



australian commodities

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metals

appreciation of Australian dollar to affect export earnings

steel and steel making raw materials

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Global production of crude steel is estimated to be 1.34 billion tonnes in 2007 – nearly 8 per cent higher than in 2006-07 – and is forecast to grow by 6 per cent in 2008 to 1.41 billion tonnes. China remains the main driver of growth in world steel production and is expected to account for around 70 per cent of the increase in world steel output in both 2007 and 2008. Strong growth in steel production is also expected in India, Brazil and the Russian Federation.

The positive outlook for global steel production will support increased demand for steel inputs, principally iron ore and metallurgical coal.

steel making raw material prices to rise in 2008-09

metallurgical coal

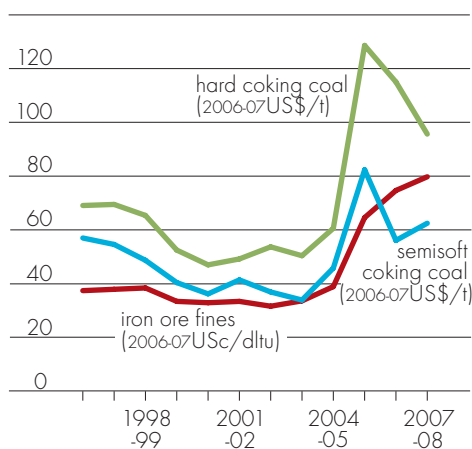
Following a decline in 2007-08, a substantial rise in metallurgical coal contract prices is expected for the 2008-09 Japanese financial year (JFY, April-March) because of strong global demand for coal and supply difficulties resulting from congestion in Australian coal supply chains.

World metallurgical coal demand is strong, driven mainly by expanding steel industries in China and India. However, growth in world demand for metallurgical coal has not been met by a corresponding increase in Australian coal export infrastructure, resulting in long shipping queues at Australian coal ports. High demand for metallurgical coal combined with supply constraints indicates that contract prices are likely to rise during the upcoming negotiations.

iron ore

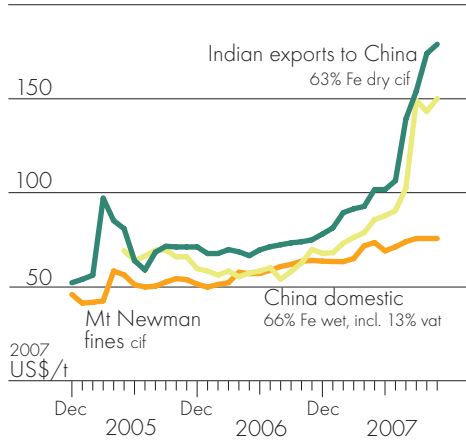
Iron ore prices are expected to rise substantially in the upcoming round of contract negotiations for JFY 2008-09. This would be the sixth consecutive year of

raw material prices



iron ore prices

monthly, ended November 2007



price increases for iron ore fines and lump. Factors that are expected to contribute to a rise in iron ore prices include strong growth in global iron ore demand, led in particular by production growth in China's steel industry, rising iron ore production costs, the introduction of an iron ore export duty by the Indian Government and a significant depreciation of the US dollar over the past year.

China's iron ore import prices indicate that the current divergence between spot and contract prices is likely to underpin price rises at the 2008-09 negotiations.

During 2007, the spot price of Indian iron ore imported by China has risen from around US\$80 a tonne (cif) to US\$180 a tonne (cif). The difference between the landed cost of Australian iron ore sold on a contract basis to China and Indian iron ore sold on a spot basis in China is now greater than US\$100 a tonne.

shipping freight rates

Higher freight rates in 2007 have imposed significant cost increases on steel producers. From January to August 2007, spot freight rates between Australia and China rose by 48 per cent, or US\$8 a tonne, while spot freight rates from Brazil to China rose by 83 per cent, or US\$27 a tonne. Japanese and European steel mills tend to have long term shipping contracts that partly insulate them from rising shipping costs. In contrast, very few Chinese steel mills have long term shipping contracts, leaving them exposed to movements in spot freight rates.

iron ore pricing

The bulk of the world's seaborne iron ore exports is sold under contract, with changes in iron ore prices revised on an annual basis following negotiations between the major iron ore producers (Vale, Rio Tinto and BHP Billiton) and steel mills in Japan, western Europe and China. The negotiations typically start around November each year and continue for several months. Once an agreement is reached (historically for iron ore fines delivered to Japan) the price increases for other types of iron ore and other market segments are usually settled with reference to this benchmark price.

The rapid growth of China's steel industry over the past decade (and particularly the rapid growth in China's steel production since 2000) has changed the dynamics of global steel and iron ore markets, especially in the setting of iron ore prices. During the 2007-08 negotiations, Chinese steel mills were the first to settle the iron ore price, which then became the benchmark. This was the first time that Chinese steel mills had been the first to settle. Given that China is now the world's largest iron ore importer, Chinese mills may continue to be the benchmark price setters.

steel prices to remain high in 2008

In 2008, world steel prices are expected to remain high, reflecting higher steel making costs and growing steel demand. Steel making costs are expected to rise as a result of high freight costs and higher prices for iron ore and metallurgical coal, the two key steel making ingredients.

steel consumption

World crude steel consumption is estimated to be 1.30 billion tonnes in 2007, around 7 per cent higher than in 2006, and is forecast to rise by 6 per cent in 2008 to 1.38 billion tonnes. China continues to be the most important driver of global steel consumption, with consumption estimated to be around 448 million tonnes in 2007 and about 493 million tonnes in 2008. This means that China would account for 60 per cent of growth in global steel consumption in 2007 and 56 per cent in 2008.

The construction sector accounts for more than half of China's steel consumption. Demand for steel from the construction sector is expected to continue to grow strongly as the economy expands and the building of new factories and industrial buildings continues apace. China's ongoing urbanisation will also contribute to substantial growth in infrastructure and housing construction.

Japan's steel consumption is estimated to have remained stable in 2007 and is forecast to grow by only 2 per cent in 2008 to around 88 million tonnes. This low growth reflects an expected slowing in domestic construction activity flowing from changes to Japanese laws that tighten building approval procedures.

Steel consumption in the United States is forecast to rise slightly from an estimated 115 million tonnes in 2007 to 116 million tonnes in 2008. The low rate of growth (less than 1 per cent in both 2007 and 2008) is attributable mainly to weak steel demand from construction and manufacturing industries. Steel demand from the US construction industry has weakened because of a downturn in residential construction associated with the problems in the subprime mortgage market. Housing permits and starts, which are leading indicators of residential construction activity, have continued to fall, indicating that the decline in residential construction activity will continue into 2008. Steel demand from the US manufacturing sector has also been weak, as competition from imported manufactured goods has resulted in reduced steel orders from domestic manufacturers. However, if the US dollar continues to decline, then US manufactured goods are likely to become more competitive with imports, providing potential support for domestic steel production.

In India, favourable government policies and economic conditions have contributed to an estimated 11 per cent increase in steel consumption in 2007 to 53 million tonnes. Steel consumption is forecast to rise by a further 10 per cent in 2008 to 58 million tonnes. One of the aims of the government's national steel policy is to increase steel consumption per person to 165 kilograms by 2020 (from 42 kilograms in 2006). Large investments are required to improve India's road, rail, port, airport, power generation and pipeline infrastructure, which underpins growth in steel intensive construction.

steel production and raw material demand

In the first ten months of 2007, world crude steel production rose by 8 per cent year on year to 1.1 billion tonnes. Declining steel production in north America was more than offset by increases in all other regions. For 2007 as a whole, world crude steel production is estimated to grow by 8 per cent to 1.34 billion tonnes and is forecast to rise by a further 6 per cent in 2008 to 1.41 billion tonnes. Rising costs of iron ore and metallurgical coal are the main downside risk to steel production in 2008.

China

Steel production in China increased by 18 per cent year on year in the first ten months of 2007 to 409 million tonnes. For 2007 as a whole, China is estimated to produce 490 million tonnes of crude steel, up 16 per cent from the previous year.

world steel outlook

	2005	2006	2007 s	2008 f
	Mt	Mt	Mt	Mt
crude steel consumption				
European Union 27	182	194	199	203
United States	113	114	115	116
Brazil	19	19	20	21
Russian Federation	36	39	43	46
China	350	396	448	493
Japan	83	86	86	88
Korea, Rep. of	49	49	51	53
Chinese Taipei	24	24	25	26
India	41	47	53	58
world total	1 126	1 217	1 303	1 383
crude steel production				
European Union 27	196	206	211	213
United States	95	98	97	98
Brazil	32	31	33	35
Russian Federation	66	71	73	76
China	356	423	490	544
Japan	112	118	119	119
Korea, Rep. of	48	48	51	51
Chinese Taipei	19	21	21	21
India	38	43	49	54
world total	1 140	1 244	1 339	1 414

s ABARE estimate. f ABARE forecast.

metallurgical coal

With the startup of new steel making capacity, China's steel production is forecast to grow by a further 11 per cent in 2008 to more than 544 million tonnes.

India

Steel production in India is estimated to be 49 million tonnes in 2007, around 14 per cent more than in 2006. Production is forecast to grow by a further 10 per cent in 2008 to 54 million tonnes. Underpinning growth in India's steel production has been substantial investment in new steel making capacity to meet demand from infrastructure investments and the growing industrial sector.

Russian Federation

Steel production in the Russian Federation is estimated to be 73 million tonnes in 2007 (3 per cent up on 2006) and is forecast to rise by 4 per cent to 76 million tonnes in 2008. Russian steel mills have benefited from securing raw materials at relatively low costs from captive mines and selling steel products at high prices in markets such as western Europe. This has generated substantial cash flows for Russian steel producers, enabling them to invest in new or upgraded steel making facilities.

United States

In response to declining steel prices associated with competition from imported steel, US steel producers have had to cut production in 2007, resulting in an estimated fall in production of around 1 per cent to 97 million tonnes. However, the depreciation of the US dollar will increase the competitiveness of domestically produced steel relative to imports. As a result, US steel production is forecast to grow by around 1 per cent in 2008 to 98 million tonnes.

metallurgical coal consumption

strong growth in to continue in 2008

Global metallurgical coal consumption is estimated to be 764 million tonnes in 2007, an increase of 10 per cent from 2006, and is forecast to increase by 7 per cent in 2008 to 815 million tonnes. The majority of this increase is expected to occur in China, where consumption is estimated to grow by 13 per cent in 2007 and 11 per cent in 2008, reflecting growth in blast furnace output. Strong growth in steel production and a lack of domestic reserves is also underpinning growth in India's imports and consumption of metallurgical coal.

Indian metallurgical coal imports rising

Currently, just under half of India's metallurgical coal requirements are met through imports. However, with an expectation of strong growth in steel production and the low quality of domestic reserves of metallurgical coal, India's metallurgical coal imports are forecast to rise rapidly. Specifically, India's imports of metallurgical coal are forecast to increase by 18 per cent to 31 million tonnes in 2008, following an estimated increase of 40 per cent to 26 million tonnes in 2007.

outlook for world metallurgical coal trade

	2005	2006	2007 s	2008 f
	Mt	Mt	Mt	Mt
metallurgical coal imports				
European Union 27	51.8	53.0	52.9	54.0
Japan	56.6	60.1	63.5	64.1
China	7.2	8.7	8.2	16.5
Korea, Rep. of	20.6	20.1	21.7	21.7
Chinese Taipei	5.2	6.0	6.1	6.4
India	16.9	18.6	26.1	30.7
Brazil	13.7	13.4	15.2	16.1
world total	211.4	219.4	227.6	231.1
metallurgical coal exports				
Australia	124.9	124.4	136.3	139.0
Canada	26.7	24.6	25.2	25.9
United States	26.0	24.9	26.5	28.3
Russian Federation	10.0	10.4	10.1	9.0
world total	211.4	219.4	227.6	232.6

s ABARE estimate. f ABARE forecast.

metallurgical coal production

growth in Australian production and exports

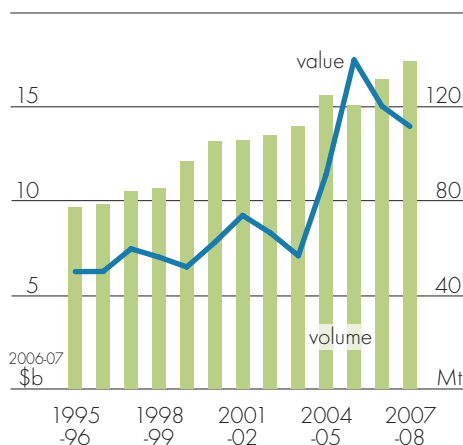
Australia's metallurgical coal production increased by nearly 7 per cent in 2006-07 to 142 million tonnes and is forecast to rise by a further 3 per cent to 147 million tonnes in 2007-08. The increases in Australian production of metallurgical coal reflect increased production from new operations.

In 2006-07, Australia's exports of metallurgical coal rose by around 10 per cent to 132 million tonnes. However, the value of exports declined by 12 per cent to \$15 billion as lower US dollar contract prices and a stronger Australian dollar more than offset the effect on earnings of higher volumes shipped.

In 2007-08, Australia's exports of metallurgical coal are forecast to increase by 4 per cent to 137 million tonnes, reflecting higher mine output and increased export capacity in Queensland. The value of Australia's metallurgical coal exports in 2007-08 is forecast to decline by 4 per cent to \$14.4 billion as higher export volumes are more than offset by lower 2007-08 contract prices and a stronger Australian dollar.

Capacity constraints in coal supply chains are the main threat to Australia achieving these export volumes. Throughout 2007, coal infrastructure in Queensland and New South Wales has not been sufficient to meet throughput forecasts, leading to long shipping queues at ports. However, capacity upgrades that are due for completion in late 2007 and early 2008 are expected to boost capacity and relieve some congestion.

Australian metallurgical coal exports



iron ore supply

Global iron ore production is estimated to be 1.61 billion tonnes in 2007, up 8 per cent from 2006, and is forecast to rise by a further 8 per cent to 1.75 billion tonnes in 2008. Australia, Brazil and China are expected to account for the majority of this increase as new iron ore projects and expansions come on line.

Australia and Brazil to increase dominance in iron ore supply

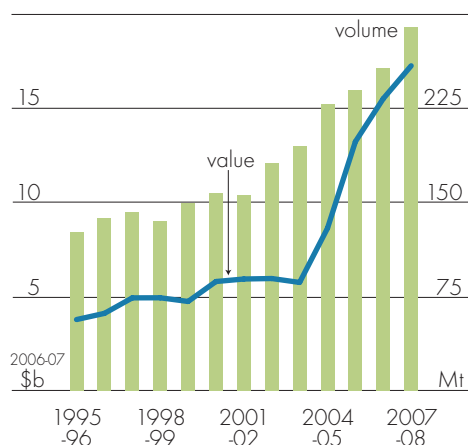
Reflecting large increases in production capacity, Australian iron ore exports are estimated to be around 269 million tonnes in 2007, up 9 per cent from 2006, and are forecast to increase by 13 per cent to around 305 million tonnes in 2008. Rising prices and export volumes are leading to substantial increases in iron ore export earnings. In 2006-07, earnings from Australian iron ore exports rose by 21

outlook for world iron ore trade

	2005	2006	2007 s	2008 f
	Mt	Mt	Mt	Mt
iron ore imports				
European Union 27	160	170	173	176
Japan	132	134	139	140
China	275	326	378	438
Korea, Rep. of	43	44	44	46
Chinese Taipei	15	15	16	16
world total	744	771	837	909
iron ore exports				
Australia	239	247	269	305
Brazil	223	247	283	319
India	81	86	91	88
Canada	28	28	30	30
South Africa	27	27	31	34
Sweden	18	18	20	22
world total	744	771	837	909

s ABARE estimate. f ABARE forecast.

Australian iron ore exports



per cent to \$15.5 billion and are forecast to rise by 16 per cent to \$18.0 billion in 2007-08.

Iron ore production in Australia increased by 24 million tonnes to 288 million tonnes in 2006-07 and is forecast to rise by a further 24 million tonnes to around 312 million tonnes in 2007-08. These increases are underpinned by substantial investment in iron ore exploration and development of new capacity over the past five years that was driven by rising iron ore prices.

Two new major sources of iron ore production in Australia in 2008 will be stage 1 of Rio Tinto's Hope Downs iron ore project (22 million tonnes a year) and Fortescue Metals' Chichester Range project (45 million tonnes a year), which is on schedule to begin shipping ore in May 2008.

In Brazil, iron ore exports are estimated to have risen by 15 per cent in 2007 to around 283 million tonnes and are forecast to increase by 13 per cent in 2008 to 319 million tonnes. Increases in Brazil's exports are

being driven by large investment in new capacity by Vale in response to strong demand from China.

Vale recently announced an investment budget of US\$3.3 billion for iron ore developments in 2008, including expansions to mine capacity and transport infrastructure. Much of the investment budget will be spent on expanding capacity at the Carajas mine to 130 million tonnes a year from its current capacity of 100 million tonnes. Overall, Brazil's iron ore production is estimated to have risen by 11 per cent in 2007 to 357 million tonnes and is forecast to increase by 13 per cent in 2008 to 402 million tonnes.

These increases in exports from Australia and Brazil are forecast to raise their combined share of global iron ore exports from 64 per cent in 2006 to 69 per cent in 2008.

strong growth in Chinese iron ore production and imports

Production of iron ore in China is forecast to increase by 15 per cent in 2007 to 318 million tonnes and by a further 12 per cent to 356 million tonnes in 2008. Despite this, China will still require large quantities of imported ore to meet demand from its growing steel industry. China's iron ore imports are estimated to rise by 16 per cent in 2007 to 378 million tonnes

and by a further 17 per cent in 2008 to 442 million tonnes. The majority of these imports will be sourced from Australia and Brazil.

Australian iron and steel outlook

		2005 -06	2006 -07	2007 -08 f	% change
Production					
Iron and steel s	Mt	7.87	8.01	8.33	4.0
Iron ore	Mt	263.8	287.7	311.5	8.3
Metallurgical coal	Mt	133.0	141.9	146.7	3.4
Exports					
Iron and steel	Mt	2.43	2.65	2.86	7.9
- value	A\$m	1 674	1 743	1 822	4.5
Iron ore	Mt	239.4	257.4	289.8	12.6
- value	A\$m	12 854	15 519	18 030	16.2
Metallurgical coal	Mt	120	132	137	3.8
- value	A\$m	17 003	15 035	14 382	- 4.3

See back tables for details. f ABARE forecast.

iron ore exports from India to fall in 2008

In March, the Indian Government imposed an export tax of 300 rupees (US\$7.30) a tonne on iron ore with an iron content of 63 per cent or more and a tax of 50 rupees (US\$1.20) a tonne on iron ore with an iron content of less than 63 per cent. India's iron ore exports to China appear to have been affected by the imposition of this tax, declining from a monthly high of 9.8 million tonnes in March 2007 to 4.7 million tonnes

in September. For 2007 as a whole, India's iron ore exports are estimated to total 91 million tonnes, an increase of over 5 per cent on the previous year, mainly because of strong growth before the export tax was imposed.

In 2008, India's iron ore exports are forecast to decline by 4 per cent to 88 million tonnes. The reduced supply of iron ore from India, the world's third largest exporter, is expected to contribute to upward pressure on global iron ore prices.

Indian iron ore exports to China
monthly, ended September 2007

