

TSI Iron Ore Monthly Review - February 2011

Summary

- ▶ Iron ore spot prices have fallen from mid-month highs on weakening Chinese steel sentiment.
- ▶ Physical spot steel prices and steel futures lost considerable value in the second half of February, the initial post-Chinese New Year positivity giving way to concerns over real demand in China.
- ▶ Despite declining iron ore prices, spot market supply remains tight and Chinese iron ore inventories are being run down.
- ▶ The Indian government raised the tax on iron ore exports to 20% for fines and lumps (previously 5% for iron ore fines and 15% for lumps) with effect from 1 March.

Rory MacDonald
macdonald@thesteelindex.com

Stella Wu
wu@thesteelindex.com
 Tel: +86 (0) 21 5110 5490

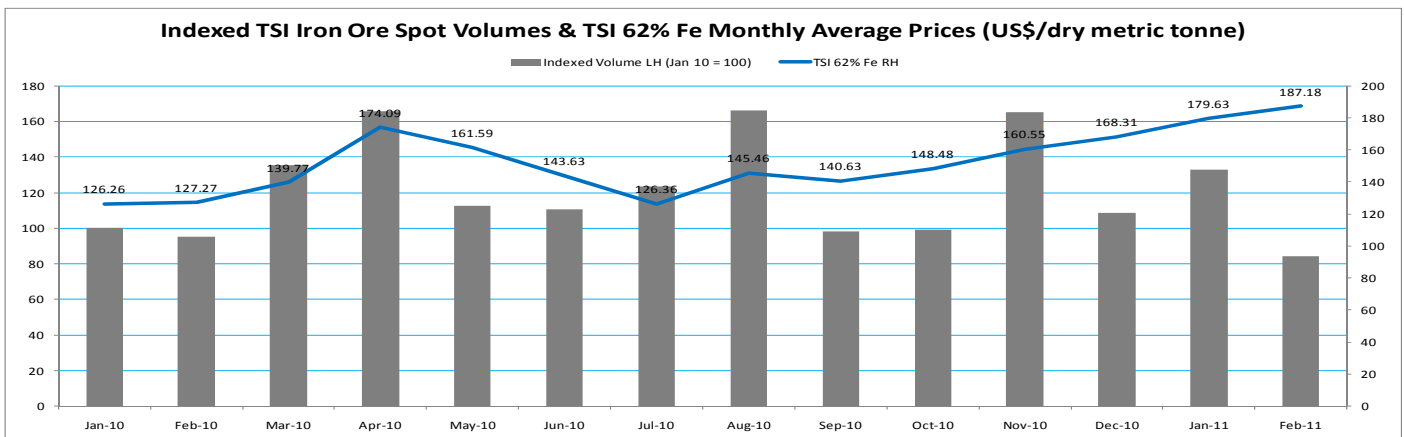
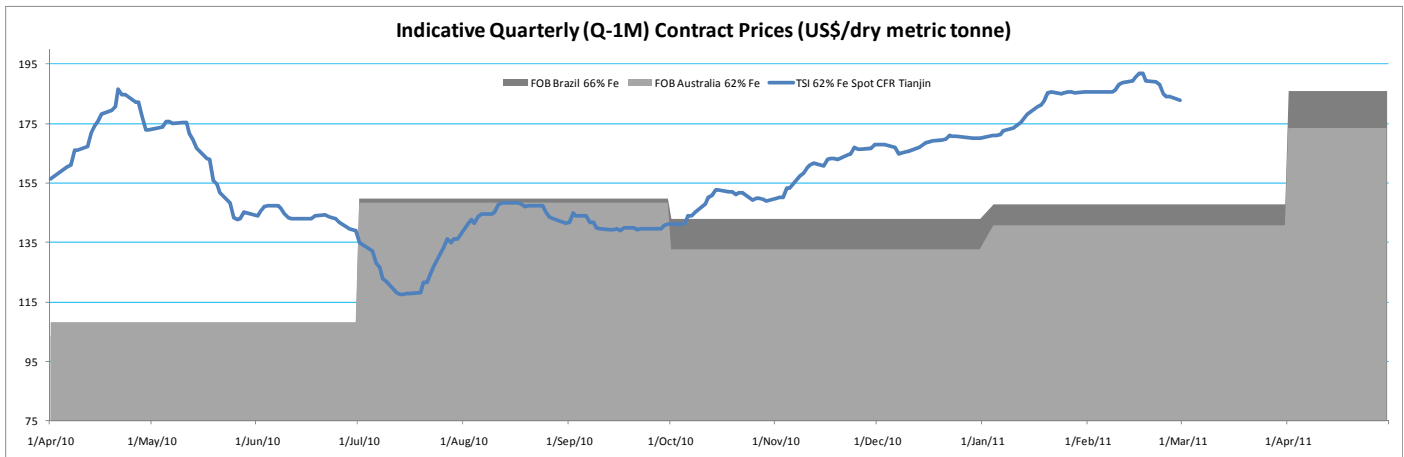
Prices

- ▶ TSI 62% Fe reference price hit an all-time record high on February 17, topping out at US\$191.90/dry metric tonne.
- ▶ TSI 62% Fe price finished the month at US\$182.80/dmt, down 1.5% from the end of January.
- ▶ February 28 marks the final trading day in the Dec/Jan/Feb price discovery window.
- ▶ Using TSI's 62% Fe, 2% Al series, indicative Q2 contract prices are as follows:
 - ▶ FOB West Australia 62% Fe at **US\$173.66/dmt**, a 23% increase q-o-q.
 - ▶ FOB Brazil 66% Fe at **US\$185.84/dmt**, a 27% increase q-o-q.

TSI Iron Ore Spot Reference Prices (US\$/dry metric tonne)							
Series	Notes	February Average		QTD Average (μ)		Q-1M Average (α)	
		m-o-m	q-o-q	μ	q-o-q	α	q-o-q
62% Fe*		187.18	+4.2%	183.41	+15.3%	178.21	+18.9%
58% Fe*		160.46	+5.1%	156.57	+22.4%	150.62	+26.6%
62% Fe [~]	Low alumina (2% Al)	190.38	+4.5%	186.30	+15.3%	180.97	+18.9%
63.5/63% Fe [~]		194.60	+4.0%	190.81	+15.1%	185.58	+18.5%

Indicative FOB Spot Prices (US\$/dry metric tonne) [~]							
Pricing Point	Fe and Al Content	February Average		QTD Average (μ)		Q-1M Average (α)	
		m-o-m	q-o-q	μ	q-o-q	α	q-o-q
FOB W. Australia	62% Fe, 2% Al	183.78	+4.8%	179.57	+18.8%	173.66	+23.3%
FOB Brazil	66% Fe, 2% Al	196.65	+4.5%	192.38	+22.0%	185.84	+27.1%

*CFRFO Tianjin port ~ CFRFO Qingdao port (μ)Calendar quarter: Jan, Feb & Mar. (α)Lagged quarter: Dec, Jan & Feb.
[~]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 for range 61-64% Fe at US\$6.00/dmt per 1% Fe and for range 56-59% Fe at US\$8.00/dmt per 1% Fe during February



Supply

- ▶ The Government of India increased the export duty payable on iron ore fines and lumps to 20%, up from 5% (fines) and 15% (lumps) previously. The increase takes effect March 1. Iron ore pellets are exempt.
- ▶ Resolution to the export ban from the Indian state of Karnataka was pushed back by another month to March.
- ▶ India's Associated Chambers of Commerce & Industry (Assocham) is lobbying for a phased ban on iron ore exports from the country, targeting a complete restriction by 2015-16.
- ▶ Cyclones Dianne and Carlos continue to hamper operations in the Pilbara, where excessive rainfall, winds and swells closed ports intermittently through the second half of February.
- ▶ Vale's exports through Ponta de Madeira were 10% lower in January, down to 7.9m tonnes from December's 8.8m tonnes. The heavy rain that restricted January exports had a lesser impact in February. Exports are expected to bounce back in March to December levels.

Demand

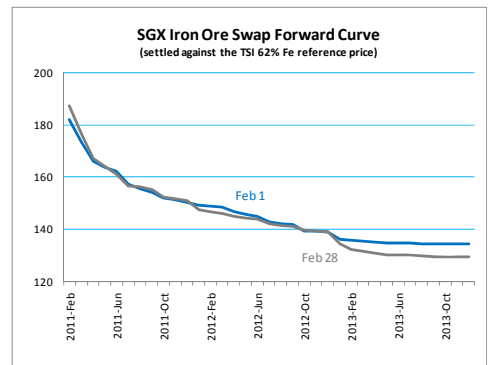
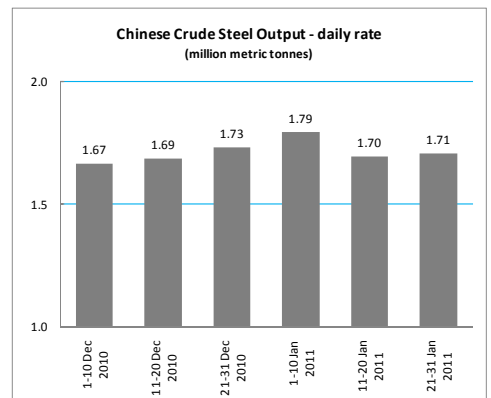
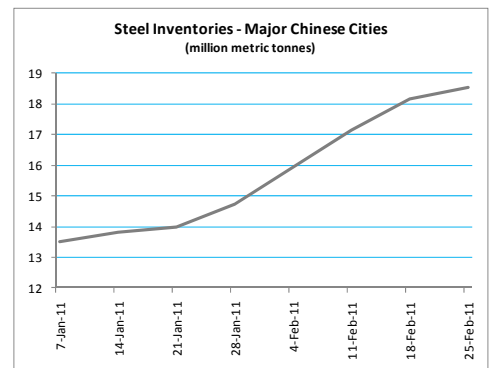
- ▶ The Chinese government continued its attempts to tackle rising inflation and cool the economy in February, adjusting the deposit reserve requirement ratio upward for the second time this year. Interest rates were increased by 0.25% to 2.75% (Feb 9th).
- ▶ Steel (flats & longs) inventories at major Chinese cities increased by 3.8million tonnes to 18.5mt between January 28 - February 25, an increase of 26%. Rising inventories reflect weakening end-user demand and seasonal restocking.
- ▶ Rising inventories hit spot steel prices in February:
 - ▶ Spot HRC prices fell by 4.7% to RMB4660/t (Shanghai markets).
 - ▶ The SSEC (screen traded) cash price for rebar fell by 4.6% to RMB4703/t.
- ▶ A number of major steel producers have scheduled maintenance for March, which may lend some support to prices.
- ▶ World pig iron production hit an eight-month high in January at 87.1m tonnes. Improving demand in the rest of world is expected to lessen the potential of a slump should Chinese demand weaken further.

Derivatives

- ▶ Iron Ore Swaps (IOS) levels for the nearby months came under pressure in the second half of the month in response to falling prices in the physical market.
- ▶ The market has rallied in recent days, seeing 'an interesting turn around at the front of the curve with the March contract jumping \$11/dmt,' said Michael Gaylard of FIS.
- ▶ Gaylard saw 'uncertainties over supply, thoughts of overselling and the relatively strong volume of physical trades' as reason for the recovery.
- ▶ 'Once again it is very positive for the market to see strong weekly volumes for the swap; this also showcases the strong confidence in TSI as a settlement figure,' he added.
- ▶ Prices of SHFE rebar futures mirrored the physical market, declining by 4.9% in February (first forward month contract).

Freight

- ▶ Most ocean freight rates came under severe downward pressure yet again in the month gone. Rates on the key iron ore routes from W. Australia and Brazil to N. China both fell. Rates from India to China bucked the trend.
- ▶ Average rates from W. Australia dropped by 4.8% month-on-month, while rates from Brazil dropped by 3.0%.
- ▶ Freight from India firmed - average rates from the east coast up by 9.3% m-o-m with rates from the west coast up by slightly less, increasing by 5.4% m-o-m.



Next Month...

- ▶ Traders expect the increase in the duty payable on Indian iron ore exports to lend support to the iron ore spot market in coming months, despite the possible resumption of exports from Karnataka state.
- ▶ Traditionally, demand for steel in China is at its strongest in spring, but with raw materials costs at or near record highs and end-user demand lukewarm at present, steel producers' margins are being squeezed.
- ▶ An expected - but by no means certain - uptick in end-user demand next month may help support iron ore prices at current levels.

**WANT TO ADVERTISE HERE IN NEXT MONTH'S IRON
 ORE MONTHLY REVIEW AND BE SEEN BY 4000
 INDUSTRY PROFESSIONALS?**

**FOR MORE INFORMATION PLEASE CONTACT
advertise@thesteelindex.com**

Contact The Steel Index

CHINA	SINGAPORE	UNITED KINGDOM	UNITED STATES
3301 Shanghai Plaza 138 Hua Hai Zhong Lu (M) Shanghai 200021 Tel: +86 21 5110 5490 Fax: +86 21 5110 5480 Rory Macdonald or Stella Wu macdonald@thesteelindex.com wu@thesteelindex.com	69 Circular Road #02-01 Singapore 049423 Tel: +65 6227 7811 Fax: +65 6223 9315 Terry Chuay chuay@thesteelindex.com	Peek House 20 Eastcheap London EC3M 1EB Tel: +44 20 7645 9415 Fax: +44 20 7929 4666 Steven Randall info@thesteelindex.com	424 South 27th Street Suite 306 Pittsburgh PA 15203 Tel: +1 412 431 0584 Fax: +1 412 431 4371 Jeff Wickert america@thesteelindex.com

TSI Iron Ore Index

TSI's iron ore prices are published daily at 12:00 GMT.

TSI's iron ore index is used by the Singapore Exchange (SGX), LCH.Clearnet (London), CME Group (Chicago), NOS Clearing (Oslo) and Indian Commodity Exchange (ICEX) for settling their monthly cleared iron ore financial contracts.

TSI is an independent limited company, majority-owned by Steel Business Briefing (SBB), the leading global provider of quality steel news, information and events. Further information on TSI, including details of product specifications and procedures, and a free trial of the service are available at www.thesteelindex.com.

This information has been prepared by The Steel Index ("TSI"). Use of the information presented here is at your sole risk, and any content, material and/or data presented or otherwise obtained through your use of the information in this document is at your own discretion and risk and you will be solely responsible for any damage to you personally or your company or organisation or business associates whatsoever which in anyway results from the use, reliance or application of such content material and/or information. Certain data has been obtained from various sources (listed below) and any copyright existing in such data shall remain the property of the source. Except for the foregoing, TSI retains all copyright within this document. The copying or redistribution of any part of this document without the express written authority of TSI is forbidden.

Sources: MySteel (Steel Inventories), CISA (Crude Steel Output)