International Raw Materials

APPREHENSION OVER PRICE RISE CONTINUES

Steel Insights Bureau

Iron ore rise of 50% is conservative

Predictions of a 50 percent rise in the benchmark price of iron ore in 2008 are "conservative", according to Jim Lennon, executive director of Macquarie Bank.

Several institutions, including Macquarie and Morgan Stanley, have predicted that major iron ore suppliers will be able to win a 50 percent increase in negotiations for annual supply contracts.

But Lennon said on the sidelines of the conference that it is "nonsense" to suggest that this would be a huge increase, given the context of an unprecedented spike in spot iron ore prices.

"We are fairly conservative," he said. "If you look at the spot market now, you will see prices up to $190 per ton cif China."

The fact that iron ore miners in India are trucking ore hundreds of kilometres across India for export to China is a sign of severe tightness in the market, but the practice is "not likely to continue" in the long term, said Lennon.

And he pointed out that Chinese producers are using lower and lower grades of domestically produced iron ore — this year as low as 5 percent — in order to maintain production. This is another sign of the pressure on Chinese steel producers.

One source at the conference said that Chinese negotiators have tabled a 20 percent increase as their opening position in preliminary benchmark talks. If their negotiating base is 20 percent, Lennon said, they are clearly expecting a rise significantly above that.

Global supply and demand of iron ore would not reach a balance until at least 2012, Lennon told delegates, as increases in Chinese steel demand and production continue to drive growth in iron ore demand.

Chinese domestic iron ore production will peak at 386 million tons of run-of-mine in 2009, up from an estimated 334 million tons this year.

But a decline in quality resources means China will be increasingly reliant on imports — by 2011, domestic production will account for 31.2 percent of its consumption compared to 46.8 percent this year.

Total world crude steel demand in 2011 will be 1.72 billion tons, based on percentage increases equivalent to 8.8 percent per year from 2008 to 2011. Global demand excluding China would grow at a much slower rate of around 4.8 percent per year.

"Sixty five percent of all growth [in steel consumption] we have seen this decade has been in China. What we expect is that the Chinese will continue to be a big driver. Urban development in China is still continuing very strongly," he said.

Another 400 million people would move to urban areas by 2020, tripling to 147 the number of cities with a population greater than 1.5 million and gross domestic product per capita of more than $1,500.

Spot iron ore prices are market indicator: Martins

Spot iron ore prices, which have doubled over the last 12 months, have become an iron ore market indicator, Jose Carlos Martins, ferrous director of Brazil's Vale, told journalists recently.

"Spot market prices may no longer be disregarded," Martins said. "They have become a market indicator. In the past there was available structural capacity to meet iron ore contract demand, but this spare capacity no longer exists," he said.

Martins did not draw a direct parallel between the jump in spot prices and the possibility of producers seeking a 100-percent increase in prices in negotiations with contract customers.

"There is very strong demand for iron ore and a market shortage," he said. "Today, several Chinese mills are at a standstill due to insufficient ore supplies."

Spot prices for iron ore are $200 a ton on a f.o.b. basis, around twice contract price levels, according to Martins. On top of this, freight rates are close to $100 a ton for spot market shipments and $50 a ton for contract sales, he said.

"The iron ore spot market is basically a Chinese phenomenon," Martins said. "It emerged in 2004 to serve the Chinese market and basically involves the sale of Indian ore," he said.

World trade in spot iron ore amounts to some 300 million tons per year, or almost 1 million tons per day, according to Martins.

Of this, some 200 million tons represent Chinese ore that is supplied internally to Chinese steel mills, he said.

Of global seaborne iron ore trade of approximately 800 million tons per year, some 100 million tons is ore sold via the spot market, according to Martins. "We cannot disregard this spot market trade. Today, it's a relevant part of the market," he said.

Rio Tinto to sell 15 million tons of iron ore on 2008 spot market

Rio Tinto says it will place as much as 15 million tons of iron ore on the spot market in 2008 to benefit from higher prices. The current price gap between the spot market and 2007 long-term contract prices is around $100, the company noted in a statement.

"The bulk of Rio Tinto's Pilbara capacity is committed under long term contracts and Rio Tinto will continue to honour these contracts. At the same time the gap between the benchmark and spot prices is huge and we intend to continue to take advantage of those higher prices," Sam Walsh, Rio Tinto's chief executive iron ore, said in a statement.

Rio said it has been selling on a spot basis during 2007, including the sale of 1 million tons for December shipment at $190 per ton, and a similar tonnage for January export at $187 per ton. No indication of destination was given. The 2007 benchmark iron ore price, plus spot freight rate, is $85 per ton.

The move may reflect some frustration with the iron ore majors that their benchmark settlements have fallen far behind the spot market due to an unprecedented price spike this year.

It may also be a means of pressuring their customers amid talks to decide next year's long-term contract prices, observers said.

"I thought it's a bit odd for them to make a statement like that. They could have put the iron ore in the spot market [discreetly]. Perhaps they are sending a warning to steelmakers in the iron ore negotiations that they need to pay up," Ord Minnett analyst Peter Arden said.

But such arrangements would be more common as producers try to spread risk by using a combination of contracts. "The iron ore spot market may develop very differently from here on as producers turn to different pricing mechanisms," said Arden.

Other than the traditional long-term contracts, Rio said it also intends to pursue two other pricing policies - short-term spot sales, and hybrid contracts, which are long-term but include regular pricing adjustments to reflect market changes.

As at November 2007, Rio Tinto had signed some 6.5 million tons per annum of hybrid contracts in 2007, it said.

"This is definitely sabre rattling on Rio's part with the iron ore negotiations in mind," said a source at a major Asian raw materials trader. "But other than that, it is also a legitimate response to pressure from stakeholders to increase revenues by taking advantage of a buoyant spot market. I would expect BHP Billiton to follow suit with a similar announcement soon."

BHP is studying the possibility of establishing an iron ore index to support a forwards market on which contracts could be based. This would boost transparency and remove the need for fraught annual benchmark negotiations, BHP has said.

Rio Tinto's CEO Tom Albanese said in the statement: "The iron ore market is changing. Customers are demanding more transparency in pricing and more tons, faster than ever before."

Chinese steelmakers angered by Rio's spot deals

Chinese steelmakers are annoyed at Rio Tinto's December 18, 2007 announcement that the company plans to sell up to 15 million tons of iron ore on a spot basis in 2008.

A source at one of China's largest steelmakers in the east of the country says that Rio Tinto has not fulfilled its contracted tonnages so far this year.

"We calculate that less than 90 percent of our contracted tonnage from Rio will be delivered by the end of March. They say the iron ore is not good quality - too high phosphorus - so they don't want to sell it. Reading this announcement [regarding spot sales in 2008] I think that they have lied," he said.

Many mills are in the same situation. Rio's shortage of good quality ore is understood to be affecting steelmakers in Japan, Korea and Europe, as well as China. And while Rio has assured mills that port and mine capacity expansions next year mean contracts will be fully performed in 2008, the source was angered by Rio's announcement that it contracted a spot shipment of 1 million tons for $190 per ton in December, and that a similar volume will be sold in January for $187 per ton.

"No one is going to pay that much for high phosphorus iron ore," the Chinese official remarked.

Another source from a key mill in northern China said that his company has not received all its contracted Rio tons this year either. “Business people are always looking to get the best price for their product,” he said in reference to the announcement about spot shipments already made this year. “But Rio Tinto’s iron ore supply obviously isn’t as tight as they’ve made it out to be.”

However, Rio Tinto expressed concern at the accusation that the company has not fulfilled its contracts. “Each contract is flexible in terms of tonnage,” explains a spokesman. “We always have and always will honour our agreements.”

Indian ore traders raise offers as Chinese demand recovers

A recovery in China’s iron ore import market has sent up India’s offerings for fines with 63–63.5 percent Fe content to $190–195 per ton after hovering at $180–185 per ton cfr for two weeks, according to the market.

China’s import prices for the Indian iron ore fines with the 63–63.5 percent Fe content is $186–190 per ton cfr this week.

“After holding back for some time, medium and small–sized steel mills have to return [to the market] to buy for their production,” an iron ore trader in north China said. He reported buying at $186 per ton cfr and said the price was not bad in the market.

Another trader confirmed this saying “I have heard deals at $190 per ton cfr and my transaction price is higher than $186. The overall transaction volume is still low, but a few dealings are enough to inspire the market.”

The market has been quiet for three weeks since mid-November in spite of offerings sliding to $180–185 per ton cfr from the historic high of $202 per ton cfr at end October.

China’s iron ore imports increased substantially in November to 35.46 million tons, up 19 percent month–on–month, bringing import volume for the past eleven months to 349.03 million tons, up 17.3 percent year–on–year, according to Customs.

KIOCL achieves $15 rise in pellet export price

The highest bid in the 40,000-ton iron ore pellet tender issued by India’s Kudremukh Iron Ore Co Ltd (KIOCL) on December 14 came in at $180.30 per ton fob New Mangalore.

Another sale was concluded 45 days earlier at $165 per ton fob. Between the two dates KIOCL sold 25,000 tons at $185 per ton fob to another customer who needed the material urgently. The most recent sale is for shipment to China by the end of this month.

KIOCL had taken a shutdown for repairs but has resumed production and is producing at about 7,500 tons per day. The company hopes to produce about 1 million tons in the 100 days or so left until the end of its fiscal year on March 31.

If it succeeds, production for the fiscal year will be about 1.8 million tons, just over half the capacity of its 3.5 million tons per annum Mangalore pellet plant. KIOCL has been unable to produce at capacity because of a shortage of pellet feed.

Meanwhile, prices for 63.5 percent Fe Indian fines have weakened to $135 per ton fob, a fall of $5 over November. Demand is brisk, according to one exporter, but there is concern about delays in opening letters of credit.

A tender for 60,000 tons of lower-quality 61-62 percent Fe fines issued by Orissa Mining Corporation last week attracted a best offer of $110 per ton fob Paradip.

But exporters from Karnataka and Orissa said their offer prices for 61-62 Fe material have risen to $122 per ton fob and to $110 for 60-61 percent Fe material. There is also demand for lower-grade material of 58-59 percent Fe at around $90 per ton fob.

Vale’s Sepetiba force majeure complicates its shipping

A unit of Brazil’s Vale has declared force majeure on iron ore shipments out of Sepetiba port in Rio de Janeiro state, the company confirmed late Friday.

This follows an accident December 8 when a vessel hit and damaged a berthing dolphin at the Sepetiba terminal, owned by Vale subsidiary Cia. Portuaria Baia de Sepetiba (CPBS).

The Sepetiba problem further complicates an existing build up in Vale’s end-of-year shipments, already subject to postponements at other ports that began in late November.

“The Sepetiba berthing dolphin was damaged and iron ore shipments from Vale and other mining companies that use the same terminal were suspended. Up to now, three vessels have not been loaded,” the company said.

“Repair work at the terminal will take 30 to 40 days and will start immediately,” Vale said, adding that operations at the terminal could possibly restart on a provisional basis over the weekend.

According to traders, the shipments so far affected at Sepetiba were destined for China, but this was not confirmed by Vale.

The port terminal is also used by small miners in the region and was to be a main shipping point for Cia. Siderurgica Nacional’s Casa de Pedra iron ore mine.

CPBS is the smallest of Vale’s four iron ore port terminals. The others are Ponta da Madeira (PDM), in Maranhão state; Tubarão, in Espirito Santo state, and the Ilha Guaiba maritime terminal in Rio de Janeiro state.

“The other terminals continue to operate normally. Vale will try to reallocate shipments that have not been made,” the company said.

However, last November 23 Vale said it was rescheduling a number of iron ore cargoes due to be shipped this year from PDM and Guaiba ports until 2008 in order to minimize port congestion and demurrage charges.

A Vale spokesman said Friday there is no further news on the postponement of shipments from PDM and Guaiba, indicating that these are continuing to be postponed as planned.

The Rio office of shipper Oldendorff Carriers said that operations at one or two berths of the Sepetiba port terminal had been affected by the incident.

"It is unclear how long the repair to such a piece of equipment would take, as this would depend on the extent of the damage," an Oldendorff employee said. However, Sepetiba is not currently congested with vessels, he said.

The Oldendorff employee said he believes it might be "extremely difficult" for Vale to reallocate its Sepetiba shipments to other ports.

Vale said that CPBS will carry out tests at the Sepetiba terminal Dec. 15 to ascertain whether operations may be resumed immediately on a provisional basis.

Goan iron ore mines may be forced to close

A large number of iron ore mines in Goa may be ordered by the Supreme Court to halt operations due to problems with their mining permits. The affected mines are those currently working on temporary permits and without the necessary environmental clearances, Goa Foundation spokesman Claude Alvarez said.

Only Sesa Goa is allowed to continue mining as it has all the necessary mining permits and clearances to do so. "If they do not stop mining, we will bring a contempt of court petition to deal with the errant miners," Alvarez said.

Some 25 mines may be forced to stop operations, he added. "At the moment, [the miners] are trying to stall closure by stating that they have not received the [official written] orders for stopping the working of mines," he said.

The case of 18 of the 25 mines is due to be heard by the Supreme Court on December 14, while the remaining seven mines will be heard in January, according to Alvarez, without giving a specific date.

The matter of iron ore mining was brought before the Supreme Court by the Goa Foundation, which has been fighting iron ore mining practices in the state due to the resulting ecological damage.

The foundation points out that the miners have not obtained clearances under environmental law as many of them are in forested areas or near animal sanctuaries where mining is not allowed.

Vizag Steel awards pig iron At $393.30 per ton fob

India's Visakhapatnam Steel Plant (Vizag) has awarded its latest tender of 25,000 tons of basic pig iron to Visa Comtrade at $393.30 per ton fob stowed Visakhapatnam. The material, for December-January shipment, was offered in two previous tenders without conclusion.

The company says that although that there was little change in international scrap prices after its end-September tender (which finalised at $394 per ton fob), the highest-priced bids received in its subsequent two tenders at $370 per ton fob and $381.38 per ton fob "did not reflect the correct market prices."

The company is "justified in cancellation" of the tenders because it was able to get the higher price of $393.30 per ton in the latest tender.

Vizag is due to hold a new export tender for the supply of 25,000 tons of pig iron due for January shipment. Bids are to be submitted by December 20 and the Indian company will open the tender on December 22.

Export prices for Brazilian pig iron climb

Upward pressure continues on export prices for Brazilian pig iron this week following an increase of around $8 a ton fob (free on board) in new orders taken last week, traders said.

New sales have occurred at $330 per ton fob for export from Vitoria and Rio de Janeiro, up from a previous range of $322 to $328 per ton, while sales from Ponta da Madeira in northern Brazil have taken place at $338 to 345 a ton fob, up from $335 to $338 previously.

Carbofer General Trading SA, Lugano, Switzerland, and the Cargill Ferrous International unit of Cargill Inc., Minneapolis, were both said to have purchased 25,000-ton lots to complete cargoes from Rio last week at $330 a ton f.o.b. The pig iron was supplied through export groups Ironminas and Minas Metais Exportadora SA, respectively.

A 280,000-ton lot was also sold for shipment in February, March and April to Nucor Corp., Charlotte, N.C., at $392 per gross ton ($383 per ton) c&f New Orleans. This pig iron is being sourced from Viena Siderurgica do Maranhao SA, Cia. Siderurgica Vale do Pindare and Siderurgica do Maranhao SA (Simasa), known collectively as VPS, and the Carajas Pig Iron (CPI) export channels of northern Brazil and will be despatched in four vessels, sources said.

Producers and exporters are asking for up to $350 a ton f.o.b. from Ponta da Madeira, although no sales have yet been reported at this level.

"The price pressure is on," a large US importer said. "The rainy season (in northern Brazil) is just around the corner and the dollar is low. We expect an upward price adjustment on scrap in January, but this could come off again in February. A 25- to 50-percent iron ore price increase is also expected. Pig iron producers are pushing badly for higher export prices," he said.

According to the importer, the market has not yet been affected by efforts by Vale (formerly Cia. Vale do Rio Doce) aimed at cutting off iron ore supplies to certain pig iron producers in northern Brazil that are allegedly not fully respecting Brazil's environmental or labor laws.

"By law, Vale has to respect existing contracts it has with most pig iron plants to continue delivering iron ore up until the end of 2008. A lot of pig iron producers are not taking this threat by Vale seriously, and some are seeking alternative iron ore sources, although this involves logistical challenges," the U.S. importer said.

Tokyo Steel announces Another large scrap price hike

Tokyo Steel Manufacturing is raising scrap buying prices for all grades at all works by ¥1,000~¥1,500 per ton ($8.8~$13.2 per ton), effective for December 18 deliveries. The rise follows the ¥2,000 per ton increase the mini mill announced only six days earlier.

"Tokyo Steel is enjoying good export business and needs scrap," a Tokyo-based steel trader says. "But scrap prices are rising across Japan so dealers are holding onto stock hoping prices will go higher. So Tokyo Steel is short."

Another reason too is that mini mills are wanting to stock scrap in advance of Japan's holiday long-weekend 22-24 December to take advantage of lower electricity charges.

For seaborne deliveries at its Okayama and Kyushu works, Tokyo Steel added ¥1,500 per ton to take its H2 prices to ¥42,500.

It also added ¥1,000 per ton for truck delivered to both works to bring H2 prices to the same ¥42,500 per ton. At Takamatsu and Utsunomiya, it added ¥1,000 per ton to take H2 prices at these works to ¥40,500 per ton.

Market watchers point out that Tokyo Steel was obliged to raise seaborne scrap prices to its western Japan works because dealers in the Tokyo Bay and Yokohama areas are demanding about ¥39,000 per ton fas for H2.

Prior to its December 18 increase, Tokyo Steel was offering only ¥41,000 per ton fob for seaborne H2 at Okayama and Kyushu.

"So if you add ¥1,000 per ton for the fob charge and another ¥2,000 per ton for freight charges and other fees, the Tokyo Bay dealers would need to be certain of securing at least ¥42,000 per ton before they'd be bothered supplying Okayama or Kitakyushu," one notes.

As Tokyo Steel is hungry for scrap at both these works, it had little choice but to make its prices more attractive and to raise H2 to ¥42,500 per ton.

US scrap prices could jump again in January

Scrap prices are expected to rise again significantly in January but dealers aren't talking because they don't want a December buying frenzy, sources say. January's prices could increase as much as $25-40 per long ton - on top of the $35-40 per long ton increase seen this month.

"It is going to be a huge month and there is a huge expectation for that to happen," one source say. Another source says that scrap yards are able to hold onto their inventory because it has been a good year financially for the industry.

One reason for the forthcoming cost push is that a couple mills bought ahead in November for the last two months of the year and will be back into the market once the New Year begins.

"Mills are again snooping around to stock scrap and dealers are coming up short on their orders. The market is definitely poised to go up," says the eastern US dealer.

Flows of scrap into the yards have slowed down due to typical December factors such as weather and buyers holding onto year-end cash.

Turkey and Saudi Arabia are also importing more US scrap for the booming rebar business in the Middle East. "Rebar is not specific and doesn't require high-grade scrap. They are coming over here with the higher valued Euro and buying it," says a source.

Turkish scrap market Overheating on lack of supply

Scrap import prices in Turkey have reached and exceeded the $400 per ton cfr Turkish ports mark this week, backed by unprecedented demand which is evidently outweighing supply, market sources say.

With finished products price rises being accepted, Turkish producers seem to have all come out with enquiries for scrap at the same time, driving up the prices and encouraging speculative trading, one major trader says. "It is dangerous, because the reality is, there is little scrap that is physically available – what being sold right now is a very expensive promise".

A few cargoes arriving from North America were sold at prices well over $410 per ton cfr Turkey for bonus grades, and HMS1&2 80/20 was sold yesterday for $410 per ton cfr Turkey. But a trader admits, "There is no actual volume to deliver right now". "You could say the price of HMS is anything, up to $450 per ton right now - and it will probably get accepted, if you can deliver quickly - which is impossible", he says.

Indeed, several traders caution that, excited by recent developments in the finished steel market, and having bought nothing last month, Turkish producers are willing to pay more for scrap, which is scarce.

However, they note, high scrap prices were the reason they were pushing prices of billet and rebar in the first place; so, whilst prices are rocketing, the demand is following, but the supply is dwindling.

"There is absolutely no scrap coming out of the CIS, where domestic buyers are taking all the available volumes, whilst Europe and North America are about to go on holidays and are covered in snow," another observer comments. And as the supply of scrap is drying up, and winter taking hold of the supplying countries, producers have no choice but to accept price increases.

Steel Scrap No 1 Heavy melting US Iron Age composite – d/d Pittsburgh/Philadelphia/Chicago

Month	Average Price ($ per long ton)	Price Movement
June 2007	240.83	
July 2007	238.84	↓
August 2007	248.84	↑
September 2007	263.00	↑
October 2007	263.00	↔
November 2007	252.00	↓
December 2007 (till date)	250.00	↓

Source: Metal Bulletin

Steel Scrap No 1 heavy melting US fob East Coast $ per ton

Month	Average Price ($ per long ton)	Price Movement
June 2007	282.50	
July 2007	265.00	↓
August 2007	265.00	↔
September 2007	265.00	↔
October 2007	265.00	↔
November 2007	265.00	↔
December 2007 (till date)	287.00	↑

Source: Metal Bulletin

Steel Scrap Shredded US fob East Coast $ per ton

Month	Average Price ($ per long ton)	Price Movement
June 2007	291.25	
July 2007	271.25	↓
August 2007	270.60	↓
September 2007	272.00	↑
October 2007	272.00	↔
November 2007	272.00	↔
December 2007 (till date)	292.00	↑

Source: Metal Bulletin

HMS 1 & 2 (80 : 20 mix) Iron and Steel Scrap Rotterdam Export $/ton

Month	Average Price ($ per ton)	Price Movement
June 2007	292.00	
July 2007	278.00	↓
Augist 2007	289.00	↑
September 2007	292.00	↑
October 2007	292.00	↔
November 2007	294.00	↑
December 2007 (till date)	307.00	↑

Source: Metal Bulletin

Steel Scrap HMS 1&2 fob Rotterdam Export (50 : 50 mix)

Month	Average Price ($ per ton)	Price Movement
June 2007	276.00	
July 2007	263.00	↓
August 2007	270.00	↑
September 2007	272.00	↑
October 2007	272.00	↔
November 2007	274.00	↑
December 2007 (till date)	287.00	↑

Source: Metal Bulletin

Steel Scrap Shredded fob Rotterdam $ per ton

Month	Average Price ($ per ton)	Price Movement
June 2007	297.00	
July2007	283.00	↓
August 2007	294.00	↑
September 2007	297.00	↑
October 2007	297.00	↔
November 2007	299.00	↑
December 2007 (till date)	312.00	↑

Source: Metal Bulletin