

Iron Ore Update: April 2020

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Indian iron ore exports jump 136.2% during April-January FY20:

Contact:

Madan Sabnavis
Chief Economist
madan.sabnavis@careratings.com
91-022-6837 4433

Author
Rashmi Rawat
Deputy Manager – Industry Research
rashmi.rawat@careratings.com
91-22-6837 4405

Mradul Mishra (Media Contact)
mradul.mishra@careratings.com
91-22-6837 4424

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After being on a decline for two consecutive years, iron ore exports from India jumped 136.2% to 30.2 million tonnes during April-January FY20 vs comparable period last year. Supply shortage of iron ore in the global market led by outages at Vale in Brazil and cyclone in Australia bolstered demand for Indian iron ore during the year. Besides, falling steel prices could also have prompted companies to purchase lower grade iron ore fines from India to keep their cost under control and preserve margins. India could export more due to increased domestic supply and competitive prices. India's production of iron ore was higher in FY20 as miners ramped up outputs to optimal levels during the last year of operations of their mines which have now been auctioned.

Generally, India exports lower grade iron ore (below 58% Fe) and imports higher grade iron ore (above 60% Fe). Export of iron ore from India were on a decline since the past two years after the government imposed 30% duty on export of higher grade iron ore (above 58% Fe) from India.

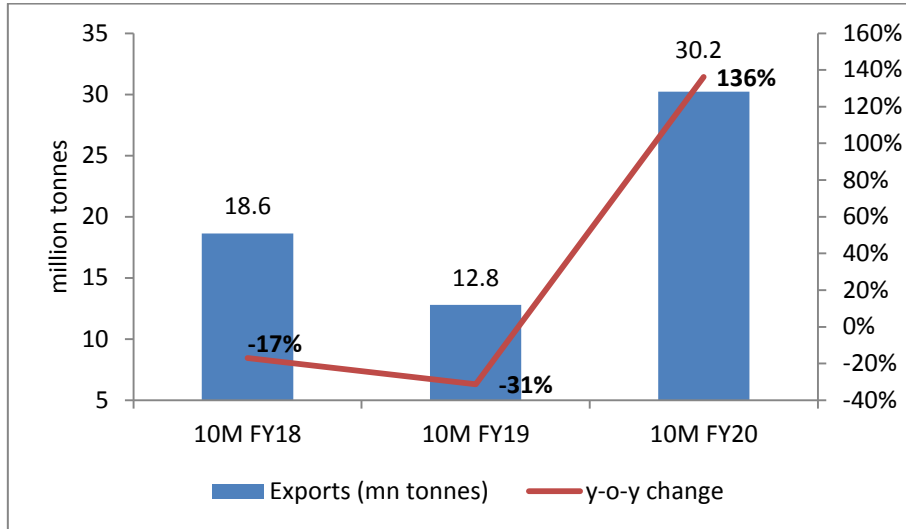
Though China has been the largest buyer of India iron ore (with a share of 70-75%), exports to China had declined by ~35% each in FY18 and FY19. However, in the financial year 2019-20, exports to China shot up 170% to 25.7 million tonnes during April-January FY20 vs corresponding period last year.

China mainly purchases its higher grade iron ore from Vale in Brazil and Australia. China increased its purchases from India following lower supply from the two countries. China had a share of 85% in total iron ore exports from India followed by Japan with a share of 5.3% and South Korea with a share of 3.1%.

In 2019 India filled in the supply gap created by two of the largest iron ore producing countries in the world, Brazil and Australia. In January 2019, world's largest iron ore producer Vale SA was forced to suspend operations at several of its iron ore mines following a dam burst which claimed lives of more than 270 people. This led to severe supply shortage of iron ore globally. Several mines with mining capacity of almost 40 million tonnes were shut. Vale's iron ore fines production stood at 302 million tonnes in 2019, 21.5% lower than in 2018, while pellets production was 41.8 million tonnes in 2019, 24.4% lower than in 2018. The supply crisis was aggravated by the tropical cyclone in Australia which disrupted mining operations and iron ore supplies.

Export of iron ore pellet from India also grew by 48.4% to 11 million tonnes during April-January FY20. Exports to China grew by 61.6% to 8.7 million tonnes during the period. Other countries to which India exported iron ore pellets include Turkey, Korea, Malaysia, Oman and UK, etc.

Chart 1: Export of Iron ore and concentrates



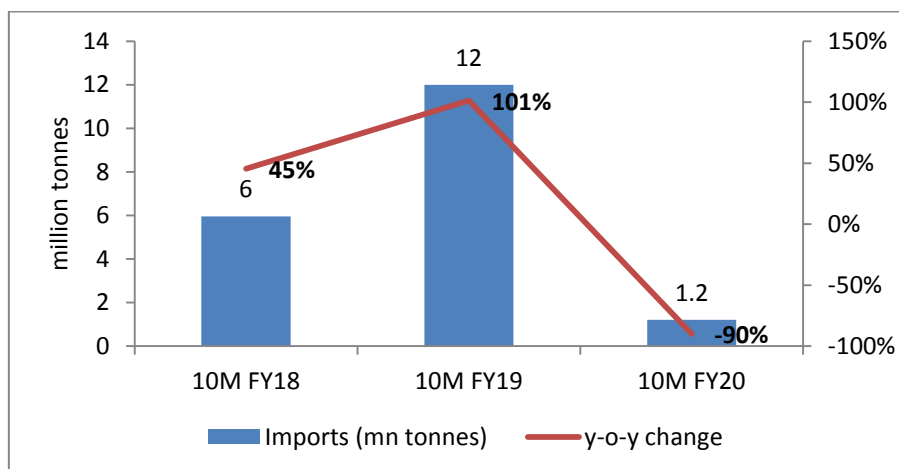
Source: Ministry of commerce

Imports plummet 91%:

While exports surged, import of iron ore plummeted 91% to 1.1 million tonnes during April-January FY20 from 12 million tonnes in the comparable period last year. This is the lowest level of imports recorded in past seven years. Weak domestic steel demand and higher price of imported iron ore prompted domestic steel companies to procure the raw material locally leading to a sharp decline in imports.

India majorly imports iron ore from South Africa. Out of the total 1.1 million tonnes of iron ore imported, 519 thousand tonnes were from South Africa.

Chart 2: Imports of iron ore and concentrates



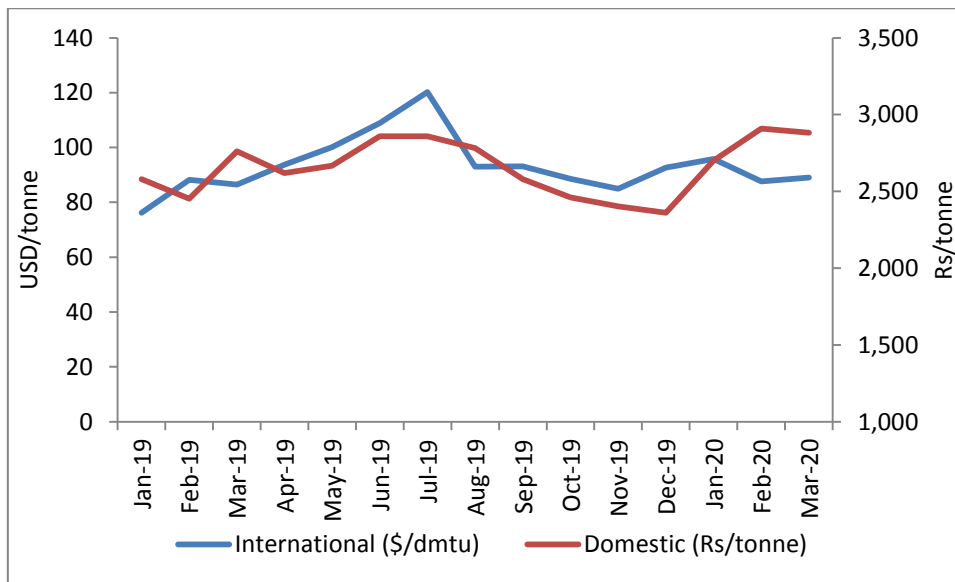
Source: Ministry of Commerce

Prices:

The production outages in Australia and Brazil led to surge in Iron ore prices during the first half of the year. International iron ore prices rose from US\$ 76.2 per dry metric tonne (dmtonne) in January 2019 to peak in July 2019 at US\$ 120 per dmtu.

However, prices soon came under pressure given the slow growth in global steel sector amid the US-China trade war. Prices went on a downward trajectory from July to November and rose marginally thereafter. The US-China phase 1 trade deal gave some boost to the base metal prices towards the end of 2019. Besides, expectations of supply crunch due to the expiry of mining leases in March 2020 also kept iron ore prices resilient in the domestic market. However the trend reversed due to the outbreak of the Coronavirus. Demand for iron ore again started to shrink due to lockdowns measures which led to decline in prices. Prices averaged US\$ 89 per dmtu in March 2020 from US\$ 95.8 per dmtu in January 2020.

Chart 3: Trend in International and domestic iron ore prices



Production surges 17%:

India’s iron ore production rose to a decade-high of 220 million tonnes in FY19, up 9.5% from 201 million tonnes in FY18.

Odisha alone accounted for 54% of total iron ore produced in the country in FY19.

The growth momentum continued in FY20 as well. During April-December FY20, iron ore production is estimated to have surged ~17% to 174.7 million tonnes as compared with the same period last year. Iron ore producers increased their supplies as steel mills and pellet producers increased their purchases to stock up supplies anticipating supply crunch post expiry of multiple iron ore mines in March 2020.

Mine auction:

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. Out of around 25 non-captive iron ore mines, 22 were successfully auctioned in February 2020. Three mines are currently put on hold over a pending legal suit from the Supreme Court of India.

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 auctionable reserves of 1,788 million tonnes. 81% of minable reserves have been bagged by captive users. JSW alone has bagged 65% of total auctionable reserves

JSW Steel secured four iron ore mines with iron ore reserves linkage of more than 1,100 million tonnes. The company plans to set up a 12 million tonnes per annum (MTPA) steel plant involving huge investment of around Rs 53,000 crore in Odisha. ArcelorMittal won the Thakurani mine, at a premium of 107%. Jindal Steel & Power Ltd (JSPL) bagged the Guali mine at a premium of 144%.

Winning bidders need to pay additional royalty, dead rent, District Mineral Foundation (DMF), National Mineral Exploration Trust (NMET) and other statutory dues of about 17% over and above the premiums. Since the premiums would be computed on IBM declared prices, the impact of reduction in sellers reporting selling prices to IBM would be crucial.

Industry is divided over impact on ore prices as large players have bided aggressively to gain long term raw material security for current & future needs.

The outbreak of Covid-19 has delayed the start of operations at these newly auctioned merchant leases.

Outlook:

Export of iron ore is likely to get impacted due to the Covid-19 induced lockdown. The closure of ports, logistical issues and labour shortages are affecting iron ore export.

Iron ore prices are expected to remain under pressure amid weak demand from steel producers. India's steel consumption is estimated to have grown by a paltry 1.3% during FY20 against earlier estimate of 4%-5% and a high growth of 8.8% witnessed during FY19. Domestic steel companies have already amassed huge inventories of iron ore fearing shortage in supply as about 30 iron ore mining leases were due to expire in March 2020. Iron ore inventories with steel companies should last 3-4 months. Besides, demand for steel has also slumped as reflected in negative month on month consumption in March 2020 and even if it hadn't there is enough buffer stock of iron ore with steel companies to last for at least next one quarter.

Therefore, iron ore prices are expected to remain subdued in the near term which was otherwise suspected to go up considering the disruption in mining activities for merchant mines auctioned recently and substantially high premiums paid by winning bidders in auctions.

CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway,

Sion (East), Mumbai - 400 022. CIN: L67190MH1993PLC071691

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457

E-mail: care@careratings.com | Website: www.careratings.com

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