

Rio Tinto price proposals get mixed reception in China

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Small Chinese steel makers will probably accept a 95 percent rise in yearly iron ore prices by Rio Tinto, but bigger steel makers like Baosteel are expected to hold out for a better deal, industry experts said Tuesday.

Market expectations had been for increases of about 85 percent after rises of 19 percent in 2006 and 9.5 percent last year, and the sharp rise will most likely result in further steel price rises.

"Smaller Chinese steel mills will accept Rio's 95 percent price rise," a Chinese steel industry official said at a conference in Singapore. He asked not to be named because he was not authorized to speak to journalists. "They don't really have any choice. But Baosteel won't. They are under too much pressure from the government, and will hold out."

A senior iron ore trader for a Chinese state-owned company said some of the small mills have accepted a 95 percent price hike. "I don't think big mills will accept an increase above 85 percent," he said, asking not to be identified because he was not authorized to comment.

High global freight rates make Australian iron ore comparatively cheaper for Asian buyers than material shipped from Brazil, and Australian miners have been seeking higher prices.

"This rise not only reflects the freight premium, it may also reflect a little panic after the gas explosion in Australia that is causing concern about mine production in Western Australia" State, said John Meyer, head of resources at Fairfax.

Last week, Apache Energy cut natural gas supplies to Western Australia after an explosion and fire at its Varanus Island facility. That supplies to the state by 30 percent and pushed miners and metal producers to scramble to secure alternative energy sources.

Meyer said that the Chinese government would try to hold steel prices back but that steel price inflation in China was inevitable. "There is talk of a major international producer introducing a \$250-a-ton surcharge relating to energy and iron prices," he said. "If that goes through, others will follow."

Mark Pervan, an analyst at Australia and New Zealand Banking, said this sounded like a good outcome for Rio. "The market was looking for 85 percent with plenty of upside risk," he said. "The Chinese left the door open for this when they settled two different prices for Brazilian ore."

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