

Iron ore's rise strengthens miners' hand

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Global miners strengthened their hand in their critical annual iron ore negotiations with steelmakers after spot prices rose above \$100 a tonne on Tuesday for the first time since the summer.

The increase puts current spot prices about 40 per cent above the annual contracts settled for 2009-10.

The miners **Vale** of Brazil, **Rio Tinto** and **BHP Billiton** are set to demand a large rise for the 2010-11 annual contracts which, as in previous years, will start in April. Traditionally, annual contract prices are settled somewhat below spot market prices.

According to the consultancy Mysteel, the price of iron ore from India to China – an industry benchmark – rose on Tuesday to \$102 per tonne, including freight costs, its highest level since August. Mysteel said some miners were already asking prices as high as \$108 a tonne, suggesting further price increases were in the pipeline.

In the derivatives market, iron ore swaps for the first quarter of 2010 also showed strong gains, suggesting investors had confidence in the rally, said brokers. Iron ore traders quoted prices between January and March at \$102-\$105 a tonne for Australian iron ore, which is of lower quality than Indian ore.

"The demand is there and people are booking cargos," said Richard Herselman, of London Dry Bulk, the iron ore brokerage.

The rise comes on the back of strong demand in China, but also buying by steelmakers in Japan, South Korea, Germany and France. Rio Tinto and BHP Billiton said this month they were mining iron ore at full capacity, while Vale recently said it was bringing on stream its high-cost mines that it idled in late 2008 when demand collapsed.

Brazil's iron ore exports to Europe – the major source of the commodity for European steelmakers due to lower freight costs – last month hit the highest level since October 2008, according to Macquarie.

Vale of Brazil, Rio Tinto and BHP Billiton will ask for about a 30 per cent rise in iron ore prices for 2010-11 benchmark contracts, partially reversing the 33 per cent cut agreed for 2009-10, according to mining executives familiar with the negotiations. Analysts are more cautious, predicting an increase in the price of benchmark contracts of about 15-20 per cent. Last year's benchmark contract for iron ore was \$60 a tonne, excluding freight costs.

Executives say that not only are spot prices already higher than current contracts but, crucially, iron ore demand is set to exceed supply next year.

The 40-year-old benchmark system, in which the first deal between a miner and a steelmaker sets a yardstick to be followed by the rest of the industry, is under threat after China rejected the miners' 2009-10 settlement with Japan, opting to buy on the spot market. But analysts and industry executives believe a benchmark deal is likely to be struck for 2010-11, at least with customers in Japan, South Korea, Taiwan and Europe.

A benchmark deal with Chinese steel mills is unclear, however.

The annual negotiations started informally in late October at Qingdao's China International Steel and Raw Materials conference and Tokyo's Australia-Japan iron ore conference.

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