Short Insight – Ferrous Metals

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Will the steel price recovery last?

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Steel became a lot cheaper last year. The global steel price lost 9% of its value in 2018 due to continued overproduction, weak demand and economic policies in the US. The price recovery seems to have set in early this year. Although the global steel price has risen by 4% since 1 January, there is still a lot of uncertainty about the sustainability of this recovery. However that may be, we still see a few rust spots. Overcapacity is the biggest problem. That will cause the most headwind on the road to market balance in the sector.

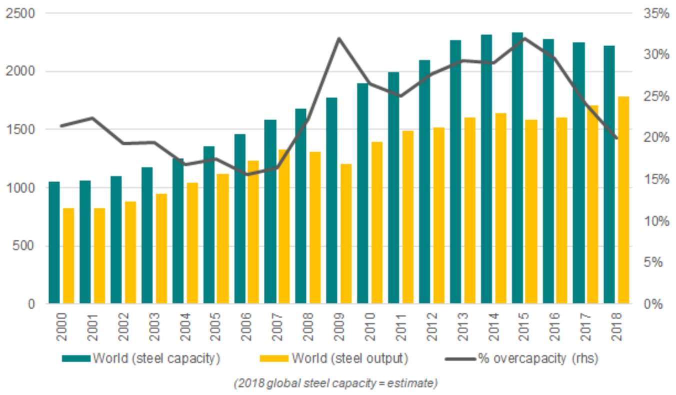
- **Steel: global steel sector is suffering from abundance**
- **Iron ore: demand for low-quality iron ore is increasing on low steel mill margins**
- **Coking coal: current tight market is causing coking coal price to rise**
- **Scrap: balance in steel scrap is resulting in stable prices**

Global steel sector is suffering from abundance

The global steel price has risen by around 4% this year. The price recovery was mainly due to higher input costs for iron ore, coking coal and scrap. From a fundamental point of view, however, there is no reason for the increase in prices. Late last year, the OECD Steel Committee concluded that there is 540 million tonnes of overcapacity worldwide. That corresponds to 24% of total capacity. That said, capacity has declined in China and Europe since 2016. That may be positive, but overcapacity still feels like a millstone around the sector's neck. If demand for steel is disappointing, the problems will accumulate further. And demand is weakening at present. Activity in the construction sector is still growing, but the growth rate is persistently low. Car sales in the US, China and Europe are highly disappointing. In short, the sector will continue to be subject to pressure for the time being.

Overcapacity in global steel sector

x 1 mln tonne



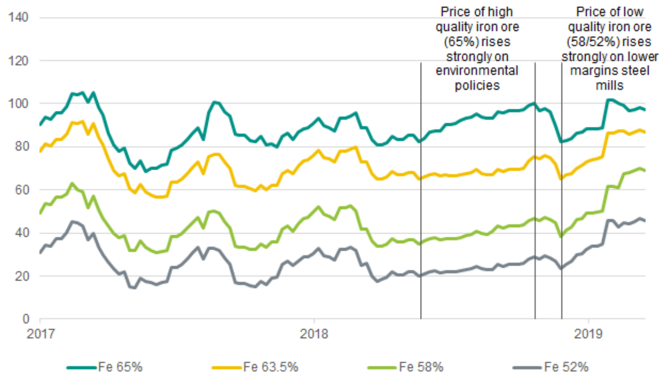
Source: OECD, WSA, Thomson Reuters Datastream, ABN AMRO

Demand low-quality iron ore rises on low steel mill margins

Mining disruptions in Australia and Brazil have led to uncertainty about the supply of iron ore. Both countries were faced with poor weather conditions and that made mining of ores challenging. At the same time, steel mills in China are starting to replenish their stocks. That keeps prices elevated for now. But as soon as the market is relieved of the supply problems, the price will drop again. The price of high-quality iron ore (with 65% iron content) has risen by 10% since 1 January, which is unlike the price trend in lower-quality iron ore. The prices of iron ore with 58% and 52% iron content, for instance, have increased by an average of 40% just this year. Demand for these types or iron ore has risen sharply. The margins of steel mills are low and mills prefer ores with a lower iron content for economic reasons.

Price trends iron ore of different quality

in USD/t



Source: Thomson Reuters Datastream

Current tight market is causing coking coal price to rise

The shortage on the coking coal market is caused by a number of factors. Firstly, the poor weather in Australia is affecting the mining sector. Mines have flooded and the infrastructure to and from the mines is disrupted. But strikes, maintenance programmes and mine safety inspections had an impact on supply growth as well. This keeps prices high in many regions. In addition, import restrictions and quotas on Chinese imports of coking coal have had a major effect on market dynamics. The Chinese government aims to support the domestic coal sector by restricting imports. As a result, the domestic price in China has remained relatively high. We believe that the price of coking coal is set to weaken in all regions over the coming months. The price negotiations for the May, June and July contracts have resulted in lower prices than the current spot price. Also, growth in supply is expected to be greater than growth in demand over the coming months.

Price trends coking coal by region

in USD/t

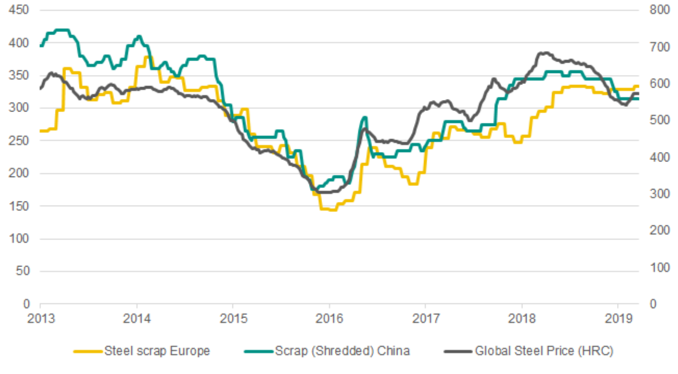
Source: Thomson Reuters Datastream

Balance in steel scrap is resulting in stable prices

Chinese scrap imports have fallen sharply since 1 March 2018, after the country implemented import restrictions on scrap for all non-ferrous scrap deliveries. As a result, steel scrap imports from China decreased by 86% until February (year-on-year). However, the scrap price in China has come under pressure due to sufficient supply and the low margins of many steel mills. Demand for scrap in the EU and the US is still good, although growth in demand is somewhat disappointing. This will change as soon as the seasonal demand for scrap increases again. In many countries, the building season will be off to a new start in April. Due to weather conditions this winter – which caused many infrastructure problems – the supply of scrap was disappointing in many regions. That kept the scrap price high. Supply will increase again in the spring, leading to market balance. This will result in a more stable scrap price over the coming months.

Price trend steel and steel scrap EU and China

in USD/t



Source: Thomson Reuters Datastream