# Iron ore surges past $55 as Rio Tinto exits Simandou

## New CEO says the cost of developing the $20-billion mine is no longer justified

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The two events may not be directly connected, but it's likely that Rio Tinto's (NYSE, LSE: RIO) decision to shelve its huge Simandou iron ore project in Guinea bid up the price today.

On Monday the steelmaking ingredient ran past US$55.90 a tonne, according to The Steel Index, a gain of 3.5 percent from the previous session. Iron ore is now at its highest level since May 18, despite dropping down to $47.90 a tonne on June 2nd.

The price is down sharply since trading within shouting distance of the $70 mark in mid-April but is back in bull territory for 2016 with a 24.5% rise since the beginning of the year, as of last Tuesday, and a 44% rebound since hitting near-decade lows in December.

Analysts at Morgan Stanley became the latest to upgrade their outlook for iron ore, although f**orecasts for the rest of the year still call for a steep decline (http://www.mining.com/morgan-stanley-iron-ore-will-drop-35-fall/)** in the price from current levels.

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The price increase comes as iron ore major Rio Tinto decided to **put its Simandou project in Guinea on ice (http://www.ibtimes.com.au/huge-iron-ore-overcapacity-leads-rio-tinto-shelving-20-billion-simandou-project-guinea-1520721)** due to the iron ore glut that is keeping a lid on prices – **despite delivering a bankable feasibility on the project in May. (http://www.mining.com/rio-tinto-forges-ahead-with-simandou-the-worlds-largest-mining-project/)**

The Australian reported **new CEO Jean-Sebastien Jacques (http://www.mining.com/rio-tinto-to-boot-iron-ore-chief-in-fresh-management-shake-up/)** saying that the cost of developing the US$20 billion mine isn't justified due to the bleak prospects for iron ore in the next decade. The incoming chief executive's position contrasts with his predecessor Sam Walsh who favoured the project, which was said to produce over 2 billion tonnes of iron ore and double the size of Guinea's economy.

**Quoted by The Times (http://www.theaustralian.com.au/tablet-t3/tablet-t3/rio-tinto-shelves-us20bn-simandou-iron-ore-project/news-story/0f7b72c95b7c66b885dafd41580db6dd)**, Jacques had this to say about Simandou:

"We've been very clear that it's a very expensive project. We did deliver the BFS (bankable feasibility study) to the government as per the agreement a few weeks ago and we've been very clear that in the current market environment we don't see a way forward in relation to Simandou. We've been absolutely on record on this one. It's not the right time to develop this project from a Rio standpoint."

Along with its exhorbitant cost, Simandou also created headlines for accusations that BSG Resources, a rival of Rio Tinto, bribed the wife of the Guinean dictator to win control of the concession. BSG, controlled by Israeli diamond tycoon Beny Steinmetz, later sold half of its concession to Vale (NYSE:VALE), while not admitting any wrongdoing.

Rio acquired the rights for the vast mountain deposit more than 15 years ago and has already spent more than $3 billion on the project. In February, the company **swung into the red primarily due to a $1.1 billion writedown (http://www.mining.com/rio-tinto-swings-to-loss-blames-metal-prices-slump/)** in the value of its investment.