SEPTEMBER 2020

PROCUREMENT UPDATE

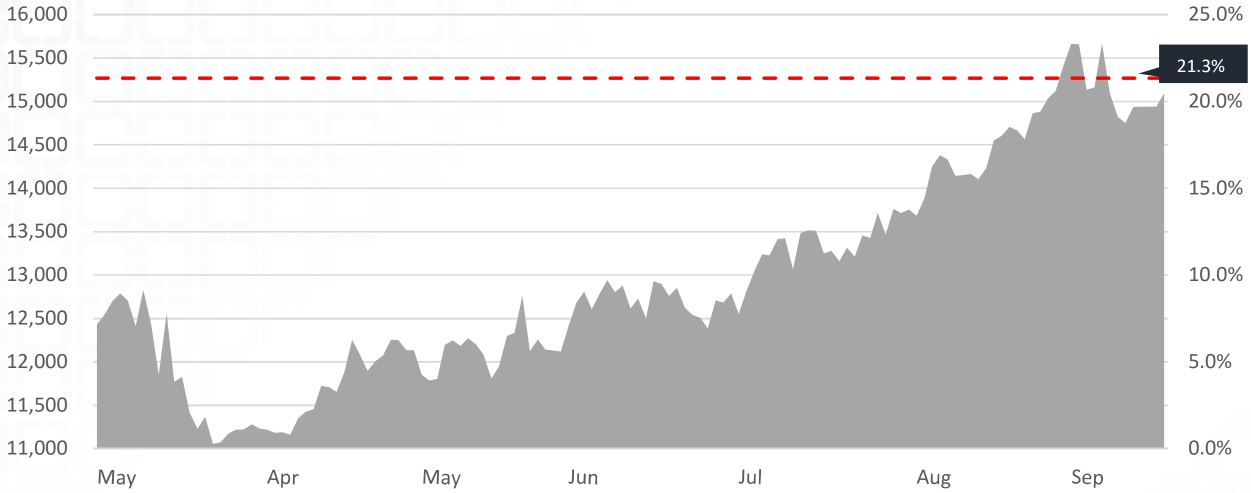
steel&tube

STAINLESS STEEL

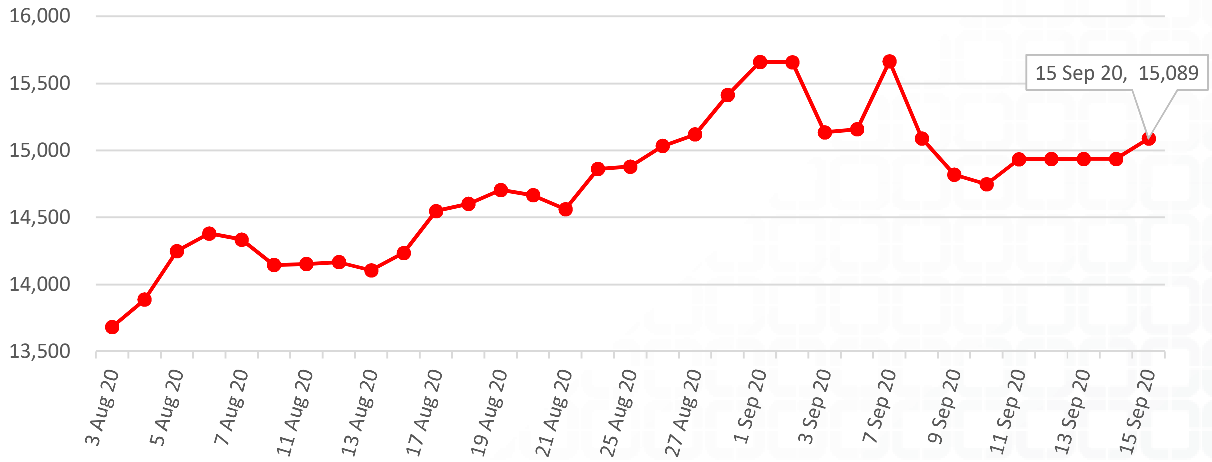
In the past 6 months we have seen a 21% increase in the Nickel price. This rapid rise has been due to the top consumer of Stainless Steel – China. China has pumped vast amounts of fiscal and monetary stimulus into their economy in recent months which has fuelled a surge in economic activity, particularly in the infrastructure and construction industries causing a strong ramp-up in Indonesian nickel pig iron pricing and prices of key ingredient, nickel.

In addition to the surge in demand from China, is the rapid and prolonged drive towards the electrification of transport across many countries, which has led to many battery producers aggressively embarking on plant expansion to build capacity, increasing demand for high grade nickel product suitable for use in battery manufacturing.

Latest LME Nickel Price USD/T Last 6 Months [1]



LME Nickel HIstorical Price Graph [1]



1. Source - London Metal Exchange (LME)

CARBON STEEL

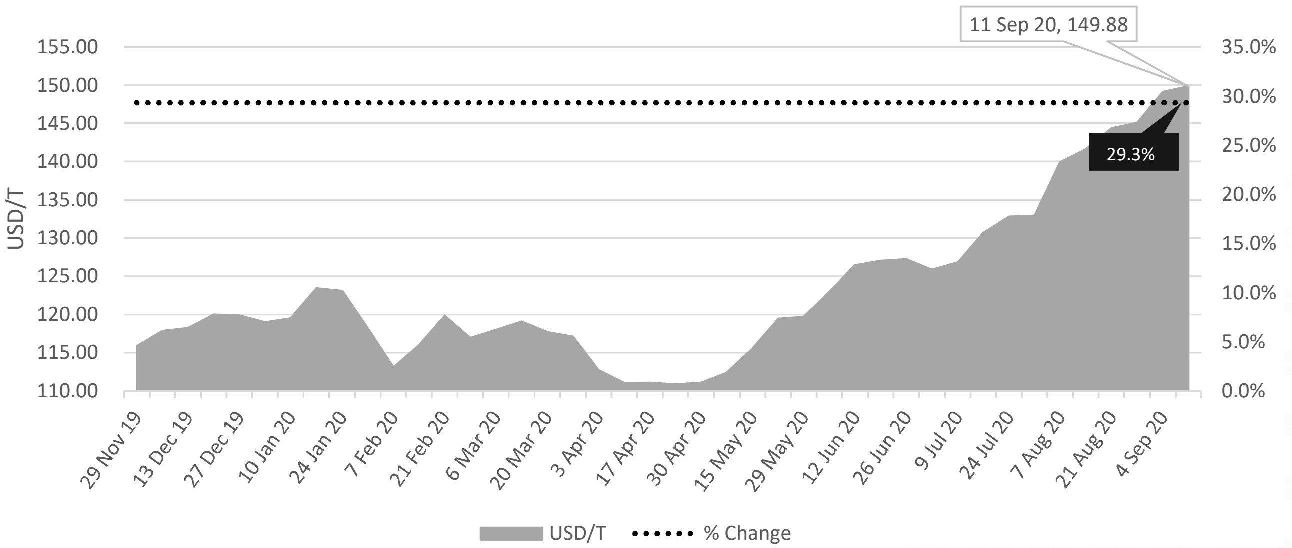
Iron Ore Prices

Iron ore prices have been rising since a mine dam collapse at Brumadinho, Brazil in 2019. In more recent months however prices for iron ore have increased significantly (35%) due to surging demand from China, the world's top steel producer and consumer. Again the Chinese government stimulus of $US115bn has spurred infrastructure building, and created upbeat Chinese factory data in July, boosting sentiment as investors grew optimistic over the prospects for economic recovery. Moreover, several Chinese steel mills have resumed activity following temporary disruptions due to floods, thus further increasing demand for the steel-making ingredient and exerting upward pressure on prices.

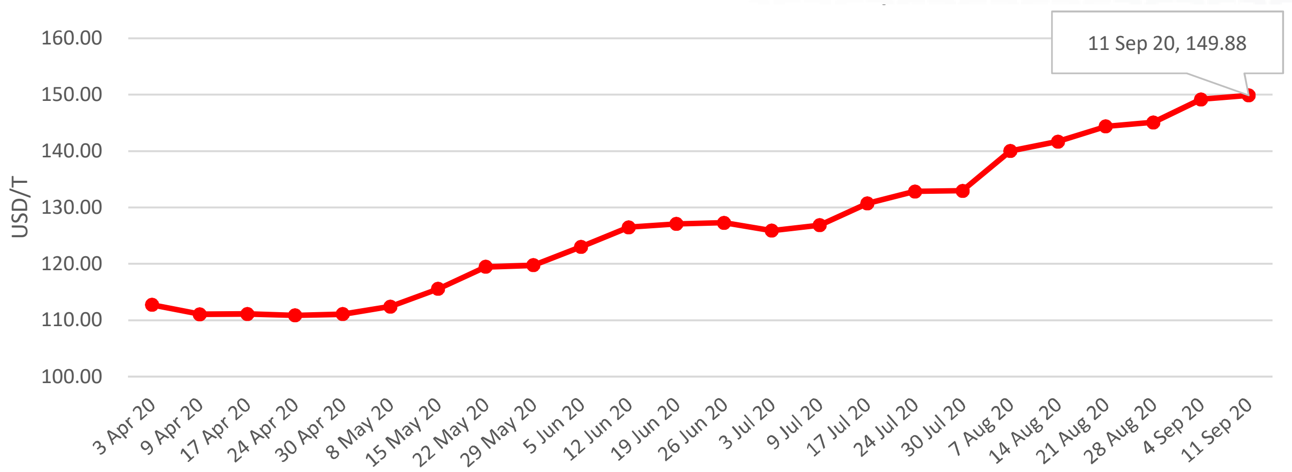
China imports the bulk of the iron ore needed to feed its massive steel industry, with locally mined product generally being of inferior quality and relatively uncompetitive against the huge low-cost mines of Australia and Brazil, the world's top two exporters.

Iron ore prices therefore have also been supported by persistent supply concerns over whether Brazilian Vale SA will be able to raise output amid still-increasing numbers of coronavirus cases which continues to disturb the country's mining regions.

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



Chinese Domestic Iron Ore Historical Price [2]



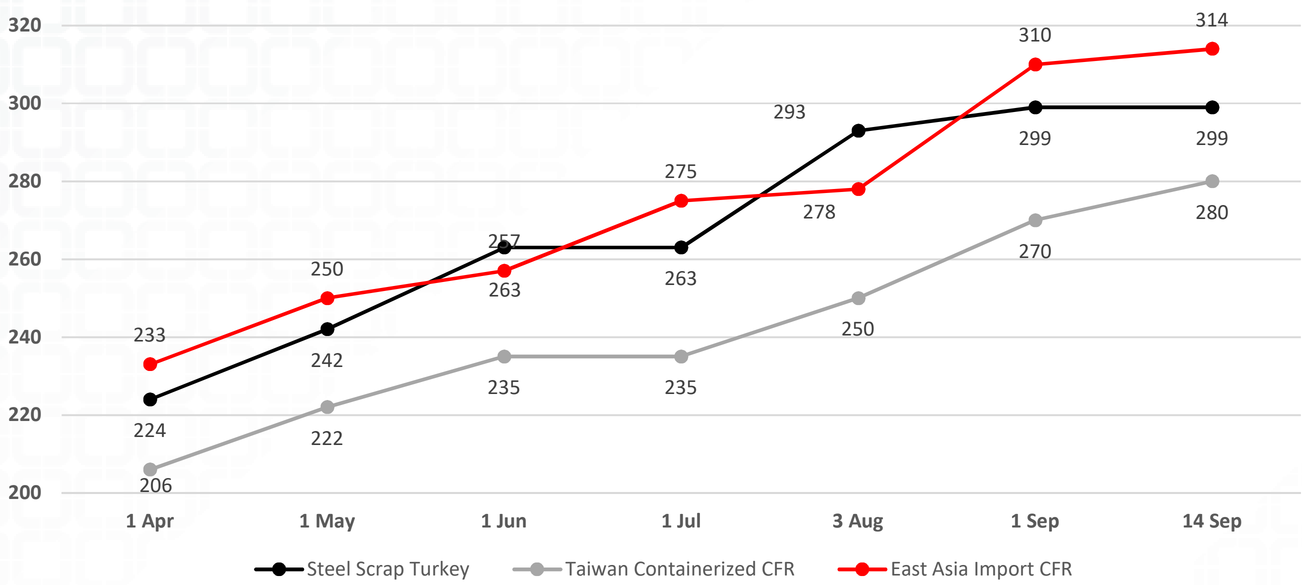
2. Source - SBB Platts

Scrap Steel

Price trends in the world scrap market have surged due to a relaxation of scrap import quotas in China which has driven a rise in scrap imports. The demand for scrap had steadily been increasing due to the increase in domestic electric arc furnace (EAF) and induction furnace (IF) producers, with it seen as a more environmentally friendly production process

The Asian steel scrap market had expected to show signs of strengthening, mainly in response to soaring iron ore prices, however with steelmakers' moving to full capacity due to pent-up demand, with COVID restrictions loosening, finished steel demand has improved significantly spiking the raw material commodities used in steel making.

Scrap Metal Prices - HMS 1/2 80:20



Metallurgical Coal

Metallurgical (met) coal is a low-ash, low-sulphur and low-phosphorus coal that can be used to produce high-grade (hard) coking coal – an essential part of the steelmaking process.

The spot price of a tonne of iron ore and coking coal, essential materials in steelmaking, delivered on a cost and freight delivered basis to China, reached near-parity on Aug. 4, 2020. According to Platts, parity in prices between the two main ingredients needed to make steel was 99.6%, compared to iron ore being on average 57% of the coking coal price over the past 10 years.

The surge to near parity this year is a reflection of the emerging dynamic in global commodity markets, namely that commodities with the most exposure to China's apparent V-shaped recovery from the novel coronavirus are significantly outperforming those without.

China domestically produces 90% of its coking coal requirements, and import the remainder. In contrast, imports meet around 70% of China's iron ore demand, and in turn China buys more than two-thirds of global seaborne iron ore volumes.

What this means is that global iron ore is far more exposed to China than is coking coal.

The dynamic at work is that iron ore is benefiting from its exposure to China, with the spot price increasing near 30% in the last 12 months.

Coking coal is therefore more exposed to the rest of the world's steel industry, which is slower to restart amid the ongoing coronavirus pandemic. While a recovery in steel output from countries outside China is gaining momentum driving up demand for coking coal, this will also lead to a continued increase in demand for seaborne iron ore.

BHP predicts a "sustained improvement in prices" in the second half of 2021.

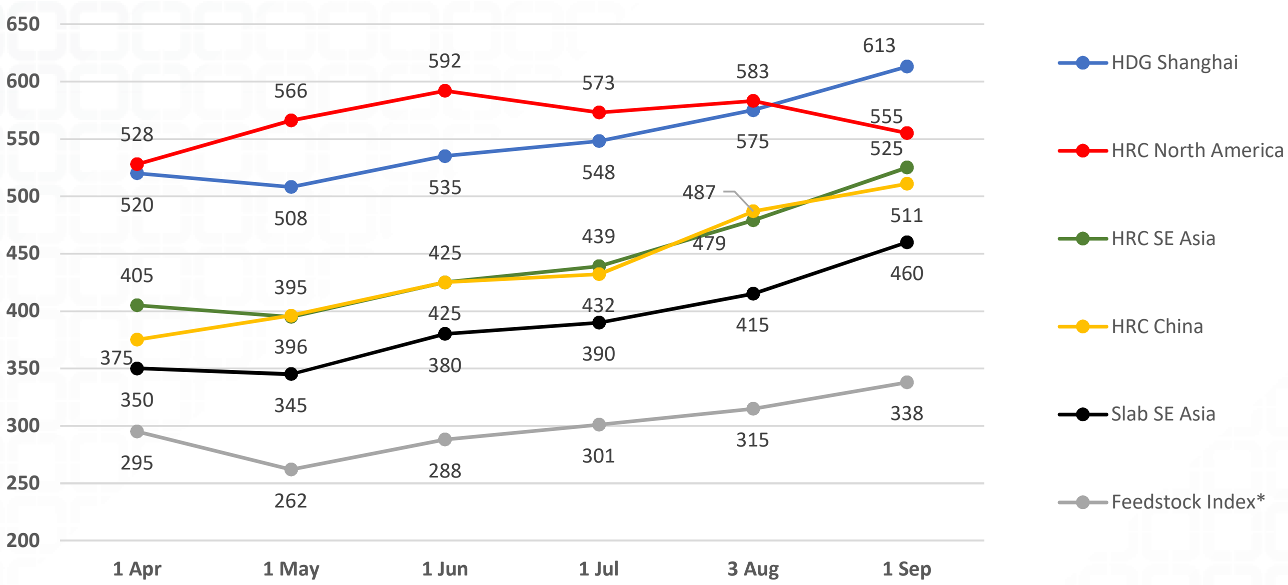
Steel Product Indices

Demand from China for finished steel long product, the world's largest steelmaker, after the economy opened up following months of virus-induced lockdown has been strong, with demand from the construction sector as infrastructure investment accelerated on the recent uptick in industrial activity.

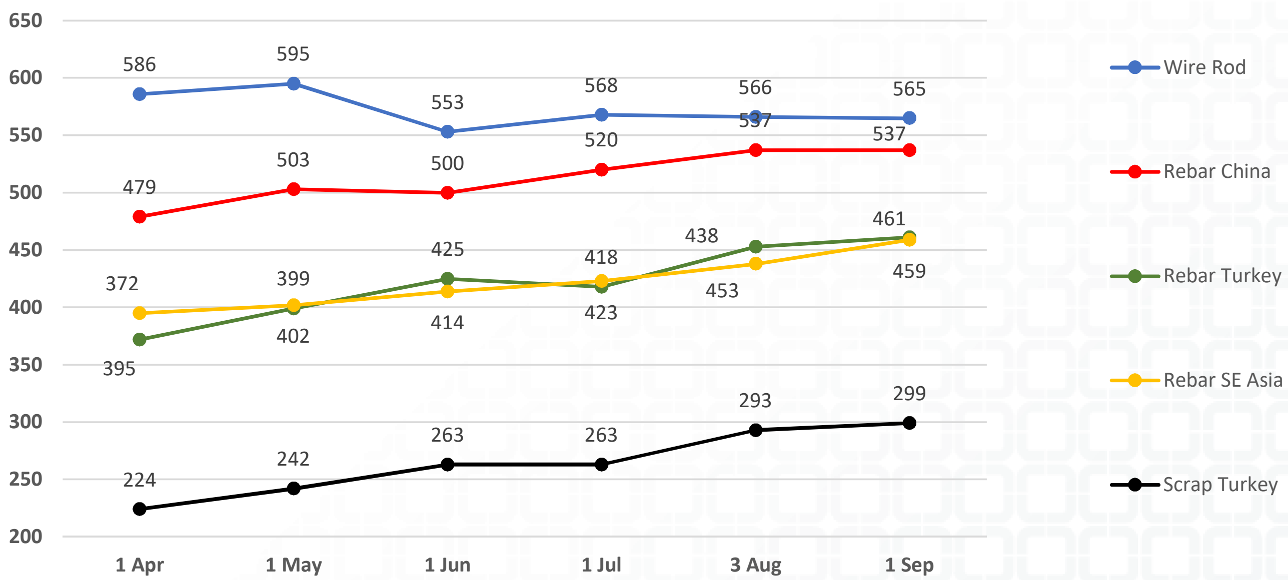
Meanwhile, pricing for flat rolled Hot Rolled Coil (HRC) continues to increase due to inventories of coil reducing and robust demand from car and appliance manufacturers.

This activity in China has likewise stimulated an increased trend in the East Asian Steel indices as their economies start to emerge from their virus-induced restrictions, and China taking on a net import role certain categories – at least in the short term.

Flat Products - Manufacturing Steels [3]



Long Products - Construction Steels [3]



3. Source – Australian Steel News

What does this mean for us – Steel & Tube and our customers?

We are starting to see the flow on effect of the increase in Nickel price on the price of stainless steel products. Though this has been off-set marginally by exchange rate appreciation (against the US dollar) we expect this trend to continue across the core stainless products, thereby necessitating a likely price increase in the range of 5% come November with the potential for further increases to follow. We will however keep an active watch on this evolving scenario for stainless to ensure any adjustments keep pace with the ever changing market developments to maintain a competitive offer to our customers.

In our carbon steel portfolio our main overseas suppliers have started to move prices in the range of 5 – 10%, category dependent, on the back of the above market activity in Asia. While our domestic steel suppliers such as the likes of NZ Steel / Pacific Steel continue to monitor market activity and raw material cost movements. 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 in the coming weeks, but is likely we will see price increases in the carbon steel range towards the end of the year.