

Australia Metals & Mining and Steel

Takeaways: iron ore price remain supported from flat China steel demand

Industry Overview

Iron ore price remain supported in 2024

We hosted a conference call with Wood Mackenzie's iron ore and steel analysts on the iron ore outlook. Overall, the speakers expect a 1.0% decline in global iron ore demand in 2024 and iron ore supply is expected to increase marginally by +0.6% in 2024. In our view, we see upside risks to WoodMac's below consensus iron ore price forecast of US\$110/t (BofAe US\$125/t & forward US\$127/t). We think restocking and seasonal supply disruptions will drive iron ore price to US\$150/t in 1Q-24.

Flat China steel demand in 2024

WoodMac expects a flat (+0.3% YoY) China steel demand growth in 2024 driven by steel demand from Infra of 2.0%, manufacturing 2.0%, auto 4.0% to offset 3.0% decline from property. The speakers believe China's new starts already declined in the last few years from the high base while high inventory of "projects under constructions" will support the steel demand from property until completion. WoodMac forecasts China crude steel production of 1.014bt in 2024 that is -1.20% decline from their 2023's forecast.

High grade iron ore projects lead the supply growth

The structural change in preference over high grade iron ore in the next decade have incentivized investment in high grade IO projects such as Simandou with ambitious first production target in 2025. The speaker sees the groundwork at Simandou including rail is progressing well with >10k people working on the project. A recovery in iron ore supply from Brazil and Canada will drive incremental high grade iron ore supply in the next few years. WoodMac expects Australian seaborne majors to largely sustain volumes as new supply to replace depleting reserves (62%Fe & 58%Fe). Onslow (low grade) and iron bridge (high grade) are the only new projects from Australia.

China's reliance on seaborne iron ore to increase

The speakers expect China's domestic iron ore production to decline over the next 10 years contrary to the government's desire to reduce Chinese steel industry's dependence on iron ore from Australia and Brazil. WoodMac sees China's reliance on seaborne iron ore to increase from current ~80% to 90% in 2033.

Iron ore quality spreads remain narrowed in 2024

High grade iron ore (65%Fe) premium over 62%Fe iron ore is averaged at 11% in the last 18 months while low grade iron ore (58%Fe) discount over 62%Fe iron ore is also averaged at 11% due to strong demand for low grade ore. Compressed China steel margin leading to mills prefer lower grade ore to maximize margin under weak steel price environment. The speakers expect premium for high grade to remain soft at 13% in 2024 however increasing to 23% in the LT. Low grade iron ore discount is forecast at 13.5% in 2024 and to widen to 21% in the LT.

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LT: Long term

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