

# Factors Driving the Global Iron Ore Market



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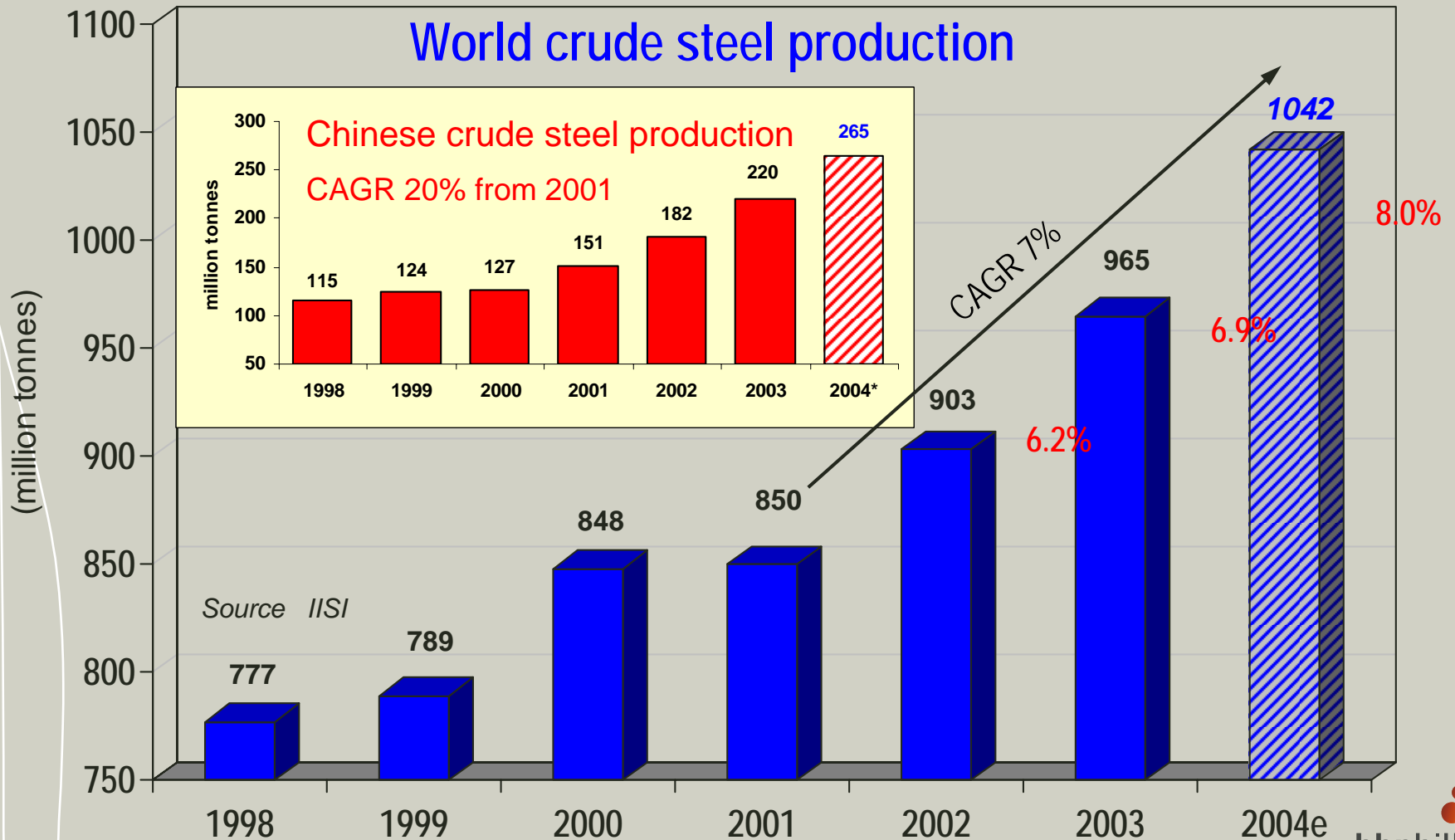
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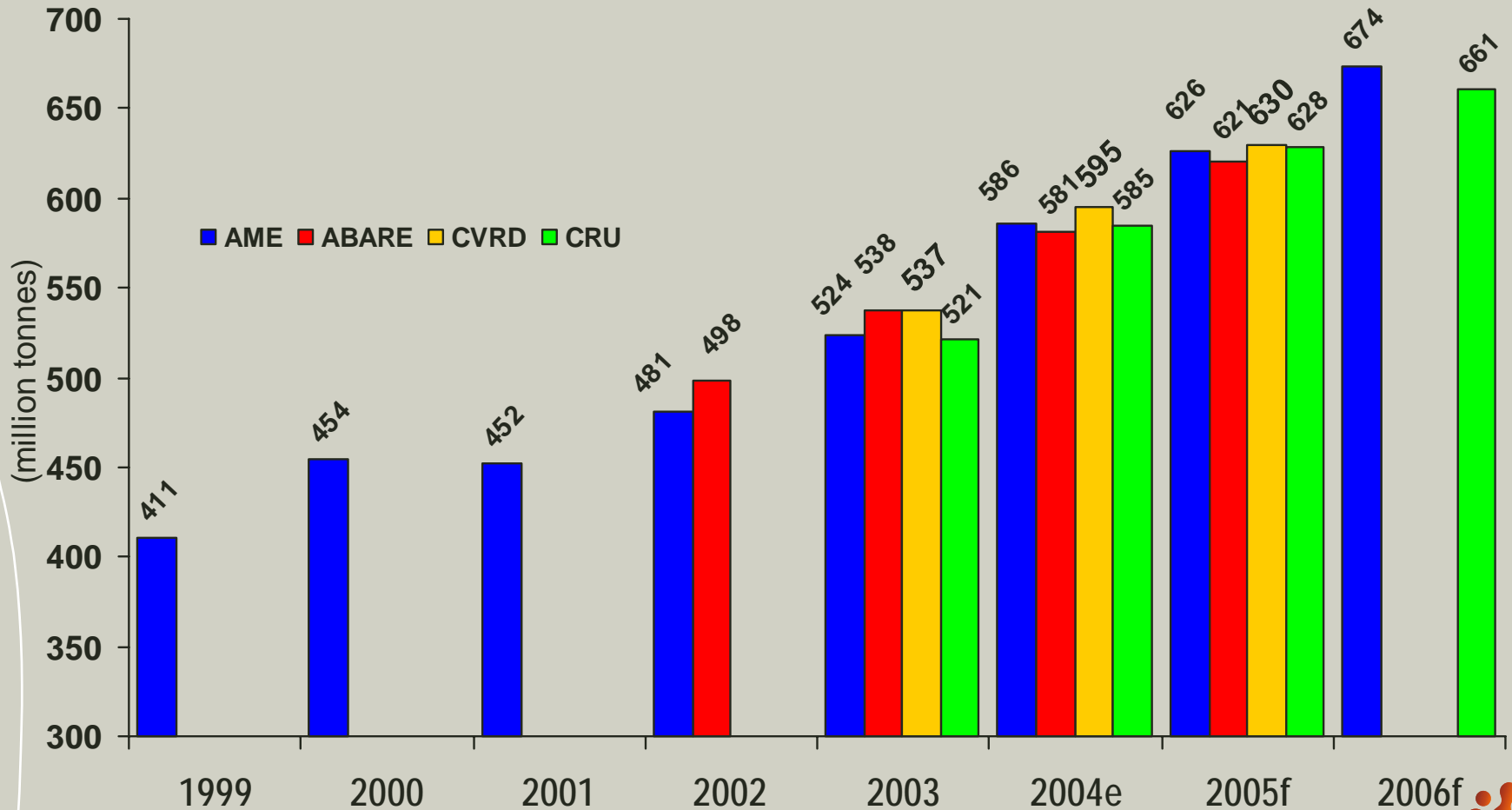
# The Steel Industry has experienced sustained rapid growth

**Global steel growth has shown a major uplift since 2001, predominantly due to Chinese demand and production growth, outlook is for continued robust growth**



# Seaborne Iron Ore shipments have followed

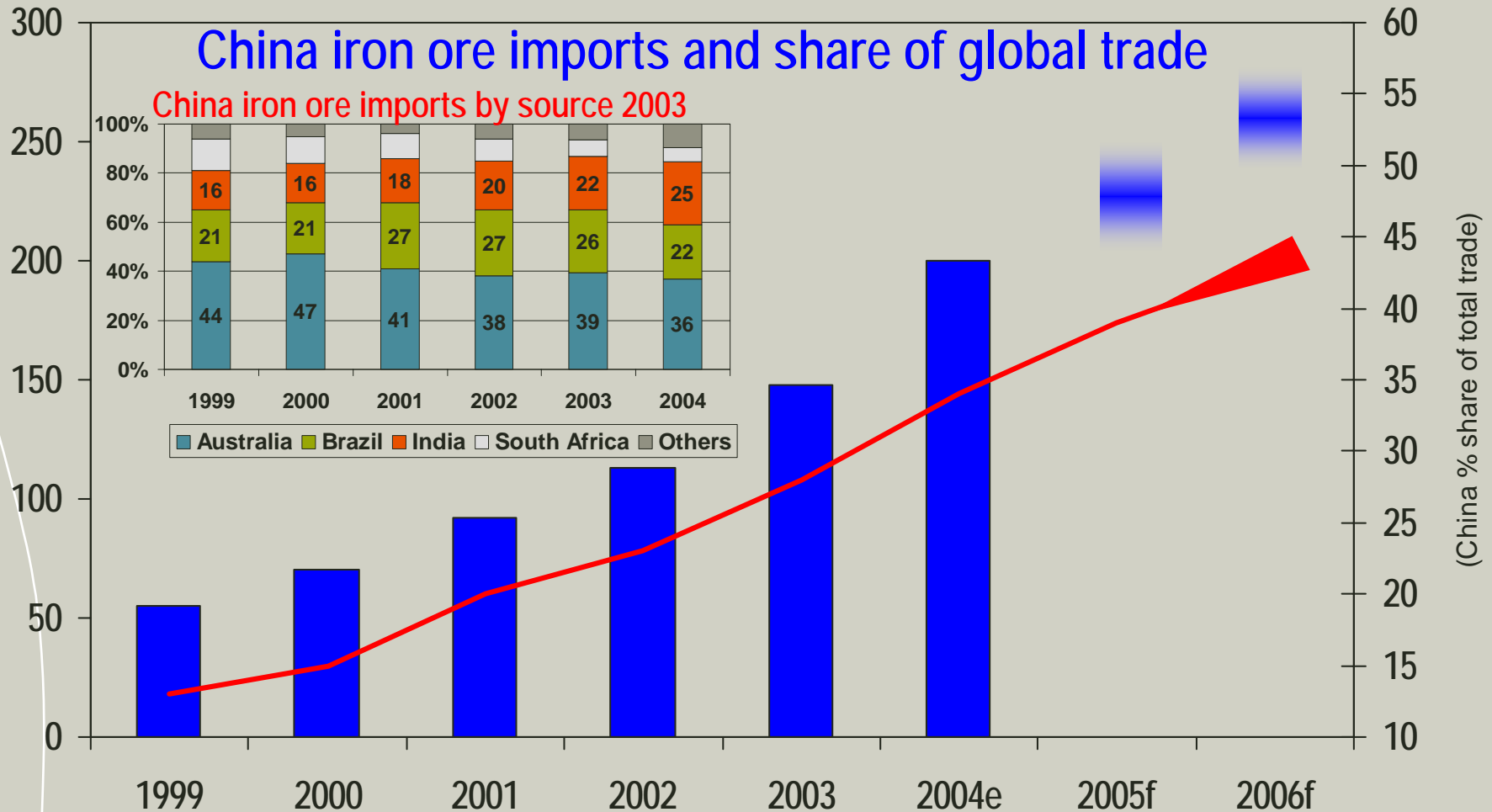
**Global iron ore trade has grown faster than steel production at ~10%/pa from 2001 and the outlook is forecast to continue to grow at rates over 7%/pa**



Source: AME/ABARE

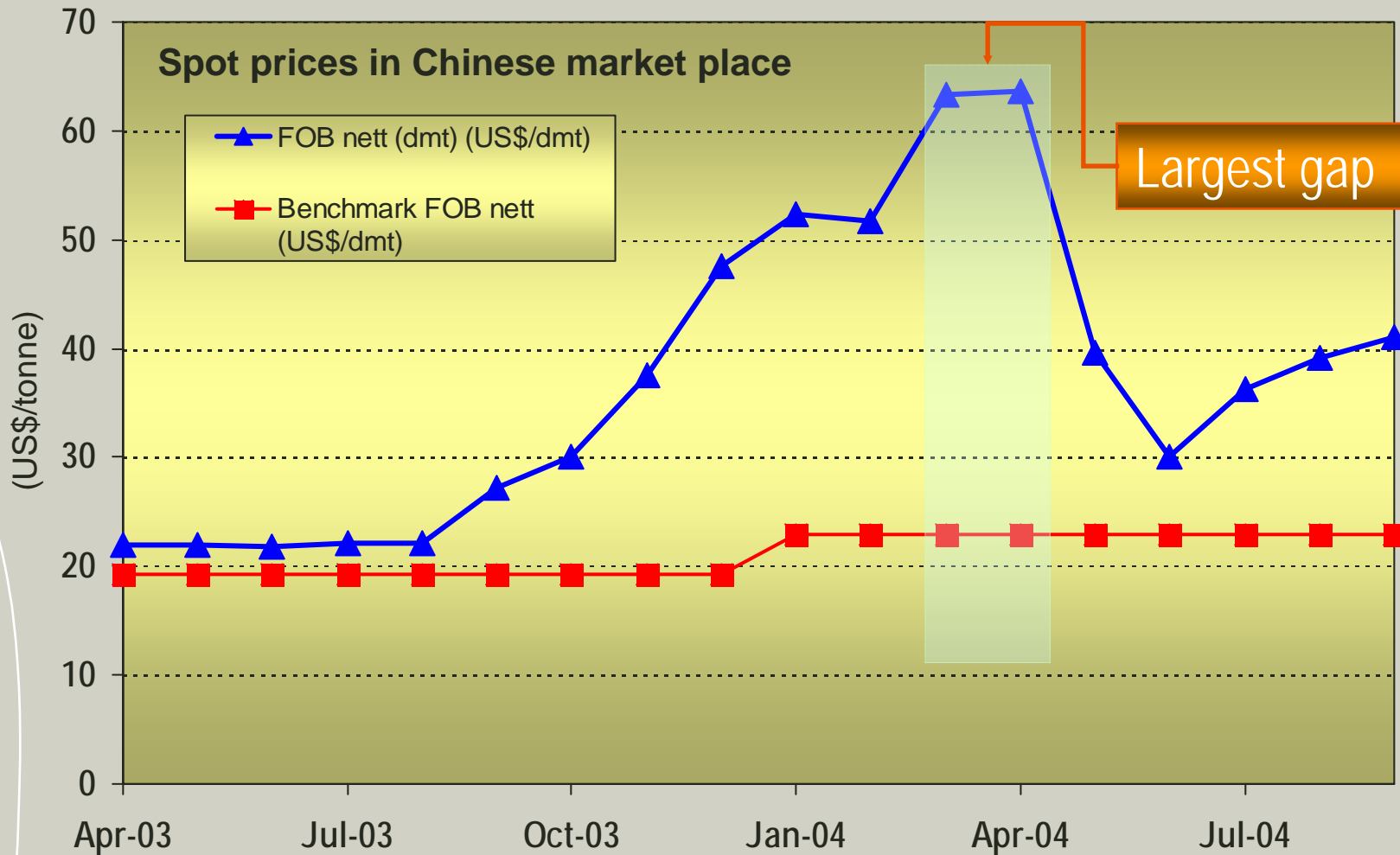
# Chinese Iron Ore import growth major demand driver

**Chinese iron ore imports have grown very strongly almost trebling in 5 years, China's share of seaborne trade is expected to be well over 30% this year**



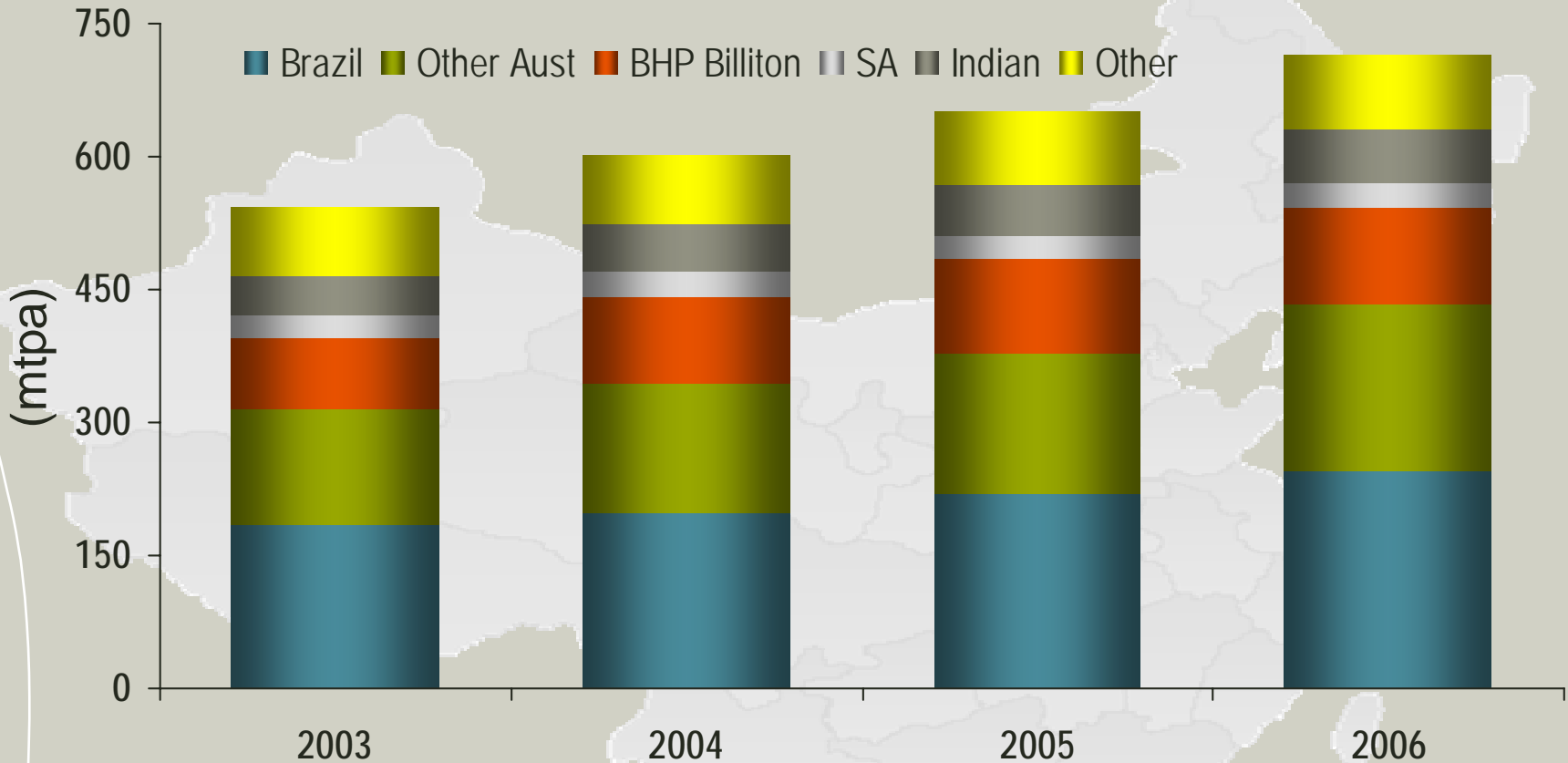
# Leading to the development of a Chinese spot market

**As a result of lack of available iron ore, a large spot market has developed with prices well above benchmark in most “liquid” iron ore market of China**



# Announced future capacity increases

**All major iron ore producers have expansion plans to meet strong demand growth, but will take 2-3 years to implement, thus market will remain tight in near term**



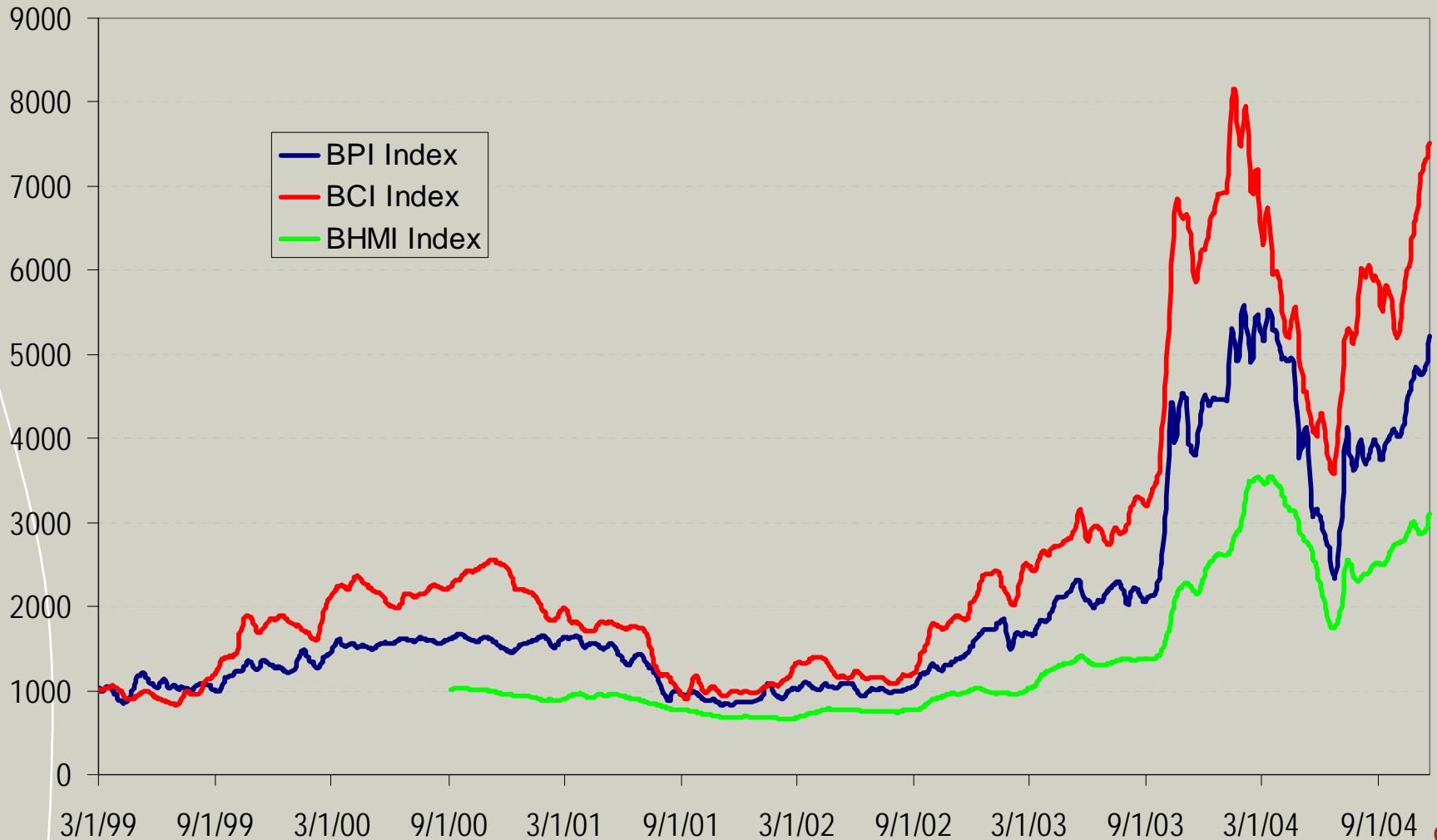
Source: BHP Billiton, Public Announcements



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# Major changes in freight indices from Q3 2003

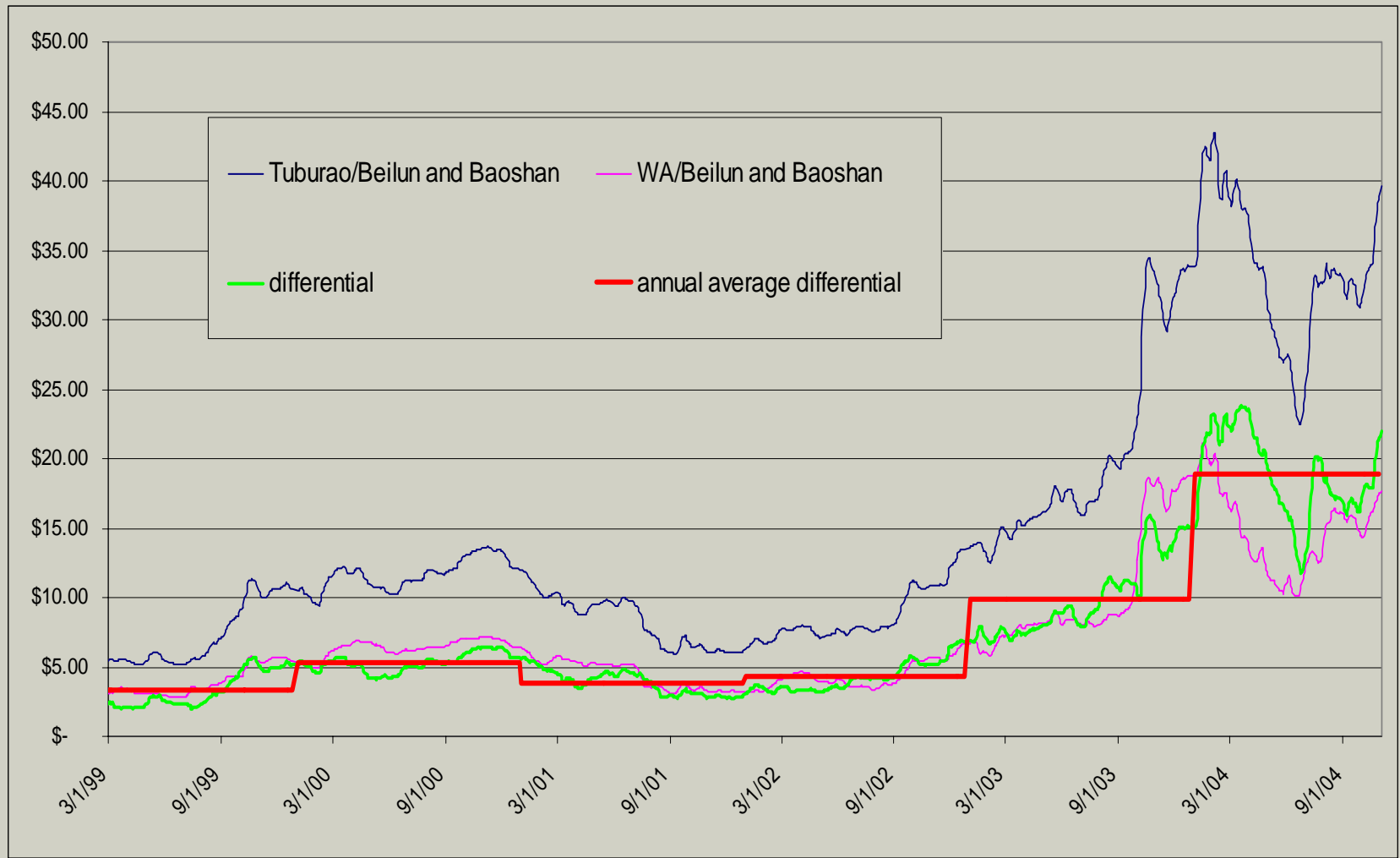
**Very strong demand for bulk commodities, especially iron ore from China, resulted in strong rises in freight rates to uncharted levels for cape, panamax and handysize**





# Structural changes have occurred in the freight industry

**Due to record Chinese demand for iron ore, cape freight rates have also seen record levels and sharp sustained growth in differentials between Brazil, Australia to China**



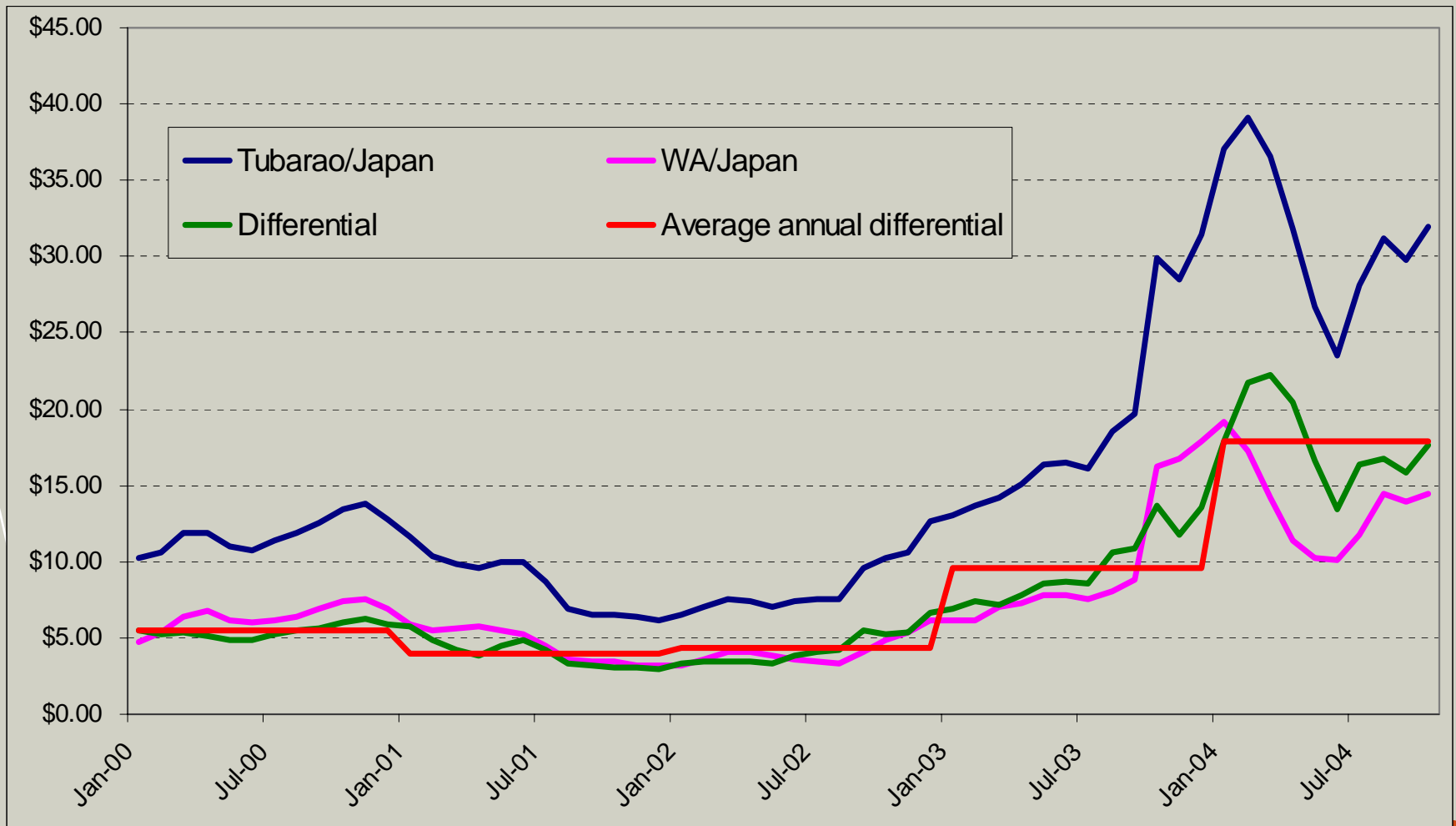
Source: BCI 3 and 5 route indices



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# Freight differentials to Japan have also been affected

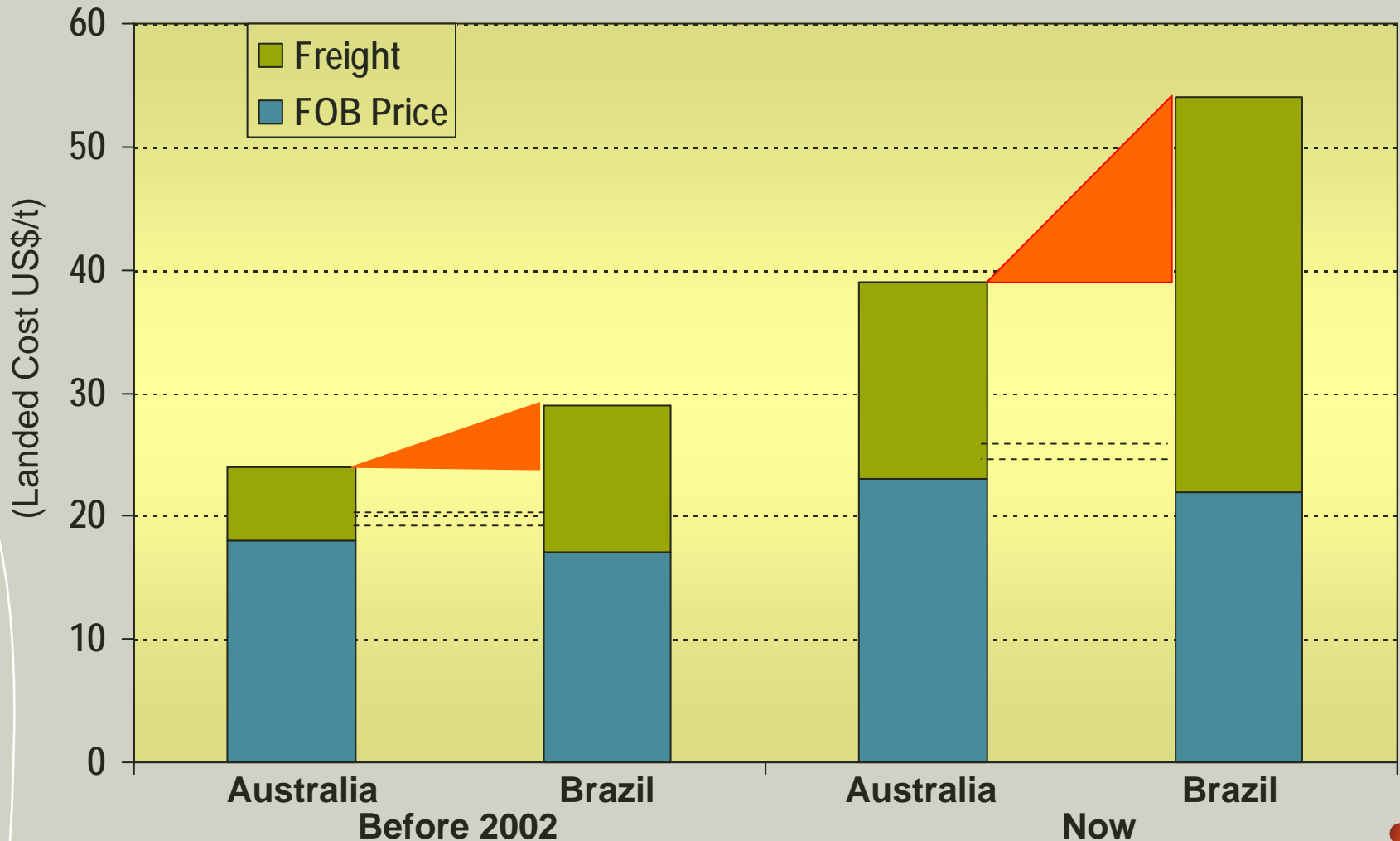
**The impact of high demand for capes from China has also pushed up differentials for Japan routes, with averages rises from ~\$5/t to ~\$18/t for JFY04**



Source: Clarksons

# Having a significant impact on delivered price

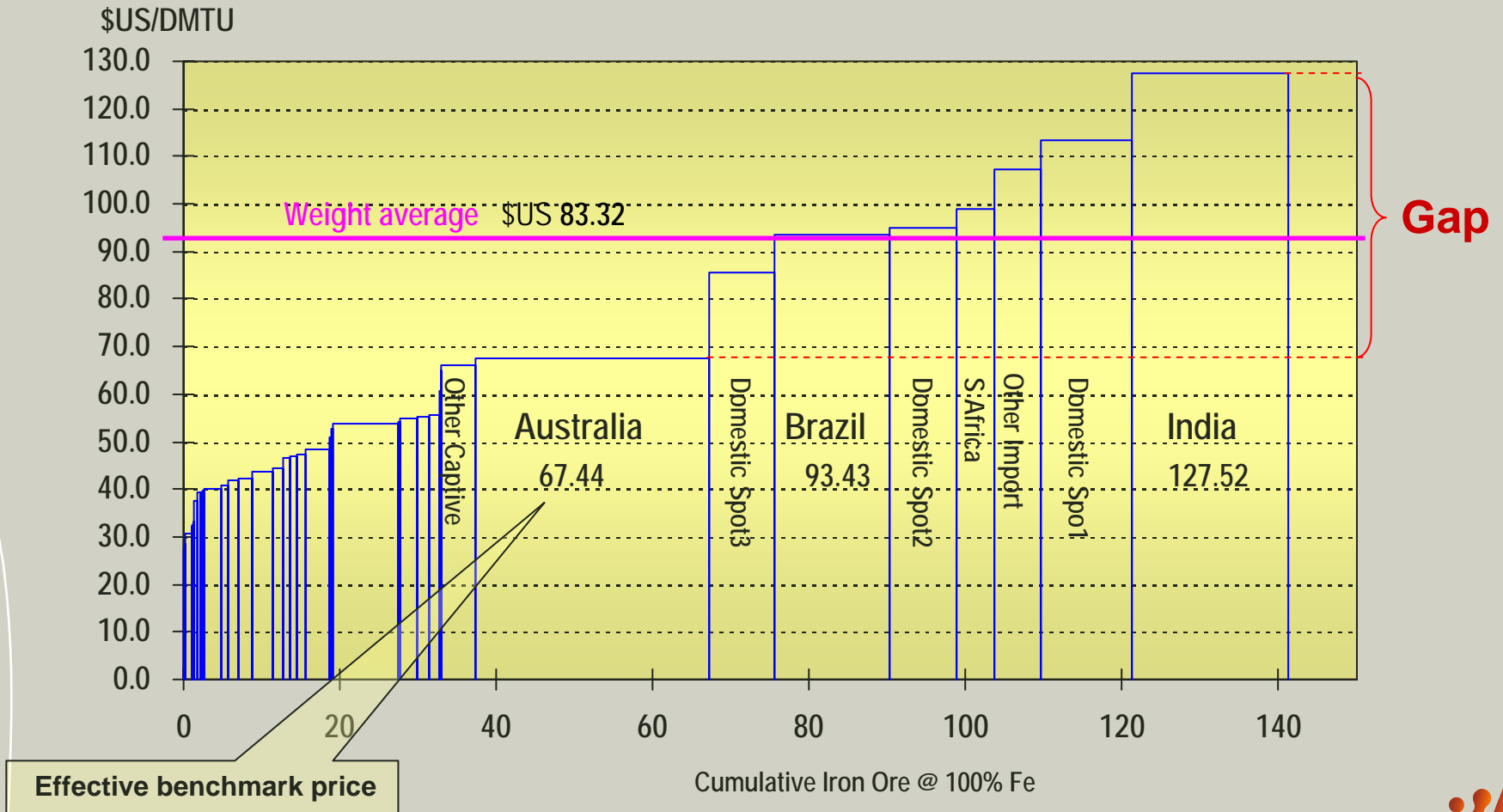
**Freight differentials seriously affects the landed cost relativities of distant and locally sourced iron ores making Brazilian ores markedly more expensive on a delivered basis**



Source: BHP Billiton

# Price curve CFR equivalent for Jan-Aug of CY2004

**Opportunistic Indian suppliers have taken full advantage of high Chinese spot price – potentially to the detriment of their contract, benchmark customers**



Data Source: China Customs, CMMA, BHP Billiton internal analysis

## Summary and Concluding Remarks

There are three main factors influencing the seaborne iron ore market today:

- Demand and supply is tight and likely to remain so in the near term
- The shortage of ore has led to the growth of a spot market in China, the largest and most liquid iron ore market
- Higher freight rates have significantly widened the differential between Australia/Brazil to north Asia making locally sourced ores cheaper on a delivered basis. This gap is unsustainable and needs to be addressed to bring the market back to a more rational basis.





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