

World Steel Dynamics (WSD) is a leading steel information service in Englewood Cliffs, N.J. WSD's steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the "pricing power" of steel companies the world over will be impacted by changes in the steel industry's structure.



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Q. With the growing influence of spot iron ore prices, given the new quarterly benchmark pricing system, what is WSD's outlook for spot iron ore prices in the short and long term?

A: WSD remains with its forecast that the iron ore price for sinter feed will fall to about \$100 per tonne for iron ore fines, versus \$175 per tonne in mid-May. If so, the Brazilian price, FOB the port of export, would be about \$82 per tonne before adjusting for quality differences. The Australian iron ore fines price would be about \$93 per tonne.

Here are some points to consider:

- Lower freight rates are bringing down the delivered price.
- The new three-month benchmark pricing system encourages huge speculation.
- At today's prices for iron ore, capacity increases are sizable.
- Chinese iron ore production has been zooming and may decline less than expected in the next six months, even if the world price for iron ore falls sharply. Undoubtedly, however, Chinese iron ore production will be quite price-elastic in the future, given the wide range of costs to produce iron ore in the country.
- The spot iron ore price will probably be quite volatile in the next year, at least.
- It seems possible to WSD that a shift to a six-month benchmark iron ore pricing system might occur. The steel mills' customers are finding it difficult to plan the prices for their own products when the price of steel swings so frequently and sharply – in part due to changes in the spot price of iron ore.

The combination of declining Chinese steel production and a slower decline in Chinese iron ore production may cause the Chinese requirement for offshore iron ore to plummet to an annual rate of about 435 million tonnes later in 2010, versus about 650 million tonnes annualized in the first quarter of 2010. Next, if the spot price in China drops sufficiently to force Chinese iron ore production sharply down, and steel production in China turns back up, the demand for offshore iron ore would start rising sharply once again.

A just-released UNCTAD iron ore report, which is viewed as authoritative when it comes to additions to non-Chinese iron ore capacity, indicated that about 685 million tonnes of new iron ore capacity is in the pipeline to come on stream by the end of 2012. Of this, 270 million tonnes is considered "certain," 145 million tonnes is "probable" and

270 million tonnes is "possible." The report also pointed out that the "Big Three" iron ore companies can regulate the pace at which they bring on their new capacity in order to prevent sizable overcapacity.

Global iron ore production may be 1,588 million tonnes in 2009, versus 1,693 million tonnes in 2008 and a peak of 1,699 million tonnes in 2007.

Seaborne iron ore trade was 895 million tonnes in 2009; of this, China accounted for 628 million tonnes (67%) of the trade.

Iron ore pellet production in 2009 dropped to 215 million tonnes, versus 313 million tonnes in 2008.

Capacity additions were forecast as follows:

Year	Million tonnes
2005	35
2006	70
2007	130
2008	90
2009	75
Forecast:	
2010	114 certain, 18 probable, 42.6 possible
2011	143 certain, 12.8 probable, 79.5 possible
2012	14 certain, 106.4 probable, 148 possible

The report also indicates that Chinese iron ore output may not increase beyond current levels in the future. (Note: WSD does not necessarily agree, given that the Chinese iron ore industry's capital outlays are about \$12–14 billion per year at present, and a sizable number of steel companies are initiating new iron ore projects.) The report implies that Chinese iron ore production figures are overestimated and that the Fe content is lower than is widely assumed. (Note: WSD does not agree.) ♦

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Iron Ore Prices (\$ per tonne)

	CVRD Fines (FOB)	Freight	Fines Del. Rotterdam	% Chg (FOB)	CVRD Pellets (FOB)	Freight	Pellets Del. Rotterdam	% Chg (FOB)	Spread Pellets-Fines \$/tonne	%
1990	19.80	7.63	27.43	16%	33.75	7.63	41.38	9%	13.95	70.5%
1991	21.38	7.00	28.38	8%	34.11	7.00	41.11	1%	12.73	59.5%
1992	21.28	6.50	27.78	-0%	31.70	6.50	38.20	-7%	10.42	49.0%
1993	18.70	6.25	24.95	-12%	28.54	6.25	34.79	-10%	9.84	52.6%
1994	17.02	6.34	23.36	-9%	28.54	6.34	34.88	0%	11.52	67.7%
1995	18.16	7.58	25.74	7%	31.94	7.58	39.52	12%	13.78	75.9%
1996	19.20	5.45	24.65	6%	34.06	5.45	39.51	7%	14.86	77.4%
1997	18.84	5.75	24.59	-2%	33.87	5.75	39.62	-1%	15.02	79.7%
1998	19.38	4.00	23.38	3%	34.81	4.00	38.81	3%	15.44	79.7%
1999	17.24	4.40	21.64	-11%	30.20	4.40	34.60	-13%	12.96	75.1%
2000	17.99	5.60	23.59	4%	32.01	5.60	37.61	6%	14.01	77.9%
2001	18.77	5.07	23.84	4%	32.57	5.07	37.64	2%	13.80	73.5%
2002	18.32	4.00	22.32	-2%	30.78	4.00	34.78	-5%	12.47	68.0%
2003	19.97	8.00	27.97	9%	34.40	8.00	42.40	12%	14.44	72.3%
2004	23.69	22.00	45.69	19%	40.22	20.00	60.22	17%	16.53	69.8%
2005	39.85	17.00	56.85	68%	76.08	17.00	93.08	89%	36.23	90.9%
2006	47.42	16.00	63.42	19%	73.79	16.00	89.79	-3%	26.37	55.6%
2007	51.93	30.00	81.93	10%	78.46	30.00	108.46	6%	26.54	51.1%
2008	85.94	40.00	125.94	66%	144.56	40.00	184.56	84%	58.62	68.2%
2009	61.71	10.00	71.71	-28%	74.74	10.00	84.74	-48%	13.03	21.1%
Q2 2010	107.14	13.00	120.14	74%	171.89	13.00	184.89	130%	64.75	60.4%
Q3 2010	137.41	11.00	148.41	28%	198.46	11.00	209.46	15%	61.05	44.4%
Forecast:										
Q4 2010	125.00	12.00	137.00	-9%	175.00	12.00	187.00	-12%	50.00	40.0%
Q1 2011	100.00	10.00	110.00	-20%	140.00	10.00	150.00	-20%	40.00	40.0%
Q2 2011	80.00	10.00	90.00	-20%	112.00	10.00	122.00	-20%	32.00	40.0%
Q3 2011	100.00	11.00	111.00	25%	140.00	11.00	151.00	25%	40.00	40.0%
Q4 2011	80.00	11.00	91.00	-20%	112.00	11.00	123.00	-20%	32.00	40.0%
2012	80.00	12.00	92.00	0%	112.00	12.00	124.00	0%	32.00	40.0%
2013	84.00	11.00	95.00	5%	117.60	11.00	128.60	5%	33.60	40.0%
2014	75.00	12.00	87.00	-11%	105.00	12.00	117.00	-11%	30.00	40.0%
2015	75.00	12.00	87.00	0%	105.00	12.00	117.00	0%	30.00	40.0%
2016	76.50	12.24	88.74	2%	107.10	12.24	119.34	2%	30.60	40.0%
2017	78.03	12.48	90.51	2%	109.24	12.48	121.73	2%	31.21	40.0%
2018	79.59	12.73	92.33	2%	111.43	12.73	124.16	2%	31.84	40.0%
2019	81.18	12.99	94.17	2%	113.66	12.99	126.64	2%	32.47	40.0%
2020	82.81	13.25	96.06	2%	115.93	13.25	129.18	2%	33.12	40.0%

*To submit your questions for WSD, e-mail WSD@aist.org.
Please include your full name, company name, mailing address and e-mail in all correspondence.*