Metal Bulletin Iron Ore Index

The Metal Bulletin 58% Fe Premium Index – the global benchmark for low-grade seaborne fines

The Metal Bulletin 58% Fe Premium Index is the leading reference price for the low-grade seaborne fines market. A significant proportion of the physical iron ore market already uses it to price material being sold into China.

The Singapore Exchange (SGX), the leading iron ore derivatives exchange, has recently announced plans to introduce cash-settled Iron Ore CFR China (58%-Fe Fines) derivatives, one of which will be settled against the Metal Bulletin 58% Fe Premium Index (MBIOI-58PI). **The 58% Fe Premium Index is an aggregate of the Metal Bulletin 58% Fe Index and the Metal Bulletin 58% Fe Premium.**

The underlying 58% Fe Index is a tonnage-weighted average of daily transactions, normalised to the base specification. The published premium represents the additional value commanded by a low-alumina, high loss-on-ignition (LOI) product in the spot market.

The premium is calculated as the difference between the base 58% Fe index and a tonnage-weighted average of high-specification transaction data points that have been normalised to the premium specification. The premium is rounded to the nearest $0.50.

All the data collected is split into sub-indices representing producers, consumers and traders according to source. The final index is a straight average of these three sub-indices. This means that all parts of the market have a fair and equal influence on the final published index. Material of all origins may be included in the indices as long as the material remains within the published index specification.

Metal Bulletin's two-stage method for the 58% Fe Premium Index is designed to reflect the diversity of material in the low-grade fines market. It recognises the quality detachment between a mainly goethitic, high LOI ore such as Yandi, and the more common mixed-mineralogy lower-grade ores that tend to have higher impurity levels.

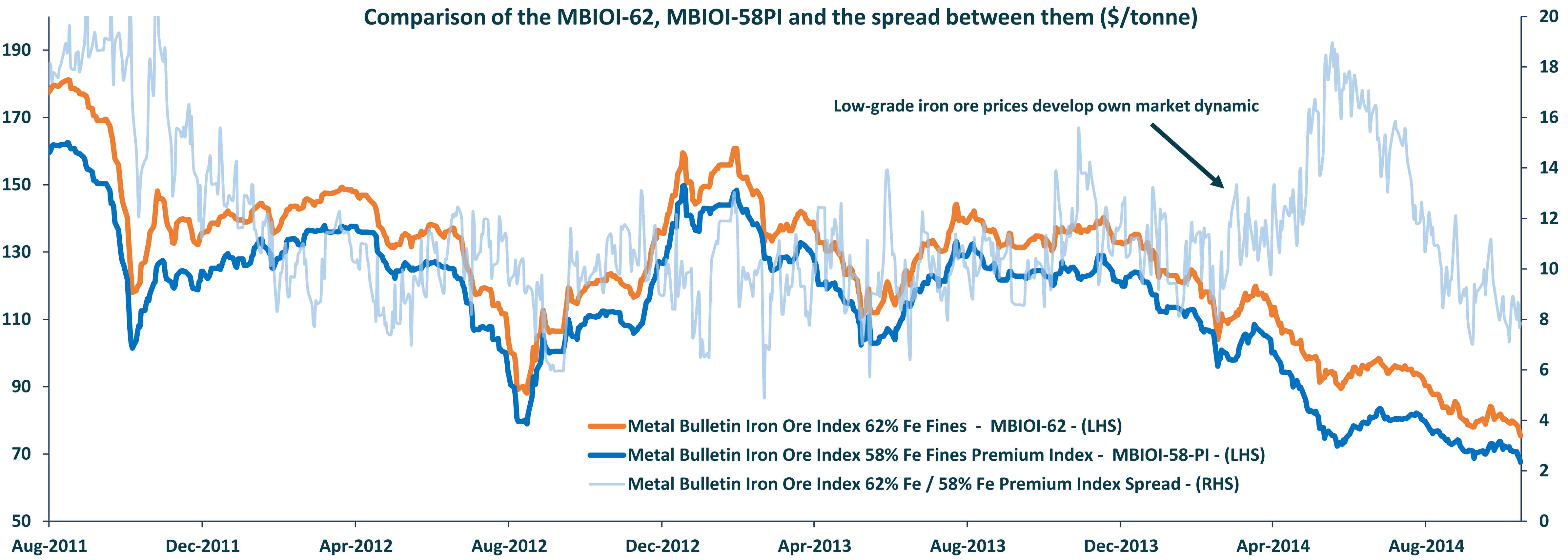

Figure 1. The MBIOI 58% Fe Premium Index is the aggregate of the MBIOI-58 and MBIOI-58 premium that have been published since August 2011, and has developed in to the leading global industry reference price for low-grade iron ore.

58% Fe Index Base Specifications

	MBIOI-58	MBIOI-58 Premium
Fe	58.00%	58.00%
Silica	5.50%	5.50%
Alumina	3.50%	1.50%
Sulphur	0.04%	0.01%
Phosphorus	0.08%	0.05%
Moisture	8.00%	8.00%
Includes but is not limited to the following brands:	Super Special Fines [FMG], Fortescue Blend [FMG], Robe River [Rio], Atlas Fines [ATL], W. African [Various], Indian origin [Various]	Yandi [BHP], Yandicoogina [Rio], Kings [FMG]

Figure 2. A range of materials from any origin are included in the 58% Fe Premium Index.

Why low-grade iron ore needs its own benchmark?

Early 2014 marked the start of a long-running price decline in iron ore as the market began to absorb the results of capital investments by the major miners made over a period of record high prices. This resulted in sustained lows in benchmark iron ore indices including the MBIOI-62 and MBIOI-58PI.

One of the most significant trends within this price decline has been the relatively larger drop in the low-grade benchmark, the MBIOI-58PI. This can be attributed to the fact that much of the H1 2014 volume expansion was in low-grade ore, particularly by FMG. Since its peak in June/July the differential has narrowed to levels more typical of the last three years.

This fluctuation in grade differentials caused significant basis risk between physical prices for low-grade iron ore and existing hedging mechanisms. SGX's decision to launch derivatives for low-grade iron ore is evidence for the fact that the low-grade market has grown enough in volume and follows its own pricing dynamics to require its own price risk management tools.

Click here for the latest methodology document

For more information on the MBIOI 58% Fe Premium Index including access to historical data, please contact the team: Email: mbioi@metalbulletin.com tel: +65 6597 0920