FERROUS MARKETS ANALYTICS

August 24, 2023

Macro factors weigh on demand, prices

- US and EU coil prices to soften in coming months
- China steel output yet to be reined in as finished steel exports rise
- Iron ore prices robust despite thin mill margins
- Mixed signals for Turkish scrap imports

CONTENTS European steel US steel China steel Iron ore Metallurgical coal Scrap Energy

Forecast Summary

	Iron Ore	PLV Coking Coəl	PLV Coking Coəl	Coking Coal	Rebar	HRC	HRC	HRC	Scrap
	CFR China	CFR China	FOB Australia	China	China	China	US Midwest	N.EU ex- Ruhr	CFR Turkey
	\$/mt	\$/mt	\$/mt	Yuan/mt	Yuan/mt	Yuan/mt	\$/st	EUR/mt	\$/mt
Jul-23	112	234	232	2,031	3,829	3,914	868	665	364
Aug-23	103	250	255	2,150	3,700	3,900	790	630	360
Sep-23	100	245	250	2,100	3,700	3,800	770	620	370
Oct-23	95	250	245	2,200	3,650	3,900	760	630	380
Nov-23	95	255	248	2,250	3,650	3,700	765	650	375
Dec-23	90	245	255	2,100	3,600	3,600	765	665	375
CY-22	120	371	365	2,982	4,358	4,307	1018	905	444
01-23	125	327	344	2,701	4,216	4,253	914	784	432
02-23	111	244	244	1,976	3,875	3,958	1056	769	396
Q3-23	105	243	246	2,094	3,743	3,871	809	638	365
Q4-23	93	250	249	2,183	3,633	3,733	763	648	377
CY-23	109	266	271	2,238	3,867	3,954	886	710	392
01-24	103	247	248	2,067	3,783	3,917	750	685	413
02-24	127	235	250	1,900	4,100	4,033	763	697	377
03-24	112	253	267	2,083	3,900	3,933	810	710	377
Q4-24	100	263	262	2,167	3,800	3,733	802	683	378
CY-24	110	250	257	2,054	3,896	3,904	781	694	386
01-25	108	241	253	2,017	3,817	3,933	803	737	433
02-25	127	232	252	1,883	4,133	4,083	802	740	385

Source S&P Global Commodity Insights



KEY DOMESTIC HRC PRICES (\$/mt)



EUROPEAN STEEL

Demand looks soft over rest of 2023

Northern European hot-rolled coil prices have been relatively stable in August, averaging around Eur640/mt ex-Ruhr, with signs of activity returning after the summer holiday period. Market sentiment remains bearish and circumspect, compounded by the knowledge that there is a lot of imported steel waiting to be unloaded in European ports, mainly from Asia.

EU mills have been trying to keep coil prices supported. But downstream demand conditions appear to be worsening, for both construction and the flat steelintensive manufacturing sector. We think most of the reason for higher prices in the first quarter of this year was due to steel supply shortages after production was reduced in the second half of last year. This helped repel some of the impact of adverse economic factors. Now that supply constraints have eased, it puts the focus on the demand side of the equation, leaving steel prices more exposed to inflationary pressures.

S&P Global's Eurozone manufacturing and construction purchasing managers' indices both deteriorated in July. German manufacturing activity was at a 37-month low, with the headline PMI falling to a parlous 38.8 points in July. Commentary indicated the second half of the year would be weak.

As a result, we have lowered our price forecasts for Q3 and Q4 from Eur670/mt and Eur660/mt ex-Ruhr, respectively, to Eur638/mt and Eur648/mt. We have retained our view for 2024, which sees a slight improvement in the first half on restocking and improving economic conditions. This will help Germany's exports of finished goods and auto demand in the EU.

GLOBAL STEEL SUMMARY

Little price upside in coming months

Global steel prices continue to soften, with the US in particular seeing some large day-on-day falls. European prices have trended down more gradually. Demand in both markets is being hit by inflationary pressures, and we think prices will weaken further in the next couple of months. The bio concern is China, as it has become clear that government stimulus levers do not have the positive impact on steel demand as in the past. Steel production has yet to be reined in, resulting in a lift in exports, and lower Asian offers into markets, including Europe. We expect a weak end to the year in China, though still maintain that steel output cuts will largely come from mills themselves rather than government orders. Iron ore prices should soften as a result, but ongoing volatility can be expected as futures prices react to economic data and policy announcements.

Northern EU HRC Steel Price Forecast

	HRC	Output	Flats stocks
	EU Domestic ex-Ruhr	German Monthly Average	Germany
	EUR/mt	Million mt	Million mt
Jul-23	665	2.9	1.2
Aug-23	630	2.8	1.2
Sep-23	620	3.0	1.2
0ct-23	630	3.1	1.2
Nov-23	650	3.0	1.2
Dec-23	665	2.9	1.1
CY-22	905	3.1	1.4
01-23	784	3.0	1.2
02-23	769	3.1	1.2
03-23	638	2.8	1.2
04-23	648	3.0	1.2
CY-23	710	3.0	1.2
01-24	685	3.1	1.2
02-24	697	3.1	1.3
03-24	710	3.1	1.2
04-24	683	3.3	1.2
CY-24	694	3.2	1.2
01-25	737	3.4	1.2
02-25	740	3.3	1.3

Source S&P Global Commodity Insights

Germany produced 2.95 million mt of crude steel in July, a similar level to June. ArcelorMittal is expected to restore some blast furnace production in coming weeks.



US STEEL

Coil prices under pressure

US Midwest hot-rolled coil prices have been volatile in August, at one point slumping \$35/st day on day to \$755/st ex-Midwest mill on August 21. Sentiment was not helped by United Auto Workers union's contract negotiations with General Motors, Ford and Stellantis. HRC prices have fallen by more than 20% since the start of June.

Market activity has been quiet amid patchy downstream demand and mixed sentiment regarding future price directions. Service centers are maintaining modest stock levels, aided by improving transport logistics and shorter mill delivery lead times.

We have lowered our price forecasts for Midwest HRC to 809/st in Q3 and 763/st in Q4, down from 843/st and 823/st, respectively in last month's report.

We expect prices to remain soft over the rest of this year, and into mid-2024 when there should be some strengthening on improved macro conditions. Futures markets indicate the Federal Reserve will start cutting interest rates from March next year. S&P Global Ratings has forecast US GDP growth of 1.2% in 2024, up from 0.7% this year.

Manufacturing conditions in the US remain soft despite reasonable demand for steel from the auto sector. Weak new domestic and export orders for manufactured goods resulted in firms reducing their buying of inputs, such as steel, in July. S&P Global's US manufacturing purchasing managers' index improved to 49.0 points in July, up from 46.3 in June, but was still below the neutral 50.0 level.

Us crude steel production hit a year high of 6.9 million mt in July. We think mill utilization rates will fluctuate over the rest of the year, impacted by some mill outages, though new flat steel projects are slated to commission by the end of 2023. Average delivery lead times for HRC dipped to 5.2 weeks from 5.3 weeks in early August, according to S&P Global data.

US Midwest HRC Steel Price Forecast

	HRC	Utilization	Lead times	
	US Midwest	Domestic US	Domestic US	
	\$/st	%	Weeks	
Jul-23	868	76.3	5.4	
Aug-23	790	75.9	5.2	
Sep-23	770	76.2	5.1	
Oct-23	760	75.9	5.1	
Nov-23	765	76.4	5.3	
Dec-23	765	77.2	5.1	
CY-22	1,018	78.2	4.7	
01-23	914	74.4	6.3	
02-23	1,056	76.2	6.6	
03-23	809	76.1	5.2	
04-23	763	76.5	5.2	
CY-23	886	75.8	5.8	
Q1-24	750	76.0	5.7	
02-24	763	76.0	5.6	
03-24	810	80.0	5.6	
04-24	802	78.6	5.9	
CY-24	781	77.6	5.7	
Q1-25	803	77.6	6.5	
02-25	802	76.0	6.1	

Source S&P Global Commodity Insights

US MIDWEST HRC PRICES AND DELIVERY LEAD TIME FORECAST



Source: S&P Global Commodity Insights

CHINA STEEL

Weak housing data compounds bearish sentiment

Property developer China Evergrande Group's filing of bankruptcy protection in the US this month is emblematic of China's parlous housing sector. The impact of weak property data will undermine steel market sentiment, rattling futures markets, and subsequently physical prices, especially for rebar.

July housing data as reported by China's National Bureau of Statistics pointed to a deterioration of the sector, despite government efforts to shore up the property market decline by loosening credit conditions, among other measures. Year-on-year comparisons are misleading as China had COVID restrictions in place for much of 2022. But month-on-month results are particularly poor.

Floor space of China's new home construction starts – the steel-intensive part – fell 30.2% on month in July and by 26.5% on year. according to NBS data. Over January-July, new home starts dropped by 24.5% on year. The housing pipeline also weakened, with floor space of new home sales in July falling by 46.1% on month and by 23.9% on year. New home sales over January-July were down 6.5% on year.

China's infrastructure investment in July increased by 4.6% year on year, down from a 6.4% on year increase in June. Infrastructure investment over January-July rose 6.8% on year. Many in the Chinese steel market expect a lift in government support for the infrastructure sector this year, but even this would not be enough to compensate for weak steel demand in property-related sectors.

We think steel consumption from property construction will be down 5.8% this year and infrastructure up 3.7%. (See table on next page). Further government efforts to support the housing market are unlikely to gain much traction until consumers feel confident about buying apartments again. That could take 6-12 months.



CONTENTS: EUROPEAN STEEL | US STEEL | CHINA STEEL | IRON ORE | METALLURGICAL COAL | SCRAP | ENERGY





Aug-23

Apr-23

Spread (\$/mt) -

200

100

-100

-200

0

Is "urban village" development steel-intensive?

A central government meeting held at the end of July discussed the modernization of "urban villages", along with infrastructure improvements and developments in large cities. Urban villages refer to relatively under-developed villages and communities that were previously farming communities but now find themselves part of growing urbanization. On some estimates, development of these areas could result in around 20 million-30 million mt of steel demand. But spread over a period of five or so years, the impact on demand and prices is expected to be immaterial. The policy is expected to be announced next year.

China walked back a far more substantial – and steel-intensive – development of "shanty towns" in 2018 by changing the program to one of moving relocated families to other housing rather than the initial plan of giving them money to buy their own properties. The expected cash hand-outs fueled a lot of new development that ultimately ended up adding to China's empty housing inventory.

Finished steel exports on the rise

As China has yet to slow its steel production and downstream demand remains tepid, we have again lifted our view of finished steel exports. We expect China will export around 76.6 million mt this year, up 14% on year. Our previous forecast saw exports up 12% on year. Next year we see exports of around 74 million mt. Finished steel exports in July were 7.3 million mt, down slightly on the month before. We expect exports will decrease over the rest of 2023 on lower steel production.

Flat steel exports will be 50.1 million mt and longs 8.5 million mt this year, with some 18 million mt of other products. Exports are expected to reach 34.3 million mt in H2, compared with 42.2 million mt in H1.

The spread (domestic price minus the export price) expanded to minus \$29/mt on August 18, compared with an average of minus \$22/mt in July, and minus \$20.7/mt in June. As of August 18, HRC and rebar margins were minus \$4/mt and minus \$12/mt, respectively.

We forecast August and September volumes will be at 6.9 million mt and 5.3 million mt, respectively.



CHINA FLATS AND LONGS EXPORTS AND

China steel consumption forecast by sector (million mt) YoY % 2023 2022 2023 Total consumption 920 910 -1.1 297 280 Property -5.8 Infrastructure 231 240 3.7 Auto 53 54 1.2 Energy 42 45 7.1 Shipbuilding 13 15 16 Appliances 15 15 0.7 Others 269 261 -2.6

Source: S&P Global Commodity Insights, CISA



CHINA GDP GROWTH 2023 (%)

Source: MPI, S&P Global Commodity insights

CHINA POPULATION AND PROPERTY SOLD SPACE (%)





Mixed outlook for flat and long steel

Given this lackluster scenario for housing, we expect to see further weakness in domestic rebar prices in Q3. Domestic rebar prices averaged Yuan 3,829/mt in July before softening to Yuan 3,758/mt in the first half of August. We have slightly lowered our view of Q3 prices to Yuan 3,743/mt from Yuan 3,733/mt last month.

For Q4, we see an average of Yuan 3,633/mt, up from our previous view of Yuan 3,583/mt. For the full year, we see rebar prices averaging Yuan 3,867/mt, down 11% on the 2022 average of Yuan 4,358/mt.

Chinese manufacturing remains muted, with the two leading purchasing managers' indices recording sub-50-point readings in July, indicating the sector is technically in contraction. The NBS PMI edged up to 49.3 in July from 49 in June, but the S&P Global (Caixin) PMI dipped to 49.2 in July, down from 50.5 in June.

China iron ore and steel: market view of Q3, 2023

Do you think additional government stimulus measures in July-December will help drive steel demand?

Yes			N	lo	Don't know				
Compared with Q2, do you think China's finished steel exports in Q3 will:									
Increase		Decrease		Stay the same	Unsure				
Where do you expect 62% Fe iron ore prices to range in Q3 (\$/mt CFR China):									
Below 100		100-110		110-120	Above 120				
Compared with last year, do you think crude steel production this year will be:									
Higher Lo	wer		Stay the same						
Compared with Q2	2, do you exp	ect new steel ord	ers in Q3 to:						
Increase		Dec	rease	Stay th	ie same				
Do you expect steel demand in Q3 to be mainly driven by:									
Property construction	า	Infrastructure		Manufact	uring				
%	25%	50%		75%	100				
/0	20/0	5078		10/0					

Though supply chain issues are easing, demand for Chinese manufactured good, particularly from overseas, remains weak.

Separately, S&P Global Platts' China manufacturing steel consumption index – which looks at 18 steel-related manufactured goods – fell to 90 points in July from 116 points in June. It was the lowest number in three years.

Chinese hot-rolled coil prices averaged Yuan 3,914/mt in July and were Yuan 3,970/mt in the first half of August. We think HRC prices will be stable over the rest of this year and have lifted Q3 prices to Yuan 3,871/mt from Yuan 3,767/mt in last month's issue, and now see Q4 at Yuan 3,733/mt from Yuan 3,667/mt.

No government steel production cut orders...yet

China's crude steel production was strong in July, indicating the restrictions in Tangshan during the month had little impact on overall production levels. July production of 90.8 million mt was higher than our expectation of 86 million mt, but we have maintained our view of full year production of 1,016 million mt, down 0.3% on year.

So far, central government orders to cut production have been largely hearsay, purportedly communicated to large state-owned mills.

Year-to-end July steel production of 626.5 million mt was down 2.5% on year, according to the NBS. We expect production to slow over the rest of this year, particularly in Q4, due to weak downstream demand and thin steel mill margins. This should keep full year production in line with last year and prevent the need for too much government intervention.

We think production in August and September will be 85 million mt and 78 million mt, respectively and Q4 will average 75 million mt/month. This will require daily production rates over August-December of 2.53 million mt, down from 2.97 million mt/day over January-July.

Last year, production in July-December was almost 8% lower than in January-June. This year, second half production will need to be around 11% lower on the first half to get to the same full year production level as in 2022.

China's pig iron production rose by 3.5% on year to 528.9 million mt in the first seven months of the year. Weak steel mill margins and high scrap prices have reduced utilization rates at electric arc furnaces to around 35%, on some estimates. Some blast furnace mills have lifted scrap consumption due to sintering restrictions, making domestic scrap more expensive.

Next year we see crude steel production of 1,012 million mt, down 0.4% on year, before a further 0.3% reduction in 2025 to 1,008 million mt.

China's monthly steel output figures get revised, making the on-year estimates largely preliminary. There are also variances in the steel data published by the NBS and China Iron & Steel Association.





CHINA'S CRUDE STEEL PRODUCTION AND FORECAST (million mt)

CHINA PMI MANUFACTURING



CHINA VEHICLE SALES



Source: CAAM

CHINA PROPERTY NEW STARTS AND SOLD SPACE







CHINESE STEEL INVENTORIES IN MAJOR CITIES (million mt)





–58% Fe —62% Fe —65% Fe 58% Fe ratio 300 100% 80% 200 60% 100 0 40% Jun-24 Dec-24 Jun-25 Jun-22 Dec-22 Jun-23 Dec-23 Source: S&P Global Commodity Insights

IRON ORE IMPORT PRICES ESTIMATION (\$/mt CFR China)

CHINA IRON ORE PORT STOCKS (million mt)



Aug-21 Nov-21 Feb-22 May-22 Aug-22 Nov-22 Feb-23 May-23 Aug-23 Source: CEIC



CHINA IRON ORE IMPORTS AND FORECAST (million mt)

Source: China Customs, S&P Global Commodity Insights

IODEX robust despite thin margins

Iron ore prices have been fluctuating in the \$100-\$110/mt CFR China range in August but hit a four-week high of \$113/ mt on August 22. As is usual with iron ore, prices have been largely responding to economic data and sentiment, though lower iron ore port stocks have also induced procurement. News the Chinese government would be refinancing bonds helped support prices.

China steel mill margins remain in single digits, but crude steel production is strong (see China Steel section). This has been impacting iron ore grades, rather than general demand, with mills finding medium-grade material more economically favorable in the steelmaking process. Buyers have been taking advantage of the lack of any concrete government announcement around crude steel production cuts to restock.

The IODEX averaged \$112/mt CFR in July and was \$106/mt over August 1-22. We still expect second-half average prices to stay just below \$100/mt, but there could be upside risk to this view as it largely depends on a big drop in steel production in Q4. We see Q3 prices averaging \$105/mt and Q4 \$93/mt. Last year, Q4 averaged \$99/mt with most of the price upside coming in December following the removal of the severe COVID restrictions in China.

We expect the 65% Fe to 62% Fe spread will start to narrow later in the year as the benchmark 62% Fe IODEX price drops, before widening in Q2 next year on seasonally stronger market conditions.

We see the pellet premium narrowing in coming months, though we have lifted it slightly from last month's report to reflect generally higher iron ore price levels. We see the China pellet premium at \$16/mt in September and \$15/mt in Q4.

Previously, premiums for direct charge material like pellets and lump are supported during winter due to restrictions on sintering of iron ore fines for environmental reasons.

However, PMI 2.5 air pollution readings have improved in Hebei province this year, so an increase in the pellet premium may not occur to the same extent. Premium levels will be more determined by steel mill margins, which are expected to be weak. Pellet demand will also fall on steel production cuts.

Conversely, supply of iron ore concentrate has fallen due to safety examinations following mine accidents earlier in the year. This could perhaps create some appetite for imports and offer some support to pellets.





Source: S&P Global Commodity Insights

CHINA DOMESTIC MILL MARGINS AND IRON ORE FE DIFFERENTIALS ESTIMATION (\$/mt)



Source: S&P Global Commodity Insights

In our conversations with market participants, we have found a distinct lack of positivity around the iron ore and steel markets in the months ahead. Each month seems to herald another set of weak data, further eroding confidence, which is particularly important with iron ore given the influence of futures prices.

Port stock prices have been robust on decent demand, resulting in inventories falling to around 120 million mt as of mid-April, down around 5 million mt from a month earlier, and down from 139 million mt in the same period last year.

Iron ore exports from major producers drop by 2.8% on year in July: cFlow

Total iron ore shipments from major producers Rio Tinto, BHP, Vale, Fortescue Metals Group and Roy Hill – along with exports from Saldanha port in South Africa, which is mainly used by Anglo American Kumba – fell by 8.4% on month and 2.8% on year to 97.98 million mt in July, according to S&P Global Commodity Insights' cFlow vessel tracking software.

The data should be used as an indication only and may not capture all vessel movements and volumes.

It is usual for exports to be lower in July, as BHP and Fortescue optimize shipments ahead of the June 30 end to the Australian financial year, and then need to rebuild stocks. The other producers work to a calendar fiscal year.

We think August shipments from the big producers will rise to 102 million mt, which is traditionally a strong month for exports, though the first week of the month was still quite soft.

Total exports from the major miners fell by 0.5% on year in the first seven months of this year. Only Rio Tinto and Roy Hill exceeded last year's exports volumes during the period.

According to cFlow data, Rio Tinto's January-July exports are around 9 million mt higher than in the same period last year on a strong ramp up from the new Gudai-Darri mine in the Pilbara. BHP and Vale are both down around 5 million mt on January-July 2022, and Fortescue is largely flat on year.

Strong imports

China's iron ore imports have been strong this year on robust crude steel production. The country imported 93.5 million mt in July, according to China customs, taking yearto-date imports to 669.5 million mt, up almost 7% on year.

We expect China's iron ore imports to slow over the second half of the year on weaker crude steel production, particularly in the fourth quarter.

We estimate full year imports will be 1.125 billion mt, up 1.6%, but this would indicate a big drop off in the remaining five months. We see 2024 imports at 1.097 billion (-2.5%) and 2025 at 1.069 billion mt (-2.5%).

Metals

Summary of individual companies' export performance:

- Rio Tinto exported 27.1 million mt in July, down from 27.37 million mt in June, but higher than 25.16 million mt in July 2022, according to cFlow. We expect Rio Tinto will ship 28.5 million mt in August. The miner is targeting full year output of 320 million-335 million mt in 2023.
- BHP exported 22.11 million mt in July, down from 26 million mt in June, and lower compared with 22.8 million mt a year earlier. We expect BHP will ship 22.5 million mt in August. BHP's FY2024 production guidance is 282 million-294 million mt, up 1-3% compared with FY2023.
- Vale's exports from Brazil dropped to 24.4 million mt in July, down from 25.9 million mt in June and down from 26 million mt in July 2022. We expect its August exports to be around 26.8 million mt. Vale's production guidance for 2023 is 310 million--320 million mt.
- Fortescue Metals Group exported 13.9 million mt in July, a big drop from 17.1 million mt in June, and lower than 15.5 million mt a year earlier. We expect its August exports to be flat at 13.9 million mt.



MONTHLY IRON ORE EXPORTS FOR

RIO TINTO WEEKLY IRON ORE EXPORTS BY PORT (million mt)



Source: S&P Global Commodity Insights, cFlow



VALE WEEKLY IRON ORE EXPORTS BY

BHP WEEKLY IRON ORE EXPORTS BY PORT (million mt)







PORT HEDLAND IRON ORE EXPORTS



Australian iron ore exports (mil mt) CY CY 2022 2023 321.6 **Rio Tinto** 325 BHP 283 290 192.9 Fortescue 192 62 Roy Hill 62 MinRes 17.7 20 Atlas 8 8 Mt Gibson 2 1.5 CITIC 22.5 21 SIMEC 8 8 Karara 6 8 Grange 2.5 2.5 Others 5 3 931.2 Total 941 Source: S&P Global Commodity Insights, Company reports

Global iron ore exports (mil mt)									
2021 2022 2023 202									
Australia	920	931	941	945					
Brazil	357	336	338	341					
South Africa	60	57	59	59					
India	37	16	35	35					
Canada	55	53	56	57					
Ukraine	29	5	6	10					
Source: S&P Global Commodity Insights, Country reports									





MONTHLY IRON ORE SHIPMENTS FROM

MONTHLY IRON ORE SHIPMENTS FROM ESPERANCE ('000 mt)



Source: S&P Global Commodity Insights, cFlow



Source: Company's reports, cFlow

IRON ORE PELLET EXPORTS AND PREMIUMS





Jul-22

Nov-22

Mar-23

Jul-23

MONTHLY IRON ORE SHIPMENTS FROM

CAPE PRESTON ('000 mt)

3,000

2,000

1,000

0

Roy Hill

Jul-21

Nov-21

Source: S&P Global Commodities at Sea

Mar-22

Rio Tinto Vale

TOP IRON ORE MINERS' EXPORTS COMPLETION STATUS

Source: Company's reports, cFlow, S&P Global Commodity Insights



METALLURGICAL COAL

Prices firm on India and China buying

Premium low-vol hard coking coal prices found some strength in late July on firm buying from India and China. PLV HCC FOB Australia overtook CFR prices mid-August on restocking from India, while China seems poised for another round of coke price cuts in a weak steel margin environment.

PLV HCC CFR prices averaged \$233/mt in July before rising to \$253/mt in the first half of August. FOB Australia prices averaged \$232/mt in July and were \$248/mt over August 1-15. The two prices have started to converge following the resumption of Australian coking coal exports to China earlier this year.

We think FOB Australia prices will be largely rangebound over the next two months, though a higher spread versus CFR prices will deter Chinese buying at a time of steel market bearishness. Indian buyers will also push back if FOB prices climb too high as the monsoon season has yet to end and domestic steel demand is not particularly strong.

Given the stronger prices in recent weeks, we have lifted our Q3 price forecast for CFR China to \$243/mt from \$231/mt last month and FOB price to \$246/mt from \$232/mt. For Q4, we see CFR averaging \$250/ mt, up from \$238/mt, on some restocking in anticipation of the rainy season in northern Australia in Q1, 2024. We think the FOB price will average \$249/ mt in Q4, up from \$238/mt in last month's report.

According to S&P Global Commodities at Sea data, Australia exported 16.33 million mt of metallurgical coal in July, down 1% on month, but up 32% on year. Over January-July, China received just over 5 million mt from Australia and we think the full year total will be around 8 million-10 million mt, compared with almost 40 million mt before trade to China was halted. Russian coal now takes up a bigger portion of market share and Mongolia is also growing its supply to China.

China's coking coal imports fell 8% on month to 7.13 million mt in July, China Customs data shows. Russian imports slumped by 27% on month to 1.61 million mt in July, due to logistical issues in Russia. Australian imports also fell steeply in July, by 26% on month to 161,691 mt. Mongolian coal shipments to China rose by 14% on month to 4.34 million mt in July.

India wants to increase domestic coking coal supply to support rising steel production capacity, according to a statement by the federal steel ministry on August 18. The government plans to auction some 16 coking coal blocks and has invited agencies to mine coking coal at state-run Bharat Coking Coal's abandoned mines on a revenue sharing basis.

In our report entitled "India could reach 200 million mt/year steel capacity by 2030", published last month, we estimate that India could lift its coking coal demand by 40%, or by an additional 30 million mt, by 2030 to around 98 million mt. India currently imports 90% of its requirements.

PREMIUM LOW-VOL COKING COAL PRICES AND FORECAST



Feb-22 Jul-22 Dec-22 May-23 Oct-23 Mar-24 Aug-24 Jan-25 Jun-25 Source: S&P Global Commodity Insights

AUSTRALIAN COKING COAL EXPORTS



Source: S&P Global Commodities at Sea





Source: WSA, NBS, S&P Global Commodity Insights



AUSTRALIAN COAL EXPORTS BY CATEGORY (million mt)



AUSTRALIAN COKING COAL EXPORTS BY PORT (million mt)





AUSTRALIAN COKING COAL EXPORTS BY

Source: S&P Global Commodities at Sea

RUSSIAN COKING COAL EXPORTS BY DESTINATION (million mt) 8 Brazil South Korea 6 Japan 4 India 2 Others China 0 Jul-23 Jul-22 Jan-23 Apr-23 Oct-22



Metallurgical coa	exports (r	nil mt)				
	2019	2020	2021	2022	2023	2024
Australia	184	172	179	162	170	170
Mongolia	30	26	13	32	42	45
US	50	38	47	45	40	40
Canada	30	33	30	32	27	25
Russia	32	30	39	42	40	40
Mozambique	4	5	5	6	7	7
Indonesia	5	5	6	4	6	7
Metallurgical coa	l imports					
	2019	2020	2021	2022	2023	2024
China	75	73	53	49	45	45
India	53	63	73	67	70	75
Japan	47	42	48	46	46	43
South Korea	37	35	37	35	35	34
EU	35	35	35	36	36	35
Source: Trade data	. S&P Global C	ommodity l	nsiohts			



SCRAP

Mixed signals for Turkish imports

Turkish imported scrap prices rose in the second week of August due largely to restocking of the raw material at Turkish mills, while demand for domestic and export rebar remains patchy.

Premium heavy melting scrap 1/2 (80:20) imports averaged \$364/mt CFR Turkey in July before softening to \$360.5/mt over August 1-22. Most Turkish buyers think prices will start to ease in coming weeks on stronger inventories.

Some Turkish mills have been lifting domestic rebar prices close to \$600/mt ex-works to pass through the higher scrap input costs. But this may not be sustainable as rebar is being offered at prices of around \$550/mt FOB from competing suppliers in North Africa.

Based on the better market conditions, we have lifted our forecast for Turkish scrap import prices to \$365/mt CFR in Q3 and \$377/mt in Q4. This is up from a previous forecast of \$360/mt and \$357/mt, respectively.

However, there could be downside risk to this if electric arc furnace producers reduce – or even pause in the case of one company – production in September in the face of lackluster demand conditions.

Expected higher energy prices in Turkey next month could squeeze mill margins, especially if mills are unable to pass on the higher input costs.

Another factor impacting the Turkish domestic market is the high volume of imports of long steel products coming into the country, denting the market share of domestic producers.

Turkey's wire rod exports fell by 62% on year to 239,800 mt over January-June, while imports of the same product jumped by 82% on year to 397,500 mt. Russia was Turkey's top wire rod supplier with 96,500 mt, up 45% on year, while Turkey imported 87,000 mt from Malaysia, up from no zero tons a year earlier, according to Turkish Statistical Institute data.

Scrap futures contracts traded on the London Metal Exchange indicated that future traders still see higher scrap prices in the physical market in the near term. Platts, part of S&P Global Commodity Insights, assessed the LME August contract up \$7/mt week on week at \$366.50/mt. The September contract rose \$8/mt week on week to \$378.50/mt and the October contract advanced \$8/mt week on week to \$378/mt. The November contract increased \$5/mt to \$376.50/mt.

We see the September physical price at \$370/mt CFR Turkey and October at \$380/mt, before easing in the final two months of the year.



TURKEY'S CRUDE STEEL PRODUCTION AND FORECAST (million mt)



Source: NBS, S&P Global Commodity Insights



SOUTHEAST ASIA STEEL ANALYSIS

Southeast Asia's steel expansion plans are potentially bigger but less realistic

- Almost 100 million mt/year of new steel capacity is on the region's drawing board
- But new projects are increasingly logistically and financially challenging
- Much depends on China's appetite for overseas investment

Southeast Asian steel capacity expansion



Source: S&P Global Commodity Insights, SEAISI

Southeast Asia has around 100 million mt/year of planned new crude steel capacity, that if developed, would radically alter global steel trade flows and prices. However, we think only a quarter of the proposed capacity, at best, could potentially be built by the end of the decade.

Our research looks at the ASEAN-6 member states – Singapore, Thailand, Malaysia, Indonesia, Vietnam and the Philippines – and Myanmar and Cambodia.

A year ago, we reviewed steel projects announced for Southeast Asia and identified around 75 million mt/year of new capacity in the pipeline, believing perhaps 50 million mt/year could realistically be developed.

Having now revisited these projects, we have increased the amount of proposed new steel capacity to almost 100 million mt/ year but have halved the amount likely to come online by 2030 to 25 million mt/year. In fact, there could even be downside risk to this number.

We have added projects such as JXR Perwaja's mooted 7 million mt/year capacity mill in Malaysia, that we did not include last time, and updated planned capacity by WenAn Iron & Steel from 5 million mt/year to 10 million mt/year, also in Malaysia, among others. Overall, there is little transparency around project progress, but we will update our project data as information comes to hand.

The reasons for our modest capacity projections are largely unchanged from last year.

Metals

Large projects are challenging to build

New steel projects – particularly greenfield ones – are expensive and challenging to build. The bigger the project, the more chance there is that it will not go ahead. Since mid-last year, the impact of COVID has eased but economic headwinds such as rising interest rates, high inflation, and supply-chain constraints have put severe pressure on steel demand and prices – especially in Southeast Asia. Construction has become more expensive, and borrowing costs are higher. Further, major new steel projects that did go ahead, such as Formosa Ha Tinh in Vietnam and Krakatau-POSCO in Indonesia, took longer than planned to develop. It is unclear if Formosa still plans to build the two new 7 million mt/year capacity blast furnaces that would take its total output to more than 20 million mt/year. Krakatau-POSCO plans to spend \$3.5 billion on a second blast furnace but it is not clear when this will happen.

Does China still have the appetite to fund overseas projects?

Southeast Asia's steel capacity expansion program is largely funded by China. Most projects were announced before the COVID outbreak, at a time when Chinese mills had enjoyed several years of bumper profits. China's Belt & Road Initiative helped provide finance for overseas projects. But Chinese steel mill margins have been barely breakeven over the past 12 months as China's economy has slowed. From the lack of progress or updates, it would appear that some Chinese appetite for overseas projects is waning. That said, in January Chinese government-controlled steelmaker Baowu Group announced a 3 million mt/year capacity joint venture with Steel Asia Group in the Philippines. This could potentially take the Philippines' steel capacity to 24 million mt/year by 2030 from less than 3 million mt/year currently. This seems a very tall order.

Do ASEAN member states want to build more BF/BOFs at a time of decarbonization?

At a time when much of the world, including China, is setting ambitious carbon reduction targets and there is much talk of "green steel" and decarbonization, do ASEAN member states – and more importantly their populations – really want to build large polluting facilities? The South East Asian Iron And Steel Institute (SEASI) believes carbon emissions could triple over the next five years if many of the proposed integrated works are built.

Southeast Asia has largely been an electric arc furnace steelmaking environment. A decade ago, nearly all production came from EAFs producing long steel products. A ramp-up in integrated production, in Vietnam in particular, saw the ratio of EAF output drop to just under 70% by 2020. As is the case with Indian steel expansion – and indeed Chinese over the past 10-15 years – the emphasis has been on building large new blast furnace/basic oxygen steel projects to produce higher quality flat steel products. We estimate this would take the contribution of BF/BOF steelmaking in Southeast Asia from around 10% currently to close to 65% by the end of the decade. This would require a substantial increase in coking coal and iron ore demand unless other less energy-intensive technologies are developed over time.

Does Southeast Asia need all this steel?

According to SEASI data, the ASEAN region has doubled crude steel production since 2010 to more than 53 million mt by 2022, a year which was still impacted by the pandemic and a credit crunch in the important Vietnamese market. Steel consumption for the region peaked at just over 80 million mt in the years prior to the COVID outbreak compared with 48.6 million mt in 2010. A lift in domestic production has reduced demand for imports, which are mainly flat steel products. We are also skeptical that new supply would result in import displacement as Vietnamese mills have already been exporting coil into markets, including the US. As usual, it depends on strong enough economic growth in Southeast Asian countries to absorb all the new steel.

Economists at S&P Global Ratings predict an improvement in emerging Asian countries (ex-China) over 2023-2026 on easing monetary conditions and stronger global growth. They forecast average economic growth of 6.6% in Vietnam, 6.1% in the Philippines, and around 5% for Indonesia. These countries have young populations and will need more apartments and housing. Vietnam has a robust and growing manufacturing base, aided by diversification of global manufacturing bases and lower average wages than China. Growth projections in Singapore and more mature economies of Malaysia and Thailand are also positive.

Notwithstanding the economic growth projections, we would argue the region does not need all the steel it plans to build. Whilst self-sufficiency might be viewed as a laudable aim, it only works if countries grow quickly enough. For several years Indian domestic demand was unable to keep up with the country's steel capacity expansions, resulting in a lift in finished steel exports.

China's steel production growth has largely been focused on flat steel and this year we expect it to export 75.5 million mt, of which flat steel will account for 63 million mt. Does China want to build more capacity in countries it is already exporting to? Whether more steel capacity in Southeast Asia is built or not, buyers will want competitive pricing and will no doubt continue to look at Chinese offers.



Forecast Summary

	Iron Ore	PLV Coking Coal	PLV Coking Coal	Coking Coal	Rebar	HRC	HRC	HRC	Scrap
	CFR China	CFR China	FOB Australia	China	China	China	US Midwest	N.EU ex- Ruhr	CFR Turkey
	\$/mt	\$/mt	\$/mt	Yuan/mt	Yuan/mt	Yuan/mt	\$/st	EUR/mt	\$/mt
Jan-23	123	316	316	2,753	4,162	4,191	741	731	413
Feb-23	126	334	369	2,674	4,197	4,213	864	777	431
Mar-23	127	332	345	2.675	4,288	4.356	1,138	843	453
Apr-23	116	283	269	2.223	4,014	4,141	1,172	843	424
May-23	105	227	231	1.857	3,782	3.867	1.089	776	379
Jun-23	113	221	231	1.848	3,828	3,866	908	689	384
Jul-23	112	234	232	2.031	3,829	3.914	868	665	364
Aug-23	103	250	255	2,150	3,700	3,900	790	630	360
Sep-23	100	245	250	2,100	3,700	3.800	770	620	370
Oct-23	95	250	245	2,200	3,650	3,900	760	630	380
Nov-23	95	255	248	2 250	3.650	3 700	765	650	375
Dec-23	90	245	255	2 100	3.600	3,600	765	665	375
Jan-24	95	250	250	2 100	3.650	3,650	760	675	420
Feb-24	105	245	245	2,100	3.800	4 000	730	690	390
Mar-24	110	245	250	2,050	3.900	4 100	760	690	430
Aor-24	125	235	245	1950	4,100	4,000	730	720	375
May-24	125	235	240	1,950	4,000	4,000	760	690	380
.lun-24	120	235	255	1,900	4,200	4,100	800	680	375
Jul-24	115	250	265	2 050	3,900	3,000	815	690	380
Aun-24	115	255	200	2,030	3 900	3,950	810	720	375
Seo-24	105	255	265	2,100	3 900	2,950	805	720	275
0ct-24	100	200	200	2,100	3,800	3,900	800	600	300
Nov-24	100	205	200	2,200	3,800	3,900	800	670	300 275
	100	270	200	2,250	3,800	3,700	805	600	200
CY-22	120	255	205	2,050	4 358	4 307	1 018	905	444
01-23	125	327	344	2 701	4 216	4 253	914	784	432
02-23	123	244	244	1976	3,210	3 958	1056	769	396
02-23	105	243	246	2 094	3 743	3 871	809	638	365
04-23	93	250	240	2 183	3 633	3 733	763	648	377
CV_23	100	266	273	2 2 2 8	3,867	3 95/	886	710	302
01-24	103	200	2/18	2,250	3 783	3,954	750	685	/13
02_24	105	225	250	1,000	4 100	4 022	762	607	277
02-24	127	253	267	2 083	3 000	3 033	810	710	377
04-24	100	262	262	2,003	3,300	3 722	802	683	379
CV-24	100	203	202	2,107	3,000	3,733	721	604	396
01-24	100	230	257	2,034	3,090	2,004	803	727	300
02-25	108	241	200	1,017	1122	3,933	803	740	433
02-20	120	232	252	1,000	4,133	4.083	002	740	385

Source S&P Global Commodity Insights

ENERGY

European Commission provides more details on CBAM

The European Commission published guidance on Aug. 17 on how an Implementing Regulation of the EU's Carbon Border Adjustment Mechanism will affect both importers of goods into the EU and installation operators outside the bloc.

Under the regulation, importers will need to report on the quantity of imported goods, direct and indirect emissions embedded in them, and any carbon price due for those emissions, including carbon prices due for emissions embedded in relevant precursor materials.

CBAM essentially levies a carbon tax on imports of selected energy-intensive materials and products into the EU, removing the gap between the carbon price under the EU Emissions Trading System and the export country of origin's carbon price.

The goods covered by CBAM are iron, steel, cement, aluminum, fertilizers, electricity and hydrogen, as well as indirect emissions under certain conditions. The mechanism is to be phased in from 2026 to 2034, in step with the phase out of free allowances in the EU ETS. The purpose of the tax is to reduce the risk of carbon leakage (whereby EU industries re-locate abroad), and to encourage importer nations to apply their own carbon markets and so limit CBAM impacts on their traded goods.

S&P Global Commodity Insights analysis shows Canada, Brazil, South Africa, and Turkey will be most exposed to the mechanism, with iron and steel by far the biggest sector targeted.

S&P Global believes CBAM measures could result in a reorientation and shuffling of global trade, where the lowest-emitting countries and producers shift a greater share of their exports to meet EU demand. Challenges to the legitimacy of CBAM as an environmental tool (and not a trade protectionist tool) through the WTO are possible, but unlikely to be successful.

In the transitional phase of CBAM, to run from Oct. 1, 2023 to Dec. 31, 2025, traders will only have to report on the emissions embedded in their imports without paying any financial adjustment.

For steel goods, the identification number of the specific steel mill where a particular batch of raw materials was produced must be provided. The EC said data collected during the transitional period would help it sharpen its monitoring, reporting and verification methodology once the mechanism kicks in from 2026.

Member states can apply financial penalties ranging from Eur10-50/mtCO2 of unreported emissions if the reporting entity has not taken the necessary steps or provided incorrect or incomplete information. The specific embedded emissions of goods produced in an installation will be based on two monitoring methodologies.

The EC said it was taking a "gradual" approach with "some flexibility" on the calculations of embedded emissions on imports, to allow producers time to adapt to the mechanism in a "predictable" manner.

Many in the industry believe the mechanism will push exporter countries to adopt domestic carbon prices, while some might challenge the measure at the WTO on protectionist grounds.



CHINA ELECTRICITY CONSUMPTION (billion KWh)



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