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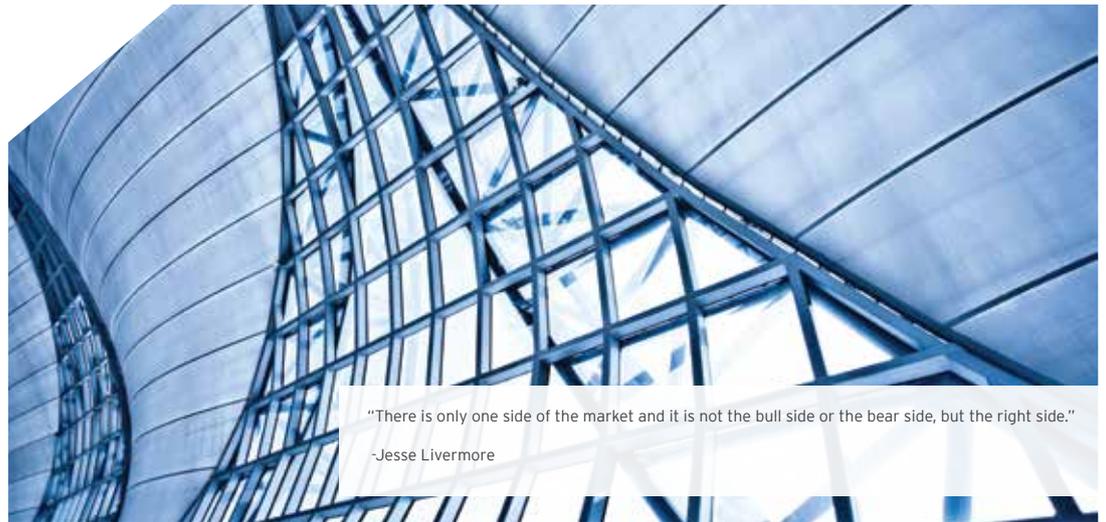
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"There is only one side of the market and it is not the bull side or the bear side, but the right side."

-Jesse Livermore

ECONOMIC COMMENTARY - By Francois Stofberg

Oversupply, a lack of demand, high inventory levels, and a strong dollar have seen commodity prices plummet since the global financial crisis in 2008/09. In the steel industry, and those commodities related to the industry (like iron ore), China is by far the largest player. Not only do they produce almost 50% of global steel production (roughly 8 times more than their closest competitor), they demand 71% of the global production. China would therefore, be an obvious place to look and try and explain the recent changes in the prices of iron ore, and to determine if these changes are sustainable.

The Chinese government announced that they would maintain GDP growth of 6.5% for the next five years; the renewed optimism would definitely aid iron ore prices. However, over the last couple of weeks' these prices have rallied more than 18%, from a six-year low hit in mid-January. Other than renewed optimism, the Yuan depreciated a week or so back and traders imported more ore to protect against possible further depreciations; these changes would also nudge prices up. However, most of the steel and its related commodities go into China's property market. This sector has seen higher sales and prices, but it hasn't spread into new construction projects, and analysts doubt that it will. So why the sudden jump in prices? The reason might surprise you.

Tangshan is one of China's biggest steel producing cities and has decided to curb output in order to clean the air for the giant flower show they will host from April to October 2016. Here's the thing though, Chinese producers usually stock-up on steel in anticipation for the construction pick-up in their spring-time, which caused iron ore stockpiles to fall substantially over the last couple of weeks (boosting prices). So, with the looming production cuts, they decided to run steel mills at full so they would be able to fill the demand from their clients. Considering that iron ore levels were already low to begin with, the additional demand fuelled the price increase towards the levels we now report. We therefore, do not consider the latest jump in iron ore prices sustainable.