Iron ore price negotiations - China to accept less iron ore price cuts

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Caijing quoted a person familiar with the matter said the semi official China Iron & Steel Industry Association is willing to accept a price cut on iron ore contracts to March 2010 of less than 40%.

The person, who attended an internal meeting of the association, said Chinese steelmakers will continue to reject the 33% price reduction agreed between global miners and mills in Japan and South Korea. CISA has held no substantial talks over iron ore contract prices with BHP Billiton, Rio Tinto or Vale over the past two week

Global miners usually start discussions with steelmaking blocs in Japan, China and Europe in November to settle iron ore contract prices before the start of the Japanese fiscal year in April. Negotiations have been particularly tense this year after benchmark steel product prices fell by up to 37% in China from the second half of last year contributing to a combined loss of around CNY 3.3 billion for the country's 72 major steelmakers in the first quarter.

The steelmakers have maintained a consistently hard line on price negotiations refusing to give ground in the run up to a June 30th deadline for the conclusion of talks. However, major steelmakers posted combined profit of CNY 1.3 billion in May, ending a seven month losing streak after a recovery in demand and prices. The turnaround, coupled with rising iron ore spot prices has strengthened Chinese mills' balance sheets and weakened their leverage in seeking steep iron ore price cuts.

An official with Hebei Iron & Steel Group told Caijing that the 33% cut on 2009 term prices would roughly equate to the current spot price, allowing domestic steel mills to turn a profit given the increase in steel products prices.

CISA said the domestic steel product price index stood at 98.14 at end May up by 2.7%MoM. The 2009 contract price for Pilbara ore delivered to China stood at USD 78.59 per tonne on June 30th while the spot CFI price for the same grade ore hit USD 82.29 per tonne.

Mr Xu Xiangchun an industry analyst with consulting firm Mysteel said that CISA should lower their expectations given the improved conditions for steel companies. He said that "It was reasonable to hold out for price cuts of at least 40% when steelmakers were making losses across the-board, but now it seems retrograde to continue to hold out for such a steep cut after mills have returned to profit."

According to the report, the possibility of concessions could end a protracted period of wrangling that begin in earnest on May 26th when Australian miner Rio Tinto announced that it had struck a deal with Nippon Steel for a 33% to 44% cut in iron ore contract prices for the fiscal year ending March 2010.

The agreement was the first to come out of this year's round of iron ore price negotiations and in most years would have been accepted as a global benchmark. The two parties agreed to a price of USD 0.97 per dry metric ton for Pilbara and Yandicoogina iron ore fines compared with USD 1.446 last year. Other steelmakers including those in Taiwan later agreed similar price cuts. CISA rejected the 33% to 44% reduction saying that the price cut did not reflect the true conditions of supply and demand on the international market, and would inflict enormous losses on Chinese steelmakers.

Mr Shan Shanghua secretary general of the CISA at the time said that Chinese steelmakers would not back down from their request for a reduction of at least 40% for 2009 contract prices which would be roughly equivalent to term contract prices for 2007.

The association also threatened to instruct smaller mills to reduce their output if they did not obtain the desired price concessions.

(Sourced from Caijing.com.cn)