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Business briefing: London dreams of iron rule

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The City of London is hoping to grab a dominant position in the emerging $700 billion iron ore derivatives market.

The City is already the world's largest trading centre for metals, bullion, carbon and currency and the emergence of an iron ore derivatives market will generate much-needed new revenue for London's battered financial institutions. But competition is emerging from Singapore and Hong Kong.

The iron ore derivatives market has sprung up because the 40-year-old system of pricing the commodity on annual contracts at a benchmark price is collapsing.

Iron ore miners and their customers, the steel producers, are gradually moving to quarterly contracts based on the spot price and this is expected to open up a huge new financial market in trading derivatives.

Rio Tinto became the latest miner to shift to quarterly pricing last week, following BHP Billiton and Vale.

The volume of trades in iron ore financial instruments has grown by 330 per cent in the past year alone, according to Freight Investor Services (FIS), a brokerage house.

Michael Gaylard, strategy director of FIS, said: "This is potentially another major investment area for London and for the financial houses. This is still only an emerging market and there is a lot of education to be done, but London could play a big role and take a leading position."

However, financial centres in Asia are also hoping to corner the market. Asia accounts for about 60 per cent of iron ore derivatives, with London trading the rest. This ratio is expected to reverse as the market becomes bigger and the larger City-based financial houses become involved.