Kallanish Steel Weekly

YOUR MARKETS OUR VIEWS

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Top News:

Raw materials give mixed signals despite expected recovery

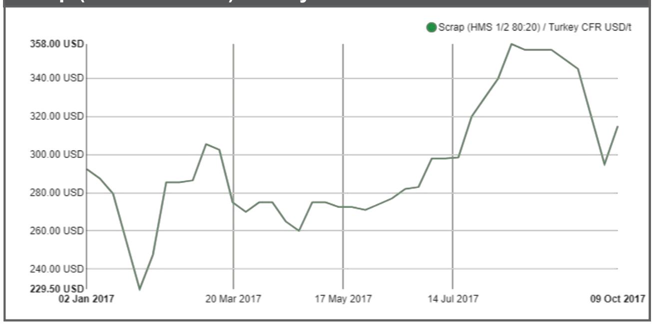
Global iron ore and scrap prices prepared for a rebound towards the end of last week, following the corrections registered since the beginning of September, but signals from the market are mixed. The extent of this recovery is uncertain and the iron ore market seems to be suffering more than expected. In China the sentiment is likewise mixed, but in Turkey most scrap traders are reporting a new jump in prices.

Last week the Chinese market was on holiday, but a recovery in demand was expected from this week, supporting a possible pick up in iron ore prices. According to Kallanish price series, the iron ore market bottomed on Monday last week at some $62.32/tonne cfr Qingdao, before recovering somewhat to $63.38/t cfr Qingdao. Further recoveries were expected this week supported by demand coming back in the market and the seasonal production restrictions being applied in China but the beginning of the week proved to be disappointing. On Monday 9 October the iron ore price fell again to $62/t cfr Qingdao.

Meanwhile the scrap market showed clearer signs of recovery last week, with deals increasing above $305/t cfr Turkey for HMS 1&2 80:20 as soon as Thursday. “I'm hearing the market is moving up a little,” a Turkish mill source observes. A trader confirmed that the market is recovering, but the extent of this recovery is set to depend from the movements in China despite the bullish attitude of many market participants.

An indication that a recovery in scrap values could accelerate this week came from the billet market, with prices rebounding in China and the CIS on the back of good demand and weak availability. A trader confirmed that buying large volumes of billets in the open market remains difficult, indicating that prices are set to continue to remain strong in the coming weeks.

Scrap (HMS 1/2 80:20) Turkey CFR USD/t



Iron ore 26% FE / Qingdao CFR USD/t

Billets have been acquired by EAF-based mills in order to cover their rolling needs on the back of higher graphite electrode prices since the beginning of this year. With electrode prices and availability set to continue being an issue in the coming months, billet prices are not expected to fall significantly going forward.

In this week's issue

Iron Ore 62% Fe / Qingdao CFR USD/t

W-o-w avg change		**-2.7%**	
6 Oct 2017	$	63.38	high
5 Oct 2017	$	63.22	
4 Oct 2017	$	62.79	
3 Oct 2017	$	62.50	
2 Oct 2017	$	62.32	low
Average	**$**	**62.84**	
29 Sep 2017	$	62.88	low
28 Sep 2017	$	64.78	
27 Sep 2017	$	66.13	high
26 Sep 2017	$	65.96	
25 Sep 2017	$	63.2	
Average	**$**	**64.59**	

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Global Overview

North America:

- US sheet, plate pricing stays still
- Tubular buyers wait out lacklustre year
- Trump administration budget moves forward

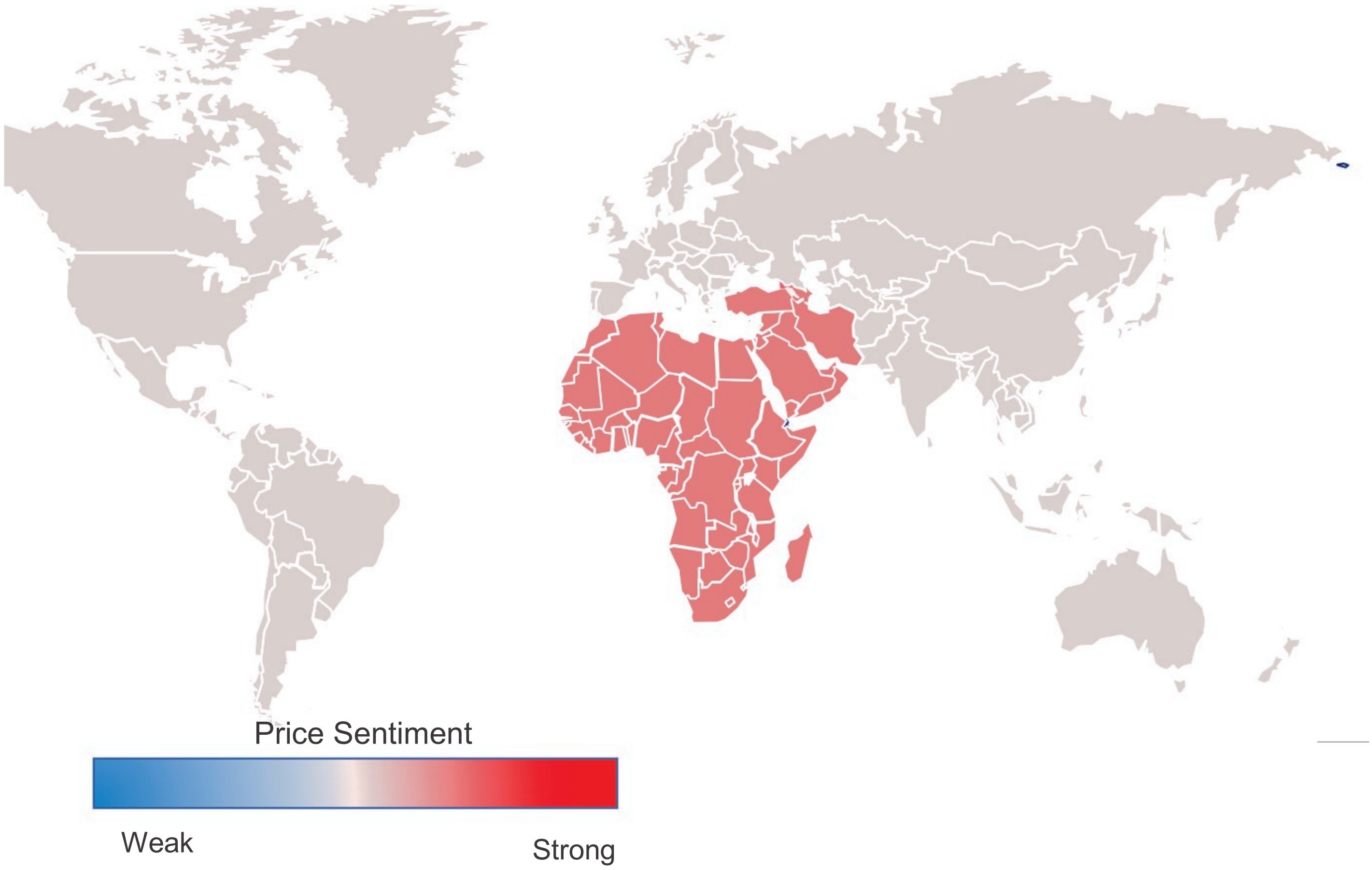
Europe:

- EC sets definitive duties on HRC imports
- ArcelorMittal raises longs offers for November
- Flats prices stabilise after increases

Asia:

- Chinese market back from holidays
- Flats export offers from China look up
- S. East Asian billet market uncertain

Global Sentiment Map



Latin America:

- Ternium bullish on LatAm flats demand
- Gerdau exits Chile with mills sale

Middle East:

- Turkish scrap rebounds following $60/t drop
- Turkish rebar rebounds to $530/t but no export deals
- Middle East seen producing more flats, using scrap

Asia

Market hesitant as China returns from holiday

The Chinese steel markets remained uncertain after the October national holiday, as end use buying was slow to return. That was negatively impacting sentiment in steel export and iron ore import markets also. As steelmaking restrictions in northern China kick-in, it is likely that price will be pushed around over the next few weeks.

Chinese futures markets open up from the end of September on the first trading day after the holiday, but soon began to lose ground and were falling sharply in night trading on Monday. Even though restrictions on steelmaking should curtail supply, end use buying had not picked up and that was spooking regular market participants and speculators alike. Iron ore too was weak, with the Kallanish index for 62% Fe Australian fines down $1.38/tonne to $62/dry metric ton cfr Qingdao on Monday.

Export markets meanwhile drifted during the Chinese holiday and in Vietnam the HRC import market was quiet last week. Deals had been heard from Brazil at the end of September however and there were position cargos of Indian material available at $560/t cfr Vietnam. New Chinese offers are expected to be higher, at least while mills entertain hopes of better domestic demand.

The balance of the market still depends largely on the impact of restrictions in various parts of the country. 28 cities across northern China have been told to cut steel output by -50%, and many of those measures are already in place. From 7 October fourteen steelmakers in Handan's Wuan district began a staggered production schedule designed to reduce output by around 50%. Eight coke plants in the district also began extending their coking times to cut output by 50%. There have also been restrictions on downstream sectors such as construction however. The key factor over the next couple of weeks will still be the level of spot buying on Chinese steel markets. Strong buying can bolster sentiment and prices as inventories are not high, but weak buying would likely drag prices down lower. Even strong buying in the next two weeks is unlikely to be sustained through the winter, meaning whatever rally may come in the coming weeks may be short lived.

Prices to watch:

403
HRC / China FOT Warehouse CNY/t

436[illegible] 0%
High Speed Wire Rod / Shanghai FOT CNY/t

3[illegible]45 0%
Rebar / China

In the news this week:

LONGS

Forward delivery of Chinese rebar confuses Singapore market

Offers for Chinese-origin rebar for delivery in first quarter 2018 has dampened buying interest in the Singapore market. The market is also quiet because of sluggish demand in Singapore. Chinese and Indian theoretical-weight rebar BS4999 500B for November shipment were late last week offered at $530-540/tonne cfr Singapore and $540-550/t cfr respectively. However, there is hesitation to book because lower-priced first-quarter offers were indicating to the market that prices will fall early next year, Singapore trading sources say.

CORPORATE

Electrosteel Steels seeks debt resolution plan

Trouble Indian steelmaker, Electrosteel Steels is seeking expressions of interest (EOI) for submission of a resolution plan in accordance with the provisions of India's Insolvency and Bankruptcy code.

FLATS

Vietnamese HRC market awaits China's return

The Vietnamese hot rolled coil import market was inactive during the past week mainly because Chinese suppliers were on holiday. Several deals heard concluded ahead of the holiday took place at 8-9% lower from peak prices in early September. A Chinese mill was heard to have sold at least 30,000 tonnes of SAE 1006 2.0-2.5mm thickness HRC at $560-565/tonne cfr Vietnam. At the end of September, 20,000-40,000t of same grade and thickness HRC from Brazil was booked at $560-570/t cfr Vietnam. These deals were for November shipments, Vietnamese trading sources say. HRC prices had reached peaks of $610-615/t cfr in early September.

LONGS

Southeast Asian billet import market slips amid uncertainty

The Southeast Asian billet import market has softened during the past week. Buying interest was thin because of uncertainties over the direction of the market when China reopens for business this week. Domestic rebar markets are slowing down. In Indonesia, a 40,000-tonne, mid-November shipment cargo of Black Sea 150mm billet was recently purchased at $510/tonne cfr Jakarta. It is a "... very good price for the buyer," a Jakarta trader says. Prices had peaked to a transacted $550/t cfr Indonesia in mid-September. Indian-origin induction furnace billet are currently offered at $510/t cfr Indonesia.

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