

FEBRUARY 2021

PROCUREMENT UPDATE

ARE PRICES PEAKING?

Fast rising commodity prices have driven home the fact that commodity prices are volatile, unpredictable and subject to shocks.

While China, the juggernaut in the global economy continues to forge ahead with expansion plans and steel demand in the rest of the world strengthens as a result of vaccination programmes, subsidies and stimulus measures; freight rates continue to increase as businesses clamor for space on vessels. This combination of strong sales and supply chain disruptions will likely continue to impact on stainless and steel product prices.

As commodities are subject to shocks, the steel industry remains subject to risks around capacity control, those related to the pandemic, reduction in government stimulus programmes, policies to cut emissions and trade wars, all of which could put pressure on to reduce demand, margins and prices.

STAINLESS STEEL

LME Nickel Price USD/T Last 6 months



Source: LME Nickel - London Metal Exchange settlement rates

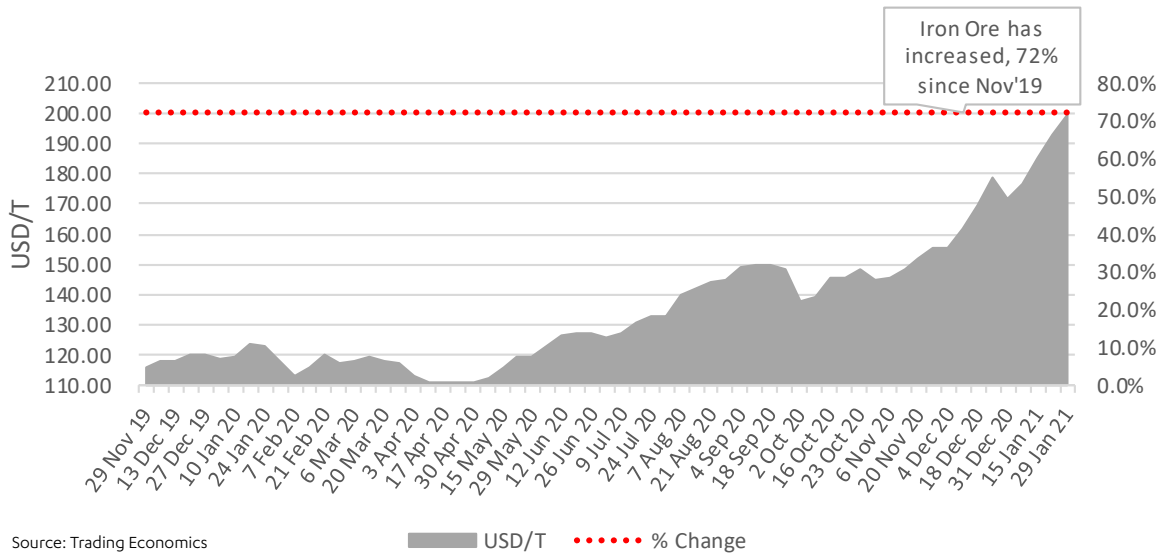
The Nickel price has increased further in 2021 with news of the COVID-19 vaccines, the resulting global economic recovery, the introduction of further stimulus measures aimed at 'green' industries and continued concerns about long-term nickel supply. The evolving side story though through 2021 and on-going is likely to be centred on battery nickel demand, which will potentially surge as the EV (Electronic Vehicle) demand increases.¹

Demand for EV is strong from China as the country moves towards green energy. This will probably flow through to prices as more charging stations will be needed across China

leading to increased demand for nickel. The recent Nickel price rally however is likely more about the supply of nickel ore keeping pace with demand from China's giant stainless steel industry. China already accounts for 50% of Nickel ore demand to feed its massive manufacturing sector, with new projects in China's infrastructure sector increasingly preferring stainless steel over any other material (steel or iron) due to its non-corrosive nature improving asset longevity. Nickel prices are expected to continue with their upward trend in 2021.

CARBON STEEL MAKING RAW MATERIALS

Chinese Domestic Iron Ore Price USD/T Last 12 Month



Source: Trading Economics

■ USD/T ●●●● % Change

On the back of Chinese demand ore prices have skyrocketed to its highest level since September 2011 gaining over 70% during the year. China imports ~70 per cent of the world's iron ore.

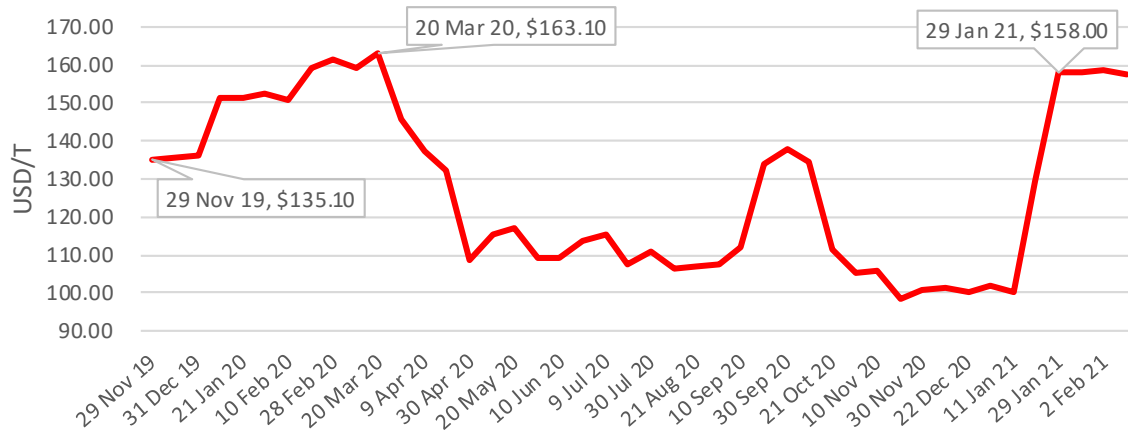
China forged more than 1 billion tonnes of crude steel in 2020 and imports of iron ore reached record levels of more than 1 billion tonnes per annum, as China's recovery plan – centred on infrastructure, energy and housing projects, sharply increased demand for iron ore.²

Price pressure is expected to continue as iron ore inventories in China continue to fall and inbound shipments are hampered because of trade tensions with Australia and major Brazilian ore producer Vale SA downgrading its output guidance for 2021 due to COVID.

Meanwhile, with a \$3 trillion dollar infrastructure spending programme proposed in the U.S.A. and several fiscal stimulus plans announced in many developed economies, manufacturing activity is set to increase globally, further tightening supply and prolonging the current price curve.

COKING COAL

Australian Hard Coking Coal Export Historical Price Graph



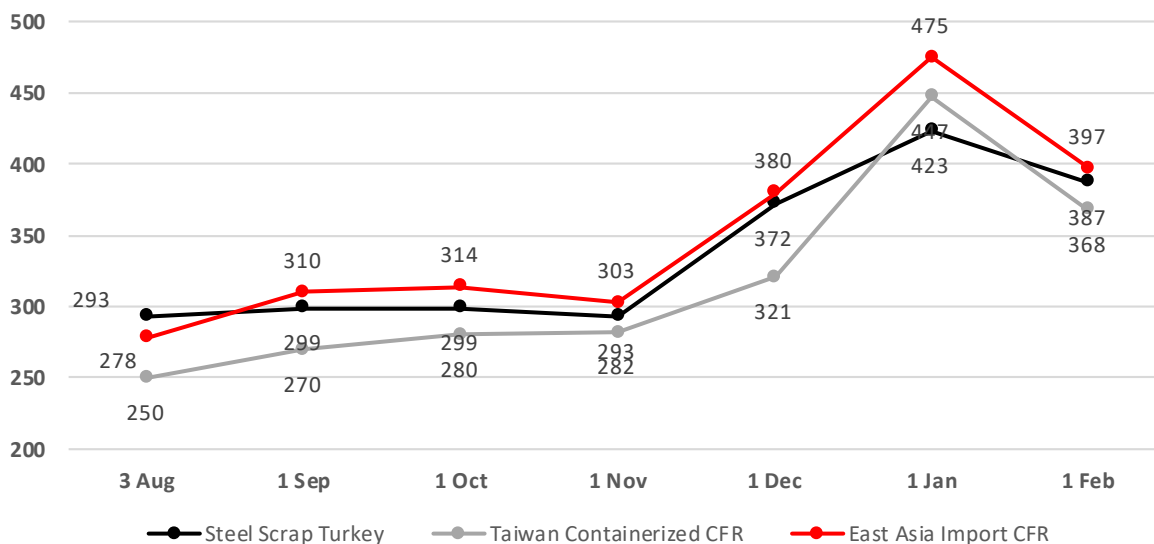
Source: Trading Economics

Coal futures spiked in January due to supply concerns with strained relationships between China and Australia over trade, politics and the origins of COVID 19. This saw about 70 ships containing an estimated 6 million tonnes of Australian thermal and metallurgical coal sitting off the coast

of China waiting to unload.³ Coal prices had previously been supported by increased energy requirements because of colder than usual temperatures in many parts of the northern hemisphere, and post-Covid industrial demand from China which accounts for 40% of global coal demand.

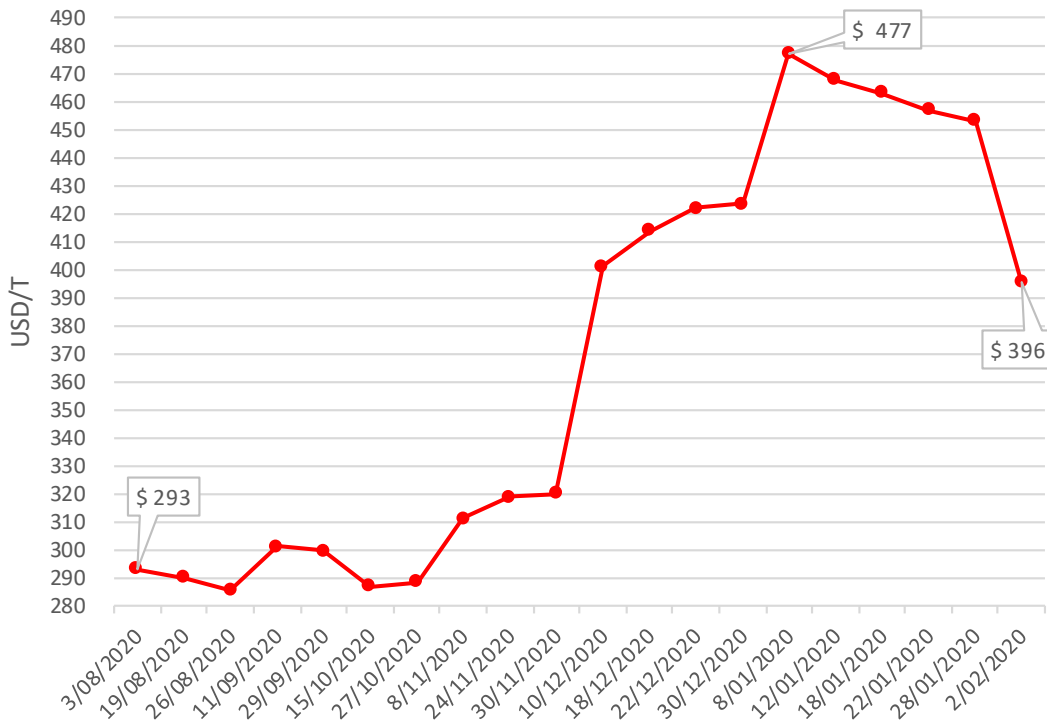
SCRAP STEEL

Scrap Metal Prices - HMS 1/2 80:20



Source: ASN - Feb 2021

LME Scrap Steel Price graph (USD/T)



Source: LME Ferrous Metals - London Metal Exchange settlement rates

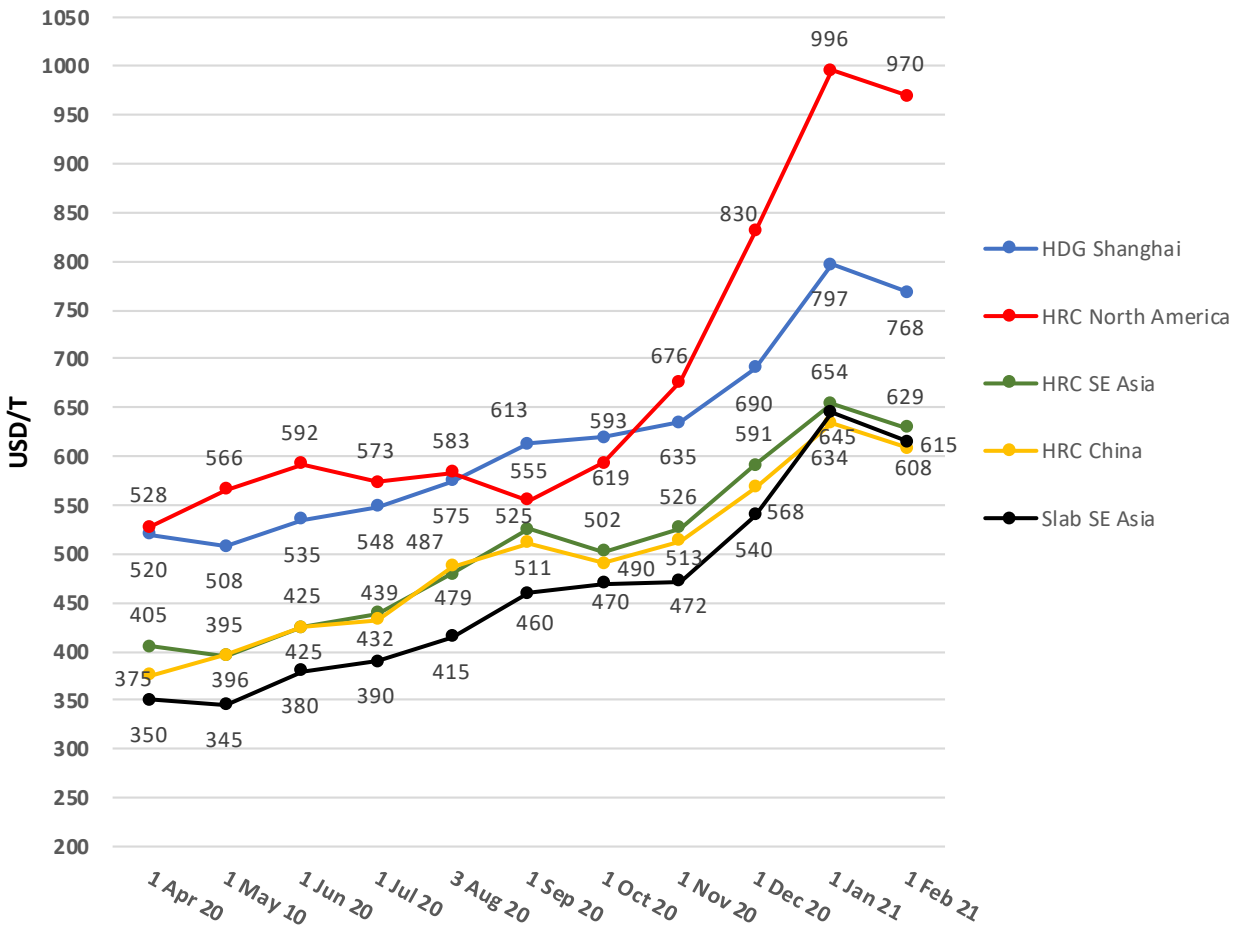
Recycled steel (sometimes called scrap steel) is one of the industry's most important raw materials. 575 million tonnes of recycled steel was used to produce about 1.9 billion tonnes of crude steel last year.⁴

Manufacturing over 50% of worldwide steel production, China essentially sets the global price for seaborne iron ore. In more recent years China has satisfied its scrap steel making raw material requirements through domestic supply, however with an expected crude steel capacity increase

by 27 million metric tons to 1.284 billion metric tons by the end of 2021, China may top the record 13.7 million tonnes of steel scrap it imported in 2009.⁵ If this eventuates China will possibly have a similar impact on the Asian scrap steel price as it does on global iron ore, pushing prices further during 2021. This is especially likely while there remains a shortage of high grade scrap available, mainly due to a significant reduction in scrap exports from the U.S.

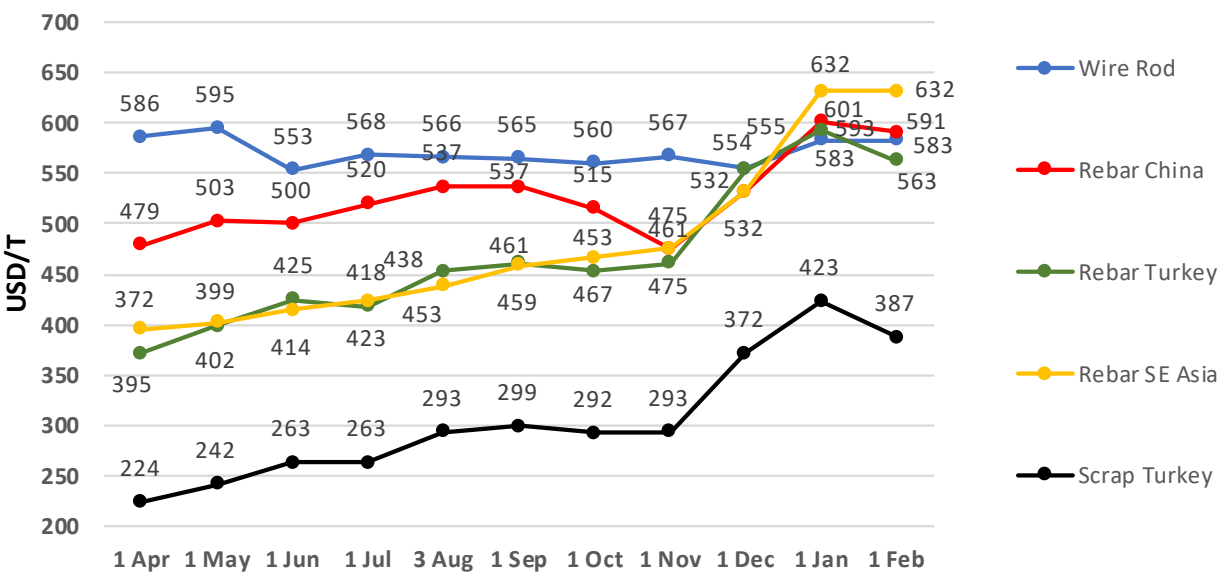
STEEL PRODUCT INDICES

Flat Products - Manufacturing Steels



Source: ASN – Feb 2021

Long Products - Construction Steels



Source: ASN – Feb 2021

With the flattening of increases we have seen in recent days in the finished product (and commodity) indices, another way to consider the pricing outlook is to consider the future prospects for the global steel supply-demand equation. In this respect, it is noteworthy that:

The World Steel Association consider that global steel demand growth in 2021 will amount to 4.1% (from 1725 million tonnes of finished products in 2020, to 1795 million tonnes in 2021). This is equivalent to a 2021 increase in steel consumption of ~70 million tonnes.⁶

SHIPPING

There has been no let-up in the soaring freight costs being seen and experienced since late last year. The cost of shipping a container of product has risen by 80 percent since Q3 last year and has tripled over the past year.

Last year's stop-and-go global economy effectively shifted 5 million (~25%) shipping containers from the first half of the year to the second half — on top of customary trade flows.⁸

With Asia manufacturing in excess of 40% of the world's consumer goods, and a large shift in consumer (e-commerce) spend to manufactured goods due to COVID lockdowns, many Asian exporters struggled to meet demand for their goods because millions of empty shipping containers had yet to cycle back from the markets that buy their products. This has caused a scramble for containers contributing to a spike in ocean rates and multiple different bottlenecks all at the same time.

In addition, container availability and shipping space has been further impacted by escalating demand prior to the

The OECD meanwhile consider that over the three year period 2020-2022, global crude steel gross capacity will increase by approximately 2.5-3.3% from an end-2019 level of 2.36 billion tonnes. This is equal to an increase in steel capacity of ~23 million tonnes per year.⁷

On this basis, the increase in steel demand will likely outpace the rise in steel supply (capacity) in 2021, which has the potential to extend higher steel prices through the year, despite recent softening prior to the Chinese / Lunar New Year.

Christmas and Lunar New Year holiday seasons, ongoing demand for Personal Protective Equipment, and a reduction in global air freight capacity. Many businesses are also now adding "safety stock" to normal inventories, catching up from not ordering over lockdown and buffer themselves from unplanned demand spikes and potential supply disruptions that could be triggered by a second wave of the virus in various countries.

This has left ports and cargo carriers battling to keep pace. Port congestion has further contributed to slow container turnaround and increasing container charges. More than one-third of the containers transiting the world's 20 largest ports last month failed to ship when scheduled.⁹

Add to this the anticipated demand for refrigerated containers for COVID-19 vaccine logistics, and that shipping container manufacturers have a 5 month backlog in orders and their production costs have drastically risen over 50% in some instances – there appears to be little respite on horizon in respect to shipping delays and higher freight costs.¹⁰

WHAT DOES THIS MEAN FOR STEEL & TUBE?

Covid-19, transport delays, higher freight rates and additional congestion charges, increased commodity prices and strong domestic demand for finished steel and stainless products have pushed prices globally – a situation we cannot isolate ourselves from. As such, Steel & Tube has had to announce price increases varying in range based on necessity.

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.

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

Sources Notes:

1. IEA Global EV Outlook 2019
2. Mining.com
3. Reuters.com – *‘Dalian coking coal hits two-month low as China demand falls, supply woes ease’*
4. World Steel Association
5. S&P Global Platts – *‘Commodities 2021: China’s steel exports set to rise as domestic property demand falters’*
6. World Steel Association, Short Range Outlook October 2020
7. OECD Latest Developments in Steelmaking Capacity, Q4 2020
8. Washington Post – *‘Pandemic aftershocks overwhelm global supply lines’*
9. Washington Post – *‘Pandemic aftershocks overwhelm global supply lines’*
10. CNBC – *‘An ‘aggressive’ fight over containers is causing shipping costs to rocket by 300%’*

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