A full feasibility study for a new derivatives contract

Does the iron ore physical market need futures and derivatives at all? Is the market prepared for it now?

Which of the alternative financial derivatives of physical futures is best adapted to iron ore and why?

Who would be the market participants for a new iron ore financial market?

Detailed explanation of the methodology for the new Metal Bulletin Iron Ore (MBIO) Index and analysis of the reasoning that led to its elaboration.

How does iron ore compare to other traded products such as coal, freight, aluminium, oil and CO2 certificates? What are the expected volumes for iron ore derivatives over the next five years?
The long established iron ore market is on the verge of a momentous change. The launch of the Metal Bulletin Iron Ore (MBIO) Index in 2008 could pave the way to iron ore financial trading, which if successful will revolutionise the iron ore and steel industries forever.

This brand new report from Metal Bulletin’s research arm, Metal Bulletin Research (MBR), gives a detailed analysis of the current status of the physical iron ore market, the rationale for financial trading and how the market could evolve over the next five years. Metal Bulletin has always been a leader on providing critical market information and prices for the iron ore market. In the 1970s Metal Bulletin acted as an intermediary playing a crucial role in the development of the benchmark price.

As the spot physical market developed during 2005 in China, Metal Bulletin was also the first publisher to cover this market and started the compilation of price assessments for CFR China.

Iron ore is the largest dry bulk commodity traded worldwide with a seaborne trading volume that could reach 850m tonnes in 2008. The iron ore physical market experienced a dramatic shift in 2003 with an explosion in Chinese consumption of the commodity. The subsequent major increase in China’s imports as the country became the largest importer, modified profoundly the international iron ore physical flows. These major changes have been reflected in both prices that have reached historical highs in 2008, and in volatility now comparable to that of already actively traded commodities.

For most participants, physical iron ore trading is an increasingly risky business. The creation of risk management tools is seen by some as both welcome and a real opportunity.

The price system based on benchmark pricing also shows its limits as many companies find the concept time consuming, inefficient and not appropriate for companies to manage their price risk in a dynamic way in the increasingly fast moving commodity world.
The report is split into four key parts:

**Part 1:**

**Iron ore physical market**

When starting to trade a financial commodity you simply cannot ignore the physical market as physical supply/demand is the ultimate driver for iron ore dynamics.

Part 1 provides:

- Iron ore international supply/demand analysis
- History and evolution of the main exporting and importing countries
- Analysis of the main flows and evolution including detailed maps

**Part 2:**

**Rationale for an index and methodology of the MBIO Index**

MBR analyses why and how the iron ore market could benefit from an index and derivatives trading.

This section explains in detail the process in the elaboration of the methodology for the MBIO Index.

Part 2 provides:

- The reasoning for the choice of the base specifications
- The potential price adjustment mechanisms
- The choice of the delivery point for the contract
- The determination of the parcel size
- Crucially how the calculation of the index will avoid potential price manipulation and how to enhance the transparency of the calculated index

**Optional: One-to-one consultancy time**

Face-to-face meetings with MBR consultants who have contributed to the report can be arranged for an additional fee.

Why is this new MBR report essential reading?

MBR’s 100-page report on iron ore derivatives has taken 18 months to compile by established industry experts at Metal Bulletin Research (with active experience in commodities trading and in the launches of numerous commodity contracts such as coal and freight).

This in-depth study from MBR is based on its expertise as well as its vast experience, data and knowledge in the iron ore market.

The authors have conducted more than 50 in-depth interviews with producers, end users, traders and financial institutions that are participants in the physical trade and could participate in an iron ore financial market.

The report provides a detailed explanation of the methodology developed by Metal Bulletin to develop its new index.

It also examines how the iron ore financial market could develop over the next 5-10 years and who could be the main participants.

The report is an indispensable tool for the benefit of financial traders, risk managers or back office representatives who should have it available for reference when they trade financial iron ore products.
Part 3: The outlook for iron ore financial trading

Comparing iron ore with other commodities allows us to draw some comparisons and try to determine how iron ore derivatives could develop. What kind of volumes could be realistically traded in the future?

Part 3 asks:

- Where is iron ore financial trading in its evolutionary process and what are the next steps?
- How have steam, coal, freight, oil, aluminium and CO2 trading each independently developed? How do financial products trade relative to the physicals?
- What lessons have been learnt and how will these be applied to the iron ore market?
- What are the expected traded volumes for iron ore derivatives over the next five years?

Part 4: Potential participants in the iron ore financial market

The supply of iron ore worldwide is highly concentrated although current high prices have favoured the emergence of new international suppliers.

On the other hand the demand is highly fragmented given the relatively low level of concentration in the global steel-making sector.

Given the importance of iron ore as a commodity and its direct links with the Chinese economy, many financial players have already shown a high degree of interest in the physical and financial trading of iron ore.

This means there is a very diversified number of potential market participants which is the key for success in a trading market.

Part 4 considers:

- Why over 30 companies including producers, end-users, physical traders and financial institutions are likely to emerge as key players in the iron ore financial market.

---

Chinese iron ore imports

![Chart showing Chinese iron ore imports from 1998 to 2011.](chart)

- **Source:** Metal Bulletin Research
This report is required reading for all industry professionals that intend to trade or have an interest in iron ore financial trading:

- Iron ore mining companies
- Steel producers both in the long and flat markets
- Trading companies either already active in physical iron ore trading or other commodities
- Banks and hedge funds
- Financial institutions involved in long-term mining investments and interested in protecting the value of their assets
- Exchanges interested in listing the MBIO index-based contract
- Consultants and analysts involved in the commodity sector
- Financial brokers contemplating joining the market

Iron ore fines spot CFR China, weekly index

Guillaume Perret has twelve years’ extensive experience in commodities trading. Previously Perret spent five years with RWE in London, setting up and developing the freight and coal derivatives trading desk, and five years with Louis Dreyfus in Paris, trading international grains and chartering physical vessels. Perret is the author of “Steel Futures: A Turning Point For The Industry” (2008), “The International Coal Trading Market 2007”, “International Dry Freight Market” and is co-author of “European Emissions Trading: the New Market”. Guillaume is the course director of the “Coal Trading and Risk Management” course and the “Base Metals Risk Management” course. Guillaume has earned an MBA from London Business School and Kellogg School of Management as well as a degree in Engineering.

Raju received a BSc in Economics and Finance from the London School of Economics in 1991, and then worked in business strategy for British Alcan Limited from 1992-1995. He joined Metal Bulletin Research in 1995 as a Principal Consultant. Following a four-year stint in New York as the Group Business Development Manager he returned to the UK in 2002 as Global Head of Research. In 2006, Raju was promoted to the role of Managing Director of Metal Bulletin Limited and President of American Metal Market LLC - a business that includes the two eponymous flagship titles. Since this appointment in 2006, Raju has personally driven Metal Bulletin’s project that will lead to the launch of a new iron ore index pricing system for the spot market business in this important global commodity.

Cameron Hunt

Following graduation from the University of Bath with a BEng in Material Science and Engineering, Cameron Hunt has worked in the metals industries for over 10 years, in research, consulting and industry roles. He spent four years at Multiserv, the world’s leading supplier of mill services, including raw material handling, by product processing, scrap management and surface conditioning, in project development and business development management roles, and most recently at Hatch Beddows Strategy Consulting. Cameron has extensive experience in the creation and management of robust and rigorous business process and financial models, including global co-product sales databases and business plan modelling for major capital investments in the steel industry.
ORDER NOW!

YES I would like to order: Trading Iron Ore: A full feasibility study for a new derivatives contract

☐ UK £2995  ☐ US$5990  ☐ Europe €3890

ORDER BEFORE FEBRUARY 28 2009 AND GET A 10% DISCOUNT! CALL +44 (0) 20 7779 7999

FIVE EASY WAYS TO ORDER
Tel:  +44 (0) 20 7779 7999
Fax:  +44 (0) 20 7246 5200
E-mail: marketing@metalbulletinresearch.com
Online: www.metalbulletinstore.com
Mail: Metal Bulletin Research, 10 Anson Road, International Plaza #23-06, Singapore 079903
Mail: AMM Research, 225 Park Avenue South, 8th Floor, New York, NY 10003

Other relevant Metal Bulletin Research reports include:
- Weekly Market Tracker • Emerging Steel Markets Monthly • Steel Markets Monthly • Steelmaking Raw Materials Monthly
- Global Iron Ore Cost Service • Global Steel Cost Service • Steel Futures – A turning point for the industry?
- Steel and its Raw Materials: A Global Market Outlook to 2020 • Value Creation Strategies for the Steel Industry

For more information please visit www.metalbulletinresearch.com or call +44 (0) 20 7779 7999 or email marketing@metalbulletinresearch.com

METHODS OF PAYMENT
☐ I wish to pay by CREDIT CARD (please call the Metal Bulletin Research hotline on +44 (0) 20 7779 8000 to debit your credit card)
☐ Please INVOICE me for £/US$/€ __________________________ (payable to Metal Bulletin)

☐ A BANK TRANSFER has been made payable to Metal Bulletin for £/US$/€ __________________________ (payable to Metal Bulletin)

If you have any questions you can also contact your regional office
Customers in Asia please contact:
Tel:  +65 6333 5523  Fax:  +65 6333 5501
E-mail: marketing@metalbulletinresearch.com
Mail: Metal Bulletin Research, 10 Anson Road, International Plaza #23-06, Singapore 079903

Customers in North America please contact:
Tel:  +1 212 224 3577  Fax:  +1 212 224 3671
E-mail: research@amm.com
Mail: AMM Research, 225 Park Avenue South, 8th Floor, New York, NY 10003

www.metalbulletinresearch.com

Fax back to +44 (0) 20 7246 5200

Please provide your COMPANY TYPE
☐ Raw Material Supply (0003)
☐ Metal/Steel Production/ Processing (0027)
☐ Fabrication/Manufacturing (0055)
☐ Distribution (0095)
☐ Services/Products for the Industry (0111)
☐ End-User Sector (0167)
☐ Finance Companies (0271)
☐ Production (0275)
☐ Processing & Equipment (0279)
☐ Trading (0287)
☐ Transport - Ports (0291)
☐ Non-Ferrous Foundry (0303)
☐ Extruding (0311)
☐ Other Primary Metal Products (0315)
☐ Ferrous Traders (0319)
☐ Non-Ferrous Traders (0323)
☐ Resource/Asset Recovery (0327)
☐ Library/Research (0321)
☐ Trade Association (0525)
☐ Legal/Regulations (0555)
☐ Government (0523)
☐ Operations Manager /Director (5393)
☐ Research Manager/Department (6485)
☐ Analyst (6229)
☐ Administration (5041)
☐ Editor/Publisher/Press (6493)
☐ PA/Secretary/Assistant (6497)
☐ Consultant (5258)
☐ Legal/Regulations (5664)
☐ Subscriptions/Agent (6501)
☐ Technical/Engineering Manager/Department (6489)

Please indicate your JOB FUNCTION
☐ CEO/Managing Director/President or equivalent (6385)
☐ Sales/Marketing /Communications Manager/Department (5776)
☐ Business Development Manager/Department (5174)
☐ Purchasing/Procurement /Buyer Manager/Department (6465)
☐ Commercial Manager /Director (6465)
☐ Finance Director/Manager /Accountant (8197)
☐ Strategy/Planning Manager/Department (6469)
☐ Export/Import/Foreign Trade Manager/Department (6473)
☐ Investment/Fund Manager (5436)
☐ Trader (6084)
☐ Information Officer/Librarian (6313)
☐ Logistics Manager/Department (5734)
☐ Metals/Materials Manager/ Director (6325)

Please indicate your METALS INTEREST
☐ Base Metals (11001)
☐ Aluminium (11002)
☐ Downstream Aluminium (11157)
☐ Precious Metals (11160)
☐ Minor Metal (11267)
☐ Light Metals (11360)
☐ Steel (12001)
☐ Steel Tube & Pipe – Seamless (12042)
☐ Steel Tube & Pipe – Welded (12043)
☐ Stainless Steel (12159)
☐ Steel Wire (12230)
☐ Galvanising & Coated Coil (12226)
☐ Ferro Alloys (13000)
☐ Scrap & Secondary Metals (14000)
☐ Steelmaking Raw Materials (12231)
☐ Iron Ore (12232)

IMPORTANT DATA PROTECTION NOTICE – The information you provide will be safeguarded by Metal Bulletin, part of the Euromoney Institutional Investor PLC group, whose subsidiaries may use it to keep you informed of relevant products and services. We occasionally allow reputable companies outside the Euromoney Institutional Investor group to contact you with details of products that may be of interest to you. As an international group, we may transfer your data on a global basis for the purposes indicated above. If you object to contact by telephone ☑ fax ☑ or email ☑ please tick the box. If you do not want us to share your information with other reputable companies please tick this box ☑.

I enclose a copy of the transfer document with your order quoting code MIO

I wish to pay by BANK TRANSFER
£/US$/€ __________________________
A/C No. __________________________
SWIFT CODE: __________________________

If you have any questions you can also contact your regional office
Customers in Asia please contact:
Tel:  +65 6333 5523  Fax:  +65 6333 5501
E-mail: marketing@metalbulletinresearch.com
Mail: Metal Bulletin Research, 10 Anson Road, International Plaza #23-06, Singapore 079903

Customers in North America please contact:
Tel:  +1 212 224 3577  Fax:  +1 212 224 3671
E-mail: research@amm.com
Mail: AMM Research, 225 Park Avenue South, 8th Floor, New York, NY 10003
www.metalbulletinresearch.com

ORDER NOW!