

## STEEL

### The Ferrous Freefall: China's Steel Sector Grapples with Dwindling Demand

In the realm of China's domestic steel market, prices witnessed a notable uptick across various categories. Billet prices remained stable at \$420 per metric ton EXW without VAT, while rebar prices decreased slightly to \$465 per metric ton, marking a 1% decline. Hot-rolled steel also experienced a 1% dip, reaching \$460 per metric ton. Among paper traders, steel rebar futures plummeted to \$420 per metric ton in May, marking the lowest point in nearly two months. Meanwhile, on the FOB China front, steel prices held steady, with rebar and hot-rolled steel both at \$535 per metric ton, reflecting a stable market sentiment amidst the challenges faced by the sector. This decline, which mirrors the broader trend in ferrous metals, is largely attributed to the bleak outlook for demand in China, the world's top steel consumer. Private data has revealed a grim picture of the Chinese property market, with home sales from the country's 100 largest real estate companies plunging by a staggering 34% year-on-year in May, following a 45% drop in April. The excessive inventory in Chinese housing has fueled market skepticism regarding the impact of the government's house-buying program. Despite the People's Bank of China allocating CNY 300 billion for home purchases, this figure pales in comparison to the estimated inventory required to balance out the oversupply. This measure has clashed with Beijing's previous efforts to salvage debt-ridden property developers, which play a crucial role in the Chinese economy and serve as a significant source of global steel consumption. Compounding the pessimism, new data from the National Bureau of Statistics Purchasing Managers' Index has revealed a sharp slowdown in construction activity in May, following accelerations in April and March. This deceleration further underscores the challenges faced by the steel sector, as construction remains a key driver of steel demand.

As China's steel sector grapples with the repercussions of dwindling demand, the ferrous freefall has sent shockwaves through the industry. The confluence of factors, including the struggling property market, ineffective government interventions, and slowing construction activity, has created a perfect storm that threatens to derail the sector's recovery. As stakeholders navigate this tumultuous landscape, the need for innovative solutions and a reevaluation of existing strategies becomes increasingly apparent.

### The Ferrous Forge's Fickle Flames: India's Steel Saga Unfolds

In the realms of India's ferrous forge, a fervent liturgy unfolds, where the ebb and flow of prices echo the fickle tides of demand and supply. Amidst this rhythmic dance, scrap prices in Durgapur and Mumbai have risen, ascending to ₹30,000 per metric ton, up 4%, and ₹35,500 per metric ton, unchanged respectively. The sponge iron too has felt the ripples of change, with Durgapur bearing witness to a 3% dip, reaching ₹29,900 per metric ton, while Raipur's embers burn brighter at ₹33,450 per metric ton, a 3% upswing. In Durgapur, billet prices remain stable at ₹43,800 per metric ton, while Raipur surged 2% to ₹44,800 per metric ton. Rebar prices in Delhi NCR have witnessed a 2% ascension, reaching ₹51,400 per metric ton, while Durgapur and Raipur have embraced the fervent tide, ascending to ₹47,500 per metric ton and ₹49,000 per metric ton respectively, marking a 1% and 3% upward trajectory. Yet, amidst this ferrous liturgy, the hot-rolled coil, that harbinger of domestic demand, has exhibited an upish path. In Delhi NCR, a 2% increase has been observed, with prices settling at ₹54,300 per metric ton, while Mumbai has embraced a 2% ascent, reaching ₹54,500 per metric ton. Amidst the rhythmic cadence of maintenance shutdowns reverberating through the Indian steel mills during the April-June quarter, the domestic hot coil market demand remains muted as the general election results were announced on Tuesday. Domestic demand has been weak in the last month due to elections, and sources do not expect demand to improve post-election due to monsoons, which occur between June and September, and due to extra product availability as mills return to full production in July following shutdowns. An estimated 300,000-1 million tonnes has been off the market during this period.

In the Indian import market segment, China-origin offers for HRC were heard at \$560-570 per metric ton CFR India, for commercial-quality base grades, June/July shipment. Japan-origin HRC import offers were heard at over \$600 per metric ton CFR India, a drop of around \$30 per metric ton on-week. Last week, a Japan-origin deal was heard at over \$600 per metric ton CFR India, for 60,000 tonnes of re-rolling grade, July/August delivery. Vietnamese offers were heard at \$590-595 per metric ton CFR Indian ports.

Indian export activity to Europe remained weak amid low demand, and Indian mills are still out of the export market. HRC offers from various nations intertwine, weaving a complex narrative of competition and market dynamics. Amidst this intricate dance, the European Union finds itself at the receiving end of a flurry of HRC offers from diverse sources, including the exotic lands of India, the ancient realm of Egypt, and the Anatolian heartland of Turkey. These offers, laden with the burden of antidumping duties, converge at the Italian shores, with prices hovering around the €610-615 per metric ton CIF mark.

India may have to deal with the indirect consequences of a proposed restriction by the EU on access to the residual steel products import quota that is allowed to Southeast and East Asian countries such as Taiwan, Vietnam, and Japan. The EU proposes that, under the residual tariff rate quota, no one country may import more than 15% of the total volume available in each quarter. This move would lead to Southeast Asian suppliers of hot-

rolled coil, such as Taiwan, Japan, and Vietnam, sending increased volumes of their HRC exports to India. The freight costs from these three countries to India are far lower than freight to Europe, and the consumption of steel in India is on the rise. The next-best market after Europe for these countries to sell their HRC will be in India. Indian exports of HRC to Europe will be further restricted with the implementation of the Carbon Border Adjustment Mechanism, while India may have to take more HRC imports from Southeast Asian countries.

## Turkish Steel Titans Grapple with Global Headwinds & Domestic Doldrums

Amidst the bustling backdrop of the 89th International Rebar Exporters and Producers Association meeting in Istanbul, Turkish rebar producers painted a grim picture of their future, as they brace themselves for the relentless onslaught of US and EU trade barriers and the looming threat of lower-cost production from rival nations. The once-thriving export volumes now hang in the balance, as the industry grapples with the harsh realities of a rapidly shifting global landscape.

In the domestic arena, the specter of high inflation and soaring interest rates casts a long shadow over the Turkish steel trade. The nation finds itself caught in a vicious cycle of stagflation, with inflation rates projected to hover around a staggering 60% in 2023 and 40% in 2024. The construction sector, a vital cog in the Turkish economy, bears the brunt of this economic maelstrom, as the Central Bank's impending interest rate hikes, expected to reach a dizzying 40% by year's end, further dampen the industry's prospects.

The local rebar market in the Iskenderun region, ravaged by February's catastrophic earthquakes, clings to a glimmer of hope as reconstruction projects slowly take shape. However, the government's cautious approach, coupled with the ever-present threat of aftershocks, has limited the scope of these endeavors. The state-owned construction behemoth, Toki, shoulders the burden of the assigned projects, while the market eagerly awaits the government's nod for municipal authorities to unleash a flurry of construction tenders in the aftermath of the March 2024 local elections.

As Turkish steel producers navigate the treacherous waters of global trade, they find themselves caught between the Scylla of trade barriers and the Charybdis of lower-cost competition. The once-lucrative US and EU markets now lie behind the impenetrable walls of Section 232 tariffs and steel safeguard quotas, while Turkish mills grapple with the European buyers' perplexing demand for imported finished steel products devoid of Russian semi-finished steel.

Meanwhile, the energy-rich nations of northern Africa and the GCC region, armed with their direct reduced iron feedstock and lower production costs, pose an existential threat to Turkish exports, as the EU's impending transition to EAF-based steelmaking threatens to keep Turkish prices elevated for the foreseeable future.

## Vietnam's HRC Market Falters as Chinese Suppliers Unleash Price Onslaught

In a tumultuous turn of events, Vietnam's once-thriving commercial grade hot-rolled coil market has found itself in the throes of a downward spiral, as Chinese suppliers mount an aggressive assault on prices. The market tremors have been further exacerbated by Vietnamese HRC producer Hoa Phat Dung Quat's recent decision to slash its domestic values for August shipments, sending ripples of uncertainty through the industry.

The market is awash with offers for Q235 HRC from China, with prices plummeting to \$530-535 per metric ton CFR Vietnam, a staggering \$10 per metric ton drop from last Friday's levels. Vietnamese traders paint a grim picture, with one remarking on the "very aggressive agents" inviting bids at these lower price points. Another trader whispers of a booking at \$530-532 per metric ton CFR Vietnam, though details remain elusive.

Amidst the chaos, Hoa Phat has taken drastic measures, slashing its list sales prices by around \$9 per metric ton for its latest domestic HRC price allocations on June 3rd. The company's quotes for non-skin passed SAE1006 or SS400 grade HRC now stand at the equivalent of approximately \$568 per metric ton CFR southern Vietnam, excluding VAT. Trading and rerolling market sources begrudgingly admit that Hoa Phat's latest HRC domestic prices are reasonable, aligning with the current rerolling HRC market environment. Chinese-origin SAE 1006 2-2.5mm thickness HRC offers remain steadfast at around \$555-560 per metric ton CFR Vietnam, holding their ground amidst the turmoil.

However, the widening chasm between Chinese SAE 1006 HRC and commercial HRC prices, once a mere \$5-10 per metric ton, has dealt a severe blow to Hoa Phat's competitiveness in the commercial HRC market.

Vietnamese pipemakers, once loyal customers, may now find Hoa Phat's prices too steep to bear. A Vietnamese trader laments, "Hoa Phat's quotes are within norms, but some buyers could end up paying less." He reveals the mill's closely guarded secret: volume-based discounts, where an order exceeding 20,000 metric tons may qualify for a generous \$10 per metric ton or more price reduction.

In a desperate bid to stay afloat, Hoa Phat has slashed its latest list price to southern & northern Vietnam by \$10 per metric ton, settling at \$565 per metric ton, a far cry from last month's official monthly domestic price. As the Vietnamese HRC market navigates these treacherous waters, the future remains uncertain, with Chinese suppliers poised to capitalize on the chaos and Hoa Phat fighting for survival in an increasingly hostile market landscape.

## Europe's HRC Market Grapples with Stagnation as Steelmakers Ponder Price Hikes

In the stagnant waters of the European hot-rolled coil market, a glimmer of change is on the horizon as steelmakers mull over potential price increases in the wake of the European Commission's announcement of a 15% cap per origin over the "other country" tariff-rate quota for HRC. Despite the current quagmire of weak consumption for coil and its downstream derivatives, the EU's latest move is set to discourage imports from third countries, leaving buyers with no choice but to turn to domestic material.

Steelmakers, emboldened by the prospect of reduced competition from abroad, are now eyeing a potential price rebound of up to €50 per metric ton in June, as stocks remain particularly low. Antonio Marcegaglia, chairman of Marcegaglia, shared his insights on the sidelines of the Danieli event in Udine, suggesting that international coil prices may see an uptick towards the end of the second quarter or the beginning of the third. However, he cautioned that final demand for coils at an international level remains rather static, and any consumption rebound is likely to be more of a technical restocking driven by improved confidence in relative price stability.

The Commission's decision to amend the TRQ comes in response to the surge in imports from certain new origins, attributed to growing overcapacity in specific regions and the significant pressure exerted by a strong increase in Chinese exports to certain markets. The HRC "other country" quota has been exhausted on the first day of the quarter for several consecutive quarters, prompting the Commission to take action.

As the market awaits the anticipated price increase announcements in the coming days, HRC prices remain stable compared to the beginning of May, with transactions ranging from €630-640 per metric ton base ex-works in Europe, or €650 per metric ton base delivered as quoted by a large producer. However, trade remains limited, and buyer confidence is lacking, underscoring the fragile nature of the market. While the expected price hikes are likely to be moderate, they signal a potential shift in the dynamics of the European HRC market as steelmakers seek to navigate the challenges posed by the changing trade landscape.

## North American HRC Steel Coils Embark on a Tempestuous Journey

In the ever-shifting landscape of the North American steel market, hot-rolled coil prices find themselves caught in a tempestuous dance, as the LME Steel HRC N. America (Platts) index charts a course through uncharted waters. The index, a beacon for market participants, currently stands at a formidable \$748.00 per metric ton, a figure that speaks to the resilience of the steel industry in the face of myriad challenges.

Yet, amidst this apparent stability, a subtle undercurrent of change ripples through the market, as the index registers a modest decline of last month. This seemingly insignificant fluctuation belies the complex interplay of supply and demand forces that shape the steel landscape, as manufacturers and consumers alike grapple with the ever-shifting sands of global trade and economic uncertainty.