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back

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Iron ore boom to roll on

Prices could rise 20 per cent as Pilbara output hits record

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The good times for Australian iron ore miners are set to keep rolling at least until the end of the decade, as Chinese demand shows no sign of slowing.

According to the latest research by US investment bank Citigroup, iron ore prices are expected to rise at least 20 per cent over the next two years and could rise that amount next year alone.

"Tight market conditions are expected to prevail over the next two years, pointing to a 20 per cent increases in prices, however, there are a number of additional considerations lending further price support in the shorter term," Citigroup said.

"We have taken the view therefore that producers will front-load the price increase (and) now expect prices to increase 20 per cent in 2008-09 and to be flat the year after."

Citigroup's revised forecast follows upgrades by fellow banks UBS and Goldman Sachs pointing to cumulative rises of 10 to15 per cent over the next two years.

Should Citigroup's predictions prove correct and a sixth consecutive increase is agreed in price talks for next year, prices will have risen more than threefold since they last fell in 2002.

Premium Pilbara lump ore was then fetching around $US23 a tonne, while another 20 per cent increase next year would boost the price to around $US80/tonne.

At the same time, official figures from China have shown that Beijing's efforts to slow its rampant economy and ease domestic inflation are having minimal effect.

Iron ore imports jumped sharply to just over 100 million tonnes in the March quarter, keeping the full year total on track to rise 20 per cent to a record 400 million tonnes this year.

"I can definitely say it (the price) is going up," Fortescue Metals Group chief Andrew Forrest said on Friday.

"There is an unstoppable force about the demand from the steel industry and the failure of infrastructure to supply it."

That imbalance has already sparked a desperate Chinese response to gain greater sway over future negotiations and supplies.

With Beijing's approval, individual Chinese steel companies have been aggressively investing in new mines around the world for several years.

Last week, four of China's biggest steelmakers — AnSteel, Baosteel, Shougang Steel and Wuhan Iron & Steel — formally launched a dedicated joint investment vehicle to acquire foreign resources.

The company, Beijing Steel Industry United Mining Resources, would improve Chinese steelmakers' control over supply, AnSteel said.

AnSteel, which is already a partner in Gindalbie Metals' planned $1 billion Karara magnetite project east of Geraldton, said control of iron ore supplies had "for too long been in other people's hands", in turn creating "market instability".

"Steelmakers who don't have their own iron ore resources will not survive," Wuhan said in a statement.

The new company's initial venture will be at Preah Vihear in Cambodia.

Aside from Karara, Chinese companies are already backing new WA mines in the Pilbara at Cape Preston, Balmoral and Cape Lambert, and in the Mid-West at Koolanooka, Weld Range and Extension Hill.

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