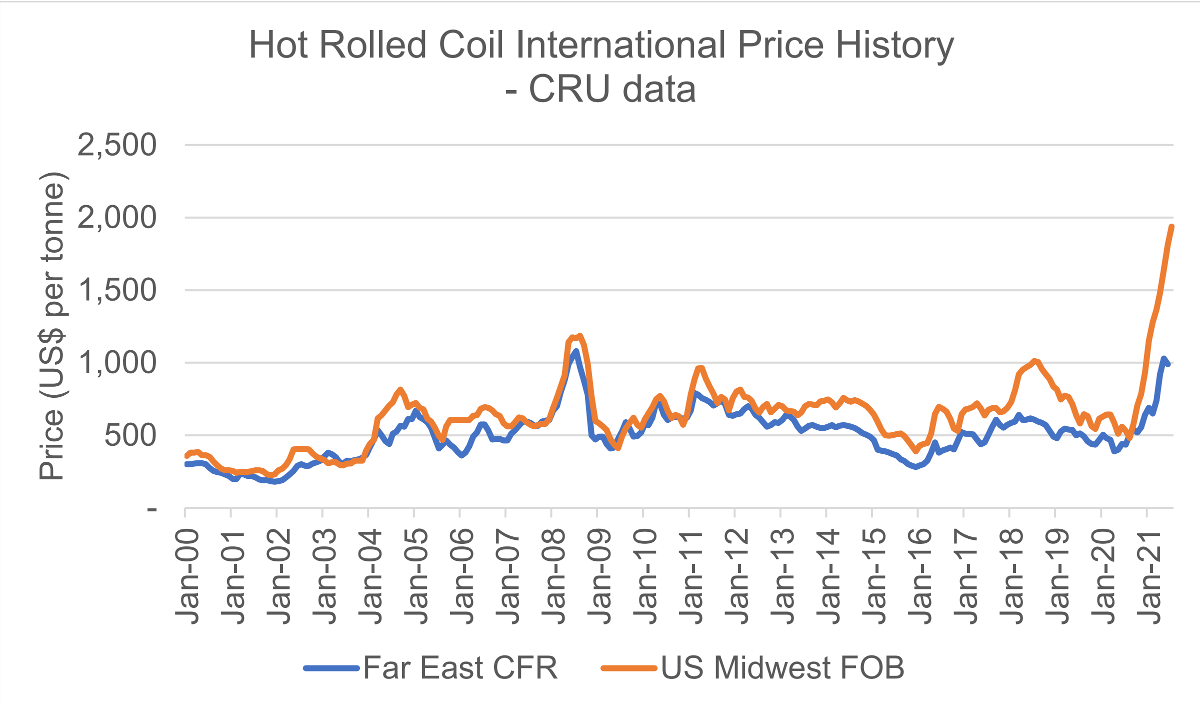
Global Steel Market Dynamics

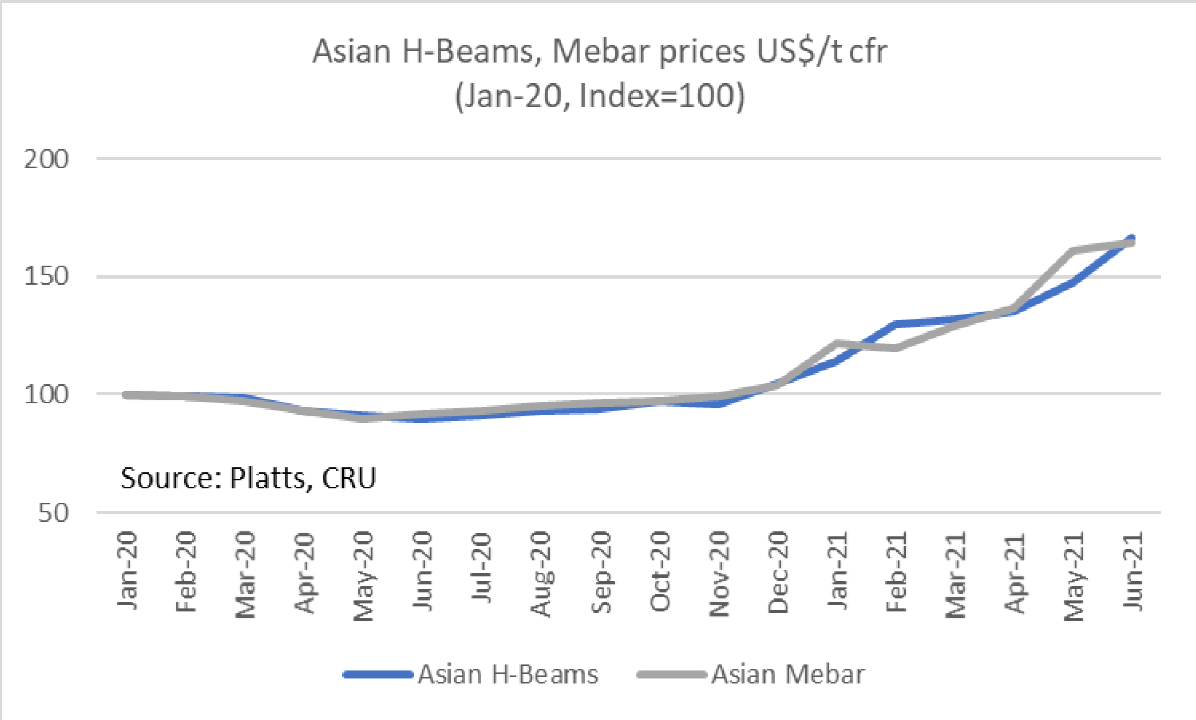
Many members have recently commented to the Australian Steel Institute on the significant steel price increases they have experienced during the last 12 months, often in combination with tightness of supply.

The ASI is aware of a number of factors that are driving these market dynamics. To provide some background and context, some of these are factors are discussed in the following paragraphs.

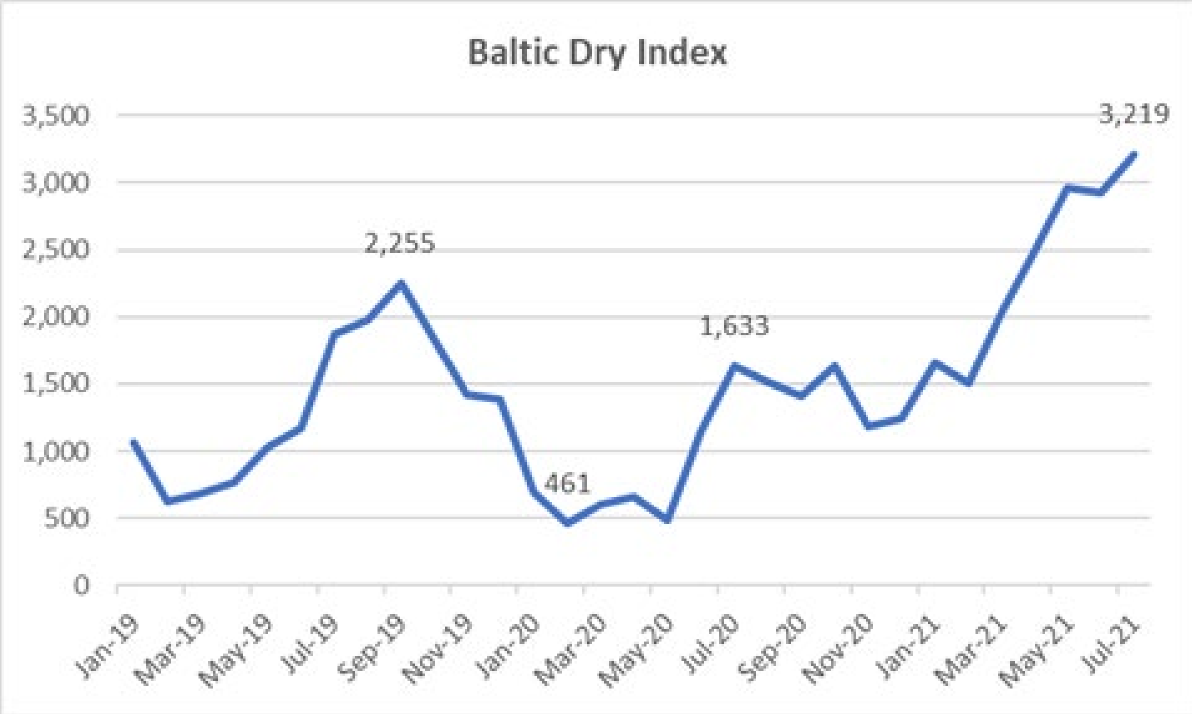
Probably the most significant factor to note is that there is an unusual synchronised peak in global demand for steel. This is thought to be largely driven by governments everywhere significantly increasing spending on building and infrastructure projects in a bid to stimulate a post pandemic economic recovery. By way of comparison, the most similar recent period of synchronised global demand was the pre-GFC period in 2008/2009. The chart below of benchmark international hot rolled coil prices for the last 20 years, demonstrates the significance of the rate of price increase in 2020/2021 relative to previous peaks.



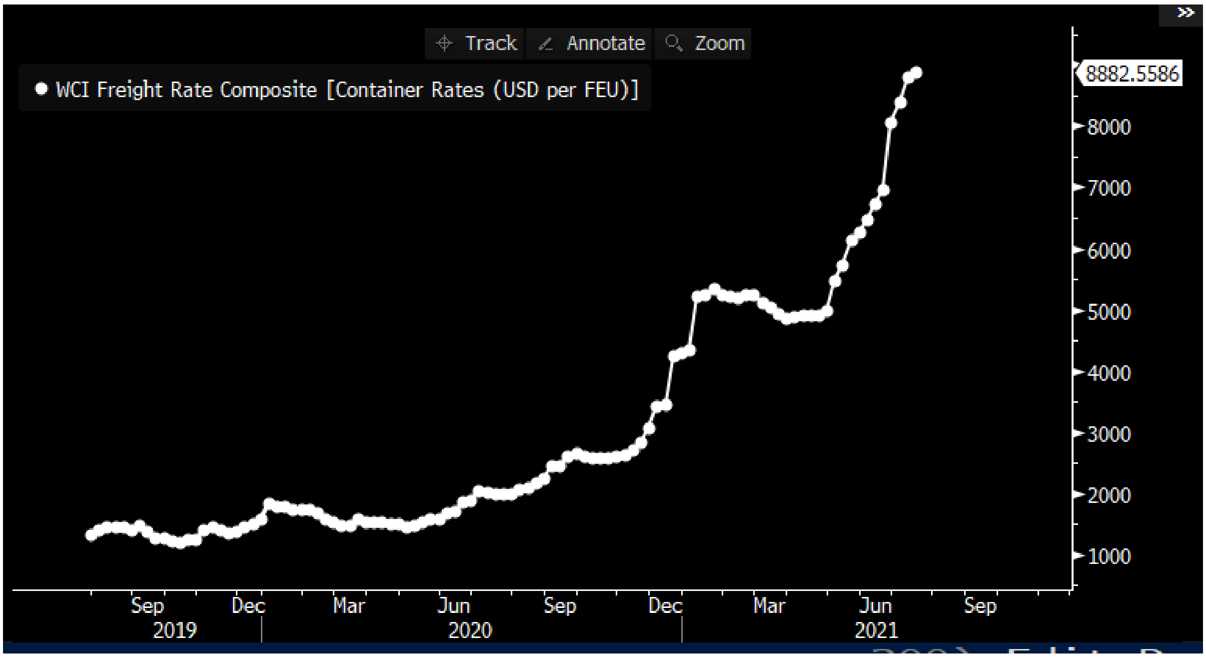
The picture is similar for commodity long products, such as H-Beams and merchant bar. The next chart demonstrates that benchmark international prices for these products have increased by more than 50% in less than 12 months.



Another important factor is the shortage of international freight capacity, and associated extended shipping times. For anyone reliant on international supply chains, this adds to the demand for steel because shipping delays effectively mean that more inventory is needed in the supply chain. The Baltic Dry Index is reported daily by the Baltic Exchange in London. The index provides a benchmark for the price of moving the major raw materials by sea. The next chart indicates that this index has risen sharply over the last 12 months (data courtesy of Bloomberg).



There has been an even more significant increase in the cost of container shipping, with fourfold price increases over the same period. The next chart (also using data provided by Bloomberg) demonstrates this trend.



A third significant factor is the limited amount of inventory currently held in supply chains. During the initial period of the pandemic in March to June 2020, most businesses ran down steel inventories based on the assumption of needing to preserve cash during the forecast protracted economic downturn. As steel demand in many sectors rebounded relatively quickly and strongly, there hasn't been an opportunity to rebuild inventories. The need to rebuild supply chain inventories is creating additional demand.

There are a number of the local factors also contributing to demand in Australia. Many of our members with exposure to the rural economy are reporting a boom in agricultural investment on the back of some excellent seasons, particularly for the eastern states. Record levels of residential home construction, particularly for detached dwellings are being reported. This seems to be driven by a combination of funding incentive via Commonwealth and state government support schemes such as HomeBuilder, and a growing trend to lifestyle changes away from capital city CBDs. There is also a lot of anecdotal reporting to suggest that whilst international borders remain closed, the associated discretionary spending power is being redirected to home renovations, improvements and upgrades. Finally, we are also seeing the early indications of increased investment in local manufacturing capacity and capability across a wide range of industry sectors. These factors are all contributing to increased demand for locally manufactured and fabricated steel intensive products.