



## Iron ore swap contracts: Who's doing what?

(Reuters) - Iron ore swap contracts have become increasingly popular since late 2008, as a bid by miners to create a more market-based pricing scheme has gained momentum after they abandoned the decades-old annual benchmark system.

The world's top three iron ore miners - BHP Billiton, Rio Tinto and Brazil's Vale - have the upper hand in iron ore pricing as they control nearly 70 percent of the total seaborne iron ore trade.

Their unilateral decision to dump the inflexible benchmark system has met fierce resistance from steelmakers in top iron ore consumer China, whose insistence to stick with annual pricing could delay the emergence of a liquid spot market.

The following is a list of services provided by various companies.

### BANKS

\* Credit Suisse and Deutsche Bank launched in May 2008 an over-the-counter (OTC) iron ore paper market, offering cash-based swaps, which are settled against published indices against spot physical iron ore delivered in China.

Credit Suisse said the volumes in the total swaps market could rise to 60-70 million tonnes by the end of this year from 30-40 million tonnes at present. [ID:nLDE62E1P9]

\* JP Morgan has been trading cash-settled iron ore swap contracts since late 2008. The bank says it is settling swaps against the three published indices.

\* Morgan Stanley trades cash-settled iron ore swaps against prices provided by the The Steel Index. The bank says its iron ore business is closely linked to dry-freight business.

\* Barclays Capital commenced trading in the iron ore swaps market in September 2008 and has been active in both OTC and Cleared Markets.

OTC trading is against one of three indices or a weighted average of the components and Cleared is all via the SGX and based on The Steel Index

(TSI). The Bank's iron ore trading sits alongside coal and freight trading as part of an integrated client offering.

## EXCHANGES/CLEARING HOUSES

\* The Singapore Exchange (SGX) launched the world's first cleared OTC iron ore swaps contract in April 2009.

Trade volume in June this year was at 1.091 million tonnes, up from 385,000 tonnes the same month last year. They hit a high in April at 2.2 million tonnes.

For a graphic on iron ore swap trade volume in SGX, click [here](#)

\* London-based clearing house LCH.Clearnet launched an independent clearing service in June 2009 for OTC iron ore swaps contracts settled against TSI with a 62 percent iron content C+F China.

\* In late 2009, the IntercontinentalExchange (ICE) introduced a cleared OTC iron ore swap contract based on the Platts Iron Ore Index. The first cleared trades took place in early February.

\* The CME Group ([CME.O](#)) announced the launch of trading and clearing services for iron ore swap futures in June. Contracts are settled against TSI, cfr China. Trading and clearing have started on July 11 for trade date July 12.

## BROKERS

\* London and Singapore-based brokers Freight Investor Services (FIS) broker a cash-settled iron ore swap which can be cleared by LCH.Clearnet or SGX and settled against The Steel Index. The index is a delivered price to China based on Ore with a 62 percent iron content.

The cleared contract operates as an OTC agreement with settlement against The Steel Index. Trades can also be settled bilaterally against the Metal Bulletin MBIO or Platts Iron Ore Index.

\* Interdealer broker ICAP ([IAP.L](#)) has offered broking services in the nascent iron ore swap market since 2009.

\* London Dry Bulk (LDB), jointly owned by Deutsche Bank and London Commodity Brokers, has been brokering both physical iron ore and iron ore swaps since January 2009.

The company brokers non-origin specific FOB and CFR China cargoes of iron ore as well as iron ore swaps, which are cleared by SGX, LCH.Clearnet and the ICE.

LDB brokers these swaps in a voice-brokered OTC market and will also broker swaps settled against any of the three existing iron ore reference prices. But only swaps settled against either The Steel Index Iron Ore Reference Price (TSI) or the Platts iron ore index (IODEX) can be reported to a clearing houses on conclusion to be cleared.

\* Broker GFI ([GFIG.O](#)) started the iron ore desk in July 2009 and the majority of its cleared trades to date are based on TSI. Standard volume is 5,000 tonnes per month and trades in monthly settled contracts.

The company's iron ore trading is coupled with its existing dry freight forward agreements (FFA) desk and there are synergies with its coal and metal desks as well.

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