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GLOBAL STEEL MARKETS WEBINAR

22nd July 2020

Today's webinar is sponsored by:



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Today we will cover:



Your moderator today is Adam Smith, Global Editor, Kallanish

- What recovery for European demand and steel?
 - Presented by Emanuele Norsa
- China ignores summer slowdown
 - Presented by Tomas Gutierrez
- The Independence Day slump: Summer slowdown or Covid crush?
 - Presented by Dan Hilliard
- Middle East and CIS billet update
 - Presented by Adam Smith

We will save time at the end for questions, but if we don't get to your question due to time constraints we will endeavor to answer you after the webinar.



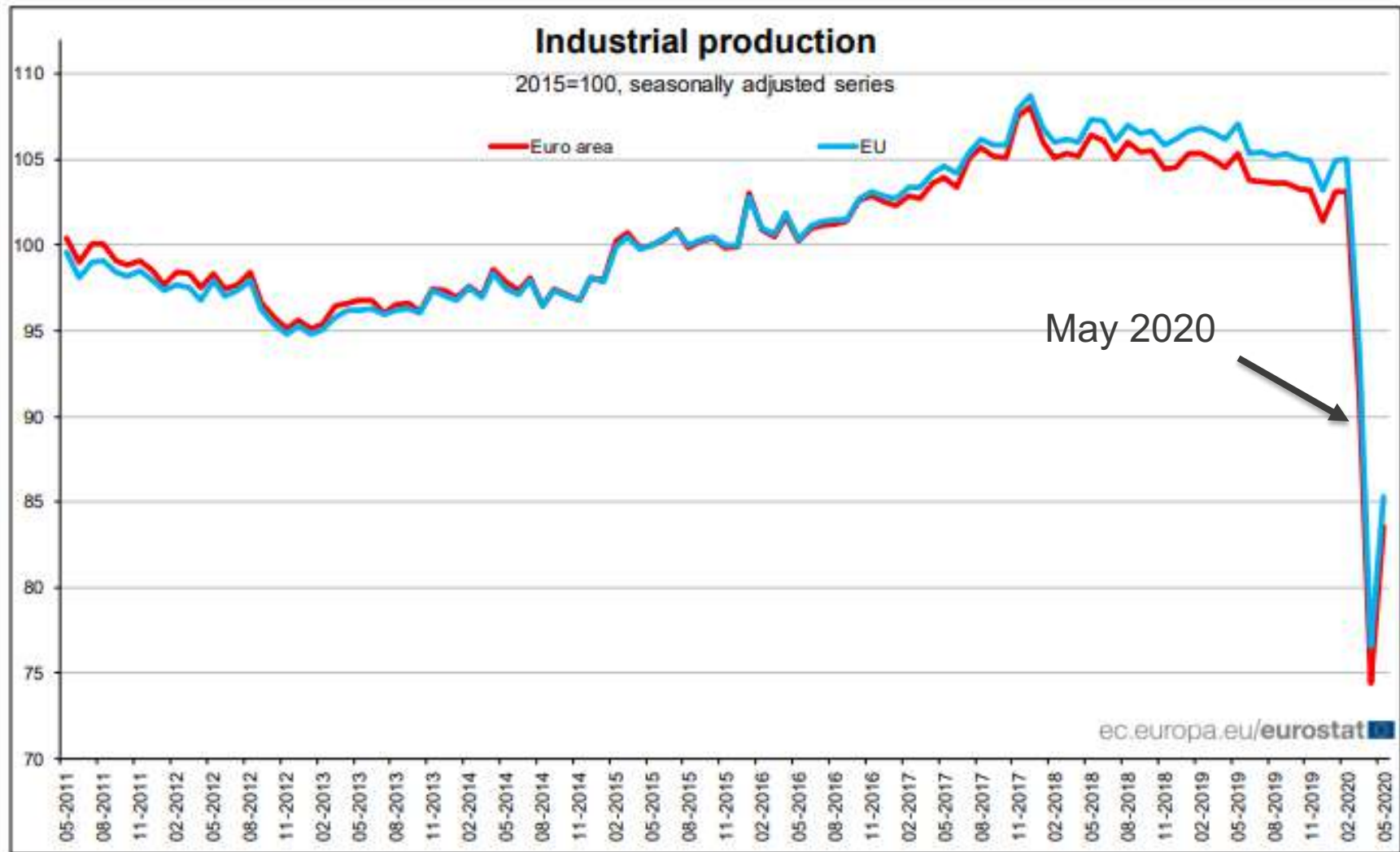
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Europe

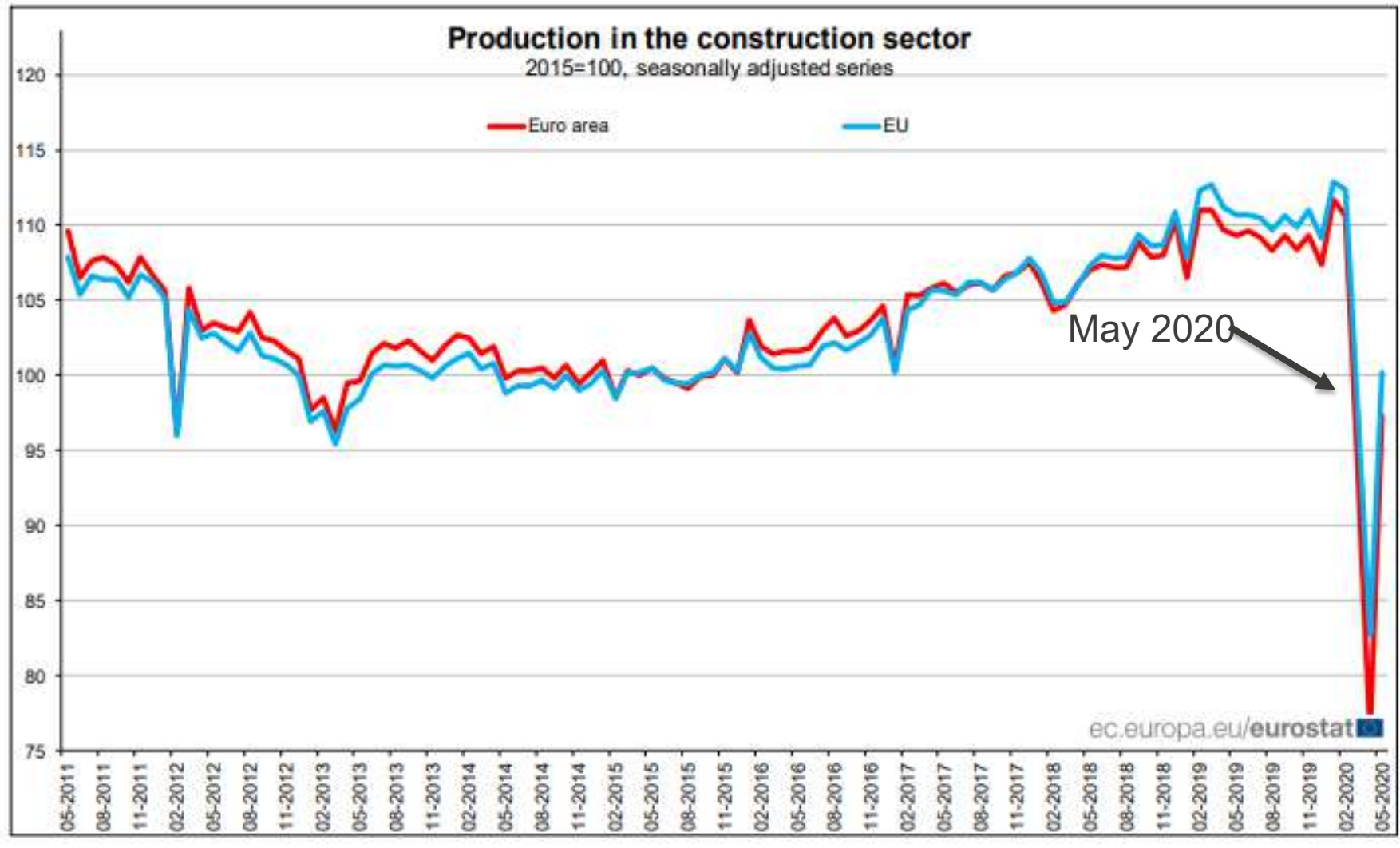
What recovery for European demand and steel?

Emanuele Norsa, emanuele.norsa@kallanish.com

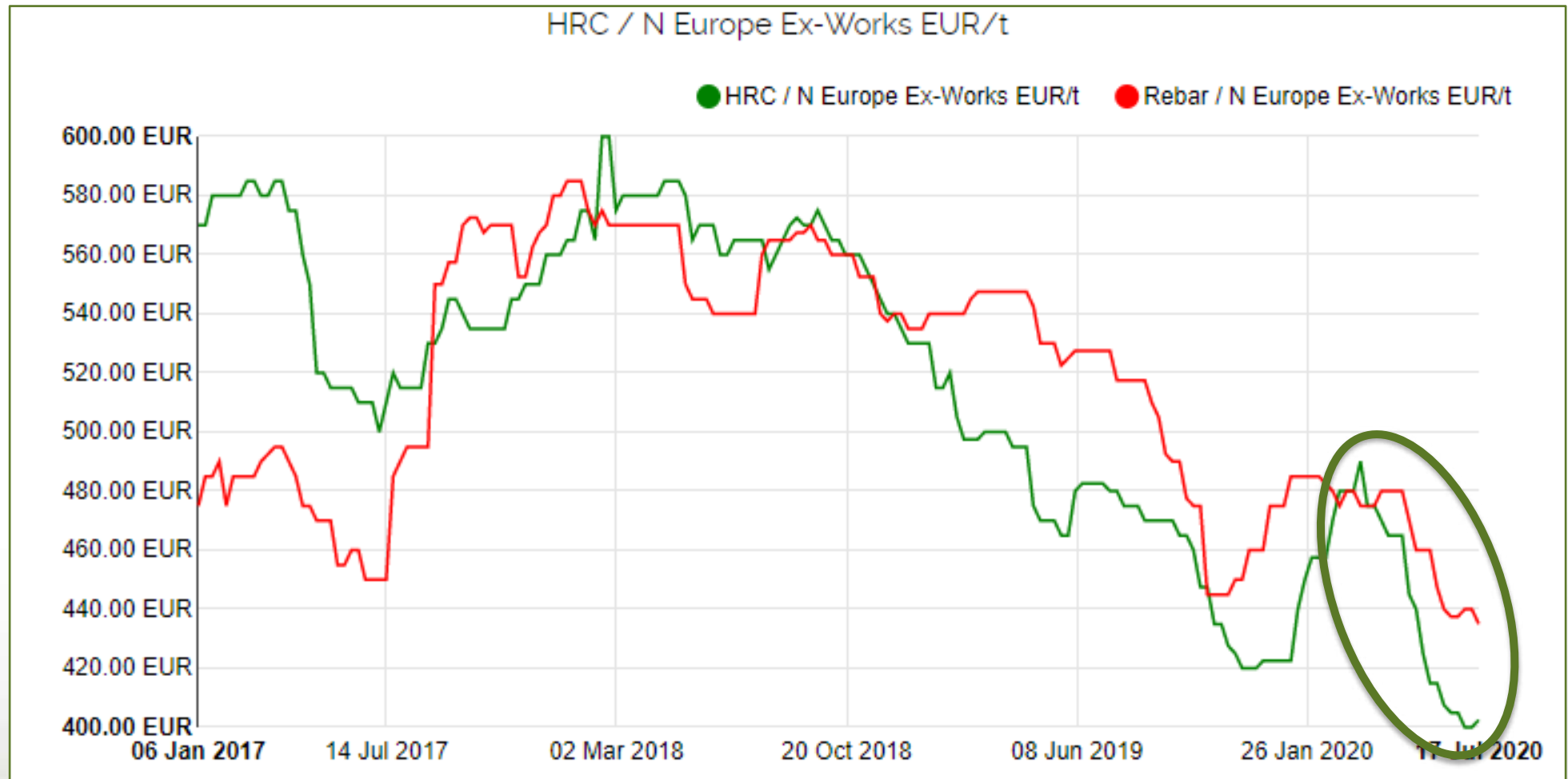
Eurostat: Industrial Production 2011-2020



Eurostat: Production in Construction 2011-2020



HRC & Rebar N Europe



Source: Kallanish

ArcelorMittal moves to increase coil offers in Europe – 20 June

ArcelorMittal is reported to be currently trying to increase its coil offers in Europe. A source close to the matter confirms the company is now targeting hot rolled coil sales in northern Europe at €440/tonne ex-works base, indicating an increase of over €20/t on the previous offer levels.

A trader in southern Europe confirms that rumours of the increase have also been heard there. He mentions sources reporting an increase of €20/t on offer levels.

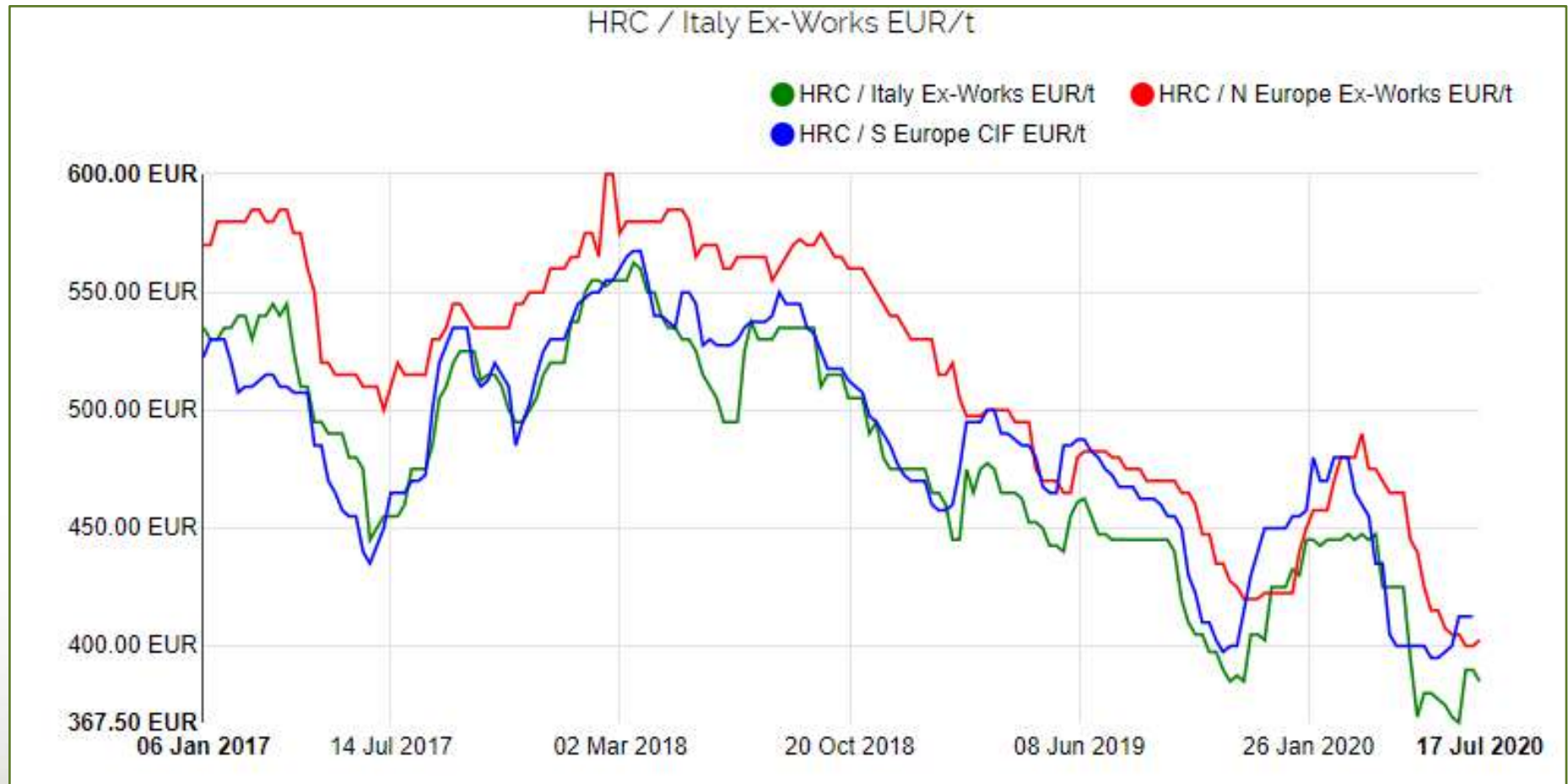
The market has for some weeks been expecting a move from mills to try and lift prices as international levels recovered; nevertheless, a number of problems still remain in Europe. Last week Kallanish assessed transaction levels in northern Europe at €405/t ex-works base, down almost €90/t from the latest peak registered in mid-March.

Tata Steel also raises UK coil offers – 14 July

Tata Steel Europe increased its coil offers in the UK market this week, following similar moves to raise transaction prices across Europe. The increase by Tata Steel UK is reported to be some £50/tonne (\$63), valid for all new orders. A source in the UK market confirms the increased offers are expected to take hot rolled coil up to £450/t (\$564) ddp and cold rolled coil to £510/t ddp. Tata Steel is understood to be offering HRC at €450/t (\$513) ex-works base in mainland Europe, while ArcelorMittal earlier announced its HRC offers at €440/t ex-works base.

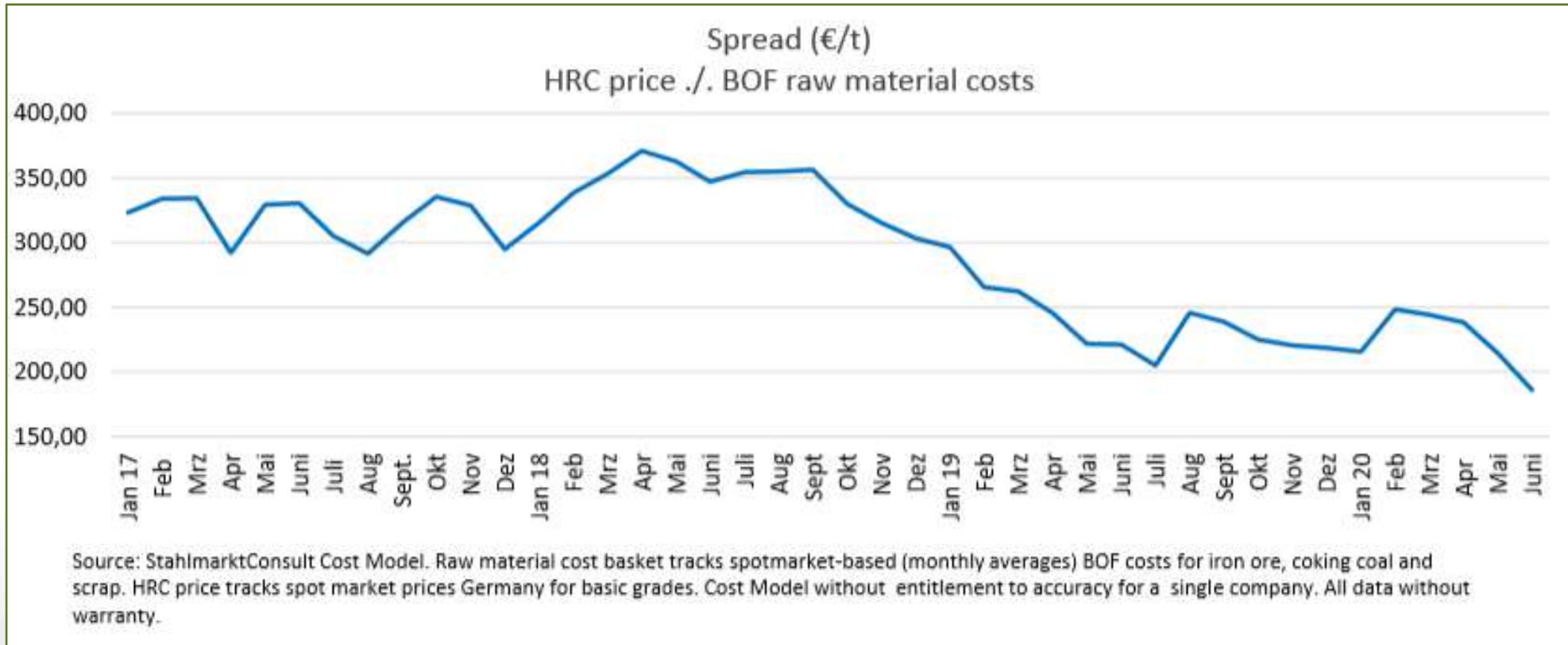
“Nobody expects the new asking level to be achieved straight away when we could get HRC from Russia and Europe at closer to £400/t,” a UK-based trader says. “However, stocks are low and imports from the east are not competitive.”

HRC Italy, N Europe, S Europe



Source: Kallanish

Spread €/t HRC Price / BOF Raw Materials



Safeguard Review – from July 2020

The Commission is set to make all country specific quotas managed quarterly, in order to avoid overcrowding of imports.

HRC quotas will be moved from general to country specific, further limiting the possibility of large importers taking major advantage of the allocations. With the new changes Russian suppliers will have the largest share of HRC import quotas followed by Turkey and India.

The review of the quotas system proposed does not go as far as limiting the quotas allocation by -75%. It still confirms however the introduction of new layers of limitations to additionally control imports.

More products reach critical EU safeguard quota usage

New EU safeguard quotas have become available from the beginning of July, but a number of specific allocations are already reaching a critical level, **Kallanish** learns from the official calculation system provided by the European Commission.

As expected, **Turkish rebar** importers have quickly used up almost all the quotas available until the end of September. Similarly, **Russian wire rod** imports have almost completely used the over 80,000-tonne of tariff-free quotas available.

In the flat products sector, **organic coated sheet** imports have used up most quotas specifically allocated to **Turkish** imports as well as those for the “**other countries**” section. This excludes imports from India, South Korea, Taiwan, Turkey and Macedonia. Despite the slowdown in the automotive sector, **Chinese hot-dip galvanized coil** specifically for the automotive sector has used almost all of the over 134,000t quotas available in the 4b sub-group.

Finally, the “**other countries**” **allocation for cold rolled stainless flat** products was also used completely until the end of September. This includes all imports not arriving from South Korea, Taiwan, India, USA, Turkey, Malaysia and Vietnam.



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Asia

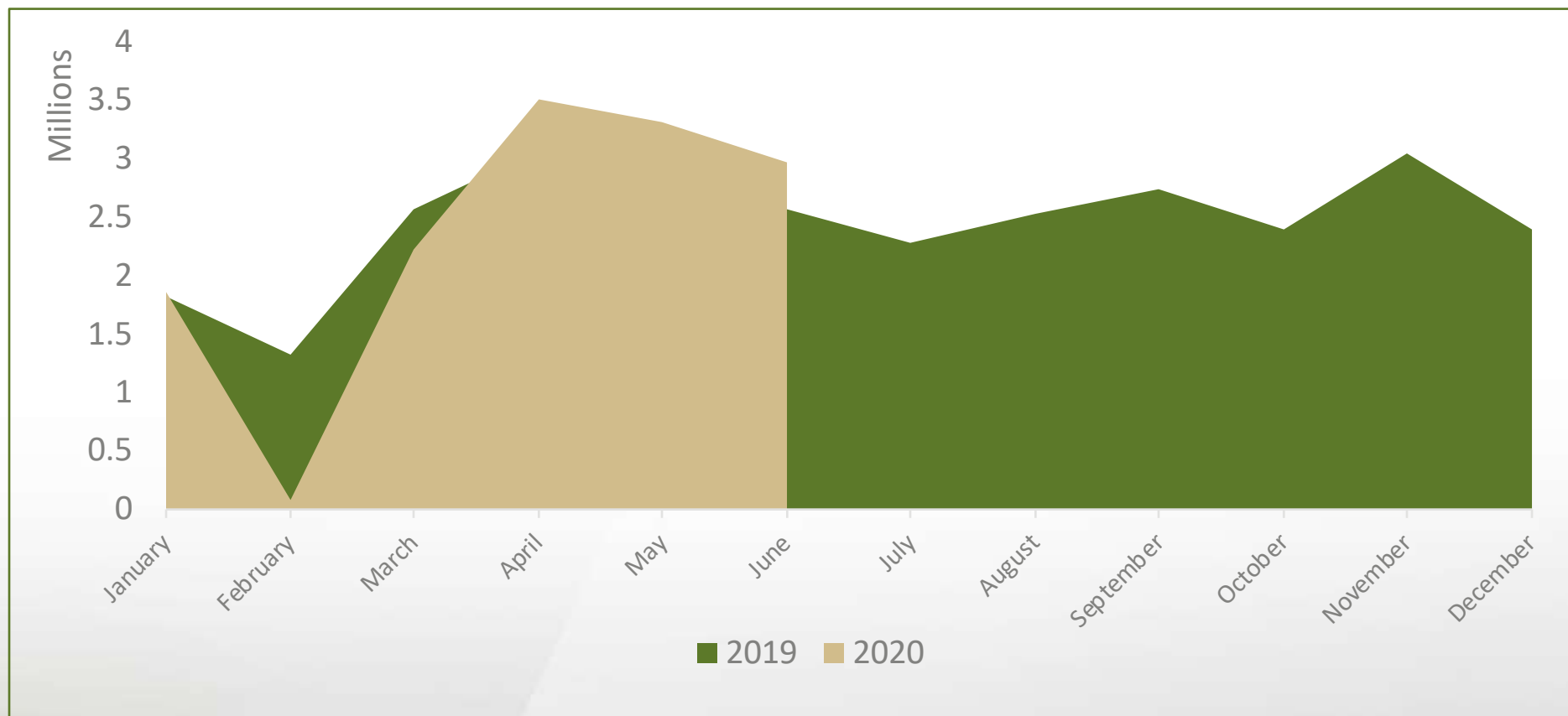
China ignores summer slowdown

Tomas Gutierrez, Asia Editor



June demand slides into summer

Cumulative Q1 demand down 19.5% at 133.45 million tonnes.
But January-June roughly flat y-o-y at 426.25mt.

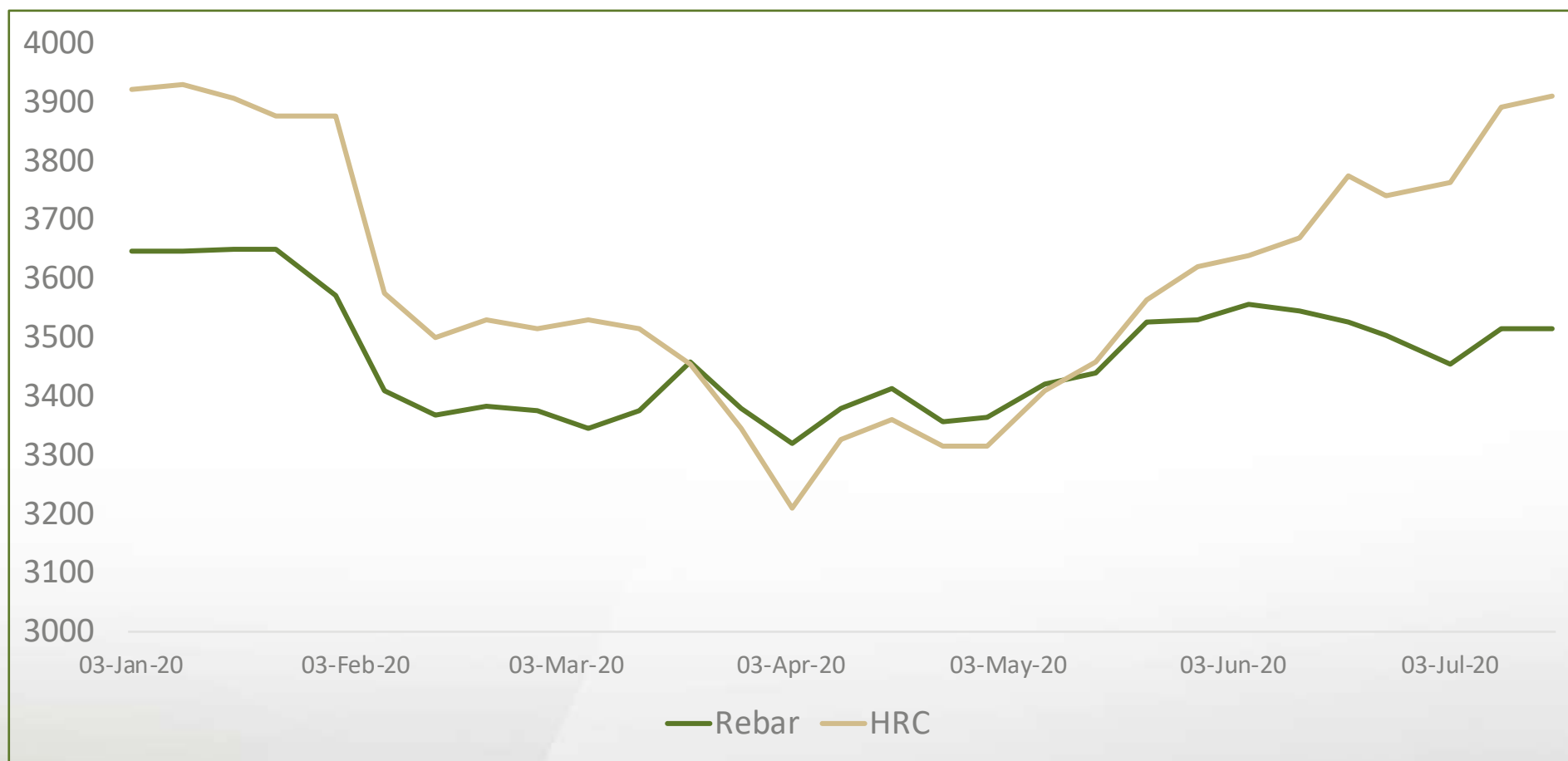


Source: NBS, Kallanish (end user buying, million tonnes/day)



Rebar and HRC diverge further

Heavy rains have impacted construction activity, suppressing rebar prices

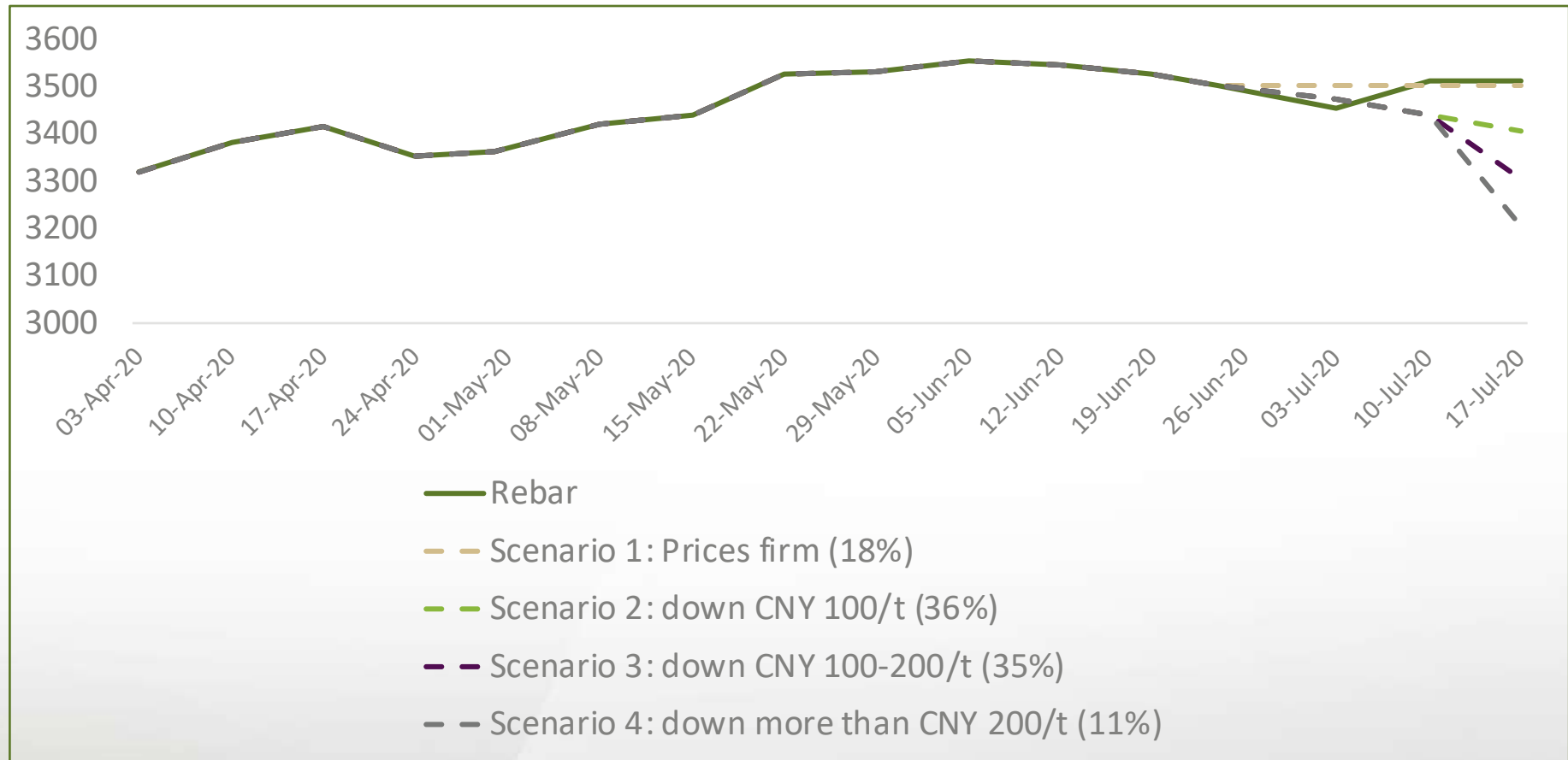


Source: Kallanish (CNY/tonne)



Previous expectations

Only 18% of attendees expected firm Chinese rebar prices a month ago

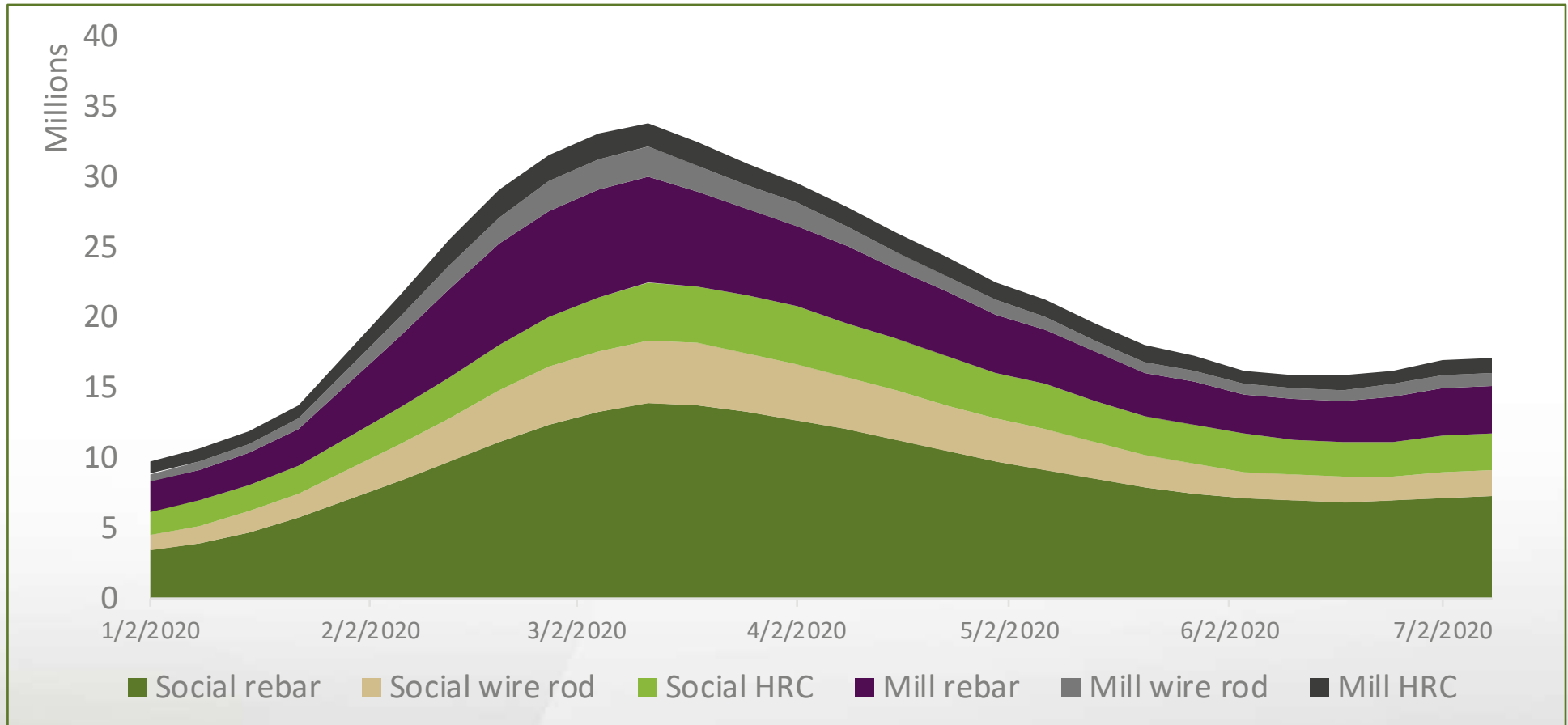


Source: Kallanish (CNY/tonne)



Inventories increased slowly

Inventories were pushed up by weak demand, but output has also fallen



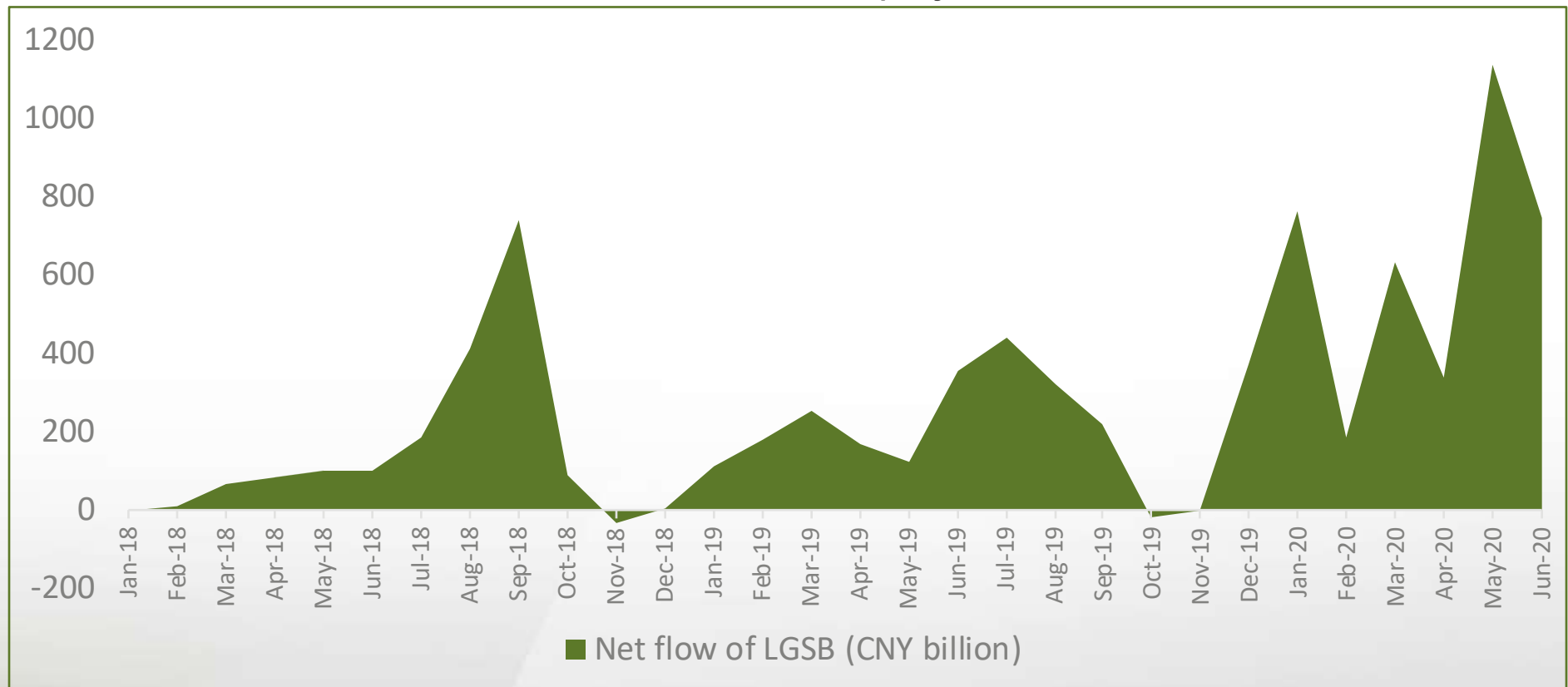
Source: SMM, Kallanish (million tonnes)



Bonds are ready to support demand

Over December 2019-June 2020, net flow of LGSB has been around CNY 3 trillion (\$428 billion) higher than a year earlier

Bonds are also more focussed on steel-intensive projects

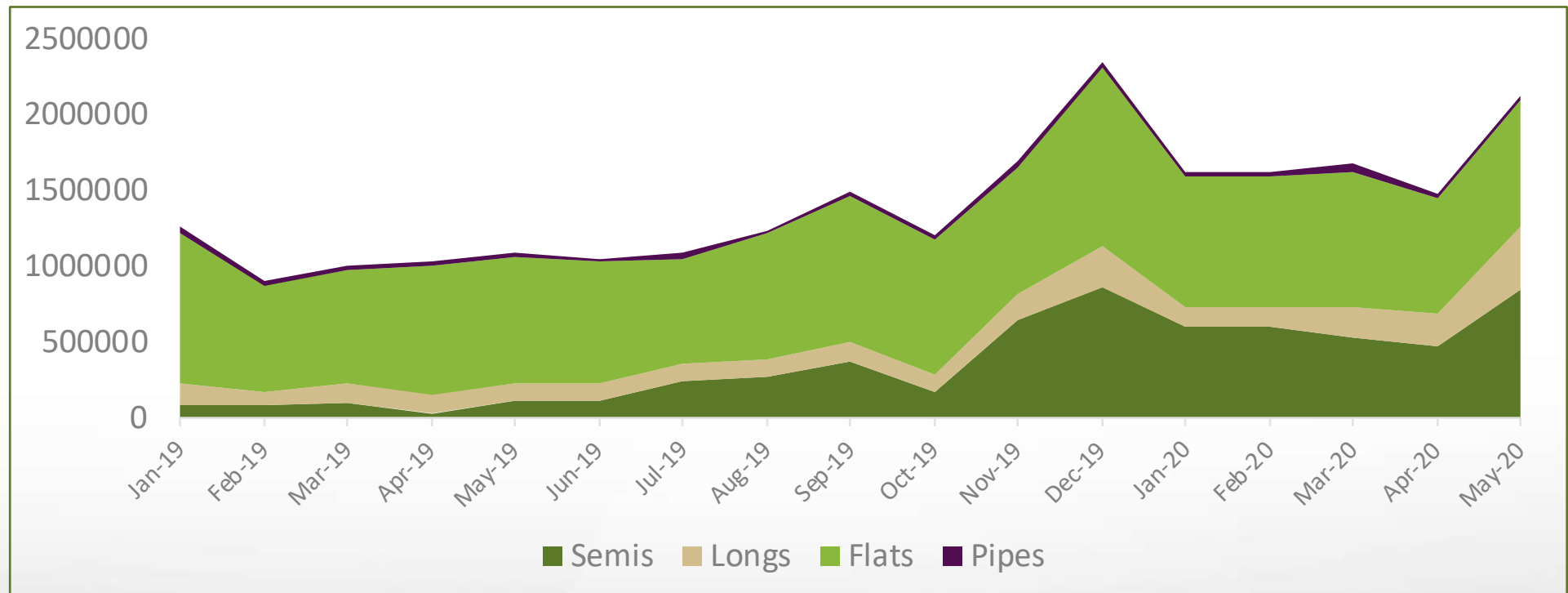


Source: PBoC, Kallanish



Imports are still building

Imports returned to around December levels in May. June saw finished steel imports of 1.878mt, up from 1.28mt in May. Semis are approaching 1m t/m.



Source: Customs, Kallanish



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North America

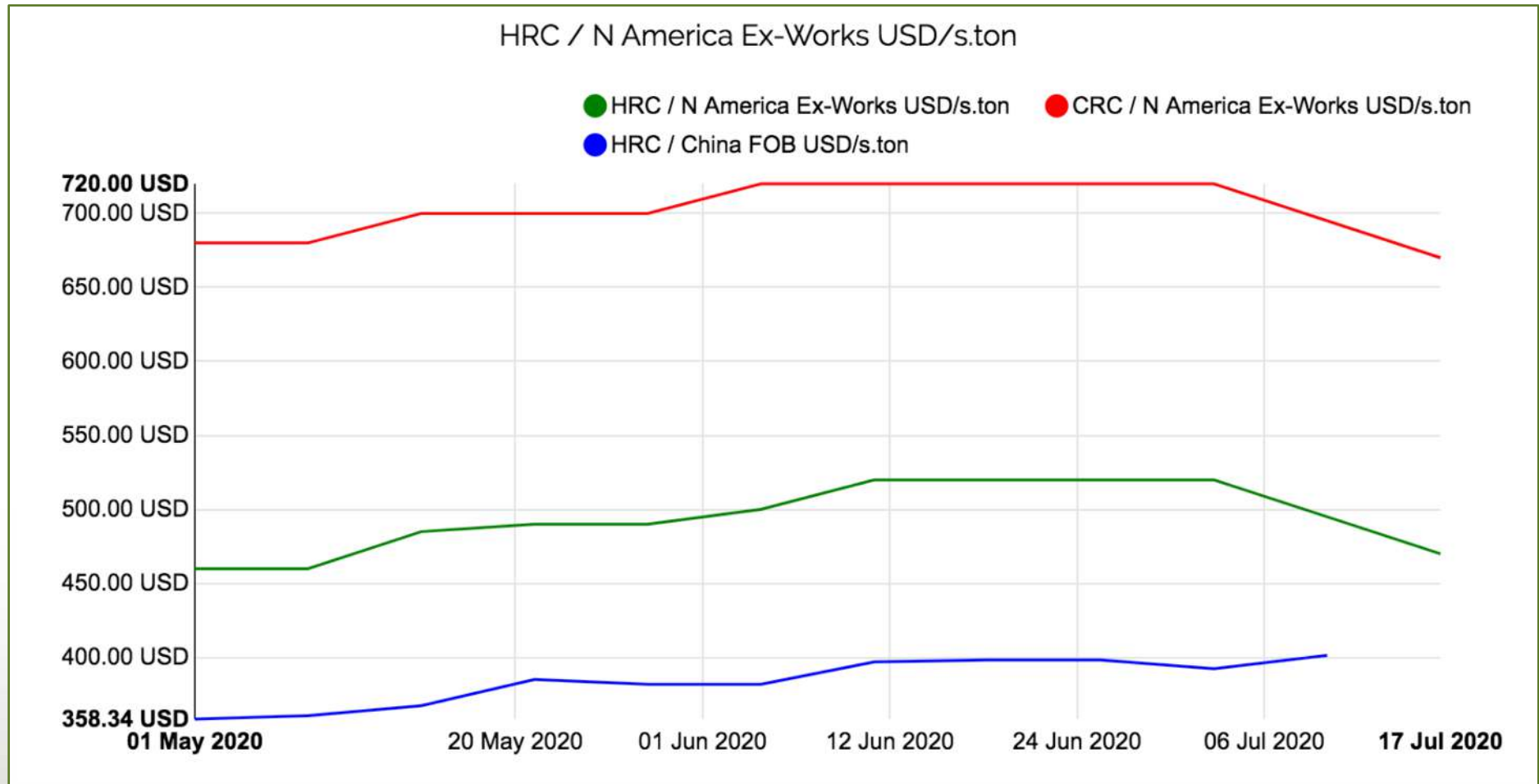
The Independence Day slump: Summer slowdown or Covid crush?

Dan Hilliard, North America Editor

Pricing momentum stalls

- After a brief period of recovery following the first (!) acute phase of Covid-19, pricing appears to have stalled across a wide range of product categories
- Hot-rolled coil is now below the psychologically important \$500/st barrier
- Plate is likewise well below the \$600/st barrier
- Increases that were expected for both products have reportedly been put on hold
- Oilfield's faint glimmer of a recovery has evaporated

HRC holiday dip



Source: Kallanish

But why?

- Traditionally, the US steel sector would be experiencing a normal price and demand slowdown right now due to mill outages and auto shutdowns.
- However, auto is attempting to recoup lost ground and mills are doing everything possible to restart within Covid-19 restrictions.
- Reportedly, order entry rates for sheet mills are fairly good – so why is the price sinking?
- Let's head to the beach for a possible answer...

Covid-19 recovery stalls

New record highs for Covid-19 infections are spiking throughout the Sun Belt and in still-bright hot spots like NYC – the picture to the right is Coney Island, New York.

This is throwing huge amounts of uncertainty into the general market – many areas have now surpassed the restriction requirements during the acute “red” phases, despite being in the safe “green” phase.

Who is willing to spend or invest in this climate?



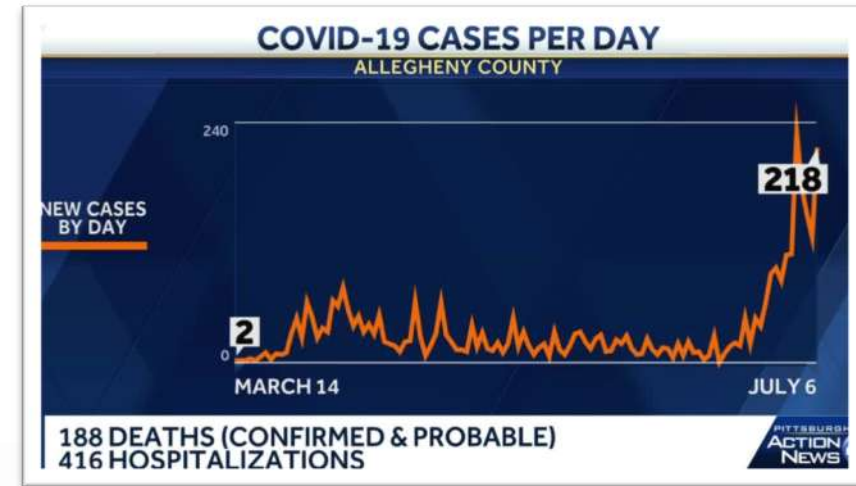
Uncertainty and sentiment

While Covid-19 is not directly impacting steel mill production as it was previously, it is seriously denting consumer buying and muddying public policy.

As a result, the usual summer slowdown has been replaced by a sort of general malaise throughout the supply chain.

Some bright spots – namely auto – remain. Oddly enough, mechanical and structural tube have seen a spike due to a huge influx of home gym equipment buying. But the heavy hitters – oil, construction, white goods, etc – are all dormant.

Earnings begin next week – at least it can only improve from here.





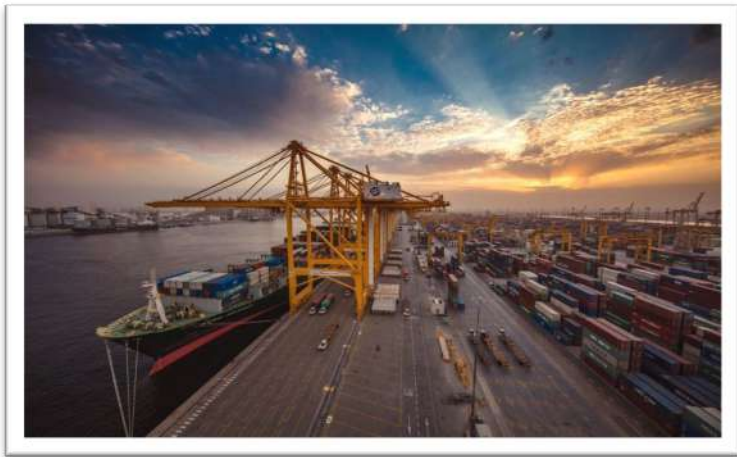
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Middle East & CIS

Middle East and CIS billet update

Adam Smith, Global Editor

UAE decides to impose PPGI duty..... eventually



- Gulf Cooperation Council said in April 2018 it had decided on a three-year safeguard duty on imports of products under HS codes 721070 and 721090
- This was not implemented by various GCC countries, including UAE
- Now UAE has implemented a \$137/tonne duty valid from 19 July until 14 May 2021.
- Raises questions about the ability or willingness of GCC nations to coordinate on trade measures

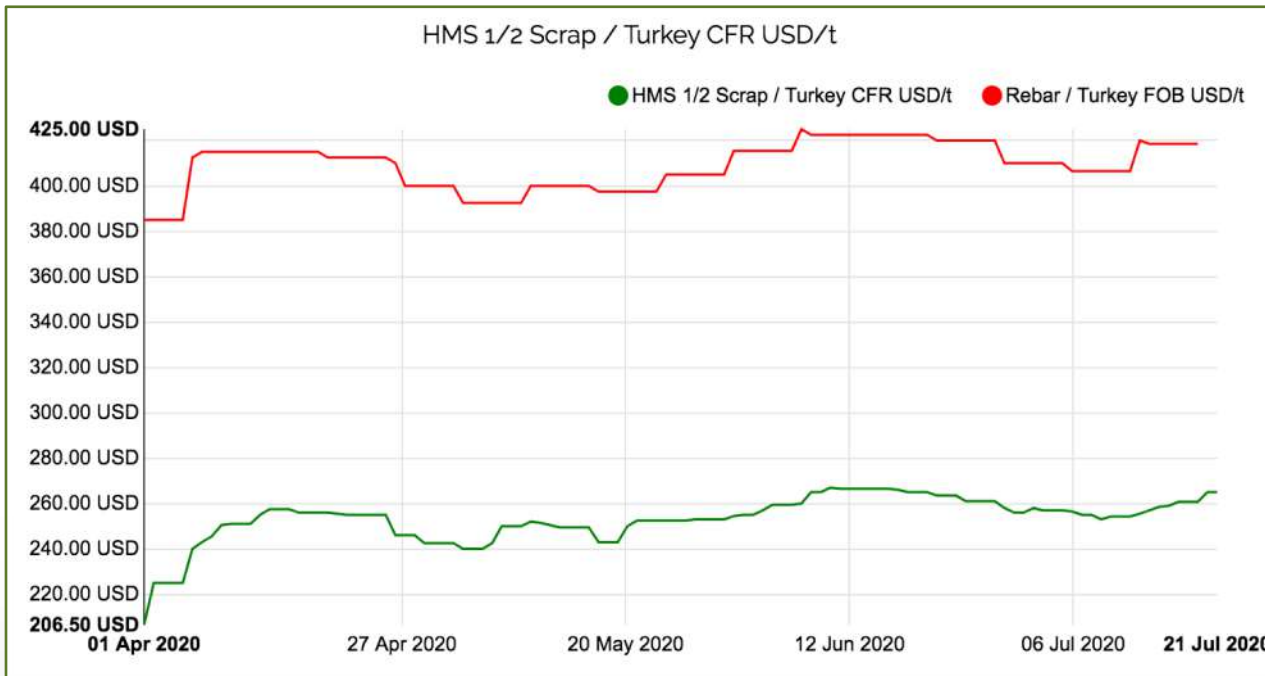


Egypt exempts some from flats duties



- Egypt has exempted manufacturers who use steel feedstock to produce their final product from the recent 10% customs duty hike
- The move is designed to alleviate increased input costs that would have led to Egyptian manufacturers' product prices being less competitive
- Applies to fabricators, re-rollers, pipemakers, white goods and engineering product manufacturers. Also to traders who can prove they are importing under a contract to sell to a manufacturer
- Longs have been levied with a 25% safeguard duty since April 2019. Moreover, certain origins are levied with a rebar anti-dumping duty since 2017.

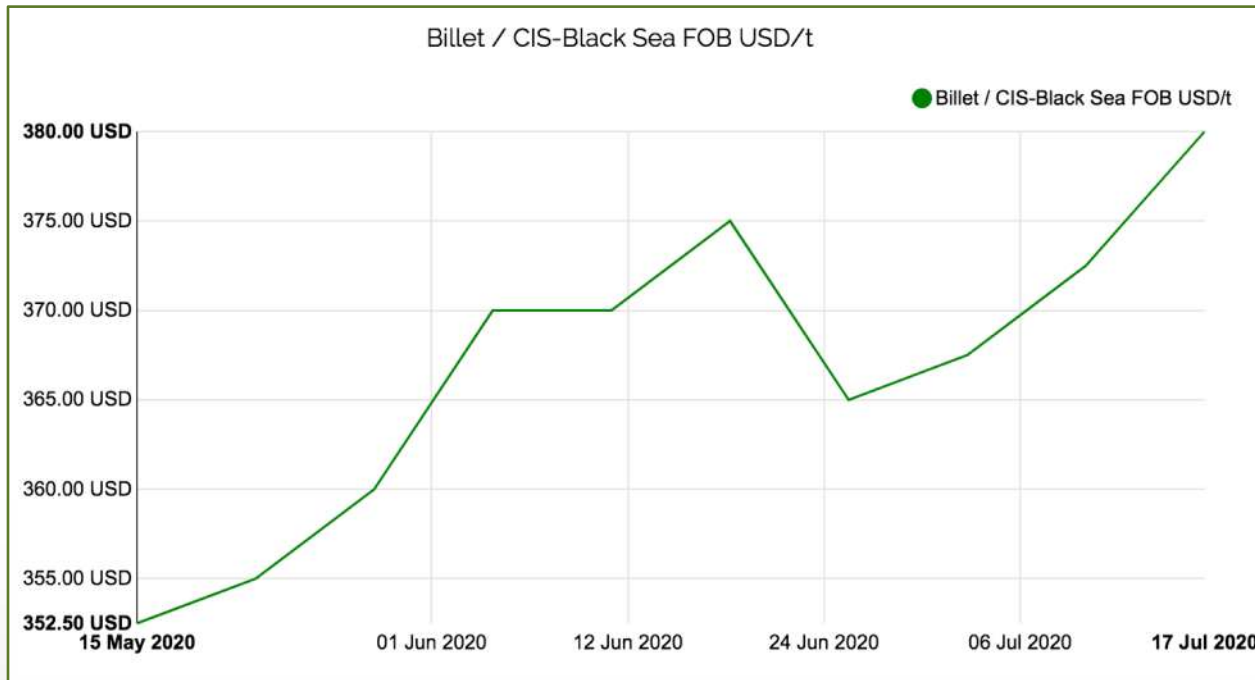
Turkish scrap, rebar on the up again



Source: Kallanish

- Last week Baltic-origin scrap booked at \$260-261.5/tonne CFR Turkey. Another booking over the weekend at \$265/t
- Offers have now risen to \$270/t CFR Turkey
- Better domestic demand leads Turkish rebar mills to raise offers to \$420-425/t FOB Turkey
- However, this price will not generate sales in the US or Asia
- Notably, Syria has been increasing bookings from Turkey

CIS billet buying picks up



- Turkish and Algerian buyers booked CIS billet
- Offers at \$385-390/tonne CFR Black Sea, bookings of ex-Rostov material to Turkey at \$382-388/t CFR
- Mills waiting for higher prices in China - \$420/t CFR seen achievable this week
- More deals expected to GCC

Source: Kallanish



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Questions?

If we don't have time to answer all the questions, we will endeavor to contact you and answer them after the webinar.



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