

## Steel - China

# Iron ore expert call: FY24e price USD110/t on easing supply/demand balance

Industry Overview

## 2023 recap: iron ore outperforming other ferrous varieties

We hosted a China iron ore expert call with Hannah Yang, iron ore analyst at Mysteel. In general, despite the sluggish property and steel markets, the iron ore price still outperformed that of other ferrous varieties in 2023, achieving double-digit yoy growth. On the supply side, iron ore production was up 72mnt yoy in 2023, with India (+31mnt), Brazil (+21mnt), and China (+12mnt) contributing. On the demand side, subjected to high inflation, interest rate hikes, and geopolitical turmoil, overseas iron ore demand shrank considerably. In contrast, despite the weak property market, steel production and iron ore demand in China remained robust, primarily driven by strong steel exports, stimulated by lower prices, and less mandated production cuts, with the aim to achieve China's GDP growth goal.

## Steel: Thin margin and declining export exerting pressure

According to Mysteel, subjected to weak demand recovery and high raw material cost, profitability among China's 247 major steel mills remained low in 2023. Suggested by the negative correlation between the profitability of a steel mill and its output level, if current loss-making among steel mills continues, a widespread production cut could be inevitable, putting pressure on iron ore demand. In 2023, a large portion of domestic steel production was digested by the overseas market. However, as stressed by Ms. Yang, the situation may not be sustainable in the next 2 years, and steel exports are expected to drop by 10mnt in 2024, given that 1) steel production in other major steel export countries should resume in 2024; 2) emerging trade protectionism may set a barrier for further export expansion; 3) entry of new steelmaking capacity in Southeast Asia and other ex-China regions may dilute market share of domestic steelmakers. Nevertheless, Ms. Yang reiterated her confidence regarding demand support from infrastructure projects.

## Iron ore: from shortage to expected oversupply in 2024

Ms. Yang expects the annual average iron ore price to drop from USD119/t in 2023 to USD110/t in 2024, with an upper end of the range to USD150/t and a lower end of the range of USD90/t. As stressed by Ms. Yang, a price hike could occur by early March, driven by domestic steel production resumption and tight ore supply outside China, although prices could be lower if the economic recovery turns out to be weaker than expected. In Mysteel's estimation, global iron ore production in 2024 could reach 2.54bnt, up 64mnt yoy, driven by Australia (+18mnt), China (+15mnt), India (+10mnt), and Liberia (+8mnt). In addition, Ms. Yang noted that given improved supply conditions, potentially lower steel exports, and expected demand shrinkage in 2024, the overall supply/demand dynamics of the China iron ore market should gradually change from a deficit of 9.4mnt in 2023 to a surplus of 21mnt in 2024. Meanwhile, BofA Global Research is bullish iron ore near term on potential for Chinese restocking given low inventories at steel mills and ports, forecasting iron ore at \$150/t in Q1.

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Bnt: billion tonnes

Mnt: million tonnes

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