

Iron Ore Market Shudders as Dam Disaster Spurs Supply Concerns 2019-01-29 06:53:11.129 GMT

By Krystal Chia

(Bloomberg) -- Iron ore investors are attempting to gauge the fallout from the dam burst at one of Vale SA's mines, amid concerns the disaster will have ramifications beyond the affected operation in Brazil that could tighten the market in the short term and offset weakness from a slowdown in China. Futures on the Dalian Commodity Exchange extended gains on Tuesday to head for the highest close in more than a year, after the benchmark price for immediate delivery surged to \$78.80 a ton on Monday, the highest level since March. Shares of Australia-based miners rallied, with gains for BHP Group, Rio Tinto Group and Fortescue Metals Group Ltd.

In Brazil, "it seems likely that there will be an extensive increase in safety tests over the coming weeks and months," Capital Economics Ltd. said in a note, raising its end of first quarter forecast to \$75 a ton. "These tests may highlight other vulnerabilities in the system that could lead to temporary cutbacks at one or more mines until the issues are addressed."

Iron ore is set for a second monthly gain following Friday's disaster, which prompted a 25 percent rout in Vale's shares on Monday as investors weighed the likely costs and penalties for the mining giant. The dam burst has led to the suspension of the Feijao mine in Minas Gerais, one of Vale's smaller operations that produced 7.8 million tons of ore in 2017, or about 2 percent of its total. The concern is affected tonnages will be higher, aiding Vale's rivals.

Increased Inspections

Lost output could be double the 8-million-ton mark given the likelihood of increased inspections, according to Jeremy Sussman, an analyst at Clarksons Platou Securities Inc. "We wouldn't be surprised to see a push to \$80-a-ton-pricing in the near term," he said, up from a previous forecast of \$75.

On Tuesday in Sydney, BHP shares rallied as much as 2.2 percent, while Fortescue advanced as much as 6.7 percent and Rio also gained. The local market was closed on Monday for a national holiday.

Heading into the year, the global seaborne market -- which totals more than 1.5 billion tons -- was seen set for a small surplus. In projections this month before the dam failure, Macquarie Wealth Management estimated supply would top demand by 36 million tons in 2019, and just 4 million tons in 2020.

There's speculation the latest incident may hinder efforts

by Vale and BHP to restart operations at their Samarco joint venture in Brazil -- which has been offline since a similar dam burst in 2015 -- as well as crimping recently restarted operations at Anglo American Plc's Minas Rio project. The dam burst has cast "serious doubt" on the Samarco restart, according to Sussman.

"We believe regulation will get much tougher in the country -- potentially impacting existing operations and projects," BTG Pactual said in a Jan. 27 note, referring to Brazil. "The trend of moving to dry-processing technologies (not dependent on tailings dams) seems irreversible to us."

Waste Material

Any sweeping review of the management of waste material could have an impact on all miners operating in Brazil, Citi Research said in a note. Companies including Anglo American, Alcoa Corp. and Kinross Gold Corp. are among those with assets in the nation.

Capital Economics flagged the possibility that iron ore prices may advance in the near term beyond the level justified by fundamentals on a "degree of fear" among steelmakers needing to secure supplies. Still, it cautioned that further into 2019, prices may drop back to \$60 as top importer China cools.

*T

=====

More on the Disaster

=====

Vale's Management Team on Thin Ice as Spill Fallout Snowballs
Vale Plunges as Dam Disaster Leads to Dividend Suspension
200 Missing as Dam Breaks, Echoing 2015 Brazil Tragedy

*T

Vale's disaster is the latest in a series of incidents to have roiled the global supply chain. Earlier this month, a fire broke out at a port facility owned by Rio, and in November a train derailment hit BHP's Pilbara operations. Miners typically maintain stockpiles both at mines and ports to help weather outages.

Vale may have options across its entire network of mines -- including its new S11D site -- to offset of the impact from the disaster. The Rio de Janeiro-based company has operational flexibility, with a theoretical capacity of about 450 million tons a year, higher than current sales, according to Citi.

"The key thing is to deal with the aftermath, but you cannot immediately replace the tonnage," said Philip Kirchlechner, director at Iron Ore Research Pty. He added: "Even if they could ramp up from another mine, it's difficult to say

if customers can adjust their purchases.”

--With assistance from David Stringer and R.T. Watson.

To contact the reporter on this story:

Krystal Chia in Singapore at kchia48@bloomberg.net

To contact the editors responsible for this story:

Phoebe Sedgman at psedgman2@bloomberg.net

Jake Lloyd-Smith, Jason Rogers