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GLOBAL STEEL MARKETS WEBINAR

28th July 2021

Today we will cover:



Your moderator today is Tomas Gutierrez, Kallanish

- Asian Steel Markets
 - Presented by Tomas Gutierrez, Managing Editor Asia
- Turkish Steel Markets
 - Presented by Burcak Alpman, Journalist
- European Steel Markets
 - Presented by Emanuele Norsa, Editor Southern Europe
- CIS Black Sea Markets
 - Presented by Katya Ourakova, Journalist
- North American Steel Markets
 - Presented by Dan Hilliard, Managing Editor North America

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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Asia Steel Markets

Tomas Gutierrez, Asia Editor



Steel prices rise as iron ore falls

Is this a blip or a rebalancing?

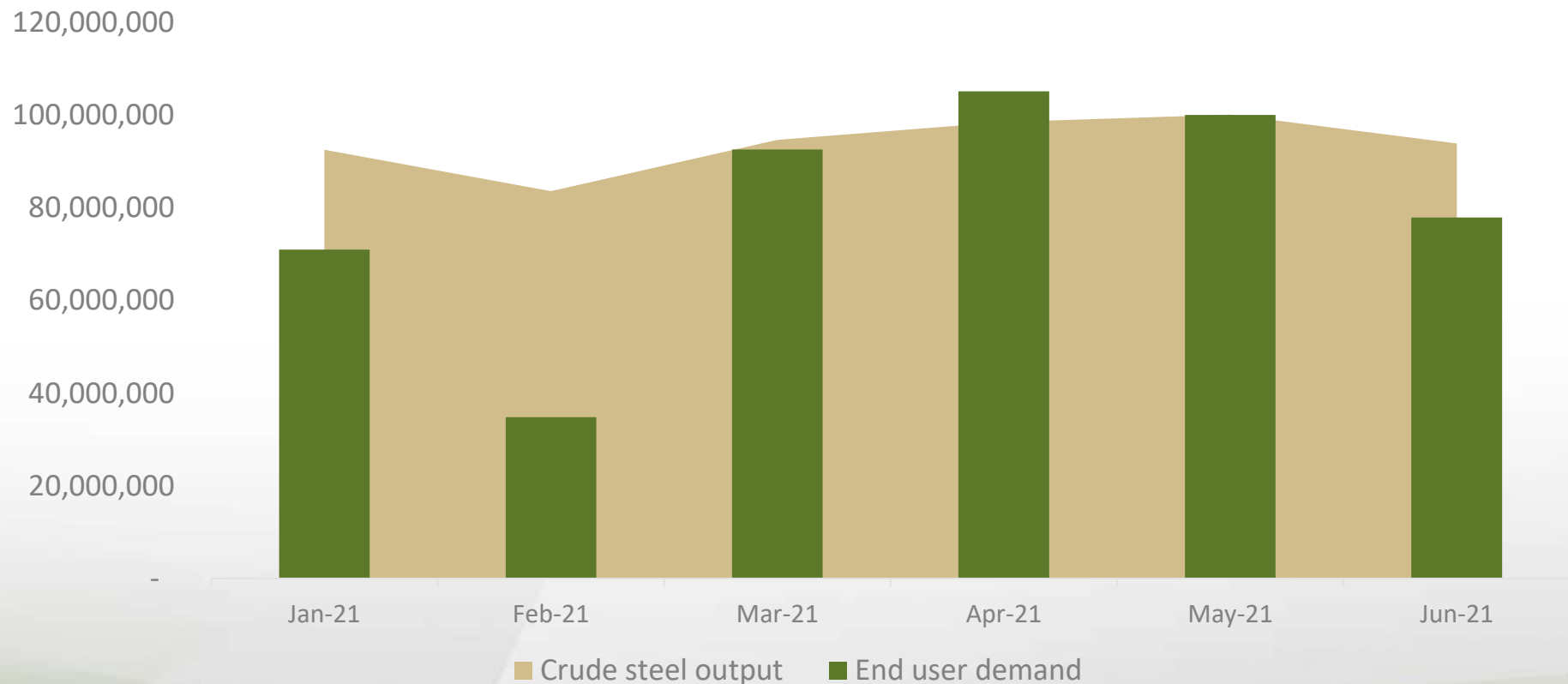
Strong steelmaking margins have historically meant strong iron ore prices





Chinese demand is not strong

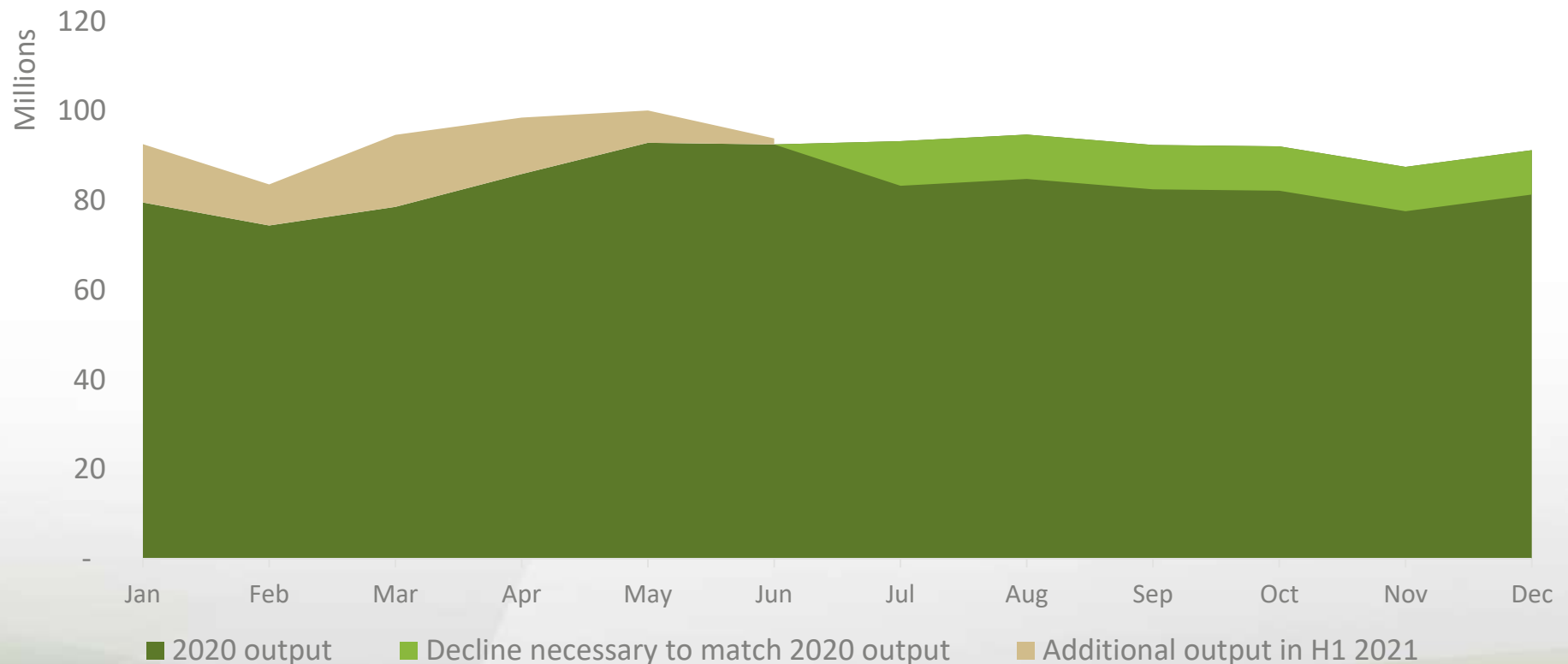
End user demand began to slide in late May, triggering a price slump. Although prices have recovered, demand has not.





Is 2020 output target realistic?

H1 crude steel output was almost 60mt higher than H1 2020. To cap 2021 output at 2020 levels, H2 output would have to be 10mt less every month than the previous year, even if the cuts came in from July, which they haven't. This is in the face of strong steelmaking profits.





How serious is China's output target?

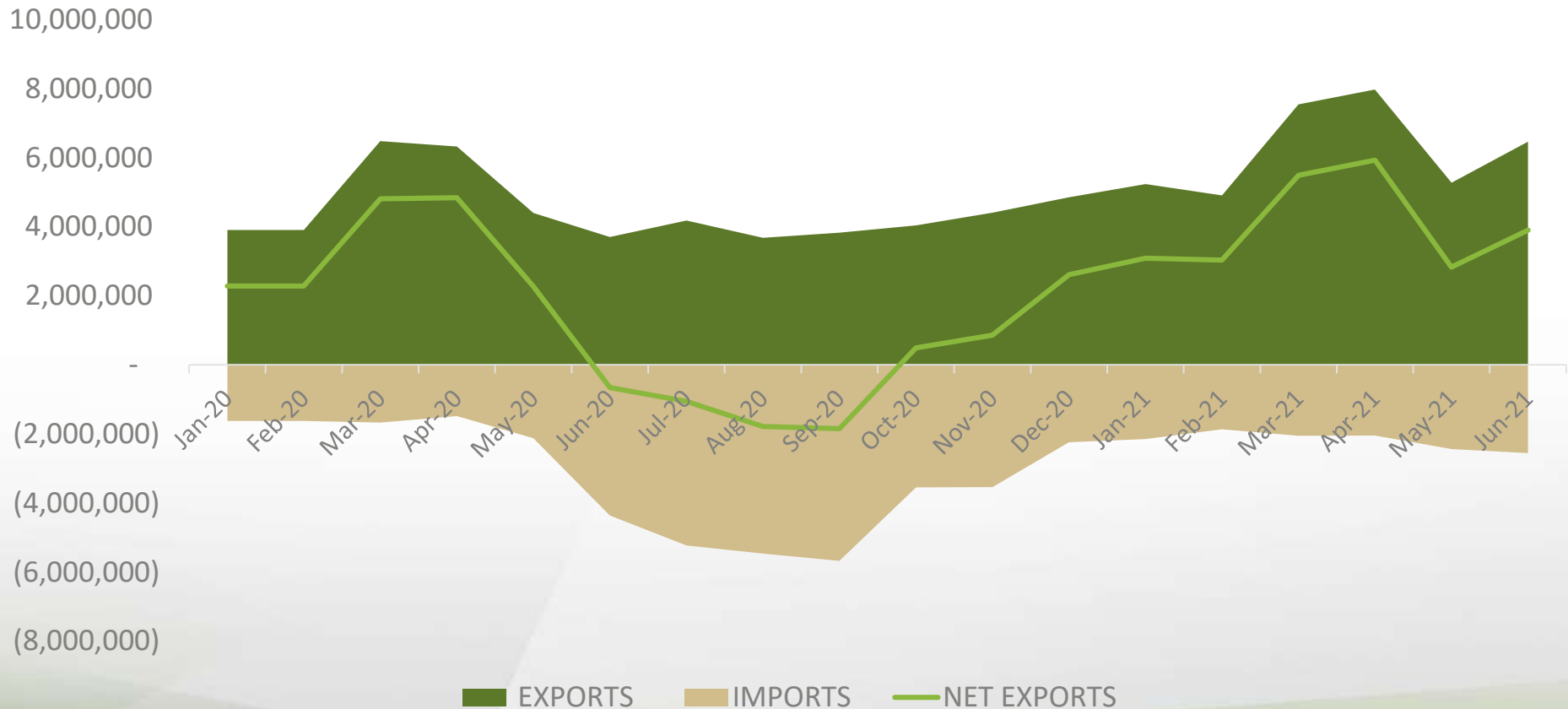
An interesting clue: NBS revisions to historical output data are moving in unison, and switching from upwards to downwards revisions. This is a pattern seen previously with policies such as supply side reform and environmental crackdowns.





What does this mean for steel trade?

Although June net exports increased, production cuts and export taxes suggest the trend is for lower exports and some room for imports

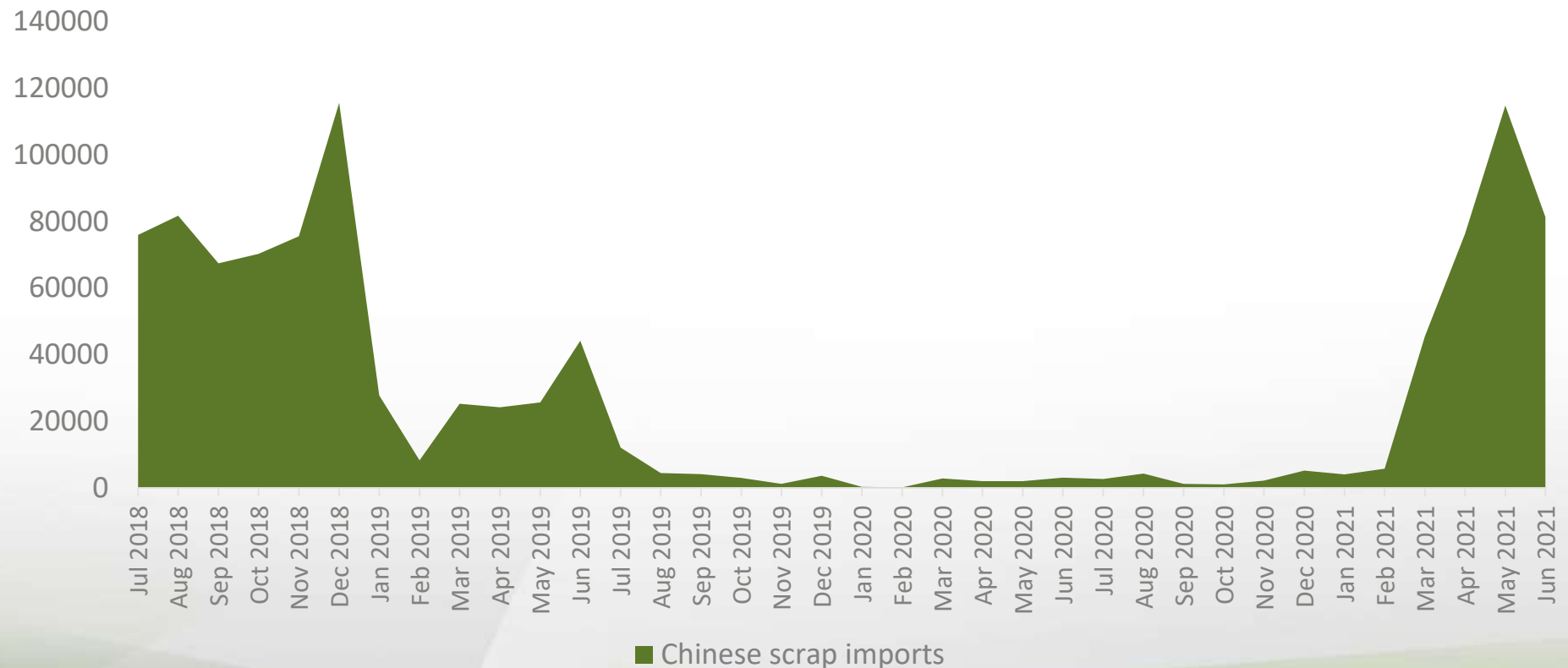




Or for raw materials?

Iron ore should loosen as supply recovers and Chinese buying fades, but strong margins could moderate any decline.

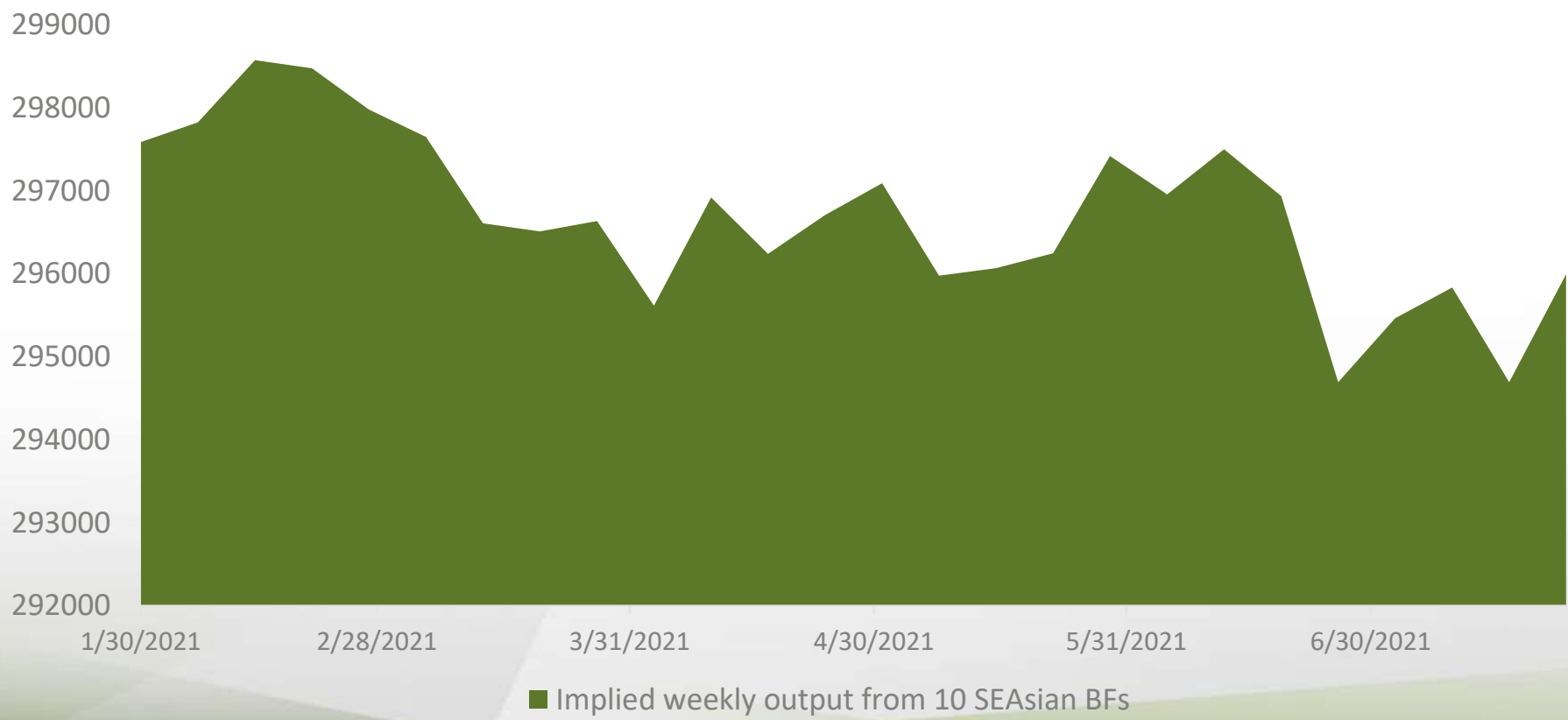
Scrap imports returned to 2018 levels but not higher. H1 imports were under 330,000t. Production limits and high scrap costs could reduce imports.





And SE Asia?

Covid is still a big problem in SEAsia. The spread of regional lockdowns in June had a clear impact on BF activity levels (based on satellite data from our weekly SEAsian report)





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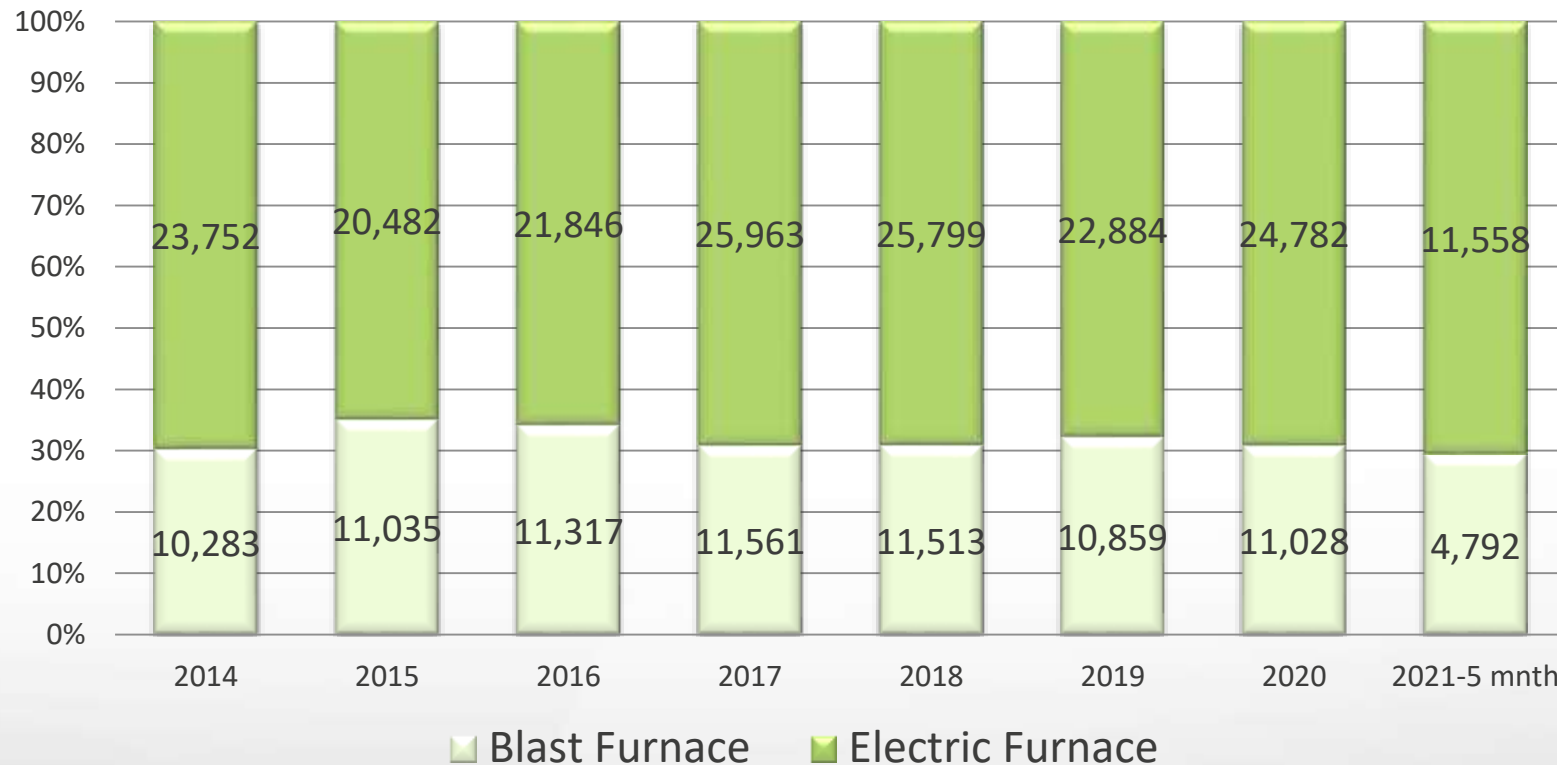
Turkish Steel Markets

Burcak Alpman, Reporter



Turkish Crude Steel Production

Turkey's Crude Steel Production by Process



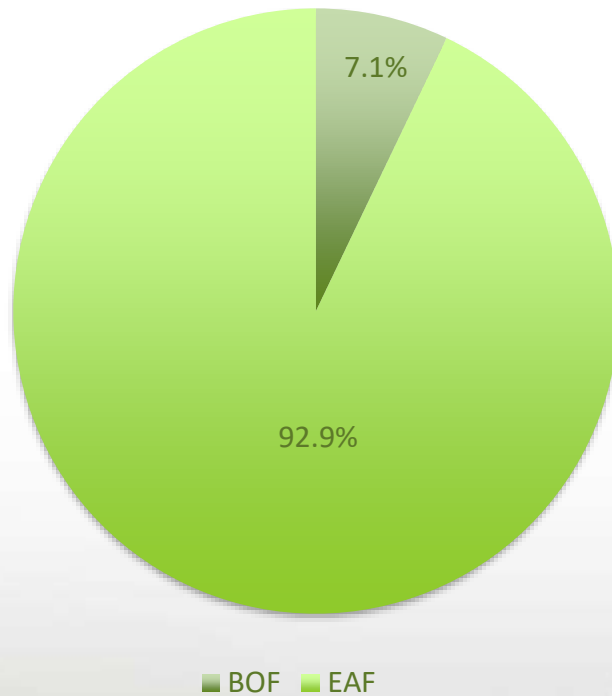
Mill. mt

Source : TCUD

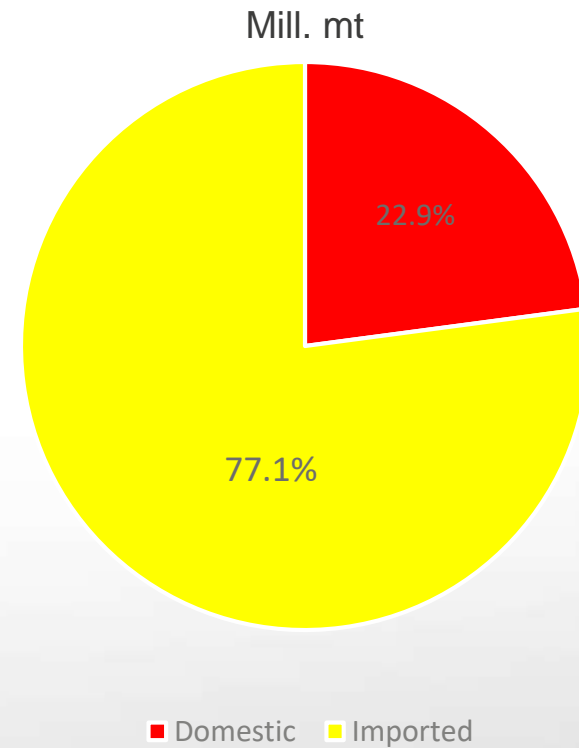


Turkish Scrap Consumption (2020)

EAF vs. BOF



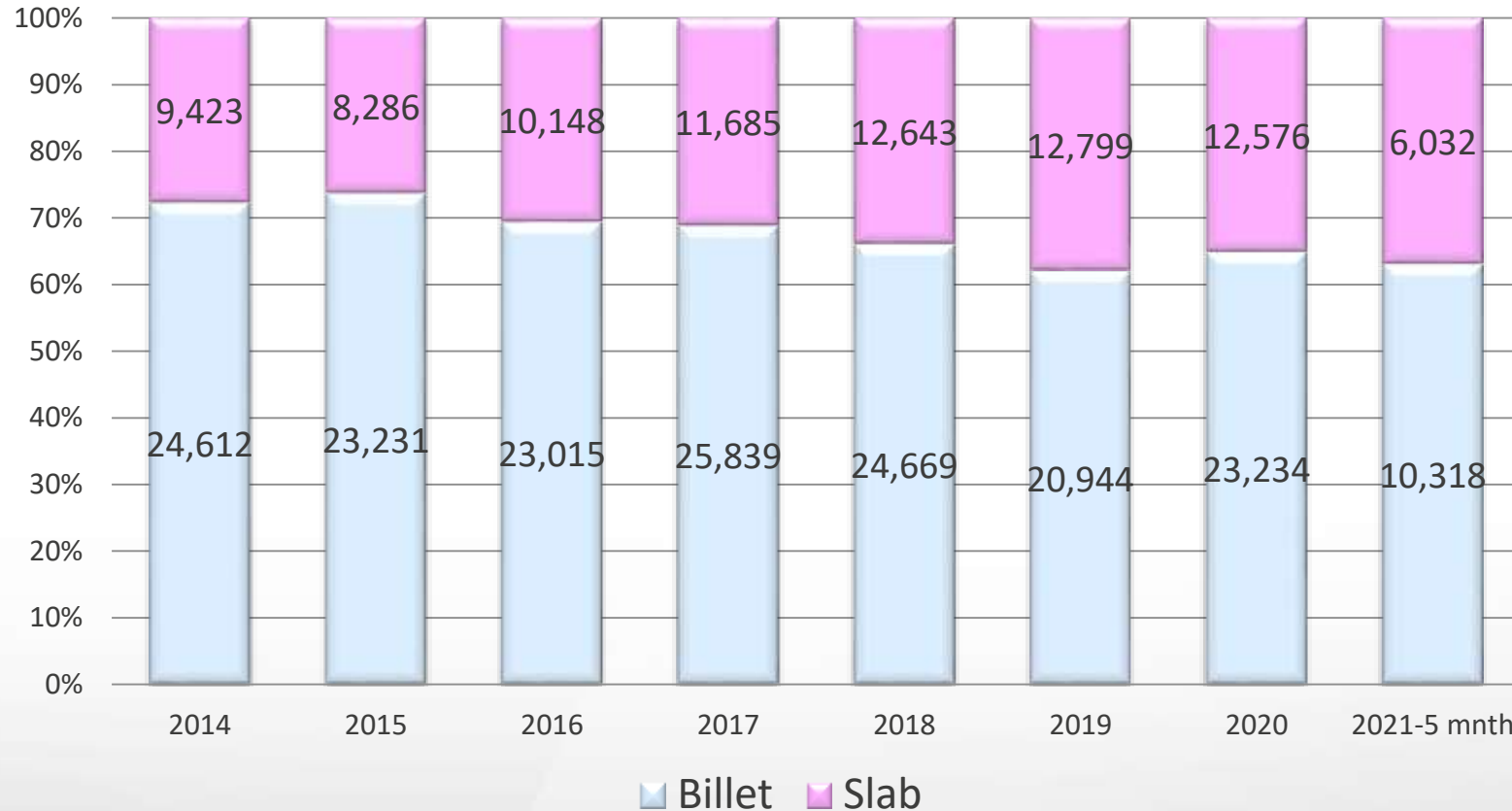
Domestic vs. Imported



Source : Steel Data



Turkish Semis Production



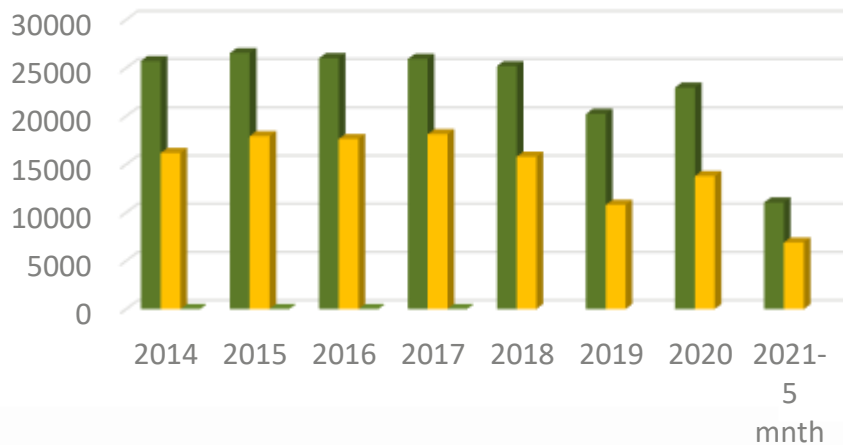
Source : TCUD



Turkey's Steel Production vs. Consumption

Long Steel

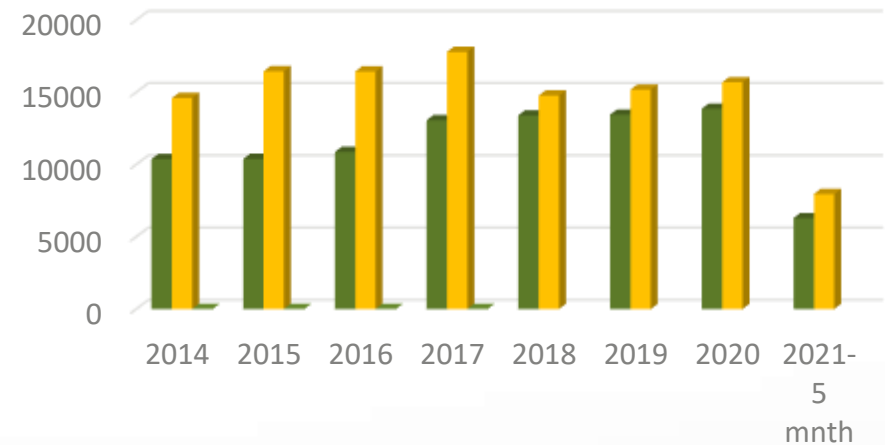
(x1000) tonnes



■ Production ■ Consumption

Flat Steel

(x1000) tonnes



■ Production ■ Consumption

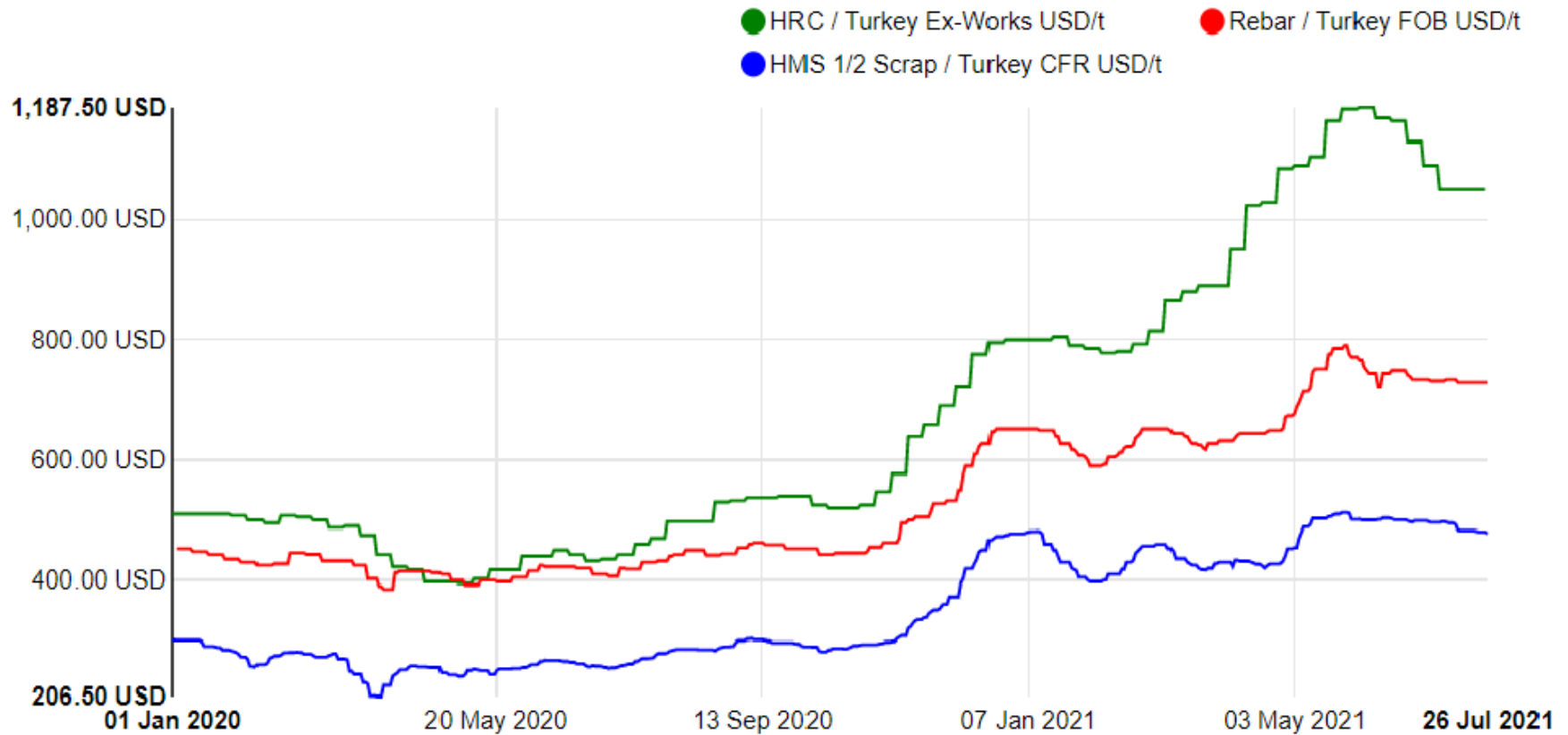
2020 (tonnes)	Semis	Finished-steel
Export	716,917	10,138,001
Import	1,589,846	969,176

2020 (tonnes)	Semis	Finished-steel
Export	1,204	5,708,932
Import	2,390,539	7,544,077

Source : TCUD



Scrap, Rebar, HRC Prices



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Scrap – rebar margin (Jan. 2015-Jan. 2020)



\$174.2
Average margin

Scrap – rebar margin - (Jan. 2020-today)



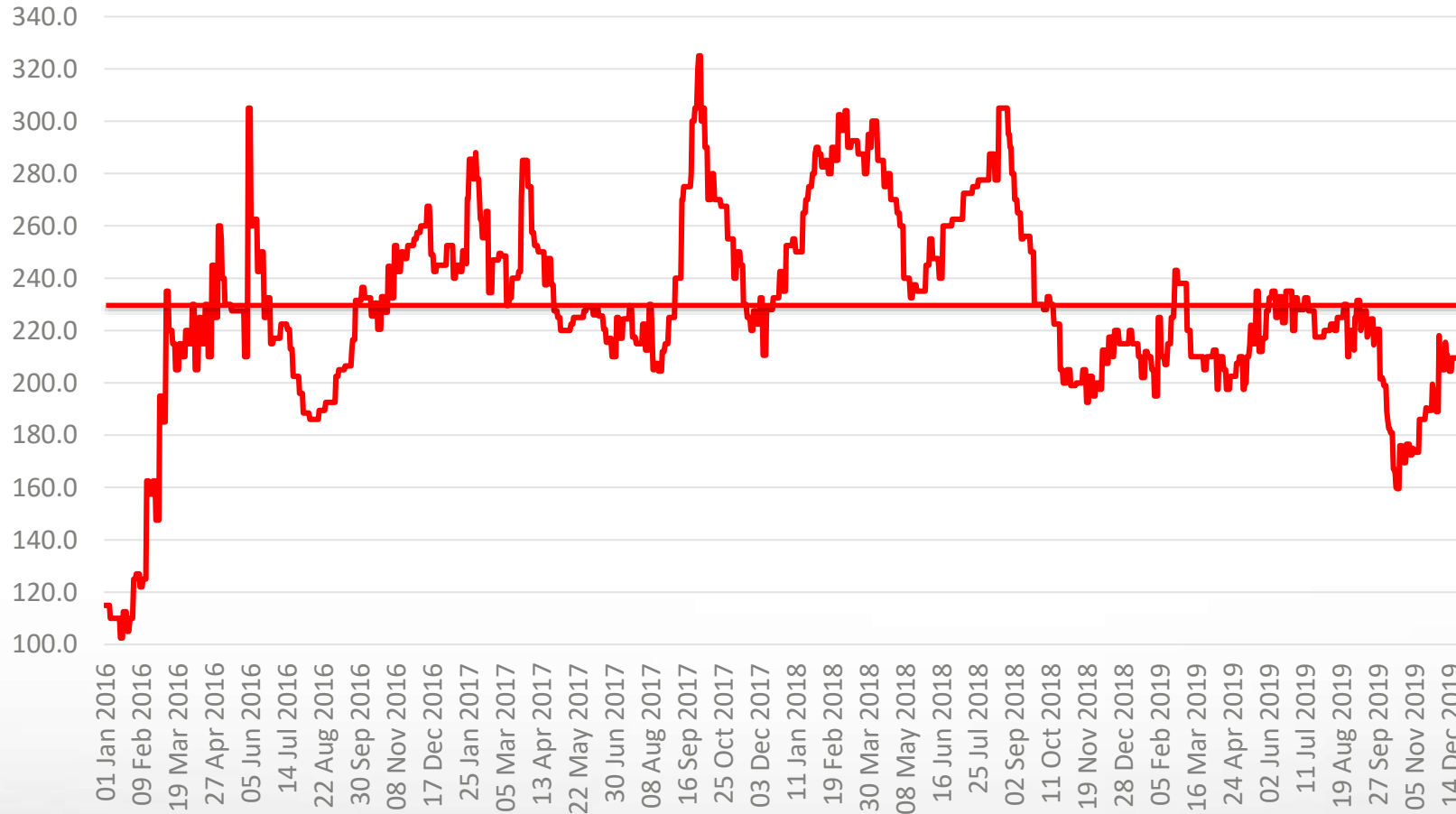
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COMMODITIES



Source : Kallanish

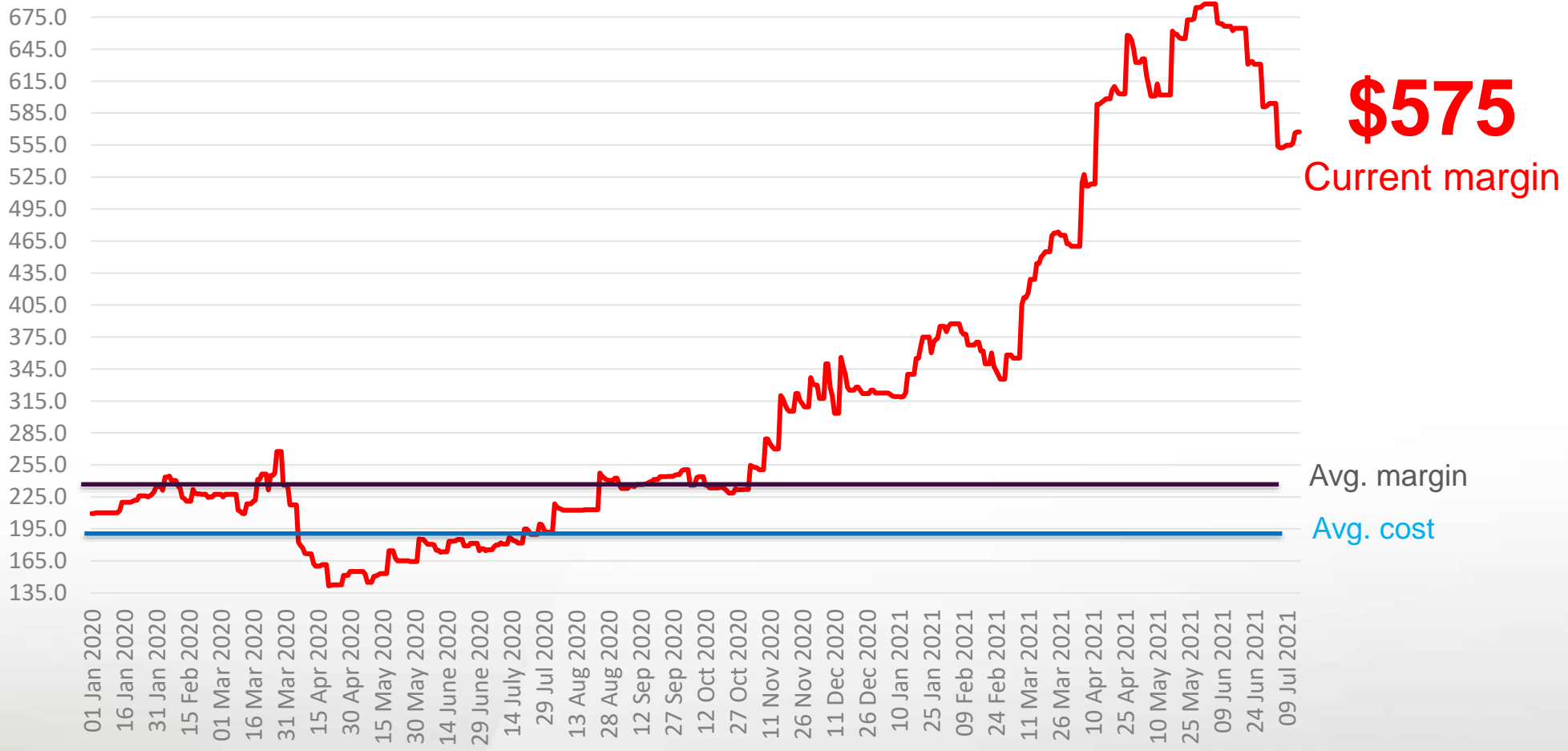


Scrap – HRC margin (Jan. 2016-Jan. 2020)



\$229.3
Average margin

Scrap – HRC margin - (Jan. 2020-today)



Source : Kallanish

Decarbonisation





Rising protectionist measures

- Russia raises scrap export duty
- Malaysia slaps 15% duty on scrap exports
- The EAEU to ban scrap exports
- The EU to change “waste” export regulations
- The US maintains AD/CVD duties on Turkish pipes
- The US finalises AD duty rates on Turkish rebar
- The EU initiates AD probe on Turkish and Russian HDG
- The EU extends safeguard measures
- The UK extends safeguards on some products
- The EU imposes AD duties on Turkish HRC
- Ukraine considers export ban for scrap



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CIS BLACK SEA MARKET OVERVIEW

Katya Ourakova, CIS and Turkey market reporter

Black Sea export market, July 2021

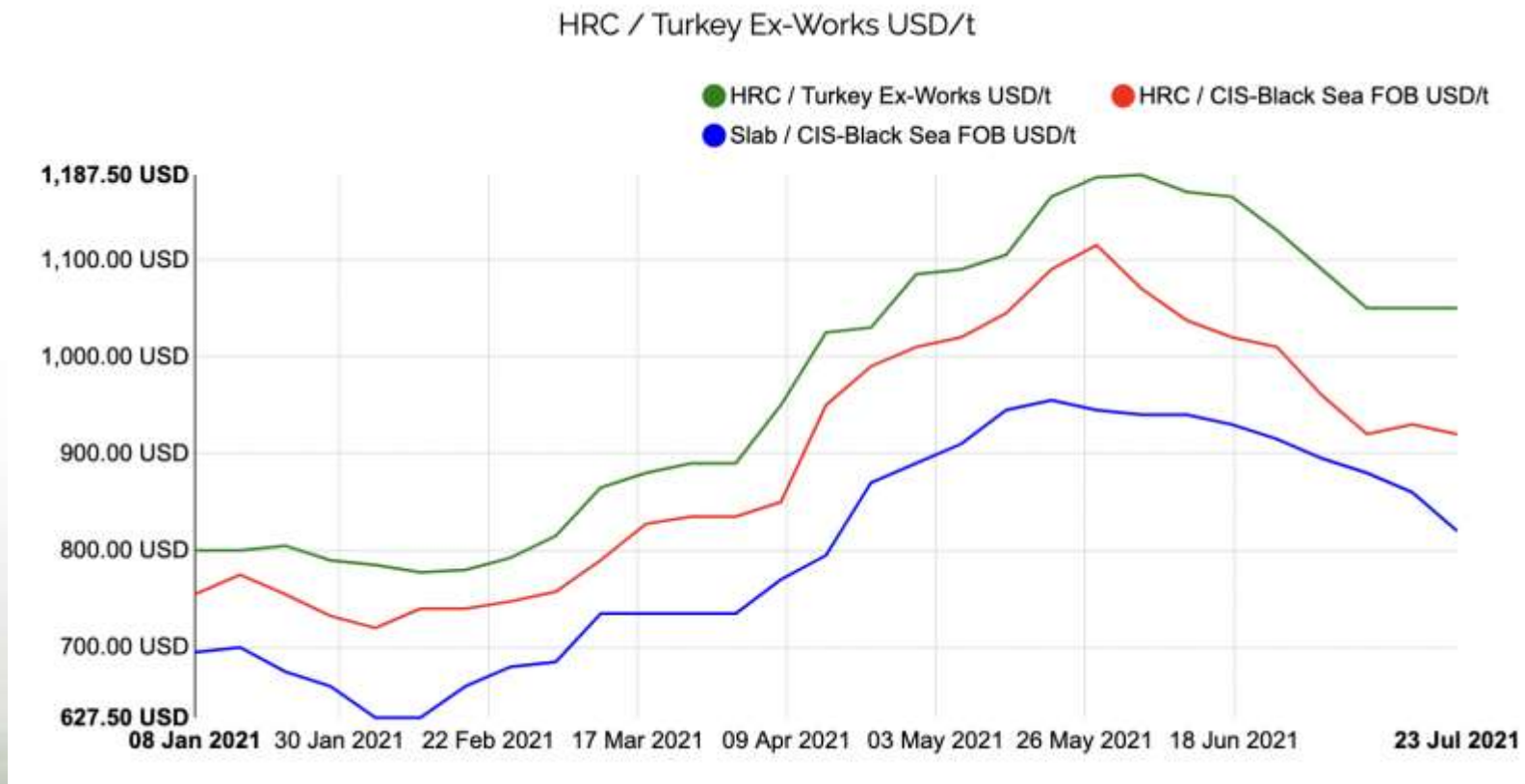
- Prices of HRC continue to soften on Asian competitive offers to key markets
- A stalemate in the Chinese market, frozen in anticipation of clarity over export taxes
- Russian ferrous export duty confirmation adds confusion, one mill's reaction forces others to adjust offers down
- MMK Metalurji plant restart heralds increasing competition in Turkey
- European demand becalms pre-holidays, Eid slows activity
- Domestic Russian market steadies after a wobble
- MENA's demand stirs as prices decline
- But freight continues to rise, still limiting opportunities

Flat products price dynamics



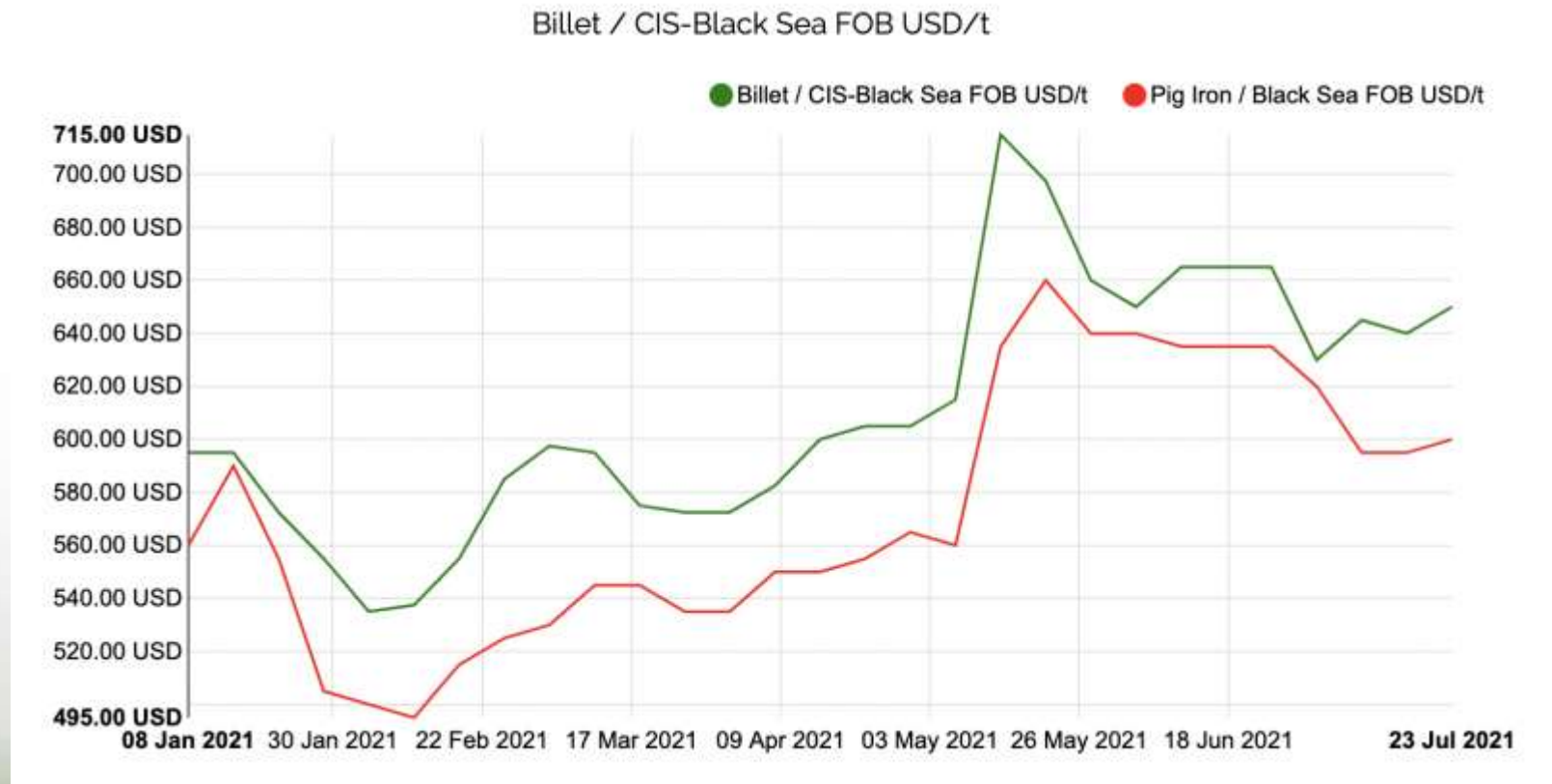
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COMMODITIES

- Price decline accelerates on China's inactivity, Russian ferrous duty news, Asian competitive offers
- Firm Europe/USA prices lend some support, prices plateau
- Slab under pressure on Turkish HRC declines, lower merchant demand



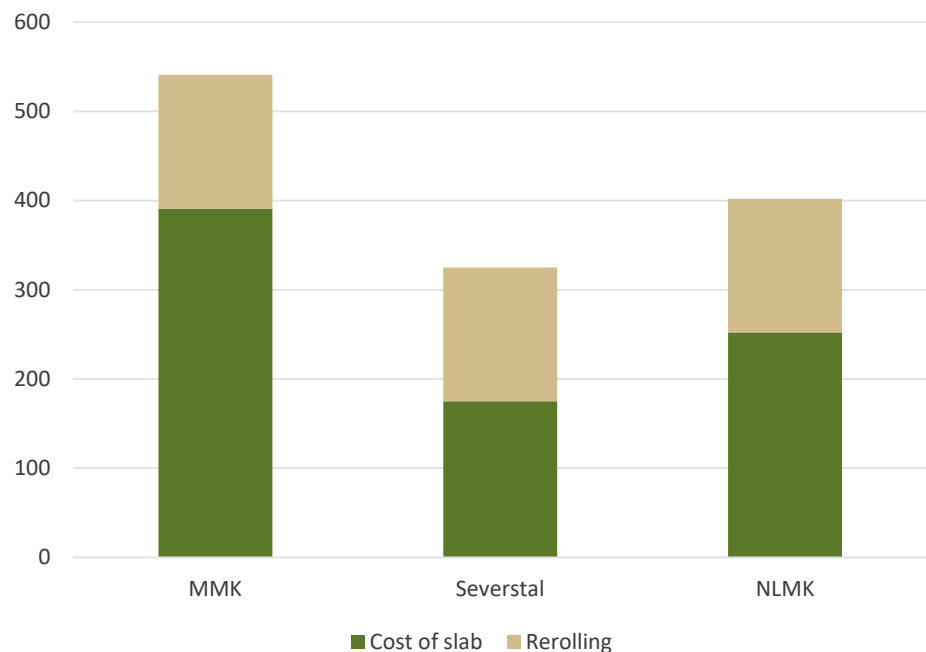
Billet and pig iron price dynamics

- Billet demand moderately good, but China's absence, weighs on prices
- US pig iron buyers continue to resist higher offers, despite firming strip prices
- China's billet price rise late July, Russian duty support slow rebound



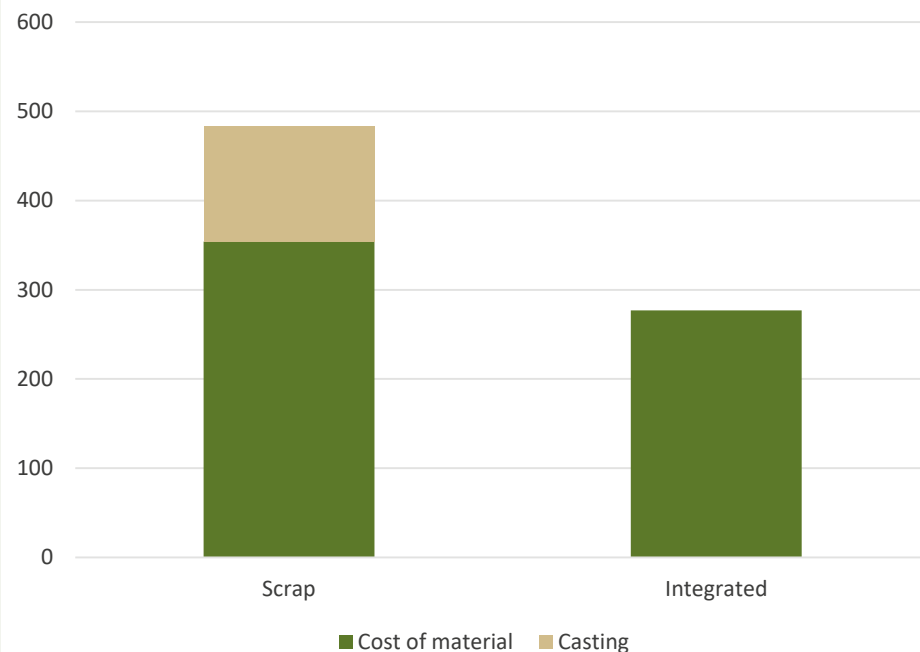
Cost of production

HRC Cost of Production



	Cost of slab	Rerolling	HRC	Export price
MMK	391	150	541	980
Severstal	175	150	325	980
NLMK	252	150	402	980

Billet cost of production



	Cost of material	Casting	Billet	Export Price
Scrap	354	130	484	660
Integrated	277	0	277	660



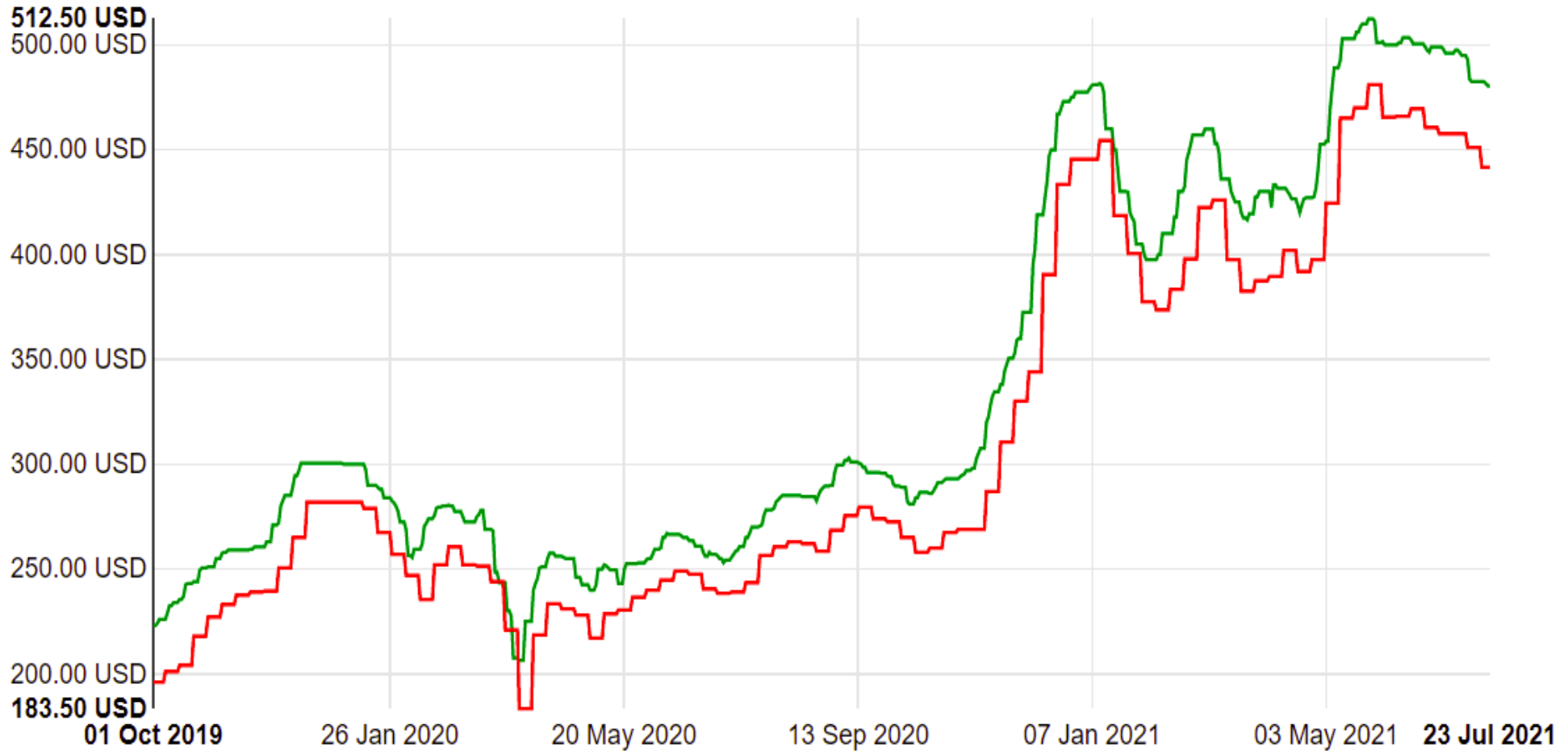
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European steel markets keep outperforming global trends

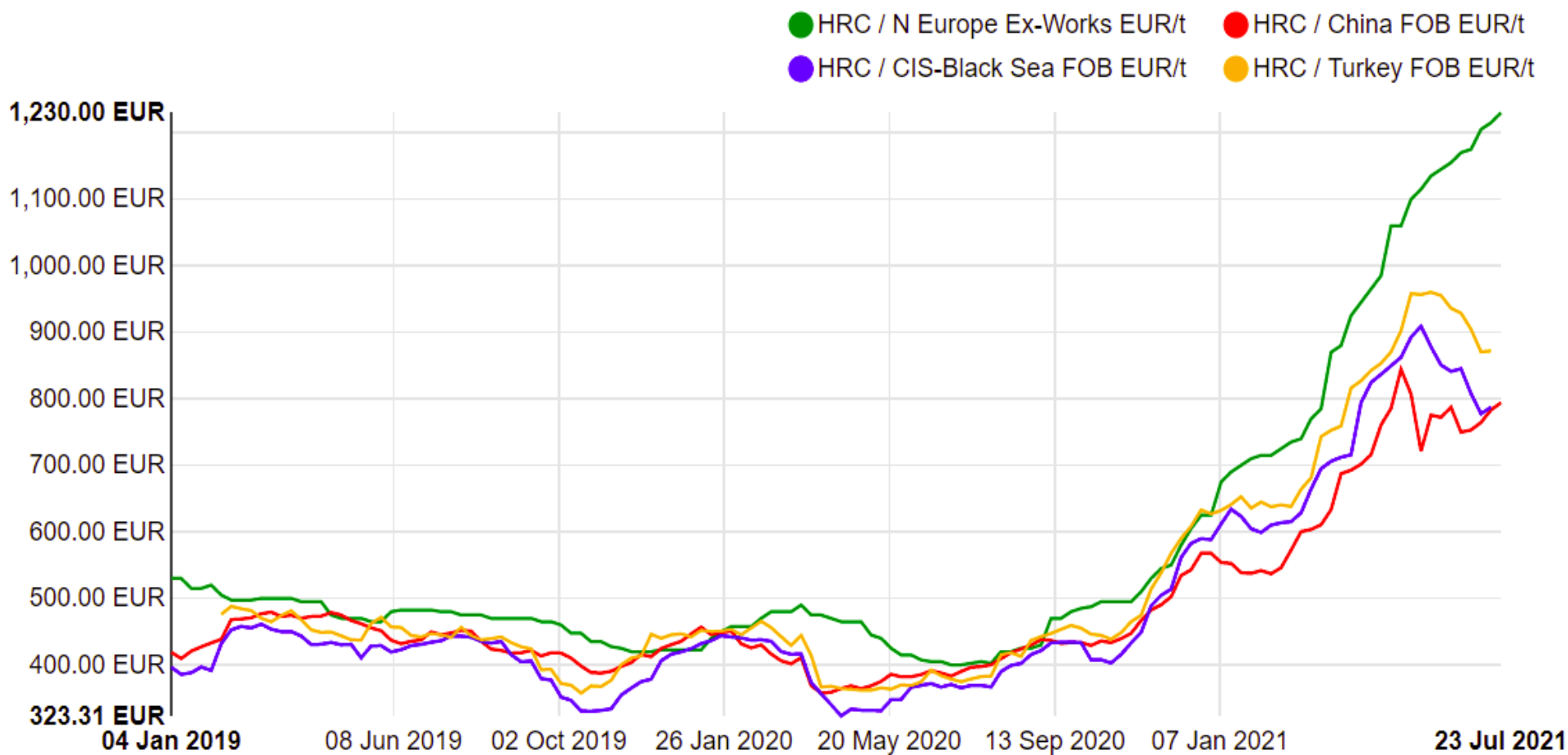
Emanuele Norsa, Editor

Scrap

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

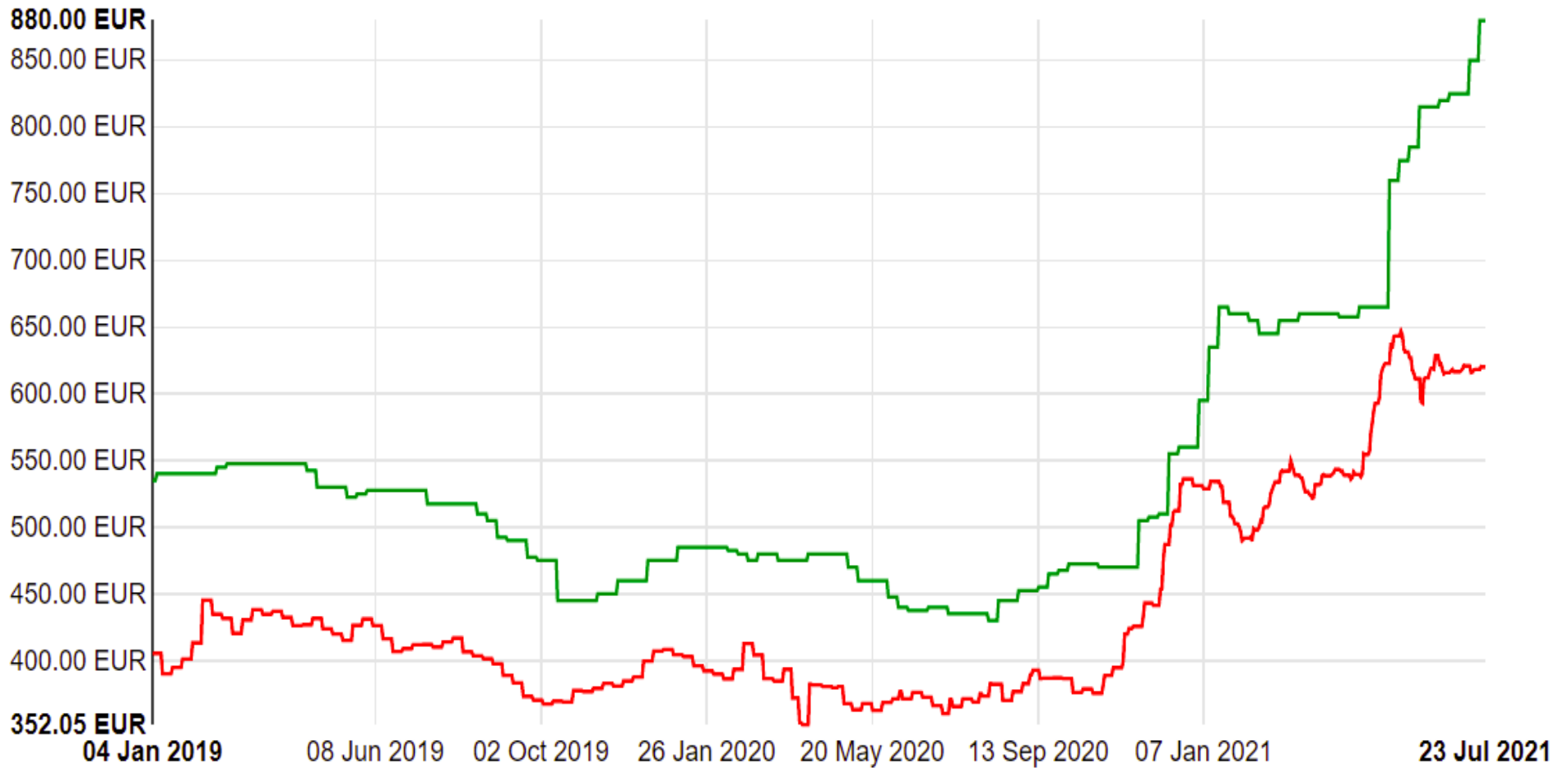


HRC

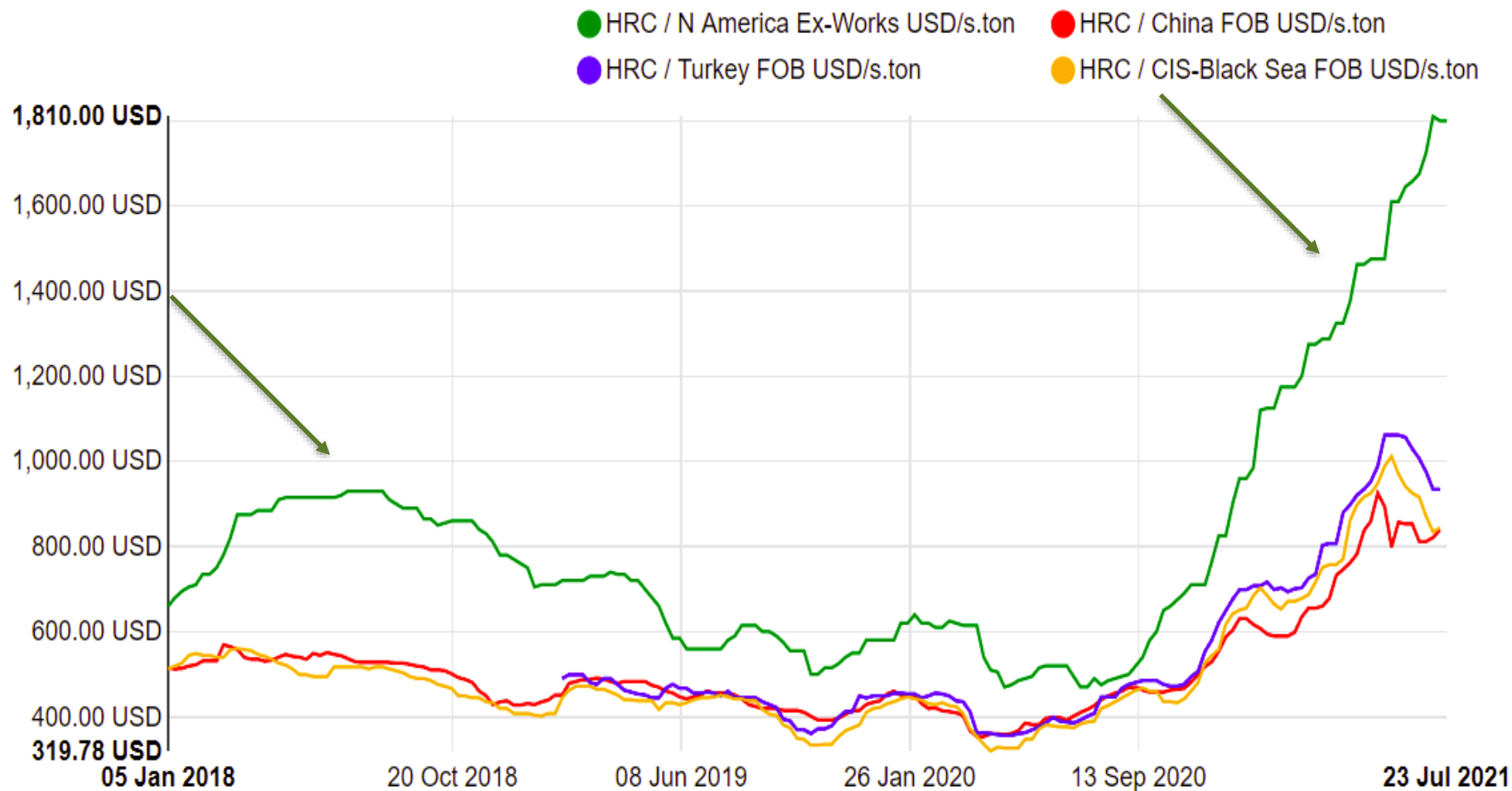


Rebar

● Rebar / N Europe Ex-Works EUR/t ● Rebar / Turkey FOB EUR/t

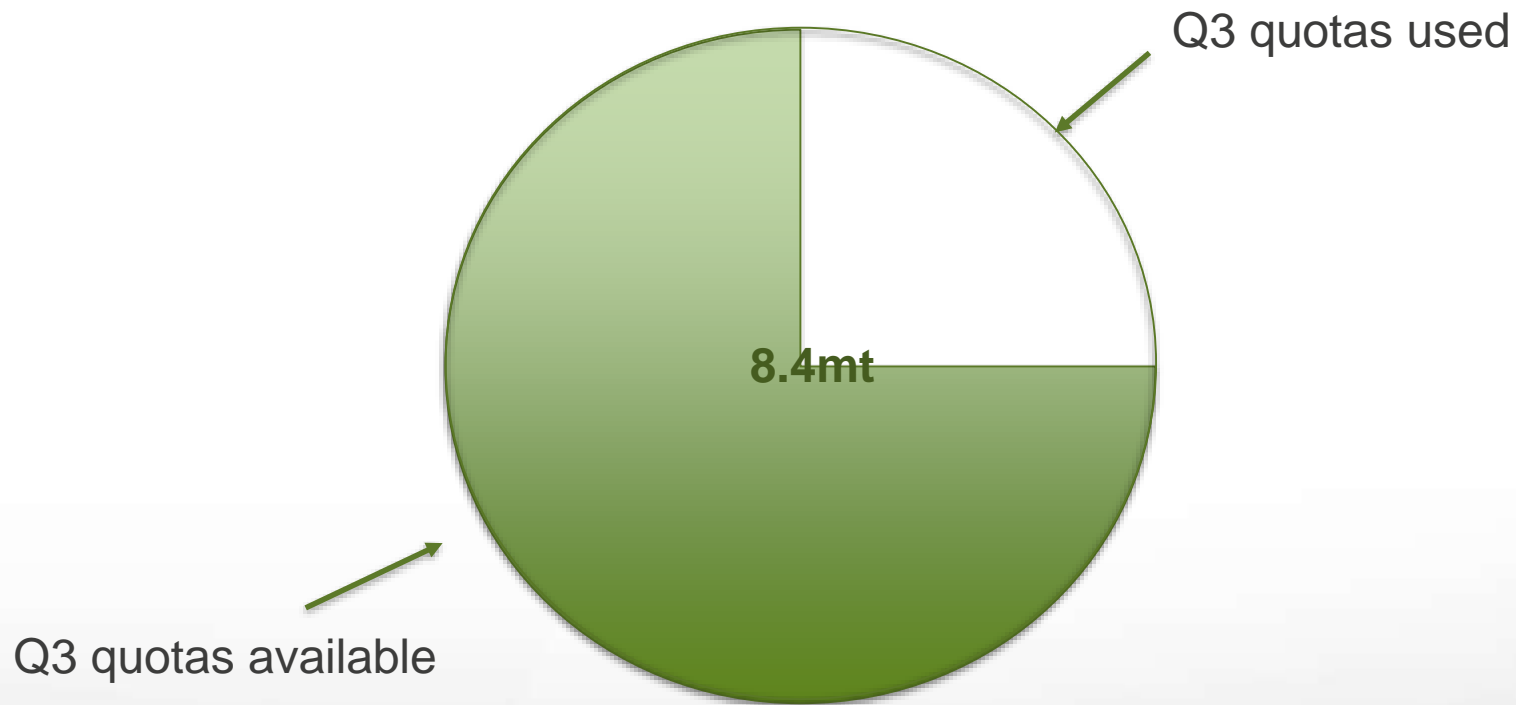


N. America





EU safeguard quotas



Source: official data, as of 19 July

Exhausted: Indian HRC, Indian MCS (4A), Turkish Rebar, Turkish Merchant bars, Turkish/Russian Hollow sections, Turkish Gas Pipes

Supply tightness

In the wake of the flooding caused by heavy rains in Germany, several companies have decided to declare **force majeure**, among them thyssenkrupp Steel. The status was declared because supply chains are disrupted to an extent that scheduled delivery cannot be guaranteed until further notice.

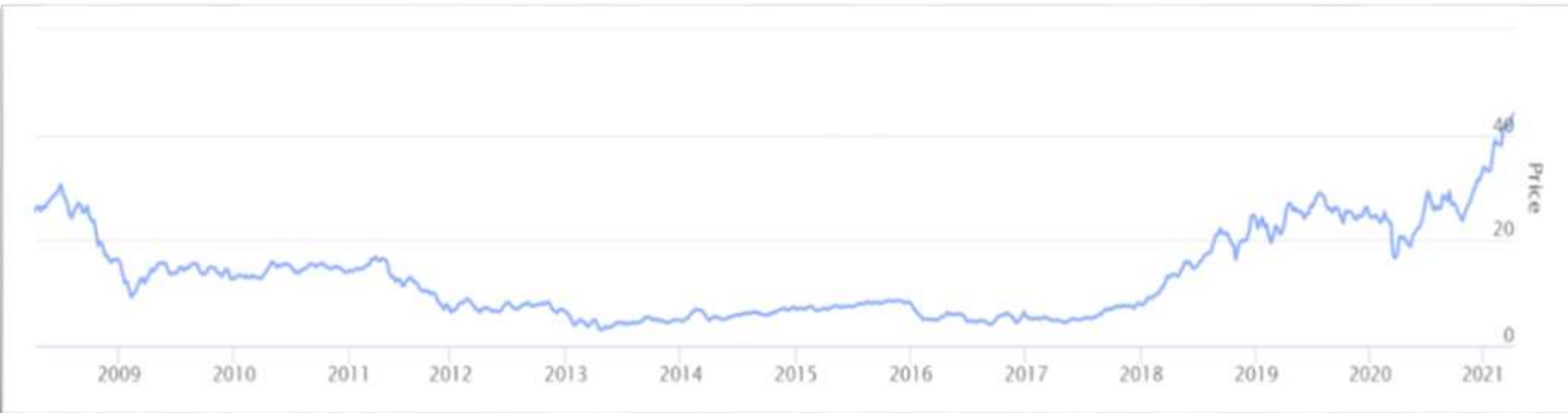
High water levels on the upper Rhine have blocked scrap supply to southwestern German rebar mill Badische Stahlwerke for approximately one week. The mill, which operates two nearly identical production lines with a joint capacity of 2 million tonnes/year, has since **stopped production** at one of the lines.

NLMK Group confirms it has declared **force majeure** for its La Louviere coil rolling mill in Belgium, following a fire that occurred last Saturday. The fire caused no injuries. The company was in the process of ramping up production after a significant investment in the hot strip mill.



Environmental costs

As part of the “**Fit for 55**” package presented by the European Commission, carbon allocations are expected to be cut annually by 4.2%, instead of the 2.2% annual cut currently in place. This acceleration of free allocation cuts is set to bring prices to a new record, after the recent high of almost €58/tonne (\$68) touched earlier this year. (Fitch)





Record profits for EU steelmakers

For Q2 2021 SSAB report the highest quarterly operating profit ever, driven by strong demand, high steel prices and stable production

Key figures

	2021	2020	2021	2021	2020	2020
SEK millions	Q2	Q2	Q1	Jan-Jun	Jan-Jun	Full-year
Revenue	23,673	15,155	19,661	43,334	33,927	65,396
EBITDA	1,000	705	2,860	7,759	1,991	3,364
Operating profit/loss	4,083	-251	1,993	6,076	92	-325
Profit/loss after financial items	3,581	-365	1,887	5,869	-145	-802
Profit/loss after tax	3,221	-280	1,510	4,732	-102	-490
Earnings per share (SEK)	3.13	-0.28	1.46	4.59	-0.11	-0.50
Operating cash flow	3,910	629	1,429	5,339	218	3,460
Net debt	6,461	12,782	8,896	6,461	12,782	10,278
Net debt/equity ratio (%)	11	21	15	11	21	19

(In the report, the figures in parentheses refer to the corresponding period for the previous year.)



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The Summer That Wasn't: State of the US Steel Market

Dan Hilliard, NA Editor



Flat-rolled still skyrocketing



US sheet prices continue to hover around \$1,800/st – or 3X the price of a “healthy” sheet market

Plate has been slumming below the historical premium to HRC – but increases of \$100-200/st now bring it close to \$1,600/st threshold

Semiconductors continue to plague auto – this is the biggie. Auto demand is being drawn out throughout the year, just as it was last year with Covid-19. The result is a nigh-endless draw on sheet.

“If we had everything else, if we had vast numbers of vehicles themselves, we would not yet be able to make them...It is difficult for us to say how long this will last...this is out of our control, essentially. It does seem like it's getting better, but it's hard to predict.” - Elon Musk



Construction and infrastructure

President Joe Biden is still pushing his infrastructure bill through Congress

In all likelihood, the US will exit this year with a long-term, multi-trillion dollar spending plan

Being a Democratic plan with heavy Republican resistance, it will likely be a heady mix of public and private investment

Public investment means big-money projects and the steel that comes along with that – rebar, beams, wire cabling for concrete, bridges, ports, etc

Private investment is likely to be less steel intensive – road paving, local projects



...but what about the 232?

President Biden has STILL not come out on way or another on the fate of the 232

He has signaled, however, that he wants a kinder, gentler approach

This will likely take the form of additional deals with the EU to form a friendly – rather than hostile – barrier to China

China remains the bogeyman of the US steel industry, at the highest levels

Market sources aren't worried – even if 232 goes away, the US has 201 – 232 is national security, 201 is domestic industry security. Same results, different rationale





So what's next?

Unprecedented market conditions continue to prevail

We're not likely to see any sort of significant summer slowdown and prices remain well above any comparable historical average

Absent some new black swan event, steady-state is expected till at least the holiday season

Wouldn't put too much stock in that, either – the semiconductor shortage will likely still be a problem, and cooling weather will keep scrap prices from plummeting

New capacity still looms, but market seems able to absorb it – capacity was lost to Covid, and the biggest flat-rolled producer in the US says it values “quality over quantity” when it comes to tonnage

Keep an eye on green steel, decarbonisation, and the continued electrification of auto – big changes likely to emerge from that sector.



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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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