MOVING ADEPTLY AMID VOLATILITY

In 2018, while average global steel prices demonstrated year-on-year growth amid strong demand in all regions in the first half, intensified trade disputes between the largest global players and concerns about international economic slowdown created downward pressure in the second half. Iron ore and coking coal prices were relatively high amid supply constraints, while demand for high-grade ores supported strong premiums for Fe content and pellets.

GLOBAL STEEL MARKET

According to the World Steel Association's global steel market data for 2018, crude steel production rose by 4.5% to 1,808 million tonnes and apparent consumption of finished steel products increased by 4.9% to 1,712 million tonnes. The average steel capacity utilisation rate climbed by 3.7 percentage points to 80.9%[1].

China continued to set the tone for the global steel market in 2018, accounting for around 50% of production and consumption worldwide. Despite continued measures to cut pollution emissions and retire inefficient steelmaking capacities, the country's crude steel production grew by 6.6% to 928 million tonnes in response to strong demand from the construction and manufacturing sectors, fuelled by credit stimulus measures and new infrastructure projects. As such, China's finished steel consumption rose by 7.9% to 835 million tonnes. In addition, steel production was spurred by the jump in global steel prices in 2017-18, which helped Chinese steelmakers to generate their highest profits in nine years.

At the same time, Chinese steel product exports decreased by 8.0% year-on-year to 70 million tonnes in 2018 – the lowest level since 2013 – amid lower demand from the South Korean market, as well as the further intensification of trade tensions among major economic powers, including the US, EU and China. Governments enacted even stronger protectionist measures to shield domestic steelmakers from lower-cost producers. The US introduced 25% steel tariffs on all imports of steel products into the country. Meanwhile, the EU introduced import quotas on certain steel products to preserve the status quo in the region, in addition to anti-dumping tariffs imposed earlier on some 60% of hot-rolled coil imports.

These and other events caused global steel prices to fluctuate over 2018. In the first half of the year, they peaked amid strong demand in all regions, falling steel exports from China, rising worldwide protectionism and high prices for coking coal and scrap. In the second half, they came under pressure amid heightened concerns about global economic growth, greater trade tensions and lower raw material prices.

According to information from Metal Expert, the average annual growth in the benchmark price for hot-rolled coil from the CIS region (HRC, FOB Black Sea) was 10% in 2018, based on an average price of US$560 per tonne for the year. Despite the continued year-on-year growth in average annual terms, in line with global benchmarks, the HRC FOB Black Sea price retreated from a peak of US$613 per tonne in March to US$469 per tonne in December.

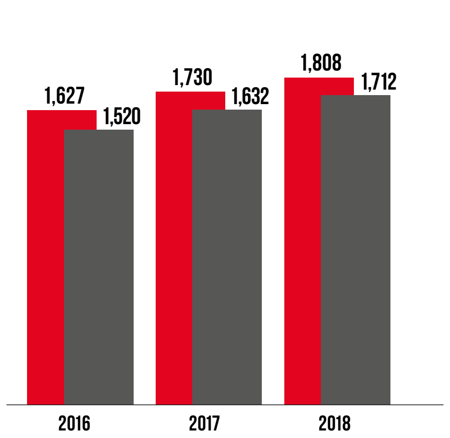
GLOBAL IRON ORE MARKET

The key driver for the global iron ore market remains the steel sector in China, which purchases some 70% of the world's seaborne iron ore supplies. While the country expanded its steel production year-on-year in 2018, its seaborne iron ore demand remained relatively flat at 1,065 million tonnes, as its increased needs were covered with additional domestic iron ore production.

As such, exports from the world's two largest iron ore suppliers, Australia and Brazil, which accounted for around 80% of global seaborne iron ore supplies in the year, were roughly flat at 1,223 million tonnes in 2018. While this is a new record high, the addition of 10 million tonnes represents an increase of just 0.8% year-on-year, the slowest growth seen in the last decade, primarily because certain producers cut output due to accidents and others closed inefficient operations, which constrained supply.

1 Calculated based on figures from the World Steel Association (crude steel production) and OECD (steelmaking capacity).

Global steel industry



■ Crude steel production, MT
■ Finished steel consumption, MT

Source: World Steel Association

Consequently, iron ore prices were higher than expected. The benchmark price (62% Fe iron ore fines, CFR China) averaged US$69 per dry tonne in 2018, compared with US$71 per dry tonne a year earlier.

Amid supportive demand for high-grade ores and an efficiency drive among steel producers in 2018, the market continued to offer strong premiums for Fe content and pellets. The premium for 65% Fe content to 62% Fe content surged by a further 30% year-on-year to an average of US$21 per dry tonne despite intra-year fluctuations in the 62% and 65% benchmarks driven by the market environment. Meanwhile, the Atlantic Basin premium for pellets in Europe rose consistently, climbing by 31% year-on-year to an average of US$59 per tonne in 2018.

In late January 2019, after the reporting date, a tailing dam collapsed in Brazil, causing catastrophic damage to the nearby community. These tragic events led to an operational closure of that mine. More importantly, it prompted Brazilian authorities to review safety requirements to all tailing dam operations in the country. The long-term implications of these developments on the global iron ore concentrate and pellet markets remain to be seen. The immediate market reaction to the events was a 20% jump in iron ore prices to around US$90 per dry tonne in mid-February 2019, amid a shift to a short- and medium-term supply deficit, a situation that prevails at the time of writing.

GLOBAL COKING COAL MARKET

Coking coal supply conditions remained relatively tight in 2018 due to slow coal production growth in China, as well as continuing port and rail limitations in Australia.

While ongoing supply-side constraints made spot hard coking coal one of the most volatile commodities, the price fluctuations in 2018 were relatively lower than in 2017. After fluctuating from a high of US$241 per tonne in January to a low of US$183 in August, the spot price rebounded to US$228 in December, compared with US$244 in December 2017. This compares with the peak of US$305 per tonne in March 2017 and the low of US$141 per tonne in June 2017. Such price dynamics further strengthened the global trend of switching from contracts to spot pricing.

Overall, the average spot hard coking coal price (HCC, daily spot, FOB Australia) grew by 9% year-on-year to US$208 per tonne in 2018.

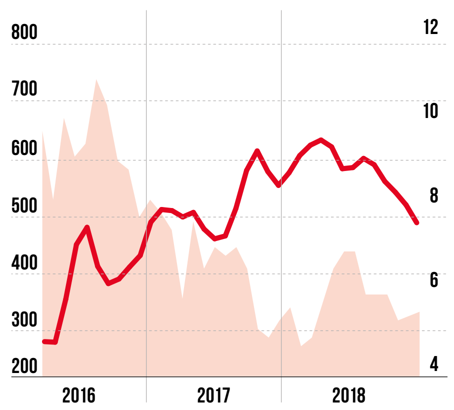
OUTLOOK

World steel prices are an ongoing source of uncertainty, while trade tensions and concerns about a potential global economic slowdown are creating price pressure. For 2019, the World Bank forecasts global growth to slow to 2.9%, compared with 3.0% in 2018. At the same time, the World Steel Association forecasts a 1.3% increase in global steel demand in 2019, amid Chinese government plans to introduce new fiscal stimulus measures to buoy consumption and maintain the pace of economic growth, as well as infrastructural and residential construction projects in India and member countries of the Association of Southeast Asian Nations.

Meanwhile, it remains to be seen how quickly and to what extent the iron ore market will respond to the events in Brazil in early 2019.

As for coking coal, an environment of seasonally tight supply is expected to persist on the market through the first half of 2019, while that easing during the second half could soften prices.

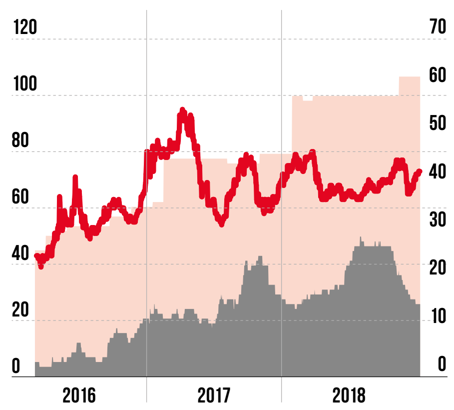
Steel product prices vs exports from China



■ Steel product exports from China, MT (RHS)
— HRC, FOB Black Sea, US$/tonne (LHS)

Source: Bloomberg, Metal Expert

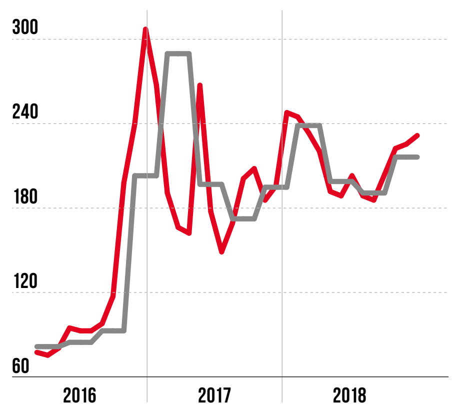
Iron ore price and premiums



■ Atlantic basin pellet premium, US$/tonne (RHS)
■ 65% vs 62% Fe iron ore fines premium, CFR China, US$/tonne (RHS)
— 62% Fe iron ore fines, CFR China, US$/tonne (LHS)

Source: Bloomberg, Platts

Hard coking coal (HCC) price



— Quarterly contract, HCC FOB Australia, US$/tonne
— Daily spot index, HCC FOB Australia, US$/tonne

Source: Bloomberg, Platts