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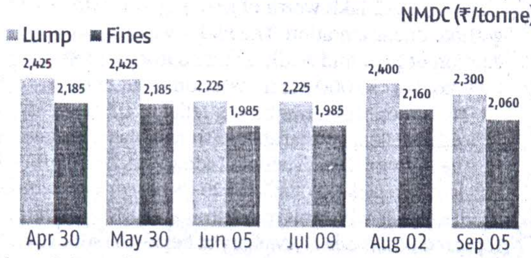
Steel mills see room for further iron ore price cut

BENCHMARK IRON ORE PRICES



Source: Exchange filings, Websites; Compiled by BS Research Bureau

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Mumbai, 10 October

Faced with a minuscule cut in iron ore prices by NMDC, which did not match the global price decline for September, domestic steel mills see a potential of a further cut in the price of the primary steelmaking raw material in the near future.

The benchmark iron ore with 62 per cent Fe content reported a decline of a staggering 21.4 per cent in the global markets in September to close the month at $62.1 a tonne. Similarly, iron ore fines with 58 per cent purity closed with a decline of 17.5 per cent in September at $46.4 a tonne.

By contrast, however, the public sector iron ore miner NMDC cut its benchmark iron ore prices by ₹100 across both segments, lumps and fines, for October. With the current price cut, iron ore lumps and fines are now quoted at ₹2,300 a tonne and ₹2,060 a tonne, respectively. Normally, the government-owned NMDC revises iron ore prices for Indian steel mills based on the prices in the global markets during the previous month along with demand from local steel mills.

Iron ore prices fall in global markets due to oversupply and lower demand resulting from expected fall in steel output in China

"NMDC's iron ore price cut for October 2017 has been much lower than the global price decline of the steelmaking raw materials for September. This means there is wide room for a further price cut. But, given that domestic demand remained robust with supply being limited, the price cut may not be as sharp as seen in the global markets," said a senior executive of a merchant mining company.

"Prices of both flat and long products in India have been under pressure and have been declining for the past three to four weeks, whereas iron ore remained firm. This will benefit integrated players like Tata Steel while non-integrated players will remain vulnerable to strong iron ore pricing," said Goutam Chakraborty, an analyst with Emkay Global Financial Services.

Iron ore prices declined in global markets due to continued oversupply and lower demand resulting from expected reduction in steel production in China. Beijing's war on winter smog, if implemented as promised — if all 28 cities covered by the restrictions and slash production by 50 per cent — will reduce crude steel output by nearly 45.67 million tonnes, which forms around 6 per cent of China's total output. In real terms, however, there has been no cut in production capacity in China. So iron ore prices are falling on expectations of oversupply, while steel prices are firming up on expectations of a production cut.

The rally in steel prices is more speculative (a result of vast financial inflows into commodities trading) than based on fundamentals. There has been no real reduction in steel production by China. In fact, steel production rose by 6 per cent so far this calendar year to 567 million tonnes.

"NMDC is following differential iron ore pricing. The price differential between Odisha and Karnataka works out to as high as ₹1,600 a tonne. Iron ore pricing in India is quite arbitrary. Production is highly regulated with the Supreme Court setting a maximum output target of 30 million tonnes in Karnataka. While supply is constrained, demand continues to remain robust. Thus the pricing power has shifted in favour of miners," said Seshagiri Rao, joint managing director and group chief financial officer, JSW Steel.