THE AUSTRALIAN

SE Business

HD **Excess of iron ore ends its bull run**

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WC 528 words

PD 1 July 2014

SN The Australian

SC AUSTLN

ED Australian

PG 20

LA English

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THE 2014 financial year will go down as the year in which the great bull run in iron ore prices came to an end.

Unlike the rest of the mineral commodities — with exception of oil, which has its own special set of geopolitical drivers affecting its price — iron ore was the last to be holding out against the broad decline in commodity prices that got going in 2011.

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That broad decline has dramatically altered the capital expenditure plans of the mining sector, with the previous focus on growth to feed the 10-year surge in demand from China replaced by a new era of capital austerity.

Until FY2014 came along, iron ore — Australia's biggest export earner — was swimming against the tide, continuing to deliver elevated prices and returns for the big three of the local industry, Rio Tinto, BHP Billiton and Fortescue.

But as the year unfolded, the price began to wither.

From a high of $US142.80 a tonne in August last year, iron ore has since fallen to below $US100 a tonne, and it finished the financial year at $US94.90.

The price so far this calendar year has averaged $US112 a tonne for 62 per cent iron material, according to The Steel Index. The revenue difference between the year-to-date average and last year's $US135 a tonne average is $US18.4 billion, with tax and royalty receipts hit accordingly.

While a slowdown in demand from China's steel sector is a factor, much of the FY2014 fall for iron ore is of the industry's own making.

Massive supply increases — spawned by the expansions that were locked in when iron ore peaked at $US191 a tonne in early 2011 — have dramatically altered the supply/demand balance.

The local industry's great hope now is that China's own iron ore production gets closed in response to the weaker prices. City for one believes that will be enough for prices to recover to an average of $US100 a tonne this December quarter.

Despite the price gloom around iron ore, FY2014 also goes down as the year in which Gina Rinehart managed to secure $US7.2bn in debt financing for the $US10bn Roy Hilliron ore project.

But it is expected to be the last of the big Pilbara iron ore developments for the foreseeable future.

Price weakness during the financial year was not restricted to iron ore. Both metallurgical and steaming coal prices weakened substantially, again forcing a drastic pullback in expansion planning and threatening the existence of the higher cost producers.

On a brighter note, the shell-shocked **gold** sector drew some comfort in the ability of the yellow metal to end the FY at $US1314 an ounce, a handy 5 per cent increase for the year and giving those miners that can produce at an all-in cost of less than $US1000 an ounce hope that **equity** investors might yet return to the sector.Elsewhere the nickel producers enjoyed better prices, with the price for the stainless steelmaking ingredient taking off in the second half of the financial year.

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NS ccat : Corporate/Industrial News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

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AN Document AUSTLN0020140630ea7100030

