A glut feeling

Big miners, China to prolong iron ore price pain

JASMINE NG
COMMODITIES

THE price of iron ore will continue to decline next year as a combination of rising low-cost supplies from the world's biggest miners collides with weak demand in China and a stronger US dollar, research has found.

Prices will trade between $US50 and $US60 a tonne through the rest of the year, then drop to between $US45-$55 in 2016, industry analysts from BMI Research said.

The price of iron ore rose 1.1 per cent overnight on Monday to $US56.61 a tonne.

But the value of the key steelmaking ingredient has dropped 21 per cent this year as mining titans BHP Billiton, Rio Tinto and Brazil's Vale boost low-cost supplies to increase market share even as demand stalls in China.

BMI said it expected steel consumption in China to shrink by an average of 1.3 per cent annually to 2019.

"Global iron ore majors will continue to ramp up production to squeeze out higher-cost competitors," the research house said.

"BHP Billiton, Rio Tinto and Vale all reported record output in 2014 and will increase output further."

Efforts by the world's four biggest producers of the commodity to flood the market have overwhelmed production cuts elsewhere, according to Morgan Stanley.

There's also the prospect of the first cargoes from billionaire Gina Rinehart's new Roy Hill mine, which is set to start shipments this month, the investment bank said in a report.

Demand for seaborne iron ore will probably peak next year, while mining capacity continues to rise, global investment bank Goldman Sachs said in a note.

Miners including Rio and iron ore pureplay Fortescue Metals are expected to maintain their heightened output levels when they release their latest quarterly production numbers later this week.

The bank reconfirmed its forecasts for iron ore prices to drop to $US44 next year and $US40 in 2017.

Beyond 2016, more Chinese ore production is expected to come offline, reducing oversupply and preventing further price weakening, BMI said.

BLOOMBERG

ERA dips in uranium production

ENERGY

THE Rio Tinto-owned company that shelved a major uranium mine expansion has reported a fall in quarterly production.

Energy Resources of Australia produced 457 tonnes of uranium oxide in the September quarter, down 19 per cent on the same quarter last year.

Production was up 17 per cent on the prior three months, when output was affected by a mill shutdown to carry out maintenance.

All ore milled in the September quarter was taken from existing stockpiles, and no exploration expenditure was incurred during the period.

ERA lost half its board in June after deciding a proposed new underground mine at Ranger in the Northern Territory would not proceed to a final feasibility study because of a sluggish uranium market.

Shares in ERA, which jumped last week as the broader energy sector rebounded, closed flat yesterday at 39c.

Airbnb's Australian arm, led by Sam McDonagh, has been told to disclose all its fees.

OPEN UP ON FEES, AIRBNB TOLD

TRAVEL

AIRBNB will not be able to hide surprise fees anymore after the consumer watchdog pushed the user-to-user accommodation service to improve its pricing policy.

The Australian Competition and Consumer Commission has accepted undertakings from Airbnb and rival online travel agency eDreams to fix their pricing practices after the ACCC ruled both were misleading consumers by not disclosing mandatory fees straight up.

The watchdog said Airbnb didn't include service and cleaning charges within the advertised prices on their listing pages while eDreams hid mandatory service costs.

The ACCC is cracking down on "drip pricing" where companies advertise a headline price and don't reveal any extra charges until the booking process.

"Drip feeding consumers with information about charges can cause detriment to competition and result in consumers paying a higher price than the advertised price," said ACCC chairman Rod Sims.

Airbnb and eDreams co-operated with the ACCC during the investigation and pledged to update policies.

Beware investor bubble babble

I THINK it was in the early 1920s that the economist Edgar Lawrence Smith conducted a study of the performance of stocks versus bonds.

Published in the book, *Common Stocks as Long-Term Investments*, the finding was surprising.

The study was supposed to prove that bonds would outperform in periods of deflation and stocks would outperform in periods of inflation. What he found was that the common stocks always outperformed.

The reason is simple enough. Businesses, particularly the good ones we like to purchase in The Montgomery Funds, are able to retain profits and redeploy them at very high rates of return.

You might get a similar dividend yield on a stock as you would on a bond, but what the stock in a business has that the bond doesn't is the growth that comes from the retained earnings.

That original premise is as sound today as it was back in the '20s but from time to time, the premise is forgotten.

In the '20s, the discovery that stocks always beat bonds was an epiphany. But inevitably, the premise on which the stockmarket rally was founded was forgotten and all that mattered was that prices would rise in the future as they had in the past. The seeds of the great bubble and crash were sown not by some frivolous idea but by a very sound idea simply taken too far.

Identifying when a sound premise has been taken too far is not easy in advance but it is not impossible to see when prices are out of hand.

Today, house prices are reflecting characteristics of bubble logic.

A house is a wise investment over the long run. A house should be worth more today than the 50-year-old dollars that were used to create it.

Obviously, when it doesn't cost much money to carry the debt associated with a house, the basic premise is sound.

But cheap money allows people to pay higher prices and buy more houses.

Mortgage brokers, who earn commissions and promote the most profitable type of loans — interest-only — fuel price rises. We are told prices will rise because Chinese buyers are predisposed to Australia or that immigration will support rises. But all of these arguments have failed to halt property price declines elsewhere in the world.

Regardless, prices keep rising, discrediting the naysayers. Price rises become self-reinforcing.

At some point, all theories are replaced with the raw expectation that prices will rise in the future just as they have in the past.

When that happens, the purchase of a property can no longer be classed as an investment. And when investing is overwhelmed by speculation that prices will rise, you have a bubble.

When thinking about property, ask yourself: is the yield I am receiving from this a satisfactory enough return? If it is not and you are relying on future capital gains to generate a return, then you are no longer an investor, you are a speculator. At that point, be very careful.

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