



Summary

- ▶ November was a mixed month for the iron ore market. Prices rallied rapidly after testing the widely-cited \$120/dmt floor in October, with the 62% Fe reference price climbing back to \$147.4/dry metric tonne CFR China by mid-month. But the rebound soon ran out of steam and the price slipped to just over \$130/dmt by month-end.
- ▶ Underlying this was a still soft steel market in China, which has been struggling with weak end-use consumption. Demand continues to be depressed by tighter credit and lingering economic uncertainty stemming from the seemingly never-ending debt crisis engulfing Europe, as well as domestic concerns over the real estate sector.
- ▶ A ruling on the mining ban in India's Karnataka state has been postponed until early next year. Meanwhile Chinese import data showed imports of Indian ore falling to a record low in October.
- ▶ The iron ore derivatives market had a buoyant start to November, with heightened volatility in the physical market again leading to increased trading volumes. Although volumes tapered off slightly towards the end of the month, it was still the second most active month on record.

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Prices

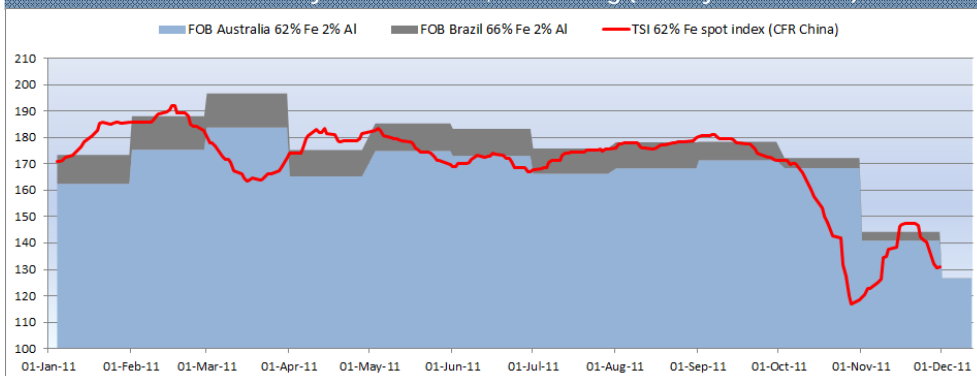
- ▶ TSI's 62% Fe reference price started the month at US\$119.3/dmt cfr China and climbed to a peak of US\$147.6/t on 17 November before easing to US\$130.9/dmt at the end of the month.
- ▶ The average TSI 62% Fe reference price for the month, used to settle November swap contracts and as the basis for a growing number of monthly physical contracts, was US\$135.54/dmt cfr Tianjin - down 9.9% m-o-m.
- ▶ The month average synthetic net-back price for 62% Fe fines with low alumina FOB West Australia was US\$127/dmt, down 12% on October.
- ▶ For Brazilian fines, which typically trade on a 3-month spot average contract price, the current 4th quarter average synthetic netback FOB price for 66% Fe fines is running at US\$135/t fob, 23% lower than the Q3 average.

TSI Iron Ore Spot Reference Prices (US\$/dry metric tonne)							
Series	Notes	November Average		Q4 TD Average (μ)		Q-1M Average (α)	
		m-o-m	q-o-q	μ	α	μ	α
62% Fe*		135.54	-9.9%	142.81	-18.8%	154.46	-11.1%
58% Fe*		117.30	-12.8%	125.68	-18.2%	135.61	-10.7%
62% Fe [~]	Low alumina (2% Al)	137.34	-10.1%	144.86	-18.9%	156.61	-11.4%
63.5/63% Fe [~]		140.15	-10.3%	148.01	-18.7%	159.88	-11.3%

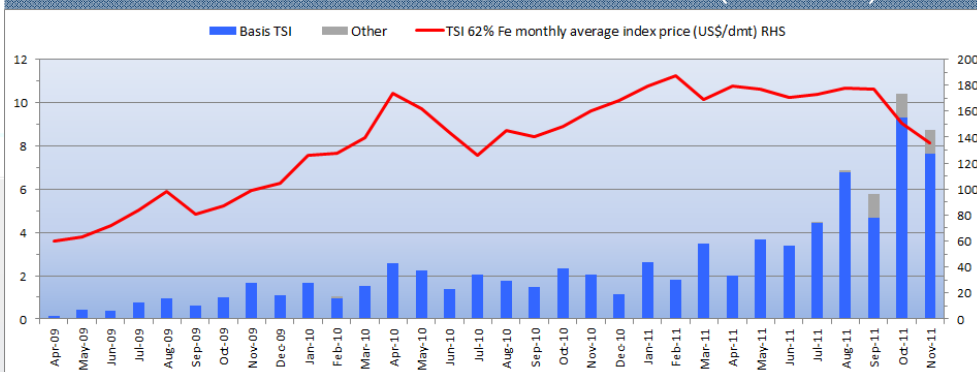
Indicative FOB Spot Prices (US\$/dry metric tonne) [^]							
Pricing Point	Fe and Al Content	November Average		Q4 TD Average (μ)		Q-1M Average (α)	
		m-o-m	q-o-q	μ	α	μ	α
FOB W. Australia	62% Fe, 2% Al	126.66	-10.1%	133.64	-21.1%	145.40	-13.8%
FOB Brazil	66% Fe, 2% Al	126.78	-12.1%	135.32	-23.2%	147.83	-16.7%

*CFRFO Tianjin port [~]CFRFO Qingdao port (μ)Calendar quarter: October-December. (α)Lagged quarter: September-November
[^]Basis: TSI 62% Fe, low alumina (2% Al) series. FOB prices derived as net-backs using average Baltic C3 and C5 rates
Fe adjustment coefficient per 1% Fe = US\$3.50/dmt for range 61-64% Fe and US\$5.00/dmt for range 56-59% Fe during November

Indicative Monthly Contract Prices, 1 month lag (US\$/dry metric tonne)



Iron Ore Derivatives & Futures Contracts - Volume Cleared (million tonnes)



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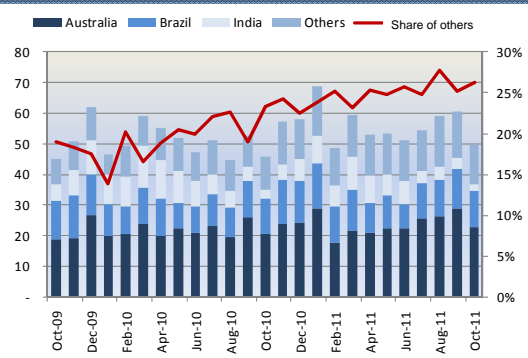
Supply

- ▶ Spot iron ore volumes out of Australia were noticeably thinner through November following the renegotiations of long-term contracts between miners and Chinese steelmakers. Meanwhile spot supply from India's east coast remained marginal, despite the ending of the monsoon.
- ▶ The iron ore mining ban in southern India's Karnataka state will remain in place for at least another month as the Supreme Court has postponed until 20 January its next hearing into illegal mining in the state. The Goa Mineral Exporters Association has said exports from the southwest Indian state could be down by 25% this fiscal year (ending 31 March 2012) due to government restrictions and the continued absence of Karnataka ore supplies for export through Goan ports.
- ▶ Data released in November showed iron ore imports into China dropping 18% in October. Though the October figures customs figures are typically distorted by the week long national holidays, it was interesting to note that imports of Indian material fell to a record low of just 2mt. This made up just 4% of the total—again an all-time low—meaning imports of South African ore into China surpassed those from India for the first time ever.
- ▶ October figures released in November also showed crude domestic production of run-of-mine iron ore soaring by nearly 40% (year-on-year) to 132mt in October. However, estimates by Macquarie based on pig iron production suggest that consumption of domestic Chinese iron ore on a 62% Fe basis has actually been trending down since the summer.
- ▶ November figures, due to be released later this month, are likely to show lower crude ore output, with some local mines already stopping production due to the cold weather in northern China. As the temperature drops further, more will do the same in the coming months, taking out more domestic supply. Many major mills in Hebei say they now only hold limited stock of domestic iron ore inventory—enough to support around 10-15 days of steel output. They will need to supplement these with imported ore.
- ▶ Rio Tinto has lifted its iron ore production capacity target by an additional 20m tonnes/year after deciding to upgrade a rail car dumper at its Cape Lambert port in Western Australia. The Anglo-Australian miner is now targeting iron ore capacity in the Pilbara of 353mt/y by mid-2015.

Demand

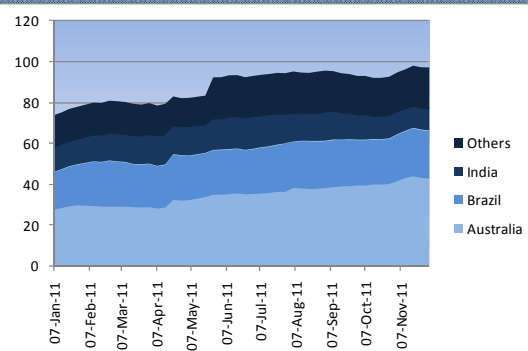
- ▶ Global crude steel production slipped further in October, according to estimates by the World Steel Association released last month. Output was down by 3% from September, though still up 6% from the same month last year. Capacity utilisation sunk to a year-low of 76.5%.
- ▶ In China, crude steel output fell 4% in October. Estimates by the China Iron & Steel Association for the first 20 days of November suggested the daily production rate fell even more sharply to just 1.64mt from an average of 1.82m t/d in October (see chart).
- ▶ However, with margins improving due to lower iron ore prices, a number of mills in Hebei are reported to be lifting output again, so estimates for the final 10 days of November may show some increase when released. In the final week of November blast furnaces in Tangshan were operating at close to 100% utilisation.
- ▶ Underlying end user demand for steel remains lacklustre, however. Leading real estate indicators were negative for October and the manufacturing purchasing managers' index PMI by HSBC for November pointed to the worst deterioration in the manufacturing sector in close to three years. Steel traders are operating with leaner inventories than usual.
- ▶ Upstream, following the aggressive destock of iron ore in October, small and medium mills in China have also now rebuilt their inventories to around three-quarters of normal levels, and are generally buying only immediate requirements—much of this from port stocks.
- ▶ On the final day of November the People's Bank of China cut the reserve ratio for lenders, sending regional stock markets and steel futures soaring. While impact of the move is thought to be neutral on money supply in the face of lower income from imports, it could signal the beginning of a looser monetary policy now that inflation appears to be easing.
- ▶ Leading Chinese rebar mills opted to hold their early December rebar prices unchanged. The large state-owned flat steel producers, including Baosteel, trimmed their list prices for the month.

Chinese iron ore imports - by country (million metric tonnes)



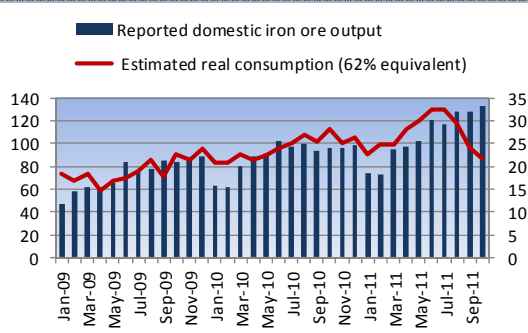
Source: China Customs

Iron ore port stocks in China—by origin (million metric tonnes)



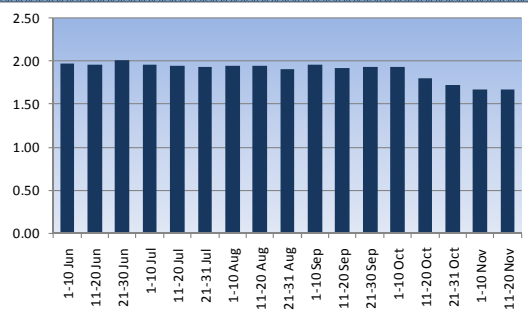
Source: SX Coal

China domestic iron ore production (Run-of-mine, million metric tonnes)



Source: NBS, Macquarie

Chinese Crude Steel Daily Run Rate (CISA estimates, million metric tonnes)

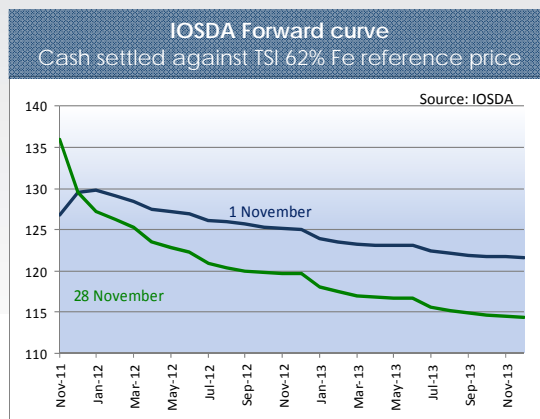


Source: CISA



Derivatives

- ▶ November was characterized by price volatility in the physical iron ore market, as well as macro uncertainty stemming from the slowdown in China and Europe's debt woes. Frequent price moves have provided more trading opportunities, while the growing liquidity pool continues to draw in new participants.
- ▶ While falling slightly short of the October record, volumes of iron ore swaps and options remained healthy in November. Singapore Exchange (SGX) cleared 12,675 lots last month, equivalent to 6.3mt. Meanwhile, open interest continued to rise, reaching a record high of 11,112 lots.
- ▶ "It's interesting to see the evolution of the open interest, which represents the real underlying growth in liquidity in the swaps market. With credit drying up in much of the global economy it's great to see the iron ore paper market continue to go from strength to strength," a representative of the Iron Ore and Steel Derivatives Association (IOSDA) commented.
- ▶ The volume of iron ore options traded in November was the second highest monthly total on record. CME Group cleared 1,038 lots of 500 tonnes options during the month.



Next Month...

- ▶ The Chinese steel industry will start gearing up for the week-long Lunar New Year holiday which takes place in late January next year. Traders and mills typically build inventories in the approach to the holiday while mills accelerate production in anticipation of better demand after the break.
- ▶ Firm action by European leaders on the debt crisis could remove some of the lingering uncertainty that has plagued the global economy for much of the past few months. Meanwhile, it remains to be seen whether the People's Bank of China's cut to lending requirements last month signals the beginning of looser credit going into 2012.
- ▶ The end of the calendar year will also see economic activity in many of the western countries slow down for the Christmas and New Year holidays. Steel traders tend to run down stocks before the end of the year, while mills often reduce production over the festive period.

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TSI Iron Ore Index

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