

MB Iron Ore Index (58% Fe) methodology

LONDON
BY CAMERON HUNT

The Metal Bulletin Iron Ore Index 58% (MBIOI-58) is a daily reference price for the iron ore spot market. In addition Metal Bulletin publishes a daily differential premium to the 58% Fe high grade, low alumina and phosphorous material (MBIOI-58P).

The Index is a tonnage-weighted calculation of actual transactions that have been normalised to a base specification and delivery point, using the value-in-use for different materials applied by the market. The Index is structurally designed to balance the influence of all sides of the market, preventing market distortions, and to remove incorrect or misreported data. All market data is combined into a single reference price, allowing maximum liquidity, and hence accuracy, in the model.

Metal Bulletin has partnered with Shanghai Steelhome, the leading independent market intelligence, data and consultancy company in the Chinese steel industry. Steelhome supplies daily transaction and price data from its widespread contact base of steel producers and iron ore traders within China. This will be integrated into the MB Index daily model, making it the only Index with access to such data from a major Chinese partner.

The Index is based on actual transactions, which are reported to MB or Steelhome by any market participant who is conducting trades on a cfr China spot basis. All origins of material are included, and normalisation curves are developed for different origins and grades of material.

The data is normalised using an in-house developed model based on the value-in-use applied by the market to different material grades, to a single iron content (58% Fe) and using the latest freight rates supplied by one of the leading brokers to a single port (Qingdao). The normalisation coefficients have been developed using MB's extensive historical

	Iron Ore index - MBI0I - 58	High grade premium - MBI0I - 58P
Price	US\$ per dry metric tonne, cfr China	US\$ per dry metric tonne, cfr China
Fe content	Base 58%, range 56% to 60%	Base 58%
Silica	Base 5.5%, maximum 8.0%	Base 5.5%
Alumina	Base 3.5%, maximum 5.0%	Base 1.5%
Phosphorus	Base 0.08%, maximum 0.10%	Base 0.05%
Sulphur	Base 0.04%, maximum 0.07%	Base 0.01%
Moisture	Base 8.0%, maximum 10.0%	Base 8.0%
Granularity	Maximum Size >90% <10.0mm	>90%<10.0mm
Trade size	Minimum 30,000 tonnes	Minimum 30,000 tonnes
Payment terms	Payment at sight. Other terms normalised to basis	Payment at sight
Delivery port	Base Qingdao-Rizhao-Lianyungang, normalised for any Chinese mainland sea port	Qingdao
Delivery period	Within 8 weeks	Within 8 weeks
Publication	Daily at midday London time	Daily at midday London time



data and history of reporting prices in this market, and are updated every three months to reflect the value-in-use of different products and grades. This allows the market to define the complex relationship between price, chemistry, physical properties and soft factors.

The details below are the base target specification. Material that differs from the base specification but falls within the target range is normalised to the base specification and port. The base specification has been chosen in consultation with the market to accurately reflect the reality of the physical market.

Neither MB nor Steelhome has any financial interest in the level or direction of the index.

Accuracy

Three sub-indices are created, based on data received from producers, traders and consumers.

The sub-indices are based on a tonnage-weighted calculation of actual transactions normalised for iron content and freight. The final index is the non-weighted average of the three sub-indices, allowing for equal representation from all sides of the market, and also counters market distortion or cherry-picking of data. Only the final index is published.

MB seeks to utilise at least twelve trades, four for each sub-index, as a minimum to calculate the index. In the event that this is not achievable due to market conditions, assessments from market participants will be included in the index calculation via a defined methodology.

All data points that fall greater than 4% away from the calculated index are excluded, and the index recalculated once. Outliers will be investigated, and attempts to

influence the index unfairly will result in the data provider being warned or excluded. Metal Bulletin reserves the right to exclude data points that it believes are an attempt to manipulate the market.

Data is submitted in a secure manner by phone, email, or directly through the website. All correspondence is stored on secure servers. The use of the data is governed by confidentiality agreements as appropriate.

Notes

The normalisation coefficients are updated monthly, with the new coefficients based on data collected over the previous month. The Index will continue to be published on UK holidays. In the event of technical difficulties or other unforeseen problems, the Index will be published from our Singapore office or Shanghai office, as appropriate.

Material in the form of pellets and lumps is excluded. Domestic Chinese material, and material imported by routes other than by sea, for example by train or truck, is also excluded, as is material that has already been delivered and is held on stockpile at the dock.