

FINANCIAL REVIEW

Iron ore's \$100 billion surge a remedy for COVID-19

The Australian Financial Review

Article by Brad Thompson courtesy of the Australian Financial Review

Australia's annual iron ore export revenue is poised to crack \$100 billion – a record for any commodity – as prices of the steel-making ingredient surge on the back of mine shutdowns in Brazil and strong demand from a resurgent post-COVID-19 China.

The record-breaking run shapes as a badly needed boost for Treasurer Josh Frydenberg's budget bottom line as China relies on iron ore from Australia to fire its economy despite a sharp deterioration in relations between Canberra and Beijing.

More than \$2.3 billion extra will jump into budget coffers on the back of an iron ore price that received more support over the long weekend when a Brazilian court ordered major producer Vale to shut down some operations as the country battles the COVID-19 pandemic.

Tracking by the Morrison government shows exports will top the never-before-reached \$100 billion mark by June 30. The government sees this as a vindication of nationwide efforts to contain the virus and allow essential industries to operate through the height of associated lockdowns.

The previous record was \$76 billion for iron ore exports in 2018-19.

The iron ore price has surged to well above \$US100 a tonne since the start of this month and Australia's biggest producers – Rio Tinto, BHP and Fortescue Metals Group – have not missed a beat through COVID-19.

After adjusting for freight, the federal budget was framed on an iron ore price of about \$US62 a tonne across 2019-20. The actual figure is now tracking to come in at well above \$US80 a tonne, supercharged by the June quarter pricing.

Resources Minister Keith Pitt said the iron ore industry, and the resources sector generally, were shining lights with Australia now in recession.

"The downturn we face would have been a lot more severe without the contribution of the resources sector," he said.

"It vindicates the hard work the resources sector has done with the government to ensure the safety of workers and the communities where they operate."

Rio Tinto shares are up 16.5 per cent since March 31, BHP has gained more than 25 per cent and Andrew Forrest's Fortescue climbed a whopping 45 per cent. All three are set to pay bumper dividends again later this year.

Australian richest person Gina Rinehart's estimated \$21.2 billion fortune continues to grow. Macquarie research showed her Hancock Prospecting's Roy Hill operations in Western Australia's Pilbara achieved an annualised shipment run rate of 65 million tonnes in May.

Pilbara Ports Authority released figures on Monday showed Australia's iron ore hub exported 62.8 million tonnes in May, a 2 per cent decrease on the same month in 2019.

However, total throughput for 2019-20 financial year to date is 649.1 million tonnes, an increase of 3 per cent from the same time last year.

Chamber of Minerals and Energy chief executive Paul Everingham said no shipments had been turned away from Asian ports since the COVID-19 outbreak sparked the first lockdowns around Chinese New Year.

Mr Everingham predicted demand would stay strong as infrastructure building and urbanisation continued in China in the economic recovery from COVID-19.

“Iron ore and gold companies are currently recruiting,” he said. “Who else is doing that?” he said.