Investors dump big miners as iron ore heads for a glut; Resources

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Body

Investors are preparing for a new era of slumping profits and hefty dividend cuts by the world's largest miners as iron ore markets brace for a flood of supply to trigger a collapse in prices.

Fortescue and Rio Tinto became the latest mining giants yesterday to reveal the full effect from China's property crisis, which caused iron ore prices to plunge nearly 30 per cent last year, forcing boards to slash shareholder payouts.

Rio will pay its lowest dividend in seven years while ***Fortescue*** sliced its payout by more than 50 per cent after its first-half profit slid 53 per cent.

Earlier in the week BHP said it would pay its lowest interim dividend in eights years after a 23 per cent profit slump.

The results triggered a sell-off in the sharemarket with ***Fortescue*** diving 6.2 per cent to $18, Rio Tinto 1.5 per cent to $120.09 and BHP 2 per cent to $40.15. That extended last year's rout which saw the S&P/ASX 200 Resources Index plunging nearly 20 per cent.

Fund managers are expecting further pain for the heavyweight mining sector, which could accelerate the local sharemarket's retreat this week from record levels.

"We're not even close to the end of these sorts of results," warned Perennial fund manager and resources analyst Sam Berridge.

"The slump in iron ore prices over the past 12 months is largely a result of weak demand from China ... we haven't even had a meaningful increase in supply yet."

Berridge, who runs Perennial's Natural Resources Fund, believes iron ore prices will average $US80 a tonne next year - compared with current levels of around $US106 a tonne in Singapore - and is happy to not own any iron ore miners despite analysts declaring they are too cheap to ignore.

Westpac is even more bearish, warning that prices could collapse to $US70 a tonne this year as Rio Tinto's massive Simandou project in Guinea adds a fresh wave of supply to the physical market.

"There's high-cost production still online today which needs to get bumped off the end of the cost curve by that incoming supply from Guinea," added Berridge. "That suggests prices are going to tick down further."

Supply disruptions at Australia's biggest iron ore port caused by Tropical Cyclone Zelia have helped keep prices well north of $US100 a tonne.

"It's clear that exports from Australia will definitely have been impacted at the same time as heavy rainfall in Brazil has added to concerns about supply," said Westpac head of commodity strategy Robert Rennie.

That has coincided with hopes that Beijing will announce further stimulus at next month's Two Sessions - an annual meeting of China's top legislative and advisory bodies - which Rennie believes will keep iron ore trading in the $US105 to $US110 range before crashing later this year.

Indeed, BHP has noted that supply is already outpacing demand - it expects the combined annual shipments from leading producers to have hit record levels in 2024, which has only added to the huge stockpiles sitting at Chinese ports.

Even so, BHP is studying options to raise its Australian iron ore output higher still in the long term and ***Fortescue*** is ramping up production at its Iron Bridge project. Rio Tinto said it was on track to deliver first production at Simandou later this year.

"Supply growth from major producers is anticipated to continue in the coming years," Rio Tinto warned. "New iron ore projects in Africa and potentially some mine restarts are expected to bring further supply pressures from 2026."

However, BHP chief executive Mike Henry said he was seeing "early signs of recovery" in the Chinese economy. Indeed, data this week showed the decline in new home sales ease for a fifth month in January, suggesting values were beginning to stabilise.

While the figures offer a glimmer of hope for the beleaguered property sector, a pick-up in sales and new construction will be needed to support demand for the steel-making ingredient, according to ANZ.

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