The Sydney Morning Herald

SE Business

HD **Miners focus on their costs as iron ore prices tumble**

BY Max Mason, Peter Ker With Amanda Saunders and Angus Grigg
WC 606 words
PD 21 May 2014
SN Sydney Morning Herald
SC SMHH
ED First
PG 24
LA English

LP

Bulk metal - Slips to below $US100

As the price of iron ore slipped below $US100 a tonne for the first time in nearly two years, miners said they would continue to focus on driving down costs.

TD

Iron ore, measured out of the Tianjin port in China, lost a further 2.2 per cent overnight on Monday, sliding to $US98.50 per tonne, its lowest point since September 2012. The bulk metal has slumped 6.6 per cent in May and has pushed deeper into bear market territory, down 26.6 per cent for the year.

Following iron ore's slide this year, Fortescue chairman Andrew "Twiggy" Forrest has seen his company's share price and personal fortune tumble. At Fortescue's 2014 peak of $6.23, Mr Forrest's fortune was worth $6.43 billion. Since then, Fortescue's share price has plunged 26.8 per cent to $4.39, wiping $1.91 billion from Mr Forrest's stake.

Diversified miners are ramping up iron ore production, while single-metal miners continue to add to supply, ultimately leading to oversupply and a further slump in the iron ore price. Managing director of minnow Grange Resources Wayne Bould said iron ore prices were at "pretty unsatisfactory" levels and he had witnessed a major effort from buyers to push iron pellet prices lower in 2014.

Grange requires a long term average iron ore price in the low $US80 per tonne range, and given it still has more than $100 million of cash in the bank, he was confident his company could still be profitable at current levels.

His company is studying low cost ways to develop its Southdown project in WA, and Mr Bould said Grange would cut its cloth to whatever price was necessary.

A $US10 movement in the iron price translates to a $US2.1 billion difference to Rio Tinto's bottom line, and $US1.2 billion for BHP Billiton, roughly half as exposed as its rival, according to Credit Suisse figures for the 2015 year. Or when applied to earnings, the Credit Suisse figures show a $US10 price movement had a 20 per cent impact on Rio and 9 per cent on BHP.

Atlas Iron boss Ken Brinsden said the iron ore price was outside his control but he didn't sweat over the short term moves. "We will continue to focus on those things we can control and in particular growing our production base, controlling costs."

BC Iron managing director Morgan Ball said the surprising thing about the current iron ore price fall was that the Australian dollar had not responded, although he expects pressure to remain on the currency.

BC Iron has earned a reputation as one of the biggest dividend payers in the iron ore industry, and has vowed to pay out between 30 per cent and 50 per cent of net profits after tax to shareholders.

Ji Minlei, a trader who operates from the port of Rizhao, said pressure from banks partly explained why the **iron ore** price had dipped below $US100 a tonne for the first time since September 2012.

"Some traders have been caught in the liquidity crunch and have been forced to sell," he said.

Mr Ji said banks had been tightening credit this year and were demanding deposits of up to 30 per cent to finance cargos, double the previous level. The return of **Chinese** domestic **iron ore** producers to the market has also impacted heavily on supply in the last month.

IN i22 : Primary Metals | i221 : Iron/Steel/Ferroalloys | ibasicm : Basic Materials/Resources

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

PUB Fairfax Media Management Pty Limited

AN Document SMHH000020140520ea5l0002y

