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HD **Oversupply to plague iron ore until 2020**

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Australia's iron ore producers are set to increase their already dominant share of Chinese iron ore imports, but will need to get used to several years of relatively weak prices, according to global consultancy Wood Mackenzie.

The $US120 average price for top quality iron ore in the March quarter is "as good as it's going to get for iron ore in the next five years" in terms of the quarterly average, according to the Edinburgh-based firm's principal iron ore analyst Paul Gray.

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The spot price, currently down at a 21-month low of $US90.90 a tonne, is weaker than many analysts' forecasts, and Mr Gray signalled his firm's forecast for second-half 2014 prices of $US101 a tonne could be optimistic.

Wood Mackenzie has been forecasting average prices this year of $US107, falling to $US98 in 2015 then to a low point of $US90 in real 2014 terms, including costs and freight, in 2017.

But producers of lower-grade product, a growing part of the market, will be worse hit, with discounts to benchmark prices set to widen, Mr Gray said.

The discount of less than $US10 a tonne for Fortescue's iron ore fines could double this quarter, and smaller Australian producers would feel a similar impact.

Wood Mackenzie's comments came as Deutsche Bank downgraded its iron ore price forecasts for the next three years. It trimmed its 2014 benchmark price for iron ore fines by $US3 to $US113.10 a tonne and now expects a 10.3 per cent drop in 2015 to $US89.30.

The revised forecasts drove a 46 per cent cut in Deutsche's estimate for junior miner Arrium's 2015 net profit, while it raised its estimate for BlueScope 2015 earnings by 5.3 per cent. Deutsche advised that while Arrium is not at risk of breaching covenants on its revised price forecast, a drop to $US75 would require an equity raising.

Wood Mackenzie expects oversupply to be a feature in the market until about 2020, the duration depending on how quickly high-cost Chinese domestic ventures exit the market.

But the share of the Chinese market captured by Australian exporters is set to grow, from more than 50 per cent now to more than 60 per cent, winning share from India, Indonesia and Iran. Brazil is set to maintain its share in terms of volume but capture a bigger share in dollar terms

Falling prices are set to reduce China's import bill for iron ore through to 2015, before starting to rise again. China in trouble and in demandChina's dependence on imports is set to steadily increase, from current levels of about 70 per cent to about 86 per cent as domestic supply gets squeezed out.

At current prices, up to 108 **million** tonnes a year of domestic **Chinese iron ore** production along the coast (where production competes directly with imports) is "in the red", Wood Mackenzie estimates.

"Domestic supply will not be able to reduce costs sufficiently to compete with low-cost imports," **iron ore** cost analyst Andrew Hodge said.

Turning to Western Australia, Mr Hodge said the Pilbara was still a "hive of activity", with potential for new deposits still to be found in the southern area, and new infrastructure corridors likely to drive new projects.

Should Aquila Resources' $7.4 **billion** West Pilbara project proceed, for example, other deposits would likely be developed along that rail corridor. Aquila is currently the subject of a takeover battle between **mining** services provider Mineral Resources, and rail operator Aurizon and **Chinese** steel giant Baosteel.

Mr Hodge said infrastructure was the key to further capacity additions in WA, and that future development would require multi-user infrastructure.

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