+--
--------+

Vale Says India May Play a Bigger Role in Iron-Ore ’Tightness’
2010-10-28 02:00:01.2 GMT

By Juan Pablo Spinetto and Jessica Brice

Oct. 28 (Bloomberg) -- Vale SA, the world’s biggest iron- ore producer, said India may play a bigger role in ensuring a “tight” future market for the steelmaking ingredient as it boosts infrastructure spending and becomes more urbanized.

India “could come to contribute in a relevant way to the heating up of the iron-ore market in the medium-term,” Vale said. “We expect the iron-ore market to stay heated in the near future, given the lack of significant growth in supplies of high-quality iron ore and rising demand in China.”

Vale said yesterday its third-quarter profit more than tripled, mostly because prices for the steelmaking raw material surged. China accounts for 46 percent of Vale’s iron-ore and pellet sales, while Japan takes 10 percent, South Korea buys 4.8 percent and India and other Asian nations receive 3.7 percent.

The company based in Rio de Janeiro is boosting capacity at Carajas, the world’s largest iron-ore mine, and may surpass OAO GMK Norilsk Nickel as the world’s largest nickel company next year, Chief Executive Officer Roger Agnelli said Oct. 20.

Third-quarter profit climbed to $6.04 billion, or $1.13 a share, from $1.68 billion, or 31 cents, in the year-ago period, Vale said yesterday in a regulatory filing. The company was expected to post per-share profit of $1.03 on an adjusted basis, according to the average of 13 analysts in a Bloomberg survey.

Quarterly profit topped a previous record of $5.01 billion in the second quarter of 2008.

Surging Prices

Vale and rivals BHP Billiton Ltd. and Rio Tinto Group this year broke with a system of setting iron-ore prices once a year in favor of quarterly agreements. Prices more than doubled in the quarter to $128.21 per ton, from $57.23 a year earlier, Vale said. Sales volumes were little changed at 68 million tons, compared with 66.8 million tons in the year earlier period.

The iron-ore market will likely remain “tight” in the near future because of a lack of new supply and increasing demand from China, the world’s largest consumer. The nation is looking to higher ore grades such as those from Brazil because it can help reduce the nation’s energy usage, according to Vale.

India is a “potential important contributor to medium-term tightness of the iron ore market,” Vale said. The country’s urbanization rate is 30 percent compared with China’s 47 percent, its industry is small in relative terms and the government plans to boost infrastructure spending, Vale said.

“The supply and demand balance continues tight and will continue so in the coming years” as global steel output recovers, Juliano Navarro, an analyst at Banco Espirito Santo SA in Sao Paulo, said by telephone before the results were announced. “The fundamentals are very good.”

Vale fell 48 centavos, or 1 percent, to 48.72 reais in Sao Paulo trading yesterday. The stock rose 15 percent this year, more than a 2.9 percent gain for Brazil’s benchmark Bovespa index. The results, based on U.S. generally accepted accounting principles, were released after the end of regular trading.

‘Full Capacity’

“Our operations around the world are working at full capacity,” Agnelli said last week at an investor event in New York. Vale is “in the best moment of our history,” he said.

Vale is planning to start producing the mineral from Guinea’s Simandou project by the end of 2012. The company is also investing to expand production of non-ferrous minerals, including copper and fertilizers.

Vale said Oct. 18 that third-quarter iron-ore output increased 24 percent amid rising demand. The company produced 82.6 million tons of the steelmaking raw material in the quarter, the highest since record output of 85.8 million tons in the third quarter of 2008.

Carajas Output

Carajas’s output rose 21 percent to a record 27 million tons after the end of some operational problems in the port terminal of Ponta da Madeira, Vale said. An improvement in the performance of the Carajas railway and the end of the rainy season in the Amazon also contributed to the increase, the company said in a regulatory filing last week.

Vale is selling all its output and benefiting from growth in China, South Korea and Brazil, Agnelli said. Demand for metals in Europe is “only okay” and “not getting worse,” he said.

For Related News and Information:
Top Metals Stories: METT <GO>
To see more Vale Stories: VALE3 BZ <GO> CN Most-read Brazil News: MNI BRAZIL <GO>

--Editors: Robin Saponar, Dale Crofts

To contact the reporters on this story:
Juan Pablo Spinetto in London at +44-20-7073-3590 or jspinetto@bloomberg.net; Jessica Brice in Sao Paulo at +55-11-3048-4533 or jbrice1@bloomberg.net

To contact the editor responsible for this story:
Dale Crofts at +54-11-4321-7735 or dcrofts@bloomberg.net