

# International Long Steel Markets

## BULLISH TREND CONTINUES

Steel Insights Bureau

### Middle East billet deficit will continue

Apparent steel use in the Middle East is set to rise to 43.4 million tons in 2008, Metal Bulletin Research analyst James Renwick told delegates at MB's 11th Middle East Iron and Steel conference in Dubai.

At the same time long products output in the region is also set to rise significantly over the next five years, said Renwick, predicting that in 2012 production will be more than 6 million tons per annum in the United Arab Emirates alone. UAE long products output is set to overtake imports in 2009.

"But there is still likely to be a deficit of billet in the region and the Middle East will continue to be a major importer of steel in the future," he said. "In the UAE, for example, billet output will reach 2.5 million tons in 2012, while demand from re-rollers will be closer to 7 million tons."

Growth in the region's production is likely to be focused in countries that are already leaders, such as Saudi Arabia – a finding confirmed by a poll of delegates at the conference.

As happened earlier this year, when the difference between Turkish billet fob (free on board) prices and debar fob prices fell to only \$35 per ton, cost pressure on Middle Eastern re-rollers is likely to be severe. Re-rollers are likely to look at acquiring steelmaking facilities.

"The economics of the Middle East lends itself best to direct reduced iron and electric arc furnace production," Renwick told delegates. "MBR projects that DRI production in the Middle East and North Africa will rise sharply from 9.2 million tons in 2006 to 26.2 million tons in 2012."

DRI is the most logical low-cost steelmaking route for the Middle East steel industry because it is able to take advantage of low gas prices and power costs, he added. But, in the meantime, the region is likely to remain reliant on imports of semi-finished product from a variety of sources to feed its re-rolling demands.

"Asian and CIS steelmakers will continue to battle it out for business in the region," Renwick said.

### SE Asian billet import prices jump up on strong demand

Prices for imported billet have risen in south east Asia because of improved demand, particularly from Vietnam, and tighter supply, trading sources in the region say. Container-based commercial billet was booked last week at \$620-625 per ton cfr and dry bulk shipped billet at \$640-645 per ton cfr.

Billets shipped in container are around 5.85m metres compared to 6 metres for dry bulk, and handling charges for container shipments can be up to \$20 per ton more. The deals involved CIS and Indian origin billet, traders report.

"There is strong buying in Vietnam, it is the best market now," a regional trader says. He and others say that buyers in Vietnam are willing to pay the higher end of the prices compared whereas buyers in the Philippines, Thailand and Indonesia are generally bidding at \$620-630 per ton cfr (cost and freight) for bulk shipments. "Supply is getting tighter. Supply from the CIS is winding down since its year-end," another says, noting that regional import prices were under \$600 per ton two weeks ago.

There is hardly any offer from eastern Asia including China, Taiwan and Malaysia. India recently started exporting to the region but shipments are mostly container basis, so the involved lots are generally small, say traders.

"The buyers are hungry. They have heard that the Chinese export tax will be raised on January 1," a Ho Chi Minh trader says. He explains that that the buyers fear that they have no chance to book billet if the buyers "wait for everything to be clear."

He says that prices will continue to rise and believes that buyers will be willing to pay \$655 per ton this week for Black Sea 5sp/ps billet since new offers from certain suppliers have risen to as much as \$665 per ton. However, traders report that they have not heard of new transactions in Vietnam this week.

However, some trading sources wonder if the current uptrend can continue. "Prices are at historical highs. I wonder how long these high prices are sustainable," a trader in Singapore says. "We have to look at the respective debar prices in the domestic markets. But, many markets in the region cannot support these high billet prices," another says.

### CIS billet producers indicate price increase for January

Market participants say they are struggling to understand the upward move in billet prices. Backed by already accepted Turkish billet price increases, the CIS producers are indicating increases of about \$30 per ton for the January-produced billet.

"It is hard to explain in simple terms what is happening in the market, but a combination of factors seems to be driving the prices of billet upwards", traders say.

As Turkish producers' price increases have been confidently accepted by the market, the CIS producers are following this lead, traders say. "Today, you will be lucky to be able to book Turkish billet at \$560-570 per ton fob Turkey," they say, and this is amazing, considering that just a month ago they were struggling to sell any billet at prices \$50 per ton lower, they add.

Traders ponder several reasons why the billet market seems to be going through the roof. The whole of Southeast Asia, according to the majority of them, is "going crazy". There is apparently nothing coming out of China and demand in the whole of the area is booming. Add increasing pig iron prices - although not directly linked to the billet production, but vamping up prices of all raw materials - and one may end up having to accept current market movement, another trader says.

On the whole, though, there has so far been no confirmation of the prices CIS producers are indicating for January-produced billet being accepted. "The indications are \$530-540 per ton fob Black Sea, but there are not so many enquiries, with traders mainly selling their existing allocations right now," a major trader says.

"The next ten days will indicate what January will bring, but some increase seems inevitable," says one trader, seemingly expressing the general consensus.

### **Chinese billet prices drop**

Billet prices in northern China's Tangshan area have been dropping since 17 December, it is learned from the markets.

Mills are offering Q235 billets for RMB 4,200-4,250 per ton (\$569-576 per ton), including 17 percent VAT (value added tax), down from previous levels of RMB 4,350-4,400 per ton seen around December 7. A mill source says that actual transaction prices have dipped to a low of RMB 4,100 per ton.

The drop is in line with a general weakening of construction steel markets. Also, while prices for downstream products are slipping, buyers are adopting a wait-and-see approach, forcing transaction volumes lower and lower and further affecting sales of billets, another local Tangshan mill source explains.

However, the drop has not sufficiently narrowed the gap between domestic and export prices to make the resumption of exports profitable for Chinese traders. And with the likelihood growing that the Chinese government will raise the export tax on semis to 25 percent from January 1 from 15 percent currently, traders are increasingly wary of booking overseas shipments.

### **Iranian imports of semis continue to soar**

Iranian imports of semi-finished products rose by almost a fifth during November compared with the average monthly volumes the country imported during the first seven months of this Iranian year, which began on March 20.

According to figures released by Imidro, the state mining and metals holding concern, Iran imported 2.48 million tons of semi-finished products during the first eight months of the year, compared with just shy of 2 million tons in the first seven months of the year and the 1.45 million tons imported during the corresponding period of last year.

"Imports of semis have increased by 68 percent compared with last year, according to customs statistics," said one trader in Iran. "Imports tend to be from Russian and Ukrainian sources, which ship through the Caspian Sea, although some material is arriving through the Persian Gulf."

Last week traders reported offers for billet at \$620-625 per ton cfr Bandar Anzali and said that the soaring Iranian demand had driven cfr Persian Gulf prices to \$630-640, up from \$570-600 a fortnight ago.

Iranian private-sector re-rolling mills have a combined capacity of 6-7 million tons per annum, but have only been able to produce at about 30 percent of capacity in the last year or two because of a shortage of billet in the domestic market.

The imposition of UN sanctions has made the situation worse, leaving many overseas banks reluctant to accept Iranian letters of credit and limiting the number of suppliers able to export to Iran unless buyers pay cash or open letters of credit with foreign banks.

### **High scrap prices make Turkish mills hold onto billet stocks**

High scrap prices have forced Turkish billet producers to hold on to stock in the hope of achieving higher domestic prices in the first quarter.

Turkish billet demand is stable, but most buyers will be out of the market over the next two weeks as a result of religious holidays in Turkey.

"I haven't had any billet offers this week," said a Turkish re-bar re-roller.

Domestic billet is being booked at \$580-590 per ton ex-works for January production, according to market sources.

"The problem is that there is a shortage of Turkish scrap here, which is pushing billet prices up," said a Turkish billet producer.

Imports of 80:20 1&2 heavy melting scrap are being booked at \$385-395 per ton cfr, while 70:30 material is at \$395-400 per ton cfr, according to another billet producer.

Traders and mill representatives expect Turkish domestic billet prices to rise in the new year, which will force mills to increase their export prices as well.

### **Medium sections prices strengthen in Tokyo**

Tokyo market prices for angles and channels are rising after an interval of two and a half months, strengthening by ¥1,000 per ton (\$8.9 per ton), it is learned from mini-mill sources. Base size

(6 x 50mm) angles are now ¥76,000-77,000 per ton and channels are around ¥81,000-82,000 per ton for 5 x 50 x 100mm sizes.

Demand for medium sections from the industrial and construction machinery sectors has been buoyant, but that from Japan's building industry has weakened in line with the construction slump after building codes were revised in June. Sections producers have been trying to balance supply and demand, and now seem to have succeeded.

"We raised our sales prices by ¥5,000 in September to compensate for higher scrap prices, but distributor stocks were high so it took time for dealers to increase their prices too," a Godo Steel sales official says. "We have been cutting acceptance of orders by 10-15 percent like other mini-mills to adjust supply and demand, and we think balance has now returned."

Although the sections mills boosted their prices by ¥5,000 per ton in September, the distributors only raised their prices by ¥1,000 per ton.

There is currently a rebound in Japanese scrap prices, and if raw materials costs continue to soar the mini-mills will be forced to revise their prices upwards again.

### **US wide flange beam producers going up \$25 for January**

After keeping prices flat the past two months, US wide flange beam producers are raising spot prices by \$25 per short ton for January 2008 deliveries, it is learned from market sources.

The increase will take the price of many medium-sized sections to around \$820 per short ton, fob mill, although the market is getting some pricing pressure on the lighter sizes, particularly at the stockist level. The price rise is based on a \$35 per short ton increase in the scrap surcharge, offset by a \$10 per short ton base price reduction.

North American WF producers last raised transaction prices by \$17 per short ton for October deliveries, passing through a \$17 per short ton increase in the scrap surcharge.

Mills kept WF prices flat for this month's deliveries, despite a \$15 per short ton decline in the surcharge. November prices were flat because the surcharge was flat.

Seeking to maintain stability as scrap prices fluctuate, mills could have kept prices relatively flat for January, despite the large surcharge increase. However, another big scrap surcharge increase is expected for February deliveries, putting more pressure on mills to raise prices more substantially, and as soon as possible.

### **US rebar, merchant bar prices going up \$25 per short ton**

Nucor is raising January prices by \$25 per short ton on rebar, merchant bar and structural shapes. Competing North American mills are expected to follow the industry leader, putting fob mill rebar prices well over \$600 per short ton and merchant bar prices approaching \$700 per short ton.

Nucor's price increase is in response to a \$35 per long ton increase in a benchmark published price for shredded scrap earlier this month. The scrap price increase translated into a \$35 per short ton surcharge increase on most long products, which Nucor offset with a base price reduction of \$10 per short ton.

US mills are benefiting from a sizable decline in rebar imports and a decrease in merchant bar imports as well - although the latter product group is generally not seriously impacted by imports.

Many global rebar prices are higher than in the US, but US mills are not taking full advantage of scrap price rise to raise their finished steel prices because domestic demand has been down - although stronger than merchant bar demand, a mill source says.

### **Rebar prices rise in southern Europe in December**

Rebar and wire rod prices have shot up this month by €20 per ton (\$28.8 per ton), with further increases expected to take place in 2008, market sources in Southern Europe say.

Both products are more or less at a similar price level with current rebar transactions at around €440-450 per ton, which is an average of a €20 per ton increase on last month, "Prices have increased as a result of rising scrap costs as well as billet prices," says one Italian source. "The price for rebar in Italy didn't make any sense. It had reached bottom level and now has scope to move upwards," says another Italian source.

Whilst demand still remains low across Italy and Spain, prices are increasing on an international scale for rebar, which is why Southern Europe has mirrored this, says a market source. "The mills have been quiet up till and they are now exporting more to Turkey, US and the Middle East," the source continues.

Mesh quality rod transactions are between €440-460 per ton with the €20 per ton increase that was implemented last week. "This is the same recurring pattern as at this time last year. Demand and prices were low and then prices picked up at end of the year in order to encourage purchasers to buy before further possible price increases in January," says a Southern Europe market source.

For January 2008 further increases are predicted with some sources suggesting that this may be by around €40 per ton. However, others are not so sure; "There will be a definite increase in the New Year but we are not sure by how much as we have yet to see any offers for Q1," says a Southern European source.

### **Spanish rebar and rod mills aim for €30 rises in New Year**

Spanish mills are aiming for a €30 per ton increase for rebar and wire rod in the first quarter as a response to successful Turkish mill increases. The increase will apply to bookings for February and March 2008 production.

Spanish mills have stopped offering rebar to European buyers until January 2007 when bookings at the new levels are due to start. Deliveries of rebar produced in December and January have already been allocated to customers, according to a rebar trader in Spain.

"They tried to increase rebar prices in Q3 this year, but they were not able to achieve the price rises because there was not enough demand," said a European trader.

EU market sources said the Spanish mills are likely to achieve the debar and wire rod price rises if demand continues to stay stable. The mills are following the lead of Turkish rebar producers, which have successfully implemented price increases in recent weeks on the back of increased demand from buyers in the UAE and the Far East.

Turkish mills are out of the European debar import market because prices there are not high enough and European buyers can source cheaper rebar from domestic mills. Turkish debar is being offered at €470-480 per ton cfr — too high for European customers.

European rebar prices remain unchanged. Materials are being booked at €425-440 per ton delivered for January production, according to European market sources.

### **West European rebar exports up \$40-60**

West European rebar exports are up \$40-60 per ton due to increased demand from northern and western African markets. Strong demand from buyers in Algeria, Morocco and Tunisia in particular has forced prices to soar in recent weeks.

"Business is good. Italian rebar export prices are continuing to rise and I expect prices to increase in the New Year because demand is growing in northern and western Africa," said an Italian rebar trader.

West European rebar is being booked at \$610-620 fob, up \$40-60 per ton from \$570-600 per ton, according to European market sources.

Italian rebar has traditionally been the most competitive and exports are targeted at northern and western African markets, where there is a growing demand for construction steel.

### **SE Asian rebar prices surge due to billet shortage**

Rebar prices in the south east Asian region have moved up by \$30-50 per ton since early December mainly due to a shortage of billet which has caused the price of imported billet to reach historical highs, regional market sources say.

Billet offers to the region reached \$650-660 per ton cfr this week whereas, in general, the buyers' billet price idea in most parts of the region is \$10-20 per ton lower.

The prevailing delivered price of debar in Singapore is around S\$1,050 per ton (\$730 per ton) compared to around \$700 per ton two-three weeks ago. The price of debar in Vietnam is the equivalent of around \$740-750 per ton cfr, up by around \$700 per ton, Vietnam trading sources say.

A Ho Chi Minh trader says that he has heard of an offer of Malaysian billet to Vietnam at \$660 per ton cfr this week. "People are rushing in. The market is moving fast," he says. He has not heard of any billet deals this week.

The price of imported debar to Singapore has also risen. Turkish debar is being offered this week at around \$705-710 per ton cfr. The bigger buyers are generally resisting paying these higher prices for debar imports because the current domestic price level cannot support an import price of \$700 per ton.

"There are holding costs for imports. Buyers rather wait as they stand to lose a lot if prices come off suddenly," a trader in Singapore notes. "Prices have gone too high in too short a period," he adds on billet. Users will have the option of either buying only on a need basis or shutting down their operations if they find that by operating, they make little profit.

Offers of debar from China to Singapore are prevailing at around \$690 per ton for limited size range, and around \$700 per ton cfr for the full size range. These offers stipulate a 50:50 sharing between buyer and seller in the event that a rumoured tax hike on Chinese exports is implemented before shipment. But there have not been any deals concluded in recent weeks and Chinese prices are perceived to be too high.

### **CIS rebar export market is hot, traders say**

Prices of rebar exported from the CIS have increased significantly during last month, market sources say. Following price increases by Turkish producers which were accepted by buyers for the second time in the month, most CIS producers are now said to be withdrawing from the market, chiefly in expectation of further price rises, they say.

A big increase in demand is said to be the reason for the current prices increases. During the period several months ago when only Dubai continued to buy, traders said it would take another large market to become active to get prices moving up.

"The reality today is that only Europe is not back: Iran and South-East Asia are back on the market and even the US is making enquiries," one trader says, noting however that the US market's contribution is more a psychological one as their offers "are still out of the current league by far", a trader said.

However, with the onset of the Muslim festival of Eid, there will be not many transactions taking place out of Turkey, traders say, so producers there have leverage against buyers who preferred to wait. "No deals will probably be done until after the New Year," one trader says, "so buyers have had to be quick booking their January allocations".

From Russia there appears to be some rebar going to Iran from NSMMZ and Mechel at prices of around \$580-590 per ton (€403-410 per ton)fob Caspian Sea, whilst Ukrainian material from Kriviy Rih, said to be the only producer who still has tonnage to sell, is around \$580 per ton fob Black Sea.

## MARKET REPORT

Byelorussian Steel (BMZ) is not expected to come back until mid-January having sold to third country markets earlier this month at prices close to \$580 per ton fob and MMZ is reported to be selling at prices around \$610 per ton fob Black Sea, or even higher, with no shortage of customers.

“With such huge change having taken place in just a few weeks it is hard to say what to expect in the New Year”, one major trader says, although he notes that there could be solidification around these levels or even further increases, considering the price of billet which is around \$560 per ton fob Turkey. “Things could get even hotter then,” he concludes.

### Indian rebar prices fall Rs 200-300 on slacker demand

Rebar prices in India’s domestic market have fallen by Rs 200-300 (\$5-7.5) per ton ex-works over the last week as a result of slacker demand from the construction sector, market sources say.

Prices of standard 12mm rebar have dropped to Rs 25,900

(\$657) a ton from Rs 26,200 ex-works at the start of the week, according to an official from a rebar mill.

Prices of 8mm rebar in the Delhi regional market were at Rs 27,900 per ton ex-works, 10mm rebar was selling at Rs 26,900, while 16-20mm rebar was at Rs 26,600 per ton ex-works, the official said.

Prices of all grades were Rs 200-300 per ton higher at the start of the week, another market source confirmed.

Prices in this volatile market tend to move rapidly on input costs and are also very sensitive to demand, the first source noted. There is strong demand for rebar in and around Delhi as a result of housing and infrastructure development.

Prices in Delhi are used as a benchmark for the adjoining northern Indian states of Uttar Pradesh, Haryana and Rajasthan, where demand from the housing and infrastructure sectors is also growing fast, market observers said.

The table gives an overview of price movement in flat & long steel sector in China (Domestic) CIS (Export) US (Import) & EU (Domestic). ■

### An overview of price movement in flat & long steel sector in China (Domestic), CIS (Export) US (Import) & EU (Domestic)

Item Description	% Change over a week (December 2007 Week 2 over December 2007 Week1)	% Change over a month (November 2007 over October 2007)	% Change in the last 6 months
Chinese Domestic HR Coil (2 mm and up) Eastern China Yuan per ton	0.00	6.67	17.07
Chinese Domestic HR Coil (2 mm and up) Southern China Yuan per ton	0.62	11.36	12.64
Chinese Domestic CR Coil (0.5-2 mm) Eastern China Yuan per ton	0.00	6.72	10.66
Chinese Domestic CR Coil (0.5-2 mm) Southern China Yuan per ton	0.00	8.08	9.18
Chinese Domestic Wire rod (mesh quality) Eastern China Yuan per ton	1.11	12.90	33.04
Chinese Domestic Wire rod (mesh quality) Southern China Yuan per ton	1.09	11.24	30.62
CIS Export Rebar Black Sea/Baltic Sea \$ per ton	0.00	6.67	5.66
CIS Export Billet Black Sea/Baltic Sea \$ per ton	0.00	4.08	5.16
United States Import HR coil \$ per short ton	0.00	0.00	-7.14
United States Import CR coil \$ per short ton	0.00	3.28	1.61
EU Domestic Hot rolled coil Euros per ton	0.00	0.00	0.45
EU Domestic Cold rolled coil Euro per ton	0.00	0.00	0.45

Note: 1 RMB=0.13US\$

Source: Metal Bulletin