MBR understands approximately half of Samarco’s 30.5Mt per year (Mtpy) pellet production was geared towards producing relatively high grade direct reduced (DR) pellets and the other half towards blast furnace (BF) pellets. In fact, Samarco’s DR grade pellets are widely regarded as some of the best pellets in the world with an Fe content of 67.90% and relatively low residuals i.e. alumina and silica.

More pertinently, the suspension of Samarco’s mining operations and concentrator will substantially disrupt the supply of DR grade pellets to the company’s key customers including: Nucor’s 2.5Mtpy DRI plant, St. James Parish, Louisiana, Antara HBI’s 0.65Mtpy module, Labuan Island, Malaysia, and other DRI/HBI facilities in the Middle East and North Africa (MENA). Alternative options for Nucor’s St James Parish plant include purchasing DR grade pellets from either Vale’s Tubarão 8 and Vargem Grande complex or Cliffs Natural Resources’ Northshore Mining operations, Silver Bay, Minnesota.

However, we estimate that the logistical cost of transporting the pellets between Minnesota and Louisiana would substantially diminish the cost competitiveness of consuming DRI/HBI in the company’s EAFs versus scrap. Moreover, Nucor could purchase larger volumes of prime/prompt grade scrap or merchant pig iron in the merchant market if they are unable to secure sufficient supplies of DR grade pellets to feed its DRI facility.

Tighter DR and BF pellet supply availability and the resulting increase in premium could also prompt some producers to reverse their decision to idle pelletizing lines and scale back output. In fact, Iron Ore Company of Canada (IOC) could reverse its recent decision to temporarily idle three of its six pelletizing lines in Labrador City, Newfoundland and Labrador, given that this strategy was based on “the decline in the price for pellets and projections for a subdued market in 2016”.

IOC (ownership split Rio Tinto 58.7%, 26.2% Mitsubishi and 15.1% Labrador Iron Ore Royalty Income Corporation) has the capacity to produce 22Mt of concentrate and 12.5Mt of DR or BF pellets. Similarly, CAP’s 75% owned mining operation, Compañía Minera del Pacífico (CMP), in Chile could also make the decision to maintain pellet production from its 7.2Mtpy...
pelletizing plant in the Huasco Valley, Vallenar, after it announced on 9th November that it would temporarily suspend pellet output until February 2016.

While MBR believes some EAFs in the MENA region can increase their scrap charge to fill the vacuum of DRI supply, caused by the disruption to Samarco’s DR pellet supply, we understand that these mills will be limited in the scrap volumes they can consume. This is largely due to the fact that most EAFs in the region having relatively small scrap loaders, given that they were designed to be hot-linked to their DRI facilities and not to be so heavily reliant on scrap. Therefore, these plants will need to look for a more feasible supply of DR grade pellets.

In fact, we understand that Vale’s pelletizing facility in Oman may benefit from this disruption in DR grade pellet suppliers, given that it has a nominal DR pellet capacity of 9Mtpy. At the same time, we believe some of the afflicted DRI/HBI facilities could use a small percentage of blast furnace (BF) pellets without causing too many technical issues in the electric arc furnace (EAF).

Elsewhere, Iran is also a large producer of DR-grade material in the MENA region and while the majority of its material is captive for domestic DRI/HBI production, some producers may be tempted to benefit from the shortfall in supply and sell into their neighbours. At the same time, we would expect to see LKAB increase the proportional output of DR to BF pellets. This should soften the effect of the DR-grade pellet shortage, but at the expense of affecting BF premiums, particularly in EU, which is LKAB’s main market.

It is important to remember that while certain regions seem to have greater potential for impact the fallout will be indirectly global, given that any re-direction of material flows to account for shortfalls will affect the typical markets for that material i.e. last week we heard offers of Ukrainian BF pellets into China were withdrawn, instead to be offered into the EU due to the Samarco incident. This will clearly have an effect on Chinese BF pellet premiers too.

Meet the Editor

Jon Mulcahy

Jon Mulcahy joined Metal Bulletin Research (MBR) in March 2015 and contributes to the Steel Raw Materials Weekly Market Tracker, Steel Weekly Market Tracker and Steel Scrap & Metallics Forecaster. He spent almost 3 years at the AME Group as a research analyst and client support manager. Jon has previously worked as a project manager for EduCare India and held a Business Continuity Internship at Morgan Stanley. He has an undergraduate degree in Geography and Town Planning and a postgraduate in Renewable Energy Enterprise and Management from the University of Newcastle-upon-Tyne.

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