

"Key Indicators, Pricing and News for the Australian Steel Industry"*

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STEEL MARKET SUMMARY - April

The Micro, Macro and Trump Impacts

The extraordinary trade war rhetoric and geo-political posturing witnessed this month must be viewed from three standpoints. Micro – the extent to which it affects the steel industry in Australia and in its near neighbours. Macro – the global impact on all forms of trade should the threats eventually turn into dark realities. And Trump – the unpredictable and egocentric character in this theatre.

If the macro trade war between China and the US takes root, the global implications will be negative as the contagion spreads to other economies and industries. And yet, all the worry which is presently spooking world markets could evaporate just as swiftly as it arose if Trump's stance against China is more bark than bite. It would certainly be within character. And while the tit-for-tat threats have seen \$50 billion of tariffs quickly jump by a further \$100 billion, one has to assume that neither superpower really wants to bring the other to heel, just to the negotiating table. They have too many shared interests.

Even before Donald Trump's 25% steel tariffs were announced, China had been prevented from exporting more than a million tonnes to the US (ranking them only 10th on the hit list), because of its existing high anti-dumping duties. However, various Asian countries had had their domestic pricing lowered because of large import volumes from China. Indeed, in some cases this had meant the domestic product of those countries had been exported to the US at more attractive levels than they could achieve in their own country. So, the US was still being hammered by lower world prices caused in part by excess Chinese production.

With the American market now 25% more expensive for some, this steel is likely going to have to stay in its country of origin or find new regional homes. Even if this steel doesn't end up in Australia, the effect will be an immediate lowering of prices within the East Asia region. Indirectly this will affect prices in both Australia and China as market levels fall because of cheaper international levels. This decreased demand is also likely to see lower prices for iron ore and coking coal, as is indicated in ASN's figures this month. Iron ore prices are off close to 20% and the Blast Furnace index about 15%. Interestingly, the LME scrap figures show smaller falls and the scrap index is only down 5%.

The steel finished product indexes show Chinese deformed bar and Turkish deformed bar have fallen 10% and 8% respectively. The slight fall in the Australian dollar has cushioned some of these falls.

Prices in East Asia have been generally weaker for long products but have not shown any significant falls as most come via the scrap route. Flat product prices have also come off, but not substantially. The Australian market is still showing short term shortages for some products as the wharves have been flooded (and clogged) with steel imports from various suppliers to all destinations and customers; OneSteel being one of the largest. Domestic June delivery prices may be stable or even reverse what were typically higher prices in May than April. No one is seeing any panic but rather pricing stability is more likely as persistent and aggressive anti-dumping actions from OneSteel and Bluescope continue to penalise and restrict many import options, keeping prices high.

PRICING MOVEMENTS SINCE: March 1, 2017	<u>USD Change</u>	<u>AUD Change</u>
STEEL RAW MATERIAL - Blast Furnace costs¹	- 14.9 %	- 13.6 %
 EAF/Scrap costs²	- 4.8 %	- 3.5 %
STEEL FINISHED PRODUCT - China Rebar pricing³	- 11.5 %	- 10.2 %
 Turkey Rebar pricing⁴	- 8.3 %	- 7.3 %
 Non Ferrous Metals (Cu/Al/Ni/Zn)⁵	- 1.1 %	- .1 %
CURRENCY MOVEMENTS - The AUD has moved against the USD	- 1.3 %	- 1.6 % against the Euro

STEEL COST INDEX (The cost of Scrap, Iron Ore, Coal in one tonne of steel)	<u>03-Apr-18</u>	<u>01-Mar-18</u>	<u>01-Feb-18</u>	<u>02-Jan-18</u>
Blast Furnace Index in USD¹	329	386	390	388
Blast Furnace Index in AUD¹	432	501	487	497
EAF/SCRAP Index in USD²	398	424	411	415
EAF/SCRAP Index in AUD²	523	550	514	532

STEEL AND RAW MATERIAL PRICES (USD per tonne)	<u>03-Apr-18</u>	<u>01-Mar-18</u>	<u>01-Feb-18</u>	<u>02-Jan-18</u>
Iron Ore⁶	66	77	75	73
Coking Coal⁷	189	229	239	240
Steel Scrap Turkey (LME Turkey Imports)⁸	352	375	364	367
Steel Rebar Turkey (LME Turkey Exports)⁴	550	600	564	559
Steel Rebar China (Spot China SHFE tonne)⁹	538	608	571	620

FX RATES (Source www.x-rates.com)	<u>03-Apr-18</u>	<u>01-Mar-18</u>	<u>01-Feb-18</u>	<u>02-Jan-18</u>
USD / AUD	0.76	0.77	0.80	0.78
Euro / AUD	0.62	0.63	0.64	0.65
NZD / AUD	1.06	1.07	1.08	1.10

FUTURE FX RATES (Banks' estimates of AUD value at end of Q2 2018)	NAB	ANZ	WESTPAC	CBA
USD / AUD	0.78	0.8	0.76	0.81
Euro / AUD	0.6	0.64	0.64	0.65
NZD / AUD	1.08	1.14	1.10	1.1


NON FERROUS METALS PRICES (USD per tonne) (Source: London Metal Exchange Quote) ¹⁰	03-Apr-18	01-Mar-18	01-Feb-18	02-Jan-18
Copper	6755	6851	7100	7180
Aluminium	2008	2142	2224	2255
Nickel	13555	13500	13550	12680
Zinc	3284	3404	3589	3375

COMPANY SHARE PRICES (AUD per share) (Source: ASX) ¹¹	03-Apr-18	01-Mar-18	01-Feb-18	02-Jan-18
Bluescope	14.98	16.17	14.8	15.38
Sims Metal	14.25	17.18	16.87	15.73
BHP Billiton	28.71	30.1	30.66	29.68

ANTI-DUMPING NEWS (Sign up for an ADC weekly update) ----->	HERE
Summary of Measures already in place	Adcommission - Measures
Latest Updates to the public record	Adcommission - Latest Updates
Details on the most recent Anti-Dumping Actions	Adcommission - Cases

STEEL NEWS HEADLINES (courtesy of SEAISI or sources quoted)	SEAISI STEEL NEWS
Apr 6 - Reuters: Trump threatens \$100 billion more tariffs: China to fight back	Apr 6 - SEAISI: China Steel told to ensure supply amid tariff woes
Apr 6 - Platts: Kobe Steel to raise wire rod, bar prices from April	Apr 6 - SEAISI: India second-largest steel producer globally in February
Apr 3 - MEPS: Section 232 action ripples through stainless steel markets	Apr 5 - SEAISI: Japan plays it cool in response to US steel tariffs
Apr 2 - ABC: US-China trade war set to send iron ore prices tumbling	Apr 2 - SEAISI: Indonesia - fear of Chinese steel flood
Apr 2 - Reuters: China hits US goods with tariffs as trade war escalates	Apr 2 - SEAISI: Tata Steel achieves highest ever annual sales, grows 11%
Mar 27 - Platts: China's Feb coking coal imports fall 42% on month	Mar 30 - SEAISI: ADC drops anti-dumping case of Vietnam steel
Mar 26 - World Steel Assn: February 2018 crude steel production	Mar 29 - SEAISI: Chinese steel futures extend gains as demand improves
Mar 26 - Platts: Fortescue drops iron ore price guidance on subdued China	Mar 29 - SEAISI: Korean steelmakers look beyond US market
Mar 21 - MEPS: EU steel prices rise despite US tariff threats	Mar 26 - SEAISI: China counters with tariffs on US metals

Key to Prices	
1 Blast Furnace Index (Iron Ore*1.6 mt + Coking Coal * 0.9 mt + Scrap*0.15 mt) in either USD or converted to AUD	COST - BOF
2 EAF/SCRAP Index (Steel Scrap * 1.13 mt) in either USD or converted to AUD	COST EAF
3 STEEL FINISHED PRODUCT - Chinese Rebar Pricing Shanghai Futures Exch converted to USD at 6.8 Yuan/USD	HERE
4 Steel rebar (Turkey exports FOB Turkish Port – One Month USD / MT) from LME	HERE
5 The average price / mt for the Non Ferrous Metals - Cu/Al/Ni/Zn.	HERE
6 Iron Ore Fines - Bloomberg indicative USD CFR prices for 62% Fe shipping to Qingdao. NAB sourced	
7 HCC - premium low-vol - Coking Coal USD per tonne. NAB sourced	
8 Steel scrap (Turkey CFR) – USD pricing per tonne from LME Closing Contract Price	HERE
9 Rebar - Shanghai Futures Exchange Forward one month converted to USD at 6.8 Y/\$	HERE
10 London Metal Exchange (LME) CASH pricing is quoted	HERE
11 Australian Stock Exchange end of day quote in Australian dollars	HERE

Sanwa Contacts - Telephone (02) 9362 4088	sanwa 
Re-inforcing Steels / David Roberts / droberts@sanwa.com.au	Stainless Steel / Howard Seligsohn / hseligsohn@sanwa.com.au
Structural Steel / PC Strand / Mark Horwitz / mhorwitz@sanwa.com.au	Flat Products / Laurie Di Medio / ldimedio@sanwa.com.au
Special Steels / Tube and Pipe / Matt Gilpin / mgilpin@sanwa.com.au	Wire and Aluminium / Steve Wade / swade@sanwa.com.au

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