Iron Ore Rallying Most Since ’10 as China Rebounds: Commodities
2012-12-27 10:23:23.722 GMT

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By Phoebe Sideman and Isaac Arnsdorf

Dec. 27 (Bloomberg) -- Iron ore is rallying the most in about two years as analysts predict that China, the biggest buyer, will import a record amount in 2013 as its accelerating economic growth spurs demand for steel.

Trade to China will climb 6.9 percent to 778 million metric tons in 2013, or 65 percent of all shipments, according to the median of 10 analyst estimates compiled by Bloomberg. Seaborne demand will exceed supply for at least a 10th year, Morgan Stanley data show. Prices will climb as much as 26 percent to $170 a ton by June, according to Justin Smirk of Westpac Banking Corp., who correctly predicted this year’s slump and was the most accurate industrial-metals forecaster tracked by Bloomberg.

Prices tumbled to a three-year low in September as China slowed for seven consecutive quarters, before rallying 56 percent since then on mounting confidence the nation’s growth will accelerate for at least the next six months. The rebound will boost earnings for suppliers and Vale SA, the biggest exporter, is expected to report a 19 percent increase in profit next year, analyst estimates compiled by Bloomberg show.

“We’re confident to stay bullish for now,” said Smirk, the economist at Westpac in Sydney who beat as many as 25 others in predicting metals prices for two consecutive quarters on a rolling two-year basis. “We’re seeing the recovery come through in China. They’ve made a switch to their policy adjustments from being contractionary to be more stimulatory.”

London Dry

Ore at China’s Tianjin port, a global benchmark, was last at $135.40, for an annual drop of 2.2 percent and a fourth- quarter average of $119.56. The Standard & Poor’s GSCI gauge of 24 raw materials gained 0.3 percent and the MSCI All-Country World Index of equities rose 13 percent. Treasuries returned 2 percent, a Bank of America Corp. index shows.

The Tianjin price will average $119 in the first quarter and $122 in the following three months, the medians of 14 analysts’ estimates shows. Investors can trade swaps handled by brokers including SSY Futures Ltd., London Dry Bulk Ltd., GFI Group Inc., Clarkson Plc and Freight Investor Services Ltd. The derivatives market may total as much as 150 million tons this year, from 53 million tons in 2011, The Steel Index Ltd., which publishes the Tianjin price, said last month.

Seaborne trade will climb 6 percent to 1.18 billion tons next year, the same pace as in 2012, says London-based Clarkson, the world’s biggest shipbroker. Morgan Stanley estimates that seaborne demand will exceed supply by 28 million tons next year, extending a run of deficits going back to at least 2004. Global steel output expanded about 50 percent since then, according to MEPS (International) Ltd., an industry consultant.

Lowest Level

Steel production in China, equal to 47 percent of world output in the first 11 months, will expand another 6 percent in 2013, Credit Suisse Group AG estimates. Ore inventories at Chinese ports dropped 19 percent since the end of October to 71.32 million tons, the lowest level in more than two years, according to Beijing Antaike Information Development Co., a state-backed research company. That may spur imports as steel plants restock, says UBS AG.

China's manufacturing may expand at a faster pace in December, according to a preliminary reading on Dec. 14 by HSBC Holdings Plc and Markit Economics, adding to signs the economy is strengthening as a new leadership takes power. The government has approved projects for the construction of about 2,000 kilometers (1,250 miles) of roads, subways in 18 cities and extra spending on railways.

Steel Association

While China is rebounding, the 17-nation euro area and Japan have slipped back into recessions. They represent a combined 16 percent of global steel output, according to the Brussels-based World Steel Association. Steel production in the 27-nation European Union retreated 5.3 percent in November from a year earlier and in Japan fell 2.3 percent, the WSA estimates.

Demand also may weaken in the U.S., the third-largest steelmaker, should lawmakers fail to reach an agreement on more than $600 billion of tax increases and spending cuts that start automatically next month. The Congressional Budget Office says the lack of an accord risks sending the world's biggest economy back into a recession. President Barack Obama is due back in Washington from vacation today, according to a White House aide, as Congress returns to continue talks on a budget agreement.

Current ore prices are more than double the average cost of production in Australia and Brazil, the two biggest exporters, and above the $100 that Chinese mining companies pay to extract every ton, according to estimates from Credit Suisse and Australia & New Zealand Banking Group Ltd. That may spur Chinese miners to raise supply, diminishing demand for imports.

Capacity Glut

Rising prices and seaborne trade won't be enough to return ship owners to profit because of a glut of capacity. Rates for Capesizes, which carry more iron ore than any other class of vessel, slumped 82 percent this year, according to the Baltic Exchange in London, which publishes prices for 61 maritime routes. Earnings will average $12,250 a day in 2013, below the $15,500 that Pareto Securities AS says they need to break even, the mean of nine analyst estimates shows.

Chinese steel production rose 14 percent to 57.47 million tons in November from a year earlier, while the price of reinforcement bars used in construction climbed about 11 percent this month to the highest level since July on the Shanghai Futures Exchange. Ore imports were the second-highest ever in November at 65.78 million tons, customs data show.

Shares of Rio de Janeiro-based Vale rose 7.6 percent this year to 40.69 reais and will gain 20 percent to 49.02 reais in the next 12 months, according to the average of 12 analyst estimates. Net income will climb to 28.92 billion reais ($13.9 billion) next year, from 23.92 billion reais in 2012, the mean of seven analyst predictions shows.

Ore Exports

Profit at Rio Tinto Group, the second-largest exporter, will rise to $10.85 billion from $10.07 billion, according to the mean of 20 analyst estimates. Shares of the London-based company jumped 12 percent to 3,509 pence this year and will reach 3,868 in 12 months, the forecasts show.

Brazil's ore exports fell 0.9 percent to 294.3 million tons in the first 11 months as rain curbed output, government data show. Vale plans to invest the least in three years in 2013 and will cut production to 306 million tons from 312 million tons this year, the company said Dec. 3.

India's shipments may slump 25 percent to 38 million tons in 2013, Australia's Bureau of Resources and Energy Economics said Dec. 12. The state of Goa, which exports more than half the country's ore, banned all mining in September after a panel said the province lost money because of illegal work.

China's miners may struggle to make up for any shortage in seaborne supply because they produce ore that contains about 20 percent iron, compared with 62 percent internationally, according to HSBC estimates and data compiled by Bloomberg Industries. Domestic ore output dropped 3.4 percent in the past two months, National Bureau of Statistics data show.

"It's not a screaming bull year, it's just a modestly bullish year," said Tom Price, a commodities analyst at UBS in Sydney. "The next six months will be fairly active and positive for iron ore trade."

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