21 DECEMBER 2020

PROCUREMENT UPDATE

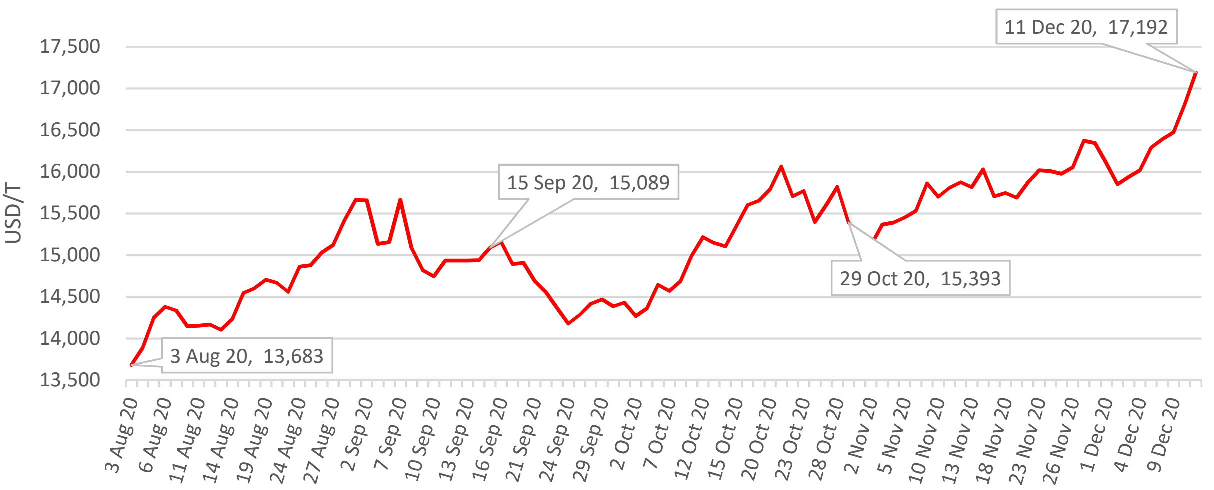
steel&tube

A PERFECT STORM

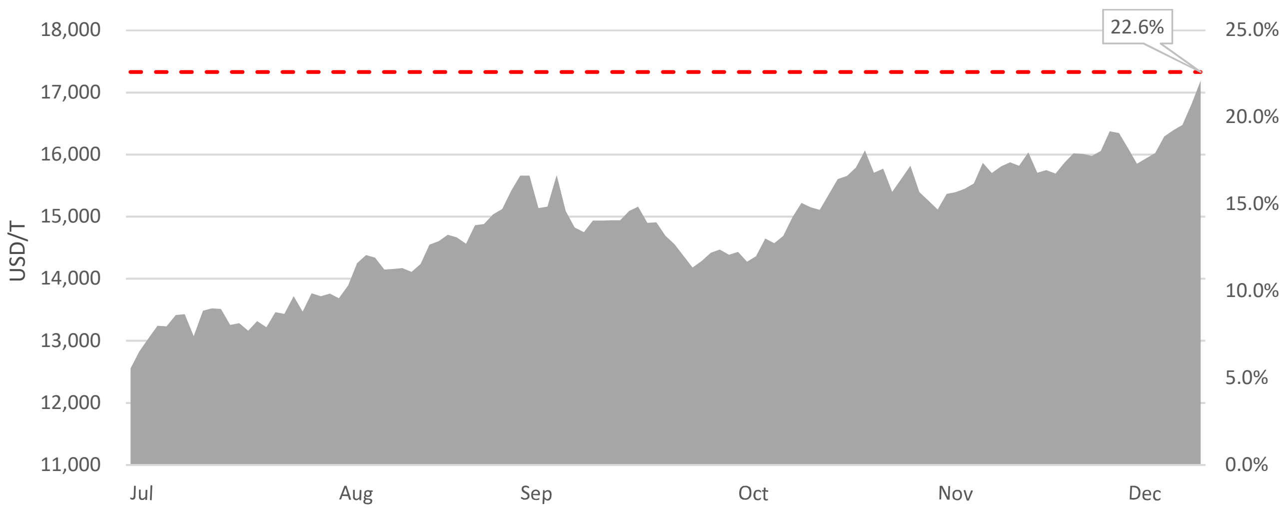
Post Covid markets have recovered quickly driven by various stimulus programmes, in particular Chinese manufacturing and infrastructure spend has resulted in very strong demand. The global maritime sector, miners and scrap merchants' have scrambled to service this unexpected surge in demand. The culmination of these events has led to a perfect storm of cost factors increasing overall prices of finished steel, logistics charges and major steelmaking raw materials. A trend which is set to continue well into 2021.

STAINLESS STEEL

LME Nickel Historical Price Graph [1]



LME Nickel Price USD/T Last 6 months [1]



1. Source - London Metal Exchange (LME)

Nickel futures continued to trade above $17,000 USD per tonne in the second week of December, the highest level since October of 2019, amid increasing demand from Chinese steel mills, as the economy rebounds from the coronavirus-hit and consumer demand domestically.

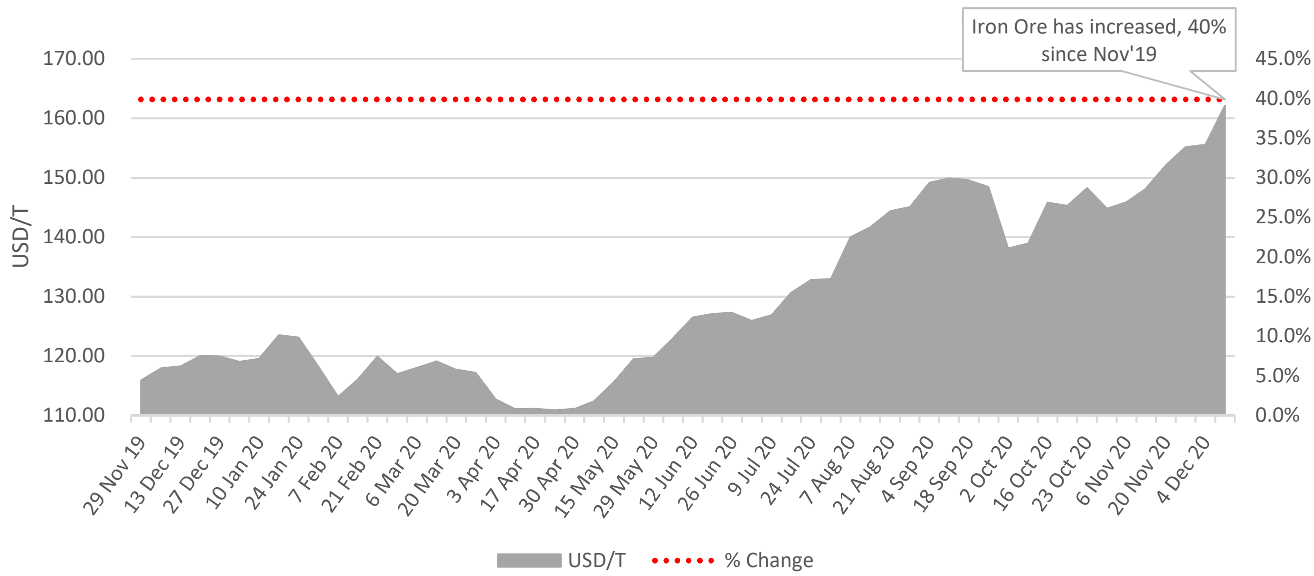
Inventories of all grades of stainless steel at commercial warehouses in China's two core stainless trading hubs slid for the third straight week during December, driving demand to re-stock and therefore prices.

Adding to the upward pressure, demand for refined battery-grade nickel continues to surge from producers in Germany and Indonesia. As lithium-ion battery manufacturers reduce the amount of cobalt used in battery cells, nickel consumption rises and it does so in a major way.

Nickel demand is likely to remain high as stainless steel production stays strong and electric vehicles (EVs) continue to rise in importance.

CARBON STEEL MAKING RAW MATERIALS

Chinese Domestic Iron Ore Price USD/T Last 12 Months [2]



China's impressive industrial-led economic recovery from COVID-19 and demand driven by the huge ongoing infrastructure projects has meant that a number of Chinese steel producers have restarted blast furnaces that were "hot-idled" (temporarily halted when steel demand contracted) due to COVID-19.

This has led to a surge in demand of high grade iron ore from China. Chinese demand has accounted for roughly 76% of the world's seaborne imports in the first nine months of 2020. In the past three months China's iron ore imports have climbed 20% alone on a year on year basis. As a result Iron ore prices for delivery to China have risen above $145/dry metric tonne (dmt) for the first time in at least seven years, as a rebound in global steel output outpaces raw material supplies.

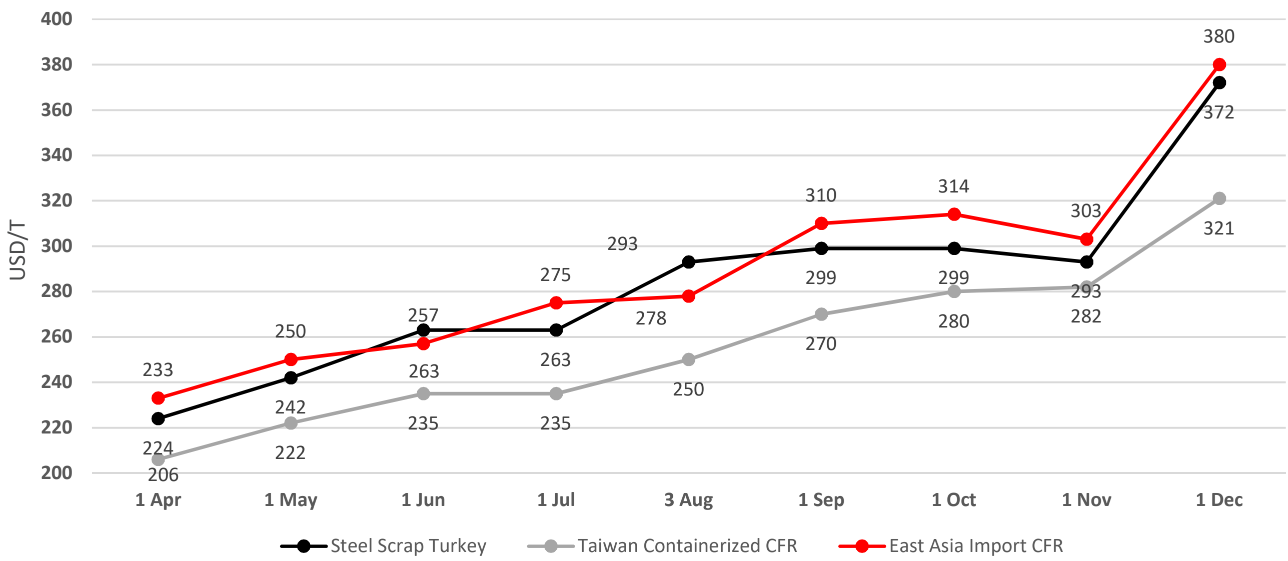
This continued increase in demand is occurring amid declining shipments from major iron ore producer Brazil, which has been hard hit by the COVID-19 pandemic, as well as reduced production from the Australian miners, creating a supply shortage and a 40% increase in iron ore prices over the last twelve months.

Iron ore prices are expected to remain high for quite some time, due to expected increasing Chinese demand (driven by continued government stimulus) and the likely ongoing supply constraints from Brazil.

2. Source - SBB Platts

SCRAP STEEL

Scrap Metal Prices - HMS 1/2 80:20



As demand from China escalates for finished steel long product for infrastructure projects, domestic production has been slower to respond and ramp up with more Chinese mills having joined those recently redirecting their molten steel to flat rolled items rather than longs, as the profits they can earn on the former are now higher. This has continued demand for imported steel for infrastructure projects.

The other crucial ingredient in steel making is scrap metal, stemming from not only demand for finished bar manufactured by EAF based furnaces, but from mills operating induction and blast furnaces increasing volumes of direct-charge high grade scrap into their basic oxygen furnaces to off-set high prices for iron ore.

Major Chinese top-tier steelmakers and traders have been therefore actively seeking steel scrap supply sources in locations such as Japan. Japanese steel mills' themselves with strong demand for ferrous scrap have kept domestic and export offers high, exacerbating the supply tightness for scrap steel – increasing finished product prices.

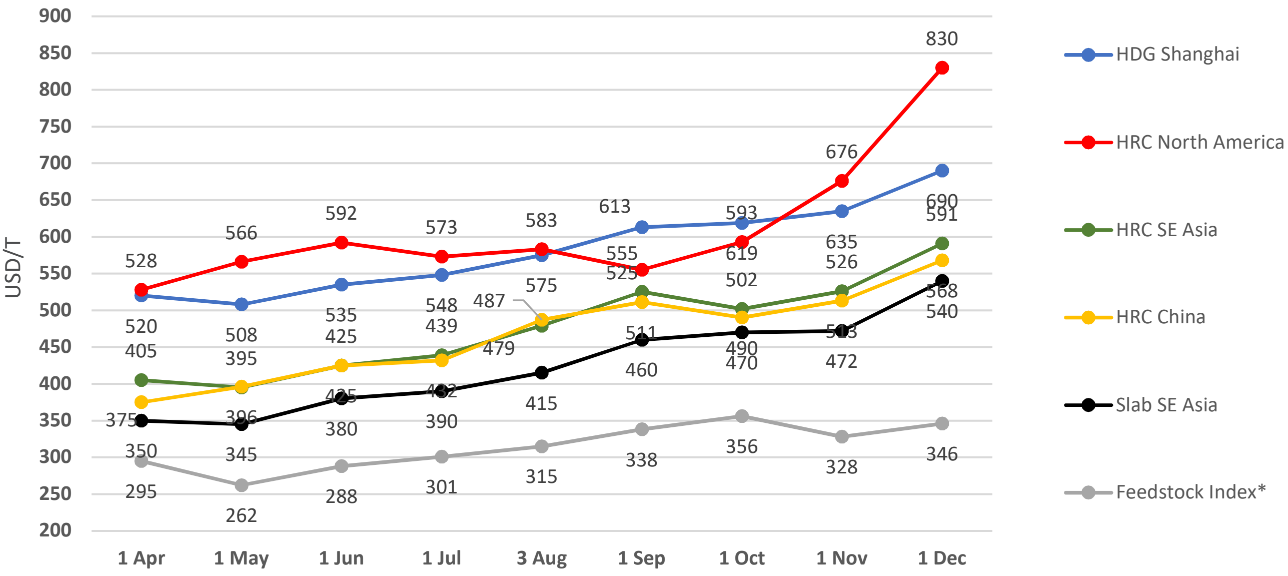
In Taiwan, demand out of China for finished bar has increased demand, pushing spot import prices for containerized ferrous scrap into Taiwan to historical highs in the week to Friday December 11, with delays to scrap shipments from the United States West Coast. These delays have also led to buyers to look toward bulk deep-sea cargoes due to the high price of the alternative Japanese scrap and a lack of cargo space on vessels.

Turkish mills also have increased their shipments to Southeast Asia recently as Chinese mills focus more on domestic demand rather than exports. Higher Chinese steel prices have also helped Turkish mills raise their prices and market shares in Southeast Asia.

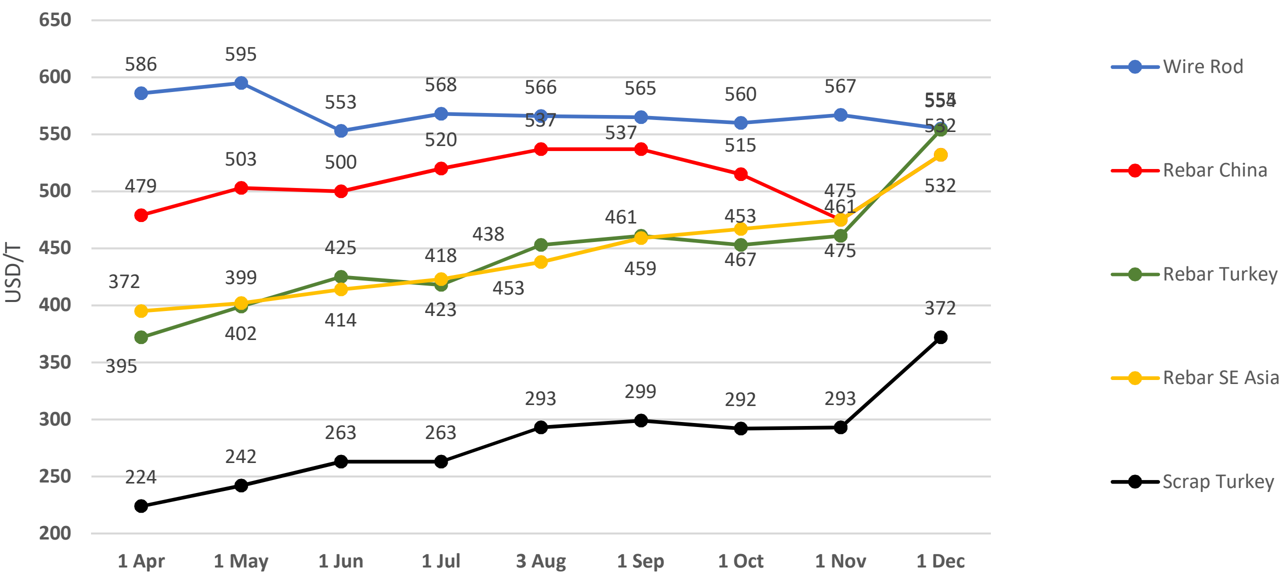
Scrap pricing is therefore expected to continue to increase in the coming months.

STEEL PRODUCT INDICES

Flat Products - Manufacturing Steels [3]



Long Products - Construction Steels [3]

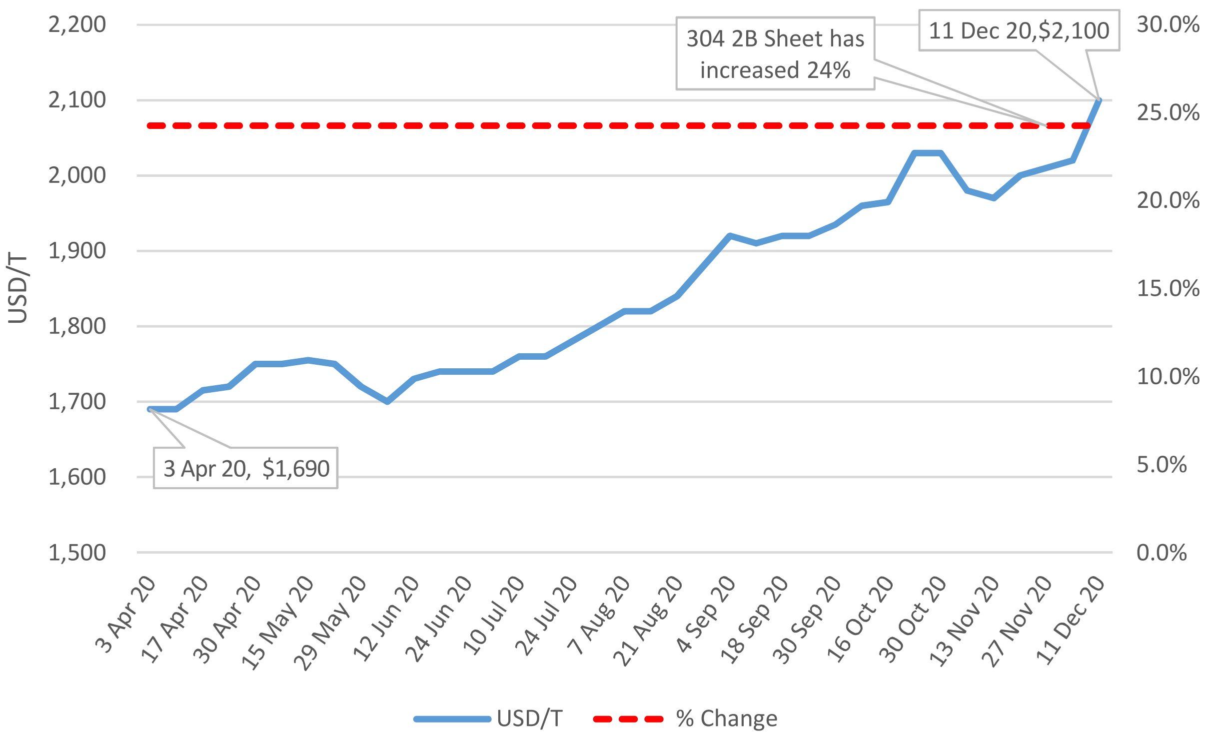


Prices for imported hot-rolled and cold-rolled steel coil has surged on during December to the highest levels in more than two years, with steel mills scrambling to find supply of hot-rolled coil (HRC) and prices increase across all regions to offset the impact of higher iron ore prices on margins.

The same can be said for Stainless 304 2B 2mm coil, which has increased due to the shortfall in refined nickel and strong demand for finished product into the manufacturing sector.

3. Source – Australian Steel News

Stainless Steel / CR 304 2B 2mm / East Asia import CFR $/T



WHAT DOES THIS MEAN FOR STEEL & TUBE?

The rising trend in the domestic price of steel and stainless is expected to continue as global shipping shortages in cargo space and containers, along with local port congestion sets to continue.

With China devouring all its steel in the domestic market it requires other countries – which used to depend on China for steel – to look for alternate sources of finished product and scrap. Until the supply of iron ore and refined Nickel becomes regular, along with secondary steel and stainless producers in China resuming normal production, commodity prices will remain high and product availability tight globally.

As such we will continue to see the flow on effect of the increased commodity prices on landed costs for carbon and stainless finished products despite some off-set by exchange rate appreciation (against the US dollar).

Across all our product portfolios, our main overseas suppliers continue to move prices on the back of the above market activity in Asia. While our domestic steel suppliers NZ Steel / Pacific Steel continue to monitor market activity and raw material cost movements.
As such we expect that the volatile nature of the market will necessitate continued upward price adjustments in the New Year. We will seek to gain further insight on the intent of our major supply partners and will provide further advice on the exact movements by product range as soon as formalised.