
Chinese iron ore price negotiation to begin in November

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Mr Chu Jiandong deputy general manager of Tangshan Steel at Asia Ferrous Metals Development Dialogue 2007 on October 17th 2007 said that "2008 Iron ore benchmark price negotiation will start in early November 2007. The price may rise further, but should not rise over 15%."

Tangshan Steel is one of the 16 Chinese steelmakers who participate in the price negotiation. 60% to 70% of imported iron ore it consumes is fixed by long-term contracts with lock in period of 20 years.

The world's largest iron ore producer, Brazil's CVRD, declared on October 15th 2007 that it planned to pour USD 59 billion in the coming five years to expand its business in iron ore, nickel, coal and so on. Iron ore output will enjoy an annual increase of 7.1% and reach 450 million tons by 2010. Mr Roger Agnelli CEO of CVRD noted that robust iron ore demand in Asia, especially in China, stimulated the decision.

Mr Gong Fangxiong general manager of JP Morgan Securities (Asia Pacific) Ltd, forecasted that iron ore price would gain 30%, a figure agreed by most overseas institutions.

Mr J Sun Trading Consultants Ltd told reporters that many factors, such as products prices and profits level of Chinese steelmakers, price for Indian spot ore and long-term contracts Chinese steelmakers signed with other miners would be mentioned during the negotiation.

According to Mr Chu, with the implementation of obsolete capacity elimination, growth rate of China's steel output is declining. The country will demand less and less iron ore, thus price is unlikely to surge.

China's steel output registered 272 million tons in last January to August 2007, up by 18.6% YoY the figure stood at 321 million tonnes during this January to August increase of 17.7% YoY. The growth rate is falling. Mr Chu said that "Total cost of ocean shipping records some USD10/ton, including shipbuilding cost and oil price. The long-term contract Tangshan Steel has signed covers freight rate of USD12/ton. However, freight rate for spot iron ore from Brazil now approaches USD100 per tonnes. Personally I think USD 20 per tonnes is reasonable. As for Australia's request, they can not decide unilaterally."

An insider from a large domestic shipping enterprise revealed major bulks involve iron ore, coal and grain. Large amount of bulk cargo ships were launched in 2005 and 2006, hence most insiders took a pessimistic view towards dry and bulk cargo transport market in last year. However, the market became seething in the third quarter and the bloomy operation lasts until now. He explained that Brazilian iron ore resources that were transported to the US and Europe now flow into China. Long shipment distance leads to increased freight volume. In the meanwhile some transport capabilities are left waiting owing to overstock at ports. Moreover, many vessels are laid idle and international speculators mislead BDI by apparent tight transport capabilities.

Mr Chu told reporters Tangshan Steel now plans to build three 300,000 ton bulk cargo ships and is consulting with CVRD and a large ship company to jointly set up a barge train, in an attempt to curb ocean shipping risks.

(Sourced from Mysteel.Net)

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