
Iron ore price negotiations -Bleak outlook for benchmark pricing - UNCTAD

Tuesday, 30 Jun, 2009

According to a report published by the United Nations Conference on Trade and Development, the current benchmark pricing system for iron ore faces an uncertain future but its successor is not likely to appear any time soon.

UNCTAD said that “The benchmark pricing system is under attack and its future looks bleak. A new price setting mechanism will however, not be introduced overnight. Instead, it will take several years to find a new model and probably there will be several models in use in parallel.”

It said that iron ore prices have historically been negotiated annually in closed door talks between individual miners of the steelmaking ingredient and their customers in Asia and Europe and once one set of agreements is concluded the other miners generally follow with similar arrangements.

UNCTAD said that “The final outcome of negotiations for prices to China is still uncertain. It is possible that there will be no agreement at all which would not be totally controversial, as a large portion of Chinese imports is already traded on a spot basis but it may be more likely that agreement will be reached at the rates already negotiated with the producers by other Asian steel makers.”

The World Steel Association has forecast that steel use will decline by nearly 15% this year, although UNCTAD believes this estimate may be relatively cautious, given signs that China's infrastructure spending may yield positive growth in steel in that country, plus other nations' economic stimulus attempts are also likely to boost demand.

UNCTAD said that still, the world iron ore industry is operating far below capacity and even under the most optimistic assumptions about steel production, demand for iron-ore will surely be lower in 2009 than in 2008. It is clear that the present oversupply situation will not go away soon.”

UNCTAD said that International iron ore trade also reached a new record level in 2008 as exports increased for the 7th year in a row and reached 882 million tonnes up 7.8 %.

This year, the big three producers Brazil's Vale and Anglo-Australians Rio Tinto and BHP Billiton have started settling some contracts including with Japanese steelmakers but have yet to reach agreements with buyers in the biggest iron-ore consuming country, China. Chinese steel producers want a price cut of at least 40% from Rio Tinto and BHP Billiton, more than the 33% already accepted by other Asian steel mills.

(Sourced from Miningweekly.com)

For more news visit at www.steelguru.com