Iron ore price negotiations - Miners looking good as spot prices soar

Wednesday, 18 Nov, 2009

China continued demand for steel has sent iron ore spot prices back to nearly USD 100 a tonne and led Credit Suisse to follow other forecasters in boosting iron ore and coking coal forecasts.

The bank says the price increases will help add about 20% to the bottom lines of BHP Billiton and Rio Tinto and strip that much from Australia biggest steelmaker, Bluescope.

In an upgrade that has lagged those of many other forecasters, Credit Suisse analysts said they now expected BHP and Rio to secure 15% gains in 2010 iron ore contract prices in talks expected to resume soon and 26% the following year.

The bank had previously been forecasting little change in both years from the current contract and provisional prices of about USD 60 a tonne before freight. This year fraught iron ore talks with China were never settled with provisional prices paid by Chinese mills after Rio iron ore executive Mr Stern Hu and three other staff were detained.

According to Metal Bulletin pricing, iron ore spot prices into China, which include freight costs have climbed steadily higher since early September hitting a two month high of USD 99.50 a tonne this week.

Mr Paul McTaggart Credit Suisse analyst said "We see benchmark price upgrades coming for iron ore and metallurgical coal on strong steel production which should improve further when the world recovery kicks in."

He said that "The iron ore and coking coal supply side froze some infrastructure development with the onslaught of the global financial crisis and will now be hard-pressed to meet demand until new developments reach completion in 2012."

Credit Suisse raised its 2009 to 2010 BHP earnings forecast by USD 1.7 billion to USD 10.43 billion. Rio 2009 earnings forecast were lifted from USD 4.38 billion to USD 5.23 billion.

(Sourced from theaustralian.com.au)