
Iron ore price negotiations - Deadlock to drag on

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Beijing Business Today quoted sources close to the association as saying that China Iron & Steel Association, the lead negotiator with big three ore miners, is likely to accept price cut of less than 40% in a bid to wrap up the deadlocked ore talks quickly. However, CISA has refused to comment on the report saying that it is a sensitive moment right now.

Chinese mills would be forced to buy iron ore from the spot market after June 30th and that would give ore suppliers more leeway over pricing since they could more readily exert control over supply tonnage and bulk freight market.

Mr Zeng Jiesheng senior analyst with Mysteel said meanwhile volatile spot market would bring risk to both steel mills and ore miners, adding that the latter would face uncertainty in outlining future exploration plans.

Domestic steel mills have eventually returned to the black as steel price has posted nine week rise since late April. 72 CISA member mills have made total profit of CNY 1.262 billion in May. These mills are eager to lock in the iron ore cost and hope CISA to conclude the negotiation quickly. Nevertheless, market analysts fear that ore miners would continue to play it cool despite CISA olive branch.

Spot iron ore prices to China have risen by a fifth in just a month, and now trade at a 4 month high of USD 83 per tonne on a delivered China basis, equivalent to around USD 65 free on board. This is higher than the contract price of USD 61 that the Japanese and South Korean mills secured, giving miners the upper hand.

Ore miners are unlikely to grant bigger price cut than settlement with Japanese and Korean mills, however, the annual contract might be revised to half-year or quarterly basis. Mr Zeng said "Semi-year contract would help Chinese mills minimize loss when market fluctuates they have suffered a lot last year being pegged to annual long-term contract."

(Sourced from Beijing Business Today)

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