REUTERS

HD **UPDATE 2-BHP and Australian rivals raise iron ore targets as competition grows**

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* BHP, Fortescue, Rio squeeze mines for more iron ore

* BHP lifts full-year iron ore guidance by 5 million tonnes

TD

* Says heavy rains over last quarter had little impact

* March quarter iron ore output up 1 pct vs Dec quarter (Adds price forecasts, Fortescue CEO quotes, link to tables)

By James Regan

SYDNEY, April 16 (Reuters) - Australian miners are racing ahead with plans to expand iron ore production to capture more of the Chinese market for the steelmaking ingredient, amid strong competition from the world's biggest supplier Vale of Brazil.

Efforts to beat already ambitious output targets comes as a crackdown in China on using commodities as collateral to raise cash risks unleashing iron ore sales from tens of millions of tonnes sitting in Chinese port warehouses, pressuring prices.

Fortescue Metals Group Ltd, which is raising production 57 percent this year, says its needs iron ore prices to stay between $110-$120 a tonne for the next 12-18 months in order to pay off a targeted $2.5 billion in debt.

The Australian Bureau of Resources and Energy Economics forecast an average price of $110 a tonne this year but only $103 a tonne in 2015. By 2016, Citigroup sees the price falling to $80.

Iron ore was quoted at $117.10 <.IO62-CNI=SI> on Wednesday.

BHP, the world's biggest diversified mining company, on Wednesday lifted full-year iron ore production guidance by 5 million tonnes to 217 million as it pushes ahead with new mine work in Australia.

That's still behind Australian rival, Rio Tinto , which is close to mining 300 million tonnes a year and Vale, which is targeting annual output of more than 360 million tonnes, with longer term plans to exceed 400 million.

China imports more than a half-billion tonnes of iron ore annually to supplement domestic production of mostly lower-grade ore. China's crude steel production rate of some 2 million tonne a day makes it by far the world's biggest consumer of iron ore.

Output from BHP's most profitable division rose 1 pct to 49.6 million tonnes in the three months ended March 31 versus the previous quarter -- above forecasts, according to Macquarie Bank.

Against the same quarter last year, output was up 23 percent, data from BHP's quarterly production report showed.

BHP Chief Executive Andrew Mackenzie said the lift in output was helped by a limited impact from heavy rains in Australia's Pilbara **iron ore** belt in January and expansion work underway at the **company**'s new Jimblebar mine.

PRICE VOLATILITY

Rio Tinto this week blamed an 8 percent fall in quarterly **iron ore** shipments on rains and winds from cyclone Christine that disrupted its transport and shipping **operations**.

That is unlikely to occur again in the current quarter, one of the driest each year in the Pilbara.

Fortescue Chief Executive Nev Power has set a target of producing 41.6 **million** tonnes in the current quarter, 10.1 **million** tonnes up on the previous quarter, the vast majority for **sale** to **Chinese** steel mills.

He said any release of stockpiled **iron ore** in **China** would act as a short-term weight on prices, at best, given the country's rapacious appetite for imported **ore**.

"While there might be some short-term volatility in the price from a major release from the port stocks, it's not going to last very long," Power told reporters on a conference call, noting that 30 **million** tonnes represented only about seven or eight days consumption in **China**.

Commodities such as **copper** and rubber have been commonly used for financing, where traders or investors borrow against the commodity with the aim of investing the money in high-return areas such as real estate.

But Beijing's efforts to tighten credit have spurred investors desperate for cash to turn to **iron ore**. Industry sources familiar with the practice estimate some 30 **million** tonnes, or $3.5 **billion** worth, of stocks are now tied up by financing.

Vale is due to release first quarter production and financial reports on April 30. (Editing by Ed Davies)

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