



A few worries to iron out

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Body

The plunge in the iron ore price - almost halving since its peak in January - is good news for the rest of the world, but just terrible to awful news for us.

It is especially bad news for BHP and Rio and their shareholders, who have had their share prices slashed by more than 20 per cent as a consequence.

It's been even worse news for **Fortescue** and its green groupie chairman and now co-biggest shareholder "Twiggy" Forrest.

Its share price is down 43 per cent, and teetering.

Fortescue is especially sensitive to the rise and fall of the China-driven iron ore price. One, because that's all it has - it's 100 per cent iron ore, and almost all of it goes to China. But secondly and more potently, its iron ore is inferior to BHP's and Rio's (and Brazil's Vale).

This is great when China is booming and iron ore is in demand; the price **Fortescue** gets starts to approach the BHP/Rio price.

But when the opposite occurs, as now, its iron ore price falls further and faster; and the drop in the price comes all and straight off **Fortescue**'s profit.

And, obviously, its company tax bill. The same goes for BHP and Rio. Hence, their pain is also Treasurer Jim Chalmers's pain. And so ours.

For instance, as I've argued, it's going to be critical for the government to repeat its \$300 electricity rebate in the 2025-26 year.

But will the post iron ore-plunge budget numbers be able to afford it? The obviously unknown - but critically important for us - question is what happens in China, not just next year but through the rest of the 2020s.

A few worries to iron out

Though the big spenders in Canberra are unable to understand it, it's not just the budget revenues built on China but our entire economic prosperity.

Even if it doesn't buy them directly from us, like it does iron ore, China drives both the prices of and the volumes of coal and gas we sell into the global market.

If their prices really plunged, and stayed down for any extended period, for all the post-fossil fuel fantasies of people like Forrest and the minister for destroying our energy system, Chris Bowen, the Aussie dollar would really collapse and this country's economy would become a rubbish heap.

Yet, that would actually be good news for the rest of the world. Lower iron ore and energy prices would feed into lower prices for everything - and I really mean everything - across the world.

You would see sustained near zero inflation, much lower interest rates, and booming economies. Some of that prosperity would even filter down to our trash heap.

Now as for the three companies themselves, apart from his now essentially abandoned hydrogen fantasies, Forrest has shown zero interest in diversifying away from the total reliance on iron ore and on a never-ending China growth story.

After actually going long on iron ore and China, by selling out of fossil fuels, BHP is now trying desperately to diversify into other commodities. Rio, extraordinarily, has just doubled down in Africa on its iron ore exposure.

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