



# Steel Fundamentals: Time to unravel?



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Research, Fastmarkets MB **research**

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**01** A review of supply & demand dynamics on a global scale

**02** What has changed and what key factors should be assessed?

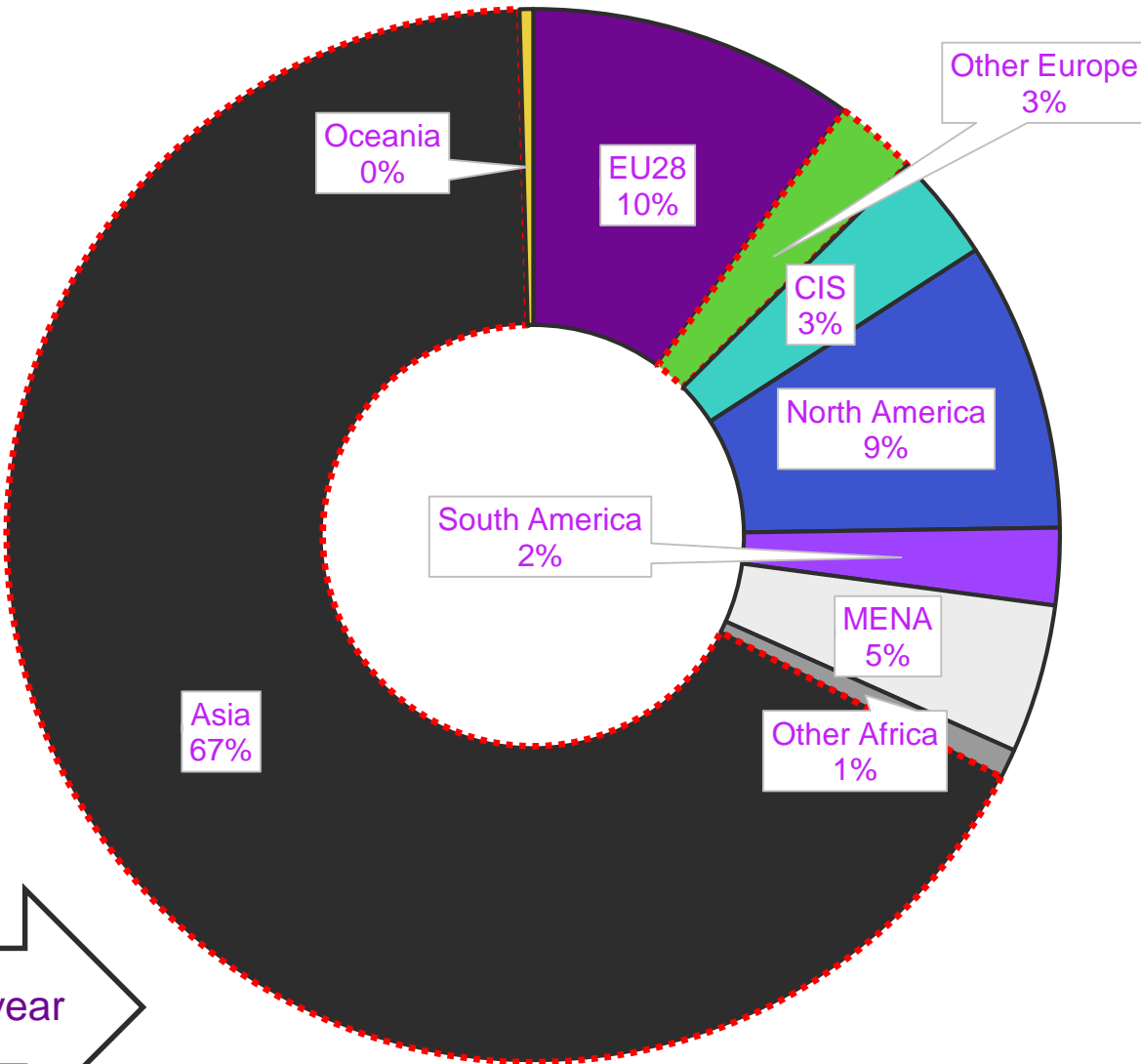
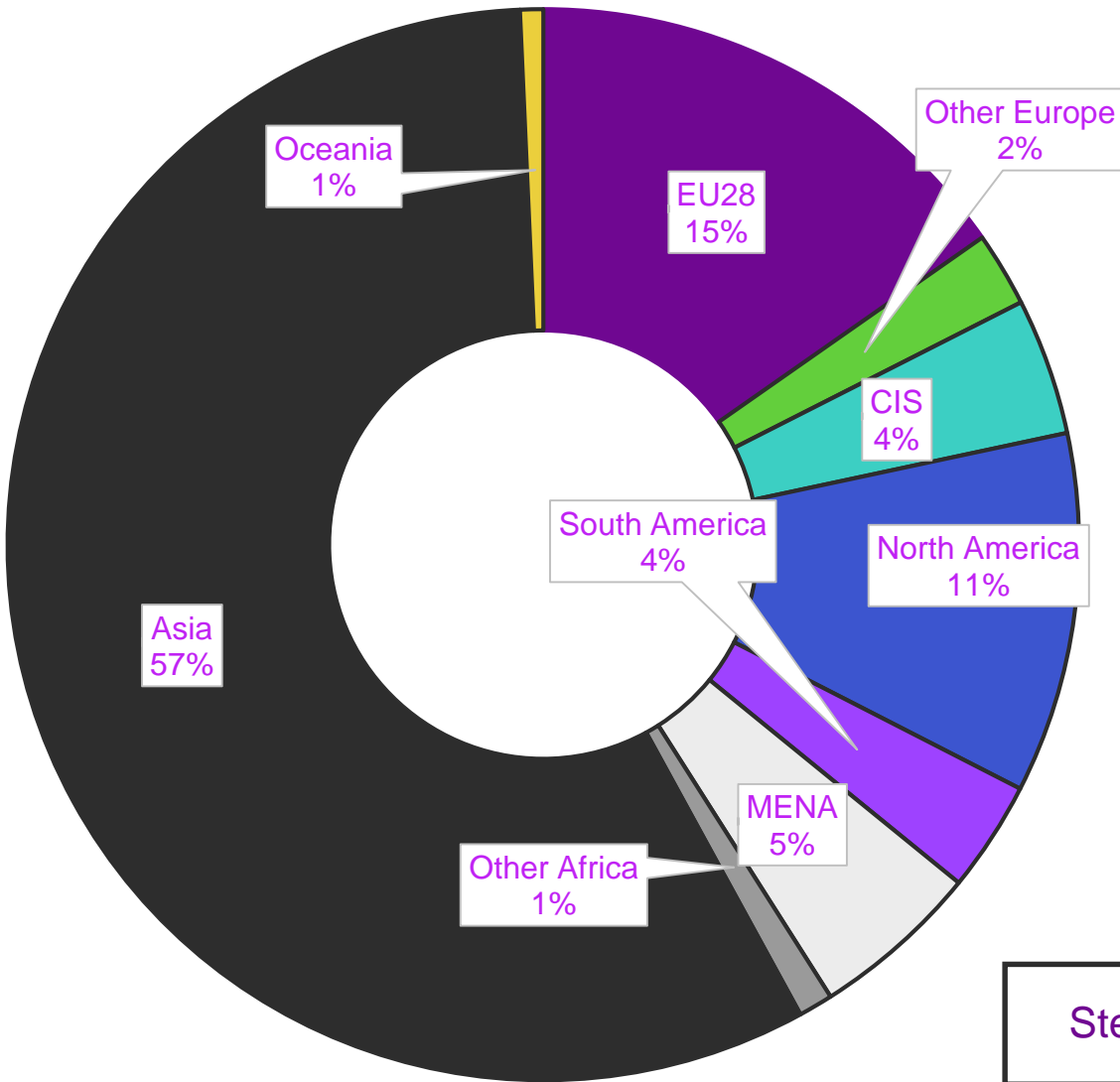
**03** Fastmarkets steel forecast predictions for 2019

# Over the past decade, Asian demand has become increasingly important...



Apparent Steel Use, 2008 – 1.23bn tonnes

Apparent Steel Use, 2018f – 1.66bn tonnes



Steel has grown by 3% per year

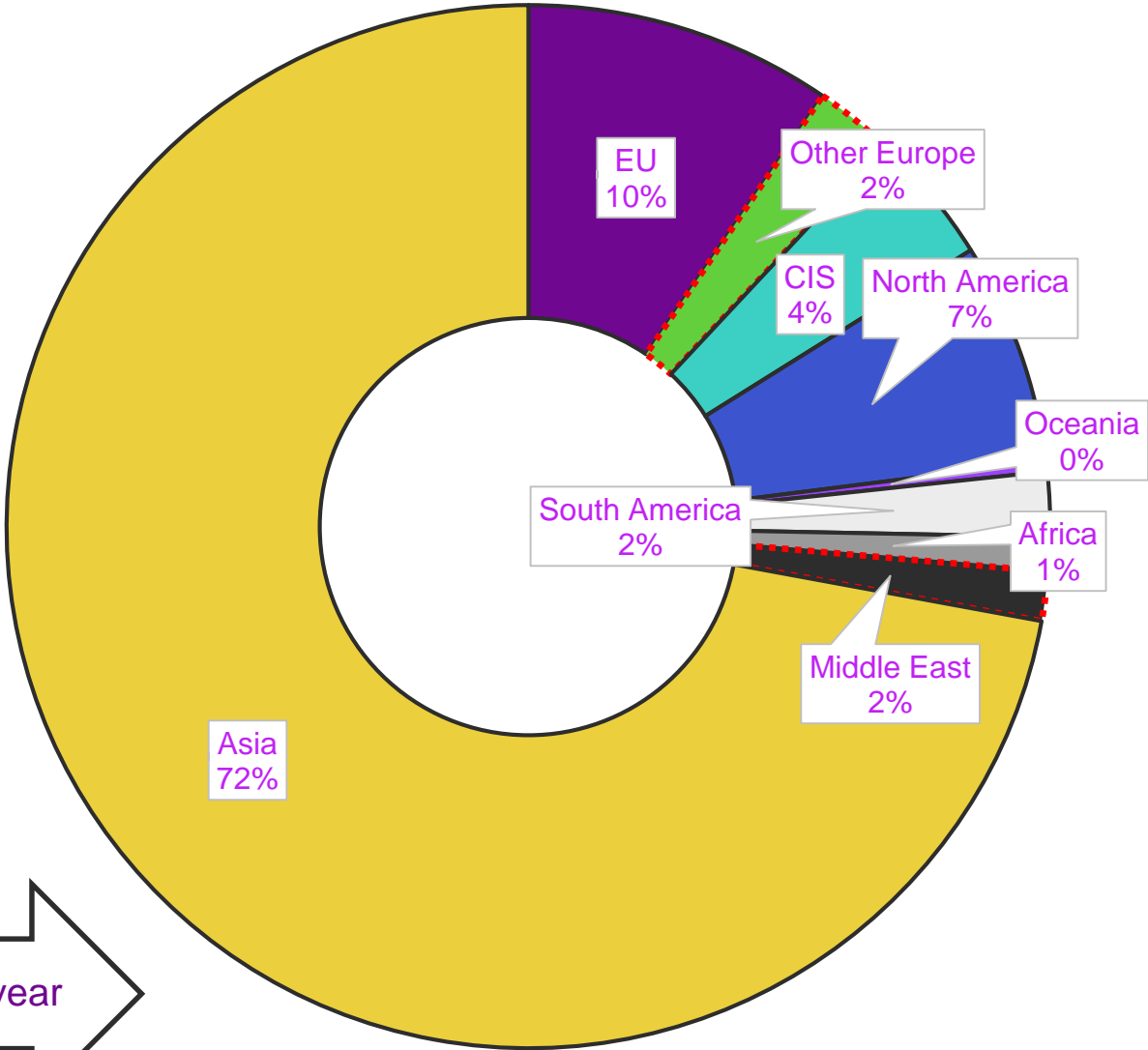
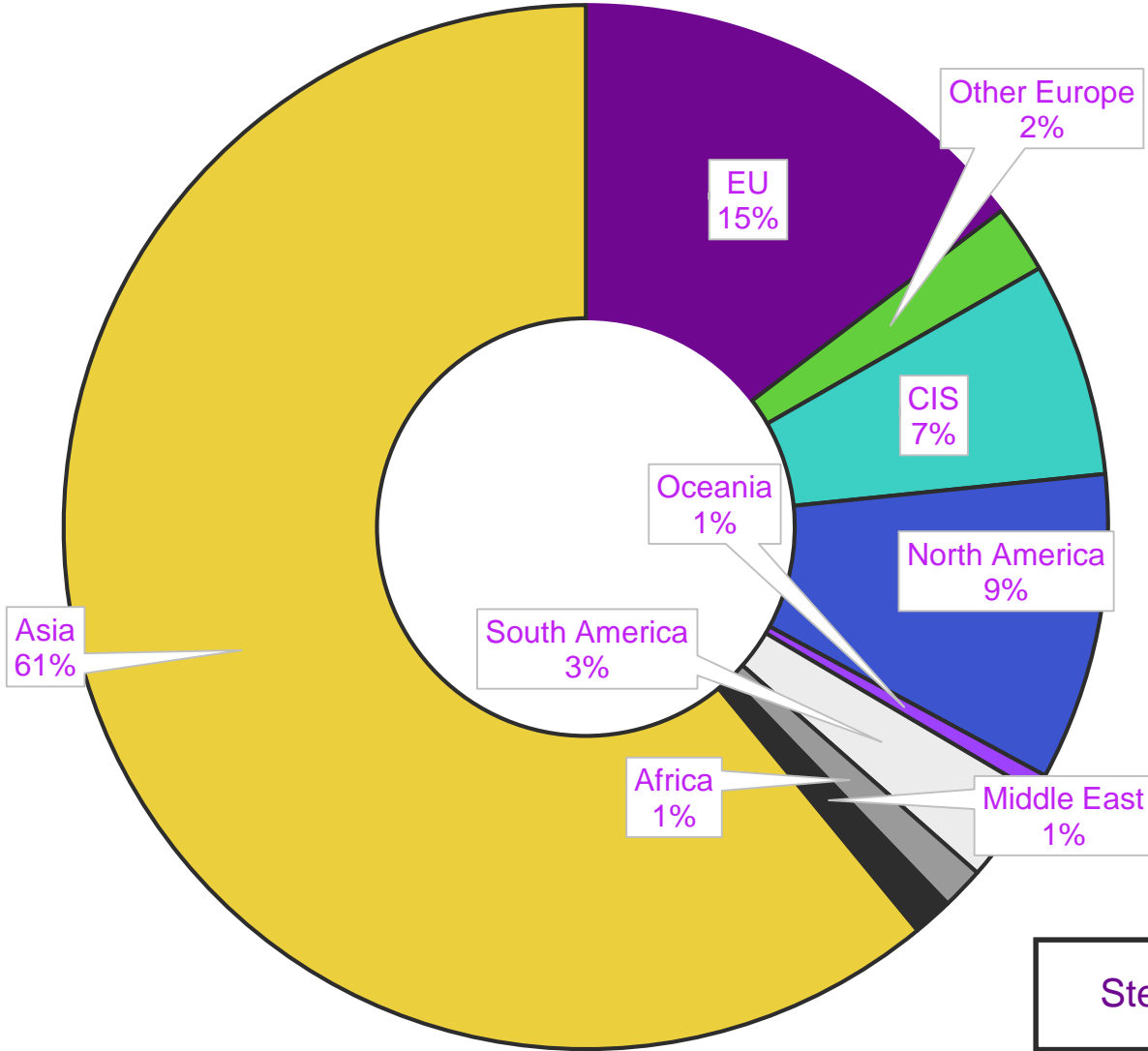
Source: WSA, Fastmarkets MB research. Note: f forecast.

# ...but Asia's place is even more significant in supply



Finished Steel Output, 2008 – 1.26bn tonnes

Finished Steel Output, 2018f – 1.74bn tonnes



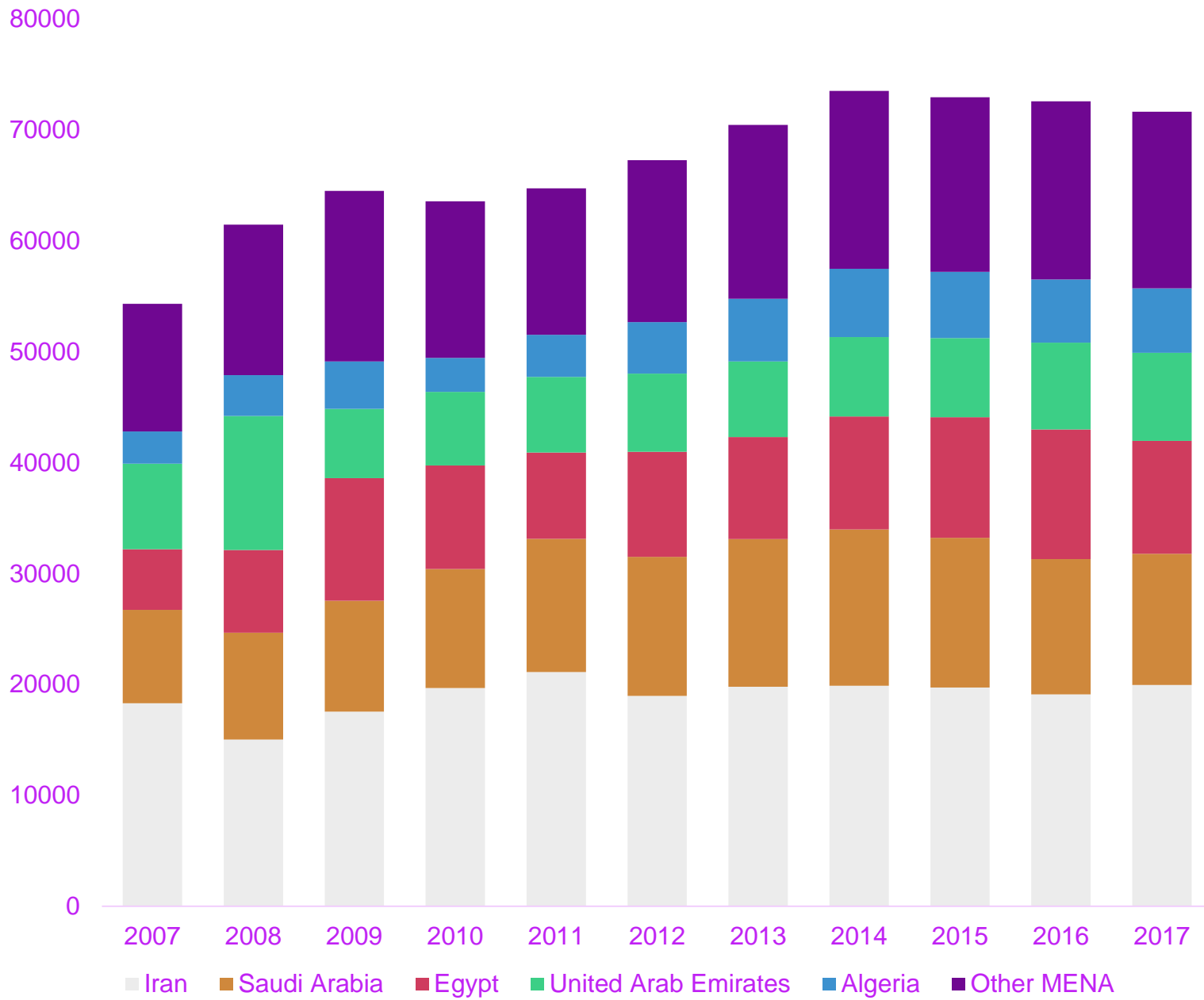
Steel has grown by 3.3% per year

Source: WSA, Fastmarkets MB research. Note: f forecast.

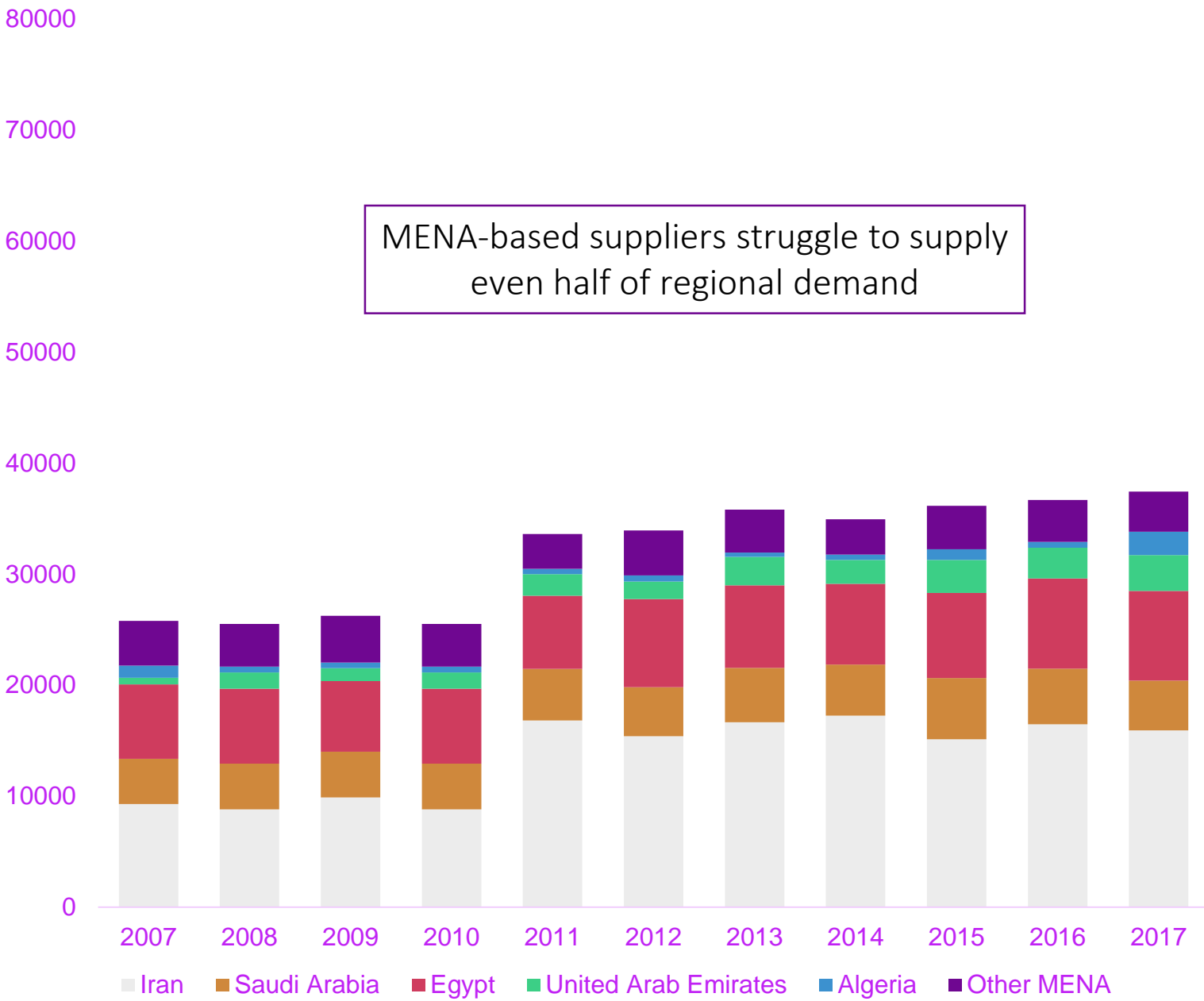
# No wonder MENA is so attractive to external suppliers



Apparent Steel Use in MENA, '000 tonnes



Finished Steel Production in MENA, '000 tonnes



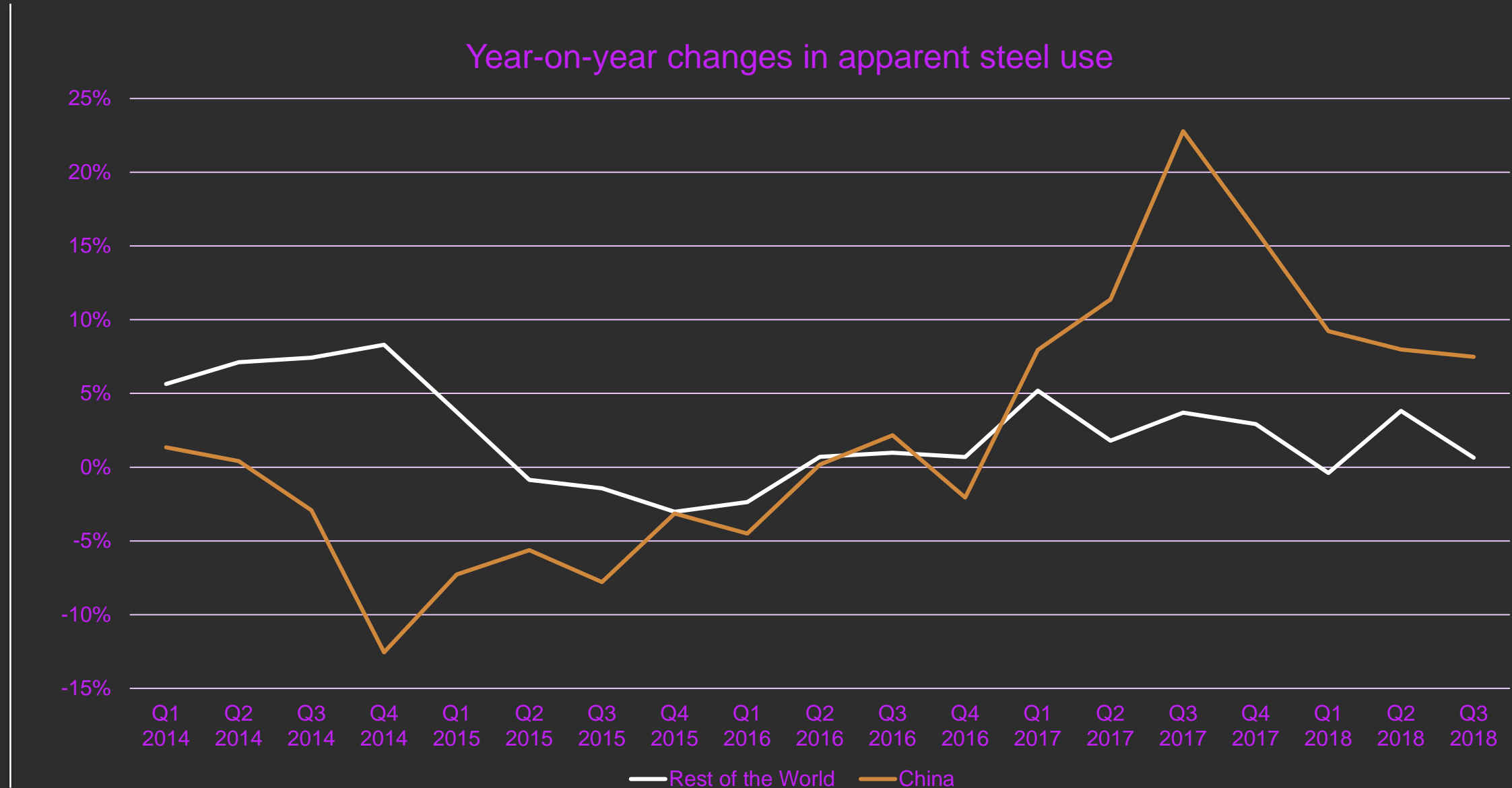
# But in recent years, Asia and especially China has been restoring the “firm” in fundamentals...



**GLOBAL STEEL USAGE ROSE BY APPROXIMATELY 4.6% THROUGH THE FIRST NINE MONTHS.**

**CHINA CONTINUES TO STAND OUT, AT 8.2%, CONTRASTING WITH 1.4% ELSEWHERE.**

***THE DIFFERENCE THIS YEAR IS THAT MOMENTUM IS SLOWING DOWN***



# ...and as local demand goes up so Chinese exports go down.



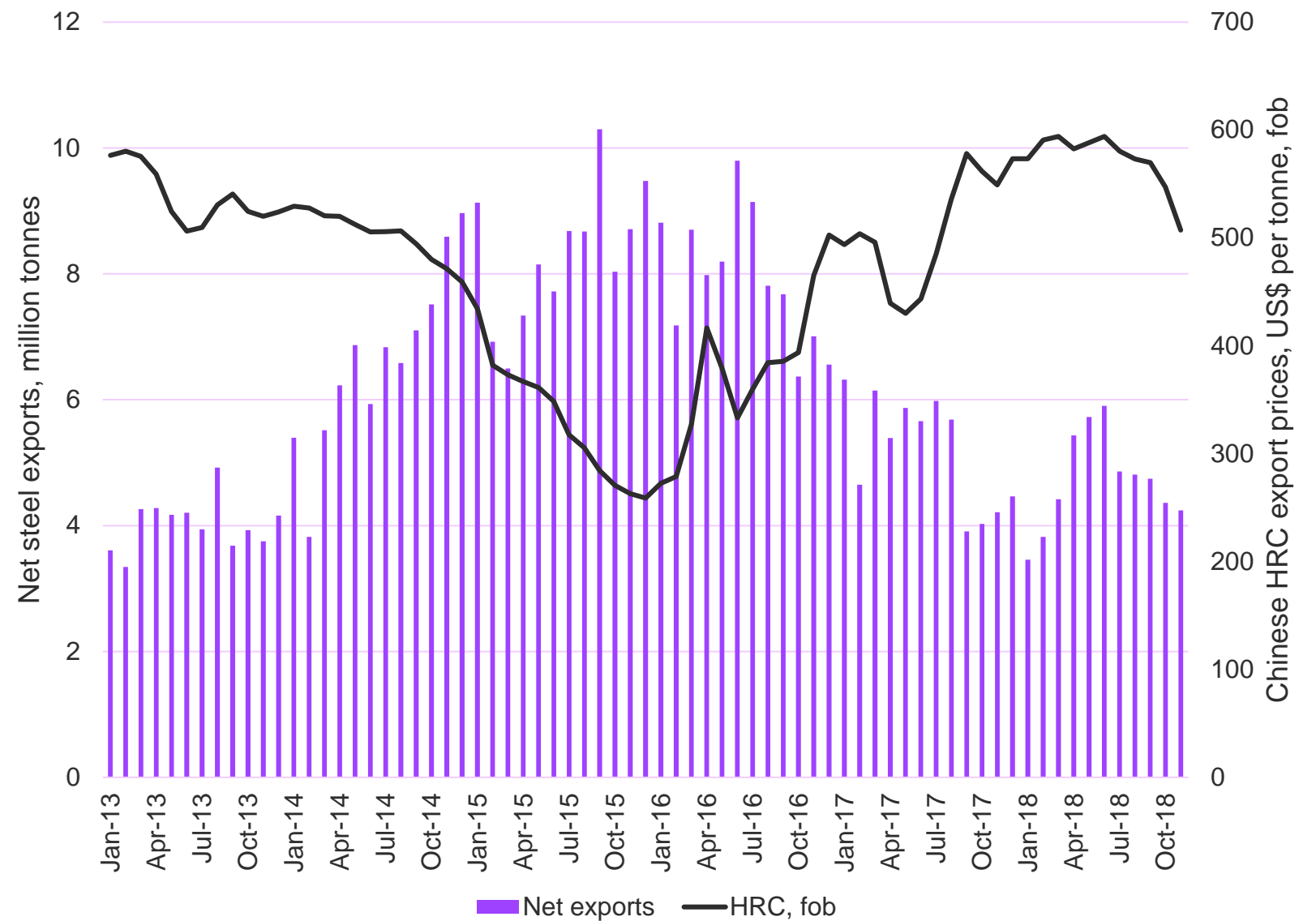
## But is the “inverse” relationship between prices and trade flows breaking down?

The “demand pull” in China continues to incentivize Chinese, as well as non-Chinese suppliers. Indeed imports have increased this year in China.

Chinese exports, however, have fallen a further 9% and exporters had been disinclined to compete; raising prices and dissuading customers overseas.

However, more recently Chinese suppliers are slashing prices even amid depressed demand...

## *Are fundamentals finally slackening?*





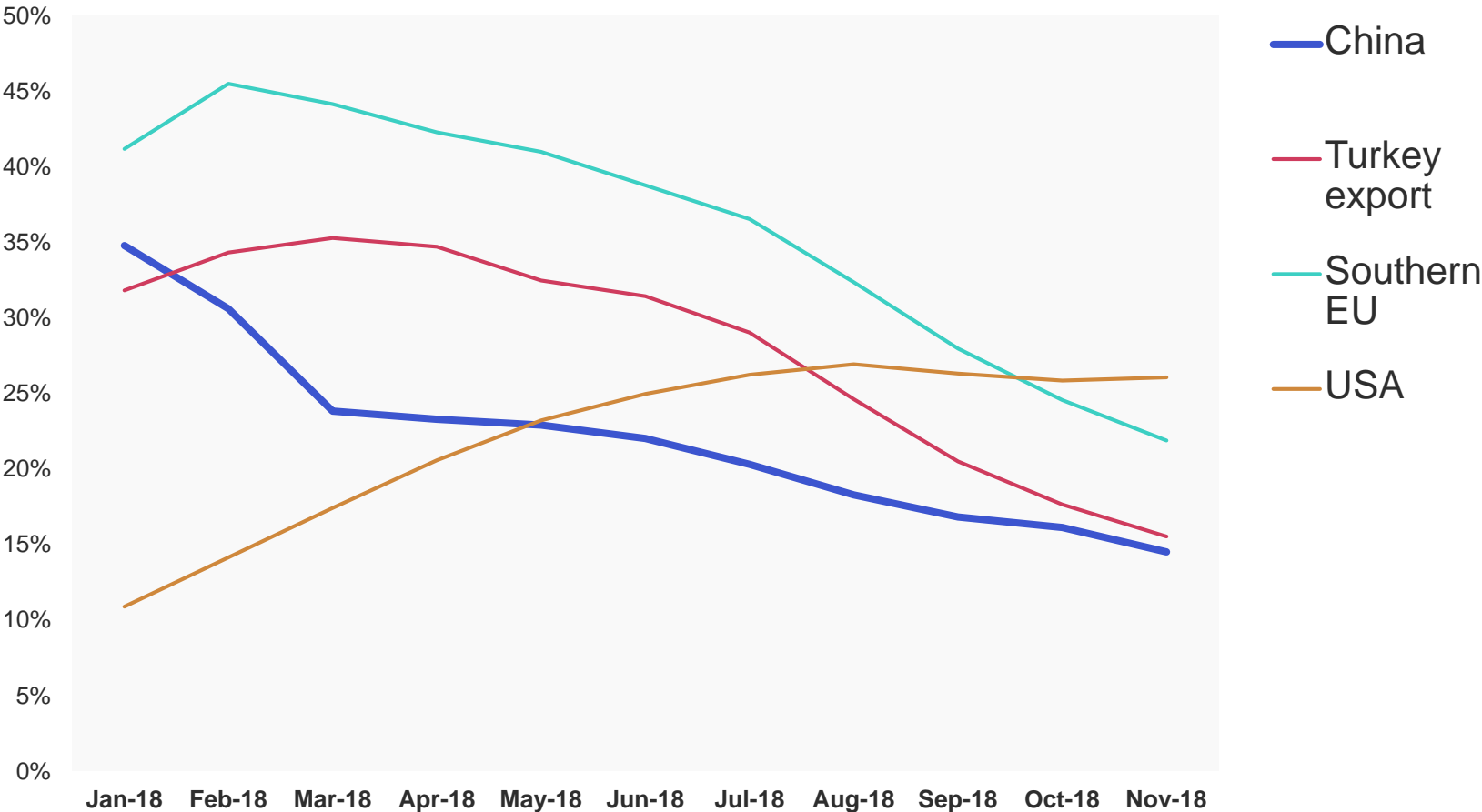
# As a result, prices, notably of rebar, are finding support...

## ...but these are generally losing momentum

So far this year, the average rebar spot price assessed by Fastmarkets MB has risen by between 15-26%.

In US dollar terms, this is between \$69 and \$143 per metric tonne higher than a year ago.

### CUMULATIVE YEAR-ON-YEAR CHANGES IN REBAR SPOT PRICES







# ...while HR coil price developments have been more extreme

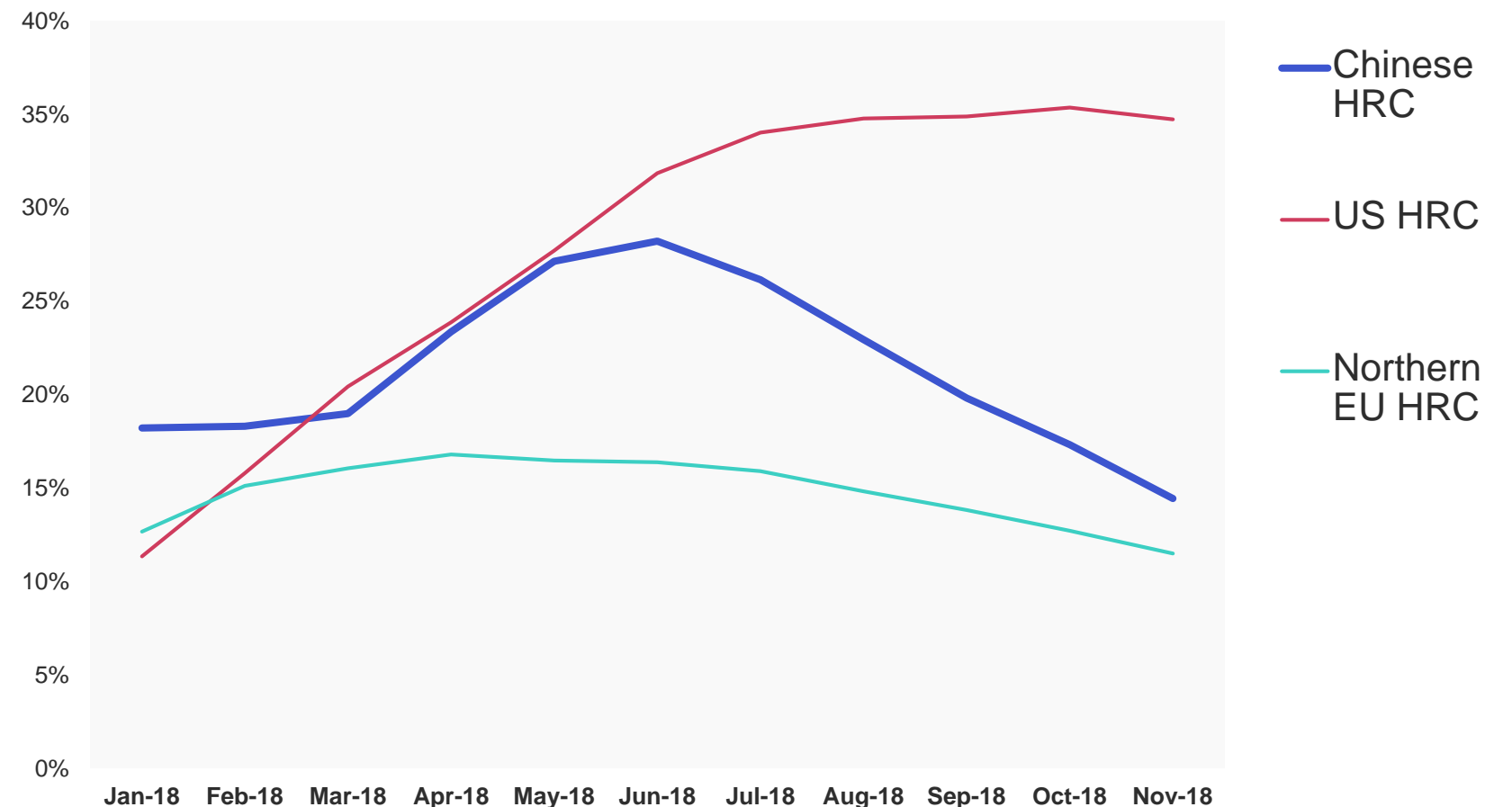
## ...but are also losing momentum

Between January and November this year, HRC spot prices have risen by between 12-35%

In US dollar terms, this is between \$68, in both China and the EU, and as much as \$237 per tonne in the USA.

***An interesting point of difference with rebar, is that HRC prices have underperformed, just, in China and the EU, but outperformed dramatically in the USA.***

CUMULATIVE YEAR-ON-YEAR CHANGES IN HRC SPOT PRICES

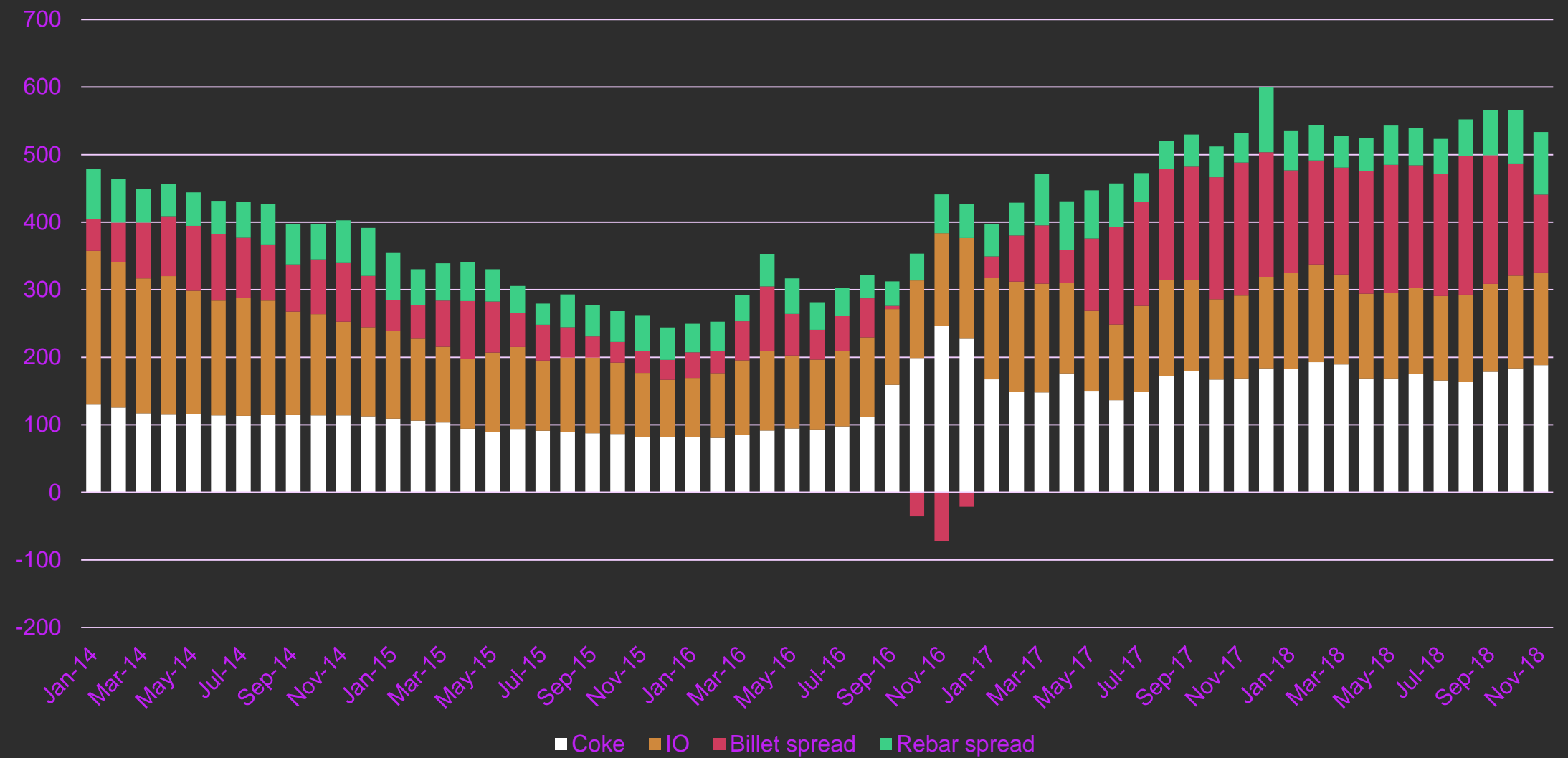


# More importantly for producers, margins have continued to increase...



BACKWARDLY INTEGRATED REBAR PRODUCERS HAD BEEN ESPECIALLY PROFITABLE IN SELLING **BILLET** THOUGH THESE MARGINS ARE NOW RETREATING HARD

Chinese rebar spreads, US\$ per tonne, ex warehouse basis



Fastmarkets MB research. Note: Coke input derived from imported PHCC. Spreads compare billet prices with coke and iron inputs. The rebar spread compares rebar and billet prices.

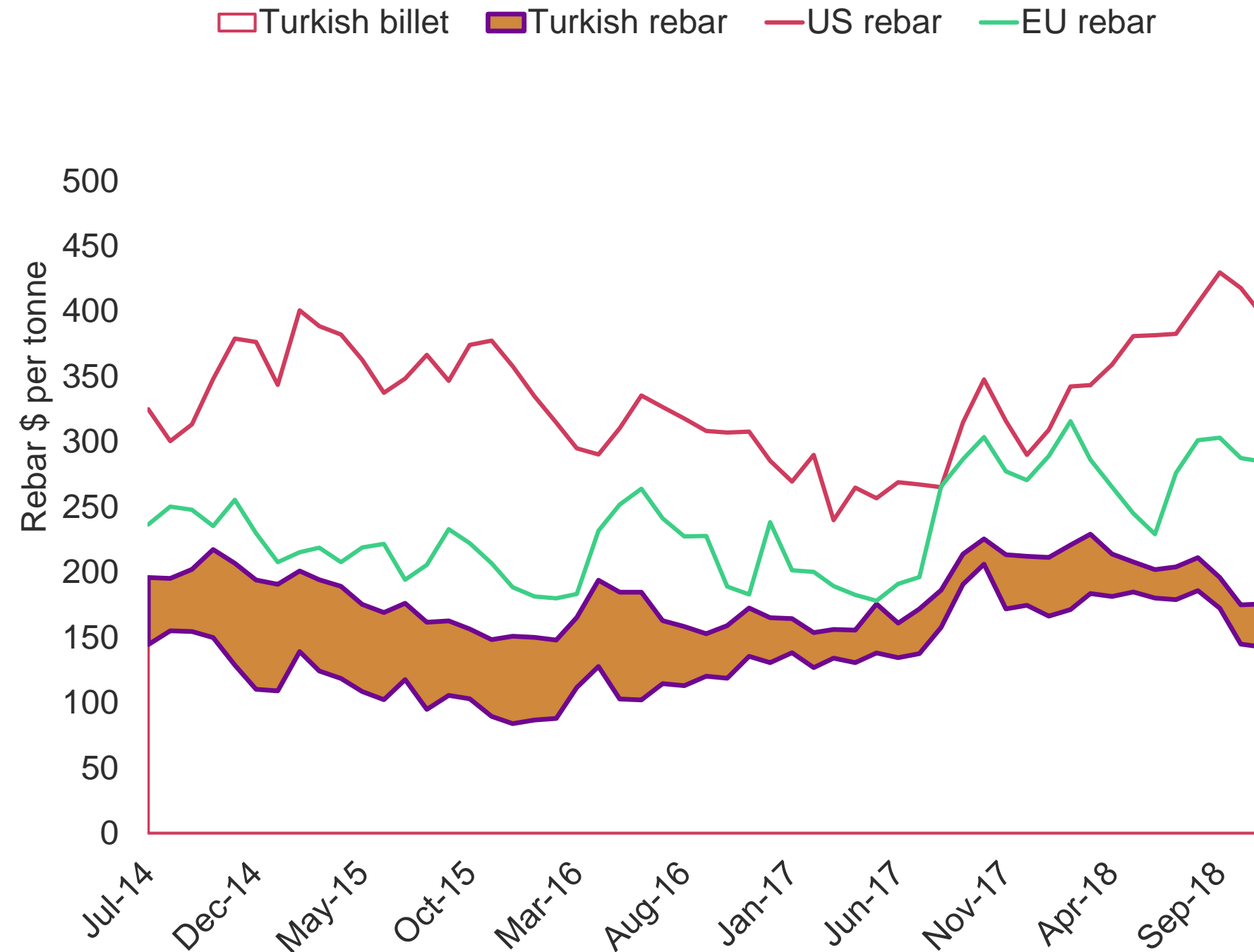
# ...and so too have those overseas



In-line with prices, metal spreads for rebar producers outside of China have also increased.

Again we find in re-rolling markets such as Turkey, however, the spreads have not been so elevated.

***Economically speaking, it is better to produce your own steel.***



Sources: Fastmarkets MB research

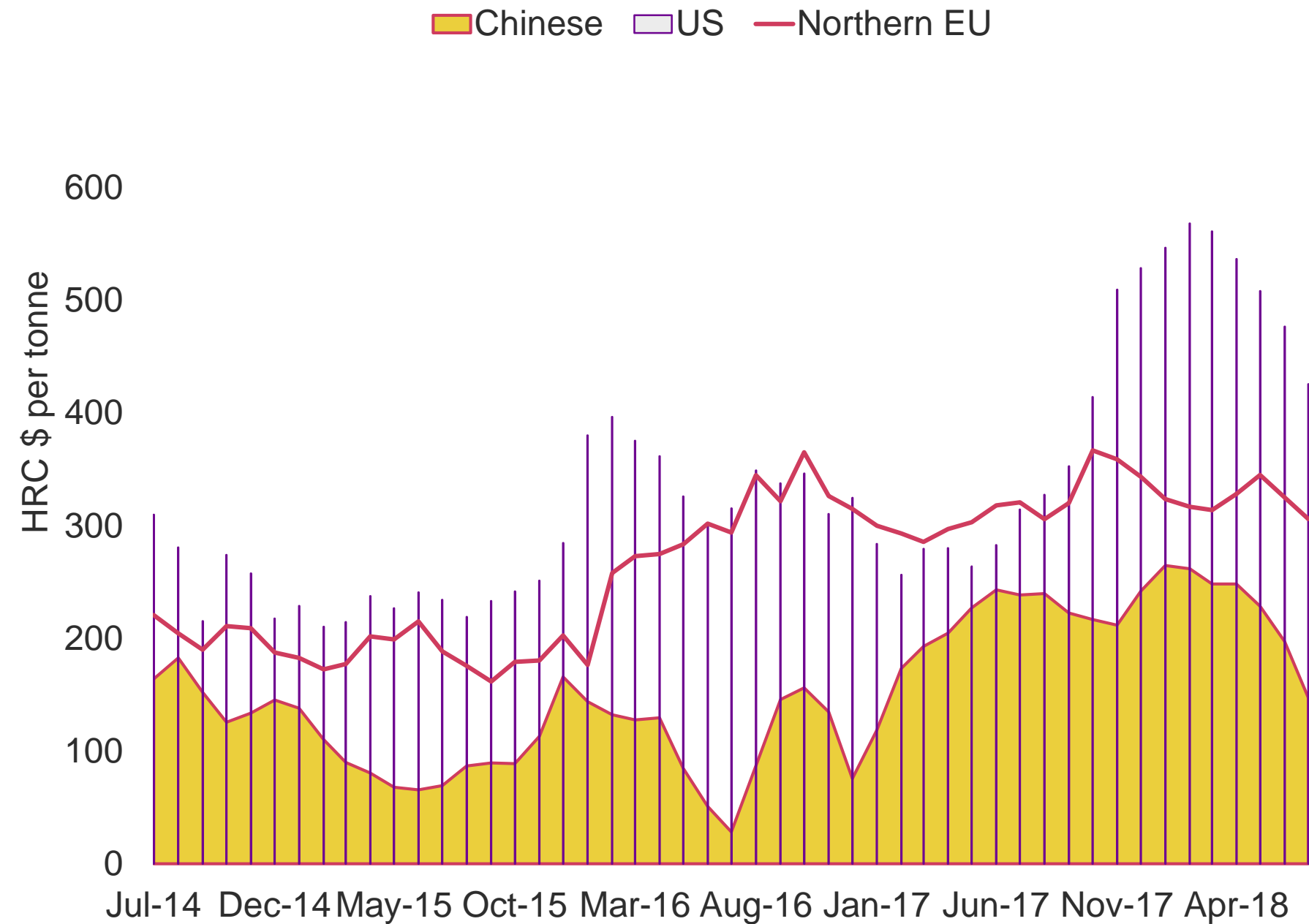


# HRC margins rose higher still but are now in free fall

In comparatively stable Europe, mills have been careful to protect the margins they recorded two years ago.

In the USA and China, however, suppliers have been more ambitious, but now rapid spot-market corrections are under way.

***\$600/t margins are not sustainable; but nor are \$150/t levels now resuming in China.***



Sources: Fastmarkets MB research



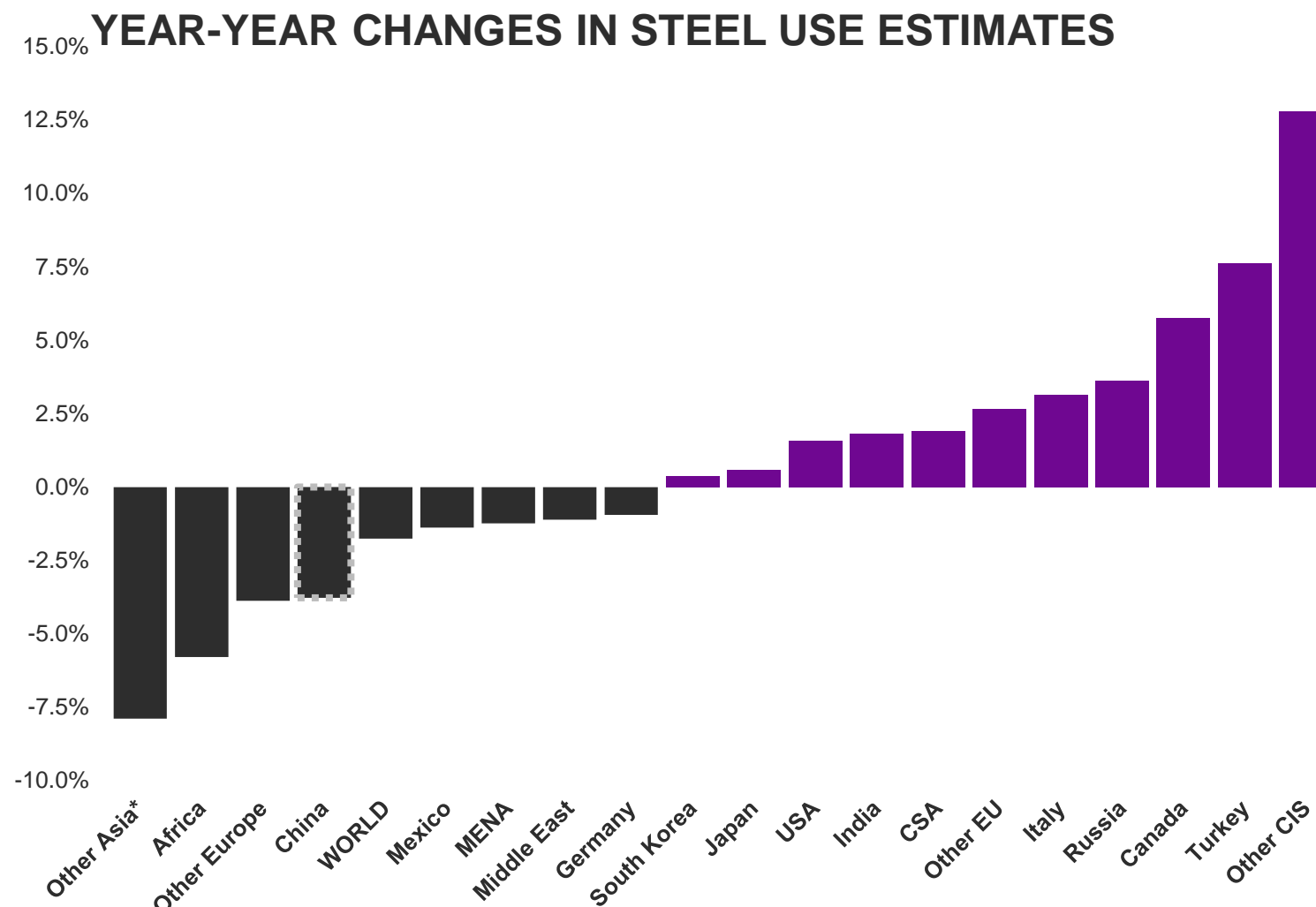
# So what has changed? Last year, demand underperformed suppliers\* expectations; yet many markets **outperformed**...

## Steel use continues to surprise

The World Steel Association's latest estimates for apparent steel use last year (2017) proved slightly lower than they had anticipated.

They overestimated the usage in Asia, including China as well as Africa (sub-Saharan). As usual producers here in the Middle East and North Africa (MENA) had a better idea of the strength of their markets.

While Asia and other traditionally high growth markets underperformed expectations overall, some markets proved stronger than expected, most notably India, Italy, Central and South America (CSA), Turkey, and the CIS.

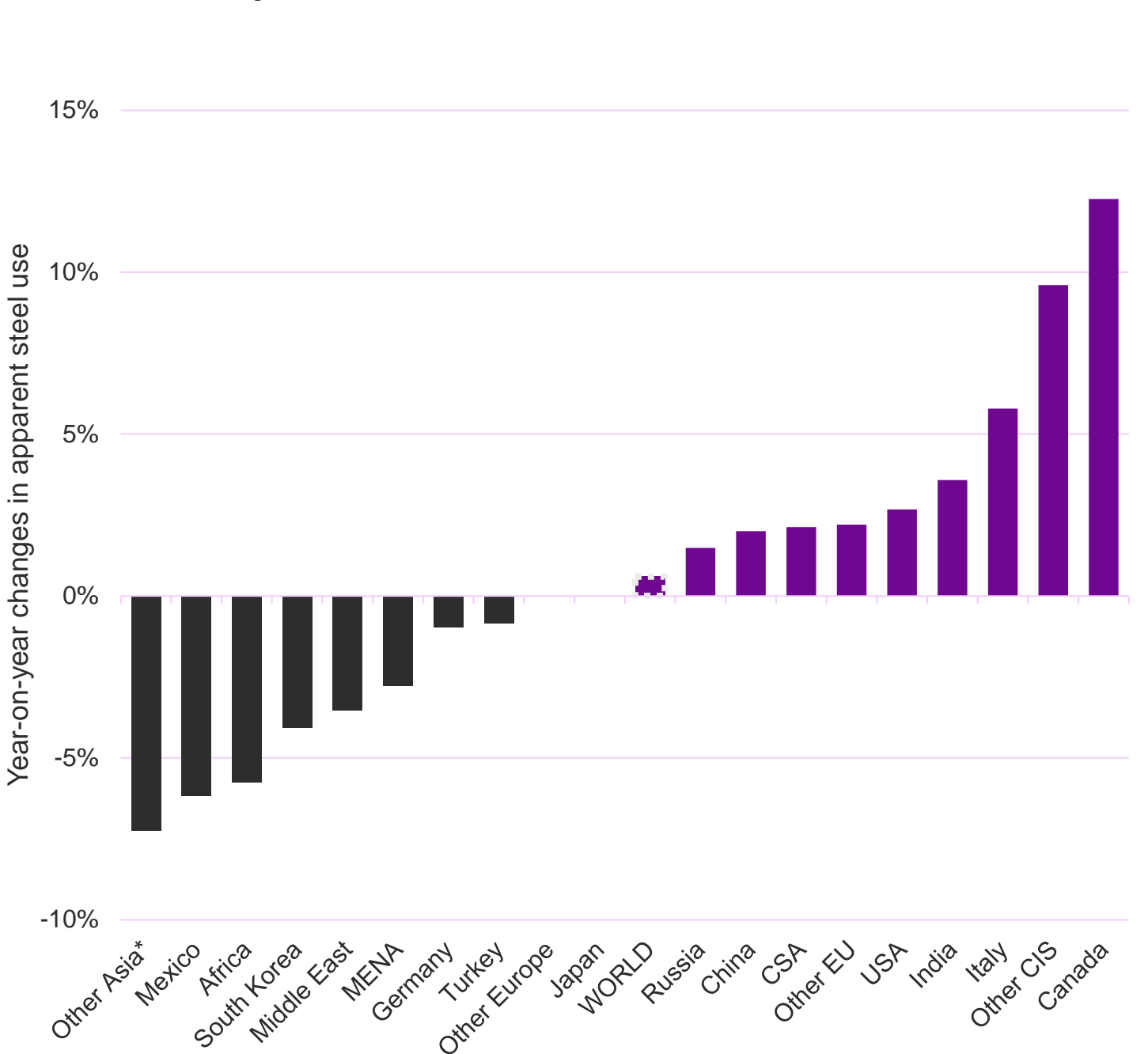


Fastmarkets MB research. Note; \* World Steel Association (WSA). Data compares 2017 forecasts released in October 2017 with estimates published a year later

# So far this year, demand has **outperformed**



The world's **largest steel markets** have had a **better year** than expected: **MENA**, by contrast, continues to **underperform**



## China

- According to WSA, Chinese steel use will reach a new record this year of 781Mt, which is 6.0% higher than the downwardly revised estimate of 737Mt in 2017.

## USA

- US steel use is predicted to close on 100Mt this year, 2.2% higher than an upwardly revised estimate of 98Mt in 2017.

## India

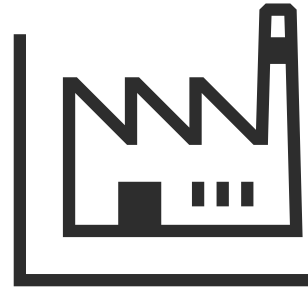
- Indian use is on course to reach a record 95Mt this year, up 7.6% above the upwardly revised 89Mt in 2017.

## WORLD

- The better than expected usage in the world's largest markets should pull the market 3.9% higher in 2018 to 1,658Mt, from a downwardly revised 2017 estimate of 1,595Mt.

## MENA

- Unusually for the region, steel usage growth is predicted to be below the global average this year at 2.8%, bringing the total to 74Mt from a downwardly revised total of 72Mt in 2017.



## Supply-side factors that should be assessed...



Do  
safeguards  
and/or  
duties  
work?



### Depends what we mean by work!

Section 232 has been far more effective than Section 201 in protecting US steelmakers.

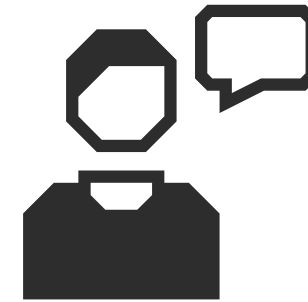
US finished steel imports have fallen by 12.5% year-on-year after 11 months.

US mill shipments (including exports) rose by 4.4% year-on-year through the first 9 months.

Capacity utilization rates have more recently moved above 80%.

*Consumers have still imported more HRC (including plate in coil) than last year and they are now pushing local prices down.*

**...is focusing on protectionism more fruitful than focusing on cutting capacity?**



**WHATEVER HAPPENED TO OVER CAPACITY?**

**WHY HAVE PRICES/MARGINS NOT BEEN NEGATIVELY AFFECTED BY SURPLUS CAPACITY?**



**78%**

The WSA's last monthly capacity utilization rate for global crude steel in July 2018

**6-68%**

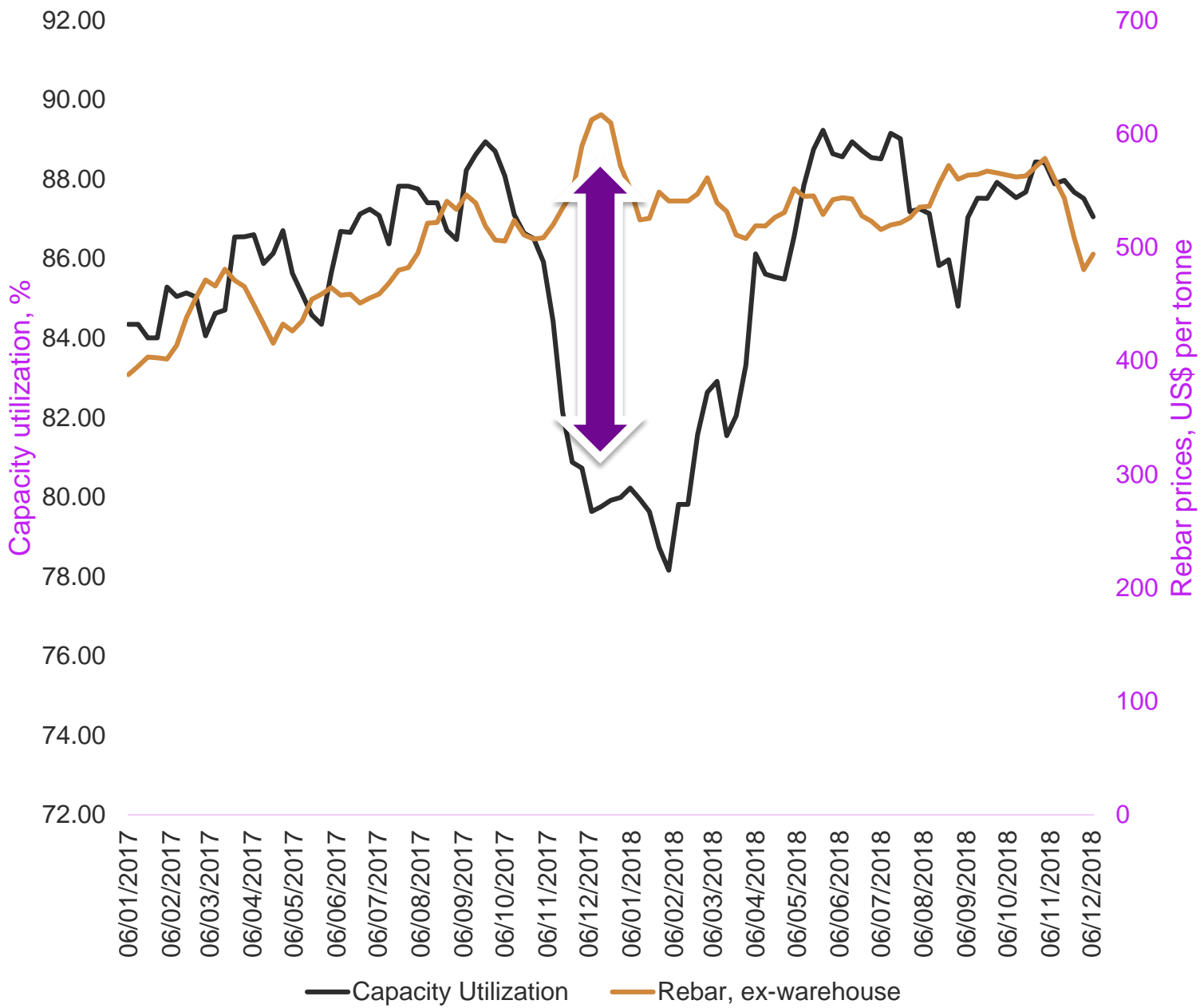
The average margin growth for HRC producers so far this year



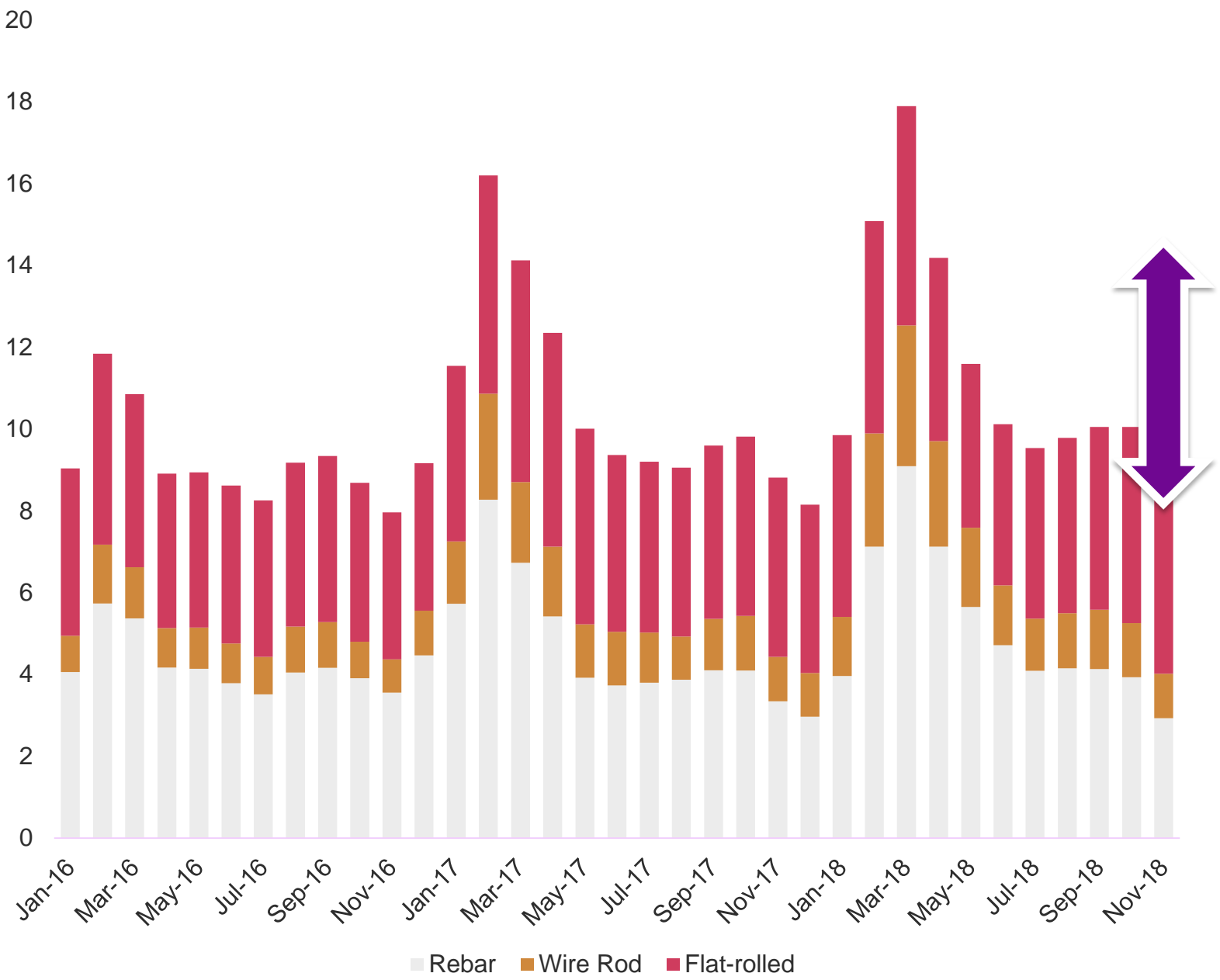
# In China, where capacity does play a part, can we soon expect some winter price spikes like last year?



Capacity utilization vs prices in China



Chinese resellers' stocks, million tonnes





## What's next?

It's all about demand, what drives it, and whether it will continue to slow

# End-use sectors: The magnificent 7!

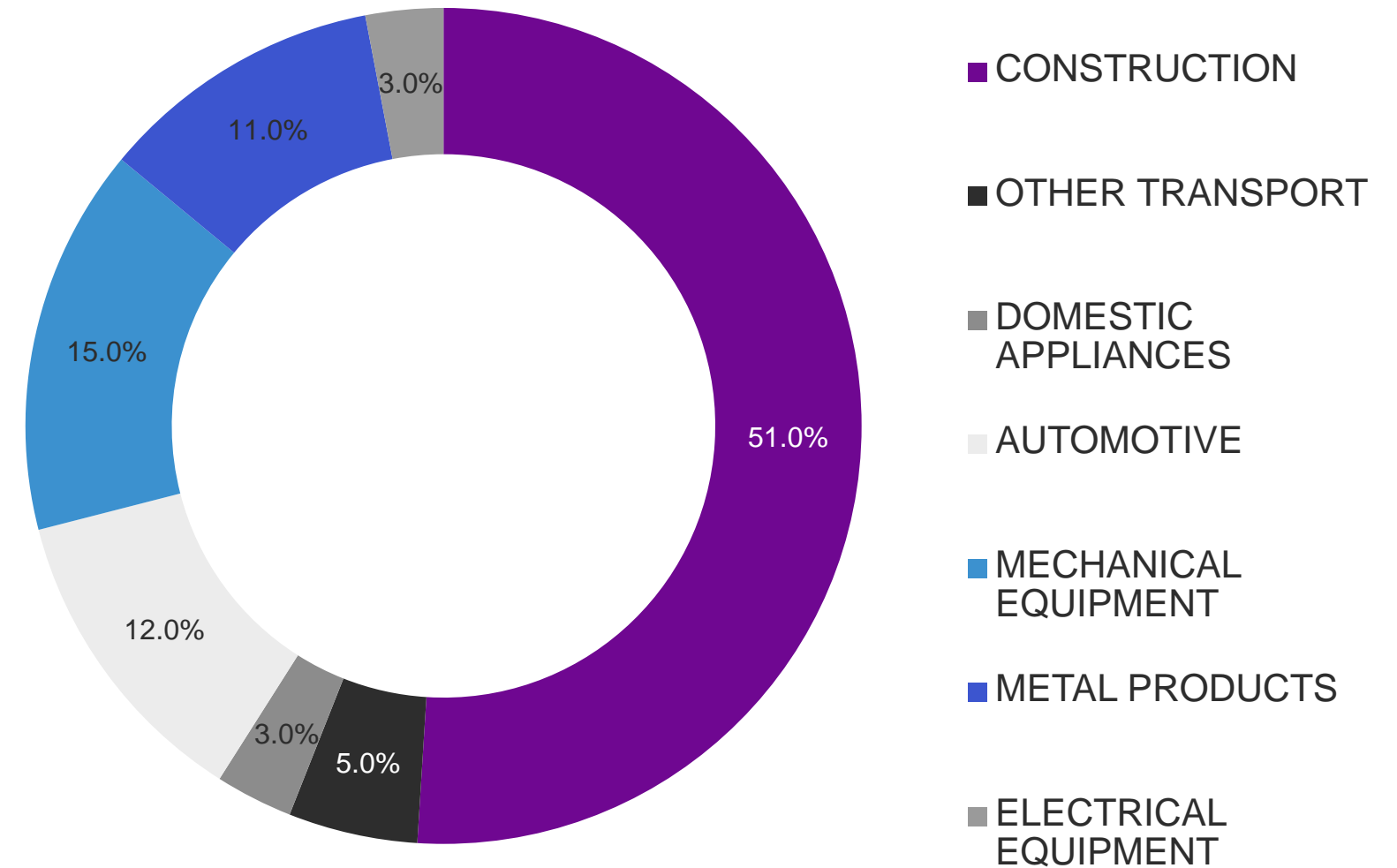


## Construction remains dominant

At 809Mt last year, construction accounted for by far the largest demand for steel.

Fastmarkets MB research calculates that these 7 sectors have been growing by a combined rate of 2.2% per year over the past decade.

The faster growing sectors have been comparatively small: domestic appliances and other electrical equipment at 3.6% and 3.4% respectively



# As end-user industries slow, so must steel



## Steel slowdown to continue

Just as a slowdown in industrial production is curbing momentum in steel demand this year, so a further erosion is bound to impact steel.

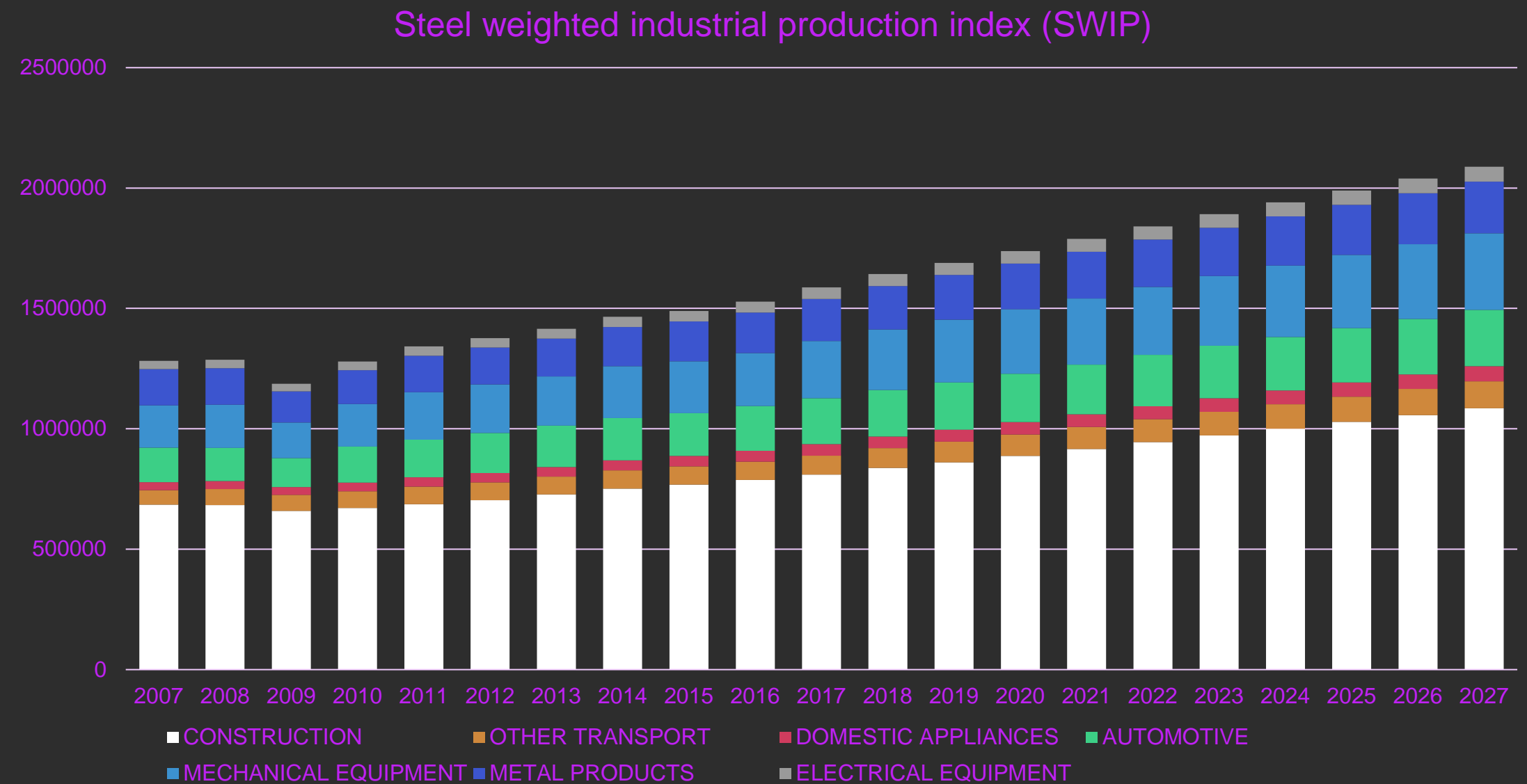
After a predicted rise of 4.7% in 2018, we expect steel growth will more than halve next year to just 2.3%.



# But the longer-term demand fundamentals are firm



**UNDERLYING OUTPUT OF MAJOR STEEL CONSUMING SECTORS, THE MAGNIFICENT 7, IS FORECAST TO ACCELERATE FROM 2.2% TO 2.8% PER YEAR OVER THE NEXT DECADE**





# So what about prices? When it comes to **steel** price forecasting we are very consistent...

## Our Steel Tracker (ST) specializes in short-term price forecasting

So far this year we have consistently been **within 5% of the actual assessments** published by our price reporting team across a wide range of flat-rolled, long products and semi-finished steel prices.

Our **accuracy ratings are even higher on stainless steel (SSM)** and...

**we have been the top steel raw material forecasters on APEX for the past two quarters**, as published in the Steel Raw Materials Tracker (SRM)

Q3 2018 FORECASTING June issue AVERAGE ST SAMPLE	ACCURACY % <b>96%</b>
Q2 2018 FORECASTING March issue AVERAGE ST SAMPLE	ACCURACY % <b>97%</b>
Q1 2018 FORECASTING December issue AVERAGE ST SAMPLE	ACCURACY % <b>96%</b>

# ...please take a look at our Research “Trackers” outside, for some useful pointers. Many thanks!



## Weeklies

ISSUE 018  
8 November 2016

### MBR BASE METALS FORECASTER

Weekly feature - Base Metals

**WEEKLY UPDATE**  
Analysis and forecasts for the aluminum, copper, lead, nickel, tin and zinc markets

**Aluminum: No escape from oversupply**  
The US steel industry for China may be better than last year, but the thing that worries the market is the steady increase in Chinese aluminum supply. The market is still looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

**Copper: The bulls are back**  
The copper market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

**Lead: Balanced market outlook**  
The lead market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

**Nickel: New highs, despite cautious view**  
The nickel market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

**Tin: Supply response coming?**  
The tin market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

**Zinc: Cautiously bullish**  
The zinc market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

Data Zone  
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ISSUE 018  
8 November 2016

### MBR STEEL RAW MATERIALS WEEKLY MARKET TRACKER

Regular analysis of coking coal, iron ore, scrap, ferro-alloys, and freight markets

**CHINESE COOKING COAL SUPPLY TIGHTNESS PERSISTS AS MILLS LOOK FOR MORE SEABORNE MATERIAL**  
The Chinese government has announced that it will restrict the export of coking coal to 10 million tonnes per year. This is a significant restriction, as China is the world's largest producer of coking coal. The market is still looking for a recovery in demand, but the supply is still growing.

**SEABORNE COOKING COAL SUPPLY TIGHTNESS UNLIKELY TO ALLEVIATE UNTIL H1 2017 AT THE EARLIEST**  
The market is still looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

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ISSUE 019  
21 November 2016

### MBR ALUMINIUM WEEKLY MARKET TRACKER

Weekly feature - Carbon Products

**Independent weekly price forecasts and analysis for the global aluminum industry**

**Aluminum prices have pulled back**  
The aluminum market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

**LME aluminum stocks surged**  
The LME aluminum market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

**SIPI price struggled to break above recent highs**  
The SIPI price is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

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ISSUE 019  
21 November 2016

### MBR STEEL FORECASTER

International market analysis of flat and long steel products

**Weekly update**  
Long Products  
Flat Products  
Margin Analysis

**MBR's Flat-rolled Forecasts**

Product	Region	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18
Hot Rolled Coil (HRC)	Asia	100	100	100	100	100	100	100	100
Hot Rolled Coil (HRC)	Europe	100	100	100	100	100	100	100	100
Hot Rolled Coil (HRC)	North America	100	100	100	100	100	100	100	100
Hot Rolled Coil (HRC)	South America	100	100	100	100	100	100	100	100
Hot Rolled Coil (HRC)	Other	100	100	100	100	100	100	100	100

**MBR's Long products Forecasts**

Product	Region	Q3 '16	Q4 '16	Q1 '17	Q2 '17	Q3 '17	Q4 '17	Q1 '18	Q2 '18
Long Products	Asia	100	100	100	100	100	100	100	100
Long Products	Europe	100	100	100	100	100	100	100	100
Long Products	North America	100	100	100	100	100	100	100	100
Long Products	South America	100	100	100	100	100	100	100	100
Long Products	Other	100	100	100	100	100	100	100	100

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## Monthlies

ISSUE 017  
31 August 2016

### MBR FERRO-ALLOYS MARKET TRACKER

Monthly update of market intelligence, analysis and forecasts covering the international ferro-alloy industry

**Monthly Update**  
Analysis and forecasts for the international ferro-alloy industry

**Ferro-alloy prices poised for late Q3/early Q4 improvement**  
The ferro-alloy market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

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ISSUE 017  
7 September 2016

### NORTH AMERICAN STEEL MARKET TRACKER

Monthly update of market intelligence, analysis and forecasts covering the North American steel industry

**Monthly Update**  
Analysis and forecasts for the North American steel industry

**Further weakness in flat and long product prices forecast**  
The North American steel market is looking for a recovery in demand, but the supply is still growing. The market is still looking for a recovery in demand, but the supply is still growing.

American Market Research

ISSUE 017  
30 August 2016

### MetalBulletin Research

Galvanized Steel and Tinplate Market Tracker

Market analysis and intelligence covering the global coated steels and tinplate markets

**Producers seek to pass on rising costs**  
**Underlying demand growth remains feeble**  
**Impact of Trump presidency assessed**

**Global market activity high as prices climb**

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ISSUE 017  
30 August 2016

### MBR STAINLESS STEEL MARKET TRACKER

Monthly update of market intelligence, analysis and forecasts covering the global stainless steel market

**Monthly Update**  
Analysis and forecasts for the global stainless steel market

**Market activity high as prices climb**

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ISSUE 017  
30 August 2016

### MBR STEEL SCRAP & METALLICS FORECASTER

Monthly update of market intelligence, analysis and forecasts covering the global steel scrap and metallics industry

**Monthly Update**  
Analysis and forecasts for the global steel scrap and metallics industry

**Integrated steel producers challenge electric arc furnaces for scrap volumes**

**Upside risks to major scrap benchmarks grow, with \$300/t MBR's near-term target**

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ISSUE 017  
9 November 2016

### MBR SEAMLESS OCTG & LINEPIPE MARKET TRACKER

Monthly update of market intelligence, analysis and forecasts covering the global seamless OCTG and linepipe industry

**Monthly Update**  
Analysis and forecasts for the global seamless OCTG and linepipe industry

**Chinese exporters raise prices on higher costs...**

**...with costs also now rising for US producers**

**Longer-term trend in MENA?**

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30 August 2016

### MBR WELDED LINEPIPE & OCTG MARKET TRACKER

Monthly update of market intelligence, analysis and forecasts covering the global welded linepipe and OCTG industry

**Monthly Update**  
Analysis and forecasts for the global welded linepipe and OCTG industry

**Duty ruling on POSID affecting US ERW and HSAW producers**

**Diplomats political questions, pipe deliveries to NS2 will commence in October**

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