

## Metal Market Insights – Steel

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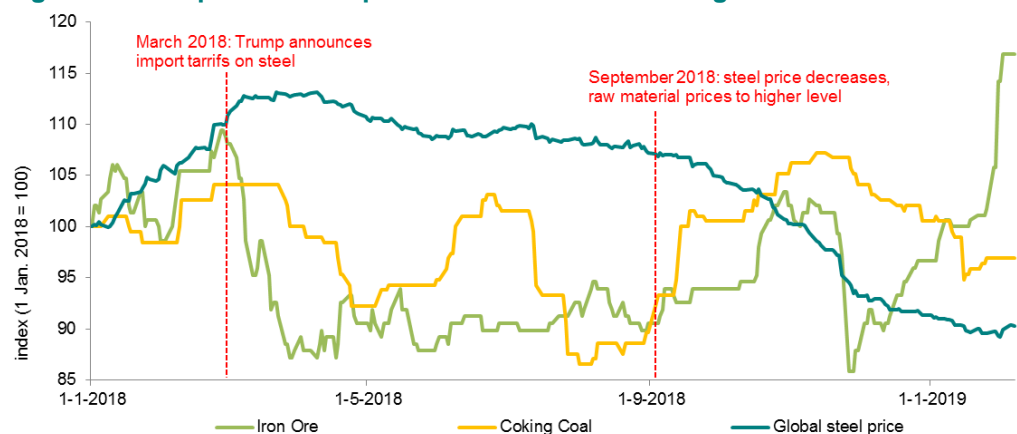
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		% Δ since 1 January
6-2-2019		
<b>Steel global (USD/t)</b>	546	-1%
South-Europe (USD/t)	529	-5%
North-Europe (USD/t)	586	-2%
China (USD/t)	497	3%
US (USD/t)	678	-6%
<b>Iron Ore:</b>		
Fe65% (USD/t)	102	17%
Fe63.5% (USD/t)	87	21%
Fe58% (USD/t)	62	31%
Fe52% (USD/t)	46	51%
Inventory China (10,000 Mt)	13.780	-1%
Import China (2018) (10,000 Mt and % yoy)	106.478	-1%
<b>Coking Coal:</b>		
Coal India (USD/t)	201	-7%
Coal China (USD/t)	187	-4%
Coal Russia (USD/t)	173	-1%

## Increasing pressure on steel mill margins

The profitability of many steel mills was relatively robust until August 2018. The global steel price was high thanks to solid demand for steel and the prices of the main raw materials for making steel (iron ore and coking coal) were under pressure due to overproduction. But the tide has turned since September 2018. The global steel price fell more sharply, while raw material prices showed a strong recovery. This price dynamic ultimately has a major effect on steel mill margins.

Figure 1: Steel price versus prices of iron ore and coking coal



Source: Thomson Reuters Datastream

Since the announcement of President Trump's import tariffs in March 2018, prices in the ferrous sector have been on a downward trend. The global steel price had lost 18% at year-end 2018, mainly due to the combination of weakening demand for steel and sufficient availability. But the negative sentiment of investors also depressed the price. The trade war that reared its head after March 2018 resulted in further worries about the global economy and China. This translated into a further decline in the growth of metals demand. In addition, the business activity in the Chinese construction, manufacturing and automotive sectors decreased, which led to a weaker demand for steel, depressing the iron ore price by 11% from March to December 2018. But the structural overproduction in the iron ore market also played a role in the price pressure. In view of this, the loss of just 3% on the price of coking coal in the same period qualifies as relatively low.

Since the start of 2019, the price of steel has declined further (due to the persistently weak sentiment), while the iron ore price increased sharply. Until February, the iron ore price rose by more than 23%, partly due to the dam disaster in Brazil. The flooding that

### Trend in global steel price:

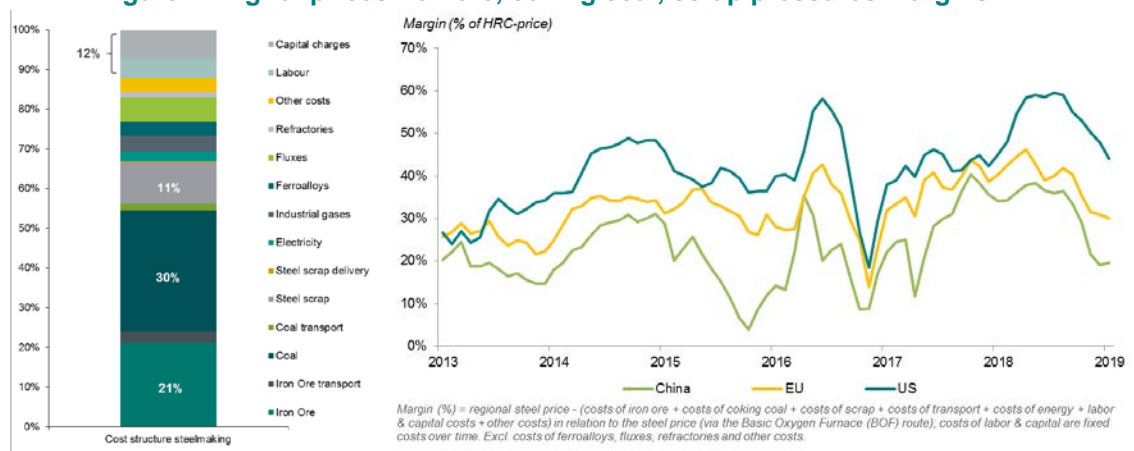
	Spot price (06/02)	Price trend in one week (in %)	Price trend in one month (in %)	Price trend in three months (in %)	Price volatility over last months	Price volatility since start 2018	Price volatility since 2000
<b>Steel HRC</b>	<b>USD 546/t</b>	<b>1.1%</b>	<b>-0.7%</b>	<b>-9.9%</b>	<b>2.0%</b>	<b>2.9%</b>	<b>4.5%</b>

Volatility is the difference in the highest price and lowest price over the period mentioned (on a monthly basis, moving averages)

was caused by the collapse of the dam resulted in a supply restriction and has caused damage to the infrastructure near the mines. Prices for iron ore surged as a result. Chances are that raw materials prices will rise further during the first quarter. But it is not just Brazil that has supply problems. Australia is also expected to experience some mining disruptions. The first quarter of the year is the so-called 'Wet Season' there, which is accompanied by a lot of rain that causes mines (mainly coking coal) to flood. This keeps prices of raw materials for steelmaking at elevated levels.

Because the steel price is expected to weaken further and the prices of iron ore and coking coal will probably remain relatively high in the coming months, the profitability of many steel mills is decreasing. The costs of iron ore and coking coal together make up over 50% of the total costs of steelmaking. Some steel mills are able to pass on the increased raw material costs to end users. Another strategy to limit the rising costs of iron ore, mills can switch to lower-grade iron ore. These are relatively low in price, but they require more energy on balance. And the costs of gas and electricity have risen as well. In total, utility costs account for 6% of the total. In addition, the price of steel scrap – often an indispensable ingredient via the Basic Oxygen Furnace route – has increased since the start of 2018. Making up 11% of total costs, this also contributes to pressure on margins. On average, transport costs account for approximately 6% of total costs and they declined during 2018, contrary to all other cost items. On balance, however, this has contributed only fractionally to the margins, since the price of transport were relatively low to begin with and will, for the time being, remain low.

**Figure 2: Higher prices iron ore, coking coal, scrap pressures margins**

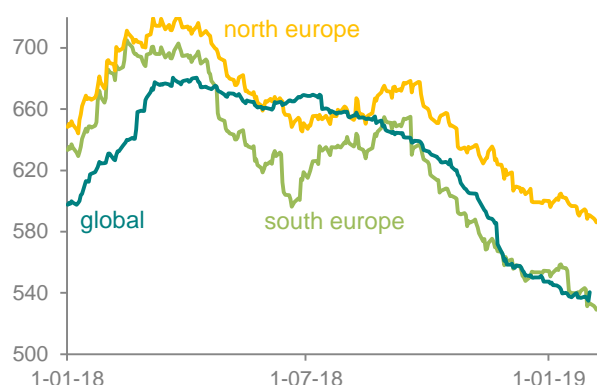


Source: Thomson Reuters Datastream, Steel-on-the-net, ABN AMRO Group Economics

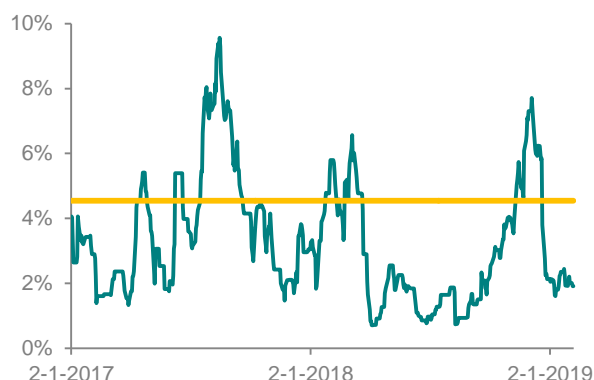
ABN AMRO expects the recent supply disruptions in iron ore and coking coal to be temporary. Prices of both raw materials are likely to start falling again in the beginning of the second quarter. After all, in the long term, sufficient iron ore and coking coal will still be available worldwide, while the growth in demand for steel is not expected to increase significantly. Moreover, many steel mills are less likely to replenish their inventories at these high prices and will first source from their existing stock and await lower prices. On balance, ABN AMRO believes that the margins of steel mills will remain under pressure in the first quarter of 2019. During the second quarter, margins will recover somewhat thanks to lower prices for iron ore and coking coal.

## Graphical Insights

Steel price Europe vs. global (USD/t)



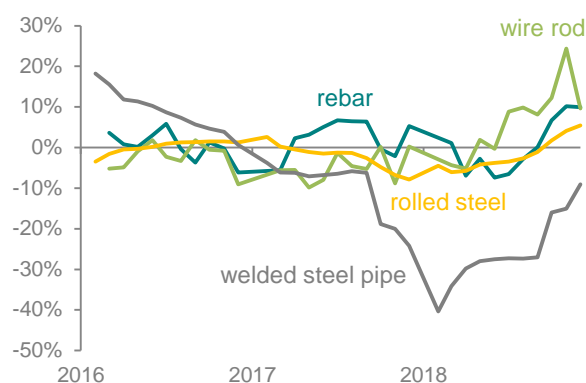
Price volatility global steel price (in %)



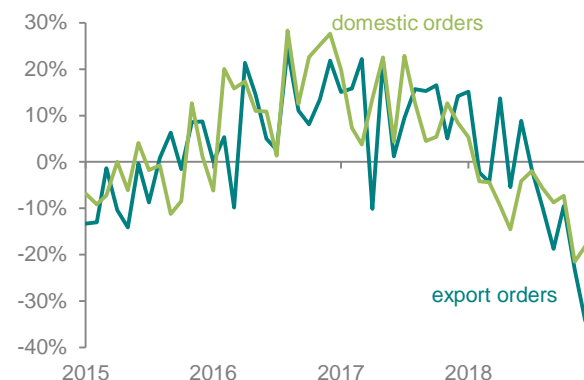
Steel production by region (in % yoy)



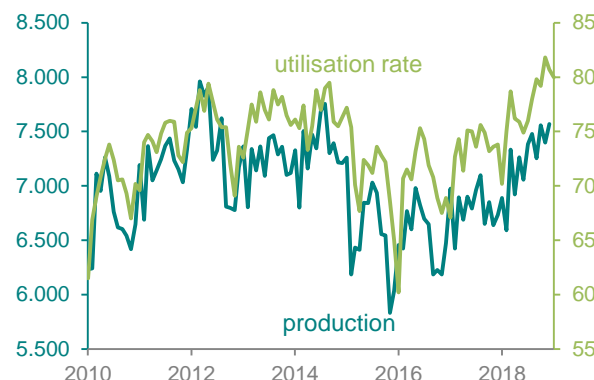
Output China steel products (in % yoy)



Orders steel Germany (in % yoy)



US utilisation rate (% , rhs) &amp; steel production (Mt, lhs)



Source: Thomson Reuters Datastream, ABN AMRO

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