Iron ore price negotiations - Analysts views on Chinese settlement

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Bloomberg has reported that according to some of the analysts, steel mills in China the world's biggest buyers of iron ore are likely to follow rivals in Japan in agreeing to a 33% cut in annual contract prices.

Goldman Sachs JBWere Pty analysts led by Melbourne based Mr Malcolm Southwood said "While Chinese steel mills have been looking for a bigger price reduction, we think there is now a reasonable probability that they will follow this benchmark for some contracts."

Mr Hu Kai a Shanghai based analyst at Umetal Research Institute in Shanghai said "China will accept the Nippon Steel-Rio price sooner or later. The steel association has said they would stick with the benchmark system, so they should comply with the playing rules."

JPMorgan Chase & Co said "While the Chinese are the main customers for both Rio and BHP, we expect this settlement with the Japanese will carry across to those customers elsewhere who want to retain a contract fixed price."

RBC Capital Markets said to be sure, China may refuse to accept the Rio accord with Japanese mills as a benchmark settlement. Hebei Iron & Steel Group, China's second largest steelmaker is seeking a minimum 40% cut in prices. Mr Lee Bowers RBC analysts led by Sydney based said in the report that "Given its relative might in the seaborne iron ore market, the Chinese may simply refuse to accept this settlement as a benchmark. This is highly likely at least initially."

Japanese mills led by Nippon Steel Corp the world's second-biggest steelmaker recently agreed to the second highest annual contract settlement price on record with Rio Tinto Group which may set a global benchmark. Chinese mills, the world's biggest producers have previously called for prices to be as much as halved and are yet to agree an accord.

(Sourced from Bloomberg)