

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

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STEEL MARKET SUMMARY - December

Christmas has come early for iron ore and rebar producers, and steel mills in Southern China. As our figures this month show, iron ore prices have risen 16% since late October, while China rebar has shot up 18%. Meanwhile steel producers in southern China are benefiting from production limits applying to their northern counterparts in what many experts are calling a "one country, two systems" effect, alluding to the phrase used when the former British colony of Hong Kong was returned to mainland rule in 1997, but was allowed to retain its autonomy.

Steel production limits in northern China (as well as construction restrictions) came into effect in mid-November as part of the central government's drive to reduce pollution during the winter months: and have produced the expected weaker demand for iron ore in the north. But this has been matched by stronger demand in the south where pollution levels are lower and output is unrestricted. In a sign of that trend, inventories of iron ore at ports in northern China climbed to a record 100.1 Mt in October, while stockpiles in the south are near a one-year low after bottoming out at 8.6 Mt in the same month. Likewise, rebar inventories in Guangzhou, a major steel trading market in southern China, coincided with a dramatic increase in steel inventories in late September and early October. Experts believe this rise is unlikely to be the result of greater production in the south; rather the result of rising deliveries from the north. And in an interesting bureaucratic twist, the winter production restriction policy in Tangshan in the north is quite flexible. It allows potential room for more steel production if local mills provide energy/heating to the local community.

China's strong domestic market means it is on course to export around 75 Mt this year, compared to 109 Mt last year. Crude steel output could be close to 850 Mt, up from 807 Mt in 2016. The China Iron & Steel Association has said there is no big-ticket capacity reduction target for next year. Government policy now seems to be on weeding out lower quality steel capacity and lifting the overall standard of the industry.

The increases in iron ore and rebar prices in China which are already flowing through to the domestic markets in the rest of east Asia (and the world), should also filter down to the Australian domestic market. Given the severe shortage at present of domestic long product, tight supply from overseas, increased levels of anti-dumping actions locally and a stable exchange rate over last month, finished long product pricing should definitely move higher in the first quarter of 2018. Flat product supply has recently been more reserved in its response to the higher levels overseas but should also follow the long product trend.

Another fascinating element in this month's figures: the disparity among the four major banks on the Australian dollar in Q1 of 2018. The CBA and ANZ predict it will average above 80 US cents by the end of the first quarter, whereas the NAB and Westpac see it at 75 cents or below.

PRICING MOVEMENTS SINCE: November 1, 2017

	USD Change	AUD Change
STEEL RAW MATERIAL - Blast Furnace costs¹	+ 9.3 %	+ 9.3 %
EAF/Scrap costs²	+ 6.9 %	+ 6.9 %
STEEL FINISHED PRODUCT - China Rebar pricing³	+ 18.0 %	+ 18.0 %
Turkey Rebar pricing⁴	+ 5.5 %	+ 5.5 %
Non Ferrous Metals (Cu/Al/Ni/Zn)⁵	- 8.3 %	- 8.3 %
CURRENCY MOVEMENTS - The AUD has moved against the USD	+ .0 %	and - 1.5 % against the Euro

STEEL COST INDEX (The cost of Scrap, Iron Ore, Coal in one tonne of steel)

	01-Dec-17	01-Nov-17	02-Oct-17	01-Sep-17
Blast Furnace Index in USD¹	333	304	304	366
Blast Furnace Index in AUD¹	438	401	390	457
EAF/SCRAP Index in USD²	385	360	329	400
EAF/SCRAP Index in AUD²	507	474	422	500

STEEL AND RAW MATERIAL PRICES (USD per tonne)

	01-Dec-17	01-Nov-17	02-Oct-17	01-Sep-17
Iron Ore⁶	68	58	62	79
Coking Coal⁷	192	182	179	207
Steel Scrap Turkey (LME Turkey Imports)⁸	341	319	291	354
Steel Rebar Turkey (LME Turkey Exports)⁴	555	526	525	546
Steel Rebar China (Spot China SHFE tonne)⁹	642	544	586	624

FX RATES (Source www.x-rates.com)

	01-Dec-17	01-Nov-17	02-Oct-17	01-Sep-17
USD / AUD	0.76	0.76	0.78	0.80
Euro / AUD	0.64	0.65	0.66	0.67
NZD / AUD	1.10	1.11	1.08	1.11

FUTURE FX RATES (Banks' estimates of AUD value at end of Q1 2018)

	NAB	ANZ	WESTPAC	CBA
USD / AUD	0.74	0.82	0.75	0.8
Euro / AUD	0.62	0.71	0.64	0.68
NZD / AUD	1.07	1.12	1.08	1.11

NON FERROUS METALS PRICES (USD per tonne)(Source: London Metal Exchange Quote)¹⁰

	01-Dec-17	01-Nov-17	02-Oct-17	01-Sep-17
Copper	6733	6917	6454	6775
Aluminium	2046	2187	2066	2114
Nickel	11045	12690	10365	12000
Zinc	3217	3330	3235	3146

COMPANY SHARE PRICES (AUD per share)(Source: ASX)¹¹

	01-Dec-17	01-Nov-17	02-Oct-17	01-Sep-17
Bluescope	13.84	12.7	11.16	10.78
Sims Metal	14.1	13.29	13.54	14.99
BHP Billiton	27.58	26.95	26.12	27.42

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(courtesy of SEAIISI or sources quoted)

[SEAIISI STEEL NEWS](#)[Dec 2 - Bloomberg: China to get EU tariff rules revamp](#)[Dec 2 - US and China trade barbs over global glut in steel](#)[Dec 1 - Platts: Analysis - Will winter cuts hit China's steel market hard?](#)[Nov 30 - Moody's positive 2018 outlook for steel sector](#)[Nov 30 - MEPS: New world order in stainless steel](#)[Nov 29 - BHP sees upside in steel and copper prices in 2018](#)[Nov 29 - Platts: Japanese ferrous scrap prices on the rise](#)[Nov 29 - China iron ore slips, steel holds near six-week peak](#)[Nov 22 - World Steel Assn: October 2017 crude steel production](#)[Nov 28 - China's industrial profits up 23.3% in first ten months](#)[Nov 21 - MEPS: EU steel prices and demand stabilise as year ends](#)[Nov 21 - Japan's October steel output drops slightly](#)[Nov 21 - Bloomberg: One country, two systems in China's mills](#)[Nov 15 - China's economy cools as government curbs take effect](#)**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

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