Trading Iron Ore
An in-depth and independent analysis of the iron ore trading market and how it could evolve

- Status of the iron ore financial market: which indices are most actively traded? Who are the main principals, brokers and exchanges?
- How has the market developed so far compared to other relevant benchmarks?
- Perspectives for the next 5 years: which contract could become the reference? What trading volumes could we expect?
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- Has the market definitely taken off or can it still die?
- How could the market evolve in the next five years?
  - Is the current setup the final one?
  - Could a new index or physical futures take over from the established ones and become the new reference?
  - Who could become large participants in financial iron ore trading?
  - What are our expected trading volumes for the next 5 years?
- Do we expect significant shifts in the physical iron ore market that could impact on financial trading? What about major shocks in the Far East economies or dramatic merger-acquisitions?
- Could the new iron ore trading market develop in other hubs? If so which ones?

The long established iron ore market has probably changed more in the last three years than in the previous 50.

This brand new study, *Trading Iron Ore: An in-depth and independent analysis of the iron ore trading market and how it could evolve*, Metal Bulletin Research provides a detailed analysis of the current status of the physical and financial iron ore markets, and how they could evolve over the next five years.

Iron ore is the largest dry bulk commodity traded worldwide with a seaborne trading volume that reached 1.12bn tonnes in 2011. The growth in international iron ore seaborne flows has been primarily driven by a surge in Chinese imports, which have been multiplied by almost 10 in the last decade, to reach 687m tonnes in 2011.

In the meantime, the pricing mechanism of iron ore procurement worldwide has changed dramatically.

The tremendous price swings of 2008-09 gave the final blow to the old benchmark system.

We had another test of the sharp volatility in iron ore prices more recently, with for instance the CFR Qingdao market losing $60/dmt in a matter of weeks in Q4 2011.

Physical iron ore trading is now a risky business and the development of risk management tools is welcome by many participants.

Trading Iron Ore: An in-depth and independent analysis of the iron ore trading market and how it could evolve includes:

- Iron ore physical flows;
- Current status of the financial market;
- In-depth analysis and comparison of the methodologies of the three main indices traded so far;
- A detailed review of the exchanges most active in the current market;
- Analysis of alternative products in development;
- Our views on the development of the market over the next five years;
- Detailed information about the most significant companies involved in iron ore financial trading today;
  - Physical iron ore traders
  - International investment banks
  - International iron ore consumers
  - International iron ore producers
This study is split into seven key parts offering expert analysis and independent guidance including:

**Section 1: Iron ore physical market**
When starting to trade a financial commodity you simply cannot ignore the physical market as physical supply/demand is the ultimate driver for iron ore dynamics.
- Iron ore international supply/demand analysis
- History and evolution of the main exporting and importing countries
- Analysis of the main flows and evolution including detailed maps

**Section 2: The current status of the iron ore financial market**
- Market development since 2008
- Background to the iron ore benchmarking system and reasons for its eventual collapse
- Why the 'Quarterly in arrears less one month' pricing system or QALOM didn’t last?
- Historical trading volumes of iron ore swaps from 2008 to the present with estimated split between bilateral and trading on exchange
- How do iron ore swaps volumes compare in their first three years of existence with coal, freight, aluminium, oil and CO² emissions?
- Summary of methodologies of the three main indices and comparison of historical prices. Spread analysis
- Estimated historical trading volumes for each index and market share
- The critical role of exchanges and clearing houses
- Summary of the main exchanges and clearing houses involved in iron ore today. Historical volumes and evolution of market share
- Market structure: main principals and brokers active in the market today
- The very different approach from different categories of principals

**Section 3: Detailed analysis of the methodologies of the three main iron ore indices and comparison**
This section provides a detailed methodology of the three main current indices and gives a neutral assessment of their strengths and potential weaknesses. It also provides a comparison based on the interviews conducted.
- Summary of the main physical and chemical parameters defining iron ore and their importance
- Detailed analysis of the methodology of MBIO, TSI and IODEX indices
- Tables comparing the main characteristics of the three indices

**Section 4: Detailed analysis of the exchanges involved today in iron ore trading**
Clearing facilities are now a pre-requisite for all financial instruments. Iron ore swaps are no exception which explains why already six exchanges and clearing houses have referenced the three iron ore indices. We examine in detail in this section the different products offered and the evolution of the activity for each exchange. We also give our views on the potential evolution.
- Introduction and background information for the main exchanges and clearing houses
- Tables summarizing the specifications of each contract
- Evolution of trading volumes
- Strength and weaknesses and potential developments
Section 5: New products in developments

Many participants we interviewed estimate the iron ore market is not fully matured yet. This means that the most actively contracts traded today may not be the definitive one. This section examines alternative indices and contracts that are in development worldwide and we give our opinion for their chances of success.

- Detailed analysis of alternative iron ore indices in development worldwide
- Feasibility of physical trading platforms and physical futures versus financial swaps

Section 6: Discussion and outlook for the iron ore market in the next five years

- Our views on which financial product could become the reference for iron ore trading
- Our estimate of trading volumes for the next five years based on the latest developments and comparison with other commodities
- The possibility of developing other trading methods
- We discuss the potential over-reliability of iron ore derivatives on the Chinese economy and the potential impact of a financial bubble bursting in China or the Far East
- Could other countries use the exiting tools as a proxy to manage their own risks?
- Is further consolidation possible in the iron ore market and what is the potential impact on financial trading?
- How iron ore financial trading could interact and develop with freight and steel financial trading?

Section 7: Company profiles

This section details the most active principals and brokers in financial iron ore trading by early 2012.

- Summary of each participant’s activity as a whole
- Specific information (where applicable) on each participant’s activity in iron ore derivatives and physical trading
**Trading Iron Ore: An in-depth and independent analysis of the iron ore trading market and how it could evolve** is an insightful market study providing a detailed analysis of the current status of the physical and financial iron ore market, and how it could evolve over the next five years.

Trading Iron Ore study is based on the extensive database and in-depth knowledge of the industry from Metal Bulletin Research. The authors have also conducted more than 60 in-depth interviews with significant producers, end users, traders, brokers, exchanges and financial institutions that are or could become significant participants in the physical and financial iron ore markets.

Metal Bulletin Research have written this study with Perret Associates. Guillaume Perret has been involved in the “new” iron ore market since its launch in 2008, amongst others through a series of reports and regular intensive training courses which give him direct access to high caliber participants in the market.

The study is designed as an indispensable tool for the benefit of iron ore physical and financial traders, risk managers, operations or back office representatives. They will find useful to have it available for reference when they trade or contemplate entering this market.

This study is required reading for all industry professionals that are trading physical or financial iron ore, or contemplating entering into this market:

- Mining companies
- Steel producers both in the long and flat markets
- Trading companies either already active in physical iron ore trading or other commodities
- Banks
- Hedge funds
- Financial institutions involved in long-term mining investments and interested in protecting the value of their assets
- Brokers, exchanges and clearing houses already active or willing to enter the market
- Consultants and analysts involved in the commodity sector

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**Biographies of authors**

**Brian Levich**

Brian is Metal Bulletin Research’s Head of Research and specialises in the steel and steel raw material sectors. He has written and oversees numerous newsletters, quarterlies and studies on the global steel industry and has done extensive consultancy and market research for a number of steel producers, consumers and financial institutions.

**Derek Newport**

Derek Newport has been working for a period of six months in the production of this study. Derek was previously market manager – physical iron ore broker for the physical trading platform globalORE.

**Guillaume Perret**

Guillaume Perret has sixteen years’ extensive experience in coal and dry commodities trading. Mr. Perret spent five years with RWE in London, setting up and developing the coal and freight trading desk, and five years with Louis Dreyfus Négoce in Paris, trading international grains and chartering physical vessels. Mr Perret is also the course director of “Iron Ore Trading and Risk Management” and “Coal Trading and Risk Management” courses. He is the author of: “The International Coal Trading Market 2010-11”, “The International Dry Freight Market” and co-author of “Trading Iron Ore: a full feasibility study for a new derivatives contract”.

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