



A Bumpy Start to 2024 for Iron Ore

The start of 2024 has been quite bumpy for iron ore. SGX TSI Iron ore active contracts have dropped 7% from a high on 3rd January, and DCE iron ore contracts have lost some 6.73%. This is happening amongst a wider deflationary period in China, with the country's CPI shedding 0.3% in December from a year earlier, its third consecutive month of decline.

There are multiple reasons behind the sharp drop in ferrous metal prices. The first is that some investors, driven by the economic stimulus of Chinese authorities, entered the market in December and left it at the beginning of the year. Traditionally, trades made off the back of macroeconomic events or similar news tend to be short-lived, and this is particularly true in the metals and oil markets.

Secondly, most Chinese steel mills need to lock their ex-factory price in January and have need to discount to attract perspective buyers. It will therefore be difficult to sustain high iron ore prices, given the cooling steel market, especially with the knowledge that during the past four months, for 90% of the time, Chinese mills had negative production margins.



Chart source: Bloomberg

Chinese pig iron production dropped 4.2% from November to December to 2.2 million tonnes. This decline is expected to continue by at least another 4% in January. Conversely, there is a substantial growth in iron ore port stocks (+11.75%) over the same period.

Other alternative products to the main benchmark iron ore have become more popular during the winter, especially the more environmentally friendly pellets, lumps and high-grade ores. On the other hand, low grade iron ores have witnessed increased discounts: FMG widened its discounts on its flagship products FBF and SSF. Additionally, Electric Arc Furnace (EAF) utilisation rates increased from November and have been 8-10% higher in Q4 in comparison to last year.



Lastly, the macroeconomic environment cannot be ignored. China is currently experiencing the longest deflation streak since 2009, and its recovery is still patchy. As it's likely that this will continue in 2024, iron ore prices will be greatly impacted. This may be more than a market correction and a point where the market rebalances to a new normal.

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