

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

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STEEL MARKET SUMMARY - July

Mixed and Contrasting Factors Provide Some Stability But Growing Uncertainty

In a clear example of a market reacting to an opportunity, the MEPS North American Average Flat Products selling figure shows a 34% increase since the start of the year. Compare this in US dollar terms with Asia where an upturn of 6.5% was recorded in that time and in Western Europe where an even more modest recovery of just 3.5% appeared over the same period. President Trump's 25% duty has meant that steel prices in the US are now at a 10-year high. The Australian domestic producers must look with obvious envy at the protected, high-priced bubble the Americans have created for themselves. Though the US motor vehicle industry in particular is concerned with how it will sell what are becoming increasingly expensive cars.

Whilst iron ore may have been stable over the past three months, the price of copper - which started sliding a month ago - has fallen about 15% in the last month. Copper is often referred to as the "Doctor" because of its sensitivity to the world's economic health. So, the recent plunge in its price must be viewed as a worrying development. Other base metal prices have also fallen sharply, with zinc down 6% and nickel and lead both adrift by about 3%. Aluminium prices have also fallen heavily over the past month, down by more than 7%.

Local steel prices have been a mixed bag as some steel sectors follow some international trends downward but then retain value as the value of the Australian dollar has weakened. Indeed the local dollar has plunged to 73.4 cents recently — its lowest value in more than a year after peaking at 81.09 US cents in late-January. Most finished product indexes show prices rising by close to 4 to 5% over the month in Australian dollar terms.

This weaker Australian dollar meant local assets were good value for foreigners who drove up demand for Australian shares and commodities. The Australian stock exchange finished the financial year ahead of its global peers, but continued growth will be seriously hampered by the fact of, or even threat of, a global trade war. That said, the current underlying strength of medium / long term demand from infrastructure projects is underpinning the better conditions that most are enjoying in the Australian steel industry. Thus, whilst the risks of a global trade war could restrict further growth and increase volatility, we are very unlikely to see the price collapses of past cycles.

PRICING MOVEMENTS SINCE: June 1, 2018		<u>USD Change</u>	<u>AUD Change</u>
STEEL RAW MATERIAL - Blast Furnace costs¹		- .6 %	+ 2.0 %
EAF/Scrap costs²		+ 7.7 %	+ 10.3 %
STEEL FINISHED PRODUCT - China Rebar pricing³		+ 1.0 %	+ 3.6 %
Turkey Rebar pricing⁴		+ 2.6 %	+ 4.6 %
Non Ferrous Metals (Cu/Al/Ni/Zn)⁵		- 4.0 %	- 2.0 %
CURRENCY MOVEMENTS - The AUD has moved against the USD		- 2.7 %	and - 1.6 % against the Euro

STEEL COST INDEX (The cost of Scrap, Iron Ore, Coal in one tonne of steel)	<u>02-Jul-18</u>	<u>01-Jun-18</u>	<u>01-May-18</u>	<u>03-Apr-18</u>
Blast Furnace Index in USD¹	322	324	327	329
Blast Furnace Index in AUD¹	441	432	435	432
EAF/SCRAP Index in USD²	400	382	402	398
EAF/SCRAP Index in AUD²	548	509	536	523

STEEL AND RAW MATERIAL PRICES (USD per tonne)	<u>02-Jul-18</u>	<u>01-Jun-18</u>	<u>01-May-18</u>	<u>03-Apr-18</u>
Iron Ore⁶	64	64	65	66
Coking Coal⁷	185	190	188	189
Steel Scrap Turkey (LME Turkey Imports)⁸	354	338	356	352
Steel Rebar Turkey (LME Turkey Exports)⁴	548	534	556	550
Steel Rebar China (Spot China SHFE tonne)⁹	620	614	601	538

FX RATES (Source www.x-rates.com)	<u>02-Jul-18</u>	<u>01-Jun-18</u>	<u>01-May-18</u>	<u>03-Apr-18</u>
USD / AUD	0.73	0.75	0.75	0.76
Euro / AUD	0.63	0.64	0.62	0.62
NZD / AUD	1.09	1.08	1.07	1.06

FUTURE FX RATES (Banks' estimates of AUD value at end of Q3 2018)	<u>NAB</u>	<u>ANZ</u>	<u>WESTPAC</u>	<u>CBA</u>
USD / AUD	0.77	0.74	0.75	0.82
Euro / AUD	0.63	0.64	0.63	0.65
NZD / AUD	1.08	1.07	1.08	1.1

NON FERROUS METALS PRICES (USD per tonne) (Source: London Metal Exchange Quote) ¹⁰	<u>02-Jul-18</u>	<u>01-Jun-18</u>	<u>01-May-18</u>	<u>03-Apr-18</u>
Copper	6594	6813	6777	6755
Aluminium	2152	2270	2257	2008
Nickel	14570	15140	13605	13555
Zinc	2914	3088	3100	3284

COMPANY SHARE PRICES (AUD per share)	02-Jul-18	01-Jun-18	01-May-18	03-Apr-18
(Source: ASX) ¹¹				
Bluescope	17.07	17.81	16.57	14.98
Sims Metal	16.01	16	16.11	14.25
BHP Billiton	33.6	33.08	31.25	28.71

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
July 9 – WSA: Reshaping Sydney’s skyline with steel	July 6 – SEAIISI: Steelmaking raw materials hit multi-week lows in China
July 9 – Platts: China 2020 pollution plan rattles iron ore, steel prices	July 4 – SEAIISI: Barriers to Chinese steel tightened
July 4 – Platts: Japan’s NSSC raises July austenitic CRC, plate prices	July 4 – SEAIISI: European steel giant emerges amid investor concern over deal
July 2 – Platts: Australia trims 2018 iron ore export, price forecasts	July 4 – SEAIISI: Top Chinese steelmaking city to halve mills by 2020
June 30 – ABC: Trade war ‘might’ benefit Australia	June 26 – SEAIISI: ASEAN steel consumption to rebound in 2018
June 28 – Bloomberg: US-China trade war could flood India with steel	June 22 – SEAIISI: China Steel sees rising demand, low US exposure
June 27 – MEPS: Trade war speculation unsettles emerging steel markets	June 20 – SEAIISI: Japan steel lobby fears global trade order ‘collapse’
June 25 – World Steel Assn: May 2018 crude steel production data	June 12 – SEAIISI: Steel price report as at June 12, 2018

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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