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Iron ore prices tipped to rise

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KEY POINTS

- Chinese spot iron ore prices have stabilised after falling nearly 20pc.
- China wants to reduce its industrial production due to the European debt crisis.

Australian iron ore producers are expected to reap a price increase of about 20 per cent for iron ore shipped in the quarter beginning July 1, as market prices stabilise following a two-week buyer strike.

BHP Billiton and Rio Tinto would receive around $US143 a tonne free on board, based on the average spot price over the period from March 1 to May 31. Brazil's Vale confirmed that it would be setting prices on this basis, adding that it would demand a higher price for its ores with an iron content above 62 per cent.

"Iron ore prices are following market demand and supply. Vale is not fixing prices – prices are established in the market. We're merely reflecting in our contracts what is happening today in the market," Vale chief executive Roger Agnelli said.

But Merrill Lynch analyst Irene Ye warned that spot price weakness could pressure Chinese steel makers to default on quarterly contracts.

"Spot CFR price, at $US145 a tonne (with downside potential, in our view), may simply lead the mills to shift away from the contracts," Ms Ye said in a note to clients.

"Effectively, quarterly contracts will likely default to spot."

Chinese spot iron ore prices have stabilised after falling nearly 20 per cent in May, after buyers refused to collect purchases from Indian spot sellers. A London-based analyst said the market was recovering, however, as Chinese steel producers in Hebei province moved to scale back output in late May. "Supply-demand is now balancing out and I think now that you're getting buyers back in, defaults are clearing with new arrivals at current spot prices," she said.

This should result in a reduction of 6 million to 7 million tonnes in demand for ore during June, as Chinese steel makers rein in output as export markets in Europe turn down.

"Part of that is relating to about a 2 million tonne cutback in steel exports, plus flailing auto demand and concerns about the infrastructure and property investment," the analyst said.

China has moved to reduce its industrial production in line with fears about the growing European debt crisis, with a direct impact on commodity markets.

The European debt problem had in effect given the Chinese government a "free kick" in its plans to rein in growth, the analyst said.

"With the EU contagion worries, the Chinese economy has slowed itself without the need to use monetary policy," she said.

"Our economists are tipping only a 2 per cent increase in interest rates over the next 18 months, but even this is probably likely to be more muted given what's happened in May."

Meanwhile, Vale confirmed that it had increased its stake in the Belvedere coal project in Queensland.

The Brazilian miner said it bought an additional 24.5 per cent stake from AMCI Investments for $US92 million ($110.7 million), and now held 75.5 per cent of the project.

Aquila Resources, which holds the remaining 24.5 per cent, entered a trading halt yesterday pending confirmation of a transaction.

Aquila managing director Tony Poli has previously flagged that the company expects to dispose of the stake by the end of the year, but it is understood that Vale and Aquila are still negotiating payment terms.

Encouraging result

Shares in oil and gas explorer AED Oil rose as much as 13 per cent yesterday after the first well into its Lukut prospect in Brunei intersected "possible reservoirs". The company said it was "very encouraged" by the result and would carry out tests on the well over the coming days. **Paul Garvey**

Disappointing trial

Novogen's shares plunged 53 per cent after it said the results of the phase III trial of its ovarian cancer treatment drug phenoxodiol did not show a statistically significant improvement in late-stage patients. Phenoxodiol is licensed to its 70 per cent owned subsidiary, Marshall Edwards. It was administered orally during the trial and Novogen said the disappointing outcome contrasted with results when it was given intravenously and achieved a positive result in 30 per cent of tumour treatments. The company said it would focus on its isoflavone platform which includes triphendiol – a more potent version of phenoxodiol – and NV-128. **Khia Mercer**

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