

A new era for the global steel industry

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- A new era for the steel industry
- The current steel market: underlying drivers
- Medium-term expectations for the global steel sector
- Some risks and opportunities:
- Conclusions



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Steel timeline: a new era approaches

Global apparent steel consumption, Mt





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From a profitability perspective, the global steel industry is performing well today

Global steelmaking profitability, % EBITDA



Data: CRU Steel Cost Review: Note: EBITDA margin average of China, Europe and N. America regions.



China is driving the current upturn

Chinese costs and domestic and export HR coil prices, \$/t



Chinese costs and domestic and export rebar prices, \$/t





CISA average daily crude steel production, Mt/m

Chinese crude steel production is not at record high levels, only reported production is...



Chinese crude steel production, Mt/m



Data: CRU, CRU Crude Steel Market Outlook.



China supply reform: capacity utilisation has improved remarkably

LHS: production and capacity of crude steel, Mt RHS: capacity utilisation, %



Data: CRU Capacity Database, CRU Crude Steel Market Outlook.



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Steel demand will continue to expand over the mediumterm...but the majority of growth is outside China

Change in apparent finished steel demand, 2021 vs. 2016, Mt



Data: CRU Crude Steel Market Outlook.



Supply reform in China will ensure that profitability in the domestic market will remain elevated...

x-axis: capacity utilisation of the Chinese steel sector, 2007-2016, % y-axis: profitability of the Chinese steel sector, 2007-2016, notional EBITDA margin, %



Data: CRU Steel Cost Review, CRU Crude Steel Market Outlook.



...and strength of the domestic market is a key determinant of propensity to export

x-axis: profitability of the Chinese steel sector, 2010-2016, notional EBITDA margin, % y-axis: steel exports as a percentage of steel production, 2010-2016, quarterly, %



Data: CRU Steel Cost Model, CRU Crude Steel Market Outlook, IHS.



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Heating season restrictions: large production cuts could lift Chinese steel prices and lower exports further

Hot metal capacity and production during the heating season, annualised, Mt



Data: CRU Crude Steel Market Outlook.



Supply side restrictions have led to sharp increases in the graphite electrode price





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CRU multi-client study: https://www.crugroup.com/knowledge-andinsights/spotlights/global-graphite-electrodemulti-client-study/

Impact more likely on cost, rather than production. Market study currently being undertaken



Graphite electrode representative price, \$/t

Graphite electrode cost input to steelmaking, \$/tls



Data: CRU; Note: not a formal price assessment.



...but we believe the majority can be absorbed within the Chinese steel sector, certainly up to 2030

Crude steel, hot metal production and implied scrap availability, Mt



Data: CRU Long Term Steel Outlook, CRU Metallics Market Outlook.



Changes to cost competitiveness will open up opportunities for some steelmakers

Change in cost position, 2017-2020, BOF only, \$/tls



Data: CRU Steel Cost Model.

Exchange rate, 2017-2021, local currency vs. US Dollar, 2017 Q4 = 1.00, index



Data: CRU Industrial and Economic Outlook.



Conclusions

The steel industry has entered a new era:

• Chinese supply-side reform has transformed the fortunes of the global steel industry.

In the medium-term, steel demand outside China is forecast to grow:

 coupled with lower volume/higher priced exports from China, profitability of the steel sector should sit at sustainably higher levels.

There are risks and opportunities:

- operating at high capacity utilisations will introduce price volatility.
- additional 'heating season' controls are likely to exacerbate price volatility.
 - constrained supply of electrodes limits the sector's ability to respond to supply shocks.
- scrap generation in China will impact on bulk raw material and scrap pricing.
- exchange rate and raw materials exposure will shift underlying **cost competitiveness**, but **trade** friction is likely to diminish.



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Thank you for your attention

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Our services for steel

MARKET ANALYSIS

Steelmaking Raw Materials Monitor	Manganese Ferroalloy Market Outlook
Iron Ore Market Outlook	Silicon Market Outlook
Iron Ore Long Term Market	Steel Monitor
Outlook	Crude Steel Market Outlook
Metallurgical Coal Market Outlook	Steel Plate Market Outlook
Metallurgical Coal Long Term Market Outlook	Steel Sheet Products Monitor
Metallurgical Coke Market Outlook	Steel Sheet Products Market Outlook
Metallics Monitor	Steel Long Products Monitor
Metallics Market Outlook	Steel Long Products Market Outlook
Bulk Ferroalloys Monitor	

Service Service tlook tlook **Steel Cost Service**

COST SERVICES Iron Ore Cost Service Metallurgical Coal Cost Manganese Ferroalloy Cost Silicon Cost Service

CONSULTING CAPABILITY Valuation Strategy **Negotiation Support** Market Decisions

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