Kallanish Steel Weekly

SAMPLE

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This week:

Sustainability elevates prices, China cuts expected

The post Covid-19 drive for sustainability has reinforced the dynamic of higher steel prices amid costs and other obstacles to decarbonisation. China's rumoured steel output cuts should meanwhile materialise in the second half of the year, providing a boost to global steel margins observed participants at last week's Kallanish Europe Steel Markets 2023 conference in Amsterdam.

Steven Vercammen, senior expert at McKinsey & Company, spoke of a "new normal" of sustained higher prices and greater volatility, which was referenced by participants repeatedly throughout the event.

The challenges to fulfilling decarbonisation ambitions fall under three categories. One is investment, which involves potential bottlenecks at equipment contractors amid a surge in new direct reduced iron capacity additions. The supply chain area will also pose problems, as producers will be fighting amongst each other to secure high-quality DR pellet and limited scrap supply. Technology will meanwhile pose the final challenge, with treatment of lower-quality ore being necessary, as well as upgrading of scrap, Vercammen observed.

Carbon capture utilisation and storage (CCUS) will need to play a role for the EU to achieve its emissions targets, the consultant added.

Derek Langston, global head of dry research at Braemar Shipping, meanwhile pointed out that shipping will enter the EU Emissions Trading System from 2024, potentially significantly increasing the cost of voyages. ETS will cover 100% of intra-EU voyage emissions, plus 50% of inbound and outbound voyage emissions. Coverage will be scaled up from 40% next year to 100% from 2026.

China is meanwhile returning to the environmental focus it had before Covid-19, noted Kallanish Consulting Services consultant Ian Roper. Chinese steel production cuts have been rumoured for months – these are likely to happen in H2 but the form they will take remains a question mark.

China's post Covid-19 rebound has not come back as expected but "things are not that bad," Roper observed. The housing market has bottomed, while infrastructure is catching up after Covid-19 delays. Manufacturing may be down – post-zero-Covid policy, there is naturally more spending on leisure and tourism – but this will shift back towards the end of the year, he forecasted.

Roper expects global steel margins to be much better in H2 because of substantial Chinese production cuts. So far this year, Chinese mills have increased production on market rebound expectations, and have had to export the surplus as this rebound failed to materialise. This will nevertheless reverse in H2. This also means China will import less iron ore, however, which is bad news for iron ore prices.

The iron ore market is oversupplied for the first time since the early 2000s, "so we'll need some of those marginal higher-cost suppliers to switch off – we may need 80 million tonnes of seaborne supply to go out of market", Roper comments. Iron ore prices could fall to the $70s by year-end, but if Chinese blast furnace mills opt for purchases of higher grades to improve productivity, this will push up the cost curve, meaning iron ore prices could bottom in the mid $80s.

In this weeks Issue:

KORE INDEX

Index	58%	62%	65%
W-o-w % Change	2.80%	2.26%	2.55%
19 May	97.08	107.50	121.23
18 May	97.13	107.83	121.59
17 May	98.23	108.49	122.25
16 May	94.52	106.96	121.35
15 May	93.54	104.35	117.74
Average	96.10	107.03	120.83
12 May	93.31	102.73	116.04
11 May	93.27	102.44	115.68
10 May	92.92	104.90	118.14
09 May	93.28	104.62	117.79
08 May	94.64	108.61	121.51
Average	93.48	104.66	117.83

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Global Overview

Americas:

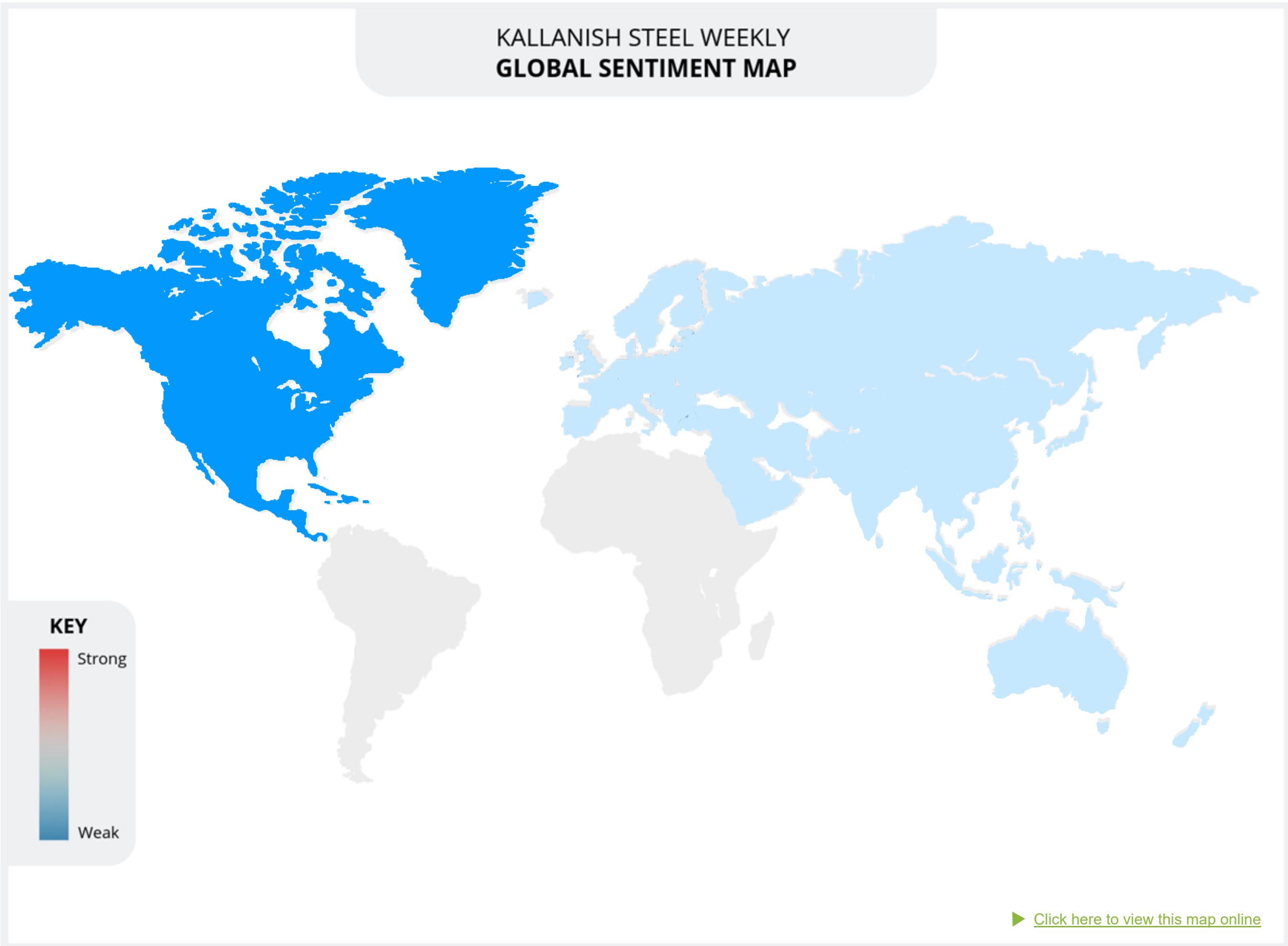
- Short-range outlook continues to weaken for several US steel markets
- GFG Alliance highlights scrap, EAF potential in US
- US plate, OCTG prices fall

Europe:

- Acciaierie d'Italia restarts BF
- HRC import offers keep hitting European market
- Scrap prices in Europe down again

Asia:

- Iron ore prices rebound somewhat
- Sentiment in Chinese steel market recovers
- Japanese scrap market stabilising



India:

- Indian HRC plunges on slowed global sentiments
- Indian scrap offers rises amid UAE scrap ban
- Pakistan scrap offers increases despite slowed domestic market

CIS:

- CIS billet export activity slows

Middle East:

- Turkish scrap remains stable
- Turkish rebar bookings fall away after rebound
- GCC HRC bids drop

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Asia: China

Chinese steel prices rebound

Chinese steel prices rebounded last week as markets finally began to bottom out from their recent dive. Sentiment remains weak, but demand is ticking over and traders are settling to watch for further developments. On the demand side, there has been modest supportive comment from official institutions which could suggest some further stimulus in the coming months. On the supply side, steelmakers have been restarting production, but there is still an expectations that output will have to fall in Q2. The balance appears to be that the next couple of months will be the hardest. There is no consensus on when a meaningful recovery may take place. Fundamentals however should improve in H2.

In Shanghai on Friday afternoon, 20mm HRB400 rebar was trading at CNY 3,530-3,560/tonne ($502-506/t), up by CNY 50/t on-week. 5.5x1,500mm Q235 HRC was meanwhile traded at around CNY 3,900-3,920/t, up CNY 30/t from a week earlier. By the end of the week, price were actually falling again, but they did not return to levels before Monday's surge.

The move by several banks at the start of last week to lower interest rates bolstered sentiment and led to expectations of an easier credit environment. Comments by the National Development and Reform Commission in support of manufacturing also boosted hopes of further stimulus measures. Other comments however, from the State Council and other organisations, suggested that any further support for the economy would be constrained and targeted. Uncertainty over policy remains.

Iron ore prices, too, rebounded last week, ending at $107.50/dry metric tonne cfr Qingdao, up $4.77/t on-week. Only coking coal prices continued to decline with a sharp $22.09/t decline to $220.45/t fob Australia. While the longer term outlook for coking coal is much stronger than iron ore, prices are still correcting from unsustainable highs over the last year.

Weak Chinese markets have forced exports higher in recent months. This includes exports involving illegal tax practices. This in turn has added pressure to already-weak global markets. This may continue in the short term, but the outlook for H2 is better.

Chinese steel demand is in fact quite strong, and overproduction should be curtailed in the second half. Lower raw materials prices and higher Chinese domestic steel prices meanwhile should also shield global markets from the negative impact of forced Chinese exports.

By: Tomas Gutierrez, Editor Asia - Steel

Prices to watch:

585	3545	522.5
-2%	1%	0%
HRC / China FOB USD/t	Rebar / China FOT Warehouse CNY/t	Billet / Manila CFR USD/t

In the news this week:

RAW MATERIALS

Japanese scrap market hints at stabilisation

South Korea's Hyundai Steel has further reduced its bid prices for Japanese scrap. Japanese scrap has been falling in recent months but there are now some signs of price stability. The South Korean steelmaker's bids on 18 May were at JPY 45,800/tonne ($333/t) for H2 grade scrap, and at JPY 46,300/t for H1/H2 grade. Its bids for shredded and HS grades were at JPY 48,300/t and JPY 49,800/t respectively. These bids were each lower by JPY 500/t compared to those on 11 May, with the exception of shredded grade which was JPY 1,000/t lower. They are all on an fob Tokyo basis. Meanwhile, in Vietnam, traders say offer prices of Japanese H2 grade scrap have increased slightly, to $375-385/t cfr in Vietnam, compared to $375-380/t cfr last week. They add the market is slow, however.

FLATS

Vietnamese HRC market drifts sideways

The market mood in Vietnam for hot rolled coil remains muted. Demand has not picked up while suppliers for Chinese HRC are maintaining offer prices. 3-12mm thickness SS400/Q195 HRC from China for end-June/early-July shipment is offered at $545-550/tonne cfr Vietnam, unchanged from the week before. A 2,000-tonne cargo of Q195 from a small Chinese mill was heard ordered at $530/t cfr on 18 May. Many Vietnamese traders think that such a low transaction price implies that the 13% VAT due on the cargo will not be fully paid by the supplier. Bids for 3mm thickness base commercial quality from this mill are invited at $545/t cfr, traders say. Q195 and SS400 HRC are at the same price levels, a Ho Chi Minh trader says. He adds there are also higher-priced offers at $560/t cfr Vietnam.

LONGS

ASEAN wire rod import market recovers

Chinese-origin 6.5mm diameter wire rod offers for July shipment are prevailing at $545-550/tonne cfr Manila, up from $555-560/t cfr Manila last week. A trader reports hearing of a small-tonnage deal of some 2,000 tonnes closed earlier this week at around $550/t cfr to Cebu, which would be equivalent to around $535/t cfr Manila. "Wire rod prices have moved up in the last 2-3 days from China," a regional trader says. Suppliers have hiked prices on improved Chinese steel futures and stable scrap and iron ore markets. Offers for wire rod from ASEAN mills are at around $560-570/t cfr in the region, trading sources report. A Thai trader has a firm offer for mid-July-shipment blast furnace rebar from Malaysia and Indonesia at $560-565/t cif this week. A Manila trader says he hears these offer levels to Manila too but quickly adds that the particular mills in Indonesia and Malaysia "haven't been competitive for quite a while".

FLATS

Chinese domestic, export HRC prices diverge

Chinese domestic hot rolled coil prices saw a weekly increase due to expectations of stimulus and despite weak fundamentals. Export prices had the same trend but finally fell on-week as demand declined. In Shanghai on Friday afternoon, 5.5x1,500mm Q235 HRC was traded at around CNY 3,900-3,920/tonne ($553-556/t), up CNY 30/t from a week earlier. On the Shanghai Futures Exchange, meanwhile, the most-traded October 2023 contract for HRC lost CNY 39/t from Thursday but gained CNY 80/t on-week to CNY 3,722/t. Monday's surge laid the groundwork for the weekly domestic price gain. This was supported by market expectations of stimulus, as the National Development and Reform Commission stated that it will implement comprehensive measures to unleash consumption. It also aims to stabilise and expand investment in the manufacturing sector. The commission plans to use various methods such as central and local government bonds to push up medium and long-term financing.

Word of the week

Dry Metric Tonne Unit

This is the internationally accepted unit of measure for iron ore pricing. A dry metric tonne unit is 1% of iron (Fe) contained in a tonne of ore, excluding moisture. The price per tonne of a consignment of iron ore is calculated by multiplying the cents/dmtu price by the percent Fe content of the ore in that shipment. Iron ore contract prices are quoted in US$ cents.

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