Iron ore price negotiations - Views of BMO Capital

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Proactive Investor cited Mr Bart Melek BMO Capital Markets Global Commodity Strategist as saying that this year's iron ore contract negotiations very interesting indeed.

Mr Melek said that "A big part of the reason why major seaborne producers do not want to settle yet is the concern that Chinese mills may not honor their contracts if the spot price drops materially lower. The price of Chinese spot fines is some 30% lower than the contract. However, very robust production cuts are lending some support for now."

He suggested that "Another reason to wait may be associated with the Goan monsoon. Goa supplies, which accounted for some 45 million tonnes in 2008-09, will dry up in three weeks due to the rains."

Mr Melek said that "There is increasing speculation that spot markets will rule the day and a Chinese benchmark price for iron ore may not be set this year at all. Especially since major commodity financial institutions are gearing up to start iron ore trading. Japan and Europe may, however, choose to settle a benchmark price and leave the spot market to the Chinese."

While he believes iron ore prices will decline sharply, they are still very, very healthy considering the massive decline in demand, considerable spare capacity and the cost structure. Iron ore at USD 63 per tonnes is a victory for producers as they have negotiated a price well above the cost of production. This speaks to market power and alludes to better steel production activity in China, which is already near its 2008 highs in April."

(Sourced from Proactive Investor)