Surging iron ore mining costs plague Fortescue's year ahead

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Fortescue says the cost of mining iron ore in Western Australia could rise by almost 10 per cent in the next year, a sign the resources industry's inflation woes are not over.

The prediction for higher unit costs comes as the miner cuts 700 jobs in a bid to reduce duplication across its white-collar workforce and aims to increase sales volumes.

Fortescue told investors that it was likely to lift export volumes above the 191.6 million tonnes shipped in the previous financial year, and wanted to export between 190 million and 200 million tonnes in the next 12 months.

Higher sales volumes shrink unit costs, but ***Fortescue*** said the unit costs in WA's Pilbara iron ore district would rise by between 1 per cent and 9 per cent in the next 12 months, despite the likely increase in sales volumes.

Fortescue's unit costs rose 4 per cent over the past year; it now costs the company 48 per cent more to dig up iron ore than it did in 2018. Further cost pressures are expected; the amount of waste rock ***Fortescue*** digs up to access saleable iron ore - known as the "strip ratio" - is expected to be higher over the next four years.

Fortescue mining boss Dino Otranto said the need to move more waste rock was a factor driving costs higher. "Strip ratios are increasing over the mid term," he told investors yesterday.

Resources companies are also being hit with requests for higher wages and escalating energy costs.

Asked about the job cuts, Mr Otranto said ***Fortescue*** had "always maintained the leanest structure possible to make sure we are competitive and the leading [unit cost] player in the market".

Fortescue chief financial officer Apple Paget said the miner would also use technology and innovation to mitigate rising costs at the mines. Further adoption of autonomous haulage shapes as one way ***Fortescue*** might be able to lower costs. The company is considering whether to purchase construction machine manufacturer Liebherr's autonomous vehicles.

Fortescue's budgeted spending on fleet replacement and decarbonisation of its mines in the year ahead was also higher than analysts had expected. UBS analyst Lachlan Shaw described the guidance as "in-line to soft".

Fortescue's cost woes come after Whitehaven Coal managing director Paul Flynn warned last week that inflationary pressures remained "rife" despite rising unemployment.

Several coal miners have reported a doubling of unit costs since 2016.

Fortescue shipped 191.2 million tonnes of iron ore in the 12 months to June 30; the first time in five years it has reported a sequential decline in export volumes. It shipped 192 million tonnes in the previous financial year.

The decline in volumes was caused by the derailment of an ore car in December. ***Fortescue*** tried to make up for that outage with a fast finish to the financial year; the export rate over the past three months was higher than ever.

Analyst consensus, measured by Bloomberg, suggests ***Fortescue*** is on track to post a $US6.11 billion ($9.3 billion) underlying profit next month, up from $US5.5 billion last year.

The promise to ship up to 200 million tonnes in the next year includes a target for the struggling Iron Bridge magnetite project in WA of between 5 million and 9 million tonnes. It has fallen short of earlier targets.

Fortescue shares fell $1.18, or 5.5 per cent, yesterday to close at $20.14.

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