Iron Ore Trading Enters into the Era of Diversification

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The iron ore negotiation mechanism was stabilized and continued for nearly 3 decades, till 2007. The negotiation mainly took place between the three major iron ore suppliers and the steel mills in Asia, Europe.

In April, SGX started iron ore swap settlement service.

Quarterly pricing has gradually been changed to more flexible iron ore pricing strategy – spot quarterly, monthly, even daily pricing based on iron ore index as the leading mechanism. The spot trading model has gradually become the trend, acceptable by the different parties on the market.
China Iron Ore Spot Trading Platform has officially started to be in operation, and the iron ore trading has gone into stable development.

On Aug 4, with the approval of the People’s Bank of China, Shanghai Clearance Centre started officially the first domestic OTC iron ore financial derivatives business - RMB settlement service for iron ore swap business.

On Oct 18, the iron ore futures contract was traded in Dalian Commodity Exchange, which was the first physical delivery of the iron ore futures trading contract in the world, symbolizing the official start of the “Chinese Version” iron ore futures trading.
Long-term Contract: Its Rationality and Limitation

**Rationality**

- Its highly specificity makes both sides of demand and supply to set up stable relationship.
- The annual contract is good for both sides to arrange production planning and to get stable financial support.
- It reduces transaction cost of risk management.

**Limitation**

- Centralized procurement and group negotiation take up huge costs of efforts and time.
- The demand side has different requests, making it difficult to get consensus for negotiation expectation.
- In case of price spread between spot and long term contract, both sides of demand and supply have relatively high probability of default.
Index Pricing: the Current Indexing Method in Controversy

Part of the current index is in fact a kind of appraisal index, not trading index. The index that can be truly reference and instructive to market should be based on real time transaction on the trading platform and the reported data information, which is the weighted average index drawn from statistics calculation method.
Exchanges Start to Play a Key Role in the Iron Ore Pricing Market

Through the arrangement of the system, the transaction flow and bidding contract are standardized, with open and transparent transaction, improving transaction efficiency, reducing transaction costs, and prevention of transaction risks.
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Launch of the Platform and Establishment of COREX

China Iron Ore Spot Trading Platform was jointly founded by CISA, CCCMC, and CBMX, and independently operated by CBMX. This platform was started on Jan 16th, 2012 and officially in operation on May 8th.

COREX was initiated and set up by CISA, CBMX, Baosteel, Angang, Shougang, Hebei Steel, China Minerals, Sinochem International, CITIC Metal, Vale, BHP Billiton, Rio Tinto and FMG. It was approved by Beijing Municipality People’s Government and relevant government agencies to be registered in Beijing as a joint venture, with business scope as: providing iron ore and other minerals spot trading service, market management, and business consultancy.
Steady Increase of Transactions’ Reports

Up to 20 November 2014, the transactions totaled 280, with total tonnage traded 32.4 million tons, seaborne transactions reached 238 deals, totaling 30.20 million tons, USD3.49 billion; the port spot transactions reached 42 deals, totaling 2,205,300 tons, RMB2.232 billion.

Transaction Volumes Breakdown by Products (, 000 tones) in Year 2014 (to 20 November)

Source: China Iron Ore Spot Trading Platform

Source: China Iron Ore Spot Trading Platform
Continuous Increase of Members and Further Improvement of Structure

Up to 20 November, 2014, there are 250 members, covering East Asia, Middle East, Europe, America, and Australia, with members in both upstream, and downstream of iron ore trading.
China Iron Ore Spot Trading Platform Function and Service
## China Iron Ore Spot Trading Platform Function and Service

### Trading Object (31)

<table>
<thead>
<tr>
<th>Fines</th>
<th>Typical</th>
<th>Regular</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Newman fines, Mac fines, Kimbuba mixed fines, Yandi fines 1, Yandi fines 2, PB, Rob River fines, FB, FMG special, FMG super special fines, MNP, Carajas fines, Vale64 fines, Vale62.5 fines, Vale 58 fines</td>
<td>65%、63.5%、62%、61.5%、61%、58%、56%</td>
</tr>
<tr>
<td>Lump Ore</td>
<td>Typical</td>
<td>Regular</td>
</tr>
<tr>
<td></td>
<td>Newman mixed lump, PB lump, Rob River lump, Vale lump</td>
<td>65%、63%、62%</td>
</tr>
<tr>
<td>Pellet</td>
<td></td>
<td>63%</td>
</tr>
<tr>
<td>Pelleting fines</td>
<td></td>
<td>65%</td>
</tr>
</tbody>
</table>

Timely Adjustment Based on Market Demand
Based on whether the goods arrive and be cleared through the customs, they are categorized into 3 types: spot en route, spot in bonded area, and spot at port. Based on whether there is in advance trading credit matching, settlement in USD or RMB, 3 trading models are categorized: A international en route, B international bonded area, and D domestic port.

The trading credit matching model is used for A, B, and D – that is, a member must have, in advance, select at least 3+ members as trading partners, and the system allows only the trading between the members that have done credit matching.

To sell and to buy by the same member is forbidden; trading among affiliated enterprises is also forbidden.
China Iron Ore Spot Trading Platform Function and Service

Floating Price Trading Model

- Covering the mainstream market index trading settlement methods
- Multi settlement price calculation formulas, which are close to market trading practices.
- Many variables of settlement price composites
- Close to iron ore spot settlement terms
- Flexible settlement cycle selection
- Wide application on platforms en route spot, bonded area spot, E-bidding and etc.

- CBMX COREX benchmark price
- Platt’s index price of iron ore
- Metal Bullion Index of iron ore price (MBIO)
- TSI
- My steel iron ore price index (MyIpic)
- Argus iron ore index

- Monthly (1, 2, ......11, 12)
- Pre-B/L (1, 2, ........, 30 days ) , Post B/L (1, 2, 3 ........30 days )
- Pre-NOR (1, 2, ........30 days ) , Post-NOR (1, 2, ........30 days )
China Iron Ore Spot Trading Platform Function and Service

Floating Price Trading Model

- Since Jul 29th, 2013, we have started floating price trading model, and the enthusiasm from members to use this model has been strengthened; since 2014, the transactions based on this floating pricing model have already accounted 16% of the total transaction on this platform.

- While introducing more domestic similar floating pricing models for iron ore trading settlement price, we have increased the flexibility of the platform and widened the application of domestic iron ore index, as well as its influence on the market.
China Iron Ore Spot Trading Platform Function and Service

Floating Price Trading Model

- Members are more willing to trade in floating price when the price volatility increases. Up to 20 November, 3.61 million tons were traded in floating price, accounting for 30.28% of total volume, and 93% of these transactions happened in second half of 2014.

Transaction Volumes Breakdown by Pricing Method
Year 2014 (to 20 November)

Source: China Iron Ore Spot Trading Platform
China Iron Ore Spot Trading Platform Function and Service

Iron Ore Spot Benchmark Price

Benchmark Price = Platform Settlement Price + Platform Quote + Offline Settlement Price

Data Composite more truthful, comprehensive

Price more objective, reasonable

Issuance more timely

<table>
<thead>
<tr>
<th>Standard</th>
<th>Price Selection Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>58%</td>
<td>Yandi Fine1, Yandi Fine 2, Rob River Fine, FB Fine, FMG Special Fine, FMG super special fine, 58% fine, 56% fine</td>
</tr>
<tr>
<td>62%</td>
<td>PB fine, Newman fine, Mac fine, Kinbuba mixed fine, 62% fine, 61.5% fine, 61% fine.</td>
</tr>
<tr>
<td>63.5%</td>
<td>Vale62.5 fine, 63.5% fine</td>
</tr>
</tbody>
</table>
China Iron Ore Spot Trading Platform Function and Service

Iron Ore Spot Benchmark Price

- On Aug 4th, 2014, Shanghai Clearance House started officially the first domestic RMB settlement for iron ore swap business, and CBMX 62% ore benchmark price is listed as iron ore swap settlement price, symbolizing CBMX iron ore spot trading benchmark price being extended from spot market to derivative market and the influence of the benchmark price being further extended.

Iron Ore Spot Benchmark Price in Mar 2013 – Aug 2014 (Unit: USD/dry ton)  

Source: China Iron Ore Spot Trading Platform

Iron Ore Spot Benchmark Price in Mar 2013-Aug 2014 (Unit: Yuan/wet ton)

Source: China Iron Ore Spot Trading Platform
Information on the Platform

China Iron Ore Spot Trading Platform Function and Service

- Support connection to many banking systems, settlement of transaction service fees and deposits

### Bank

- CIBC
- HXB
- CCB

Safe Capital Management
China Iron Ore Spot Trading Platform Function and Service

Establishment of 22 delivery ports, and setting up delivery warehouses in key regions

Qingdao  Dalian
Rizhao  Lanshan
Caofeidian Huahua
Tianjin  Dongjiakou
Jingtang  Bayuquan

Lianyungang Jiangyin
Beicang  Zhanjiang
Taicang  Luojing
Zhangjiagang Nanjing
Nantong Majishan

Zhanjiang  Fangchenggang

Confirming commodity info, assisting delivery and receiving
Transformation of Global Iron Ore Market

Gaming up of demand and supply, new models of trading channels

China Iron Ore Spot Trading Platform in Operation

Promoting the Change in Trading Method and Pricing Mechanism

Vision of the Development of China’s Iron Ore Spot Trading Platform

Action Based on Actual Situation, Innovation and Progress
Vision of the Platform

Convenient and Effective E-Commerce Channel
—— Information, Purchase and Sales

Equipped Exchange Functionalities
—— Integrated Settlement, Delivery, Financing Services

Fair and rationale global commodity pricing mechanism
—— Ferrous

Provide Services to the Industry and Physical Economy
Thank you