APRIL 2021

PROCUREMENT UPDATE

steel&tube

REACHING A PEAK?

Price rises have continued since February in the commodities and steel markets. While the pace of the price gains may have started to slow, there remains a lag for finished steel prices and they are likely to remain high for a sustained period. This is also supported by tight global supply, shipping and port congestion, and the likely removal of China's export rebates - especially as competitive pressure out of China on suppliers in the Asia Pacific region reduces. Globally there remains pent-up demand and once countries which have continued to struggle with the pandemic open up, supply may shorten further. Therefore, if we are in an inflationary price bubble it is more likely to slowly deflate than it is to burst, as was experienced during the GFC.

STAINLESS STEEL

On 25 February, at $19,568 USD/T, the nickel cash settlement price reached a 12 month peak, since then it has fallen by 16%.[1] The drop was largely due to Chinese steel and nickel producer Tsingshan Holding Group advising it would develop a new process for making battery-grade feedstock to meet increasing EV battery demand, and plans to expand its nickel investments in Indonesia. This development reduced Nickel prices in March as concerns that there could be a nickel supply deficit eased.

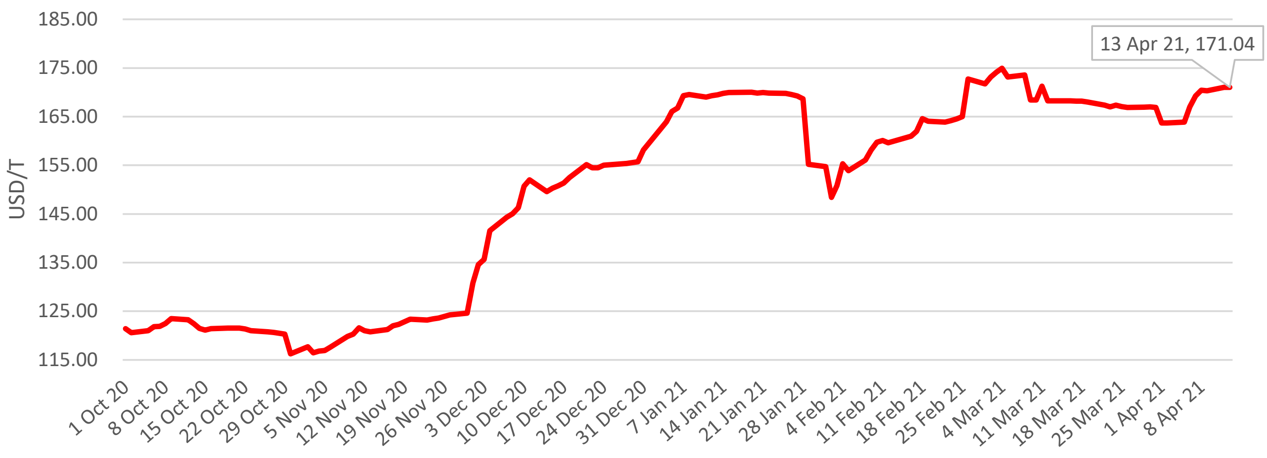
According to a Bloomberg NEF report[2], EVs will comprise 58% of new passenger car sales globally by 2040, and 31% of the whole car fleet, compared with 10% by 2025. This growth in EV sales along with increasing demand for stainless steel from the automotive and white goods manufacturers, will likely provide sustained demand for nickel and the propensity for stainless prices to increase further.

CARBON STEEL - RAW MATERIALS

With countries introducing stimulus packages modernising infrastructure to boost their domestic economies and offset the impact of COVID-19 related lockdowns, demand for the commodities (iron ore, coking coal and steel scrap) used in steel making soared and most remain at recent market highs.

Iron Ore

Chinese Domestic 62% Iron Ore Historical Price Graph



Source: Market Insider

In 2021 the iron ore market started strongly as Chinese demand for steel (where more than half of the world's steel is made) remained robust with steel intensive industries such as construction and manufacturing continuing to grow.

March saw the Chinese government begin restrictions on property to curb construction, in a bid to cool activity in the sector. Chinese officials also imposed production restrictions on several heavily polluting mills in China's top steelmaking city, Tangshan. In addition mining, coal preparation, ports, logistics and other operations that involve the transportation of bulk raw materials and products were prohibited from using heavy trucks, all in an effort to improve local air quality. As a result iron ore prices dropped and levelled until increasing again early April.

The lift in iron ore prices is a result of a shift toward high-grade iron ore by steel mills.High-grade ore minimises the use of coking coal (coke) in steelmaking, improves the steelmaking process, increases steel quality, and reduces airborne carbon dioxide and fine particles. This trend is expected to continue increasing high-grade ore and manufactured finished steel prices in the years ahead.

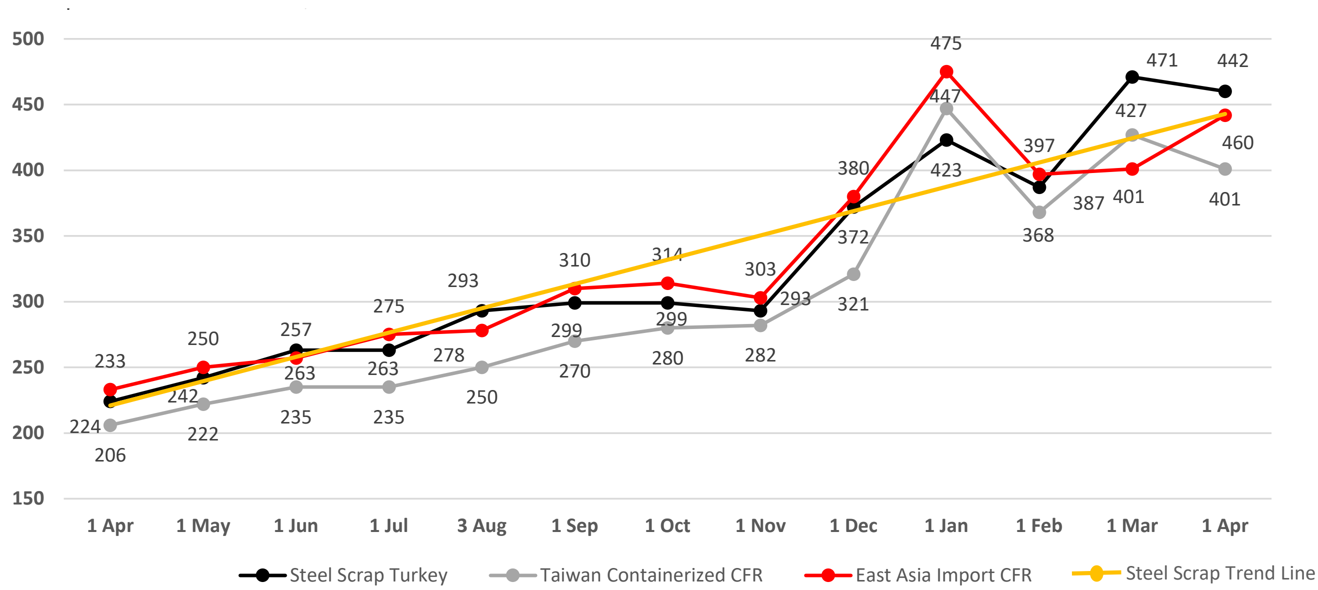
COKING COAL

Metallurgic hard coking coal prices experienced a large (c. 25%) drop in late February. Starting from last year, many mills in China stocked up their inventories because of the ban on Australian coal. This and the threat of production curbs to reduce pollution, contributed to demand not returning to the same levels after the Chinese New Year.

To provide context, coke provides the carbon content in steel and is manufactured from coking coal. Steel blast furnaces use carbon in the form of coking coal to remove oxygen from a molten iron product, to initiate their steel make. At the moment in China around 90% of steel is made using the Basic Oxygen Furnace (BOF) route and 10% is Electric Arc Furnace (EAF) which uses steel scrap.[3]

SCRAP STEEL

Scrap Metal Prices - HMS 1/2 80:20



Source: ASN – April 2021

Scrap prices have softened slightly in some regions since February due to mixed sentiment on their outlook.

In China as state-owned steelmakers added EAF steel capacity, scrap prices increased with the restart of ferrous scrap imports this year and higher-grade Japanese scrap entering the market. In addition Chinese domestic rebar demand remained strong and with supply set to tighten, mills secured high grade scrap and semi-finished steel products ahead of May production cuts due to restrictions on electricity usage – keeping prices high.

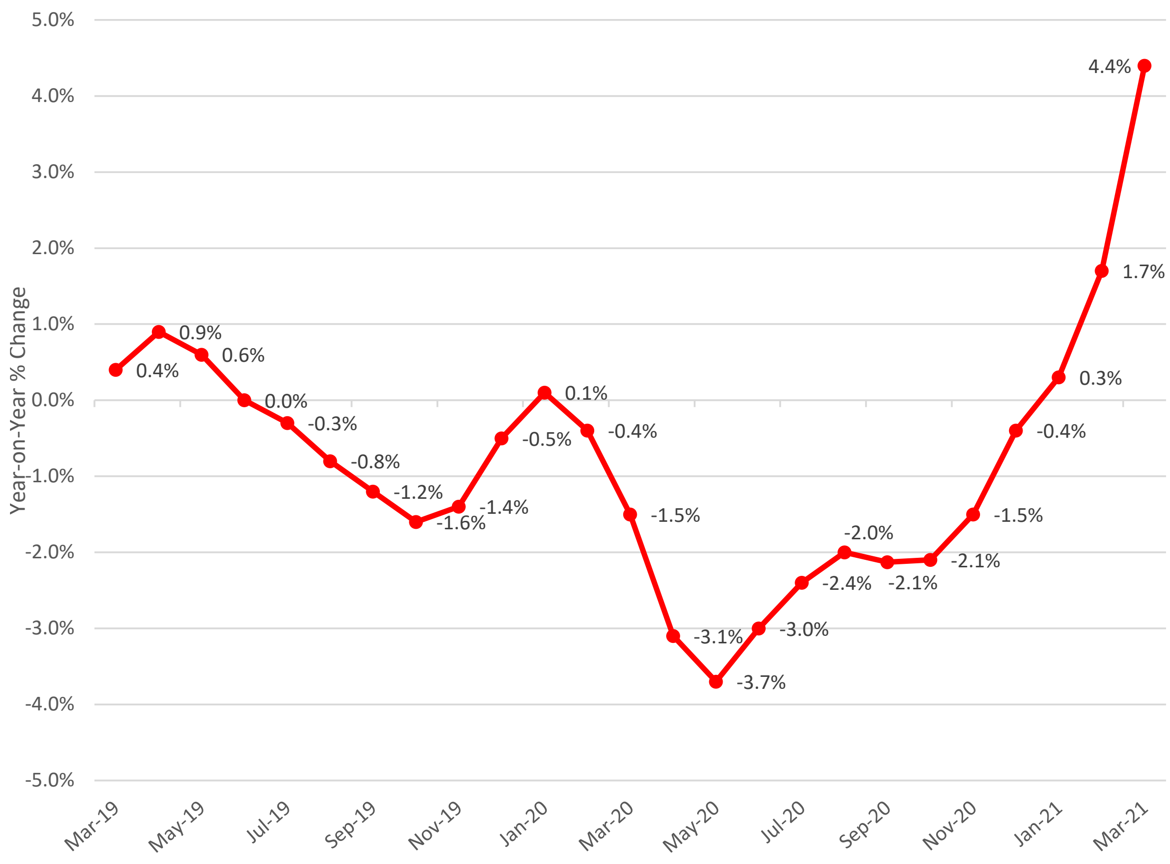
China is highly active in the scrap market and has increased competition for scrap in Asia as mills restock high-grade scrap to meet rapidly rising steel demand domestically, at 16th April, Taiwan containerised HMS 1/2 (80:20) had pushed up to 430USD/T[4]. Meanwhile shipping capacity and container availability is still short, so freight rates look like they will stay high – leading to further moderate scrap price increases in the near future.

MARKET INDICES

The two largest economies in the world, USA and China are having a significant bearing on global steel prices for finished steel products at present. Climbing commodities, increased importation of materials with historically high supply chain costs, higher energy costs and steelmaking capacity reductions has precipitated into an escalating price cycle for steel products – as China strives to reduce emissions and the US struggles to recover from Covid-19 lockdowns.

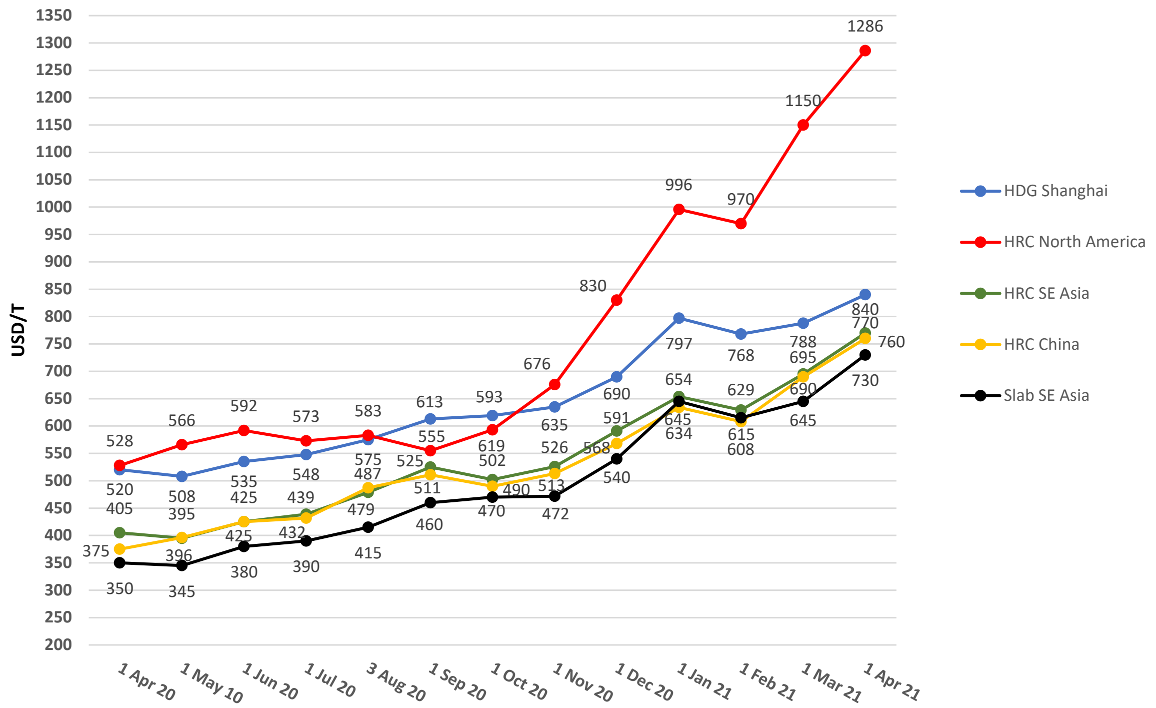
China's producer prices which tracks building material costs, rose in March by 4.4% from a year earlier after gaining 1.7% in February, illustrating the compound effects of the factors described above.

Industrial Producer Price Index (PPI) for China



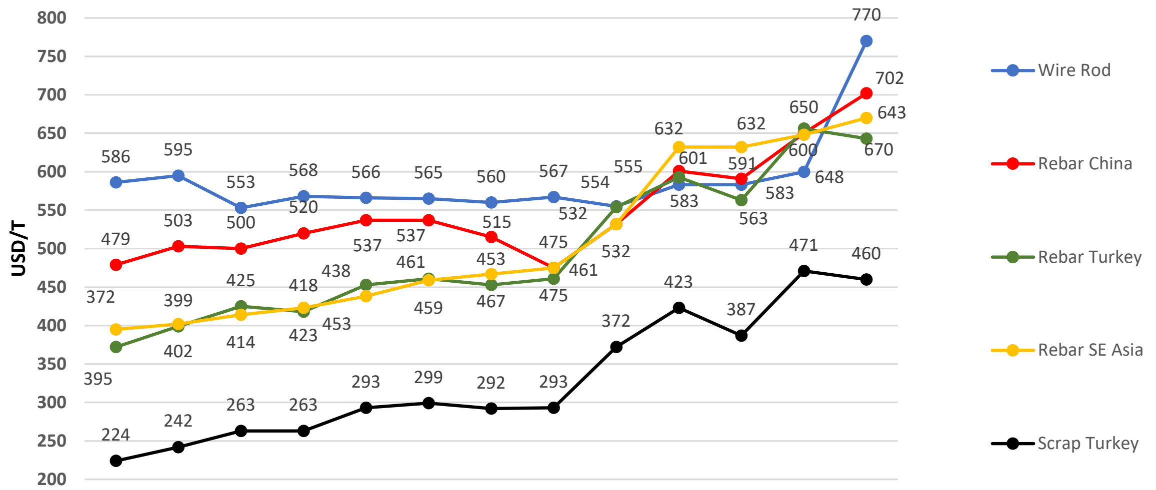
Source: statista.com

Flat Products - Manufacturing Steels



Source: ASN – April 2021

Long Products - Construction Steels



Hot Rolled Coil (HRC) prices have continued to increase since February due to a shortfall in flat rolled steel in the United States' market. US HRC prices are at record highs, increasing demand for imported HRC since mid-March, which remains at a large discount to US mill pricing. This has prompted mills globally to rapidly increase their export price offers.

In China HRC prices have increased mainly on the back of manufacturing activity. Manufacturing accounts for around a fourth of China's steel demand. Vehicle, railway equipment, shipping containers and shipbuilding manufacturing all increased activity by double digit percentages in March, adding to the monthly increases seen late last year.

In addition (but of lesser significance) Brazil became a net importer of primarily flat-rolled products during the first quarter of the year. For the first time since 2014, Brazil imported circa 120,000 Tonnes in the first three months of this year,[5] all market activity contributing to steelmakers increasing their price offers.

Long product (wire rod and rebar) prices in China continued to trend higher due to ongoing infrastructure construction. Market shortages remain despite Chinese mills ramping up production around 20% in March.

While in the US, the $2 trillion infrastructure plan proposed by President Joe Biden in March, expected to be finalised mid-2021, will put about US$200bn into road and rail projects. This investment is expected to lift demand for long steel products, adding an additional 3-4% growth in US steel demand within six to 18 months from being passed.[6]

Such significant investment by China and US to build and rebuild infrastructure respectively, will likely require ongoing importation of large volumes of long product thereby maintaining a tight supply environment globally and upward price pressure for the foreseeable future across all steel markets. Turkey for example already accounts for 50% of rebar imports into the US.[7]

SHIPPING

Sea freight capacity has struggled to rebound from the Covid-19 chaos of 2020.

Viewed broadly, the volume of global trade dipped by only 1% in 2020 compared with 2019. But that doesn't reflect how the year unfolded - with a plunge of more than 12% in April and May, followed by an equally dramatic reversal.Supply chains could not adjust. Globally containers have been left stranded in the wrong places, and container shortages resulted in Asia, pushing shipping prices to their current extraordinary heights. This is despite volumes of empty shipping containers having been moved from the US back to Asia.[8]

A situation caused partly due to congestion in Western ports as Covid-19 outbreaks disrupted logistics and shipping companies focused on their most popular routes — those linking North America and Europe to Asia. All exacerbated by 'Ever Given' blocking the Suez Canal for seven days, delaying 369 ships[9].

This short video by the Financial Times **https://www.ft.com/video/2f2d4976-0b6a-4cf1-92a4-d038353f446c** explains the prevailing market conditions well.

Some logistic experts believe that as vaccinations increase and normality resumes, consumers will shift more expenditure to services, reducing the need for containers. However as vaccination programmes ramp-up, global economies will eventually improve and joblessness will reduce, potentially setting off a new wave of consumer spending – meaning we are set for the shipping issues and higher costs to prevail for some time yet.

EXCHANGE RATES

Adding to the factors which will increase NZ landed prices, is the expectation that the US dollar will appreciate against most majorly traded currencies, which includes the NZD. The outlook for the US economy in 2021 has improved substantially, especially if the US$2 trillion stimulus package proposed by the Biden administration is approved.

WHAT DOES THIS MEAN FOR STEEL & TUBE AND OUR CUSTOMERS?

In our last 'Procurement Update' we advised that, "given the volatile nature of commodity markets and the ongoing supply chain disruptions higher prices are likely to continue well into 2021. With further adjustments likely to come within short cycles, it's a million dollar question on what point we are presently at in the cycle".

Internationally steel making commodities and finished steel prices have continued to increase in 2021 and are expected to increase throughout 2021 as global supply remains tight and demand rebounds from pandemic levels. Freight rates, port clearance and congestion charges are continuing to increase and the full effect of the combination of these factors is still being realised.

We expect that Steel & Tube will need to go to the market with a further price increase during May-21, as our margins cannot absorb the unprecedented number and magnitude of the increases coming through our supply chain across our complete portfolio.

There is more heat and disruption to come in this present price cycle, it would make sense to prepare for rising steel prices, tight supply conditions and shipping delays during the course of 2021. If we are experiencing a steel price bubble, it is not set to deflate anytime soon.

Prepared for Steel & Tube by Brendan Smith, National Manager, Carbon Steel & Stainless

Sources Notes:

1 Nickel / London Metal Exchange (LME) Cash Seller & Settlement $/T

2 BloombergNEF – 'Electric Vehicle Outlook 2020'

3 MSN – Money – Stockhead: ' Steel producers willing to pay premium prices to secure higher-grade iron ore: report'

4 Argus Metals - Ferrous scrap HMS 1/2 (80:20) containerised cfr Taiwan USD/mt

5 FastmarketsMB – 'FOCUS: Brazil steel imports increase amid supply-demand imbalance'

6 Argus Metals – 'Biden infrastructure plan to increase steel demand'

7 Argus Metals – 'Biden infrastructure plan to increase steel demand'

8 The New York Times – 'I've Never Seen Anything Like This': Chaos Strikes Global Shipping'

9 The Guardian – 'Suez Canal: Ever Given container ship freed after a week'