THE STEEL INDEX

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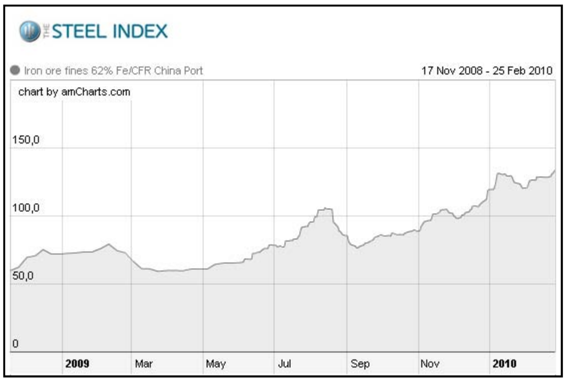
Iron ore spot price hits new high



The Steel Index (TSI) daily iron ore reference price for 62% Fe content fines hit a new high today, reaching US$133.10 per dry metric tonne CFR Tianjin port in China. This price represents a 125% increase since March 2009, when the price dropped to US$59.10/dmt.

After falling from its previous high of US$131.20/dmt on 8 January 2010, in line with falling freight rates for dry bulk carriers on the key routes to China at that time, the price has increased steadily since early February (see chart right).

Significantly today's spot price is approximately double the current annual fixed-price 'benchmark' level on an FOB Australia basis. Negotiations are underway between representatives of the Australian miners and Chinese steel mills to try to reach agreement on a benchmark level for 2010-11. Last year, no agreement was reached between these parties and many commentators remain skeptical about whether one will be reached this year.

The latest iron ore price increases have occurred following the Chinese New Year holiday last week and may be driven in part by anticipation of the outcome of India's budgetary committee meeting tomorrow. This will discuss whether to increase the current export tax on iron ore, with many observers expecting a rise for fines from 5% to 10-15%.

Chinese steel mills' requirement for iron ore has increased through 2009 and into 2010 in line with rising steel production (up 13.5% in 2009 to 568mt), further fuelled by the country's increasing levels of spending on steel-intensive infrastructure projects. Chinese steel prices also look set to rise after recent falls in some product areas, with leading Chinese steelmaker Baosteel announcing on 12 February that its March prices will increase by RMB 200-700/tonne ($29-103/t), according to Steel Business Briefing.

"The market would appear to expect firmer iron ore prices going forward, influenced by tighter supply factors and the potential for higher Indian iron ore export taxes" commented Richard Herselman from iron ore traders London Dry Bulk. In reference to the forward curve for iron ore swaps, he added: "On the front end of the curve we are seeing pricing levels presently already running ahead of TSI's index."

The iron ore swaps market has grown strongly over the past year, hand-in-hand with the increasing use of spot prices in physical market transactions. Since the Singapore Exchange launched the world's first cleared iron ore swaps contract on 27 April 2009, followed by LCH.Clearnet in London, around 10 million tonnes has been cleared with a value of over US$ 1 billion. Both SGX and LCH.Clearnet use exclusively TSI's iron ore index for settling their cleared iron ore swaps contracts.

"This is spectacular take-up in just 10 months, reflecting the market's confidence in TSI's daily reference prices and the appetite in the sector for managing iron ore price risk by using index-linked physical transactions in parallel with financial swaps", notes Steven Randall, Managing Director of TSI. Industry experts anticipate the swaps market could increase 10-fold over the next couple of years, with the long-term potential to exceed a value of US$500 billion.

For further information

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Note to Editors:

The Steel Index (TSI) is the premier source of independent, reliable, iron ore and steel price information based on actual transactions. Iron ore prices are published daily at 12:00 GMT. Steel prices are published weekly on Mondays.

TSI provides a highly rigorous price discovery service for steel and iron ore prices in major regions around the world. Price data is submitted confidentially on-line by companies for a range of steel and iron ore products they buy or sell. Reference prices are then calculated using transparent and verifiable procedures.

TSI provides the mining, trading and steel industries with the frequent and reliable iron ore price information they need for conducting their business in this volatile market, as well as supplying the financial community and clearing houses with the data required for a highly liquid swaps market. TSI's iron ore index is also widely used for settling Over-the-Counter (OTC) swap contracts world-wide.

Singapore Exchange (SGX) and LCH.Clearnet both use exclusively TSI's iron ore index for settling their monthly cleared iron ore swaps contracts. Their settlement prices are the monthly average of TSI's daily 62% Fe iron ore reference prices published in the expiring month.

Further information on The Steel Index, including details of product specifications and procedures, and a free trial of the service are available at www.thesteelindex.com.