Iron Ore: Price Weakness To Continue Into 2025, Upside Contingent On Mainland Chinese Stimulus

15 Nov 2024

Key View

- We maintain our 2025 iron ore price forecast at an annual average of USD100/tonne, expecting continued downward pressure due to weak demand stemming from a subdued outlook for Mainland China amid its sluggish property sector.

- Iron ore prices are likely to remain highly sensitive to potential stimulus announcements, with market sentiment skewed towards expectations of further support in the coming months.

- On the supply side, iron ore production remains healthy across major miners, which will work to limit any potential upside for iron ore prices.

- We highlight downside risks to our 2025 forecast should the Trump administration impose significant trade tariffs on Mainland Chinese steel exports, which would cap demand for iron ore.

- Over the long term, we expect iron ore prices to follow a multi-year downtrend, with prices forecast to decline to USD78/tonne by 2033.

Iron Ore Price Forecast (USD/Tonne)

	Current (November 8)	2024 YTD	2020	2021	2022	2023	2024f	2025f	2026f	2027f	2028f
BMI	96	105	105	156	113	114	110	100	95	92	90
Bloomberg Consensus	na	na	na	na	na	na	109	95	90	88	90

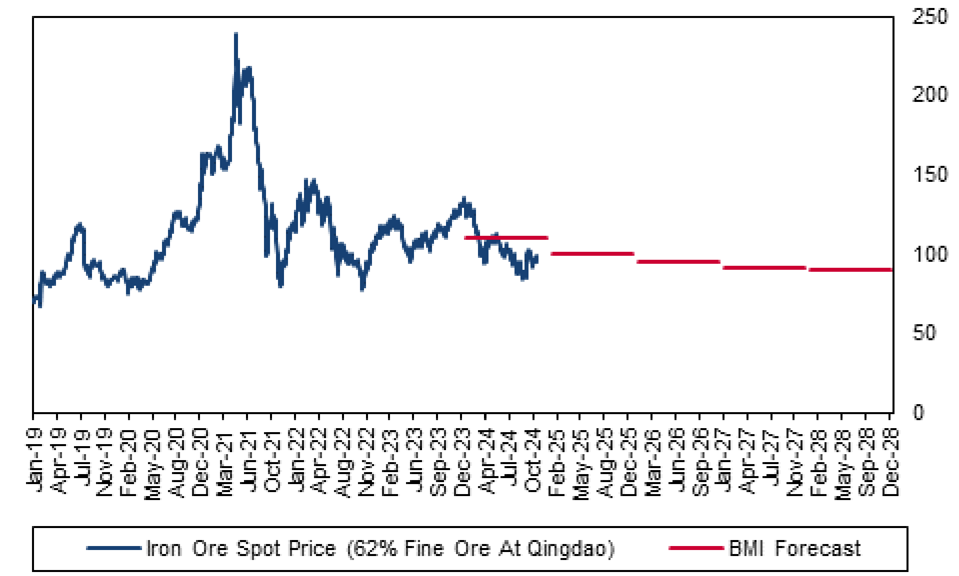
Note: Futures prices of iron ore at Qingdao Port, 62% grade CFR; na = not available/applicable. f = BMI forecast. Source: Bloomberg, BMI. Last updated: November 8 2024

Short-Term Outlook (Three-To-Six Months)

We maintain our 2025 iron ore price forecast at an annual average of USD100/tonne, expecting continued downward pressure due to weak demand stemming from a subdued outlook for Mainland China amid its sluggish property sector. Iron ore (62% Fe content) prices at Qingdao Port are currently hovering below USD100/tonne, around USD95.7/tonne as of November 8, with the year-to-date average in 2024 thus far being USD105/tonne. After hitting a multi-year low of USD85/tonne on September 23, prices rebounded sharply to USD103/tonne on September 30, in the wake of Chinese stimulus announcements. That said, the rally proved to be short-lived, with prices trending downwards into early November, struggling to breach the USD100/tonne mark, despite Beijing's efforts to reinvigorate the property sector. While better-than-expected manufacturing PMI data, returning to expansionary territory in October, lent some support to prices, persistent weakness in Chinese demand coupled with rising iron ore inventories has sustained downward pressure. **We expect iron ore prices to continue to be hit by a weak demand outlook, barring additional support measures from Mainland China in the coming months.** Iron ore prices are likely to remain highly sensitive to potential stimulus announcements, with market sentiment skewed towards expectations of further support in light of anticipated rekindled trade tensions under a second Trump presidency. The extent of any provided stimulus will be crucial in determining whether it can turn the tide for the iron ore market.

Prices Trading Lower As Mainland Chinese Stimulus Falls Short

Iron Ore Prices & BMI Forecasts, USD/tonne (2019-2028)



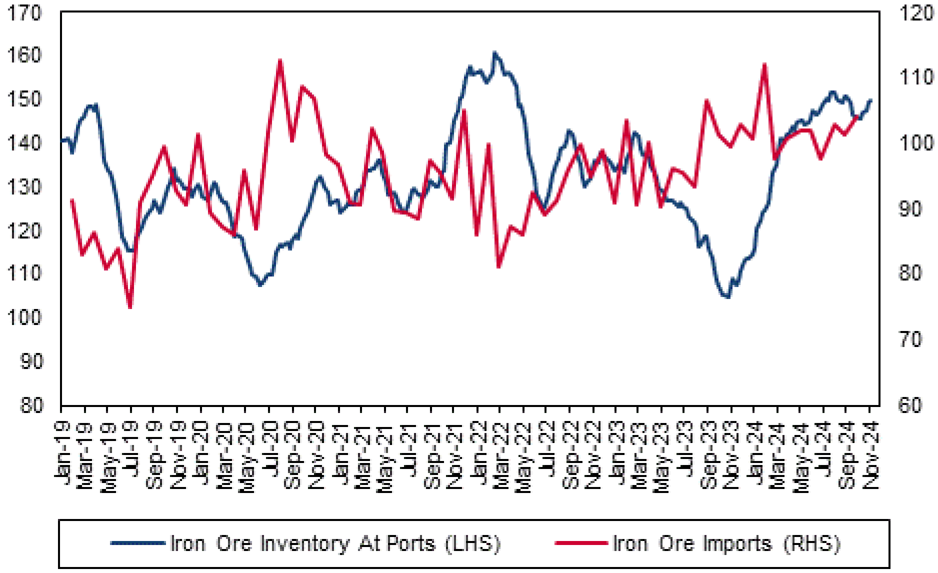
Note: 62% CFR, Qingdao. Note: Horizontal red lines represent BMI average annual forecasts. Source: Bloomberg, BMI

On the demand side, steel production in China and thus demand for iron ore still remain sluggish, with property sector weakness adding to the grim picture. According to the World Steel Association, during the first nine months of 2024, China's production of crude steel declined by 3.6% y-o-y, with production in September falling by 6.1% y-o-y. While China's manufacturing PMI surprised to the upside, returning to an expansionary territory for the first time in six months, registering a reading of 50.1 in October, compared to 49.8 in September, the ongoing property downturn still shows little sign of reversing. During the first nine months of 2024, investment in the real estate sector declined by 10.1% y-o-y, after falling by 10.2% over January-August 2024, while new construction floor starts contracted by 22.2% y-o-y during January-September 2024. We note that the recently unveiled raft of stimulus measures presents an upside, however, our Country risk team highlights that addressing the property market downturn will be a multiyear effort, given the scale of unfinished projects and unsold housing stock. The growth impact from the debt swap programme announced in November 2024 also seems to be limited, with our Country risk team maintaining their real GDP growth forecasts at 4.8% for 2024 and 4.5% for 2025.

While China's imports of iron ore remain elevated, rising by 4.9% y-o-y over January-October 2024, with demand turnaround expectations and a lower price environment acting as a tailwind, they were likely adding largely to stocks. We note a strong build-up of iron ore inventories at Mainland Chinese ports, rising by 31% in the year-to-date to 149.9mnt as of November 8, which has the potential to place a cap on prices in the coming months (*see the chart below*).

Price Gains Clouded By Elevated Inventories

China (Mainland) - Iron Ore Imports And Total Inventory At Ports, mnt (2019-2024)



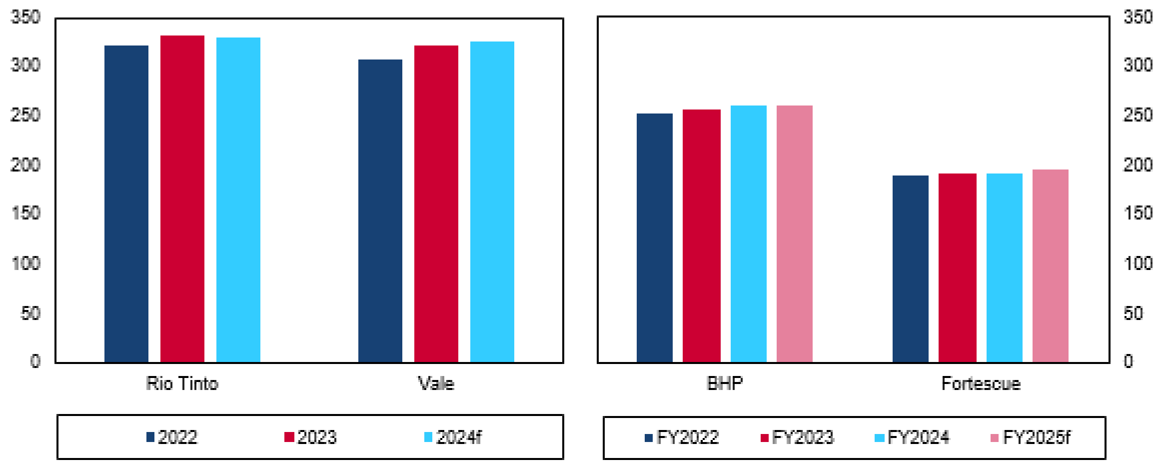
Source: Bloomberg, BMI

Outside of China, steel production and demand for iron ore remain muted so far. According to the World Steel Association's report, global crude steel production declined by 1.9% y-o-y over January-September 2024, with September registering a sharp y-o-y decrease of 4.7%. Steel production in India, Germany, Turkiye and Brazil outperformed, rising by 5.8%, 4.0%, 13.8% and 4.4% y-o-y, respectively, during the first nine months of 2024. That said, this was offset by steel production downturns in other key markets, including Japan, the US, Russia, South Korea and Iran. During January-September 2024, Japan and the US registered y-o-y steel production growth rates of -3.2% and -1.6%, respectively, while steel production in Russia and South Korea dipped by 5.5% and 4.6% y-o-y, respectively.

On the supply side, iron ore production remains healthy across major miners. Iron ore shipments and production broadly increased for most majors, with miners aiming to maintain their production levels. BHP saw record iron ore production in FY2024 (year ended June 30) of 260mnt, a 1% y-o-y increase, and expects FY2025 production to come in at 255-265.5mnt. Fortescue maintained its iron ore shipments guidance for FY2025 at 190-200mnt, slightly up from 191.6mnt reached in FY2024. Vale's iron ore production guidance for 2024 has been recently revised upwards to 323-330mnt from the previously expected 310-320mnt. Lastly, Rio Tinto's 2023 iron ore shipments rose by 3% y-o-y to 332mnt, with the miner setting its 2024 guidance at 323-338mnt.

Iron Ore Production Remains Healthy Across Major Miners

Major Iron Ore Producers - Iron Ore Production (Shipments), mnt



Note: BHP and Fortescue FY ends on June 30. f = forecast according to companies' production guidance. Source: Company reports, BMI

Long-Term Outlook

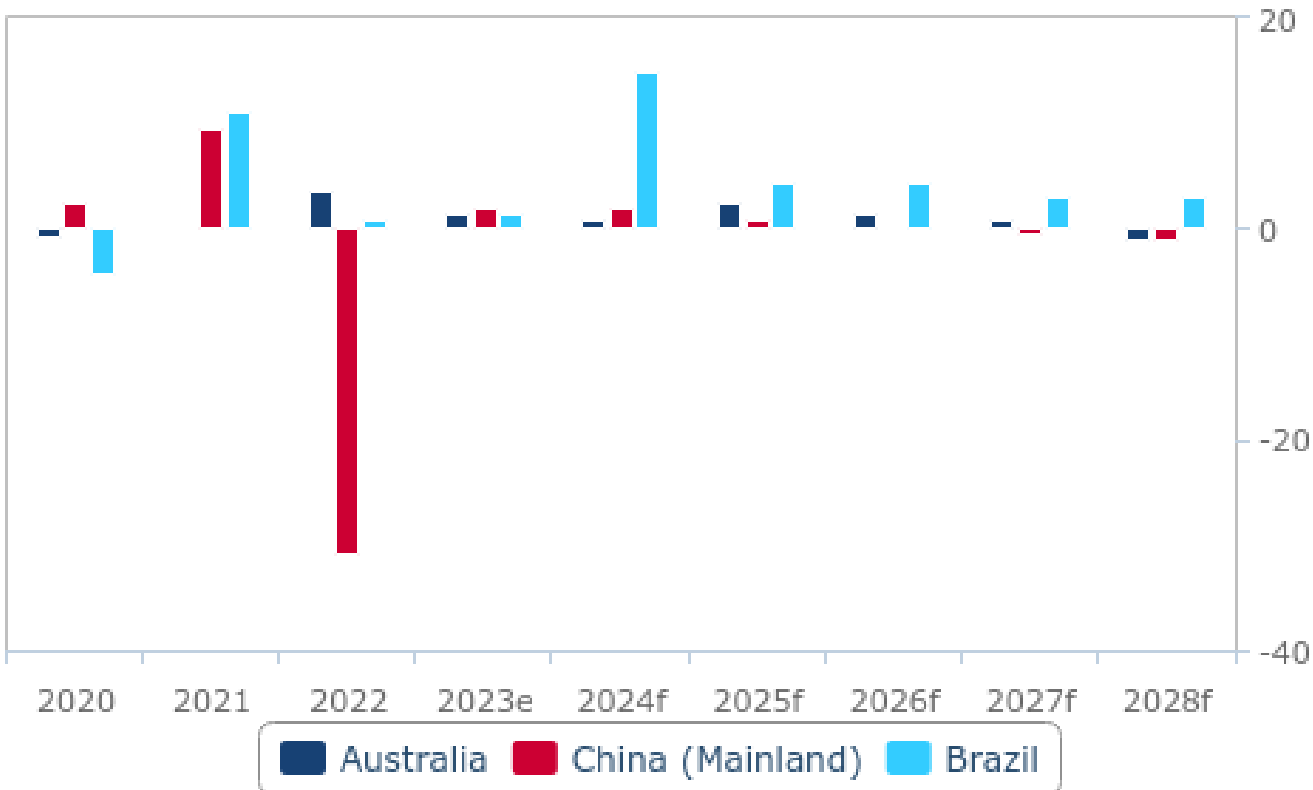
Looking beyond 2024-2025, we expect iron ore prices to follow a multi-year downtrend. We maintain our view that iron ore prices will consistently trend downwards, as cooling steel production growth and higher iron ore output from global producers will continue to loosen the market. In the long term, we forecast prices to decline from an average of USD110/tonne in 2024 to USD78/tonne in 2033. While significantly lower than USD156/tonne in 2021, the USD97/tonne annual average that we forecast for 2024-2028 would still be higher than the 2016-2020 average of USD78/tonne.

China's slowing demand growth will be the main driver of lower prices, a trend that is now already in its early stages. A structural shift away from industrial, steel-intensive sectors towards services and less-steel intensive infrastructure will have a negative impact on iron ore demand. This shift in

China's economic growth trajectory is expected to depress steel consumption and production growth rates. While domestic steel production was allowed to significantly outstrip steel demand over the past decade, with the resulting surplus exported, we expect production growth to be brought more closely in line with domestic consumption patterns in the coming years. Based on these forecasts, we expect China's annual iron ore consumption to peak before the end of the decade, while iron ore demand across Asia more broadly will continue to grow, but at a very slow rate.

Iron Ore Production To Stabilise, Brazil Leads Peers

Select Markets – Iron Ore Production Growth (2020-2028)



e/f = BMI estimate/forecast. Source: Local sources, USGS, BMI

Consistent with this shift, we expect an increased focus on green (low-carbon) steel globally, which requires much less iron ore and is produced at electric arc furnaces, compared to the current blast furnace production model that requires high levels of iron ore and coking coal, which is highly polluting. Heightened pressures on environmental conservation through regulatory and voluntary commitments will be an impetus to driving changes towards greener steelmaking. As the EU's carbon border adjustment mechanism takes effect, a growing number of startup steelmakers have started to create green steel for industrial use. In the EU, all major steelmakers are involved in either research or pilot projects to test low-carbon steel production processes. The US may examine similar trade measures to foster domestic investment in greener steel production as well. These trends also pose further downside risks to our long-term iron ore demand forecast, such that demand may peak sooner than we currently expect.

Risks To Outlook

Risks to our current price outlook exist on both sides given current volatile economic conditions. Iron ore prices will head even lower than our current outlook if China's economic momentum remains weaker than expected. On the upside, a stronger recovery in China's property sector will be the major influencer driving demand and supporting iron ore prices. Supply constraints at producing mines could also push prices higher. Unforeseen weather conditions in the wake of La Niña developing towards the end of the year, as well as labour and energy issues could pressure key producing markets, including Australia and South America.

Global Iron Ore Production & Price Forecasts (2020-2026)

Indicator	2020e	2021e	2022e	2023e	2024f	2025f	2026f
Iron Ore Price, USD/tonne, ave	104.9	156.0	112.8	114.3	110.0	100.0	95.0
Iron ore price, ave, % y-o-y	16.1	48.7	-27.7	1.3	-3.8	-9.1	-5.0
Global Iron Ore Mine Production, mn tonnes	2,470.0	2,680.0	2,500.0	2,556.0	2,660.5	2,753.8	2,902.5
Global Iron Ore Mine Production Volumes, % y-o-y	0.8	8.5	-6.7	2.2	4.1	3.5	5.4

e/f = BMI estimate/forecast. Source: Local sources, USGS, BMI

Global Iron Ore Production & Price Forecasts (2027-2033)

Indicator	2027f	2028f	2029f	2030f	2031f	2032f	2033f
Iron Ore Price, USD/tonne, ave	92.0	90.0	88.0	85.0	83.0	80.0	78.0
Iron ore price, ave, % y-o-y	-3.2	-2.2	-2.2	-3.4	-2.4	-3.6	-2.5
Global Iron Ore Mine Production, mn tonnes	2,969.3	2,994.3	3,016.4	3,028.3	3,032.2	3,028.4	3,018.0
Global Iron Ore Mine Production Volumes, % y-o-y	2.3	0.8	0.7	0.4	0.1	-0.1	-0.3

f = BMI forecast. Source: Local sources, USGS, BMI