



## Low-grade iron ore miners feeling pinch of persistent price discounts

Deepali Sharma

1,170 words

11 April 2018

20:32

Metal Bulletin News Alert Service

METBNA

English

© 2018 Euromoney Global Limited. All Rights Reserved.

China's focus on environmental protection continues to affect miners producing low-grade iron ore that have had to offer price discounts on their products, though some believe that Chinese mills' narrowing margins could alter market dynamics. On Monday April 9, Australia's Atlas Iron announced its acquisition by compatriot miner Mineral Resources.

The acquisition follows Atlas's plans to increase the production of iron ore lumps, "which attracts a premium over fines," and to diversify its product mix by including lithium, which is riding a demand wave driven by the batteries sector, in its direct-shipping ore operations.

Mineral Resources had also announced a reduction in mining revenue in the half-year ended December 2017 amid a "heavily discounted market for iron ore fines products."

"The amalgamation of [Mineral Resources]'s existing Pilbara iron ore assets with those of Atlas will enable us to exploit greater synergies and economies of scale, which will drive down costs to ensure the consolidated iron ore business is sustainable in the new environment of lower global prices for low-grade iron ore," Mineral Resources said on Monday.

The miner counts the Yilgarn and Iron Ore Valley projects in Australia - the output of which have an average grade of 58.5% Fe - among its iron ore assets.

Interestingly, it was its lithium operations that offset the impact of low iron ore prices on its earnings last year.

Last week, United States-based miner Cleveland-Cliffs, formerly Cliffs Natural Resources, also announced plans to cease operations at its Asia-Pacific Iron Ore business segment in Australia by June 30. It highlighted "increasingly discounted prices for lower-iron-content ore" as one of factors that led to the decision.

And it is not just the small miners that are facing the brunt of the persistent grade differentials in the iron ore market.

Fortescue Metals Group, the largest producer of lower-grade iron ore and one of the Big 4, [has revised its guidance for the prices it expects to realize for tonnages sold in the year ending June 30](#) amid subdued Chinese demand and trade tensions.

Steeper decline

Any discussion on weakening prices for low-grade iron ore is incomplete without looking at the wider market for the steelmaking raw material.

While seaborne iron ore prices have declined across the board, the trajectory of the daily iron ore indices published by Metal Bulletin clearly underlines the particularly steep decline experienced in the lower-grade segment.

Metal Bulletin's 62% Fe Iron Ore Index averaged \$74.39 per tonne cfr China over the January-March period of this year, down 13% from \$85.63 per tonne cfr over the same period of last year.

Metal Bulletin's 65% Fe Iron Ore Index averaged \$90.30 per tonne cfr China in the first quarter of 2018, down 8.9% from \$99.11 per tonne cfr a year earlier.

But Metal Bulletin's daily index for 58% Fe iron ore averaged just \$41.89 per tonne cfr in the first three months of this year, down 31% from \$60.42 per tonne cfr in the same period last year.

The use of high-grade iron ore is environmentally friendlier in comparison to lower grades because it requires less processing before being fed into blast furnaces for steelmaking.

Iron ore with an Fe content of under 60% typically needs to undergo beneficiation before it can be fed into a blast furnace, a process that is environmentally harmful.

But environmental friendliness is not the only driver of demand for high-grade iron ore.

China's push to lower emissions has not only affected Chinese steelmakers' choice of steelmaking raw material, but also brought higher margins for them.

These higher margins are a function of robust Chinese demand and the government's supply side reforms.

Chinese steel output grew by 5.7% to reach a record 832 million tonnes in 2017, which make up 49% of global steel production, the Australian government noted in its Minerals & Resources Quarterly Report released earlier this week.

Capacity reductions are expected to continue, with another 30 million tonnes of capacity set to be cut in 2018, it added.

The department expects steel production and consumption in China to remain steady in 2018 on a year-on-year basis, at 832 million tonnes and 772 million tonnes respectively.

Both metrics are expected to weaken over a five-year period though.

Robust steel output in China and parallel support to demand last year, and expectations of those dynamics continuing this year, have incentivized the usage of higher-grade iron ore while steelmakers chase margins.

According to Metal Bulletin data, rebar prices in eastern China averaged 3,859 yuan (\$613) per tonne in the January-March quarter of this year, compared with around 3,427 yuan per tonne in the same period last year.

They had risen beyond 4,000 yuan per tonne in the last quarter of 2017.

The declining steel prices and the resultant narrowing margins might weigh on Chinese buyers appetite for the more expensive high-grade iron ore.

On Wednesday, Mineral Resources said that with the high- and low-grade pricing differences creating a "difficult environment," it plans to lower its cost curve over the medium term.

"The cost of getting the ore to China is the most crucial aspect, and value should return to the lower grade as it has a place in the food chain," Mineral Resources said.

The supply of lower-grade iron ore may also come under pressure, with Cliffs shutting down its operations.

FMG chief executive officer Elizabeth Gaines told Bloomberg this week that producers - FMG included - [were not looking to increase the supply of iron ore into China](#).

Steel mills' narrowing margins may even result in buyers chasing lower-grade materials, she added.

The luster of high-grade iron ore may also wear off should the Chinese government shift its focus away from environmental protection in the coming years.

But so far, Beijing has not shown any signs of backpedaling on its green policy.

Most recently, local authorities in Wu'an, in Hebei province, [were heard to have announced plans to combat air pollution for the second and third quarters](#). These measures included limiting blast furnace utilization rates at 50% of capacity for 10 of 14 mills in the city, while the remaining four are subject to other restrictions.

"Increasingly, stringent policies to address air pollution are also expected, such as the extension of production restrictions in Hebei province, and a repeat of production restrictions over the winter period - when air pollution is particularly intense," the Australian government noted in its quarterly report on Monday.

Earlier this year, Vale had [identified the gap between high- and low-grade iron ore](#) as a "structural change that will continue to impact the market in the coming years."

Given the recent decisions by low-grade producers and the movement of seaborne prices, that outlook seems to hold for now.

