
Daiwa Securities predicts firm iron ore scenario next year

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Daiwa Securities SMBC said that iron ore prices may rise next year because of increasing demand from China.

Mr Mark Pervan head of research at Daiwa in Melbourne during an interview said that benchmark ore prices from Australia may rise by 5% in the year from April, 2007. He had earlier forecast in May that prices would fall 10%. Mr Pervan said "We've seen a return to very strong importing of iron ore into China, while Chinese steel output has been rising year on year for the last couple of months. The latest data suggest to me that iron ore demand is very strong."

Mr Pervan said that Rio Tinto and BHP are likely to take the lead from CVRD in pushing for higher prices next year. He said higher freight rates from Brazil mean that Chinese buyers have been paying almost \$20 a metric ton more for iron ore from the South American nation, compared with Australian imports. He said that "The Chinese are saying Australian iron ore prices are too high at \$59 but they are paying \$73 for Indian ore, while Brazilian iron ore is costing \$79 a ton.

Mr Pervan also said that the rising iron ore production in China isn't likely to damp the country's demand for imports, as domestic ore typically costs more than those imported given the low iron content, said. He said "The cost of producing a ton of iron ore with an iron content of 65% in China may be double those in Australia, which averages \$21. The idea that China is ramping up production to rely less on imports is not sustainable."

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