

# Pricing Structures under new Iron Ore Market Dynamics

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## High-level resource sector economics advisory services

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# Agenda

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- ❖ Market and price outlook as global economies recover
- ❖ Changes are inevitable, but what will be the drivers?
- ❖ Contract vs. spot sales: where is the market heading?



# Pricing principles

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## **Market Clearing Price**

- ❖ The price that clears the market of all supplied product
- ❖ Supply and demand are in equilibrium

## **Stable Market Equilibrium**

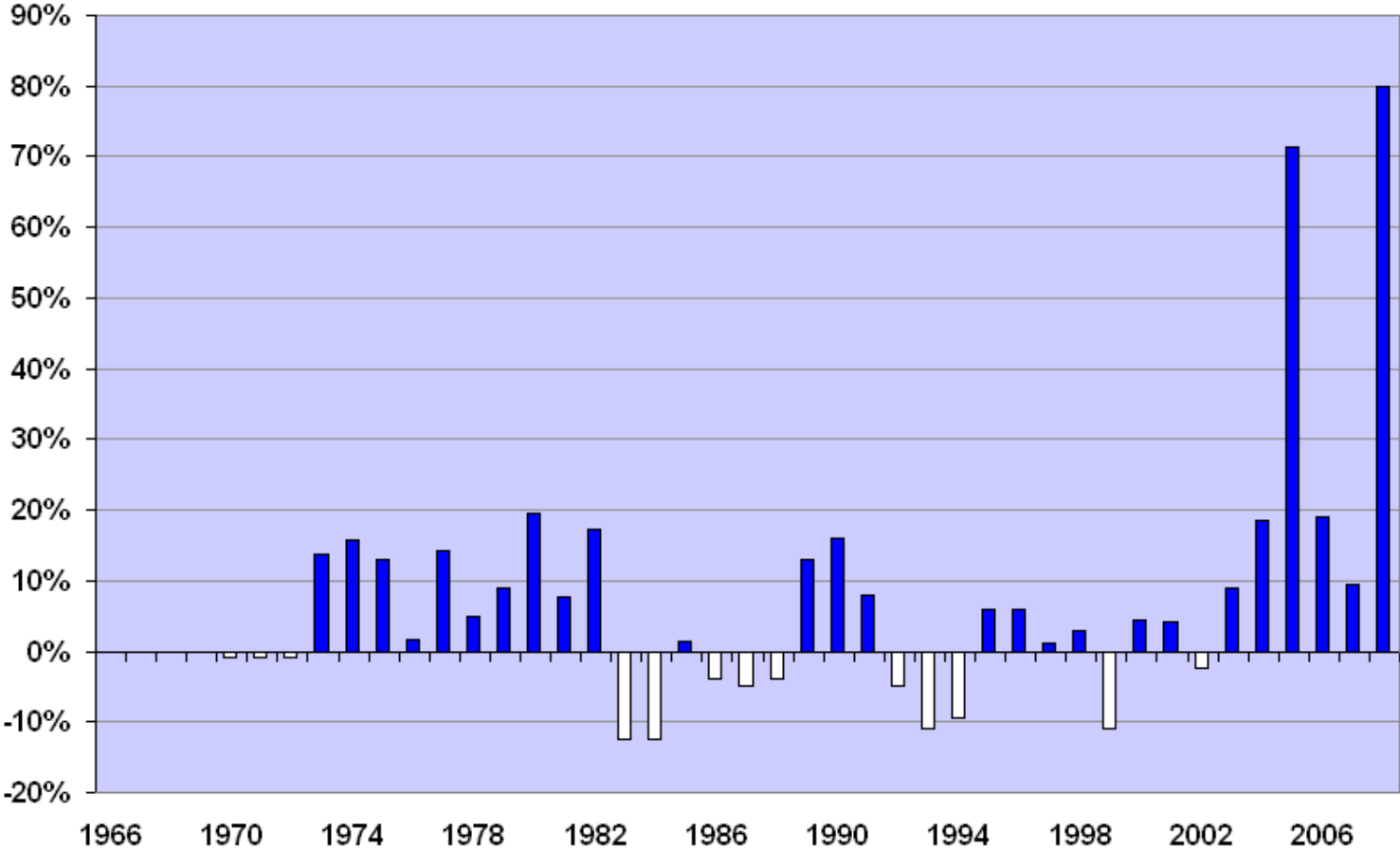
- ❖ Fundamentals are constant

## **Unstable Market Equilibrium**

- ❖ Temporary equilibrium – dynamic fundamentals
- ❖ Exchange rates, interest rates, costs, product mix/substitution, economy, taxes etc.

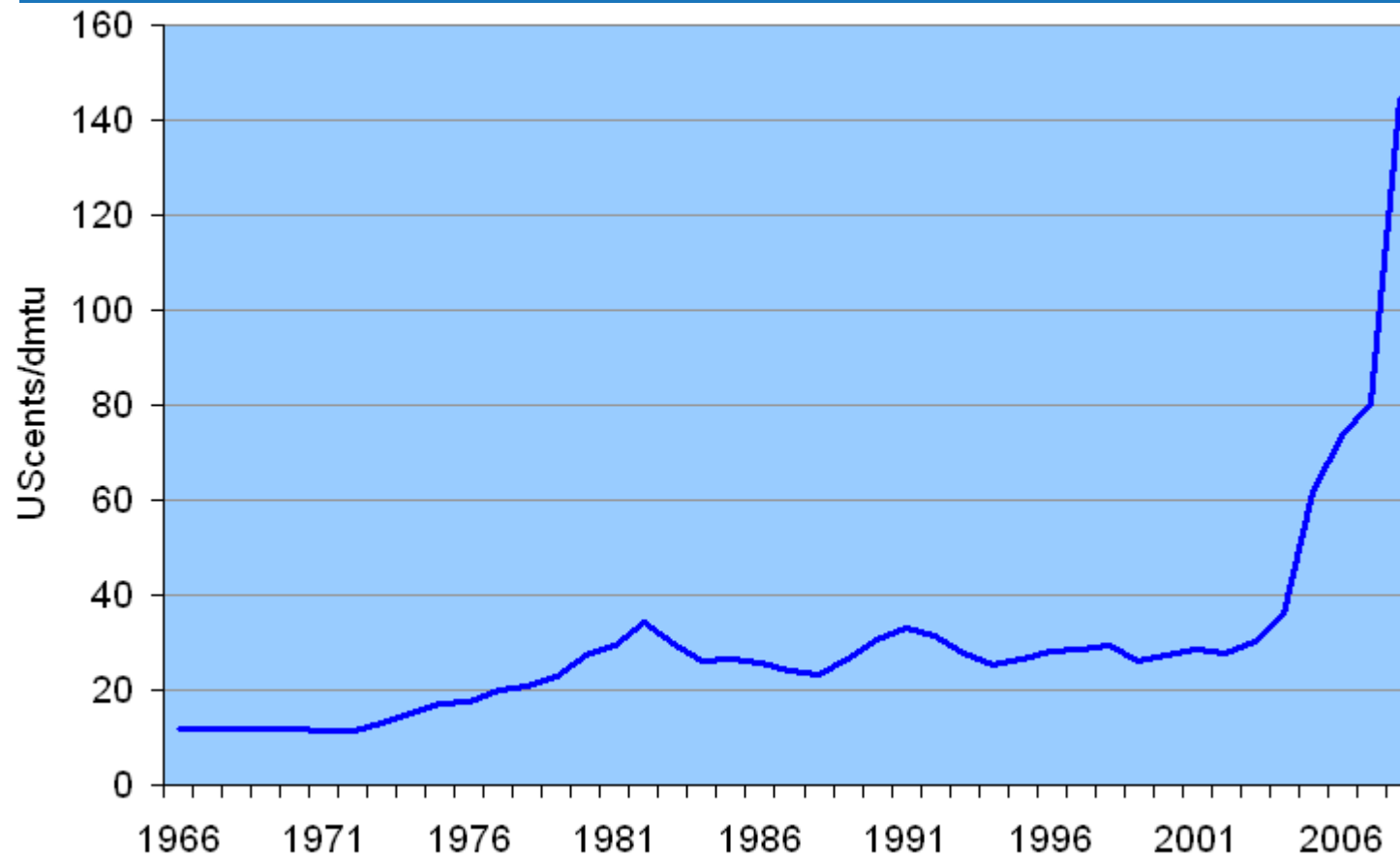


# Benchmark price changes – Australian fines

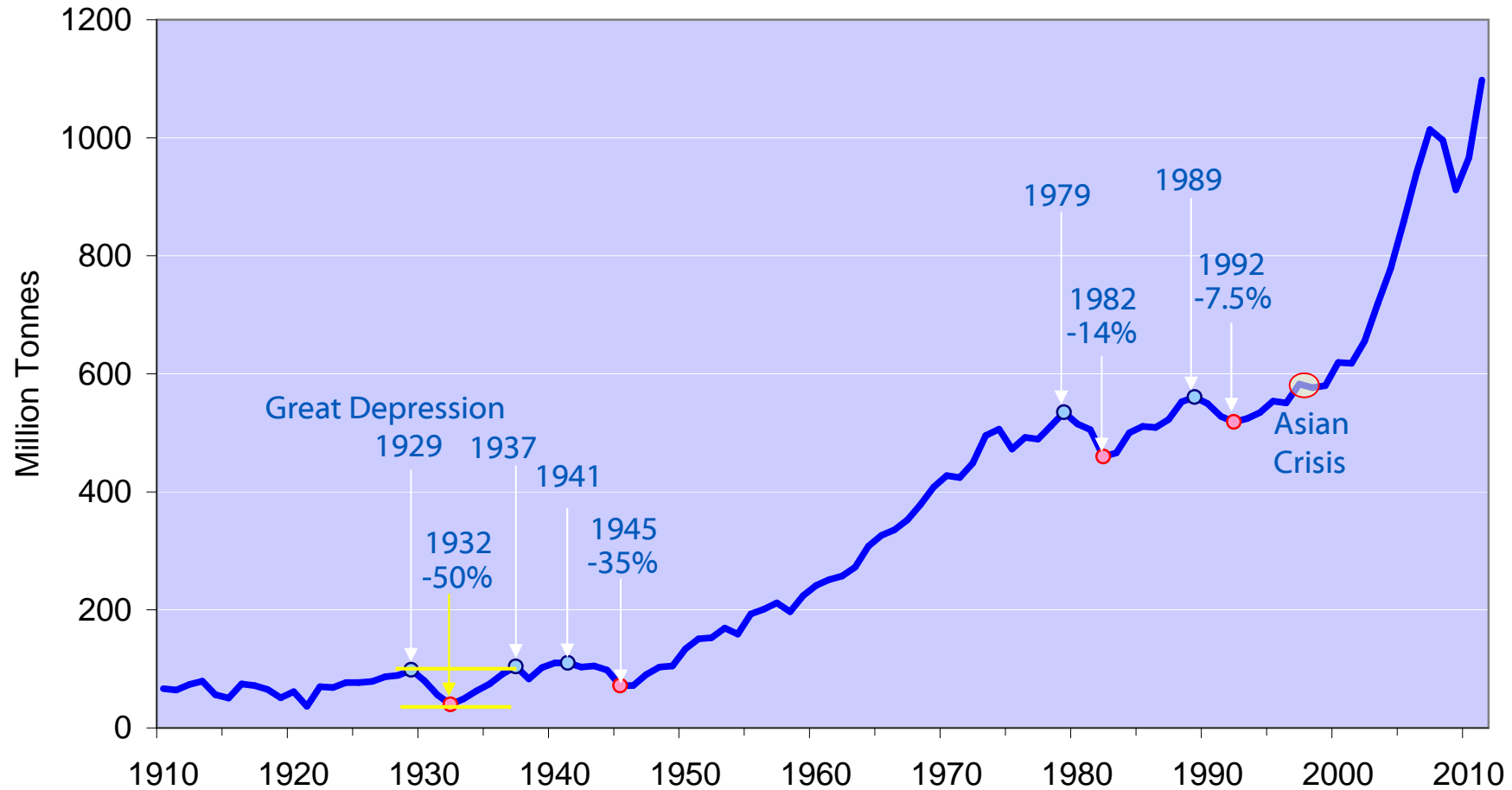


# Of price and power ...

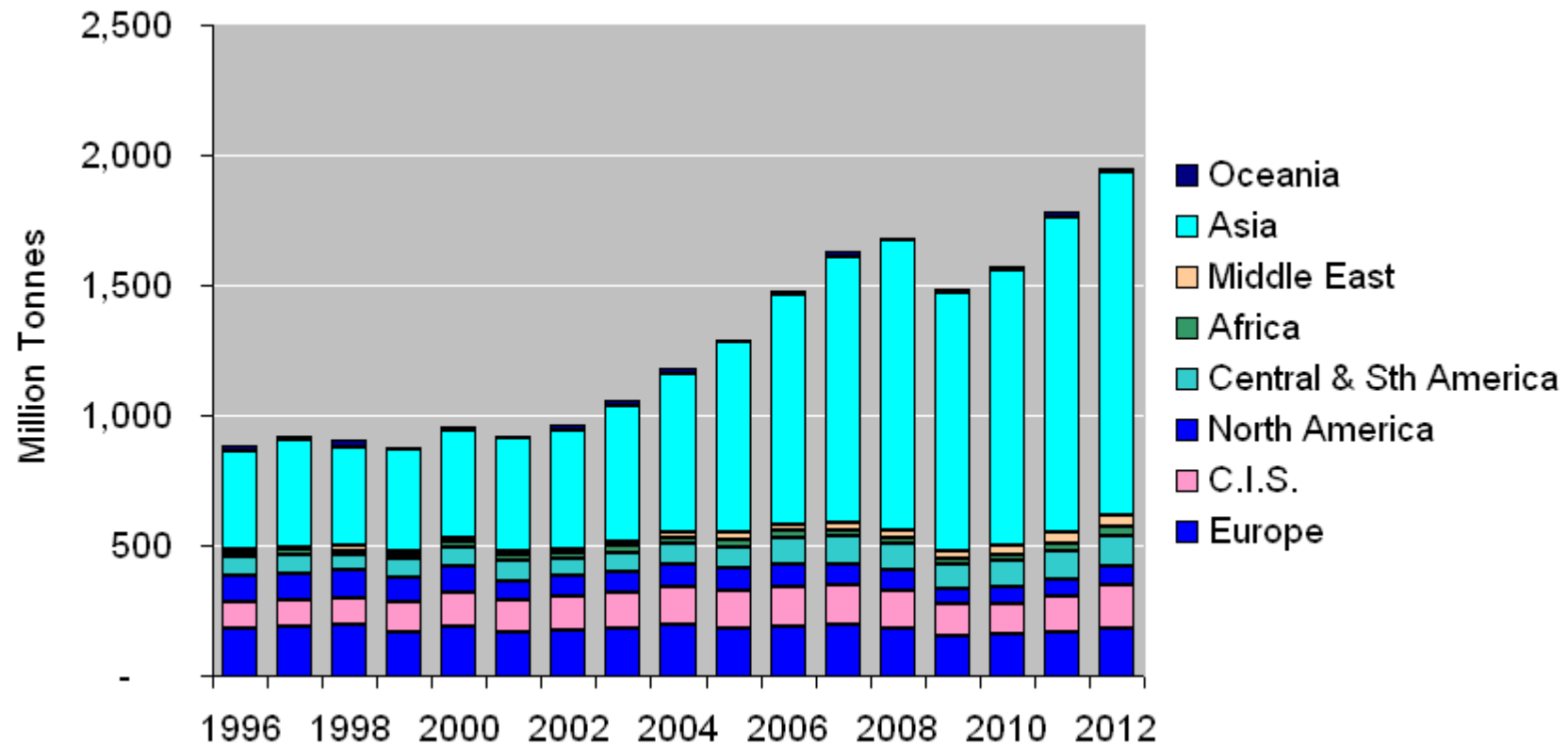
Australian Benchmark Fines Prices



# Riding the iron horse – world pig iron production



# World iron ore consumption

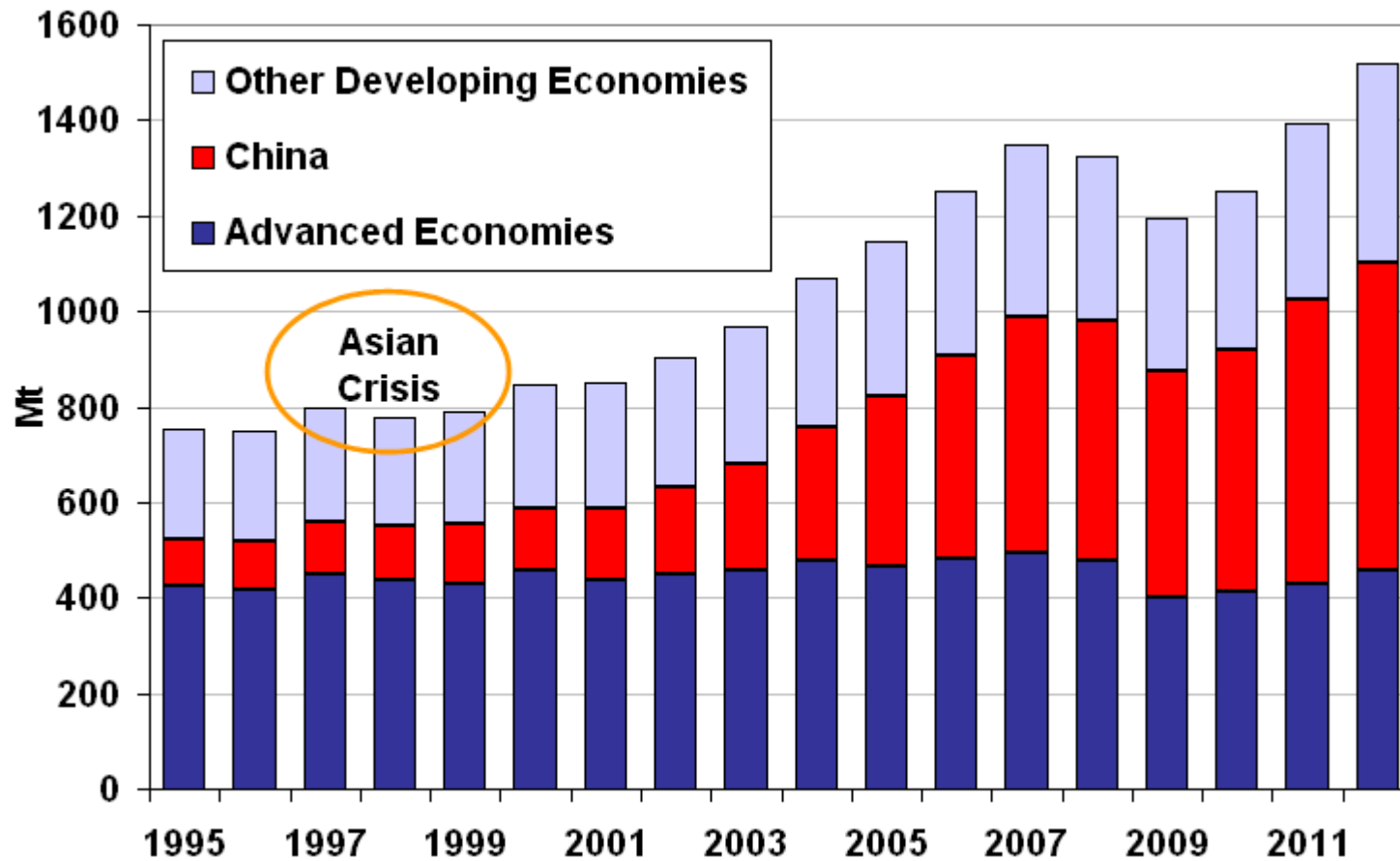


Asia is the epicentre of growth

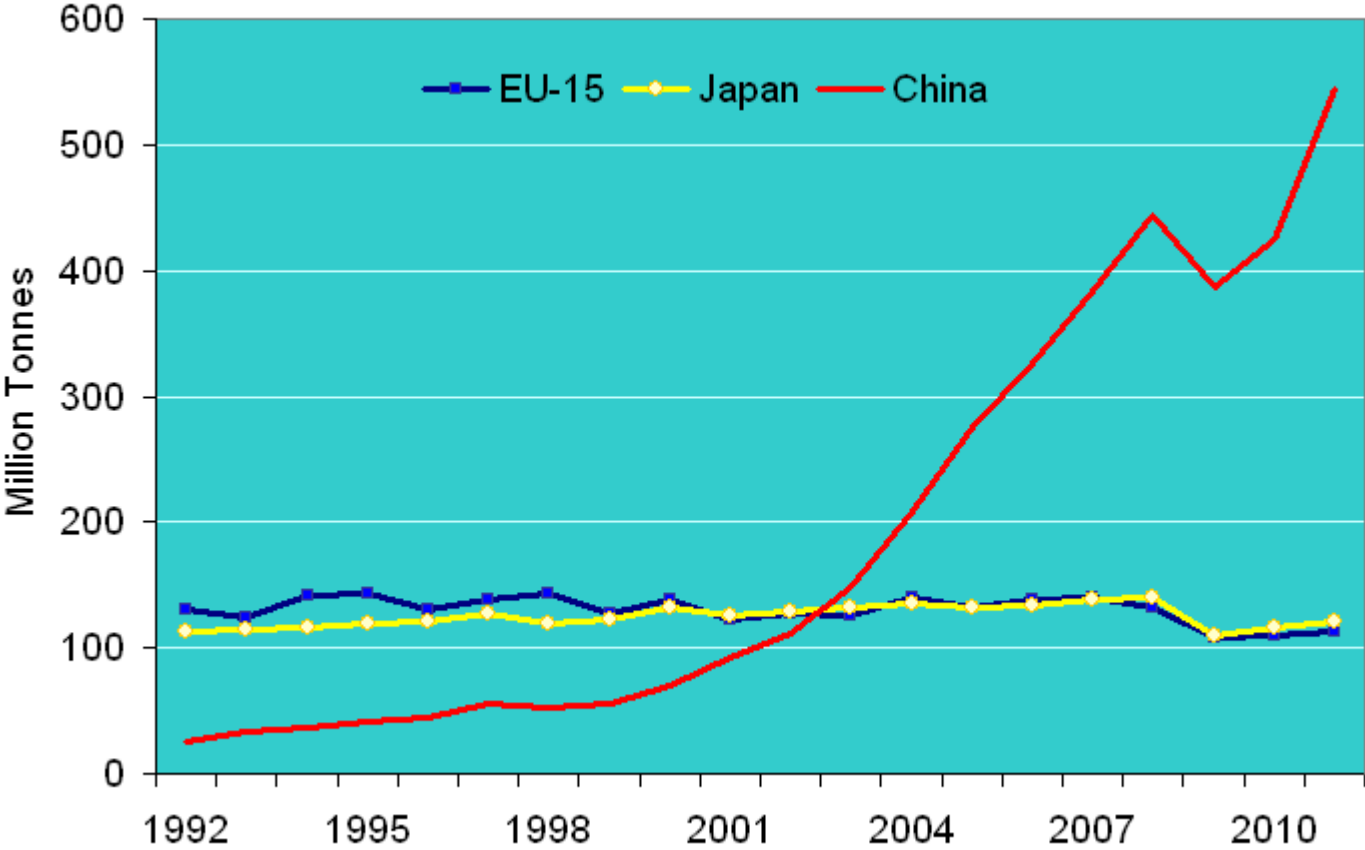


# China – the giant shouldering the burden

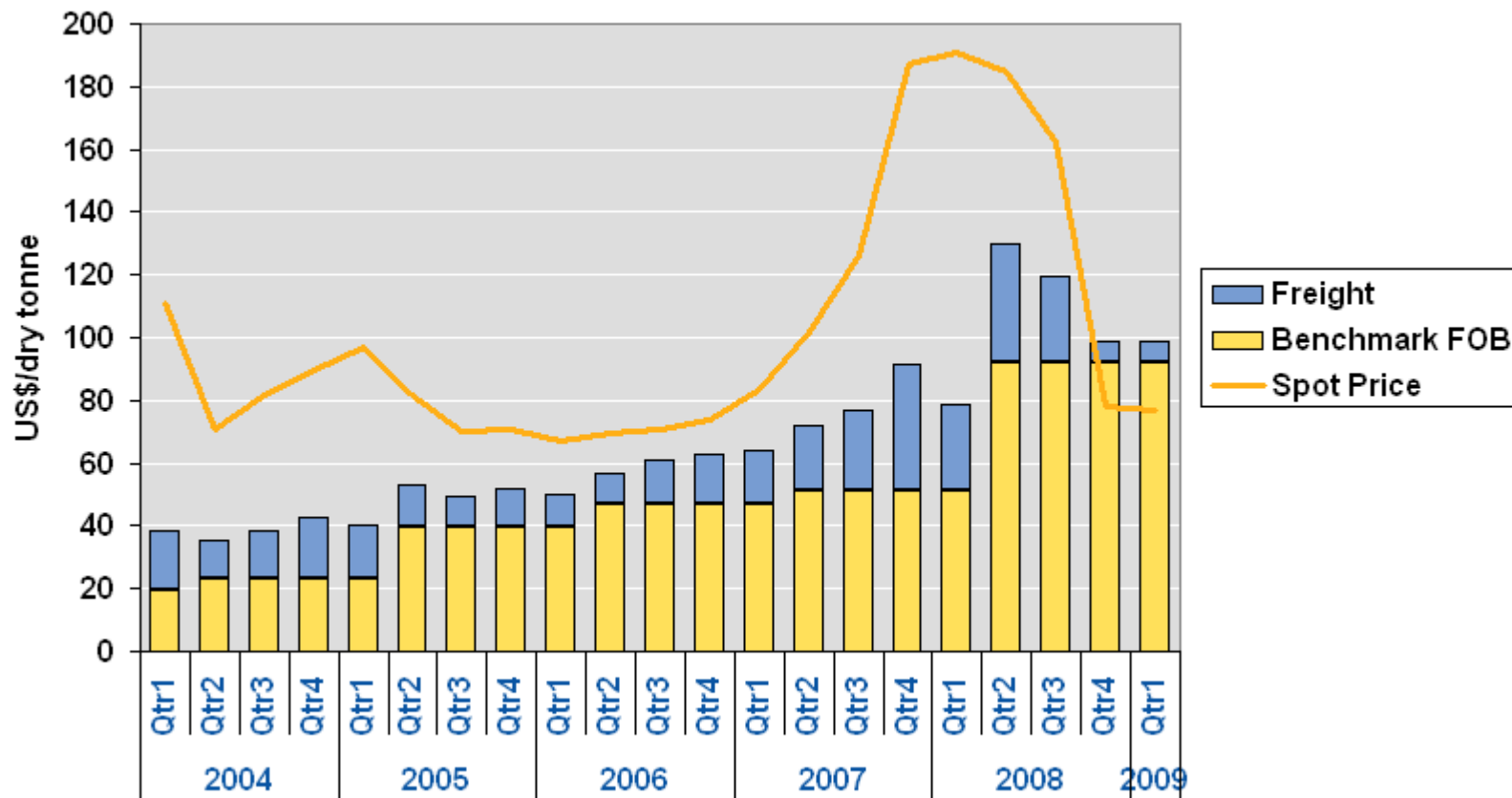
World Steel Production



# Key iron ore import markets



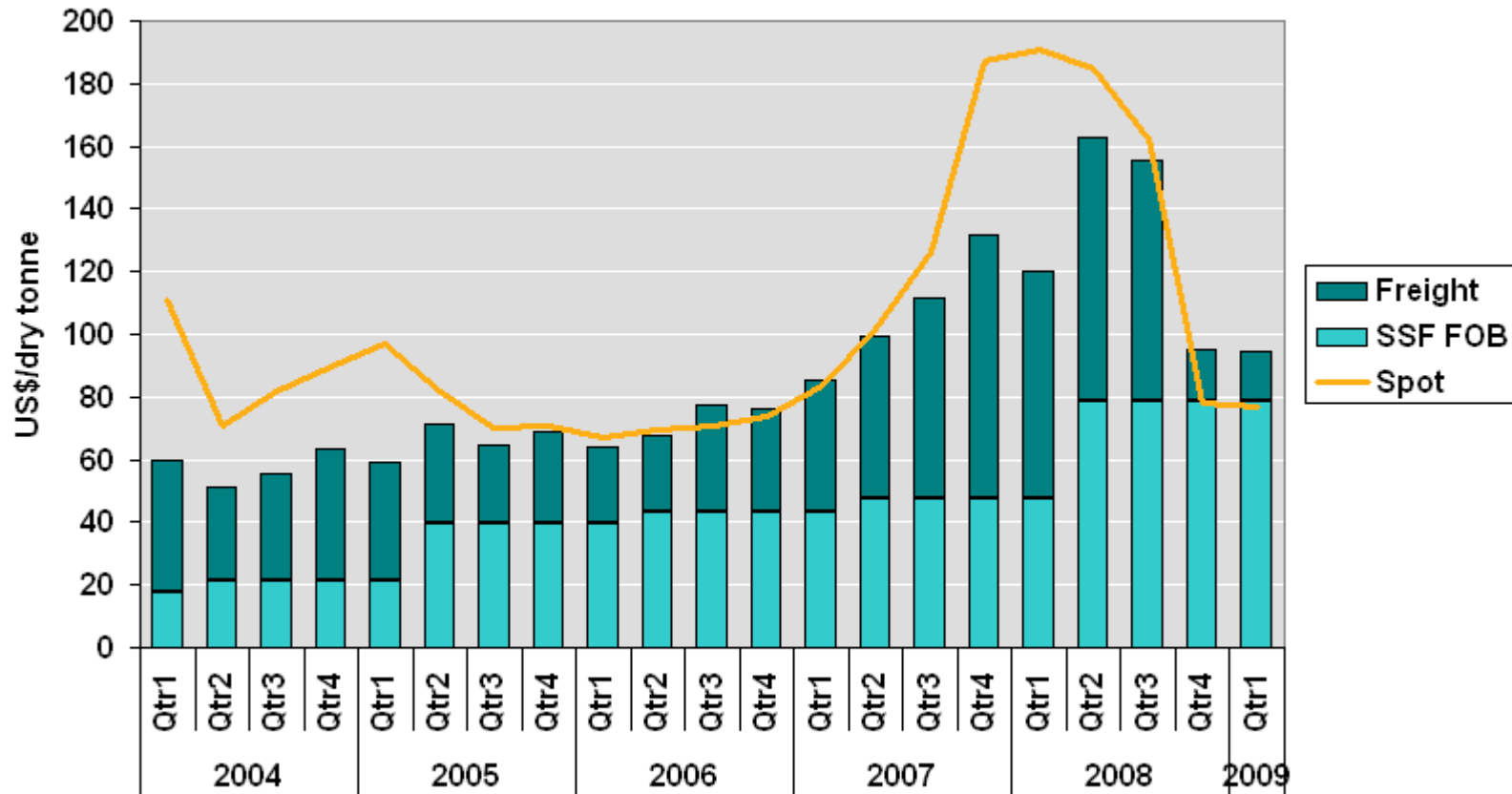
# Australian fines prices, CFR China



References: BHP Billiton, Rio Tinto, Tex Report, Metal Bulletin, Steel Trade Today, Metalytics

Spot CFR price for 63.5% Fe fines

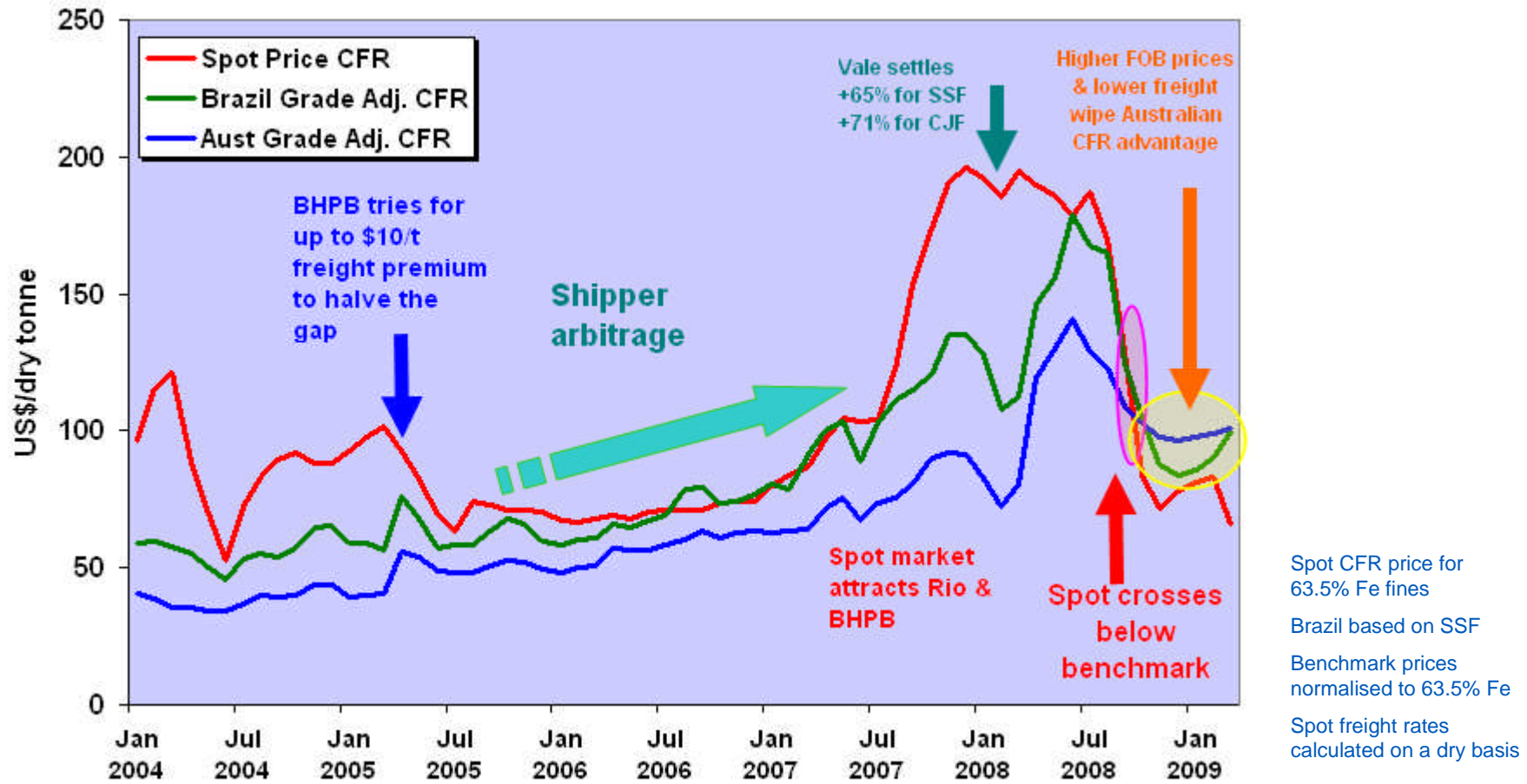
# Brazilian fines prices, CFR China



References: Vale, Tex Report, Metal Bulletin, Steel Trade Today, Metalytics

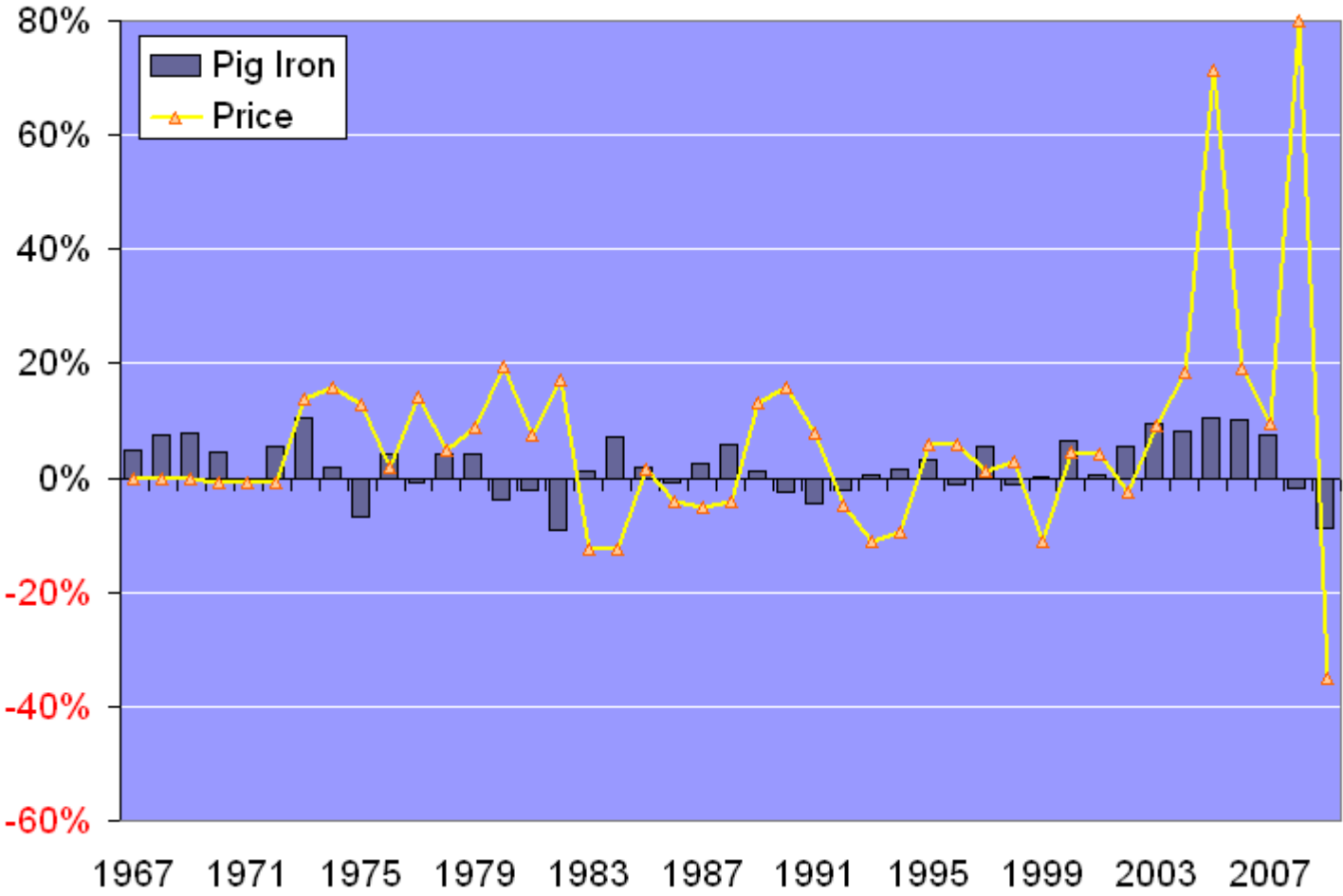
Spot CFR price for 63.5% Fe fines

# Spot the benchmark

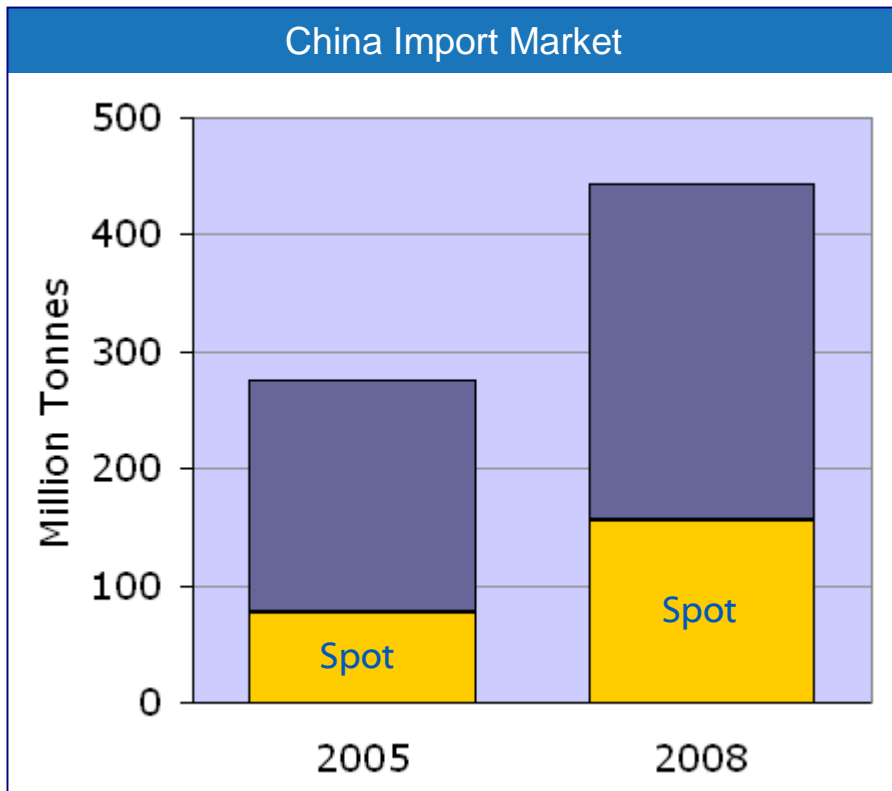


References: BHP Billiton, Rio Tinto, Vale, Tex Report, Metal Bulletin, Steel Trade Today, Metalytics

# Price response to changes in blast furnace output



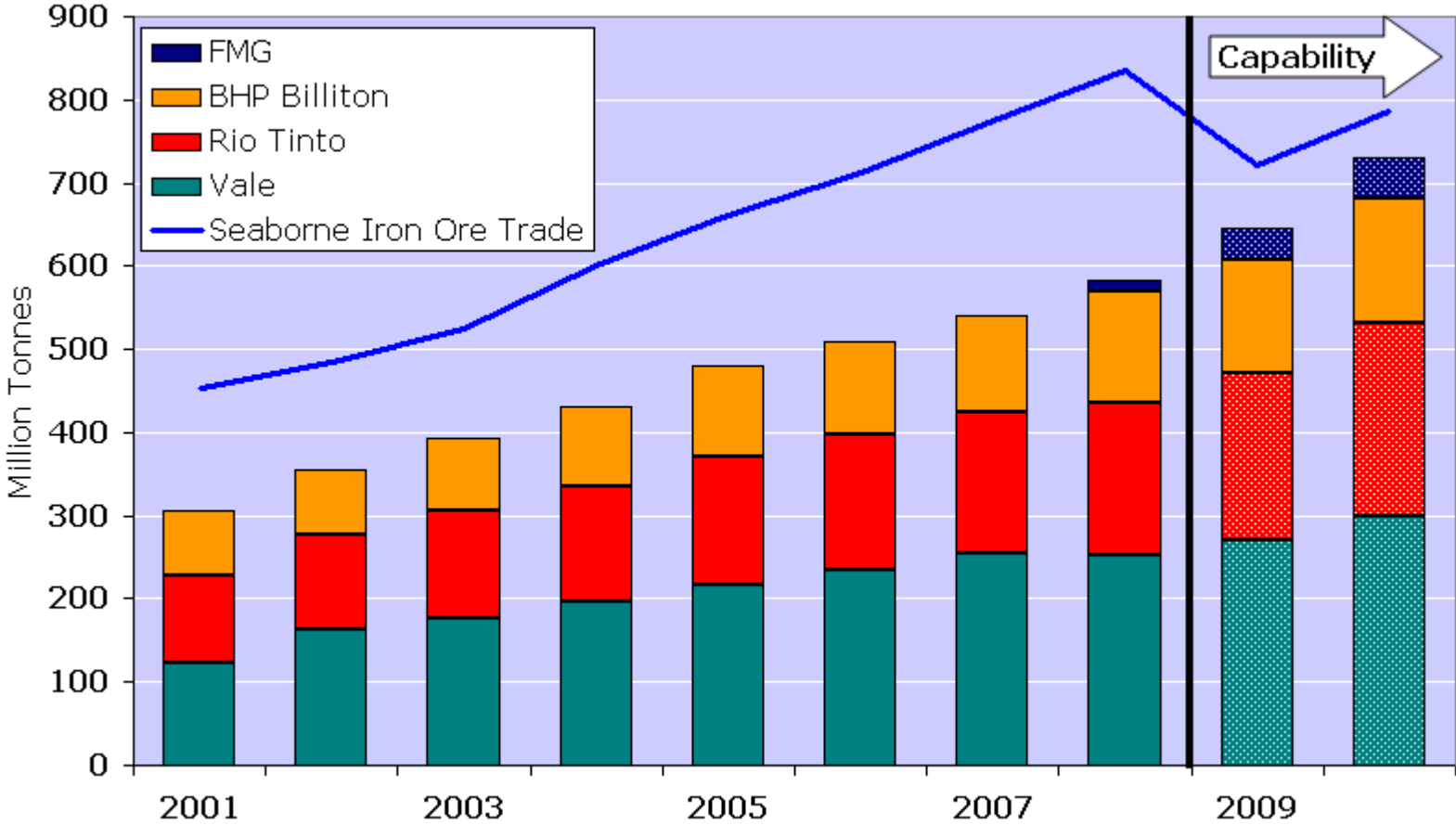
# The spot market – from filler to indicator



References: CMN, Tex Report, Metalytics estimates

- ❖ China's explosive growth created a significant spot market
- ❖ 2005
  - ❖ Mainly for Indian exports
  - ❖ Quality and consistency issues
- ❖ 2008
  - ❖ Rio & BHPB ramp up spot sales
  - ❖ Price Indexes emerge
  - ❖ Swap market based on Index
  - ❖ BHPB pushes index-based prices –
    - ✦ Baosteel and BlueScope contracts
    - ✦ No new benchmark contracts

# Potential to overwhelm





# Looking forward...

- More market-responsive price systems
- Mix of:
  - Benchmark
  - Hybrid – periodic adjustment
  - Index-based
  - Spot
- Global recession means some demand lost forever
  - Chinese market improvement in 2009
  - Other markets stabilising 2010-11
- Major contract price reversal in 2009
- Industry shakeout – resetting goals and plans
  - Rationalisation
  - Projects delayed, deferred, and reconfigured
  - Marginal producers squeezed out
- Longer term
  - Use of hedging – swaps and futures
  - e-auction platforms
  - Solid prices and margins for cost-efficient producers



# Metalytics

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*Thank You*