

HD **Iron ore** price slump takes toll on producers

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Claims that slumping **iron ore** prices will **lead** to a shakeout of producers gained credence this week after London **Mining** plc appointed administrators a day after a Brazilian producer filed for bankruptcy protection. London **Mining** on Thursday, Oct. 16, said it had appointed PricewaterhouseCoopers LLP to find a buyer for its Sierra Leone **iron ore** mine after failing to engineer a **sale** of the operation and because of a lack of liquidity. The collapse in **iron ore** prices and the resulting impacts on this business have been very dramatic and our focus is to ensure that a buyer is found for the Marampa Mine **operations** given it is such an important part of the Sierra Leone economy, PwC's Russell Downs said in a statement. **Iron ore** prices have fallen more than 40% this year, touching five-year lows of below \$80 per ton at the end of September, as demand from **China** slows while Rio Tinto Group and BHP Billiton Ltd., the world's two lowest-cost **iron ore** miners, increase output.

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The slump in prices is being felt around the world. On Friday, Cleveland-based Cliffs Natural Resources Inc. (CLF) said it would book a \$6 **billion** non-cash impairment because of adverse market conditions for seaborne **iron ore** and metallurgical **coal**. Cliff warned the impairment will result in it breaching a debt-to-capitalization limit of 45% that is stipulated by its revolving credit facility. The **company** currently has no drawings on the \$1.25 **billion** facility. On Wednesday, a unit of MMX Mineracao e Metalicos SA, an **iron ore mining company** controlled by Brazilian tycoon Eike Batista, filed for bankruptcy protection. MMX Sudeste Mineracao SA, which owns most of its parent's assets, filed for protection after MMX last year postponed an expansion of its key project and slashed the value of its assets. Analysts have warned that other companies will fail. BHP and Rio Tinto have a strong incentive to keep **iron ore** prices low as they seek to push high-cost operators out of the market and block new investments that threaten their effective oligopoly on seaborne trade, according to UBS AG analyst Daniel Morgan. An **iron ore** price in the \$80 a ton to \$90 a ton range may mean greater long-term returns [for large miners] than one that brings overcapacity, Morgan noted this week. We believe plenty [of **iron ore** producers] are unable to compete and will make way for the new tons. UBS has cut its forecast average **iron ore** price to \$85 for 2015 and \$82 for 2016. The strategy of suppressing **iron ore** prices has drawn criticism from politicians and rivals in Australia, where BHP's and Rio Tinto's major **iron ore operations** are located. On Tuesday, West Australian Premier Colin Barnett accused the pair of acting seemingly in a concert way to force **iron ore** prices down by flooding the market. He later said he hadn't meant to suggest the **mining** companies were colluding. Barnett, whose government receives 10% royalties on **iron ore** sales from Western Australia, said he had raised the question of lower prices forcing out some producers with BHP's head of **iron ore**, Jimmy Wilson. Barnett claims that Wilson responded to his concerns dismissively, telling him it's a tough old world out there. BHP and Rio Tinto came in for more criticism on Friday from the CEO of Australian rival Fortescue Metals Group, who warned that the pricing strategy was misguided and could cost his rival CEOs their jobs. Investing because you're more profitable than the next guy seems to be a very flawed strategy to me and one that will inevitably **lead** to self-inflicted wounds, low returns to shareholders, and probably replacement of management teams, Fortescue CEO Nev Power told a meeting in Perth, according to a report in the Australian newspaper. I'm not quite sure why anyone would want to be the last man standing in a low price, low return environment. Shares in Rio Tinto traded Friday at 3,060 pence, down 23 pence, or less than 1%. BHP's London listed shares traded at 1,676 pence, up 17.5 pence, or just over 1%.

CO bkhlp : BHP Billiton Ltd | lminip : London Mining PLC | rtzcr : Rio Tinto Group | craaus : Rio Tinto Ltd | rtz : Rio Tinto PLC | bltplc : BHP Billiton PLC

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