



CHINA'S IRON ORE REVENGE



Agenda

- Friends > frenemies > enemies
- Iron ore market cycle
- Iron ore market structure
- Investment implications

Friends > frenemies > enemies

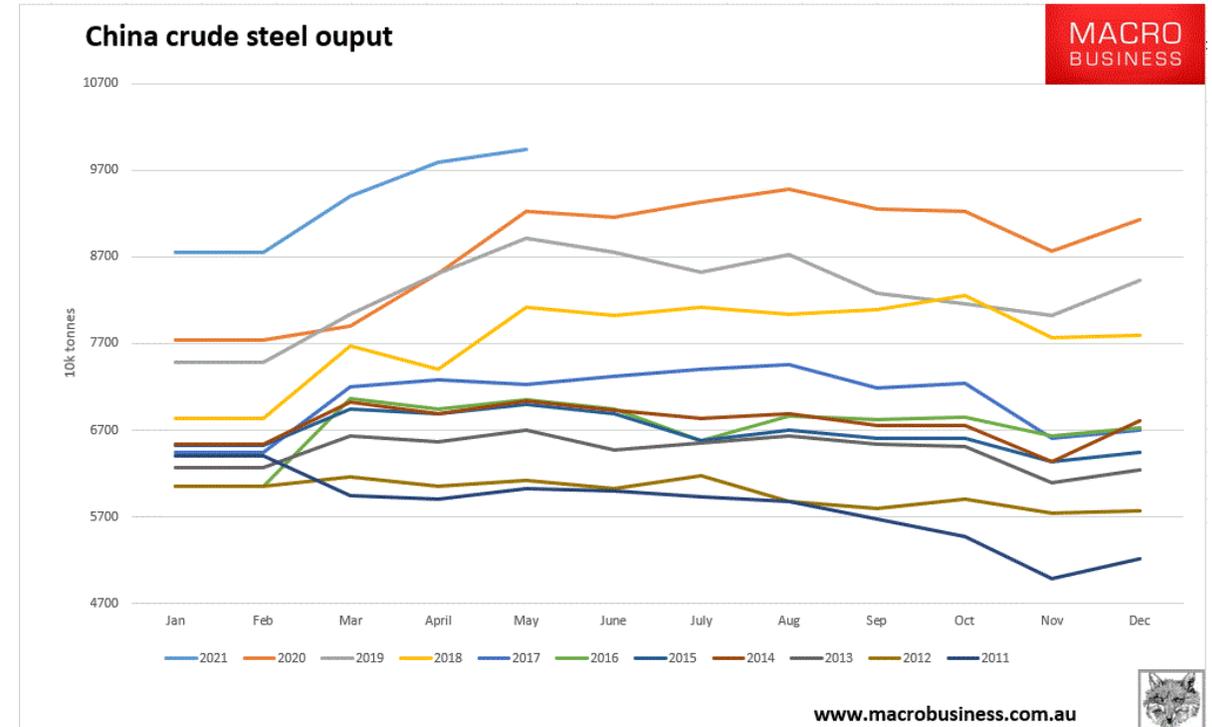
- Structure of Australia/ China relations broken
- It is not about diplomacy
- Is about authoritarian versus liberal. See 14 conditions
- Relations to keep deteriorating in Cold War 2.0
- China must end Australian veto over its strategic ambitions
- ALP on the wrong side of history

Iron ore cycle

- Current iron ore market shortage owing to:

1. Huge Chinese steel output growth based on stimulus pig in the python. 50mt more steel so far this year. Already slowing, to collapse as construction retrenches.

2. Supply constraints in Brazil

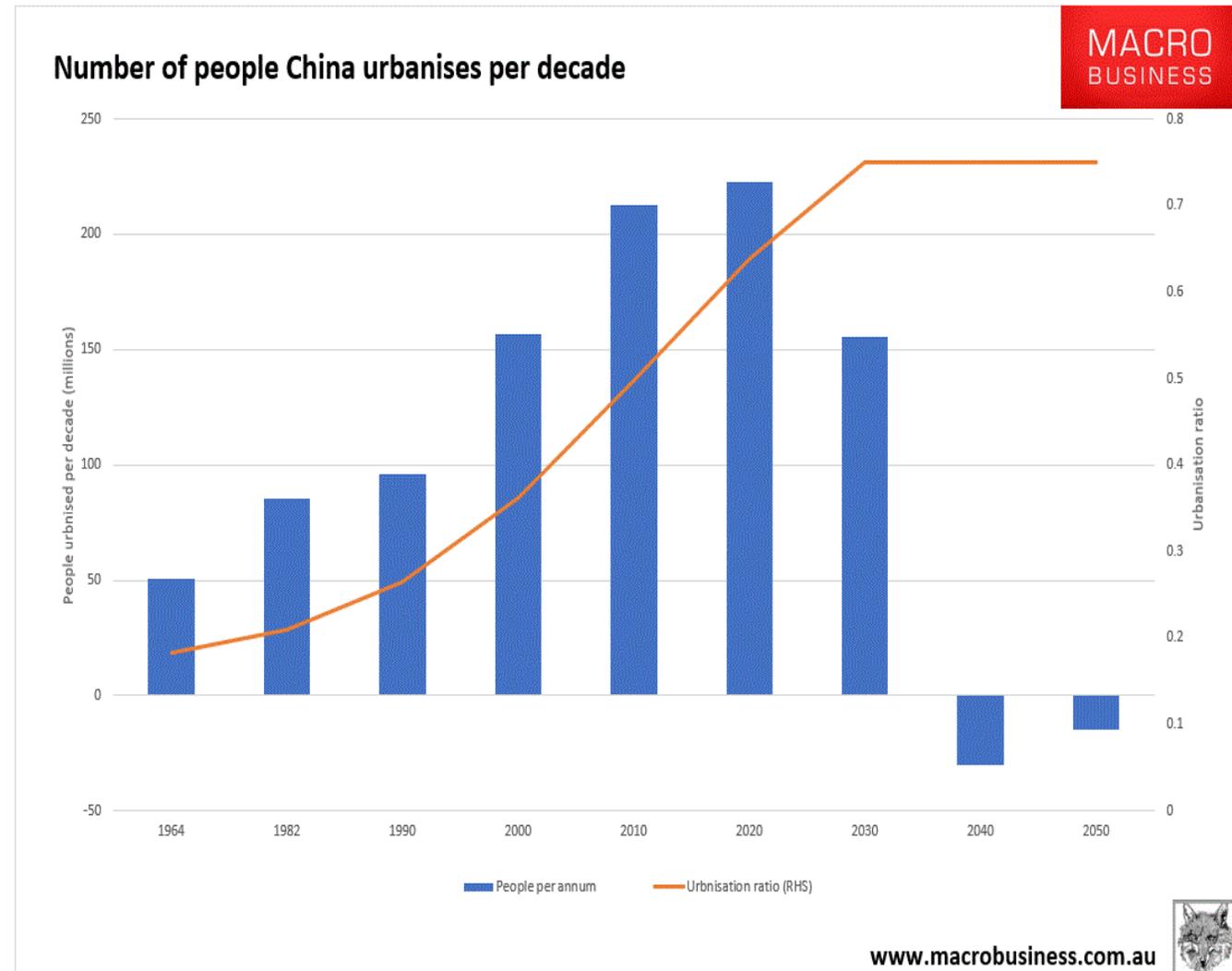


Iron ore cycle

- Market balance set for sharp swing to surplus:
 1. \$1.1tr less new Chinese credit by year end (on current trend)
 2. Supply constraints ease in Brazil with an extra 20mt for next 3
 3. Australia has 70mt in new supply over next 2 years
- Chinese steel output to fall 3% per annum, removing 50mt iron ore demand every year (until they panic again!)

Iron ore market structure

- China consumes 70% of seaborne iron ore
- 60% of this goes into construction/urbanisation
- Urbanisation trend fast running out. 64% versus 75% for other continental economies

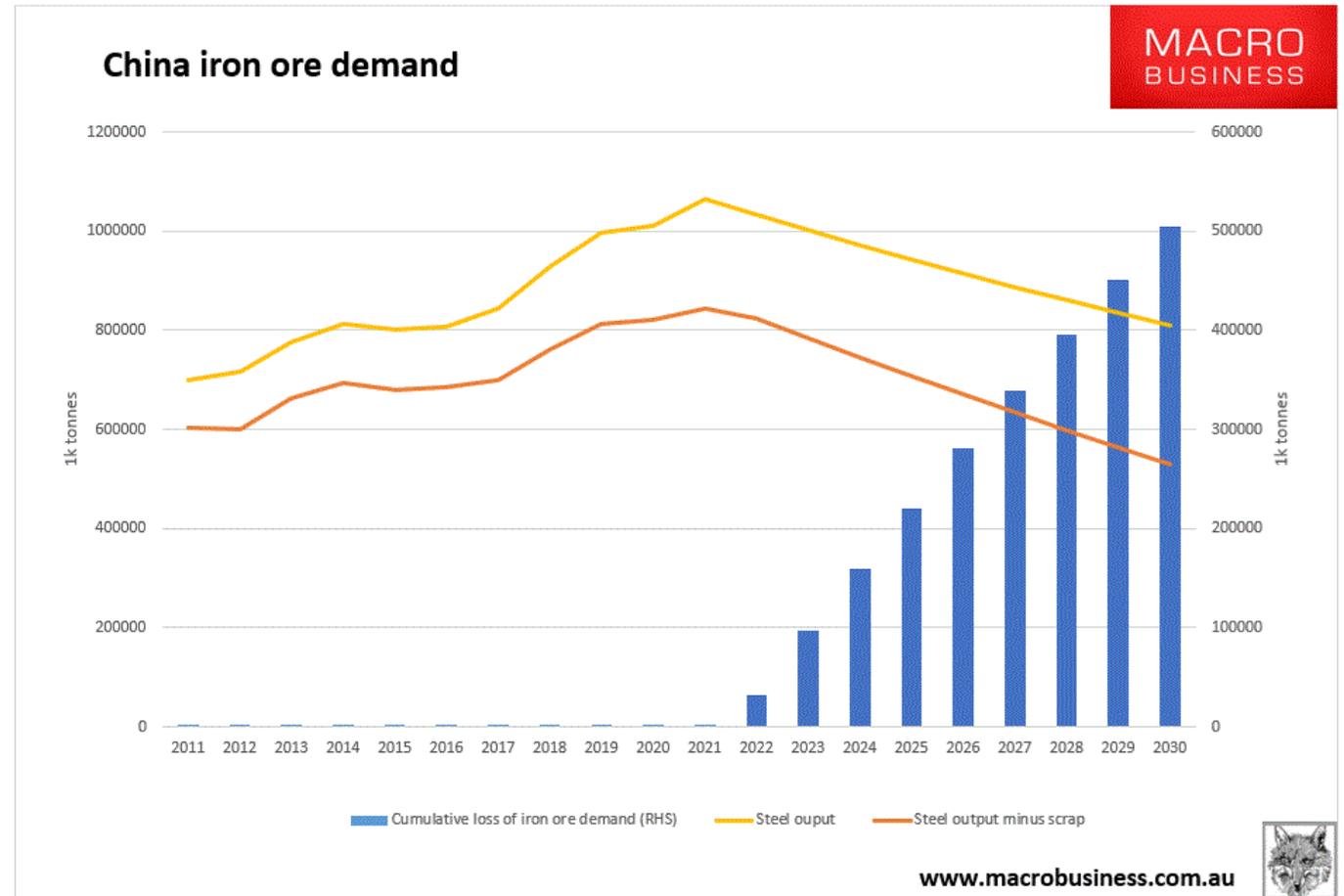


Alternative supply

- Simandou 100mt by mid-2020s, 200mt by 2030
- Brazil 450mt if it wants
- India swing producer right now 70mt to China. Likely to decline.

Scrap revolution the real threat

- China scrap output at 23%
- Five year plan to lift that to 30% by 2025
- Double by 2030 on some forecasts



Investment implications

- China will push all volume corrections upon Australia
- Australia will dump huge surplus supply onto everybody else driving prices to \$20-30
- \$150bn hit to Australian export income from today's peaks
- Australian dollar below 50 cents, possibly below 40 cents
- External inflation killed by internal deflation
- Negative interest rates very possible
- CAD returns but external crisis unlikely in age of QE

Viewer question of the week:

Do you think Australia - China relations will continue to deteriorate?

Drop your answers in the comments

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