Summary

- **Iron ore prices remained under pressure through June, the first full month since October 2009 that 62% Fe fines have spent below US$100/dry metric tonne, CFR Tianjin. TSI's average benchmark price was US$92.74/dmt, down 7.8% compared with May.**
- **The release of May data showed a slight dip in iron ore imports going into China. However, volumes compared with last year were up 13%. Meanwhile, production of pig iron (the intermediary product produced from iron ore) inched up just 1% over the same period.**
- **A number of China's local authorities announced small stimulus measures, and also eased restrictions on the property sector, a key engine of economic growth and steel demand. Meanwhile the HSBC manufacturing PMI for June came in at 50.7, up from 49.4 in May**
- **Another record month for iron ore derivatives, with 57 million tonnes of swaps, futures and options cleared and open interest on the Singapore Exchange hitting a new high of 61 million tonnes. Options trading surged, with volumes up 68% on their previous monthly record.**

Contact TSI:

Oscar Tarneberg
Tel: +65 6530 6412

Julie Jiang
Tel: +86 21 5110 5485

Kennith Yan
Tel: +86 21 5110 5459

asia@thesteelindex.com

Prices

- TSI's 62% Fe fines benchmark price dipped from US$92.10/dmt CFR Tianjin port on 2 June to US$89.00/dmt mid-month, before finding some support at around this level and recovering to end the month at US$93.80/dmt, slightly higher than it started.
- The monthly average of TSI's 62% Fe fines benchmark price, used to settle June derivatives and futures contracts as well as monthly physical contracts, was US$92.74/dmt, down by 7.8% month-on-month.
- The June monthly average synthetic net-back price for 62% Fe fines with low alumina FOB West Australia was US$86.24/dmt, down by 8.2%.
- The average synthetic net-back price for 65% Fe fines FOB Brazil for the second quarter was US$92.00/dmt, down by 15% against the Q1 average.

TSI Iron Ore Spot Reference Prices (US$/dry metric tonne)

Index	Chinese Port	June Averages	m-o-m	Q2 Averages*	q-o-q
62% Fe, 3.5% Al	CFRFO Tianjin	92.74	-7.8%	102.66	-14.8%
58% Fe, 3.5% Al	CFRFO Tianjin	75.60	-13.8%	88.98	-19.0%
62% Fe, 2% Al	CFRFO Qingdao	93.80	-7.7%	103.71	-14.6%
63.5/63% Fe, 3.5% Al	CFRFO Qingdao	94.54	-8.0%	104.79	-14.8%
65% Fe, 1% Al	CFRFO Qingdao	100.80	-8.3%	111.96	-14.3%

Indicative Net-back FOB Spot Prices (US$/dry metric tonne)^

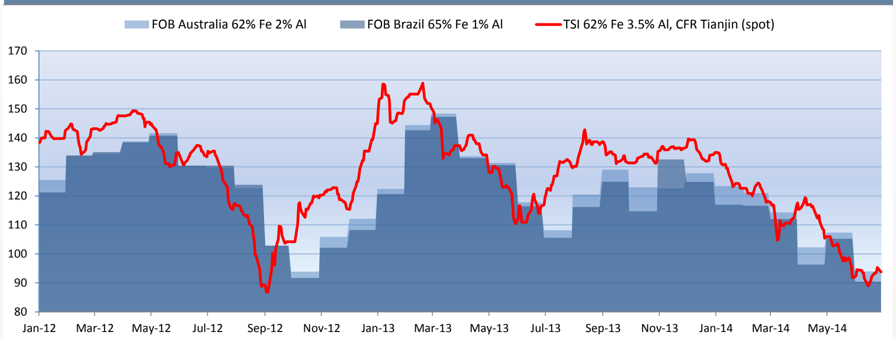
Pricing Point	Fe and Al Content	June Averages	m-o-m	Q2 Averages*	q-o-q
FOB West Australia	62% Fe, 2% Al	86.24	-8.2%	95.87	-14.8%
FOB Brazil	65% Fe, 1% Al	80.23	-11.3%	92.00	-15.0%

*Calendar quarter: April-June 2014

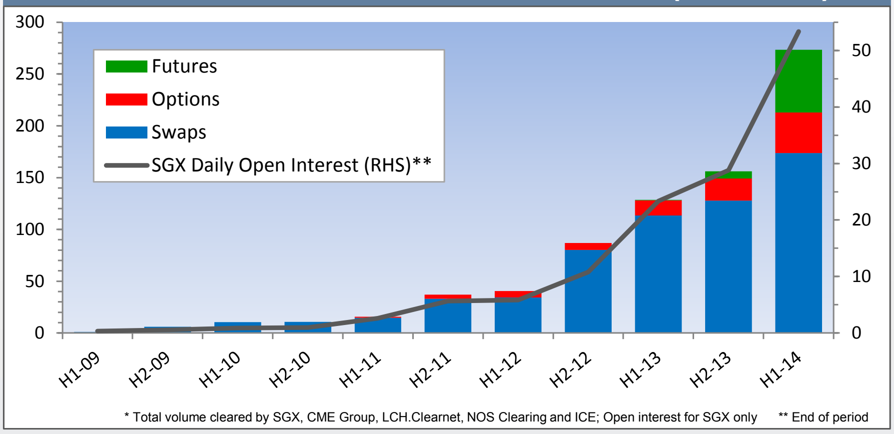
^Basis: TSI 62% Fe, low alumina (2% Al) series. FOB prices derived as net-backs from avg. Baltic C3 and C5 rates

Fe adjustment coefficient per 1% Fe = US$1.75/dmt for range 61-64% Fe and US$2.25/dmt for range 56-59% Fe

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



US$ Iron Ore Futures and OTC Derivatives - Volume Cleared (million tonnes)*



* Total volume cleared by SGX, CME Group, LCH.Clearnet, NOS Clearing and ICE; Open interest for SGX only ** End of period

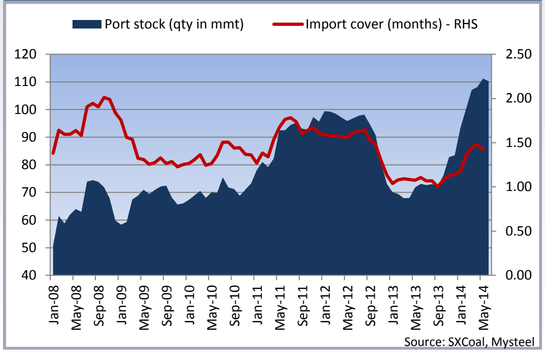
Supply

- Spot tenders came with increasing frequency through June, with the largest three miners active on an almost daily basis. In particular, Rio Tinto's 61% Fe Pilbara Blend product made a regular appearance in tenders and on trading platforms, often commanding a high brand premium. Vale's high grade IOCJ product - typically around 65% Fe - was also a regular fixture on the spot market.
- China's imports of iron ore slowed in May compared with April, dipping 7% year-on-year to 77.42 million tonnes. This was still substantially higher (up 13%) compared with the same month a year ago.
- Australia's Port Hedland exported record volumes in May, as 36.1 million tonnes of iron ore moved through the West Australia export hub. Of this total, 29.9 million tonnes went to China.
- Fortescue Metals Group (FMG) secured provisional approval from West Australia's Environmental Protection Authority for its Iron Bridge magnetite joint venture with Taiwan's Formosa Plastics and China's Baosteel. The project would be FMG's first magnetite operation and could potentially produce 15 million tonnes/year from 2015.
- Padbury Mining, a small Australian mining company, has said it had received strong interest from Chinese, Middle East and South Korean companies about reviving plans to develop the $6 billion Oakajee port and rail project in Western Australia. Padbury is developing the Peak Hill iron ore project in the Mid West region which could potentially produce as much as 10 million tonnes/year of iron ore. However, its development is dependent on the completion of the port and rail project.
- China mined almost 132 million tonnes of crude iron ore in May, 8% more than in April, and 13% more than a year ago. Much of this ore was of a very low grade (details not published) requiring concentration, making it very hard to know how much this equates to on a 62% Fe equivalent basis.
- The increase in mine output comes despite a number of high-cost domestic mines reported to be halting production due to low prices making operations economically unviable.
- Anglo American ruled out a bid for Guinea's Simandou iron ore deposits, though said it was still keen on expanding its portfolio in West Africa.

Demand

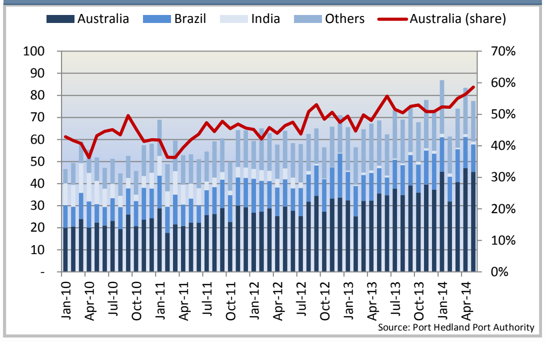
- Crude steel production in May totalled 141.2 million tonnes in the 65 countries reporting to the World Steel Association, a new monthly record. This was 2.2% more than the same month last year and, on a daily average basis, 0.2% more than in April. Capacity-utilisation for the 65 countries in May was 78.55%, slightly down on a month-on-month and year-on-year comparison.
- Crude steel output in China in May rose to a new peak of 70.4 million tonnes, with daily output at 2.27 million tonnes/day, just below April's record daily rate. This was 5% higher than May last year. But notably, growth in the production of pig iron, which is produced using iron ore via the blast furnace route, continues to stagnate, with mills eking out just 1% more hot metal than they did in May 2013.
- However, China's mills have been encouraged to increase their production in June as the sharp slump in raw material costs has led to increased profit margins, thought to generally be in excess of RMB 100/tonne. China Iron & Steel Association (CISA) reported that daily crude steel output among the country's 156 major mills (affiliated with CISA) hit record highs in the first and second 10-day periods of June. Production among those major steelmakers accounts for around 80% of total national output.
- Through much of June, mills severely struggled to secure financing for procuring iron ore. A crackdown on suspicious commodity financing arrangements (particularly in copper) put banks off lending to the sector as a whole, crimping demand for spot ore.
- Towards the end of June, news that a number of local governments in China would roll out stimulus measures, as well as an easing of curbs on the property sector, triggered a rally in iron ore futures prices on the Dalian Commodities Exchange (DCE). Bullishness on the futures markets appeared to feed through to the physical market, where mills low on inventory saw an opportunity to restock at levels of c.US$ 90/dmt.
- Iron ore inventories held by small- and medium-sized mills in China slipped to 24 days of use (for imported ore) by 23rd June, compared with 26 days two weeks earlier, according to data from Mysteel. This month, many domestic consumers still prefer to maintain low iron ore inventories and purchase port stocks due to the relatively low price compared with seaborne iron ore, as well as short lead-times and to avoid needing to obtain letters of credit.

Iron ore port stocks in China
(million metric tonnes)



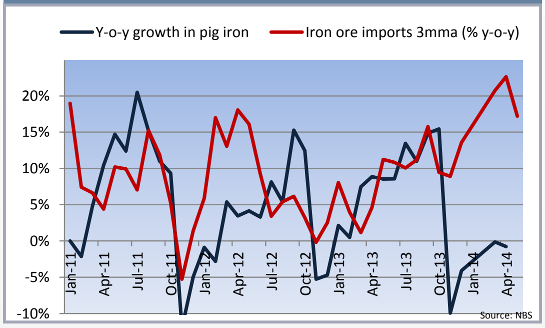
China's port stocks of iron ore: peaking?

Iron ore imports into China by origin
(million metric tonnes)



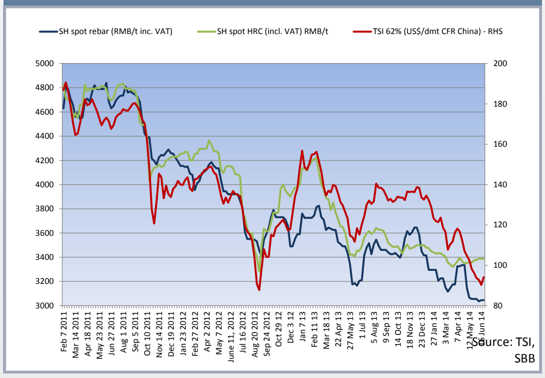
China's iron ore imports: a slight dip in May

Growth in China's pig iron production vs. growth in iron ore imports (% change y-o-y)



Ore imports still rising faster than hot metal production

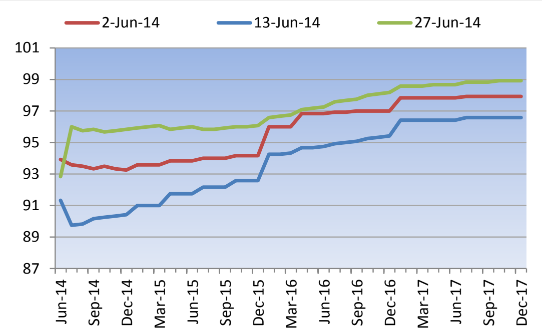
Chinese spot steel prices vs. iron ore
(RMB/tonne, US$/dmt CFR)



HRC prices steady

Derivatives and futures

SGX Forward curve
Cash-settled against TSI 62% Fe reference price



Sharp swings in forward values

- Another month, another record for iron ore derivatives and open interest levels! As trade sizes increased and activity extended along the curve, the Singapore Exchange (SGX) saw 56 million tonnes of futures and derivatives cleared during the month. This was up 12% on the previous monthly record set in May and more than double the volume cleared in June 2013. A further 1.1 million tonnes were cleared on the CME.
- Options trading volumes saw the greatest surge, with a total of 10.6 million tonnes cleared in June, 68% higher than the previous monthly record set in March this year, reflecting the continuing strong growth in hedging activity.
- Open interest on SGX across its iron ore contracts peaked at over 61 million tonnes in June, 10% higher than the previous record set in May.
- The iron ore forward curve, having moved into an unfamiliar contango situation in the latter part of May when spot prices plummeted, maintained this shape throughout June. It flattened considerably by the end of the month, however, as spot prices recovered from their mid-month trough (see chart right).
- Chinese RMB iron ore futures trading on the Dalian Commodity Exchange (DCE) also had a strong month in June, with around 1 billion tonnes traded. With some market participants looking for arbitrage opportunities, large price moves on the most active contract triggered surges in trading activity not only onshore but also on SGX.

Outlook…

- Tough financing conditions in China have weighed on the iron ore market over the past month as banks have demanded larger down-payments on letters of credit (LCs) amid a curb on lending to the commodities sector, which is perceived as risky. Chinese banks tend to reassess their loan portfolios and lending conditions on a quarterly basis, so a relaxation or tightening of credit from the third quarter could have ramifications for iron ore demand.
- The head of the Japan Iron & Steel Federation, Eiji Hayashida, said he expects steel consumption in the country to remain stable in Q3 off the back of better demand - particularly from automakers and shipbuilders. Economic stimulus measures by the government, as well as overseas demand, will also contribute to healthier demand from July onwards. Japan is expected to produce 111 million tonnes of crude steel in the fiscal year ending 31 March 2015.
- According to a recent presentation by Macquarie, the addition of new iron ore capacity globally will slow from 2015. However, further displacement of high cost ore is still required to balance the market. Next year, the bank believes there will still be sufficient material with costs in the US$90-110/tonne range to continue to support prices at around this level.

Contact The Steel Index (TSI)

SINGAPORE	CHINA	UNITED KINGDOM	UNITED STATES
12 Marina Boulevard #23-01	Room 3301-03, Shanghai Plaza	20 Canada Square, 12th Floor	424 South 27th Street
Marina Bay Financial Centre	138 Huai Hai Road	Canary Wharf	Suite 306
Tower 3, Singapore 018982	Shanghai 200021 China	London E14 5LH	Pittsburgh, PA 15203
Tel: +65 6216 1057	**Tel:** +86 21 5110 5459	**Tel:** +44 20 7176 7667	Tel: +1 412 431 0584
Fax: +65 6532 2700	**Fax:** +86 21 5110 5480	**Fax:** +44 20 7176 7961	Fax: +1 412 431 4371
Oscar Tarneberg asia@thesteelindex.com	**Julie Jiang** china@thesteelindex.com	**Steven Randall** europe@thesteelindex.com	**Kurt Fowler** america@thesteelindex.com

TSI Iron Ore Index

TSI's iron ore prices are published daily at 19:00 Singapore/Shanghai time.

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

TSI is a leading specialist source of iron ore, steel, scrap and coking coal price information. It is owned by Platts, part of McGraw-Hill Financial. Further information on TSI, including details of product specifications and procedures and a free trial of the service, is available at www.thesteelindex.com.