

# ASSET CLASS INSIGHTS

## AUSTRALIAN EQUITIES - IRON ORE VIEWS

### Conclusion

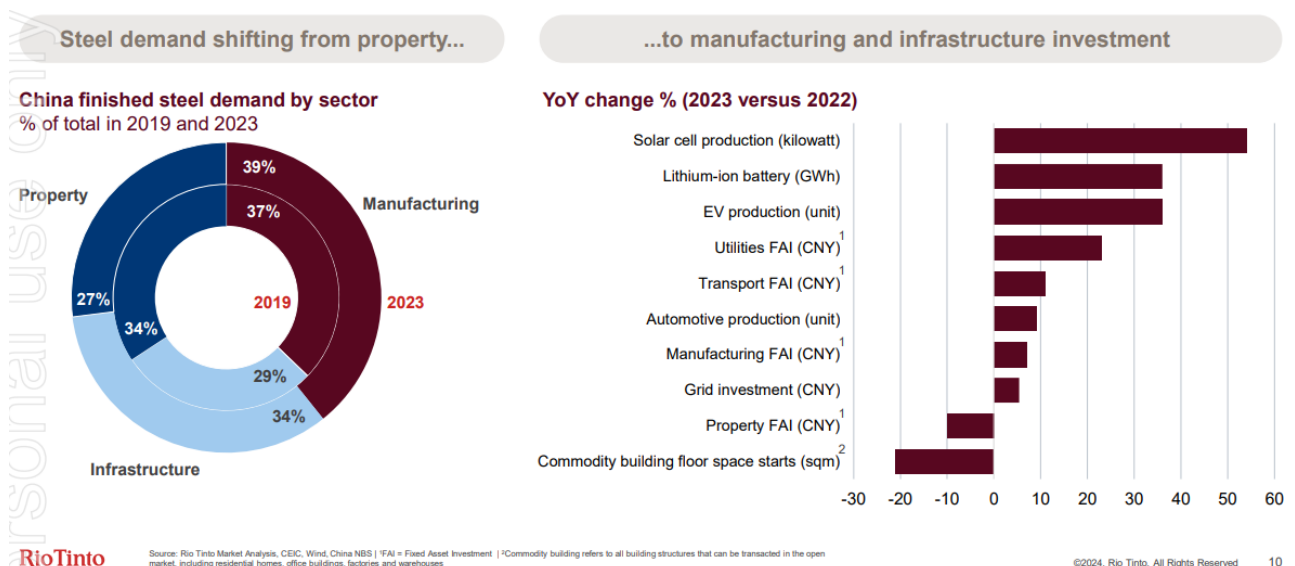
- Market sentiment remains bearish China and therefore bearish on iron ore prices over the short and medium-term.
- Following our recent trip to Asia where we spent almost a week in China talking to industry consultants and companies operating in the region, we came back more constructive versus the market's bearish expectation.

Given that iron ore remains an important profit driver for some of our portfolio holdings (and the Australian equities market given the size of companies such as BHP, Rio Tinto and Fortescue Ltd) we recently spent some time in China as part of our Asia trip, talking to industry consultants and companies operating in the region, to build insights and conviction on the iron ore market.

### CHINA'S STEEL DEMAND – IT ISN'T ALL ABOUT PROPERTY...

China is the largest steel producer in the world having produced approx. 1 billion tonnes of steel in 2023. To support China's steel production, they are also the largest iron ore importer (approx. 1.16 billion tonnes in 2023).

China steel demand is driven by the Manufacturing sector (approx. 39%) followed by Infrastructure (approx. 34%) and Property (approx. 27%) – see chart below.



The key driver behind the market's bearish sentiment on China is driven by the property sector. Based on our discussions with industry consultants and property developers, activity remains slow but expectations are that activity will pick up in the second half of 2024 following policy easing announced late last year (for



example, urban village renovations, social housing and constructive changes to specific housing policies ie ownership and down payment requirements).

While we believe we will continue to see negative headlines around private property developers collapsing in China (such as Evergrande and Country Garden), in the short-term it does not impact the projects under construction given that they will likely be taken over by State-Owned Enterprise (SOE) developers. It is worth noting that at the peak of the property market, private developers had 70% market share versus only 40% today.

Demand from the Infrastructure and Manufacturing sectors should continue to grow in 2023, especially with China targeting GDP growth of 5%.

### WHAT DOES THIS MEAN FOR IRON ORE PRICES IN 2024?

2024 consensus iron ore price is approx. US\$110 per tonne. The underlying driver behind this is that both supply and demand will be relatively flat in 2024 versus 2023 with Property demand declining, offset by growth in both the Infrastructure and Manufacturing sectors.

We are of the view that there is upside risk to consensus iron ore prices in 2024 based on the following reasons:

- The average iron ore price for 2023 was US\$120 per tonne. Consensus is forecasting supply and demand to be relatively flat in 2024 but expects iron ore prices US\$10 per tonne lower (to US\$110/t).
- Steel demand from the Property sector is already down approx. 23% from the peak in 2023 with consensus expecting further decline in 2024. Given policy easing announced in 2023 there could be upside risk to this (however this is not our base case).

With the iron ore price trading at approx. US\$140 per tonne at the start of the year and now trading close to US\$100 per tonne, we are not too concerned given the late Lunar New Year this year (mid- February versus prior years of late January) and a slow start to construction season given the cold weather.

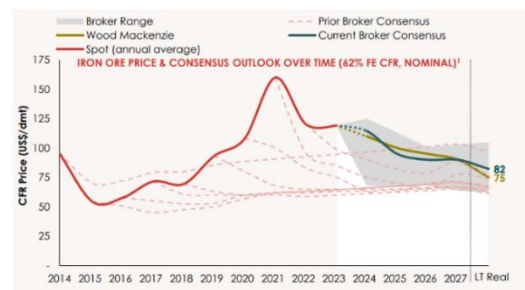
*Forecasting commodity prices is notoriously difficult but consensus have consistently underestimated the iron ore price...*

Chris Ellison (Managing Director of Mineral Resources) –

*“I’ve spoken often about consensus; in my high opinion I have of them and how accurate they are at landing the numbers. I just wanted to show here that they have been absolutely consistent for 10 years. They have never once predicted where the price of iron ore is going in 10 years. Not once have they nailed it.”*

### IRON ORE PRICE OUTLOOK

CONSENSUS ESTIMATES HAVE **CONSISTENTLY UNDERESTIMATED THE IRON ORE PRICE OUTLOOK**



1. Consensus as at January of each year on a nominal basis (with the exception of LT)  
 2. MineCo cash flows only of MinRes share (60.3% basis). Based on Onslow Stage 1 run-rate, LOM average pricing realisation and operating estimates per the Updated Feasibility Study and LT consensus AUD\$50 FX of 0.74. Spot case uses spot AUD\$50 FX of 0.65



About the author:



**THI DOAN**  
**Investment Analyst, Equities**

Thi has been an equities analyst with Equity Trustees since August 2013. He is responsible for coverage of the Metals and Mining, Energy, Developers & Contractors and Gaming sectors.

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For more information contained in this briefing, please contact:



**Grant Mundell**  
Investment Specialist  
+61 2 9458 5518  
[GMundell@eqt.com.au](mailto:GMundell@eqt.com.au)



**Chris Haynes**  
Head of Equities  
[chaynes@eqt.com.au](mailto:chaynes@eqt.com.au)

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