China faces 20% Vale hike
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Global inflation fears deepened yesterday as Vale of Brazil, the world's largest iron ore miner, asked Chinese steelmakers to pay as much as 20 per cent more for ore supplies in an unprecedented move in the middle of an annual contract.

The request comes well ahead of April 2009, when new prices normally apply, and in spite of a slowdown in economic growth. Iron ore prices surged earlier this year by the largest annual amount ever.

Vale's move comes as a broad sell-off in commodities, particularly oil, has brought hopes that lower raw materials prices could help boost a slowing global economy and ease inflationary pressures.

Chinese industry officials said Vale this week sent letters to several Chinese mills demanding an additional mid-cycle price increase of between 13 and 20 per cent from September 1. The increase is on top of a 65-71 per cent rise in February.

In June, Australian miners won an even larger price increase - up to 96 per cent -in negotiations with Chinese mills, to reflect the cost of shipping ore from Australia. Traders said that Vale's demand for an additional 20 per cent rise could partly reflect a drop in freight costs, which means that Brazilian ore delivered in China is now cheaper than earlier this year.

Vale declined to comment, only saying it was "constantly [talking] with clients aiming to reach satisfactory mutual conditions for commercial contracts".

Analysts said Chinese mills strongly opposed a price increase because of fears that domestic steel demand was slowing. But if they did agree to pay a higher price, they were likely to pass any rise in costs on to customers, even in a softer economy, driving the price of everyday goods such as cars or washing machines higher.

Baosteel, which negotiates with the miners on behalf of the Chinese mills, said it was preparing a response to Vale's demand.

Vale's negotiating stance, analysts said, could be an attempt to set the tone for next year's iron ore price negotiations, due to start late next month or early in November, when miners are expected to demand a 30 per cent increase.

Judy Zhu, an analyst with Standard Chartered in Shanghai, said that China's steel production growth further slowed to single digits in July, compared to a 14 per cent rise in the same period of 2007. "This has built a large surplus of iron ore in the domestic market," she said. "Spot iron ore prices should trend lower further to reflect the improving supply and demand balance."

But Sinosteel Trading Corporation said the Chinese mills' leverage was limited. "The suppliers have absolute bargaining power, which is largely a result of China's voracious demand for iron ore and other raw materials ... I'd say players in China will have to accept [the increase]," a company spokesman said.

Fonte: Financial Times, London, September 6 e 7 2008, Primeiro Caderno, p. 15.