

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

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STEEL MARKET SUMMARY - October

Buoyant Steel Production Worldwide In Danger Of Being Trumped

Two parallel and sharply contrasting worlds are causing excitement and concern in equal measure among steel industry professionals. The two worlds are: what is happening in the buoyant steel industry and what might be just starting to happen in the global economy. First, the international steel markets are broadly strong, according to the World Steel Association (*worldsteel*) whose members represent approximately 85% of the world's steel production, including more than 160 steel producers with nine of the 10 largest steel companies, national and regional steel industry associations, and steel research institutes. *Worldsteel's* published figures show that in the first eight months of 2018 the year-on-year change from 2017 was a production increase globally of almost 5%. Within this improvement, production from the European Union was up 1.6%, the former CIS went up 2.3% and the USA was up 4%. China represents just over half of the world's production and was up 5.8% whilst India saw an increase of 6.7%. But the greatest cause for celebration probably came from Australia where Bluescope and Onesteel combined to give an overall production increase of 14%.

What could possibly go wrong? Well, how about a US\$500 billion trade dispute escalating into a trillion dollar war, with massive flow-on implications for Asia and Australia. In late September, US President Donald Trump followed through on his threat to impose a further US\$200 billion of tariffs on Chinese imports; to which China retaliated with US\$60 billion on US goods; prompting Trump to threaten tariffs on all the remaining Chinese goods sold into the United States. Trump has meanwhile declared his disdain for the World Trade Organisation, and thus his intention to ignore its authority.

"The rules-based trade system is already starting to break down. We are now seeing blatant protectionism by the US and retaliation by affected countries. Within months, the trade war could spread, allowing the law of the jungle to become more prominent," says Martin Khor, executive director of the South Centre, a think tank for developing countries, based in Switzerland. While Khor sees South Korea, Vietnam and Malaysia as being early victims in any China-US dispute, modelling has found a best-case scenario from the trade fallout will cost Australia about \$36 billion.

Meanwhile, back in that other parallel world – the Australian steel sector – Bluescope management might well be wishing its healthy figures were not so public, as they have provided employees on both sides of the Tasman with the perfect excuse to commence collective action to win themselves a greater portion of the profit pie. Indeed, it's possible that Bluescope - fresh from announcing sales revenue up by 9% and earnings up by 15% - may be giving importers of some of its product range a break by not attempting to renew anti-dumping actions against manufacturers of wide hot rolled plate. A possible inability to supply the market or lengthening lead times combined with higher profit levels may have induced a sense of reality, though no one is sure. Watch this space next year to see the colour of Bluescope's game plan because charity to importers is not something anyone is used to seeing, regardless of the facts. It would not be wise to predict this symptom will be spreading to the long steel market as Liberty Onesteel seems to be pushing every button to see that its import competitors are given no leeway. Indeed, as international prices have risen in the current climate, Liberty seems more keen than ever to take market share even at the expense of profits "being left on the table".

PRICING MOVEMENTS SINCE: September 1, 2018			
	USD Change	AUD Change	
STEEL RAW MATERIAL - Blast Furnace costs ¹	+ 5.9 %	+ 4.5 %	
EAF/Scrap costs ²	- .4 %	- 1.9 %	
STEEL FINISHED PRODUCT - China Rebar pricing ³	- 4.8 %	- 6.2 %	
Turkey Rebar pricing ⁴	- 2.9 %	- 4.3 %	
Non Ferrous Metals (Cu/Al/Ni/Zn) ⁵	- 2.0 %	- 3.4 %	
CURRENCY MOVEMENTS - The AUD has moved against the USD	+ 1.4 %	and	+ 1.6 % against the Euro

STEEL COST INDEX (The cost of Scrap, Iron Ore, Coal in one tonne of steel)	01-Oct-18	01-Sep-18	01-Aug-18	02-Jul-18
Blast Furnace Index in USD ¹	337	318	314	322
Blast Furnace Index in AUD ¹	468	447	430	441
EAF/SCRAP Index in USD ²	355	351	373	400
EAF/SCRAP Index in AUD ²	493	495	511	548

STEEL AND RAW MATERIAL PRICES (USD per tonne)	01-Oct-18	01-Sep-18	01-Aug-18	02-Jul-18
Iron Ore ⁶	68	67	67	64
Coking Coal ⁷	201	182	175	185
Steel Scrap Turkey (LME Turkey Imports) ⁸	314	311	330	354
Steel Rebar Turkey (LME Turkey Exports) ⁴	505	520	544	548
Steel Rebar China (Spot China SHFE tonne) ⁹	671	705	611	620

FX RATES (Source www.x-rates.com)	01-Oct-18	01-Sep-18	01-Aug-18	02-Jul-18
USD / AUD	0.72	0.71	0.73	0.73
Euro / AUD	0.62	0.61	0.63	0.63
NZD / AUD	1.09	1.08	1.08	1.09

FUTURE FX RATES (Banks' estimates of AUD value at end of Q4 2018)	NAB	ANZ	WESTPAC	CBA
USD / AUD	0.75	0.7	0.73	0.72
Euro / AUD	0.63	0.60	0.63	0.63
NZD / AUD	1.07	1.12	1.10	1.1

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

	01-Oct-18	01-Sep-18	01-Aug-18	02-Jul-18
Copper	6170	6018	6136	6594
Aluminium	2047	2111	2035	2152
Nickel	12320	12990	13775	14570
Zinc	2617	2503	2627	2914

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

	01-Oct-18	01-Sep-18	01-Aug-18	02-Jul-18
Bluescope	16.93	17.31	18.12	17.07
Sims Metal	12.51	12.56	17.21	16.01
BHP Billiton	34.61	33.21	35.08	33.6

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(courtesy of SEAIISI or sources quoted)

[SEAIISI STEEL NEWS](#)[Oct 1 - Platts: Japan's rebar prices rise Yen 1000/mt in a week](#)[Sept 28 - SEAIISI: Japan's August steel exports dip](#)[Oct 1 - Bloomberg: When will China's steel production peak?](#)[Sept 28 - SEAIISI: Misif says steel demand to slow down this year](#)[Sept 28 - CNBC: China's winter smog rules rattle steel markets](#)[Sept 28 - SEAIISI: Dumping of steel products may worsen, says Miti](#)[Sept 25 - World Steel Assn: August 2018 steel production data](#)[Sept 28 - SEAIISI: Steel, raw material prices drop in China pre holiday](#)[Sept 20 - Platts: Chinese steel mills used more scrap in H1 2018](#)[Sept 27 - SEAIISI: Revised KORUS FTA signed amid tariff concern](#)[Sept 20 - Reuters: China's steel demand to stay firm; industry official](#)[Sept 25 - SEAIISI: Steel price report as at September 25, 2018](#)[Sept 18 - Reuters: Tokyo Steel product prices steady for 8th month](#)[Sept 25 - SEAIISI: China steel giant Baowu in talks with rival Magang](#)[Sept 17 - Platts: Turkey scrap price leaves rebar, billet in the shade](#)[Sept 24 - SEAIISI: Tariff war threatens world trading system](#)**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
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