



is a leading steel information service in Englewood Cliffs, N.J.

WSD's steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the "pricing power" of steel companies the world over will be impacted by changes in the steel industry's structure.

The views and opinions expressed in this article are solely those of World Steel Dynamics and not necessarily those of AIST.

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This report includes forward-looking statements that are based on current expectations about future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict. Although WSD believes that the expectations reflected in its forward-looking statements are reasonable, they can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties, including, among other things, changes in prices, shifts in demand, variations in supply, movements in international currency, developments in technology, actions by governments and/or other factors.

Iron Ore Prices: Where's the Bottom?

Medium term, WSD thinks that the price of iron ore delivered to China could fall for an extended period of time — two years or so — to about US\$80/metric ton. Then, presuming that the low price drives away a number of the higher-cost suppliers, the price may rebound to about US\$90/metric ton.

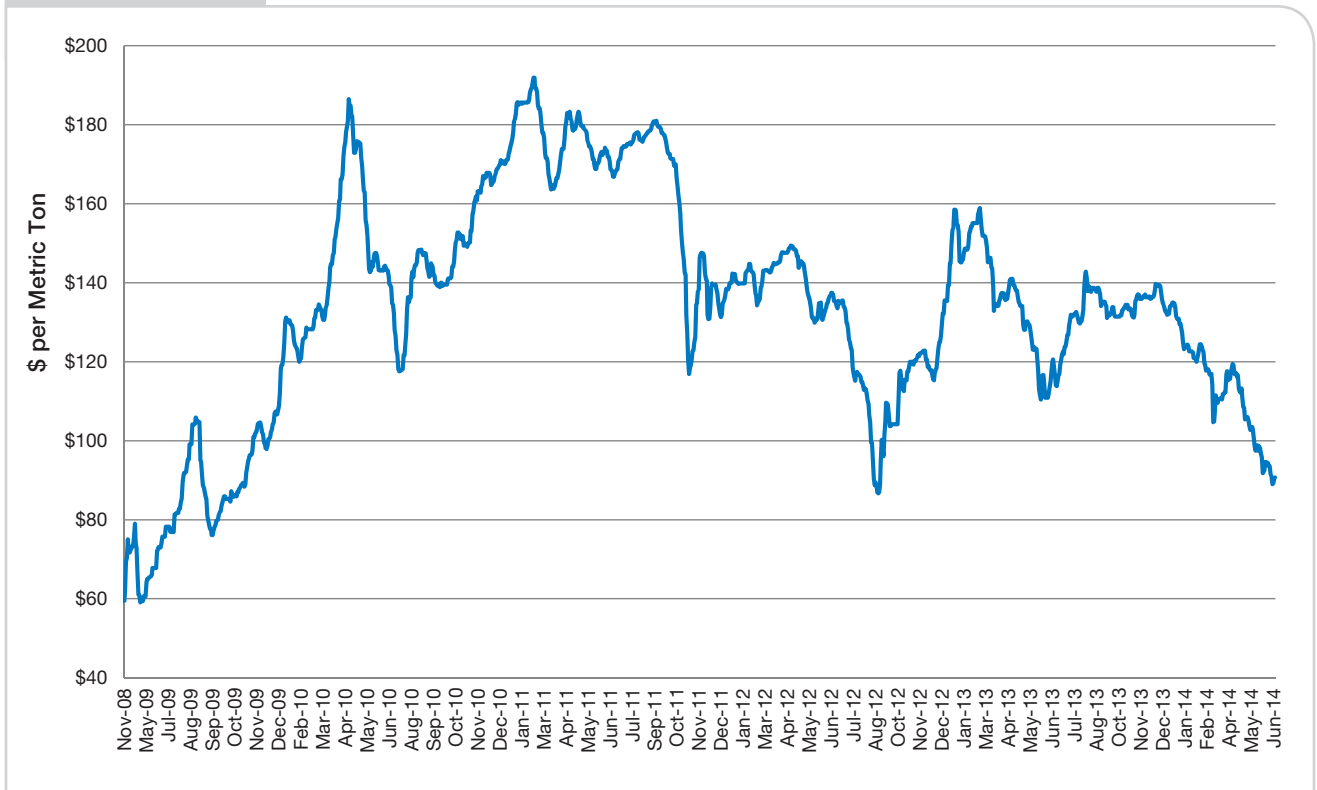
Near term, the iron ore price delivered to China in the next six months could drop to US\$70/metric ton, although this is not WSD's expectation. The current price is about US\$90/metric ton, down from US\$139/metric ton in December 2013 (Figure 1). The possible price range for the remainder of 2014 is substantial — i.e., US\$70–105/metric ton — in WSD's opinion. Given the volatility in the iron ore price, a sizable expansion in iron ore futures activity is expected because of the iron ore buyers' and sellers' need to hedge the price risk.

The ocean freight cost in the future to deliver iron ore from Australia to China is assumed to be about US\$8/metric ton, with that from Brazil at about US\$17/metric ton. Standard iron ore pellet is assumed to sell in the years ahead at about a US\$25–30/metric ton premium (currently about US\$40/metric ton) to the sinter feed price, while DR pellet (pellet for direct reduced iron plants) may sell at a 7–10% premium to the standard pellet price.

Reasons for a possible further price decline this year, as well as factors impacting the price longer-term, include:

- **Iron ore oversupply:** The global oversupply is huge at present, as: (a) iron ore capacity outside of China is still rising sharply; and (b) the largest iron ore producers are unwilling to significantly cut back output. The depreciation of Brazil's currency has lowered the relative cost to mine and pelletize iron ore in that country. Smaller iron ore sellers are creating additional downward pressure on prices by offering to sell their product at lower prices than the largest companies. Although the Chinese iron ore cost curve is steep based on WSD's World Cost Curve data, capital spending in the Chinese iron ore industry remains substantial at about US\$25–30 billion/year.
- **Slowing demand for iron ore:** Chinese steel demand growth has slowed and is likely near its plateau. It is expected that residential construction, which has been one of the crucial drivers of Chinese steel demand, is likely to drop by 2018 to 6–7% of GDP from 12–13% currently. Chinese

Figure 1



The Steel Index iron ore 62% Fe CFR China. Source: Bloomberg.

steel product exports have also probably reached an unsustainable peak at present at about 95 million metric tons annualized.

- **Chinese iron ore inventory:** Banks in China are apprehensive about their iron ore inventory loans. The number of Chinese iron ore traders is plummeting due to reduced access to bank financing.

- **A growing supply of steel scrap:** WSD believes that steel scrap prices are currently overpriced by perhaps US\$50/metric ton, and that prices will come under even greater pressure over the next decade as scrap recovery grows rapidly in China. If the steel scrap price drops sharply, it will become far more competitive for use in BOF steelmaking furnaces in China and elsewhere. ♦

Did You Know?

Middough Achieves Safety Milestone

Middough Inc., a top-ranking U.S. engineering, architecture and management services company, announced that it has achieved 5,000,000 hours of safe work with no recordable injuries. This milestone represents the outcome of a corporate culture whose core is safety.

As the company approaches its 65th year in business, Middough has been vigilant about safe work environments for its employees and clients around the world for decades. In an ever-changing landscape of new codes and regulations, the company has striven to provide safe working conditions throughout its facilities, and has trained its employees to be safety focused when working at client locations. This milestone comes on the heels of receiving five significant environmental, health and safety (EHS) industry awards for work performed last year.

The company introduced its “Safe By Choice” EHS excellence program a few years ago to develop its EHS culture. As a result, Middough has improved communication, collected and capitalized on leading indicator data, improved training, and invested more time in promoting safe work practices and healthy lifestyles.