

METALS AND MINING RESEARCH

Iron Ore CBS July 2019 — Iron ore prices soar on scarcity

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Prices for 62% Fe iron ores have remained at approximately US\$90/t to US\$100/t since the beginning of April and have been above US\$100/t in their latest run since June 10. We have increased our price expectations on increased supply disruptions, though we hold our estimates for steel demand broadly constant given policy uncertainty and a long-held assumption of capacity curbs for the December half of 2019. We expect a greater seaborne iron ore deficit of 54 million tonnes, which is increased from 36 Mt due to larger-than-expected disruption at Rio Tinto's Pilbara mines in Australia and a slower resumption of idled Chinese concentrate capacity.

Access the Iron Ore Commodity Briefing Service July 2019 report and slide deck.

* Iron ore prices increased 6.7% to US\$121.90/t on July 19 from US\$114.30/t on June 19. Prices peaked at US\$126.40/t on July 3 but declined on reticent buying activity. Technical trading signals continue to suggest upside risk to current prices despite fundamentals.

* Global iron ore production is expected to grow by 1.2% year over year in 2019 to 2.2 billion tonnes. The reduced year-over-year growth rate is due to continued disruption at major miners' operations, most notably Vale SA and Rio Tinto.

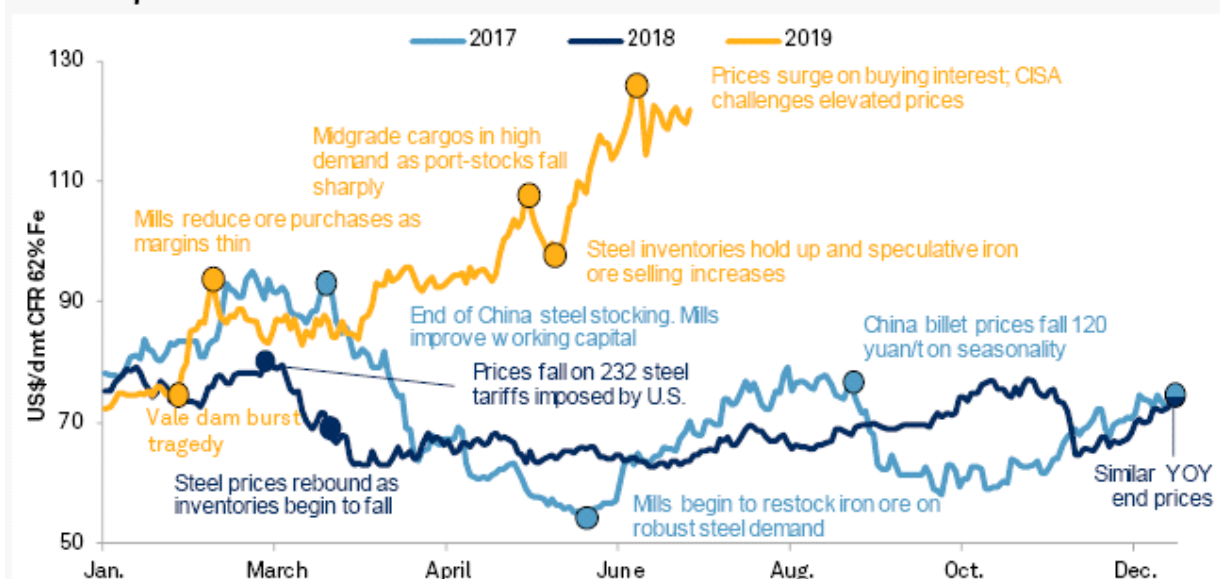
* Global pig iron production is expected to remain broadly constant year over year at 1.2 billion tonnes as capacity rationalization in China substitutes blast furnace activity for electric-arc furnace activity in a push to modernize the nation's stock of steelmaking equipment.

* China's steel mills now profit by US\$37/t and US\$5/t at rebar and hot-rolled coil facilities, respectively. We expect steelmaking activity in China to decrease over the December half of 2019.

* China's volume of floor space increased 10.5% year over year as demand for housing remains robust and China's fiscal and monetary stimulus moves to counteract pressure in the external sector by supporting domestic economic activity.

* We expect prices for 62% Fe iron ore to increase to average US\$95.50/t in 2020 but to decline to an average of US\$86/t in 2021 as the seaborne deficit decreases.

Iron ore prices continue to rise as deficit bites



Data as of July 23, 2019.
CISA = China Iron and Steel Association
Sources: S&P Global Market Intelligence; S&P Global Platts

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