Chinese Market Fights for Prices

In 2009, before commodity prices soared to their 2011 peaks, China Inc. was engaged in a pitched battle with the world's three major iron ore producers over its price.

Beijing was furious about the $60.80 per ton price that had been forced upon its steel mills in 2008, far above the $36.63 level set in 2007 the result of annual talks between the metals groups, which had formerly set a year-long price.

China argued that as the world's biggest buyer, and with its steel mills starting to lose money, it should get a special price.

Chinese negotiators dug their heels in, with their anger increasingly directed at Australia, the world's largest producer of iron ore, and home to two of the top three miners, Rio Tinto and BHP Billiton (the other is Brazil's Vale).

The intransigence of Chinese negotiators did lead to a new price, but not one they had bargained for. The annual price mechanism collapsed, yielding to market-led spot prices that skyrocketed, reaching $188 per ton. China's steel mills began bleeding red ink and the government vowed to cut back on overcapacity, which analysts estimated at the time to be as much as 300 million tons.

Fast forward six years and China at last has had its wish granted, with iron ore prices reaching 10-year lows of $46 per ton in April 2015, and which have since been largely trading between $50 and $60 per ton, according to Platts' Steel Index.

In the interim years, however, China had a problem, as their surging demand outstripped supply.

This mismatch was supercharged by Beijing's global financial crisis-dodging, multitrillion yuan stimulus program that was poured largely into steel-hungry infrastructure and housing projects.

The global iron ore giants had not foreseen the continuation of China's soaring growth rates, leaving the door open for smaller new entrants to join the market, many backed by Chinese steel companies keen to expand the size and scope of supply.

One of these Fortescue Metals group emerged from nowhere to become the world's fourth-biggest iron ore miner. This year it expects to produce about 160 million tons.

The majors moved swiftly to catch up, using their immense scale to fund huge mine expansions, and doubling production in a bet that their lower cost base could push others out of the market. This added to a growing pile of iron ore gushing from mainly Australian mines.

As the price began to falter in September 2013, reaching $137 per ton and beginning a steady decline, the world's mining companies began slashing costs and introducing labor-saving technologies.

Welsh Steel Mill to Reopen After Two Years

A steel mill in south Wales will reopen after more than two years out of operation, on the same day as the government holds a crisis summit on the UK steel industry.

The plant in Newport, reopening, will initially produce about 50,000 tonnes of steel a month with capacity to double that amount.

Liberty House, an international steel and metals group, bought the 41-year-old site in July 2013.

The company paid the plant's 150 workers half their salaries as it restructured its finances before reopening, its managing director, Sanjeev Gupta, said.

“Steel mills are almost impossible to revive once they have shut down. Some of these guys had been there for decades and if we had lost them it would have been almost impossible to restart,” Gupta said.

The plant will import slabs of steel from countries such as Russia or Brazil and process them into coil steel to be turned into fencing, crash barriers, lorry chassis and other products. The launch of Liberty Steel Newport is a rare piece of good news for the UK steel industry, which has blamed cheap imports, the strength of the pound and high energy prices for its current crisis.

The government is holding a summit in Rotherham to discuss the industry's future after the closure of the SSI plant in Redcar with the loss of 2,200 jobs. Tata Steel has also cut production at its sites in Newport, Port Talbot and Rotherham with the loss of more than 1,000 jobs.

Trade union Unite called on the government to keep Redcar open so that a buyer could be found and to intervene to support the industry. Tony Burke, the union's assistant general secretary, who will attend the summit, said “The Germans do it through an active industrial strategy and the Italians do it by intervening directly in their steel industry, making a mockery of ministers' claims that EU rules forbid it.”

Gupta said it was a good time for the mill to reopen because prices cannot go much lower, and there is lots of goodwill from suppliers and customers, against the backdrop of a growing UK economy. He said if energy prices for industrial businesses were brought in line with the rest of Europe, his plant could easily employ 1,000 people by expanding its activities into other types of steel.