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GLOBAL STEEL MARKETS WEBINAR

23rd September 2020

Today we will cover:

Your moderator today is Paul Mullins, Director, Kallanish

- Can EU prices recover more?
  - Presented by Emanuele Norsa
- China loses its mojo
  - Presented by Tomas Gutierrez
- Spring Ahead, Fall Back: The Recovery Threatened
  - Presented by Dan Hilliard

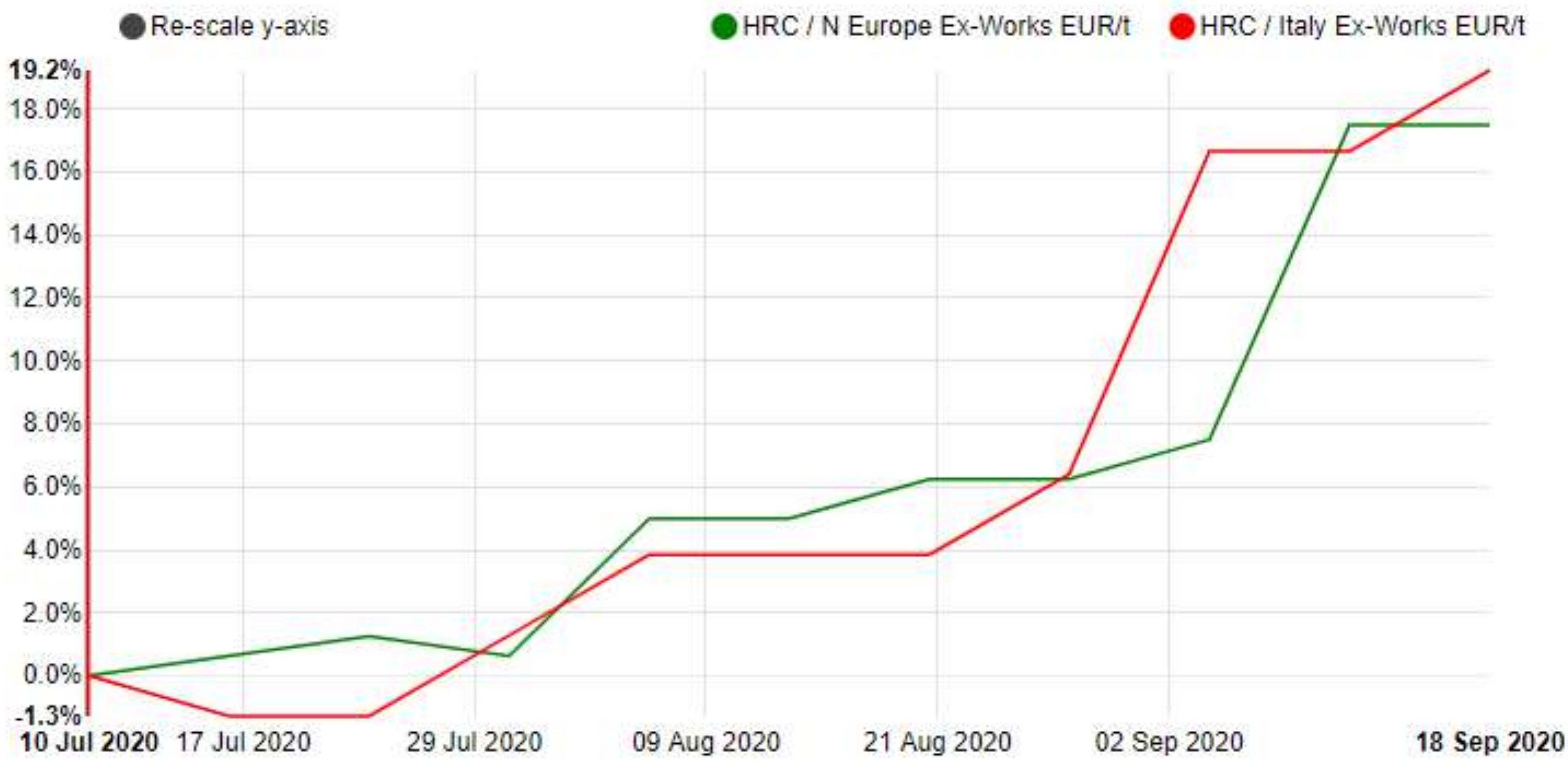
We will save time at the end for questions, but if we don't get to your question due to time constraints we will endeavor to answer you after the webinar.

Europe

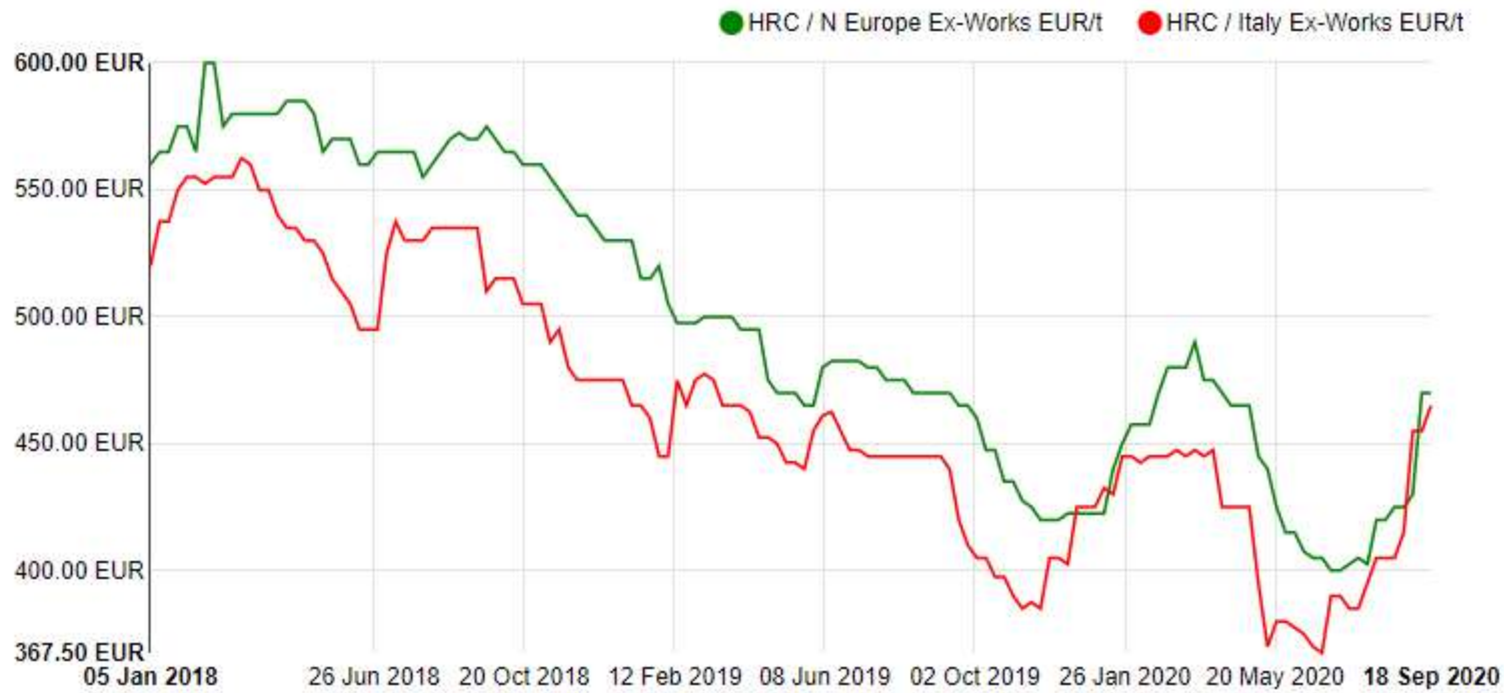
Can EU prices recover more?

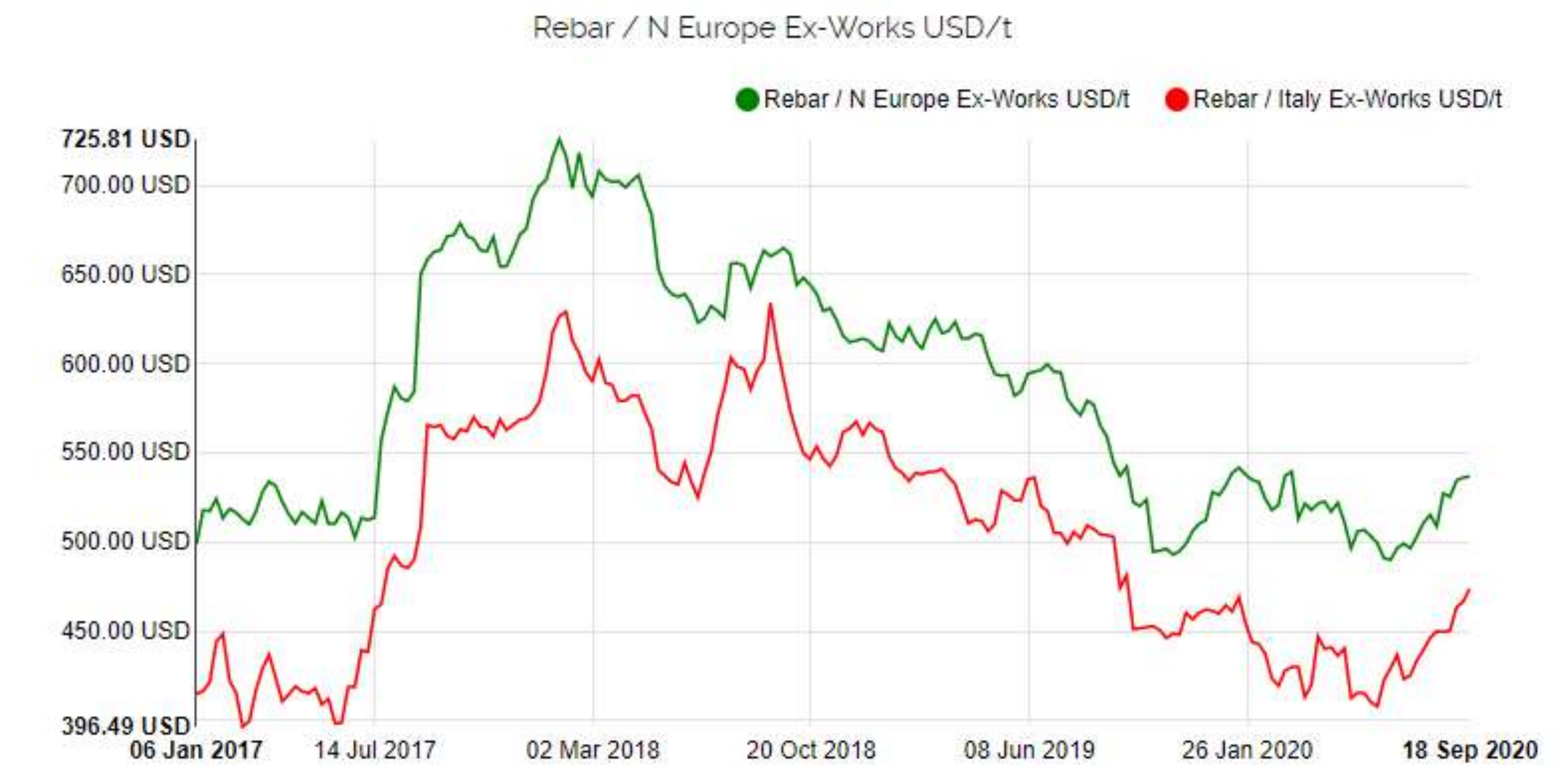
Emanuele Norsa, emanuele.norsa@kallanish.com

HRC / N Europe Ex-Works EUR/t

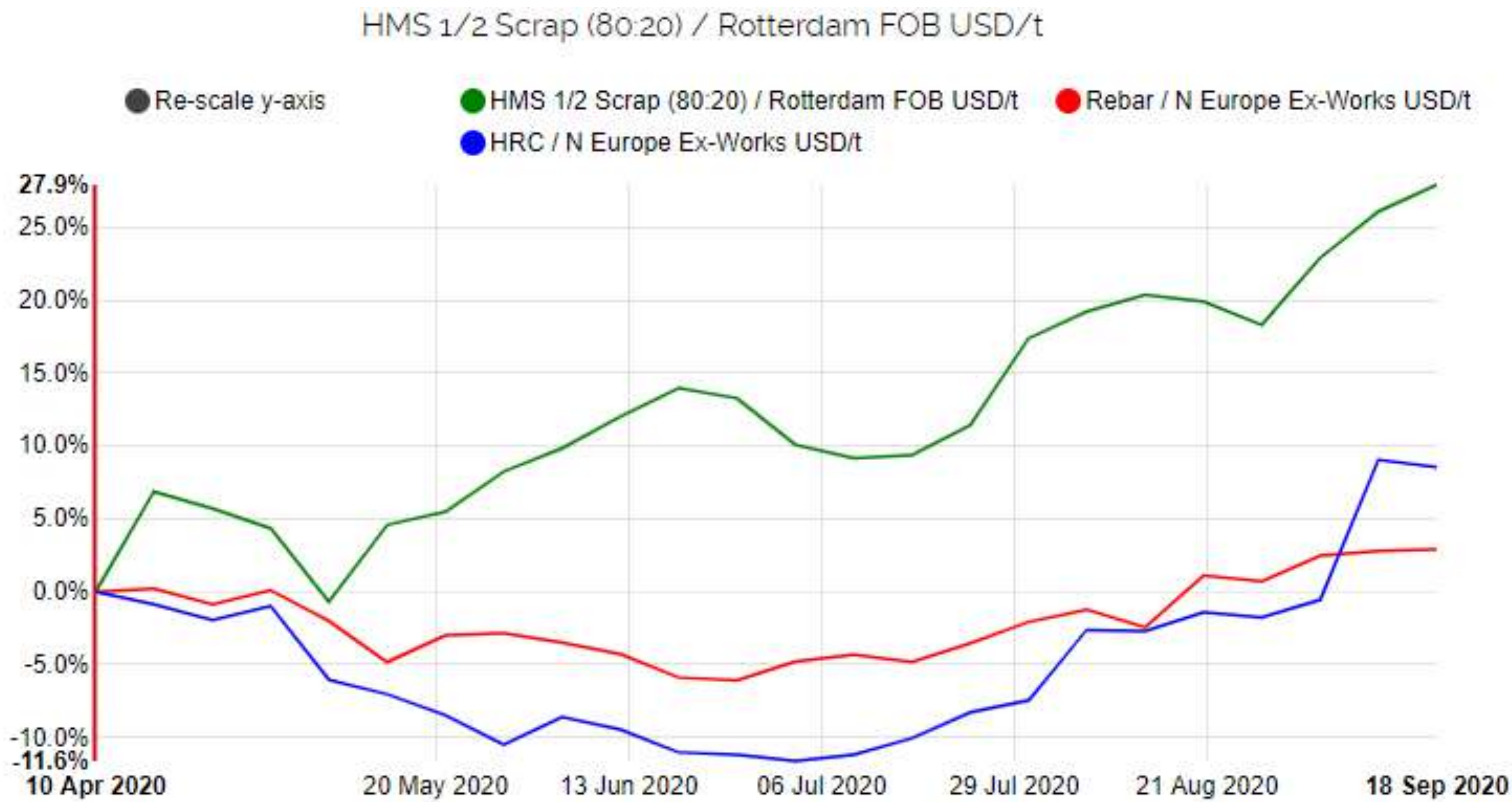


HRC / N Europe Ex-Works EUR/t

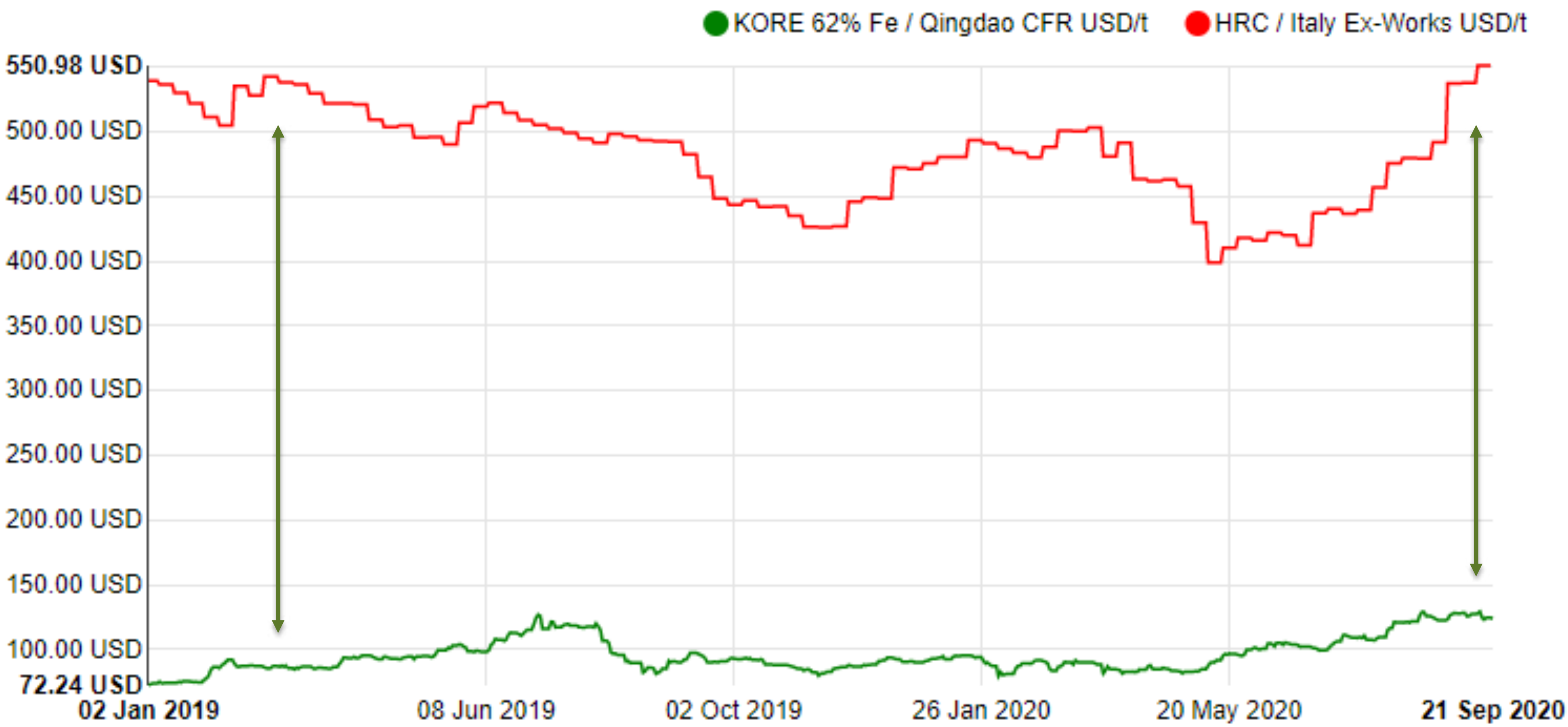


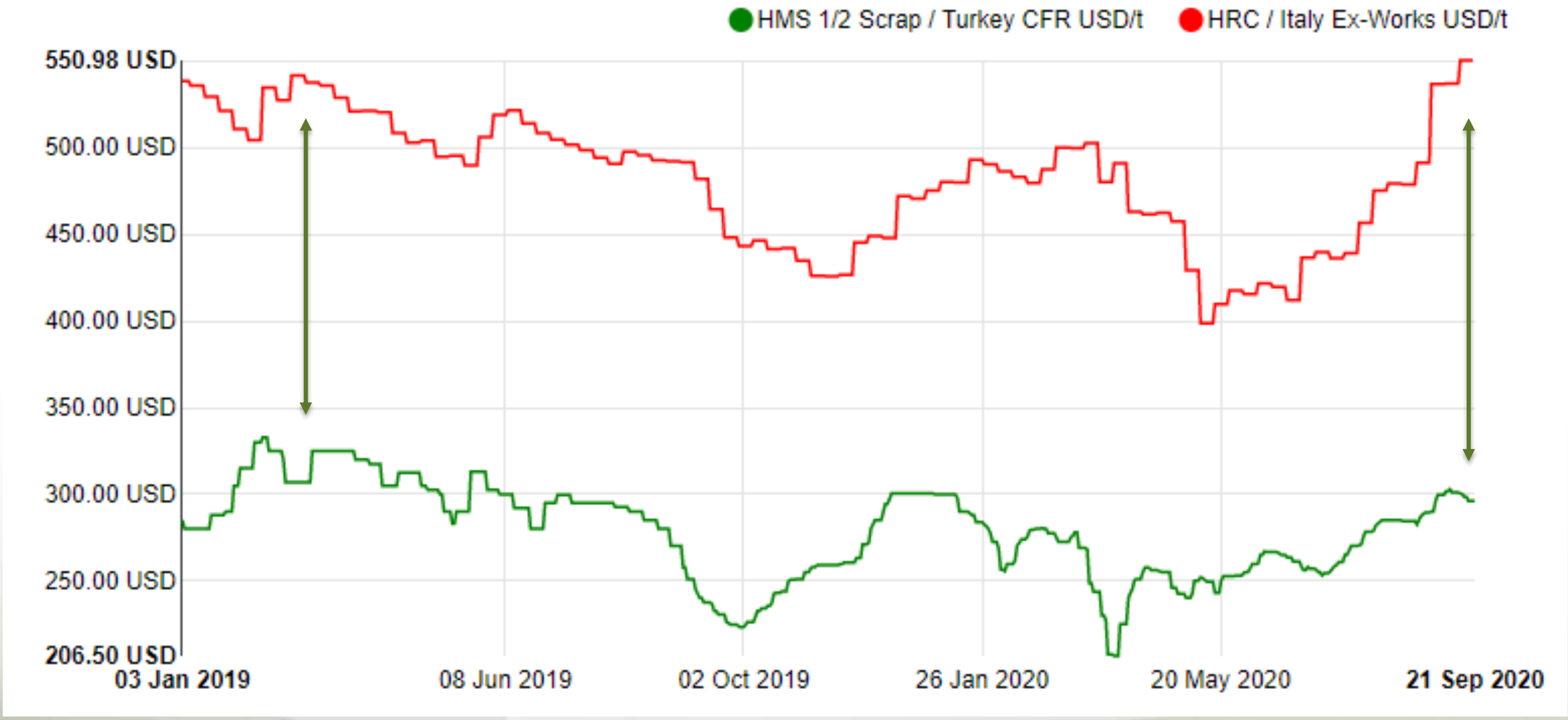

Rebar / N Europe Ex-Works USD/t
Rebar / N Europe Ex-Works USD/t
Rebar / Italy Ex-Works USD/t
725.81 USD
700.00 USD
650.00 USD
600.00 USD
550.00 USD
500.00 USD
450.00 USD
396.49 USD
06 Jan 2017
14 Jul 2017
02 Mar 2018
20 Oct 2018
08 Jun 2019
26 Jan 2020
18 Sep 2020

Are margins recovering quickly enough for EU mills?


HMS 1/2 Scrap (80:20) / Rotterdam FOB USD/t
Re-scale y-axis
HMS 1/2 Scrap (80:20) / Rotterdam FOB USD/t
Rebar / N Europe Ex-Works USD/t
HRC / N Europe Ex-Works USD/t
27.9%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
-5.0%
-10.0%
-11.6%
10 Apr 2020
20 May 2020
13 Jun 2020
06 Jul 2020
29 Jul 2020
21 Aug 2020
18 Sep 2020

KORE 62% Fe / Qingdao CFR USD/t




HMS 1/2 Scrap / Turkey CFR USD/t
HRC / Italy Ex-Works USD/t
550.98 USD
500.00 USD
450.00 USD
400.00 USD
350.00 USD
300.00 USD
250.00 USD
206.50 USD
03 Jan 2019
08 Jun 2019
02 Oct 2019
26 Jan 2020
20 May 2020
21 Sep 2020

“Strong Chinese iron ore demand and costlier CO2 emissions allowances are likely to keep production costs elevated for German steelmakers,” says Peter Fertig, senior analyst at MBI Martin Brückner Infosource. “Chinese steel demand and improving German steel end-use demand, however, should support hot rolled coil prices.”

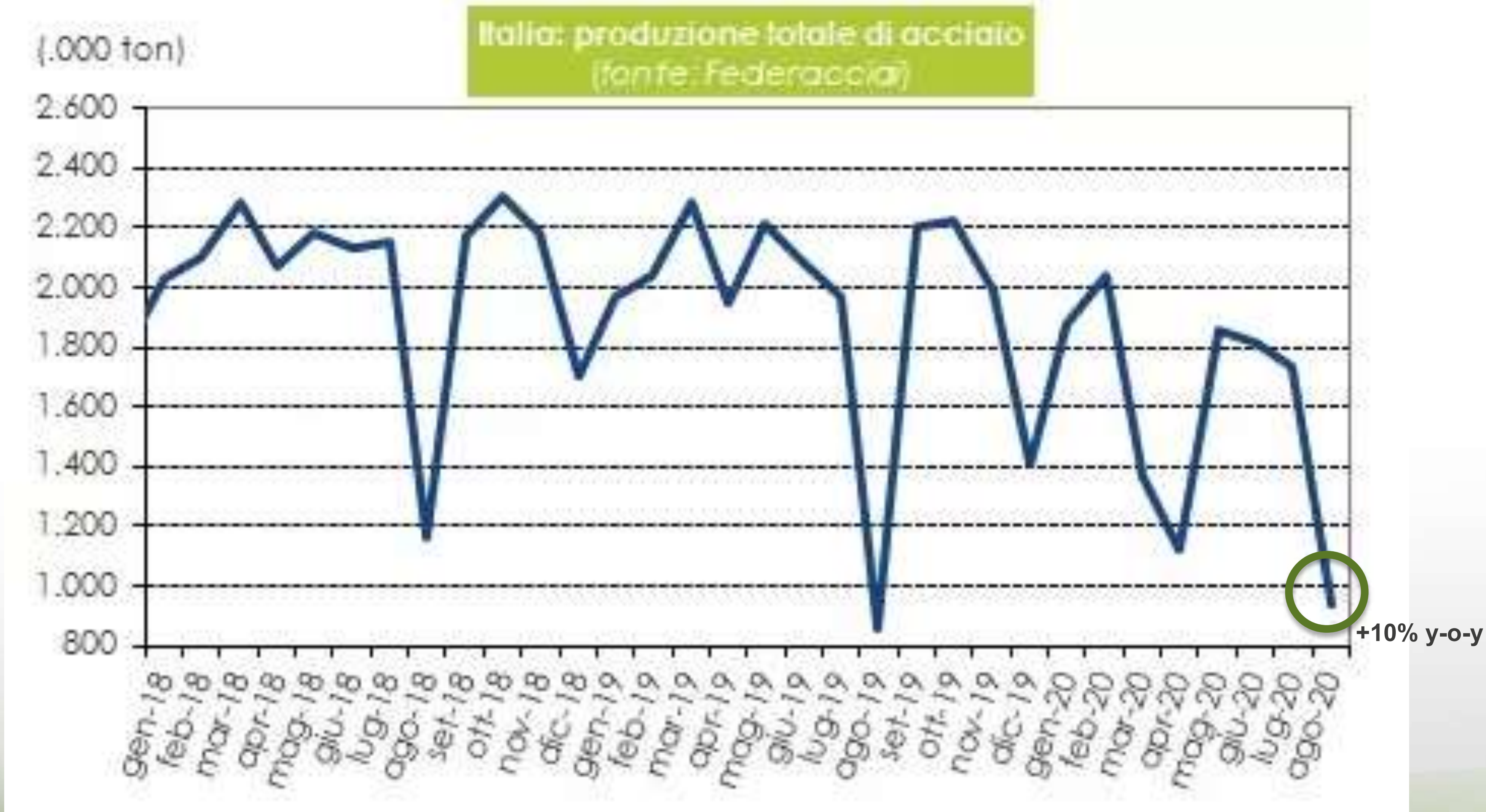

And production?

One third of blast furnaces restarting, says UBS

Some 34% of blast furnaces idled during the peak of the Covid-19 pandemic are being restarted, UBS bank says in a new steel and iron ore market analysis published this week. The trend is set to continue further.

The bank calculates 72 blast furnaces were idled globally in response to the downturn in demand due to the coronavirus, meaning a capacity of some 132 million tonnes/year was temporarily curtailed. European steelmakers were the most active in idling BFs, stopping 20 of them; in Asia 19 were idled and in North America 17.

Of the idled furnaces globally, 22 are restarting. “In our opinion, this is not a surprise given the time constraints of hot idling and as demand is picking up,” UBS says in a note seen by **Kallanish**. “We expect most idled BFs to restart by end-20; this is needed for pig iron production ex-China to be flat h/h in 2H.”


Italia: produzione totale di acciaio
(fonte: Federacciai)
(.000 ton)
2.600
2.400
2.200
2.000
1.800
1.600
1.400
1.200
1.000
800
gen-18
feb-18
mar-18
apr-18
mag-18
giu-18
lug-18
ago-18
set-18
ott-18
nov-18
dic-18
gen-19
feb-19
mar-19
apr-19
mag-19
giu-19
lug-19
ago-19
set-19
ott-19
nov-19
dic-19
gen-20
feb-20
mar-20
apr-20
mag-20
giu-20
lug-20
ago-20
+10% y-o-y

Asia

China loses its mojo

Tomas Gutierrez, Asia Editor

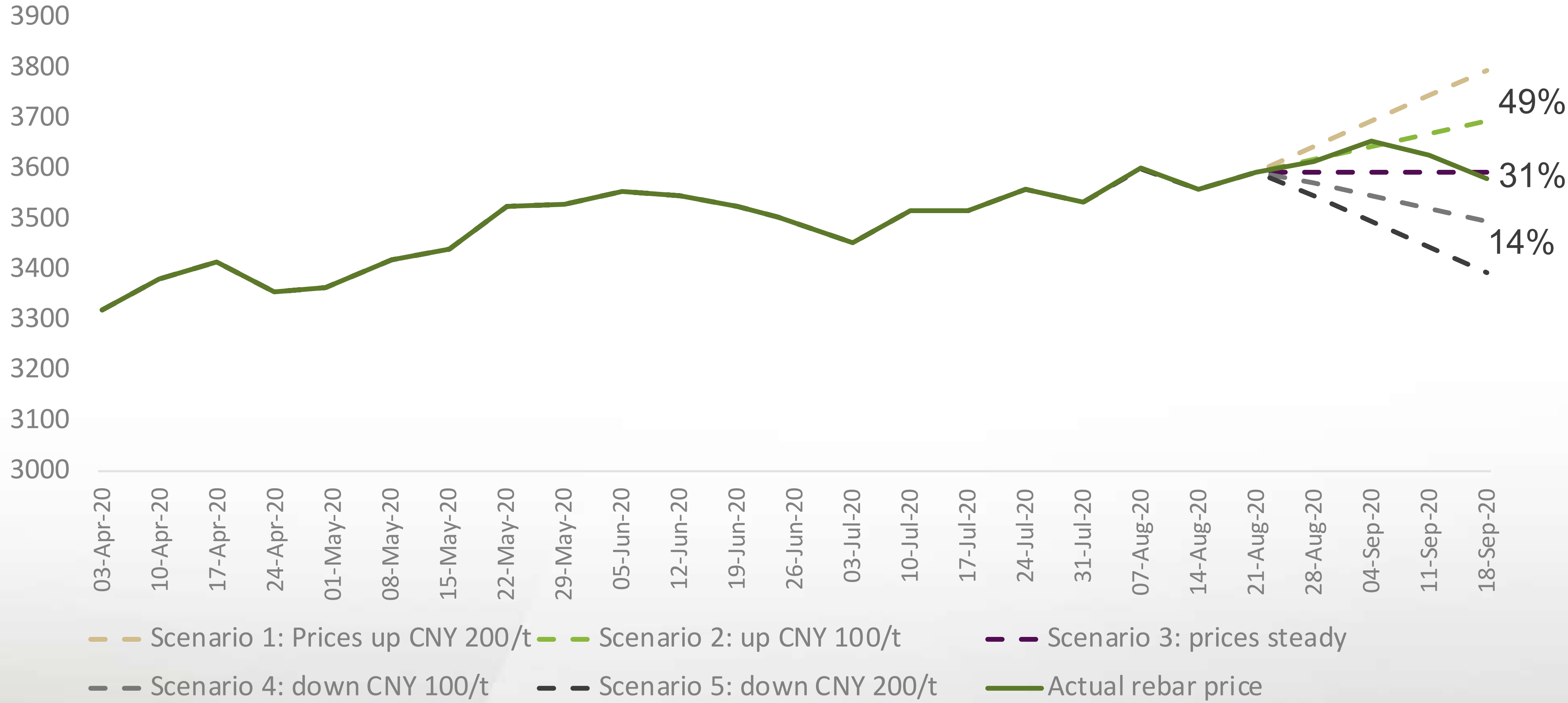
Prices fall as confidence fades

Demand did not meet expectations and pre-holiday restocking has not occurred

Source: Kallanish (5.5x1,500mm Q235 HRC, 20mm HRB400 rebar, CNY/tonne fot Shanghai)

Rebar dips below expectations

53% of attendees had expected higher rebar prices



Source: Kallanish (20mm HRB400, CNY/tonne fot Shanghai)

Iron ore ends bull run

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COMMODITIES

Last week 44% of attendees had expected iron ore at $125-135/dmt cfr in late October

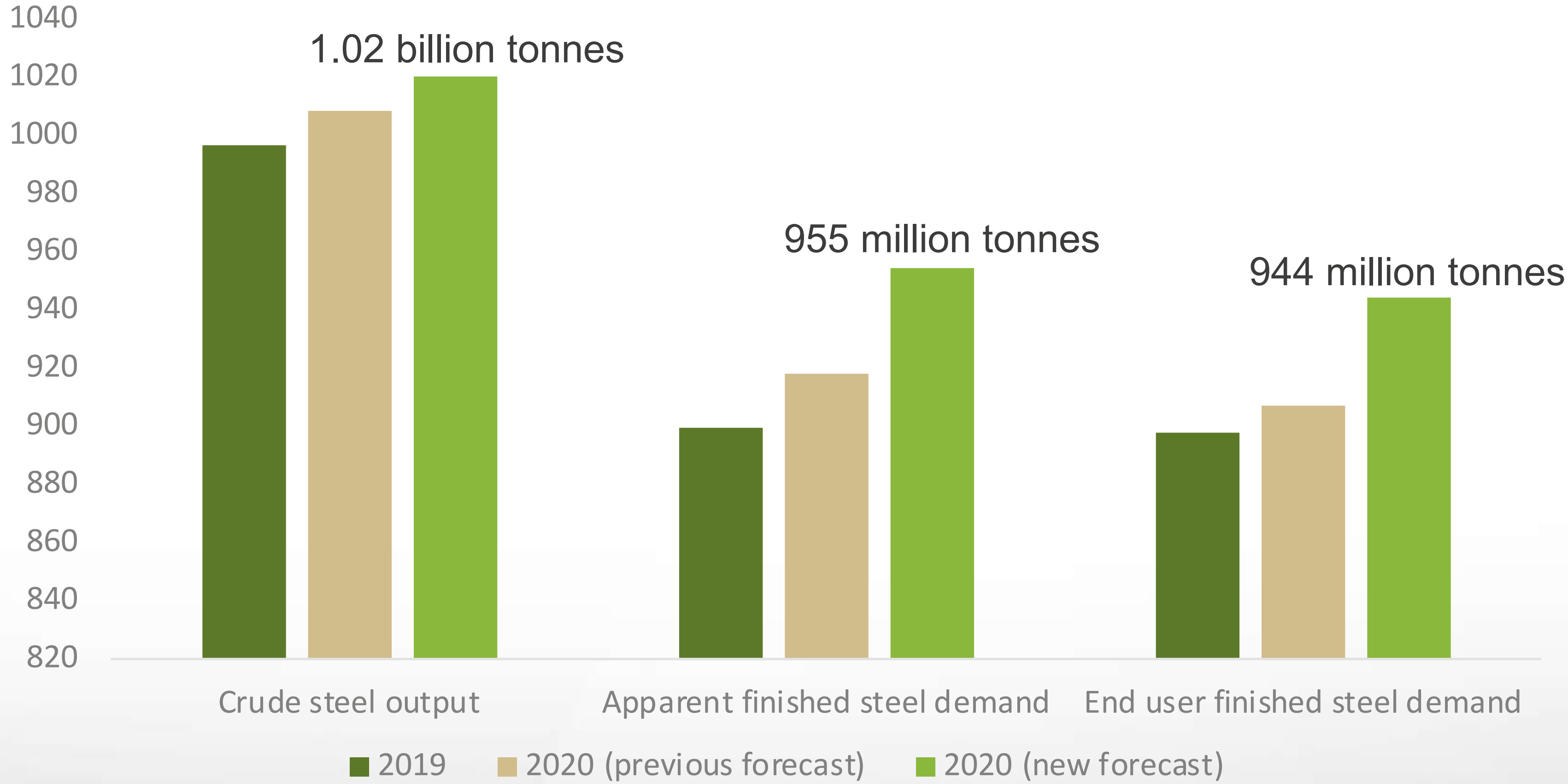
Source: Kallanish (KORE 62% Fe index)

What does this mean?

- Chinese demand has improved, but not as much as hoped for
- Chinese import demand can no longer sustain international prices
- China will return to export markets, but no flood yet
- 2021 will be a very different year

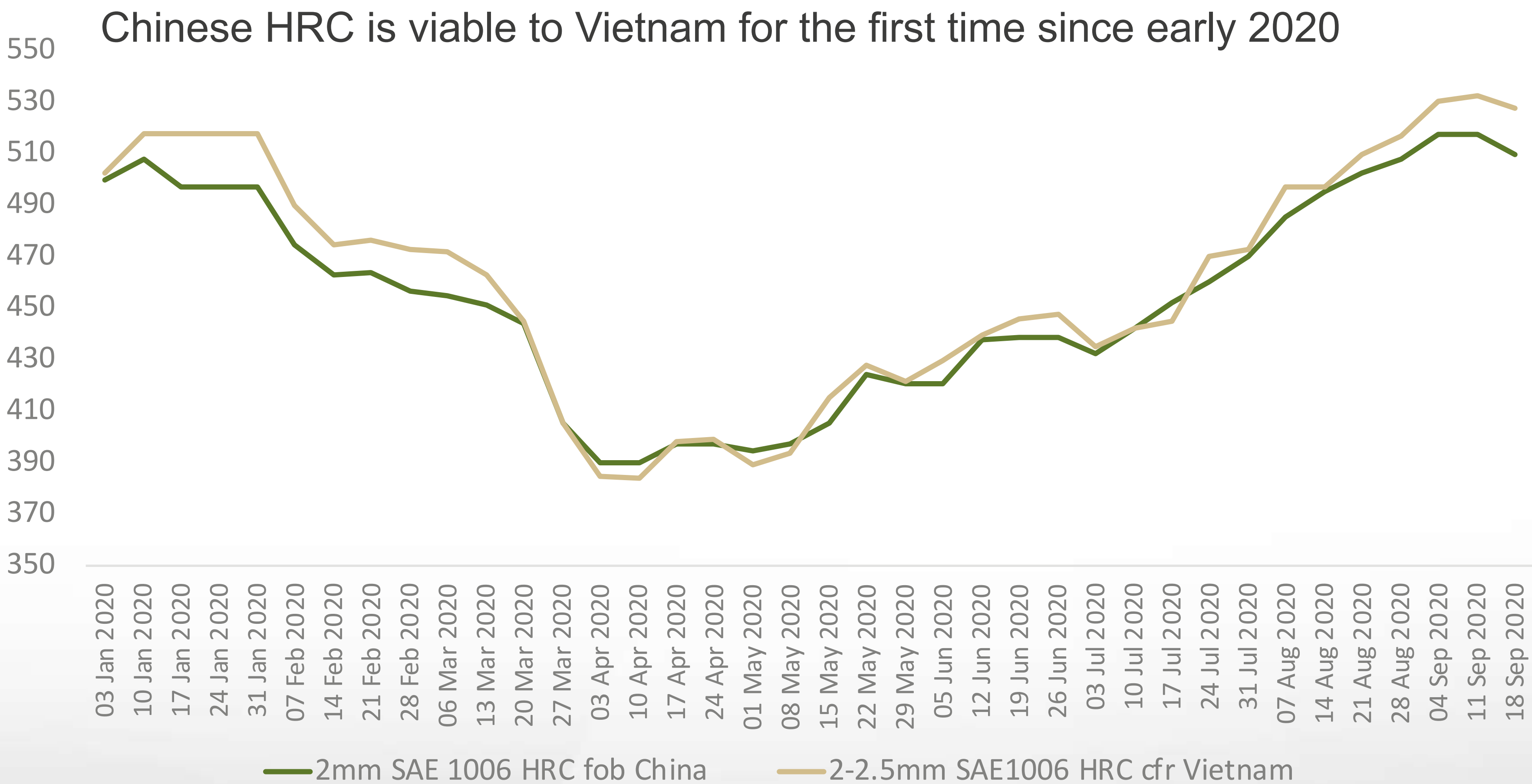
Source: Kallanish (KORE 62% Fe index)

CSI: Chinese steel forecasts revised



Source: Kallanish (million tonnes, % y-o-y)

Chinese exports are becoming viable



Source: Kallanish ($/t)

Longer term concerns

- Economic planning is underway with ‘dual circulation’ as the driving framework
- Focus is on consumption over investment and on technological upgrading over traditional industries
- Financing is likely to become tighter, property markets are likely to be restricted, government spending is likely to move away from traditional infrastructure and towards supporting tech
- Opening up scrap markets in 2021 could also disrupt iron ore and steel markets

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Asia Steel Markets Virtual Conference

21-22 Oct 2020

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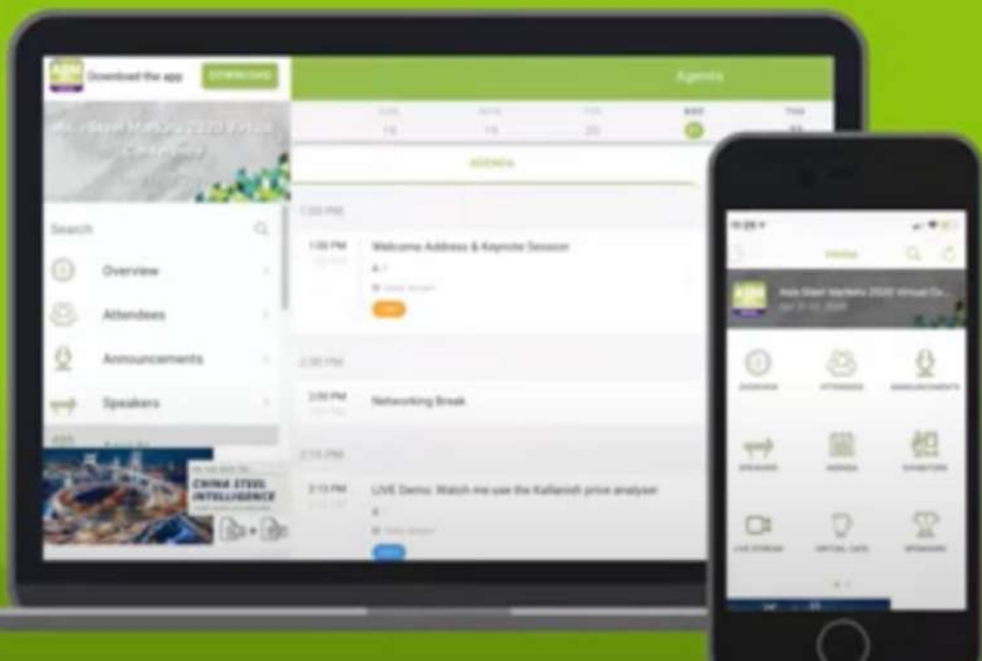
Kallanish Events



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North America

Spring Ahead, Fall Back: The Recovery Threatened

Dan Hilliard, North America Editor

Pricing is headed up, Covid fears loom

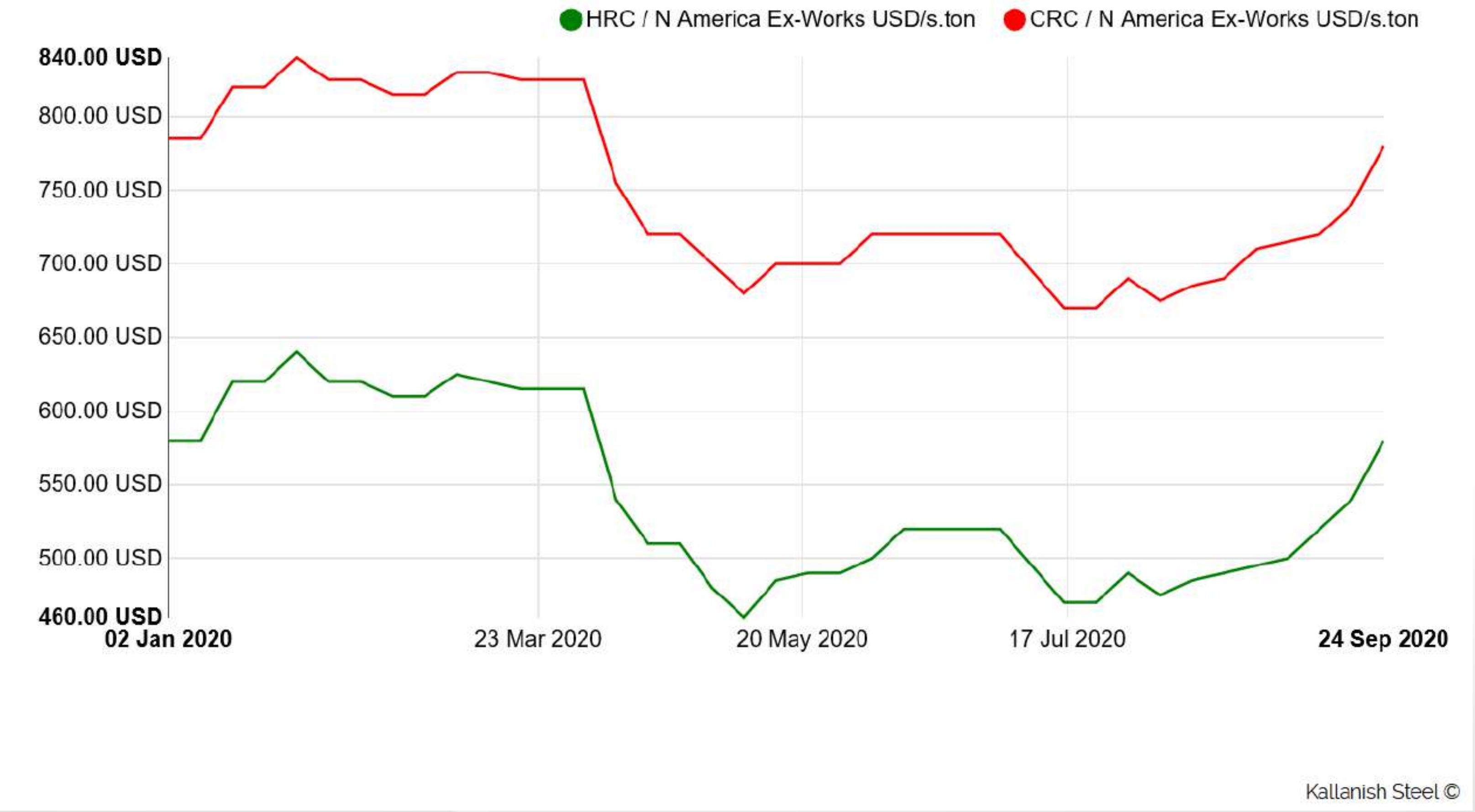
US hot-rolled prices are up by an astounding – and announced - $140/st since late July

Two back-to-back $40/st increases, followed by a late $60/st push by US Steel, are being welcomed in the market

But – hefty doses of skepticism surround the rationale for the increases. The mills tell us that demand is surging. Buyers say demand is doing no-such-thing – but availability is tight due to outages and raw material pressure is real.

The rationale doesn't really, really matter, at the moment – prices are definitely heading up, with hot-rolled now hovering around the $600/st mark.

Price recovery in a snapshot



Potential late-year stumbling blocks

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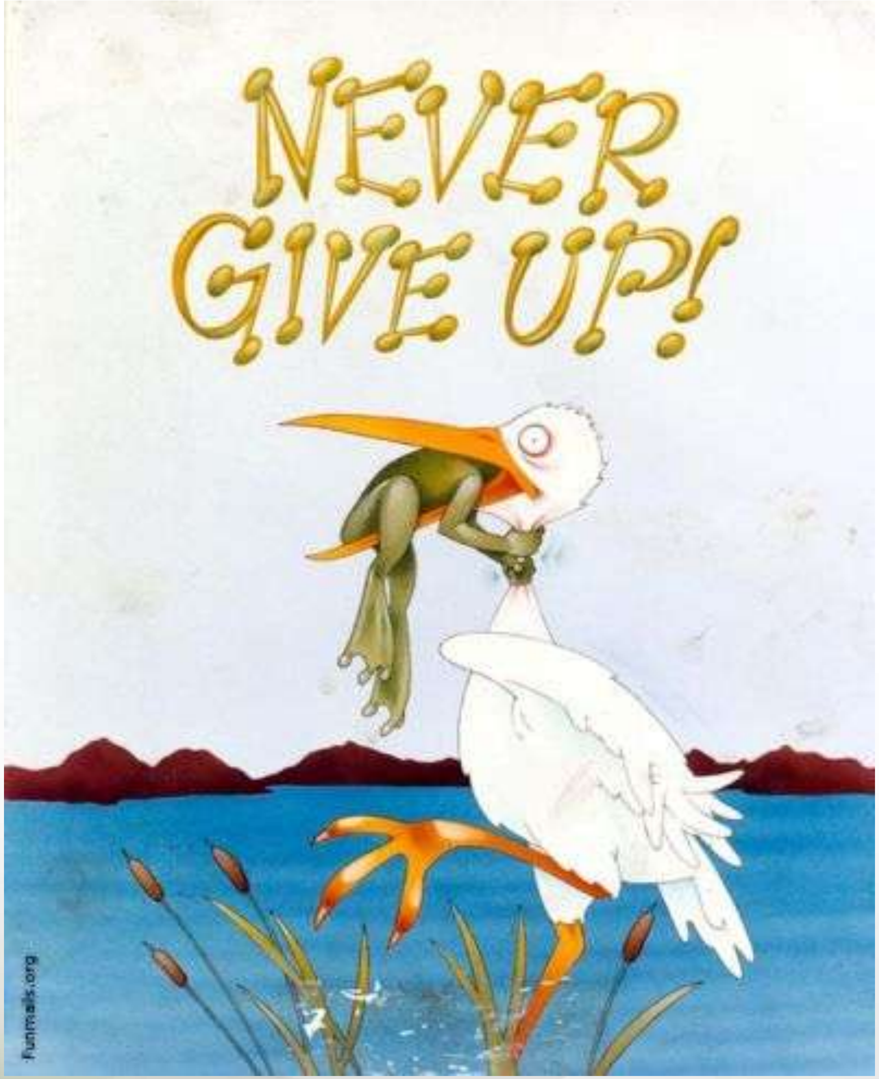


Q3 earnings are almost upon us. EAF mills look to improve quarter-on-quarter. Baffingly, integrated mills like US Steel are set to report Q3 losses.

Base-loading from auto didn't allow integrated mills to fully capitalize on the spot price increases that they – ironically – were able to drive. The base-loads drove up lead times, justifying spot prices increases...but the sold tons themselves were rolled into larger contracts.

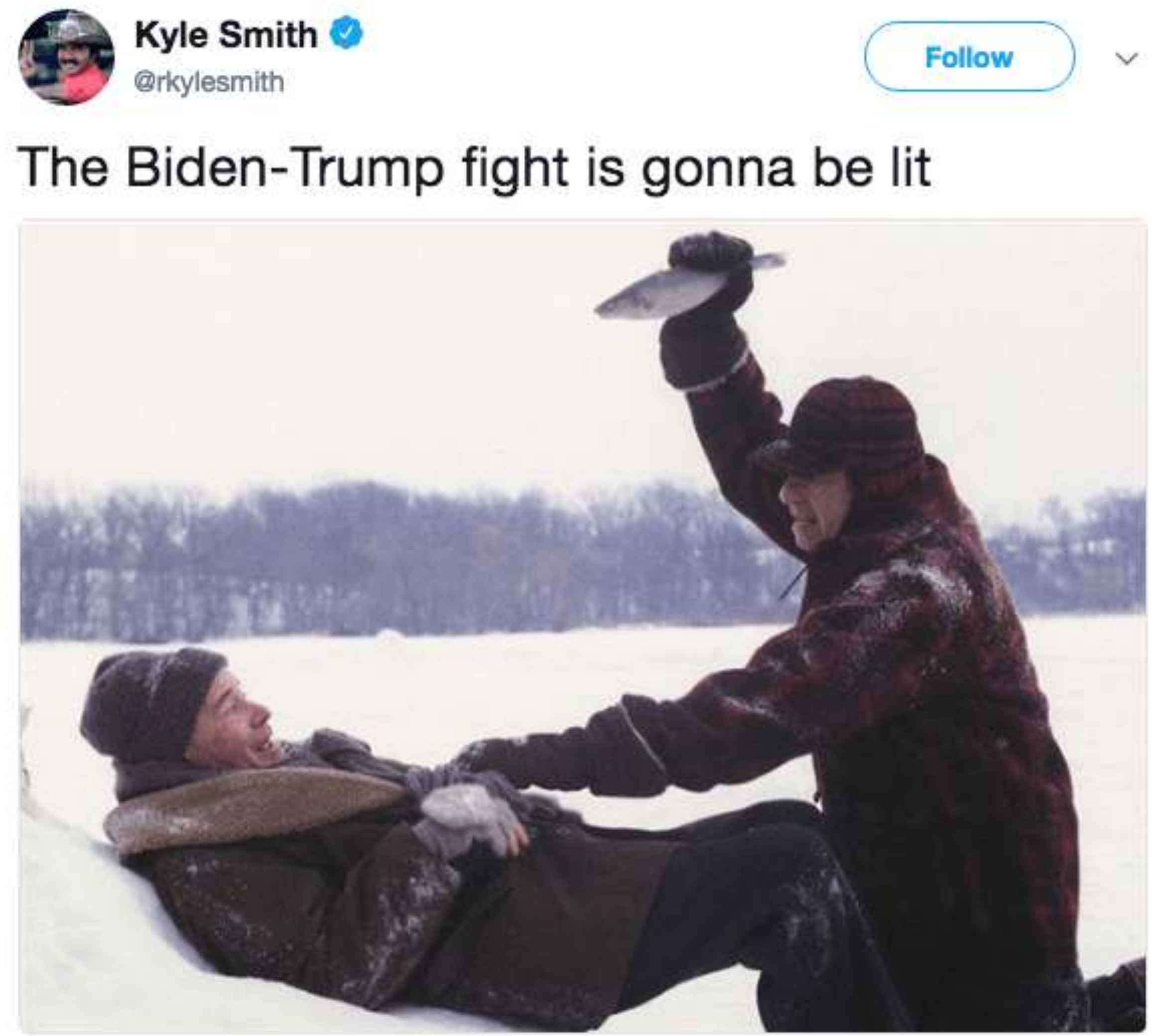
And then, of course, there's the plague...

November will be the real market test

I'm speaking, of course, about the 2020 election.

Covid-19 is moving the market, no doubt. The Motley Fools says steel stocks fell this week by -10%, outperforming the general market losses of -2-3%

Election concerns, however, are a bigger structural problem for steel – and you can look at that from any angle. Auto is under pressure to reduce emissions, energy is in crisis, environmental standards are uncertain, trade policy is up in the air, a new Supreme Court battle looms, as does a government shutdown...



Educated guesses

So what are the likely Q4 scenarios?

The market knows how to cope with a regular holiday shutdown...in a regular year.

This year, however, has been nothing if not irregular.

Look for pockets of stability surrounding market-moving events...the election, in particular.

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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