

Forget gold, IRON ORE is the story of the decade

Frik Els | January 27, 2012

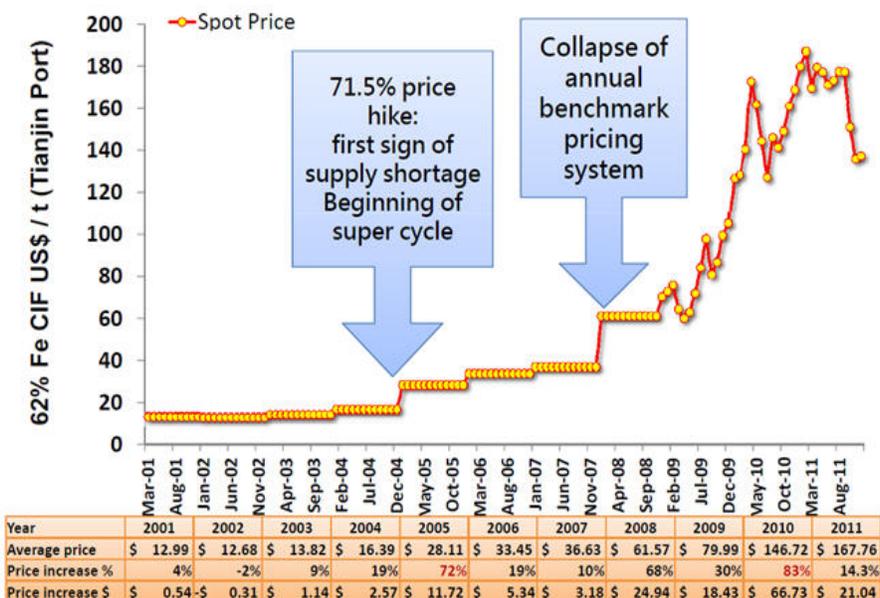


On the last day of Roundup, Vancouver's mining showcase, Sandy Chim CEO of Canada's Century Iron Mines, flashed a few slides about China, India and the iron ore market over the last decade that would make gold bugs green with envy.

BHP, Vale and Rio Tinto control nearly 70% of the 1 billion tonne annual iron ore seaborne trade and pretty much all contract pricing depend on their say so. The price of 62% iron ore never strayed from \$10 – 14/tonne for more than 20 years (1991 was a banner year – miners got all of \$15.03 for their haul). The state of affairs was due to secretive

negotiations and annual contracts.

Then at the end of 2004 all hell (for Chinese steelmakers that is) broke loose. The Big 3 decided enough is enough and put up the price 72%, marking the start of a supercycle and the beginning of the end of the old pricing system:

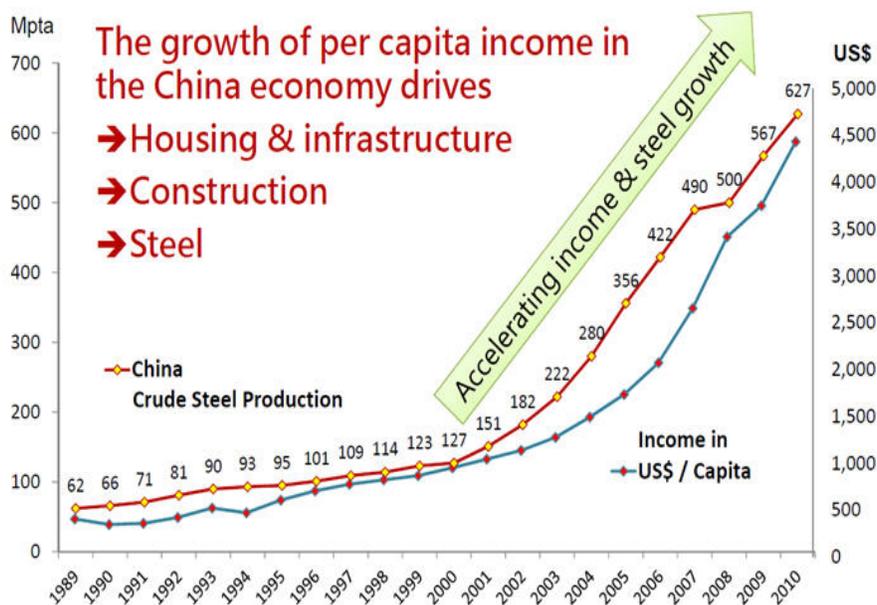


Although October last year constituted a mini-crash with spot declining from a record high of \$180 to \$116, on Friday it was back up above \$140. Reuters reports futures prices of nearby months remained at a premium, “reflecting widespread anticipation of an improvement in spot ore prices once Chinese buyers

return from the week-long break,” according to reference price provider Steel Index.

Chim points out that the dramatic rise since the beginning of 2008 were into the teeth of the financial crisis and despite prices that went up four-fold in four years, Chinese steelmakers continued to buy. China now imports 60% – 70% of its needs, up from 35%, because of low grade domestic stock from expensive underground mining. Iron ore producers also benefit from industry concentration and pricing power compared to a highly fragmented steelmaking industry.

Steel production is closely correlated to economic growth and personal incomes. Using that metric China’s citizens have to increase their personal incomes almost 10-fold to catch up with the US where GDP per capita income is \$48 000. Given the firepower the Chinese government still has to stimulate the economy – the country’s reserves are more than \$3 trillion and 20 times that of the US – and its ambitious infrastructure programs (among others 36 million new housing units), it still has some way to grow:



Chim also provides interesting stats for those who believe the China boom is coming to a close. There is plenty of opportunity left in the region. India is where China was 20 years ago while the other Asian economies that are doing well – Indonesia, Vietnam, Thailand, Philippines and others – constitute a 500 million population pool:





And for those who think iron ore is only an Australian story, Canada's miners have attracted \$10 billion in the past year through acquisitions, investments and expansions:



It's not all good news however. New supply coming on stream from 2014 – BHP and Rio's output plans for Pilbara alone are a staggering 750 million Mtpa and just this week BHP committed another \$14 billion to expand its port – must impact prices. Rio's chief Tom Albanese in December said he sees one more year of \$120-plus iron ore – then it's over.

Thanks to their economies of scale the Big 3 have been flooding the market by concentrating on building market share rather than maximizing prices. This way the giants drive high-cost producers out of the business. The Big 3 can handle a price well below \$120; smaller players may become collateral damage as peak profitability in the sector passes.

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**Amyhe**

In some minings, gold is just a Currency symbol, but the iron has more applications in our life. Invest in mining iron ore is a good and profitable choice.

**Hong Kong Foey**

Do we want to supply China with all of the Iron Ore in the world so it can build a war machine that "WILL" some day soon take over the whole world? I think not! By --- "HONG KONG FOOEY">

**Gary**

hey metro

USA has kept the morons of the world at bay for a lot of years, always on the side of the good guys. get a grip. For many years if they wanted to take something over they could have mastered the world easily.

**Metro**

Yeah, sell to the US, they would never invade another country, kill the people and take their resources.

**N. kharouba**

I know of many professional geologist flocking to Northern Quebec sites for some small exploration companies.

**Veteran_ironore**

Yes, I believe so. In fact iron ore is one of richest minerals in the earth and is never short of supply. If one talks about the supply constraint in China, one should be aware of the major supplying country Australia in proximity to all the existing buyers like China, Japan, Korea, Taiwan or the potential buyer India. In Australia there has been over 50 iron ore juniors which most of them have share prices at or near 52-week low. Frankly iron ore juniors are much cheaper in Australia than the peers in Canada. In addition 2 of the top 3 iron ore producers namely Rio Tinto and BHP, both located in Australia, have considerable expansion in Australia and other countries. What I worry about is that the world mkt will become oversupplied soon and the iron ore mk is very likely to go back to the 1990's - the early 2000's when all the iron ore miners begged steel mills to buy together with generous rebate and commission. So, the iron ore biz is not as easy as people expected.

**Lamb**

Unlike GOLD, no one turns to Iron Ore when times are tough and the economy is down - who collects Iron Ore as a reserve against bad times?? But, like GOLD, Iron Ore has seen a fantastic leap in price - and it will fall when the world economy drops off , same as GOLD. The beauty of owning GOLD is that it is always tradable regardless of the current price, unlike Iron Ore. The presentation by Sandy Chim, CEO of Canada's Century Iron Mines, is not so much of an endorsement of Iron Ore as it is meant to bolster the Investor interest in his company.

**Raghavan Tnv**

Correction:comments by Raghavan tnv-
correct ,Gold is also associated with Gold! --as' Gold is also associated with IRON "--
Thanks,
DR. Tnv Raghavan,Chemist/ Consultant



CrusherManufacturer

Iron ore industry still have bright future in this way. Its main market will be wider and wider.



Raghavan Tnv

Sir,Do you know some gold is also associated with Gold! Can we FOCUS both on Gold & Iron.
Is there somebody interested.
Dr.TNV Raghavan, Chemist/ Consultant



Dan Oancea

The story of the 2001-2010 decade most likely - see the article's last two paragraphs.



Donghai Du

good presentation

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