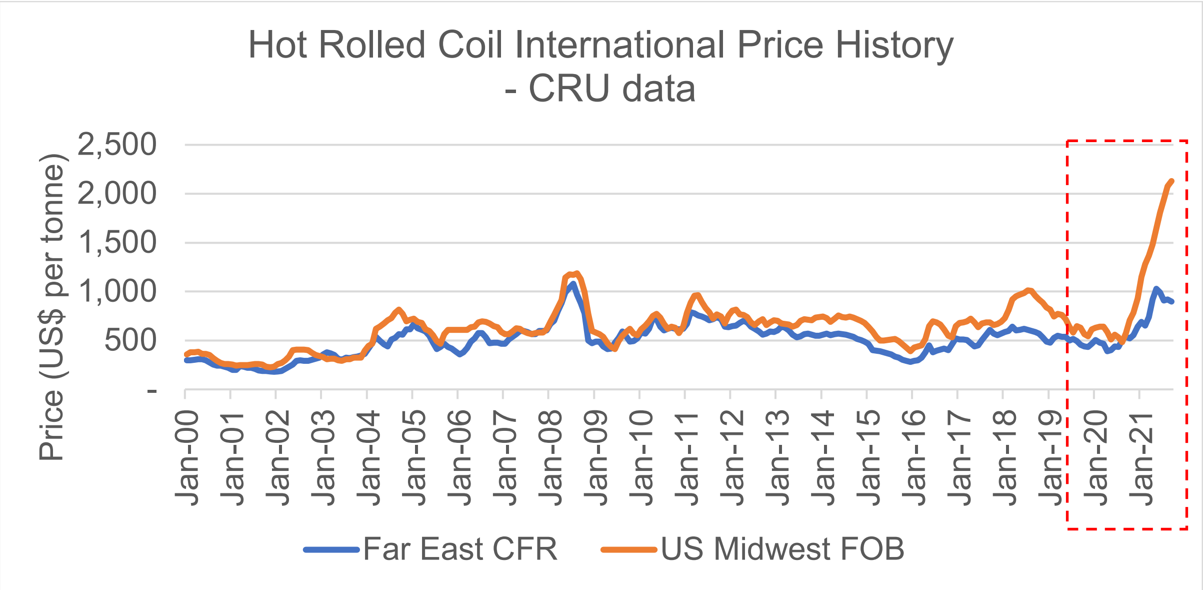
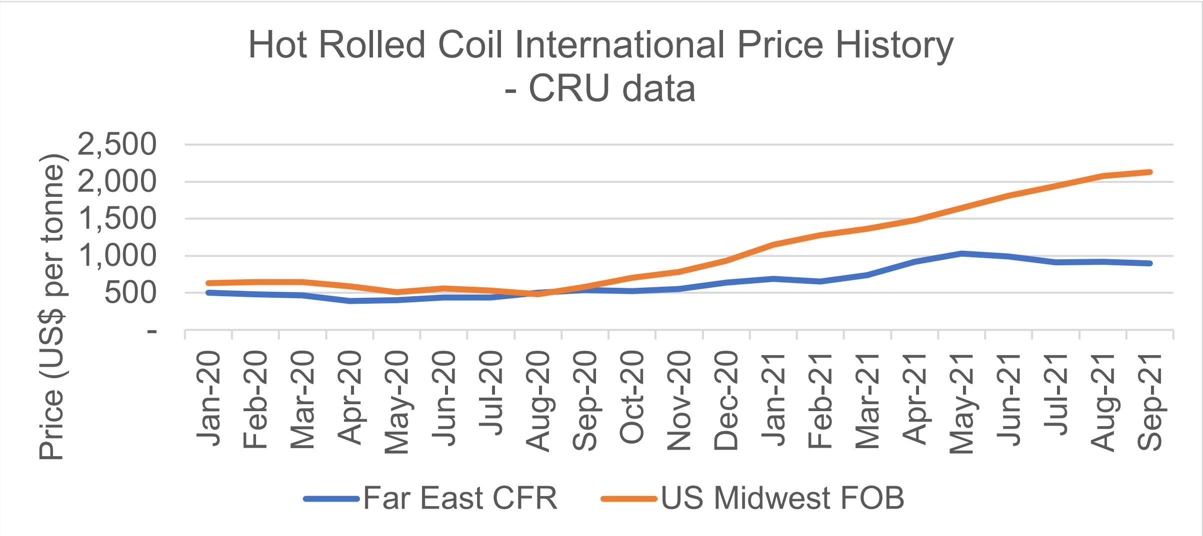
Global Steel Market Dynamics – Part II

In response to ongoing enquiries from members seeking to better understand the current market conditions, the Australian Steel Institute is providing this update to the popular Global Steel Market Dynamics document.

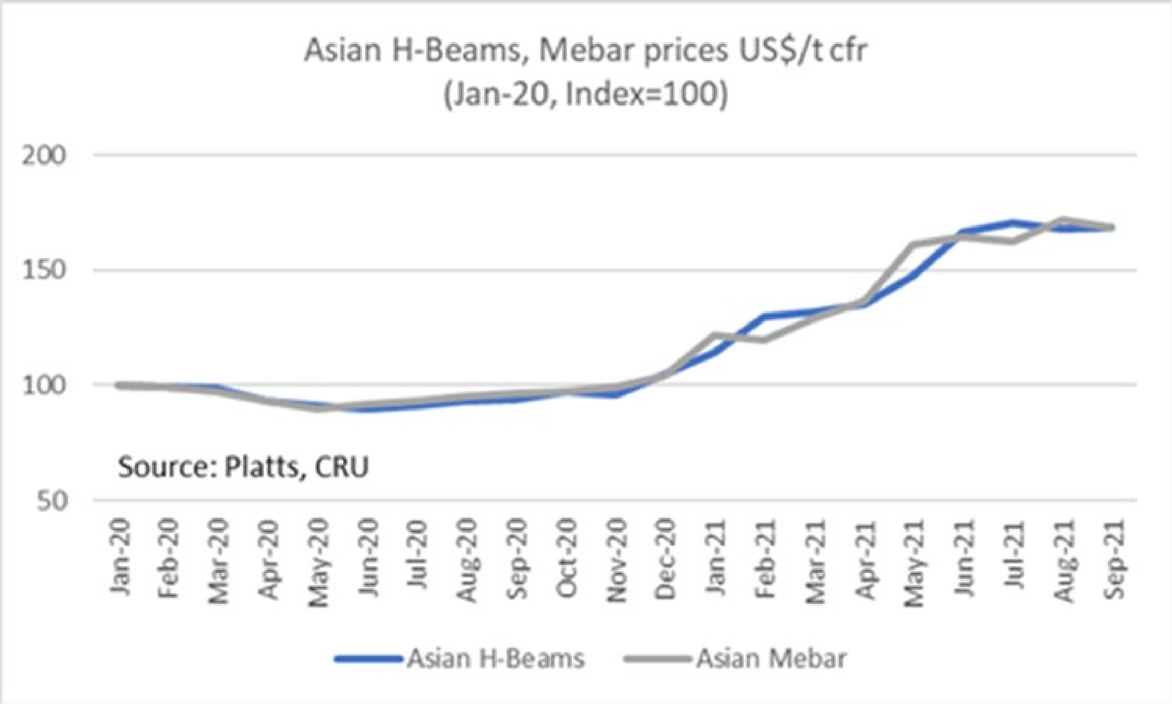
Probably the most significant factor to note is that there is an unusual synchronised peak in global demand for steel. This is thought to be largely driven by governments everywhere significantly increasing spending on building and infrastructure projects in a bid to stimulate a post pandemic economic recovery. 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.



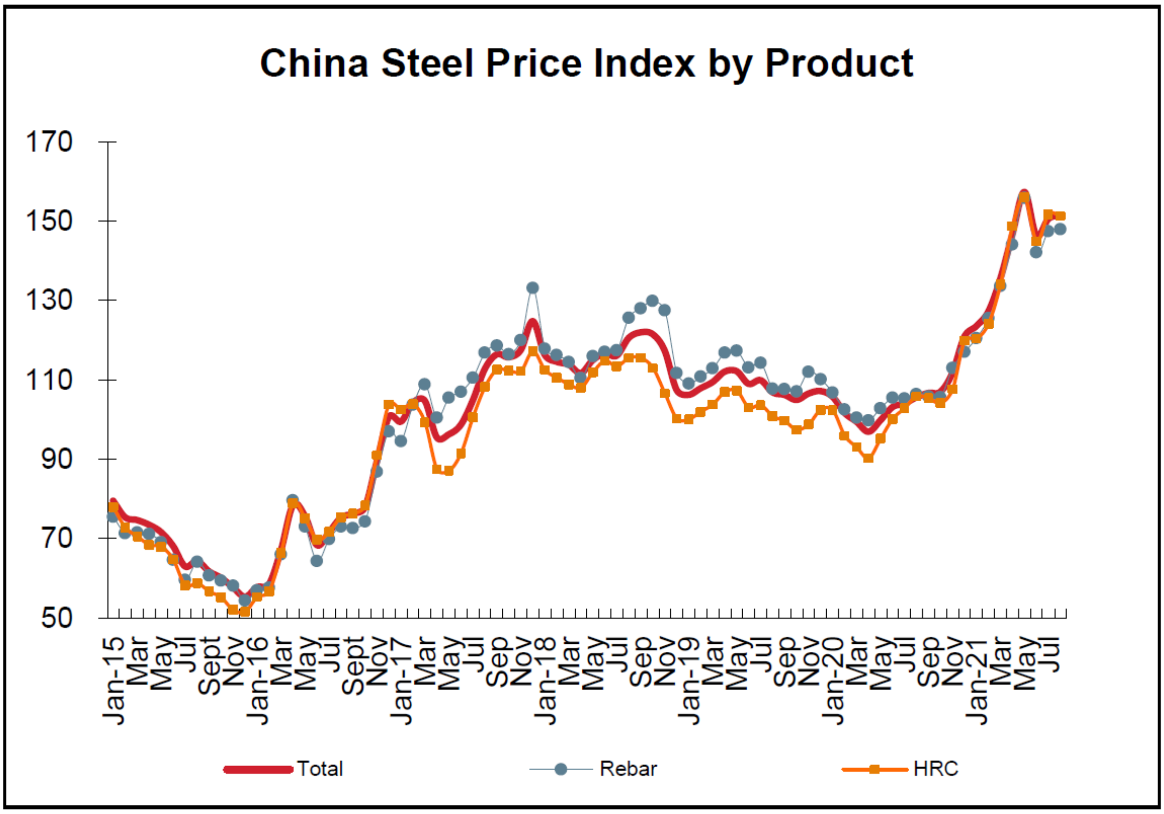
The period for January 2020 to September 2021 is shown in more detail below.



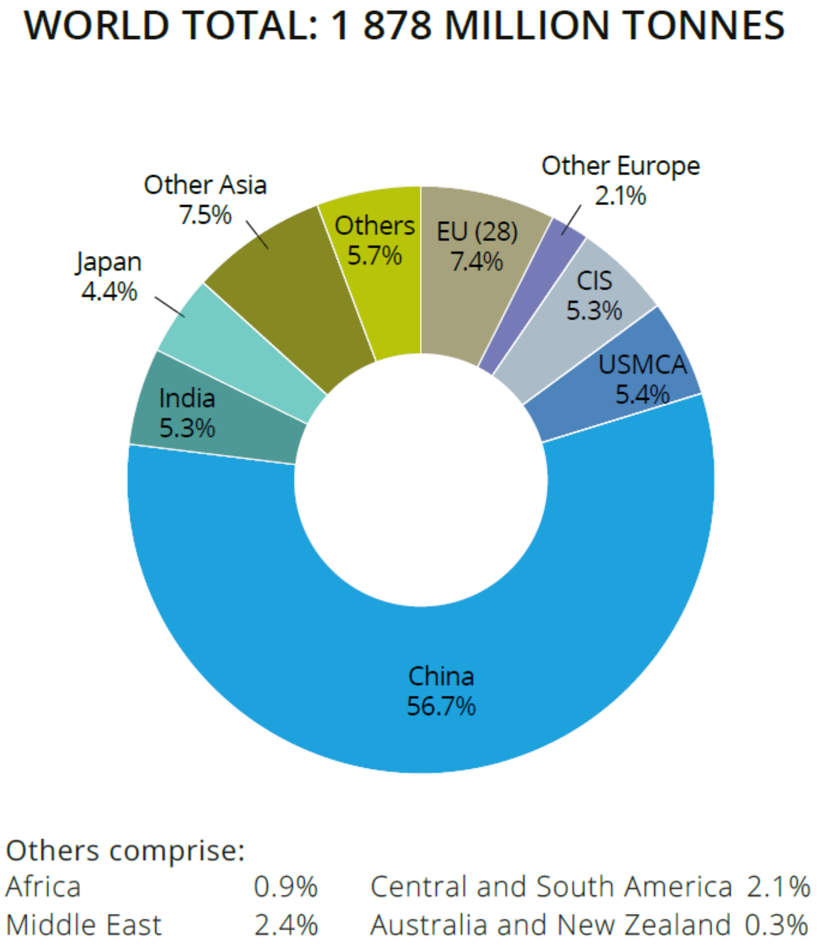
The picture is similar for commodity long products, such as H-Beams and merchant bar as demonstrated in the next chart.



What can be concluded from these charts is that whilst the rate of price increase may have slowed or flattened in recent months, the benchmark prices remain at significantly elevated levels compared to the long run average. This pattern is also being observed in China as indicated in next chart (from World Steel Association).



The infographic below (published by World Steel Association) explains that China was responsible for over half of global crude steel production in 2020, which is more than ten times greater than the next largest country.

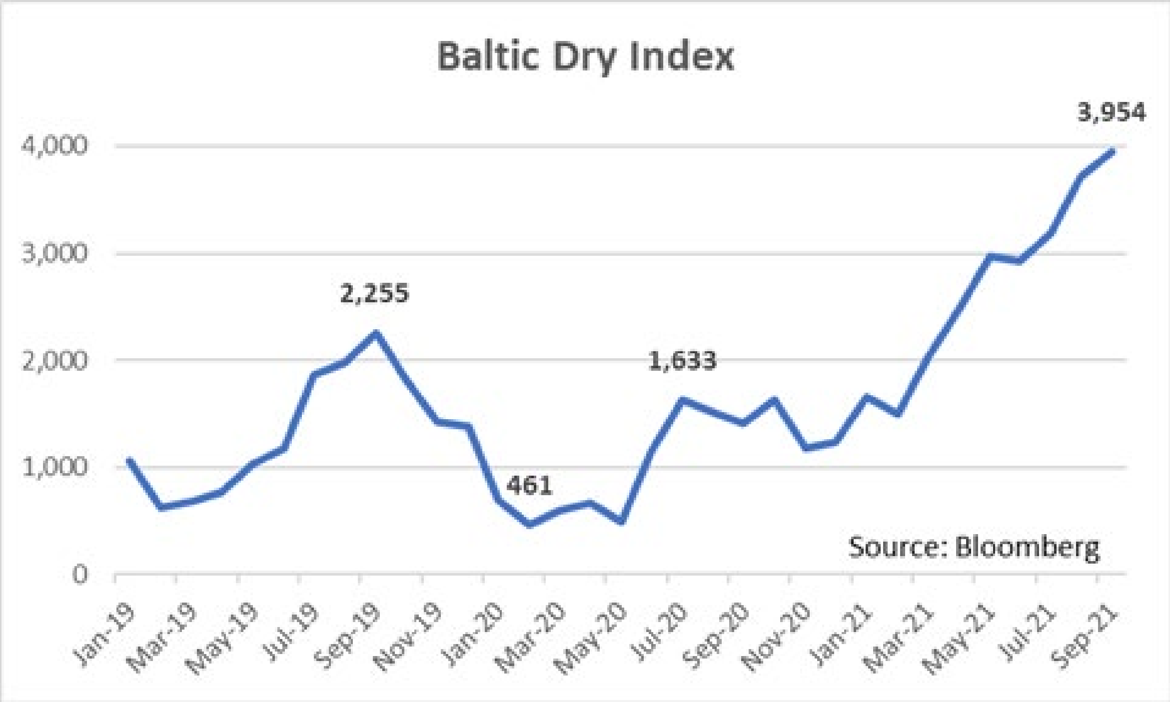


The significance of this information is that even small changes in the steel supply or demand situation in China can have a significant impact on other markets.

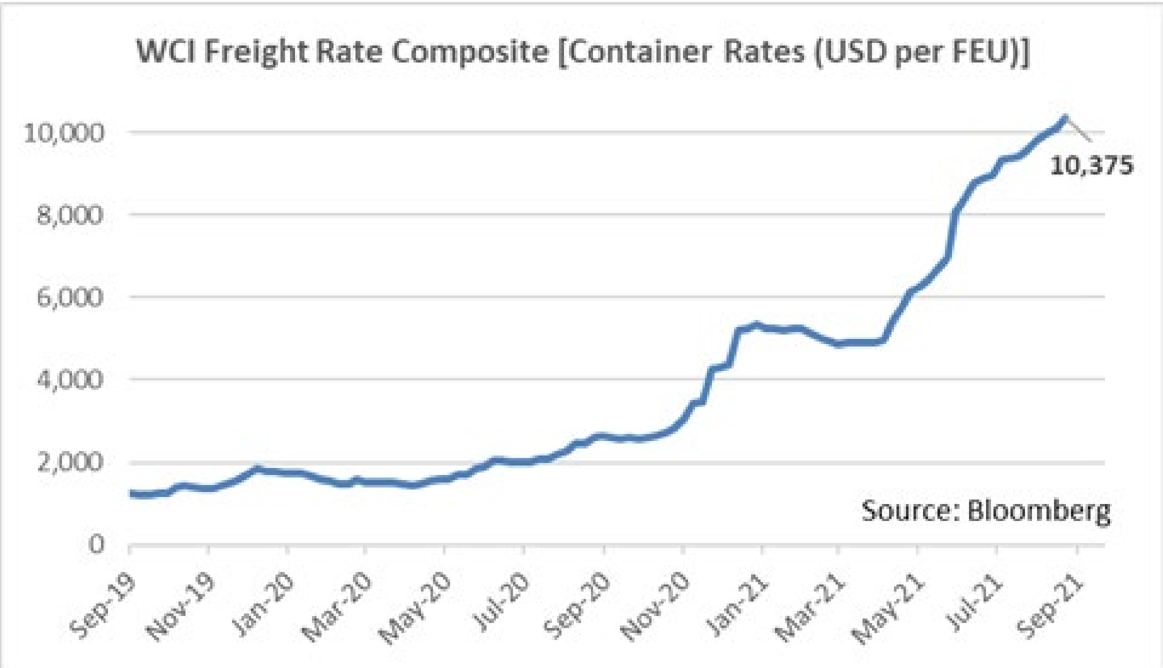
An example of this was the announcements made by the Chinese Ministry of Finance in May and then also July regarding changes to the tax treatment of steel exports. The substance of these changes was to reduce or remove completely a rebate on the 13% Value Added Tax (VAT) that applies to most types of steel exports, with effect from August. Depending on individual commercial circumstances, this change could result in less steel being available for exports.

The Chinese government has also announced measures to improve air quality prior to the Winter Olympic Games in February 2022, which has resulted in temporary closures of steelmaking capacity in some provinces. One example of this policy being implemented was reported in the August 2021 edition of China Monthly (World Steel Association): '*To comply with the national goal of steel output restrictions for 2021, the annual crude steel production in Tangshan should decline by 12.37 Mt year-on-year in 2021.*'

Another important factor is the availability of international freight capacity, and associated shipping times. For anyone reliant on international supply chains, this contributes 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 fivefold price increases over the same period. The next chart (also using data provided by Bloomberg) demonstrates this trend.



There are a number of the local factors also contributing to very strong steel 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, across many different products. 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. Commonwealth and state infrastructure building programs have been maintained or even expanded during pandemic, resulting in ongoing underlying demand from these long run projects.

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.

September 2021