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HD	**Miners can cope with price hit**
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Big miners believe the recent slump in the **iron ore** price is due to a mix of credit tightness in **China** and opportunism from traders, with executives from BHP Billiton and Rio Tinto expressing faith in **China**'s long-term demand for Australia's most lucrative export.

With analysts predicting the 16 per cent fall in the **iron ore** price over the past three weeks will continue for at least several more days, the nation's top **iron ore** executives sought to calm market jitters at an **iron ore** conference in Perth.

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Both BHP's **iron ore** president Jimmy Wilson and Rio Tinto's Andrew Harding maintained long-held forecasts that **Chinese** demand for steel would top 1 **billion** tonnes by 2025 or 2030, and would therefore ensure demand for **iron ore** remained strong for more than a decade.

BHP has said since 2012 that the peak for **iron** prices has passed, but Mr Wilson added on Tuesday that the current dip to $US104 per tonne was unlikely to represent a prolonged "down cycle".

"Our view to the long term is still very robust. We shouldn't let today's price influence our long term thinking," he said. "You've got this credit issue in **China** . . . and traders have a view that the price is going to go down so they do everything they can do to hold back, so these fluctuations always tend to amplify. "I do think it will come down, but then also come back up."

Stockpiles of **iron ore** have risen sharply at **Chinese** ports since December as cold weather and an early **Chinese** New Year have softened production levels at steel mills across the country.

Steel inventories are also high at the moment, but UBS analyst Tom Price said that was not unusual, and UBS continues to expect **iron ore** prices will average $US126 per tonne this year.

Citi recently published a research note that predicted the **iron ore** price would fall below $US80 per tonne in 2016, but it too expects the price to average above $US100 per tonne throughout calendar 2014.

The Australian miners most vulnerable to a fall in the **iron ore** price – the smaller ones with high production costs – are well prepared for the current price dip, as they are generally free of debt. Despite falling 27 per cent since August, Tuesday's price of $US104 per tonne is still well above most miners' break-even price, and the current dip is unlikely to cause projects to be cancelled and jobs lost.

Atlas **Iron** still has a profit margin of about $US22 per tonne at Tuesday's price, Mt Gibson **Iron** has a $29 per tonne margin while BC **Iron** boasts a buffer of $34 per tonne.

Crucially, those three juniors have no net-debt, meaning they are well placed to survive should the price fall further and start to test their break-even levels.

Gindalbie ranks as the main exception among ASX-listed iron ore producers, boasting a break-even price above $US90 per tonne and significant amounts of debt.

The magnetite producer has bigger problems than a dip in the iron ore price, with the company needing an urgent injection of $US300 million from its Chinese partner Ansteel to meet debt obligations, plus equipment problems that are likely to need at least $200 million worth of capital spending this year.

BHP Billiton and Rio boast some of the lowest production costs in the world of iron ore, with operations that could break-even at iron ore prices below $US45 per tonne.

Fortescue Metals Group is traditionally the most watched company in times of iron ore price weakness after it sacked staff and froze an expansion project when the iron ore price slumped in 2012.

Fortescue still has huge amounts of debt – about $US8.7 billion on a net-debt basis – but much of that debt was linked to works that have lowered the company's production costs.

Fortescue needed an iron ore price of about $US90 per tonne to break even during the 2012 price slump, but the recent debt-fuelled expansion means the miner now needs a price of about $US72 per tonne to break-even.

The unexpectedly high iron ore price over the past year has boosted Fortescue's cash reserves and allowed it to pre-pay much of its debt (another tranche is expected to be formally paid-off this month) and the company is not required to make another payment until 2017 at the earliest.

UBS analyst Glyn Lawcock said those expecting another rout of Fortescue would likely be disappointed.

"Apart from the equity market worrying, there is no major impact on Fortescue if it (the price) goes down and stays down for a quarter," he said.

"We are a long way away from most miners feeling any pain, although Gindalbie are up there."

But while the companies are well placed to survive the current price dip, the promised increase to shareholder returns may yet be the casualty.

BHP, Rio, Fortescue and BC Iron have all hinted to shareholders recently that a lift in shareholder returns should come within six to 12 months.

Many expect BHP and Rio to conduct a round of share buybacks, while Fortescue and BC Iron are expected to soon introduce more generous dividend payout policies.

The promise of improved shareholder returns has been predicated by all miners on lowering debt and improving free cash flow, and Mr Lawcock noted that the recent iron ore price slump won't help those measures.

"It crimps everybody's surplus cash or free cash flow which then starts queries over when buybacks happen," he said.

UBS expects the benchmark iron ore price to average $US126 per tonne in the 2014 calendar year, but if the price ultimately averages $US10 less than that over the full year, the impact on BHP and Rio's net profits after tax are expected to be $US1.2 billion and $US934 million respectively.

Fortescue's net profits after tax would fall $US870 million while Atlas would be A$75 million less profitable.

Iron ore is not the only commodity to suffer falls in recent days, with copper and uranium both falling too.

Copper prices are near an eight-month low and could be hit with further falls if orders from Chinese manufacturers ease up as factories move to let their stocks of the industrial metal run down while they pay down debt amid tightening credit conditions and lower global demand for China's exports.

Comex May copper futures, the most actively traded contract for the metal, rebounded 0.4 per cent to $US3.0445 per pound in late afternoon trade on Tuesday, after briefly slipping below $3 on Monday, the lowest point for a most-active contract since June.

Official **Chinese** trade data released over the weekend showed the nation's monthly exports dropped 18 per cent year-on-year in February. A sell-off in bulk commodity markets saw **iron ore** drop 2.3 per cent on Friday and then another 8.3 per cent on Monday in its biggest daily hit since March 2009 to a low not seen since April 2012, while **copper** lost 4.2 per cent on Friday and 1.7 per cent on Monday before regaining some ground on Tuesday.

"The sharp drop in benchmark spot **iron ore** prices led the way lower for many resource commodity prices," ANZ Banking Group bulk commodity analyst Mark Pervan said.

"Trade signals for **copper** are a bit mixed, but generally bearish as global metal inventories have risen 2 per cent month-on-month," UBS commodity analyst Tom Price said. "**China**'s total **copper** imports fell 28 per cent in February, which sounds bearish but it should be noted the fall was off a record high in January and the rolling 12 month outlook is still pretty strong."

"Typically at this time of year, after **Chinese** New Year celebrations and the northern winter, we expect a **China**-led seasonal uptick in trade flows and price from mid-February and we are sticking to this short-term view for now," Mr Price said.

Adding to the pressure are fears that stricter credit restrictions in **China** will **lead** to a tightening of liquidity as companies use up stockpiles and pay down debts.

"**Copper** prices have been hit as markets question **China**'s economic outlook after its first-ever corporate bond default last week, with expectations more defaults will follow," Mr Price said.

with Sally Rose

CO bkhlp : BHP Billiton Ltd | rtz : Rio Tinto PLC | craaus : Rio Tinto Ltd | bltplc : BHP Billiton PLC

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

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