
BHPB bid for Rio - Chinese steelmakers see gains

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Experts said that the collapse of BHP Billiton's takeover of rival Rio Tinto Group may give the Chinese steel industry a vantage point in the negotiation of iron ore prices.

Mr Hu Hao an analyst with Central China Securities said that "Continued worsening global economic outlook associated with sharp fall in commodity prices contributed to the abortive deal."

Mr Hu Hao urged Chinese steelmakers to take advantage of this failed acquisition. He said that "BHP Billiton's quit will certainly help China change its passive position in the annual iron ore negotiation, but more importantly it will build up Chinese steel industry's strength. BHP can resume its bidding for Rio Tinto once the economy gets better, or Rio Tinto may seek BHP's financial bailout if it keeps seeing loss."

According to Hu Hao, the most critical challenge confronting China's steel industry is not an iron ore shortage, but shrinking demand. Real estate has cut the demand 30 to 40 percent this year. He added that "Some aggressive steps, such as shutting down outdated and small-size steel mills, upgrading large steel producers' production, and setting stricter standards for steel industrial makers, should be taken by the steel authority."

Mr Hu Kai a researcher with steel information provider Umetal said that cancellation of the mega-buck deal will help drag down iron ore price in 2009. he added that "The reason Rio Tinto demanded a price hike of 96.5 percent for iron ore supplies in 2008 negotiation was that it wanted to set hurdles for BHP's takeover through expanding its assets. Since the situation no longer exists, and the commodities are slumping, the corollary is the iron ore price will drop sharply. I estimate the fall at 30 percent."

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