



PROCUREMENT UPDATE

DECEMBER 2024

POINT OF INFLECTION?

HIGHLIGHTS

- Volatility resides in commodity markets and is expected to continue in 2025
- Chinese mills will be the main influencer of regional pricing, producing more than half of the world's steel, stainless and aluminium
- The cost of aluminium products sourced from China will increase due to the removal of their export rebate in December 2024
- Freight rates are expected to remain at elevated levels until the disruption in the Red Sea has reached an assured resolution
- To the extent that a trend is able to be discerned given the volatility mentioned above, product markets appear to have 'bottomed' in 2024 and landed pricing is expected to keep a relatively flat trend across 2025, waiting for a return of volume

The point of inflection is the stage at which a data curve changes direction. In a trading environment, the point of inflection indicates a possible change in the market. The key question is, are we at an upward market inflection point - yet?

Steel and metal demand and supply is highly cyclical, likewise is pricing. At present, world demand is reminiscent of the post-GFC period, with a significant fall in trading volumes from both the manufacturing and construction sectors. According to the World Steel Association, the prospect of a rebound by the end of 2025 is fragile.

In global terms, there is growing geopolitical and fiscal uncertainty, impacting both public policies and strategic investment. This is driving a continuation in the volatile conditions for commodities and is likely to prolong the "bottoming" of many product market price cycles.

A lot depends on China which is the largest steel and metal producer and consumer in the world, as to when steel and metal markets will start a sustained demand and price trend (or point of inflection) upwards. Each product market has a unique set of circumstances which will impact the timing of a cyclical turn, evidenced with China removing their 13% aluminium export rebate on 1 December 2024, which will increase prices for many aluminium product categories.

On the other hand, the impact of the Red Sea crisis has more than doubled freight rates above their 2023 average, serving as a stark reminder of the interconnectedness of geopolitical stability with maritime security, market volatility and pricing.

With a proliferation of protectionist (tariff) policies globally and a point of inflection (downward) for Chinese steel demand, we are living in 'interesting times' with all the ambiguity that phrase implies.

CHINESE STEEL DEMAND HAS PEAKED, BUT HAVE THEIR EXPORTS?

2024 has been a difficult year for global steel demand, due to weak manufacturing volumes, depressed construction activity, tightening monetary policies, and growing geopolitical uncertainty as markets await China's fiscal stimulus plans and the implications of Donald Trump's re-election. For the steel and metals industry, much depends on China which is by far the largest producer and consumer in the world. Its slower rate of consumption while maintaining a high level of production may well become one of the prevailing factors dragging a general rebound in industry earnings.

While the World Steel Association is forecasting growth in steel demand in 2025 among developing nations (other than China) of 4.2%, and 8.5% in India, a further -1.0% drop is expected in China unless they can reverse the collapse in their property market. In August, Chinese consumption of crude steel fell by 13.5%, and in September it dropped by 11.1%, according to the China Iron and Steel Association (CISA).¹ This increases the pressure on Chinese mills to accurately manage the dynamic balance of supply and demand.

If the CISA do not orchestrate a sizable reduction in production across their member mills in tandem with demand, Chinese inventory levels will continue to build, necessitating an increase in exports. Should exports from China increase, it will put many product markets in the region into an oversupply position in 2025, keeping pressure on prices.

There are already clear signs of concern with rising international trade protectionism. Various forms of trade barriers are escalating quickly against Chinese steel products including the introduction of the EU's Carbon Border Adjustment Mechanism (CBAM). Mexico, for example imposed 80% tariffs late last year on Chinese steel products. The USA are proposing aggressive tariffs ranging from 60% to 100% on Chinese steel. Thailand have increased duties on Chinese steel to 31%. Brazil, the EU and Canada have also imposed ~25% tariffs, followed by Malaysia and India (12 – 30%). Likewise, Indonesia, Turkey and Vietnam announced anti-dumping duties on the high volume of low-priced Chinese steel entering their markets.²

There is good reason for the concern. China's steel capacity has rapidly expanded since 2019, with their new facilities being much more productive than the old ones decommissioned under the Ministry of Industry and Information Technology (MIIT) steel capacity swap programme. There is 30 – 50 million tonnes p.a. of new electric arc furnace production planned to be commissioned in China from 2024 through to 2026.³

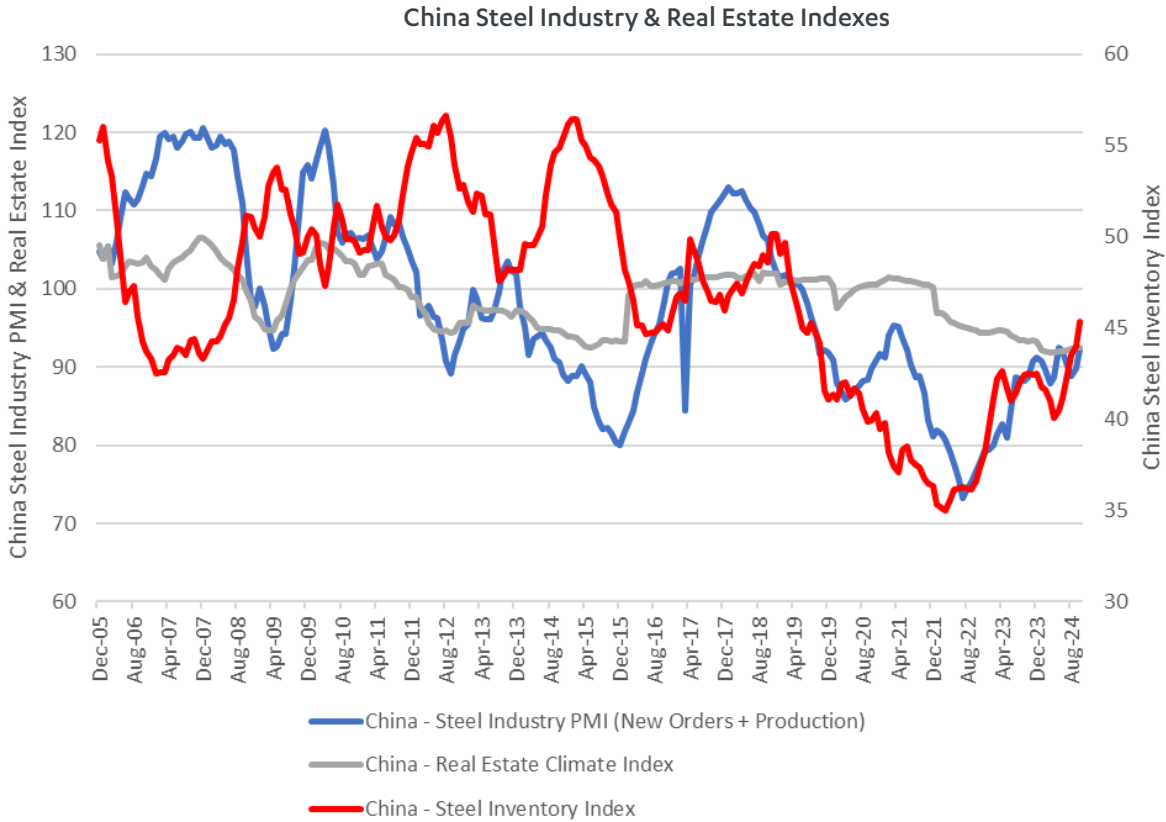
In addition, 40% of China's steel demand is for building and infrastructure construction.⁴ As Bloomberg Economics reported in late May, China has "the equivalent of 60 million unsold apartments, which will take more than four years to sell without government aid", a cost Goldman Sachs has estimated at close to \$2.1 trillion USD to prevent total collapse. Also, consider the economic devastation foreclosures had on the US during the GFC where the housing market only constituted ~15% of their GDP compared to China's ~29% - the risk from China's property market to its overall economy cannot be overstated.⁵

From January to October this year, Chinese steelmakers recorded around \$3 billion USD in losses, according to Bloomberg with reference to the State Statistical Office. Their steel production increased by 6.2% compared to September and by 2.9% compared to October 2023.⁶ The need from mills in China to export can only be greater in 2025, focused increasingly on those countries without protectionist policies.

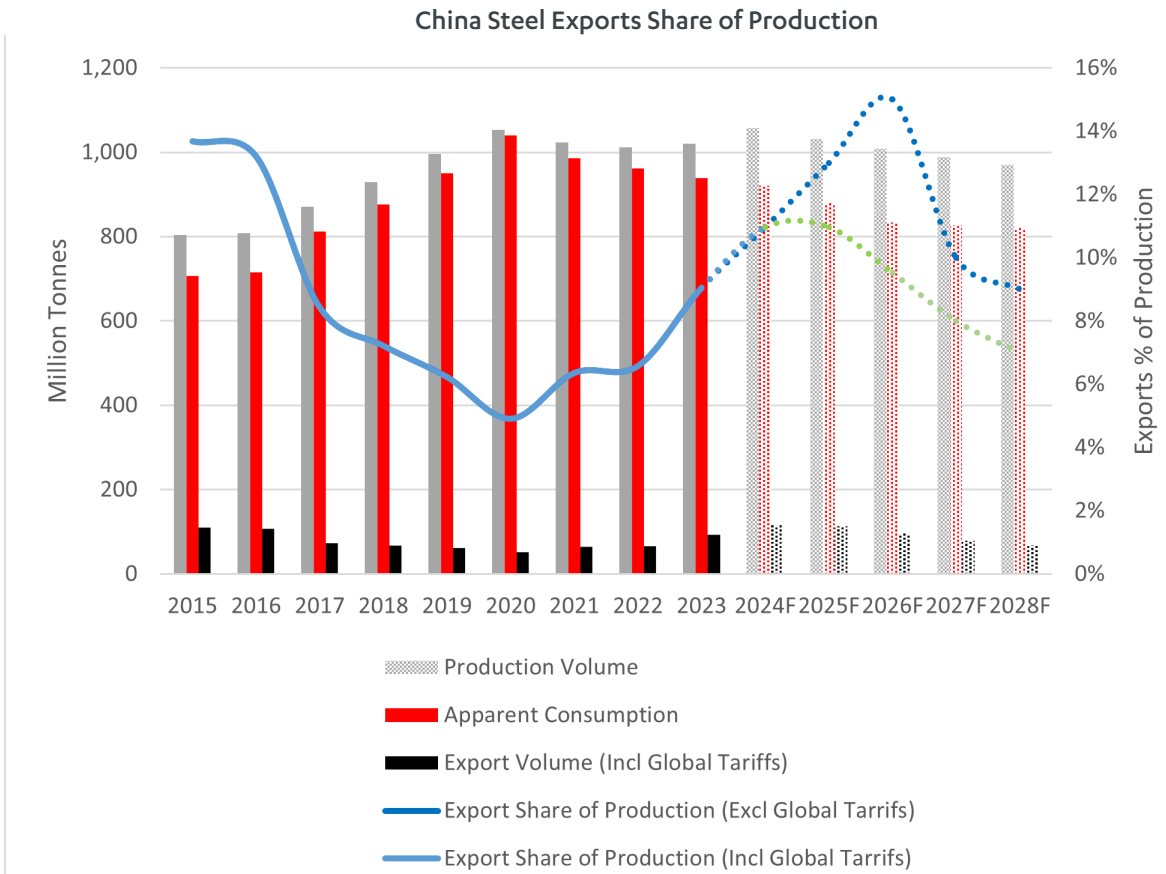
Analysis undertaken by CRU Group has found that, in past downturns, Chinese steel mills became even more competitive as Chinese domestic coking coal and coke costs dropped, significantly improving Chinese mills' cost positioning on the global cost curve. Their mills can accommodate more low-grade steel making material – that is available at a discount – in their iron ore blends for sintering or pelletising, which further improves their cost competitiveness. As a result, export prices from China become significantly more competitive compared to domestic steel mill prices in other regions, enabling China to increase its exports.⁷

Another factor having a bearing on the price of Chinese products in regional markets is the widespread practice of evading Chinese value added tax on exports. Analysts have estimated that exports for which the export tax wasn't paid accounted for around one-third of last year's total exported volume from China of 90.26 million tonnes.⁸

If past steel price cycles are any indication and the current scale of China's situation is considered, the point of inflection, or sustained recovery in global steel demand, will not be seen until the situation in China improves, a pattern indicated in the graphs below. Unless, of course, a major world event sparks a focused surge in demand or conversely causes a global supply shortage.



Sources: Macromicro



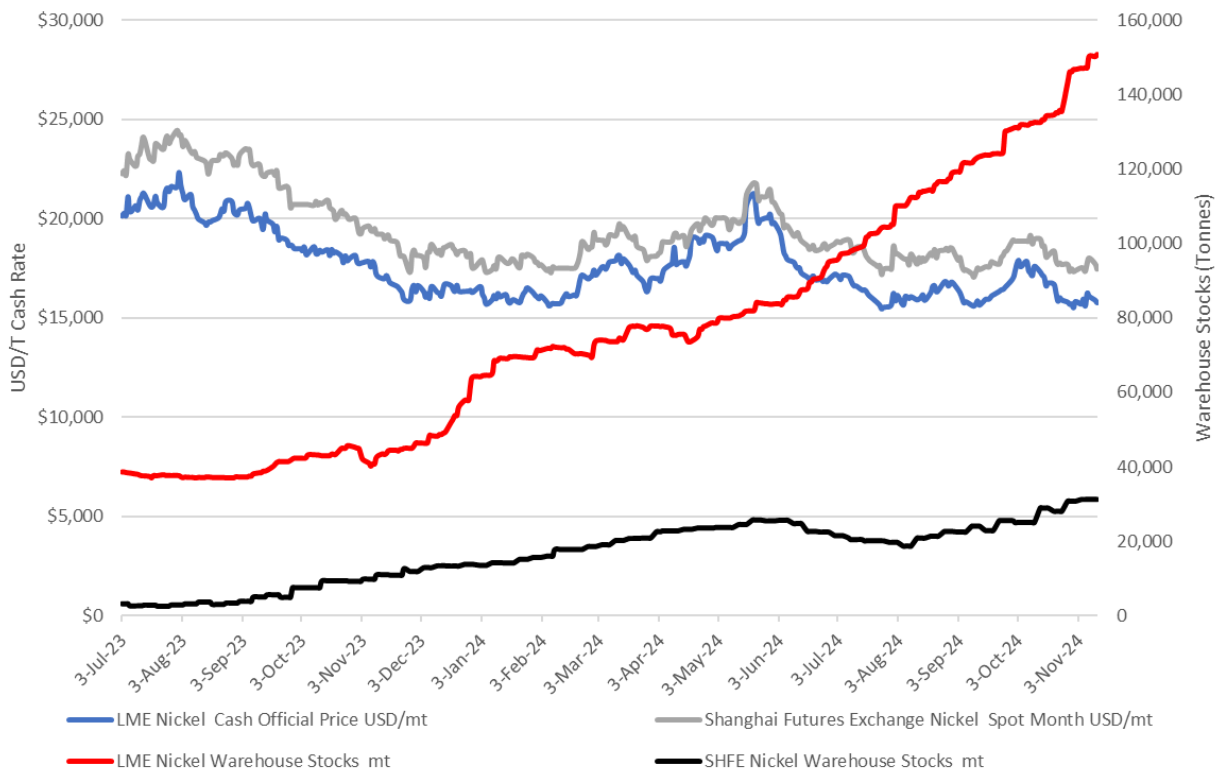
Sources Data: US International Trade Administration, Fitch Ratings, CRU. Graph: S&T Procurement Update Author

The inference from the cycles shown in the graphs above is that considerable time is yet to run before China resumes another growth cycle in its steel demand, potentially in 2027/28. In the meantime, steel production from China is expected to grow, and Chinese steel inventories build, with exports ex-China possibly curbed due to global tariffs. Otherwise, based on production percentages experienced in past cycles, it is possible Chinese exports could increase further, peaking in 2026, above the already record tonnage levels of 2024.

Beyond the spectre of global tariffs, which tend to have an effect medium-term, there is some optimism for 2025 and upside risks for China's steel exports. A recovery in steel demand in the EU is anticipated, and modest recoveries in the US and Japan are predicted. Meanwhile, rising demand from Southeast Asia is expected, and in the growing Middle East and North Africa (MENA) bloc, where the massive construction site known as Neom will need 20% of the world's steel according to Newsweek. Another important promising component in the global demand for steel is India, where consumption will grow 8.0% this year, and 8.5% in 2025.⁹

NICKEL

LME & SHFE Nickel Price & Warehouse Stocks



Source: Argus Media

The rapid expansion of Indonesia's nickel industry and the slowdown in the Chinese economy has led to a market oversupply, contributing to a further decline in nickel prices over 2024 which will likely lead into 2025.

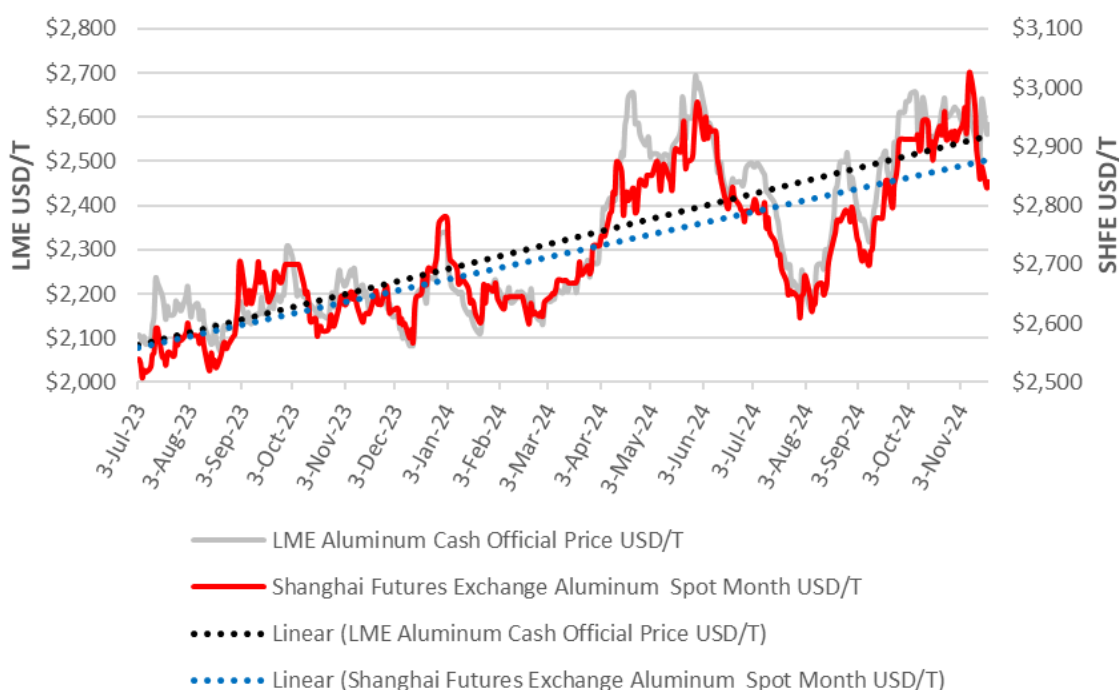
This downward price trend is despite some major market events, such as miners outside of Indonesia shutting some of their operations, central banks cutting interest rates, Russian nickel warehouse stocks being embargoed, a production standstill in New Caledonia, and permit terminations for ferronickel and nickel pig iron plants in Indonesia causing an ore shortage putting pressure on Indonesian producer pricing.

The Indonesian ore shortage is particularly intriguing as it signals that the Indonesian nickel resource may not be as vast as once thought and could be depleted in the next five years.¹⁰ At the least, Indonesia is likely to experience an ore grade drop which could reduce nickel production by nearly 20%, potentially leading to tighter supply markets, supporting higher prices.

The Australian Office of the Chief Economist expects the LME nickel price to average \$17,400 USD/T in 2025, and around \$17,800 USD/T in 2026, as opposed to its current level of ~ \$15,500 USD/T, while Fitch BMI expects nickel prices to increase steadily to 2028, rising to \$21,500/tonne as the nickel market surplus narrows on the back of surging demand from countries like the US to support their burgeoning production of EV batteries.¹¹ This demand surge is expected to introduce increasing price volatility into the market across 2025, along with reducing market oversupply, underpinning a gradual escalation in price, driving up the costs for Asian stainless-steel manufacturers in 2025.

ALUMINIUM

Aluminium Index Cash Rates



Source: Argus Media

China's announcement on 15 November that it will end a 13% tax rebate on exports of aluminium products from 1 December caused market mayhem. On the London Metal Exchange (LME), aluminium prices rose 8.5% as traders anticipated the rebate removal may curb the more than 5 million tonnes of low-priced Chinese exports. Meanwhile, prices on the Shanghai Futures Exchange (SHFE) fell 5% on the reverse ramifications that it reduces much of this export volume to marginal cost levels for Chinese producers. To put it in perspective, between March 2020 and the end of 2021, more than 90,000 companies in China enjoyed \$5.2 billion USD in export tax rebates.¹² The tax rebates are a significant incentive; hence why Chinese aluminium exports have grown by 17% in the first nine months of 2024.

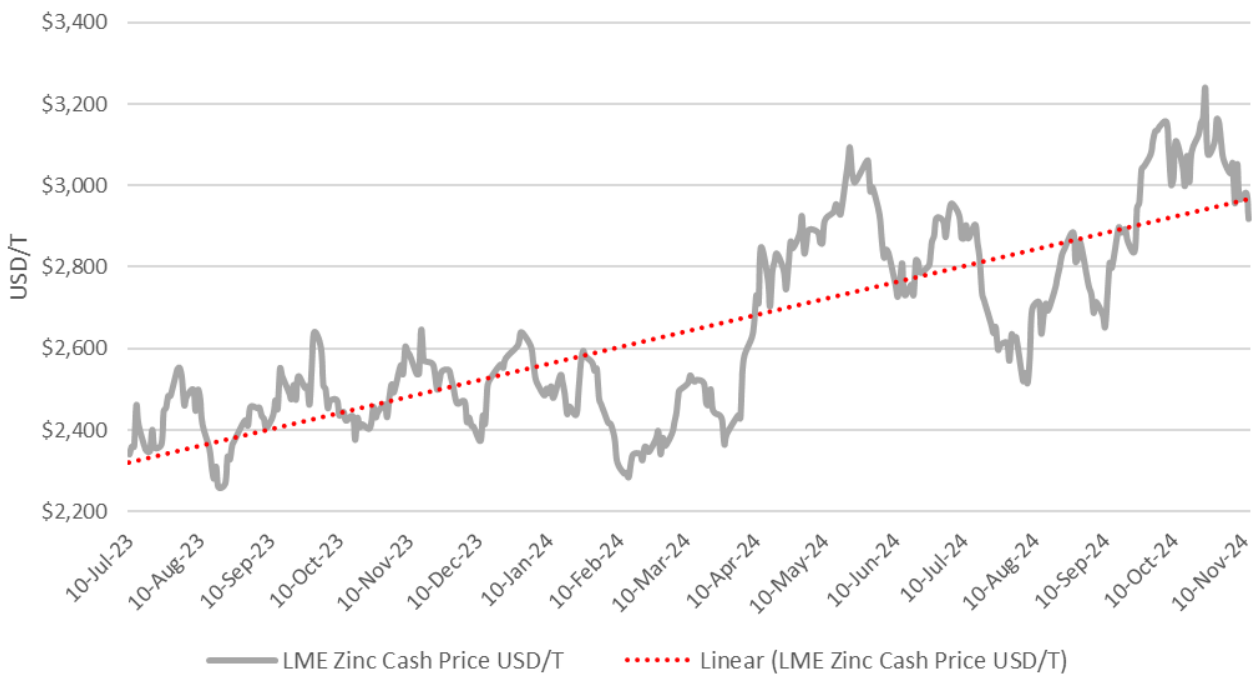
The cancellation of China's export tax rebate policy is expected to make Chinese aluminium more expensive on the international market. Their manufacturers produce 40 million tonnes of aluminium yearly, which accounts for more than half of global production – supply options not easily replaced.

The global aluminium market prior to 15 November was already experiencing upward price pressure with the cost of raw material alumina setting a record high in October, increasing production costs with global supply issues triggering an alumina buying frenzy by commodity traders.

The combination of the above activity is almost certain to keep an upward momentum on aluminium's volatile price trend and return the global supply of aluminium into a deficit from 2026.

ZINC

LME Zinc Cash Price USD/T



Source: Argus Media

The global zinc market is ending 2024 facing a sizable supply deficit due to mine closures and reduced refining which has set zinc prices on an upward price trend.

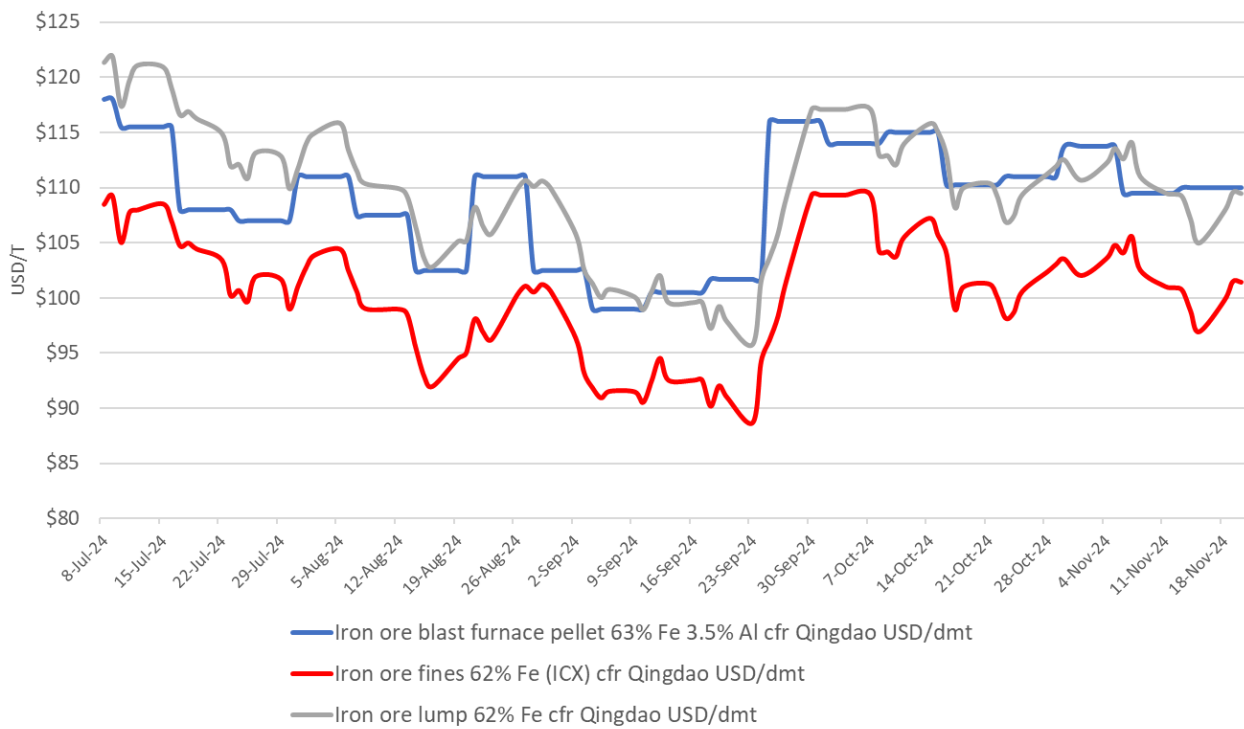
Zinc mine production is expected to fall for a third consecutive year and smelter treatment terms, a good indicator of raw material availability, have plunged. China, which hosts the world's largest smelter network, is reducing its refined zinc production at an accelerating rate.¹³ The supply disruptions have been large enough to stimulate a 17% gain so far in zinc prices on the LME this year, reaching \$3,238 USD/T in late October.

Interestingly, an LME zinc price of \$2,400-2,500 USD/T is apparently the breakeven for most mines outside China. Futures markets have been trading on the speculation that the current zinc ore price will not be enough to incentivise a boost in mining activity to close the supply gap, while the combination of rising raw material costs and weak end-use demand will force more production cuts in China - constricting spot metal supplies and fuelling further price gains.¹⁴

Overall, zinc's supply dynamics are in a state of flux right now and will remain that way for some time yet, which will likely "galvanise" prices, pardon the pun.

IRON ORE

Chinese (Port Qingdao) Iron Ore Prices and Inventory Level



Source: Argus Media

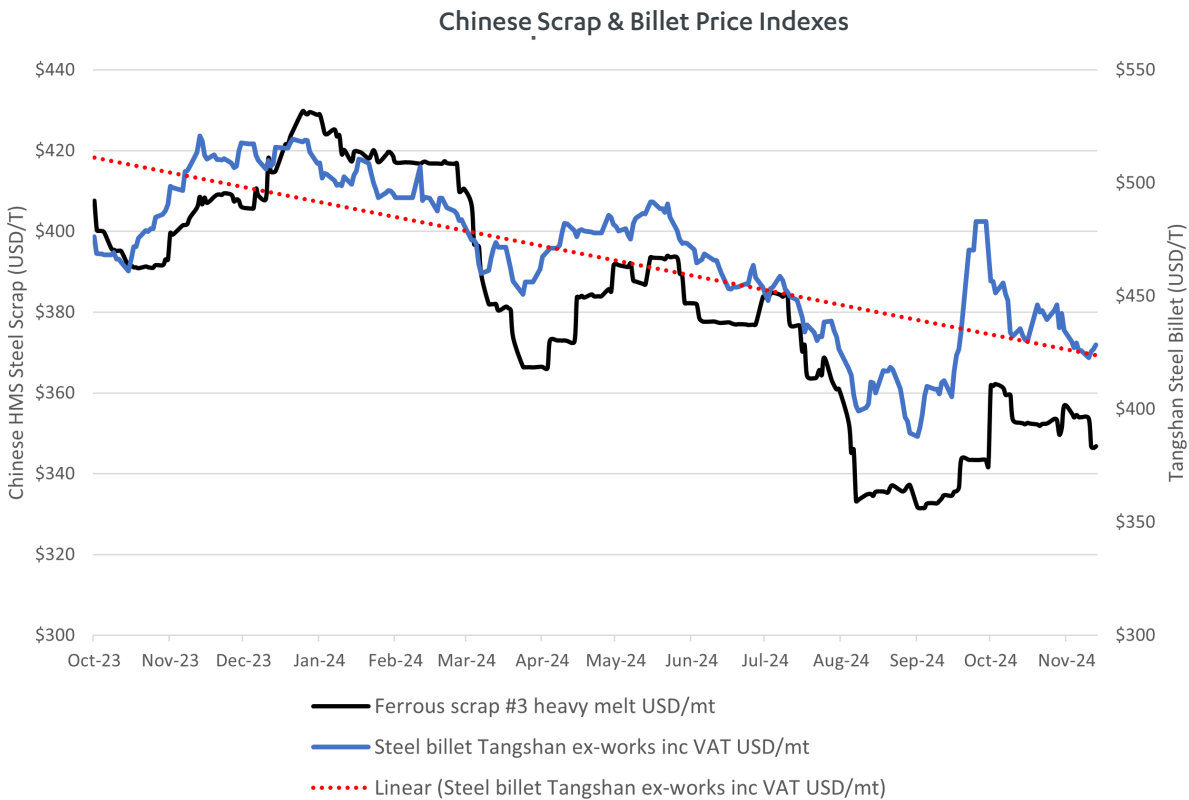
Iron ore hit a multi-year low in late September before rebounding sharply in the wake of the Chinese governments stimulus announcements. Prices have since trended down as the realities facing China’s steel industry – shrinking demand, overcapacity, rising competition, global protectionist trade policies and a deteriorating real estate sector – become evident, pointing to a multi-year turnaround effort.

While China’s imports of iron ore remained elevated over the year, rising by 4.9% year-on-year from January to October, so are iron ore inventories at mainland Chinese ports, rising by 31% in the year-to-date to 149.9-million tonnes as of November 8, which has the potential to cap prices.¹⁵

Short to medium term, most analysts therefore view iron ore as trading in a band from \$85 USD/T through to \$100 USD/T by the end of next year. In the long term, iron ore prices are expected to decline to \$78 USD/T in 2033. While significantly lower than the average of \$156 USD/T in 2021, the \$97 USD/T yearly average that BMI is forecasting for 2025 to 2028 will still be higher than the 2016 to 2020 average of \$78 USD/T.¹⁶ Should this eventuate, it will signal that steel prices have likely bottomed.

Much will depend on the output of the major miners which, at this stage, are aiming to grow their production levels annually to 2026. A change in ore supply to higher grades, including Direct Reduced Iron (DRI) ore production, will increase these average price forecasts, a rapidly likely scenario as the market and industry increases the focus on lower-carbon steelmaking.

STEEL SCRAP



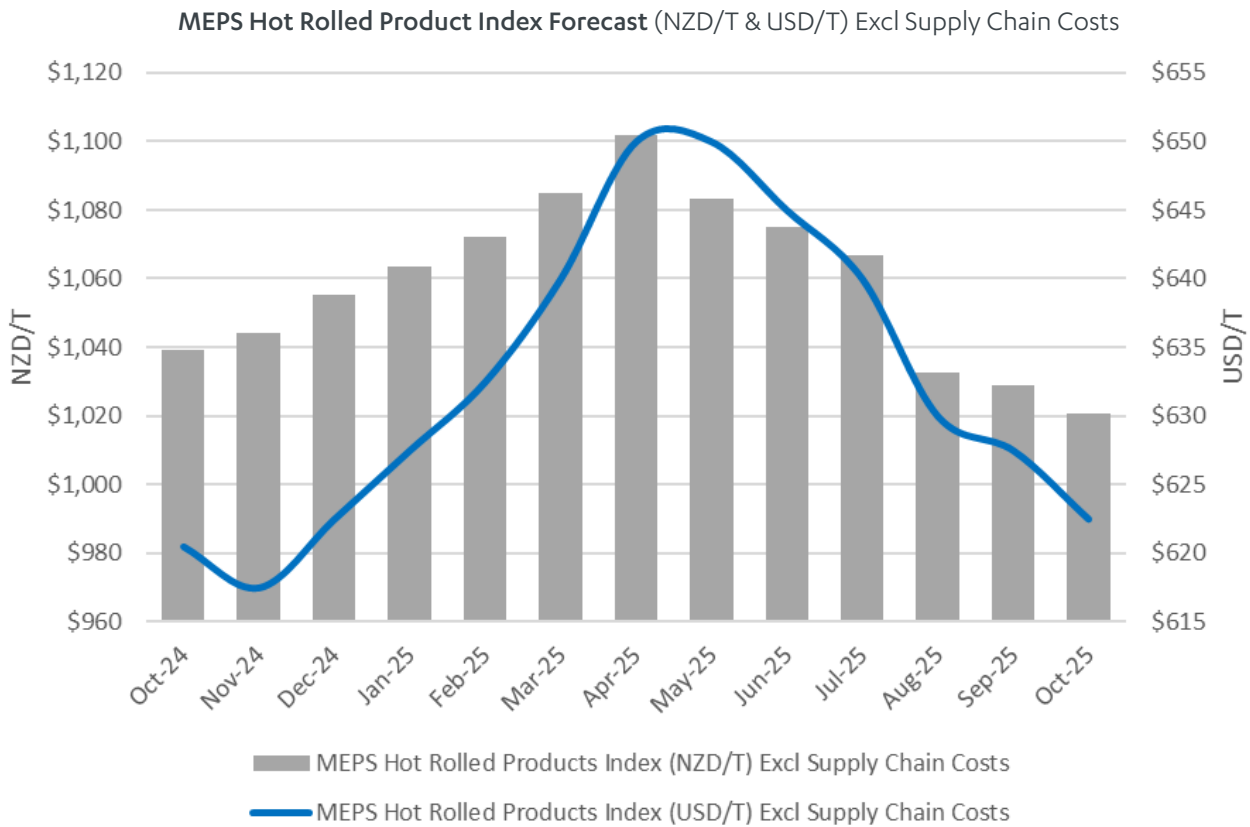
Source: Argus Media

Steel scrap markets are traditionally highly regionalised and fragmented from a commodity price perspective. In general, recent commentary has highlighted the tightness of high-grade scrap markets and expected cost increases, as the market shifts demand and production to Electric Arc Furnace (EAF) steel.

In recent months, aside from the market reaction to stimulus measures announced by the Chinese government in late September, the most evident change in the scrap market has been the close correlation of the movement in Chinese scrap and billet pricing, and particularly the growing competitiveness of steel billet prices against scrap.

Low priced Chinese billet is putting downward pressure on regional scrap markets in Asia, as EAF mills are switching from buying containerised scrap to melt, to rolling semi-finished Chinese steel billet which is a much more cost-effective option. This is likely the reason why Vietnam’s steel scrap imports rose by 4.17% year on year in the first half of 2024, in stark contrast with the 48.07% surge in their overall steel imports, mainly from China – a real example of how Chinese steel exports have affected Asian markets disproportionately this year.¹⁷

STEEL PRODUCT INDICES



Source Data: MEPS. Graph: S&T Procurement Update Author

The MEPS international price forecast above is an index of their carbon steel hot rolled USD product prices. It is interesting to note the impact of the USD/NZD exchange rate forecasts on the MEPS USD index price (exclusive of supply chain costs) over the next few months - increasing the NZD price forecast. It also highlights that steel prices are likely to remain volatile, though flat trending, through 2025.

The price outlook, however, may be quite varied by product market and region. In China, for instance, the implementation of a new reinforcing bar standard, effective in September, has necessitated an accelerated destocking and production cut programme from their mills. This is expected to alleviate supply pressure for reinforcing bar and is fostering expectations of a subsequent rebar price rebound in China.

As previously mentioned, the removal of the 13% aluminium export rebate by China will likely necessitate most mills to pass the full 13% cost component directly onto export markets. Meanwhile, reduced zinc supplies will probably increase galvanised product prices, and increasing nickel ore production costs are expected to translate into higher finished stainless-steel prices during 2025.

SHIPPING

Comprehensive Index of the Shanghai Containerized Freight Index, October 2009 - October 2024



Source: UN Trade and Development (UNCTAD), based on data provided by Clarksons Shipping Intelligence Network

As shown above, the Shanghai Containerized Freight Index (SCFI) has more than doubled compared to late 2023 but is since down 45% from its 2024 high and 60% below its record level during COVID-19. Presently, it remains 115% above the pre-pandemic average and more than double the 2023 average, amid ongoing disruptions in the Red Sea, the Suez Canal (which handles about 22% of world container trade) and the Panama Canal.¹⁸

Rerouting vessels onto longer routes is reducing shipping capacity, triggering market inefficiencies, such as port congestion (with waiting times in Singapore doubling) and higher costs through increased fuel consumption and greater insurance premiums. Container availability has also reduced, increasing rates due to earlier seasonal demand, modest improvements in world trade volumes to avoid expected tariffs and carriers prioritising container returns to high-paying markets, at the expense of regions like New Zealand.

On a positive note, the restrictions imposed last year by the Panama Canal Authority to limit ship transits following a record drought have been lifted and it is hoped the Red Sea crisis will resolve during 2025. Once rerouting ships around the Cape of Good Hope is ceased, vessel overcapacity is likely to resurface as a problem for the shipping industry – reducing rates back to pre-pandemic levels. The problem of vessel overcapacity is not new to shipping. In container shipping specifically, growth in supply has consistently surpassed growth in demand. From 2010 to 2023, container fleet capacity almost doubled while trade volumes grew by 49%.¹⁹

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

Continuing volatility resides in commodity markets. Whether the full effects and cost implications of this volatility will be passed on through the supply chain is exchange rate dependent, market influenced and uncertain as all participants in the industry strive to improve trading volumes and overall earnings.

In general, Asia-Pacific steelmakers are expected to face sustained price pressure with the threat of cheaper Chinese exports entering regional markets in increasing volume, according to S&P. This is likely to keep pressure on landed product pricing. Though as the market decarbonises and gravitates towards products with the lowest carbon Environmental Product Declaration (EPD), steel is becoming less of a straight commodity-price-parity market, as not all steel is made the same.

Stainless steel prices are likely to experience the most volatility month on month across all the products as the increasing costs of nickel ore production are balanced against the expected surplus of nickel supply and growing green energy (battery) demand. Chinese mills will be the main influencer of regional pricing, producing more than half of the world's stainless steel.

More certain is the cost increase of aluminium products sourced from China due to the removal of their 13% export rebate from 1 December 2024 which will necessitate a reciprocal market price revision.

Freight rates are also expected to remain at elevated levels until the disruptions in the Red Sea have reached an assured resolution.

To the extent that a trend is able to be discerned given the volatility mentioned above, product markets appear to have 'bottomed' in 2024 and landed pricing is expected to keep a relatively flat trend across 2025, waiting for a return of volume.

Through these challenging market conditions, Steel & Tube will strive to provide our customers with stable and competitive pricing across 2025, for what is shaping up to be an "interesting" year.

Prepared for Steel & Tube by Brendan Smith | Product & Market Manager - Strategic Growth



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Steel & Tube offers a comprehensive range of steel, stainless steel, aluminium and allied industrial products through a nationwide product distribution and processing network, so no matter where you are in the country we can deliver product to you.

As experts in our field, we pride ourselves on being able to offer a consistent end-to-end customer service experience, advising, sourcing and supplying customers with all their product requirements. And underlying everything we do, is our continued commitment to quality.



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