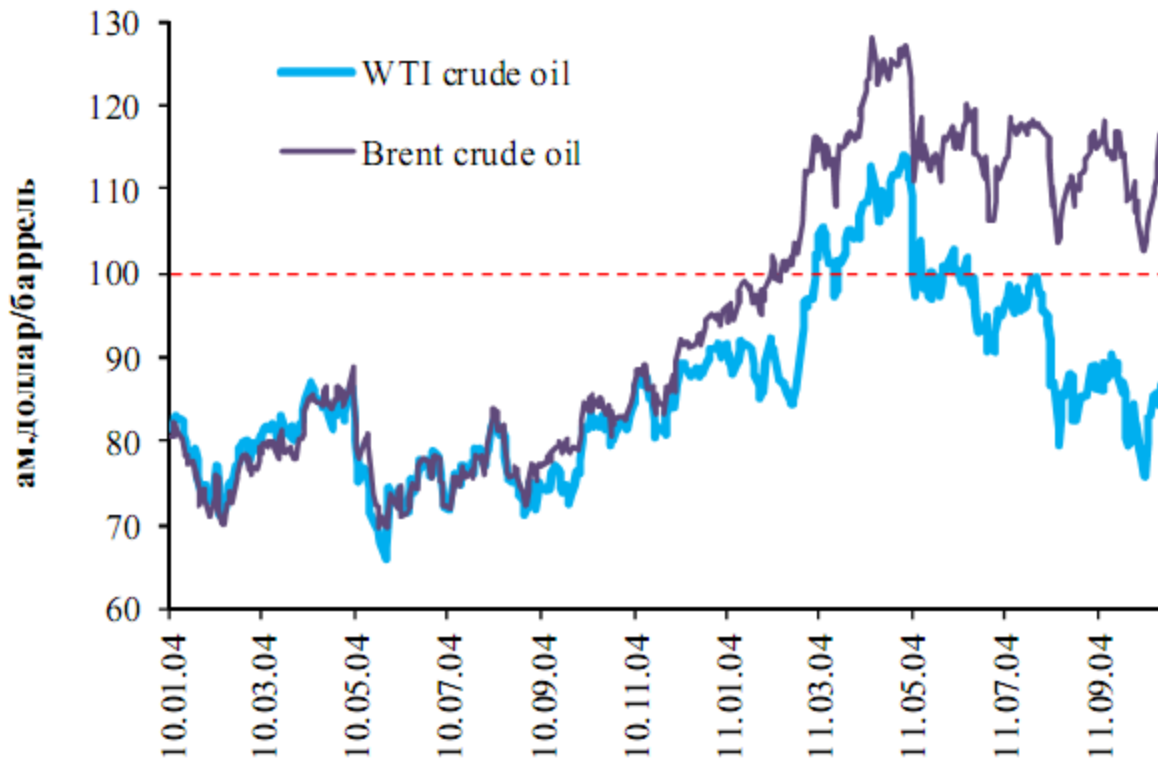
Legend of the chart market price of crude and petroleum products

Black line – Russia, Ural's crude price index

Orange line – Average price index of petroleum products imported to Mongolia

Price of Brent crude has increased 9% mom and reached 106.3USD as of September 30, 2011

Зураг 9. Газрын тосны дэлхийн зах зээлийн үнэ



Эх сурвалж: *Bloomberg*

Source: *Bloomberg*

Legend of chart of world market price of crude
Left axis – USD/barrel

CONCLUSION:

Based on data by Bank of Mongolia we believe:

- External trade turnover almost doubled yoy in sharply rebounding and overheating economy
- Mongolia benefited virtually from all commodity price increases but the most from both from steep rally in coal prices YTD following Chinese coal market and rapid increase in export coal output. And with the ramp up by all coal exporters and new coal mines coming onboard and especially the TT, the coal is there stay until OT comes online.
- Copper volume declined but value increased 32% YTD nonetheless due to recovery in copper price YTD
- import bill shot up 2.1 times as a result of higher spending by the private sector—producers and consumers alike—:

- A booming mining industry, especially the OT ramp up, spurred these imports, especially of transport equipment and machinery. The mining and manufacturing sectors recorded respectable growth rates of 8.3 and 12.9 percent yoy in the second quarter, respectively. Transportation and construction grew at 39.9 percent and 38.4 percent, respectively, while retail and wholesale trade grew at 24.7 percent. Mongolians are also spending more on consumption as a result of higher incomes
- Data shows that Mongolia is becoming more and more as a mining powerhouse with large amounts of heavy machinery to export large amounts of commodities and spending a lot of its income on fuel to keep all this machinery moving and Mongolians spending more and more on bigger and fancier cars, office and home furniture and the like.
- All of this pushed Mongolia's trade deficit to record US\$ 1.4 billion as of Q3 2011.
- Mongolia's economic outlook depends heavily on global macroeconomic factors in the context of commodity prices and Chinese demand. Should commodity prices fall sharply Mongolia's exports and budget revenues would both be hit hard and Mongolia's small, open economy will be affected.
- However, as PRC accounts for 60% of Mongolia's trade turnover, China's response to any possible global weakness and recession will be decisive for Mongolia. Nevertheless we are optimistic that Mongolia will overcome most challenges since the country should be able to deliver coal and copper more cost efficiently than any other producer to China. The current reliance on China forces Mongolia to sell coal at a 40% discount; while this is obviously a disadvantage it means current revenues are coming from a low base with more upside in the long run. For this reason, market diversification is the way and hence railways will be crucial;
- Beyond this, it is up to Mongolia to capitalize on its excellent long term prospects

CHIEF INVESTMENT STRATEGIST

Dale Choi



Frontier Securities

Ulaanbaatar, MONGOLIA

staff@frontier.mn

(T) 976-7011-9999

(F) 976-7011-1991

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