MetalBulletin

More flexible iron ore pricing will boost spot market, swaps liquidity - Gaylard

London 12 March 2010 10:06

Quarterly-settled and index-linked iron ore supply contracts will improve liquidity in the iron ore spot market and associated futures market, said over-the-counter iron ore swaps broker Freight Investors Solutions (FIS).

“Reports that Brazil’s Vale has proposed to price iron ore for Q2 delivery to Chinese customers using the average of Q1 prices (MB Mar 11) is a clear signal that the steel mills in Asia should prepare for a new era in pricing raw materials,” said FIS strategy director Michael Gaylard.

The quarterly agreement between BHP and its customers adds weight to a move towards more flexible pricing, FIS predicted.

“Australian miners have already embraced trading physical iron ore prices against spot indices. The move by Vale to propose quarterly contracts means that Asian mills could find it hard to insist on an annual benchmark in 2010,” Gaylard said.

The uncertainty surrounding annual benchmark negotiations has caused volatility in the iron ore swaps market, Gaylard said.

“The benchmark can only offer one price but the spot market brings a fairer reflection of real pricing. Using the indices to price deliveries uses an average of that spot price so it will always be better than a finger in the air,” he continued.