



Iron Ore Forecasts Raised by Macquarie, JPMorgan (Update1)

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By Jesse Riseborough and Rebecca Keenan

Dec. 15 (Bloomberg) -- Forecasts for annual contract prices for iron ore, a \$160 billion-a year-global market, were raised by Macquarie Group Ltd. and JPMorgan Chase & Co. after a surge in demand from China

Australian benchmark iron ore prices may rise 30 percent, Macquarie analysts led by London-based **Jim Lennon** said today in a report. That compares with their previous estimate for a 10 percent gain. JPMorgan yesterday raised its forecast increase to 20 percent from 10 percent.

Steelmakers and traders in China, the world's biggest consumers, boosted imports 12 percent last month to meet demand from makers of cars and appliances. Iron-ore demand from U.S. and European steelmakers will also increase next year, joining China, Vale SA, the world's largest producer, said yesterday.

"Undoubtedly, rampant Chinese growth is still the main story in the steel industry," the Macquarie analysts said. "We remain very bullish on Chinese demand growth through 2010 and beyond, which will create tightness in the steel market during the second half of next year."

Rio Tinto Group, the world's second-biggest iron ore exporter, rose 0.5 percent to A\$70.85 at the 4:10 p.m. Sydney time close on the Australian stock exchange. BHP Billiton Ltd., the third-biggest exporter, rose 1.1 percent. Both companies had their ratings raised yesterday by JPMorgan.

JPMorgan joins UBS AG and Goldman Sachs JBWere Pty in predicting a 20 percent gain. Vale may delay starting price talks until early next year as it seeks more market data, Chief Executive Officer **Roger Agnelli** told reporters yesterday.

Fractured Talks

The four-decade old annual iron ore pricing system was fractured this year after Chinese mills failed to reach agreement with the three largest suppliers. **Rio Tinto** last week appointed a new chief negotiator with Asian steelmakers, boosting prospects for the latest talks.

Iron ore cash sales have recently been completed at as much as a 45 percent premium to last year's benchmark and prices may continue to rise in the coming months, Macquarie said. The bank raised its forecast to 125 cents a dry metric ton unit for Australian iron ore fines. That's about \$79 a ton compared with last year's settlement of about \$61 a ton.

China this year demanded a bigger price cut for iron ore than the 33 percent offered to Japanese and Korean mills by Rio and BHP. Baosteel Group Corp., China's largest steelmaker, this month announced the first price gains for its products in four months as demand rebounds.

JPMorgan boosted its estimates for 2010 earnings per share, at Rio and BHP by 30 percent and 16 percent respectively on higher metals forecasts. Analysts led by **David George** raised their rating on BHP to "neutral" from "underweight" and Rio was raised to "overweight" from "neutral."

"We never comment on pricing discussions," said Rio spokesman **Gervase Greene**. BHP spokeswoman **Kelly Quirke** declined to comment.

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