

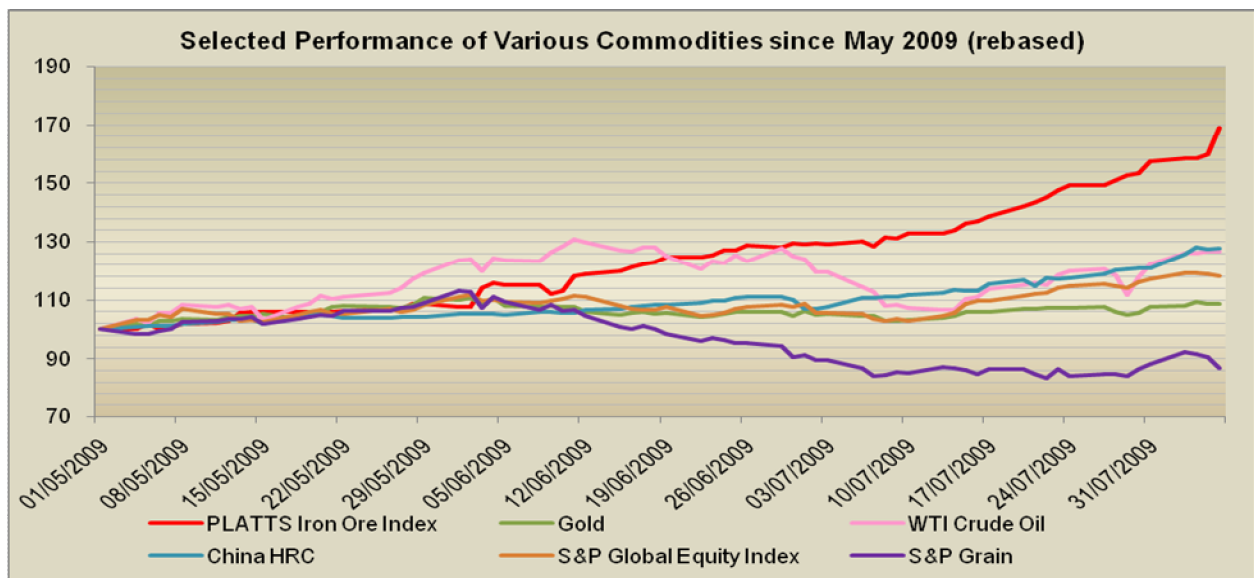
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For immediate release

Is Iron Ore the latest investment darling?

London. There is a new investment darling on the block and its name is iron ore. As unglamorous as this new kid in the class might sound, the price of this raw material, fundamental for the production of steel, has been growing steadily in the past few months.

The Platts Iron Ore Index, which calculates the price based on a 62% FE content iron ore fines CFR Qingdao contract, shot up over the weekend to US\$103/dmt, a hefty 69% increase since the start of May this year.

As the graphic shows, since the start of May iron ore has outstripped other 'glamour commodities', including gold and crude oil as well as equities and in the process has caught the eye of many institutional investors in the market.



Source: Bloomberg

So what has led to this dramatic increase? One of the main reasons has been the speed at which Chinese industry has reacted to its government's RMB4 trillion stimulus plan. Many downstream industries ranging from infrastructure, property, car-making are staging mini-revivals and this has prompted steel prices to increase.

Chinese spot steel prices have reached their highest level since October last year with prices for hot-rolled coil increasing about 32% since mid-April and steel plate increasing around 30% since mid-April. Major steel mills have already announced plans to raise September prices even further.

With the steel market booming, the stalemate in the annual benchmark price negotiations has sent steel mills scrambling to secure spot cargoes. Whereas until recently, iron ore was traded on an annual contract basis, the much publicised standoff between the China Iron & Steel Association (CISA) and the big three iron ore producers has led to a surge in spot trading.

Many have resorted to buying Brazilian ore and this in turn has pushed up freight rates for fronthaul shipping routes. The Baltic C3 route which measures the voyage rates from Tubarao in Brazil to Qingdao in China has increased from US\$18.728/ton on 1st May 2009 to US\$31.242 yesterday, an increase of 67%.

This emerging commodity market has the potential for huge growth as more producers move towards spot or index-linked trading and away from contracts. And traders looking to manage price risk or hedge their exposure can take advantage of a burgeoning derivative market, developed by London freight and commodities brokerage FIS.

FIS Managing Director John Banaszkiwicz said: "With the introduction of the iron ore swaps derivative market with OTC clearing services available on exchanges in London and Singapore, we expect to see an even wider variety of market participants as the iron market develops."

"There is plenty of interest coming in, not just from iron ore producers and steel mills, but from hedge funds and insitutional investors as well."

FIS brokered the cleared iron ore swap trade in June this year and Mr Banaszkiwicz says interest since then reflects investor interest in China's economic resurgence. With China still relentless in its pursuit of iron ore – July imports rose 35% year-on-year – 2009 may prove to be an interesting year for those involved in iron ore swaps trading.

Ends