

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

Sponsored By



STEEL MARKET SUMMARY - February

De-Mystifying the Numbers Amid the Return of the Zombies

The World Steel Association revealed during January that global steel production had risen five percent in 2017 compared with 2016. About half of that production had come from China, at a time when that country had undergone substantial capacity shutdowns. According to the steel press, induction furnace capacity in China had been largely removed, and provincial and national governments had insisted on substantial steel-making capacity reductions. It's also true that the largest steel producing region, Hebei Province, had cut 70 million tonnes between 2013 and 2017. So, how can world production have gone up in these circumstances?

The answer is that whilst capacity is being removed from the system, the capacity that remains is being more fully utilized. This makes the steel mills which are still in business much more profitable. Indeed, the Chinese Ministry for Industry and Information Technology recently said profit was up 180 percent year on year in the steel melting and rolling sectors. So, when the smell of money permeates the Chinese domestic market, what do they do? They export less and bring back from the dead the moth-balled producers who had been laid to rest for either the short or long term. These producers are known in the trade as zombie mills. Hence, the return of the "Zombies"

From Australia's point of view, the key figure in all the above is the amount of steel being exported, as excess Chinese steel depresses prices worldwide. In numbers quoted through to the end of September 2017, exports were down by more than 30 percent. Carrying through for the year would have exports down from 110 million tonnes (2016) to around 80 million tonnes (2017). The Chinese Government has said it will take on the Zombies and not allow their production (usually old / out of date / heavily polluting) to be brought back to life. However, that remains to be seen.

Just as the Chinese zombies are appearing (or not) from their graves, perhaps we should check our own graveyard. In the eyes of some pundits, Bluescope, perhaps close to terminal back in 2009 when it was tossing up whether to close down all its blast furnaces, has since gone from strength to strength with a share price movement from a low of under \$2 to now around \$15. More recently, a strong domestic market has required Bluescope to lengthen its lead times in order to meet domestic demand. International price rises and the consequent domestic follow up will go substantially to its bottom line. But perhaps the true Zombie of the Australian market is Liberty Onesteel. Having gone into administration in April 2016, it certainly returned to the land of living in September last year when purchased by CFG Alliance. The outlook is now far rosier for the only Australian long product manufacturer. Its business day includes discussion around extra shifts to handle the strong conditions and high east coast demand; plus its own imports from a variety of Asian supply sources for a wide range of products for which it cannot meet demand. The fact that Onesteel is paying dumping duties to the government for much of this import tonnage is of course ironic since it was the one saying it needed the imposition of dumping duties for its own protection.

On a final side note, six months ago when the four major Australian banks were predicting where the dollar was going to be at year's end, the ANZ and CBA got it right, with the Aussie dollar hitting even 81 cents US.

PRICING MOVEMENTS SINCE: December 1, 2017		<u>USD Change</u>	<u>AUD Change</u>
STEEL RAW MATERIAL - Blast Furnace costs¹		+ .4 %	- 2.1 %
 EAF/Scrap costs²		- 3.4 %	- 5.9 %
STEEL FINISHED PRODUCT - China Rebar pricing³		- 7.9 %	- 10.5 %
 Turkey Rebar pricing⁴		+ .9 %	- 1.1 %
 Non Ferrous Metals (Cu/Al/Ni/Zn)⁵		+ 3.8 %	+ 1.8 %
CURRENCY MOVEMENTS - The AUD has moved against the USD		+ 2.6 %	- 1.5 % against the Euro

STEEL COST INDEX (The cost of Scrap, Iron Ore, Coal in one tonne of steel)	<u>01-Feb-18</u>	<u>02-Jan-18</u>	<u>01-Dec-17</u>	<u>01-Nov-17</u>
Blast Furnace Index in USD¹	390	388	333	304
Blast Furnace Index in AUD¹	487	497	438	401
EAF/SCRAP Index in USD²	411	415	385	360
EAF/SCRAP Index in AUD²	514	532	507	474

STEEL AND RAW MATERIAL PRICES (USD per tonne)	<u>01-Feb-18</u>	<u>02-Jan-18</u>	<u>01-Dec-17</u>	<u>01-Nov-17</u>
Iron Ore⁶	75	73	68	58
Coking Coal⁷	239	240	192	182
Steel Scrap Turkey (LME Turkey Imports)⁸	364	367	341	319
Steel Rebar Turkey (LME Turkey Exports)⁴	564	559	555	526
Steel Rebar China (Spot China SHFE tonne)⁹	571	620	642	544

FX RATES (Source www.x-rates.com)	<u>01-Feb-18</u>	<u>02-Jan-18</u>	<u>01-Dec-17</u>	<u>01-Nov-17</u>
USD / AUD	0.80	0.78	0.76	0.76
Euro / AUD	0.64	0.65	0.64	0.65
NZD / AUD	1.08	1.10	1.10	1.11

FUTURE FX RATES (Banks' estimates of AUD value at end of Q1 2018)	<u>NAB</u>	<u>ANZ</u>	<u>WESTPAC</u>	<u>CBA</u>
USD / AUD	0.73	0.8	0.78	0.8
Euro / AUD	0.6	0.64	0.65	0.68
NZD / AUD	1.07	1.12	1.09	1.12

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

	01-Feb-18	02-Jan-18	01-Dec-17	01-Nov-17
Copper	7100	7180	6733	6917
Aluminium	2224	2255	2046	2187
Nickel	13550	12680	11045	12690
Zinc	3589	3375	3217	3330

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

	01-Feb-18	02-Jan-18	01-Dec-17	01-Nov-17
Bluescope	14.8	15.38	13.84	12.7
Sims Metal	16.87	15.73	14.1	13.29
BHP Billiton	30.66	29.68	27.58	26.95

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 SEAIISI or sources quoted)

[SEAIISI STEEL NEWS](#)[Feb 1 - Platts: Jiangsu Shagang cuts Feb HRC prices by \\$24/mt](#)[Feb 2 - Japan's steelmakers' profits surge](#)[Feb 1 - MEPS: Strong growth in world stainless steel output to continue](#)[Jan 30 - India's crude steel production rises 6.2% in 2017](#)[Jan 31 - World Steel Assn: 2017 data pleasing and 2018 positive](#)[Jan 30 - Steel rally to run further in 'unprecedented' conditions](#)[Jan 31 - Reuters: ArcelorMittal CFO concerned about Chinese overcapacity](#)[Jan 29 - Krakatau Steel targets 40% sales growth in 2018](#)[Jan 31 - Bloomberg: Top Indian steel mill gets profit boost](#)[Jan 29 - Under steel's shadow, iron ore seen tumbling 13% in 2018](#)[Jan 31 - Platts: Metal analytics five key themes for 2018](#)[Jan 26 - China's steel base continues huge capacity cuts](#)[Jan 29 - Platts: Trump's State of the Union key to steelmakers](#)[Jan 26 - Asian rebar prices stable as buyers wait](#)[Jan 26 - Reuters: China's 2017 industrial profits at six year high](#)[Jan 19 - Global steel industry's 'zombie' rescue addiction](#)**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

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 / ldimedia@sanwa.com.au

Special Steels / Tube and Pipe / Matt Gilpin / mgilpin@sanwa.com.au

Wire and Aluminium / Steve Wade / swade@sanwa.com.au

***Disclaimer and Credit**

Prices and figures quoted should be taken as indicative numbers only. While all care has been taken in compiling this newsletter, readers acting upon the information herein do so at their own risk. Neither the publisher nor Sanwa will accept any responsibility for consequences arising from commercial decisions made by readers. Most of the numeric information in this newsletter is available at the sources quoted. Readers are urged to check figures against the original source. All comments expressed are the opinion of the editor and copyright is reserved for the full contents of the newsletter.

Australian Steel News acknowledges its two principal sources of information: National Australia Bank (NAB) and SEAIISI.

Australian Steel News (ASN) is published by Caletablanca Media.

For suggestions on information you would like to see included in ASN, email: asn@caletablanca.com. To remove yourself from this list, please email: asn@caletablanca.com with the word REMOVE in the subject line. To add yourself to this list, please email: asn@caletablanca.com with the word ADD in the subject line.