

Iron Ore update: H1FY21

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Iron ore exports from India surged 70.3% to 29.2 million tonnes (mt) during H1FY21 compared with the corresponding period of FY20. About 92% of total iron ore exports were directed towards China. 27 million tonnes of iron ore were shipped to China which is the highest level seen since FY12. Other countries to which India exported iron ore were Japan with an export share at 1.9%, Oman at 1.7%, Malaysia at 1.5% and Indonesia at 1.1%.

China mainly imports higher grade iron ore from Australia and Brazil however covid-induced disruptions created supply shortage of iron ore in the global market. Demand on the other hand from China was robust as the country leads in global economic recovery. Higher Chinese demand, supply shortage sent iron ore prices soaring. Better export realisations prompted Indian miners to export huge quantities of iron ore despite a sharp fall in domestic production.

Lower domestic production and higher exports have resulted into severe scarcity of iron ore in the domestic market and has sent iron ore and steel prices higher.

Though latest production figures are unavailable it is estimated that iron ore production fell by 50% during April-July FY20 compared with the corresponding period of the previous year. The mismatch in demand and supply is mainly due to failure to start operation of 14 iron ore mines in Odisha which were auctioned in February 2020.

Present status of 19 iron ore mines auctioned in Odisha in February 2020:

Iron ore mining leases of more than 30 iron ore mines accounting for almost 30% of India's mine output expired in March 2020. About 55% of these mines are situated in Odisha.

Odisha successfully auctioned 19 operating iron ore mines in February 2020 which belonged to merchant miners. Auctions saw significant interest from large players besides merchant miners. The winning bids premium surged from 91% to 154%. Five mines were kept for captive use while 14 mines were in open category. Captive mines account for 30% of total reserves that can be auctioned of 1,788 million tonnes.

A small change in the auction rule that made a big difference was that while for captive mines only end users were allowed to bid, for the mines in open category both captive and merchant miners were permitted to place bids.

As a result, 81% of minable reserves were bagged by captive users. JSW alone has bagged 4 iron ore mines with 65% of total a reserves.

However, 14 of the 19 mines auctioned in Odisha have failed to start operations. These mines have produced only 4.1 mt of iron ore as against

the target of producing 24.5 mt during April-September 2020. Miners have cited delay in getting statutory clearances and completion of paperwork to start operations in the wake of COVID-19 pandemic. However, this has led to a sharp fall in domestic iron ore production. Odisha is India's largest iron ore producing state. It alone accounted for 55% of total iron ore production in FY2019.

Prices:

International spot iron ore (cost and freight) averaged \$ 119.8/dmtu in October 2020 as against \$ 84.7/dmtu in April 2020 and \$ 103.3/dmtu in June 2020.

Higher grade iron ore export attracts 30% export duty. Even after this India miners are earning huge margin as iron ore (62% Fe fines) were imported into Northern China for \$130.2 a tonne, highest level seen since January 2014.

Lower availability of iron ore in the domestic market has sent iron ore prices higher over the past few months. Prices of lump ore and fines (NMDC, Fe64%) have jumped almost 50-60% since June 2020 to average Rs 3,404.8 per tonne for lump and Rs 3,114.8 per tonne for fines in October 2020 as compared to Rs 2,256.7 and Rs 1,966.7 for lumps and fines respectively in June 2020. Domestic iron ore prices across grades have doubled from Rs 4,000 per tonne to Rs 8,000 per tonne on an average.

This in turn has caused spike in steel prices which is helping large integrated steel producers to improve their margins but at the same time has increased the steelmaking cost of smaller secondary steel producers who do own captive mines.

Conclusion:

- Domestic supply of iron ore has reduced by half and prices of iron ore have doubled. Despite the supply crunch in the domestic market, miners continue to export iron ore in large quantities to benefit from higher international prices.
- Domestic secondary steel makers and sponge iron producers have urged the government to impose ban on export of iron ore and pellet.
- Steel Ministry has concurred with the plight of smaller players and has said that a short-term ban on exports of iron ore and pellets in near future to protect secondary players cannot be ruled out.

Outlook:

Iron ore prices have crossed USD 123 per dmt in September 2020, a level last seen in 2014, amid better Chinese demand and tepid supply due to severe weather conditions and covid induced restrictions in Brazil. However, prices are likely to retrace to lower levels in H2CY20 largely on the back of ramp up of production by the miners in Brazil and Australia

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