Iron Ore Rally Enters Bull Market as China Rebuilds Inventories
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By Phoebe Sedgman
July 26 (Bloomberg) -- Iron ore entered a bull market after China replenished inventories and boosted steel output.
Ore with 62 percent iron content delivered to Tianjin gained 0.4 percent to $132.60 a ton, the highest since April 30, according to data from The Steel Index Ltd. The price has rebounded from the low of $110.40 on May 31, meeting the common definition of a bull market for a climb of more than 20 percent.
The rally, which will bolster earnings at producers including BHP Billiton Ltd., may be short-lived as banks from Citigroup Inc. to UBS AG forecast that prices will drop as miners ramp up supply. Morgan Stanley predicts a return to a global surplus in 2014, the first since 2010. Ore delivered to the Chinese port city entered a bear market in May on concern slowing growth in the world's biggest buyer would curb demand.
Stockpiles at Chinese ports rebounded from 66.26 million tons on March 8, the lowest since March 2009, to 71.67 million tons on July 12, according to Beijing Antaike Information Development Co. Port holdings climbed 5.1 percent in the second quarter, the biggest three-month gain in two years.
China's first-half crude-steel output rose 7.4 percent to 390 million tons, the National Bureau of Statistics said July 15. Ore imports rose 5.1 percent to 384.3 million tons in the first half from a year earlier, customs data show. Exports from Australia's Port Hedland, the world's biggest bulk terminal, hit a record in May, with China's purchases at an all-time high.

Price Outlook

"The drivers behind the extension of iron ore's short-covering rally are, we believe, idiosyncratic rather than representative of underlying strength," Credit Suisse Group AG analysts led by Ric Deverell said in a July 16 report. Short-covering refers to investors reversing bets on losses. "We maintain our view that bearish fundamentals will reassert themselves" through the second half, they said.
China's economy grew 7.5 percent in the second quarter from a year earlier, slowing for a second straight period. JPMorgan Chase & Co. cut its 2013 growth estimate to 7.4 percent, joining Goldman Sachs Group Inc., HSBC Holdings Plc and Barclays Plc in predicting the weakest growth since 1990.
Global seaborne supply may increase 6 percent this year and 15 percent next year, driven by increases from Rio Tinto Group and Fortescue Metals Group Ltd., UBS said on July 9. The bank

forecasts that prices may drop as low as $70 this quarter. That would be the lowest level since June 2009.

Seasonally Weakest

Citigroup forecasts that prices will average $115 a ton this half, while Macquarie Group Ltd. expects an average of $120. In the first six months, ore averaged $136.97. Australia & New Zealand Banking Group Ltd. said in a July 16 report that the third quarter tends to be seasonally weak for iron ore demand.

A repeat of the slump last September, when ore fell to a three-year low of $86.70, is unlikely this year amid low inventories at steel mills and ports in China, according to Morgan Stanley. Prices will average $128 a ton this quarter and $125 in the final three months, it says.

The global seaborne market will swing from a deficit of 91.5 million tons this year to a surplus of 8.8 million tons in 2014, increasing to 69.1 million tons in 2015 and 152 million tons in 2017, according to a Morgan Stanley report on June 25. Iron ore is the biggest seaborne cargo after oil.

Rio Tinto said July 16 that second-quarter iron ore production rose 7 percent to 51.8 million tons from a year earlier. The expansion of its Australian operations to 290 million tons of annual capacity is on track to start this quarter, it said. BHP, the world’s biggest mining company, said July 17 that its fourth-quarter iron ore production gained 17 percent, pushing annual output to a 13th straight record.

Australia and Brazil are the biggest exporters, accounting for about 78 percent of global seaborne supply last year, according to Morgan Stanley. Rio de Janeiro-based Vale SA is the world’s biggest shipper followed by Rio Tinto and BHP.

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