

## INTERVIEW-Broker FIS sees iron ore swaps growth

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\* FIS launches its iron ore swap contracts with LCH.Clearnet

\* Sees interest from hedge funds, steel mills, shippers

\* Trade on spot iron ore market seen doubling in 2010

By Jonathan Saul and Humeyra Pamuk

LONDON, May 15 (Reuters) - Volumes in the nascent iron ore swaps market are expected to reach up to 15 million tonnes this year as price volatility prompts steelmakers and miners to seek alternative pricing mechanisms, a brokerage firm said on Friday.

The problems within the iron ore benchmark system have led to a pick-up in spot market trade, Michael Gaylard, director of strategy at Freight Investor Services (FIS) told Reuters.

"As a result, that gives rise to a need for a product that can manage risk," Gaylard said in an interview. "Potentially...this year somewhere between 12-15 million tonnes (would be) traded on the swaps," he said.

Last week, London-based FIS launched its own cash-settled iron ore swap contracts, which will be cleared by LCH.Clearnet and be against delivered CIF China.

Benchmark prices for iron ore, annual seaborne trade of which totals 840 million tonnes, have traditionally been set between steelmakers and the world's top three iron ore suppliers --- BHP Billiton (BLT.L: [Quote](#), [Profile](#), [Research](#)), Rio Tinto (RIO.L: [Quote](#), [Profile](#), [Research](#)) and Brazil's Vale (VALE5.SA: [Quote](#), [Profile](#), [Research](#)).

But this year, several new tools in iron ore have emerged such as the swap contracts of Singapore Exchange. U.S. bank Morgan Stanley (MS.N: [Quote](#), [Profile](#), [Research](#)) said it has recently started trading swap iron ore while Deutsche Bank (DBKGn.DE: [Quote](#), [Profile](#), [Research](#)) and Credit Suisse (CSGN.VX: [Quote](#), [Profile](#), [Research](#)) have a paper iron ore market since last May.

Gaylard said that on top of these participants there were an additional 30-35 market players, consisting of financials, iron ore producers and end-users, trading the swap contracts.

Swap contracts could also easily find an audience among the privately-owned steel mills in China, the world's top consumer, Gaylard said.

"For the privately-owned this is a product for the man that makes the call at steel mills, It is very easy to understand. This is a delivered price China. That's what he wants and he's getting it in one swap contract," he said.

### SHIPPING INTEREST EYED

The Baltic Dry Index .BADI, which gauges the cost of shipping resources including iron ore, cement, grain, coal and fertiliser, has hit fresh 2009 highs in recent days due to demand for commodities by China.

Recent gains in freight rates have been driven by record imports of iron ore into China over the past few months.

Gaylard said there had been strong interest from the shipping industry for the iron ore swap contract.

"It's naturally something that they are transporting a lot of and have a reasonable amount of visibility over, and as such want to be part of that market," he said.

"It offers them another opportunity to be able to manage partly what they're moving, but also have visibility on the forward market for that as well." (Reporting by Humeyra Pamuk and Jonathan Saul, Editing by Anthony Barker)

Gaylard said China, the world's top importer of the key steelmaking ingredient, is major engine for the growth of the spot market.

"China's domestic iron ore is becoming more and more expensive and the quality of that is going down. As a result they have to come to the spot market through imports," he said. The country's iron ore imports hit a record high in April.

Gaylard estimated the spot market to be over 100 million tonnes, with some 70 million coming from India, the biggest provider of spot iron ore, and the rest from Australian miners.

"I think it is 70-30 (percent) between benchmark and spot," Gaylard said, adding the amount on the spot market could easily double by this time