

**HD** **Iron ore** miners ramp up output to offset price weakness

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**WC** 569 words

**PD** 25 July 2014

**ET** 02:35

**SN** Financial Times (FT.Com)

**SC** FTCOM

**LA** English

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**Iron ore** is under renewed pressure with the price of the key steelmaking ingredient falling for a sixth-straight session.

Benchmark Australian **iron ore**, with 62 per cent **iron** content, slipped 70 cents to \$93.60 a tonne on Thursday, according to The Steel Index, taking losses since the middle of last week to 3.8 per cent.

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**Iron ore** has dropped by 30 per cent this year on concerns about rising supplies and slowing demand in **China**, which consumes two-thirds of the world's seaborne **iron ore**. The price dropped to a 20-month low of \$89 a tonne in June but has since staged a recovery.

Restocking by **Chinese** steel mills, which have increased inventory levels from 20 days of production to around 26 days, has been helped the price recover. But traders said the mills have now "taken their foot off the pedal" and are not buying as much **ore**.

"We expect the mills to pull back and perhaps come back into the market when the price is in the low \$90s," said one trader at a leading investment bank. "But I don't see much demand growth in the third and fourth quarters. And seaborne supply is still increasing".

**Iron ore** is critical to the profitability of several **mining** companies such as Anglo American, BHP Billiton, Rio Tinto and Vale of Brazil. They are spending **billions** of dollars expanding their **operations** to meet expected demand from **China**.

On Thursday, Vale said its **iron ore** output had hit a quarterly record of 79.45m tonnes in the three months to June, as it ramped up production to win back market share from Australian rivals.

Earlier in the week, BHP, the world's biggest **mining company** with an **equity** market value of £113bn, said it had mined a record 225m tonnes in the year to June and forecast a further increase in production to 245m tonnes in 2015. Rio is also targeting increased output next year.

Market participants have taken differing views on how this wave of new supply will affect prices over the coming year. The more bullish believe rising seaborne supply from mines in Australia and Brazil will force high-cost **Chinese** domestic producers out of the market, helping to prevent oversupply and support prices. The more gloomy say **Chinese** mines will not close quickly enough to put a floor under prices.

Goldman Sachs, which is forecasting an **iron** price of \$80 a tonne in 2015, is the pessimist's camp.

"In our view, the closure of high-cost mines in **Chinese** coastal provinces will not be sufficient to fully absorb the growing surplus, leading to greater competition among seaborne producers going into 2015," it said a report.

"We continue to believe that the market is underestimating the downside risk that **China** will not absorb every tonne of incremental seaborne supply, and a material amount of seaborne capacity will eventually have to close," it said.

The lower **iron ore** price and the persistent strength of the Australian dollar is also raising questions about how much cash BHP and Rio will be able to return to shareholders over the next year.

"Although we still expect BHP to kick off capital management [with annual results in August], it will be relatively modest at only \$2-\$3bn," Citi said in a note to clients.

**CO** bkhlp : BHP Billiton Ltd | bltplc : BHP Billiton PLC

**IN** i211 : Metal Ore Mining | i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | i2111 : Iron Ore Mining | ibasicm : Basic Materials/Resources | imet : Mining/Quarrying

**NS** c21 : Output/Production | ccat : Corporate/Industrial News

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**AN** Document FTCOM00020140724ea7o0035z