Fastmarkets AMM

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Mine project optimistic on iron ore outlook

By Elizabeth Ramanand

The iron ore market may have turned around after several years of declines and volatility, analysts and market participants told Fastmarkets AMM, citing stable prices overall, greater premiums for higher-grade materials and greater discounts for lower-quality ore.

One mine that could benefit from this development is Alderon Iron Ore Corp's Kami Mine project, which was put on hold in 2015 because of falling iron ore prices.

"From a pricing perspective, over the last two years there has been a significant shift or increase in premiums for higher-grade material like [what] we would be producing out of the Kami Mine," Alderon president and chief executive officer Tayfun Eldem told Fastmarkets AMM in a phone interview. "All of that is driven by what's happening in China, given their drive to curb pollution which is forcing the steelmakers to shift their supply or inputs to the blast furnace to higher-grade material - and that's why we're seeing really healthy premiums."

Supply and demand for iron ore seem to be well-balanced overall, with tighter supply of certain grades.

"Aside from the excursion earlier this year into the $70[-per-tonne] range for the iron ore benchmark price for 62%, which has been ranging from $60-70 per tonne for the last six months now, it's been fairly stable," Eldem said. "A lot of the predictions were for much lower prices than what we're seeing today."

Indeed, the price of iron ore has surprised a lot of analysts.

"I think iron ore has exceeded expectations this year, in general, and for me specifically," Christopher LaFemina, senior equity research analyst for metals and mining at Jefferies, said. "The price premiums have significantly increased over the last year. Some of that was initially due to the higher iron content, but it's increasingly a function of lower levels of impurities in some of those higher-quality ores, so impurities have become more important."

The Fastmarkets MB 62% Fe Iron Ore index was assessed at $76.48 per tonne cfr Qingdao on Monday October 29, up by 10.5% from the beginning of October when the index stood $69.24 per tonne and up by 30.2%% from $58.75 per tonne on October 30, 2017.

The Singapore Exchange plans to launch a high-grade iron ore derivative product to be settled against the Fastmarkets daily MB 65% Fe iron ore index. The product is targeted for launch in December, subject to due regulatory process, the exchange said.

Ian Littlewood, vice president of global metals research at Barclays, has described the iron ore market as going from slumber to awakening.

"Winter cuts caused a spike in iron ore prices in December 2017 as this forced blast furnaces to use higher grades of imported ore, and we expect a similar pattern this year," Littlewood wrote in a report published in early October.

He forecast that the benchmark 62% Fe price would be $72 per tonne in the fourth quarter, higher than the consensus view of $66 per ton and up from the third quarter's average of $67 per ton.

But this improved price outlook should not be misconstrued as a prominent indicator of strong global growth, according to the report. "The global economy is moving out of a period of synchronous growth, and idiosyncratic supply-side factors are forecast to lift prices," Littlewood said.

The tariff effect?

"I think people see tariffs on steel, tariffs on China and automatically feel like that spells disaster for the iron ore industry - in particular for producers that are doing business with China. That's not the case necessarily," Eldem said.

According to Kelsey Johnson, president of the Iron Mining Association of Minnesota, the 25% Section 232 tariff on imported steel has been helping smaller towns across the United States to thrive.

"We weren't playing on a level playing field. If steel does well, then the economy in northern Minnesota does well," Johnson said, noting that the steel industry is vital to the state's economy. "If the steel industry doesn't do well, then it's not good for the jobs and people here. When the industry goes down, every aspect of our regional economy is affected."

Mine development, output

Alderon's Kami Mine project was conceived in earnest in 2010, and development efforts between 2011 and 2014 resulted in the company and the project being fully permitted, according to Eldem. The company has secured 100% of its production in agreements with partnering companies, in addition to signing a number of infrastructure and stakeholder agreements.

"It wasn't until this year that the project was brought back on the front burner," he said. "The major driver for that was really the sustained premiums for higher-grade material and stable prices for the 62% Fe benchmark."

That optimism is in contrast to four years ago, when the market began to soften in mid-2014, according to Eldem. By early 2015, Alderon had put the mine project on hold as a result of depressed prices.

The mine has customers lined up for when it begins producing ore, Eldem noted.

"We have an off-take agreement with HBIS [Group]... They will be purchasing 50% of production when we get up and running," he said, noting that a Glencore subsidiary has made a commitment to purchase 40% of Kami's output.

"Between [those two], we're technically sold out," Eldem said of the mine's future production.

China's HBIS Group holds a 25% interest in the Kami Mine project in addition to owning roughly 19% of Alderon's common shares, he added.

Still, one major obstacle stands between Alderon and production: The company needs to raise enough capital to build the project, Eldem explained.

"It's a fully permitted project, we can technically go in there and start construction. Engineering is sitting at 50-52%, and we have some of the equipment already purchased and key infrastructure agreements are in place," he said. "[But] the project requires approximately $980 million, roughly $1 billion," Eldem said.

According to a feasibility study, the Kami Mine could take about 26 months to build and could have a lifespan of 23 years. It would operate on the Rose Deposit of iron ore in western Labrador.