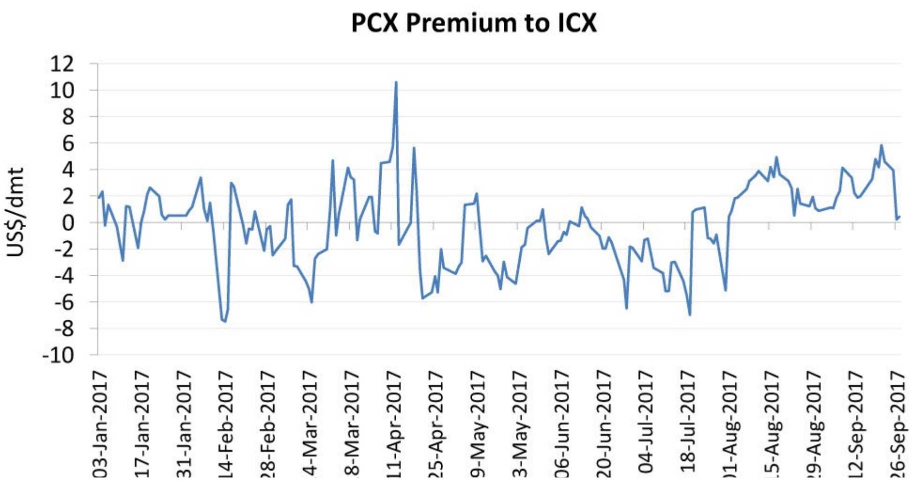
Argus White Paper: Argus PCX index seaborne/onshore iron ore market interplay

Overview

Over the past few years, a bustling secondary market for iron ore has emerged at Chinese ports. All along China's coast, landed seaborne cargoes — which tend to be sold either on the water or before being shipped in vast Capesize vessels — are broken into smaller parcels and sold on a cash basis. With many traders, and now even the big mining companies, selling at port, this market is attracting increasing attention outside of China — as an indicator of price trends and brand relativities, and as a barometer of demand for the seaborne market.

Seaborne/Portside price relationship a volatile one



Portside pricing: Same, same – but different

Given the short-term and cash-based nature of the portside market, it can in many ways be viewed as driven purely by supply and demand. With small volume sizes and fewer complications from credit or other factors, transaction turnover at port is relatively high — particularly for brands that tend to trade mainly on a long-term contract basis in the seaborne market.

Portside prices seem unlikely to displace, or even disrupt, the seaborne market any time soon. The former is dependent on the latter, and unlike the seaborne price, portside prices include local taxes and port fees in a currency that is not easily convertible. But the portside market remains keenly watched outside of China as an indicator of brand availability and price trends in the seaborne market.

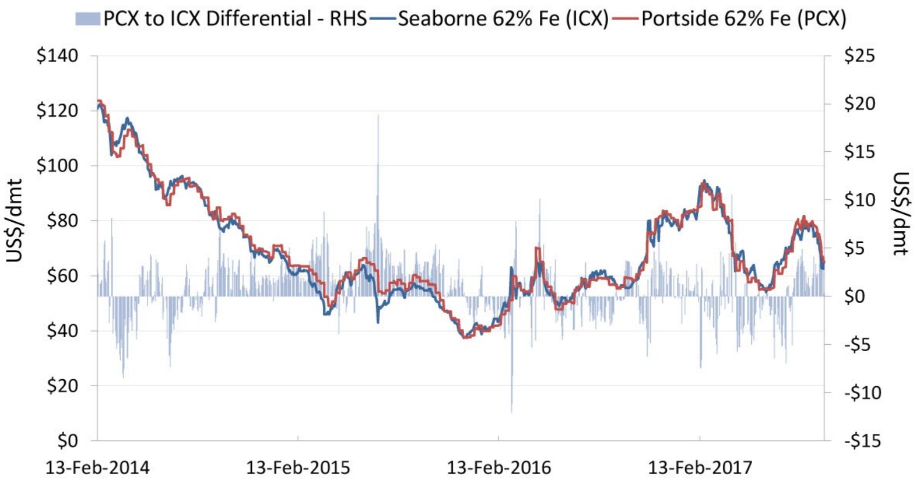
Argus deepens iron ore sector coverage

Argus has tracked the price of iron ore at Chinese ports since February 2014, and in September launched a daily portside index (PCX) tracking the most liquid grades at China's busiest ports in Shandong province. Argus also began publishing four differentials for commonly traded brands offering even greater granularity: PB Fines, Newman Fines, Brazilian Blend Fines and Super Special Fines.

In addition, Argus has calculated a history for PCX going back more than three years from previously collected data, giving both prices per wet tonne in Chinese yuan, as well as 62% Fe "seaborne equivalent" US dollar portside prices. This downloadable price history can be compared like-for-like with the headline 62% Fe ICX index for seaborne fines. ICX is the flagship Argus index for seaborne 62% Fe ore sales, concluded on a cfr Qingdao basis.

For traders opting to land seaborne cargoes in China before selling them on, this arbitrage between seaborne and portside prices is a key consideration when making purchases. Smaller volumes and immediate delivery mean port prices tend to be at a structural premium to seaborne — much as retail prices are higher than wholesale for consumer goods. So a dip in the port price below the seaborne equivalent

Portside ore price tested frequently on smaller volume; akin to Taiwan scrap (container) vs Turkey (bulk)



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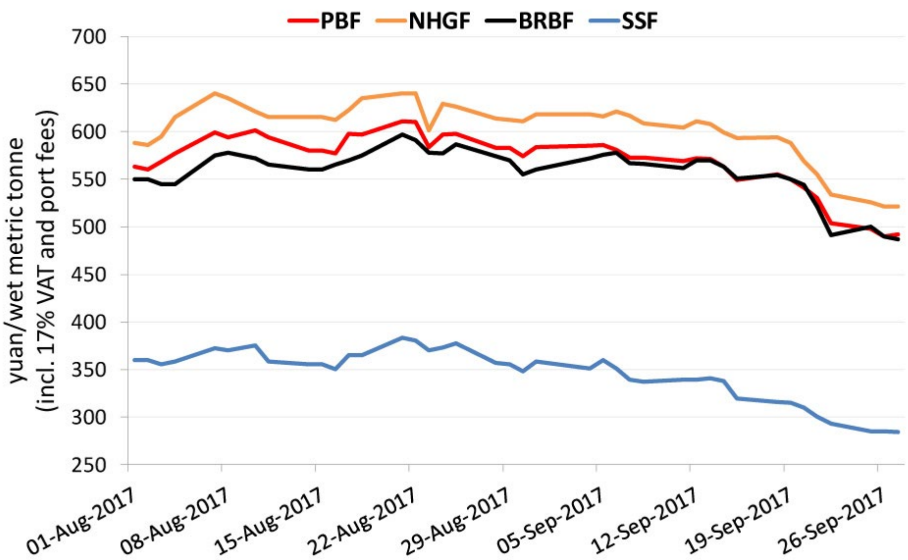
Brand spreads in a constant state of flux/testing



indicates pressure on the cfr market. A spike in port prices will encourage both position taking by traders, and push primary buyers such as mills towards cheaper seaborne material.

The spread between port and seaborne prices is itself volatile (see chart), dependent on local dynamics, currency fluctuations and port fees.

Other dynamics play out on a more fragmented level for specific brands, which the new brand differentials (available back to August) will help track. Witness the recent pressure on Super Special Fines discounts, where surpluses at ports led to discounts on the long-term contract and/or index-linked pricing agreements for seaborne spot cargoes. Similarly, when coking coal prices spiked last year and high-grade fines became scarce, Chinese port stock traders began to refer to 65% Fe IOCJ fines from Brazil as the "Hermes of iron ore" because of its scarcity and high price, which was rapidly reflected in the US dollar price in the seaborne market.

Key metric in an ever-evolving market

The iron ore market continues to evolve in new directions. Just as spot buying, indexation, derivatives use, e-platforms and floating trade have all altered — and continue to change — market dynamics, so portside pricing will prove to be something that cannot be ignored and will require careful monitoring by anyone involved in the iron ore market.

Argus is providing key single-figure benchmarks to track the overall price trend for both portside and seaborne material in our 62% Fe PCX and ICX indexes. The new — and back-calculated — PCX 62% Fe portside index specification exactly matches the ICX 62% index for imports into China, simplifying side- by-side comparison. This specification, in turn, is based on the most liquid traded grades of mainstream medium-grade ores.

The publication of a converted US$/dry tonne equivalent price for the PCX, along with a PCX/ICX spread, further simplifies the comparison.

For further information on either PCX (China Portside Iron Ore Prices) or ICX (Seaborne 62% Fe Iron ore, CFR Qingdao), contact:

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