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Prospects for iron ore look rusty

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THE minerals boom has come to a grinding halt.

That can be inferred from the dramatic collapse in iron ore prices these past few weeks.

At the start of July imported standard ore (62% iron) was holding its own in the $135/ton range landed at Chinese ports, already down on last September's $180.

Today, it is well under $90, the lowest in three years, with predictions it is heading for $80 as ore stocks pile up at Chinese ports and Chinese steelmakers cancel orders and run down mill inventory.

China, the world's largest single steelmaker, cannot be blamed entirely for the collapse. Blame also falls on Australian, Brazilian and Indonesian miners that in recent years brought massive new mine capacity on stream, expecting more stellar growth in Chinese steel demand.

There is too much capacity, particularly as Chinese growth rates slow. Miners are pulling in their horns, canning expansion plans wholesale, some choosing between shuttering mines or selling at prices less than cost.

The problem stems partly from the rapid demise of annual fixed-price sales contracts these past four years. The market has changed radically. Today, 90% of the one billion tons of global annual iron ore exports are on a spot basis. Chinese steelmakers are not shy of cancelling a delivery then buying the same shipload cheaper from desperate sellers.

Steel prices have stumbled on the Shanghai exchange and steelmakers are happy to contain input costs by drawing down ore inventory at mills while letting traders' stocks pile up at ports. According to ICAP Shipping, the one decline has matched the other since the start of 2010. That is the free market.

Miners are stressed. Brazil's Vale has just sold part of its ore-carrier fleet to raise $600-million working capital.

Australia's Fortescue has slashed its 2013 capital expenditure guidance from A$6.2-billion to A$4.6-billion. BHP Billiton has put $20-billion of development projects on hold.

While Rio Tinto says it will complete this year's $16-billion capital spend, it admits the surge of new iron ore it expected is unlikely.

Pity Anglo's Cynthia Carrol selling non-core assets to finance Latin American copper and iron ore ventures.

Things are not much better for Kumba. It has agreed to continue supplying ArcelorMittal's steel mills with ore on a cost-plus basis until year's end, but that will fetch only $50-$70 a ton. Export prices determine Kumba's revenues. Assore chairman Des Sacco warns of falling demand and prices.

There is little hope of steel production recovery in the foreseeable future in Europe, Japan, South Korea or America. Demand growth depends on China.

But China faces easing export demand for steel products, soaring domestic inventory of unsold cars and uncertainty over whether it can stimulate domestic consumer goods demand with quantitative easing and low interest rates.

Kumba is R46 and falling after R59 in July. In Australia, Rio had a high of A$72 in February; today it is A$50. BHP Billiton is A$31 against this year's A$38 high. On the JSE, ARM is R147 against its 12-month high of R198.