Fastmarkets MB

MONTHLY FERROUS ANALYTICS

AUGUST 2023

Higher costs squeeze Chinese mill margins in August

Chinese steelmakers' margins continued to shrink in August, with prices for raw materials, especially iron ore, outperforming those for finished steel amid expectations of stimulus measures from the Chinese government.

The net margin proxy for hot-rolled coil producers decreased by 57.89 yuan ($8) per tonne month on month to 216.36 yuan per tonne on a daily average basis last month; producers of rebar – a long steel product used in construction that is more likely to be affected by seasonal factors – saw their margins flip into negative territory, with the proxy dropping by 95.49 yuan per tonne to -93.87 yuan per tonne.

HRC prices in eastern China averaged 3,927.83 yuan per tonne in August, up by 8.07 yuan per tonne month on month, while those for rebar averaged 3,615.22 yuan per tonne, down by 31.92 yuan per tonne, amid a summer lull.

Higher production costs contributed to thinner margins. Hot metal costs with imported mid-grade iron ore fines and imported premium hard coking coal increased by $7.22 per tonne month on month to $367.73 per tonne on a daily average basis last month, following an increase of $15.59 per tonne in July.

The increases in hot metal costs have made steel scrap a cheaper option for steelmakers, with China's domestic prices for the latter coming in at a discount of $6.04 per tonne against hot metal costs in August compared with a premium of $0.53 per tonne in July.

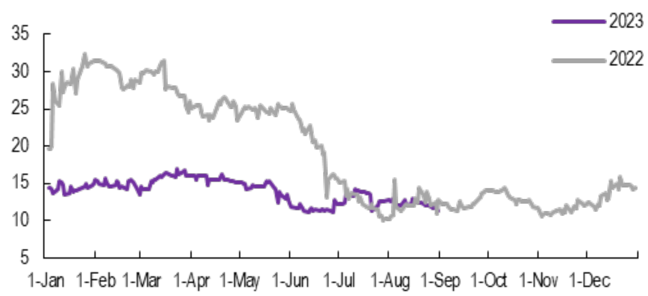
Analyst comments

There is potential for increasing margins in China in the coming months as steel supply tightens, although we may only see the start of it in September. Indeed, government-mandated curbs to cut steel production continue to be debated over the extent of the actual reductions, whether they are the announced "dynamic adjustment" informed by demand or steeper curbs to more closely meet 2022 levels, which we believe is unlikely. Nevertheless, supply will tighten and Fastmarkets forecasts a reversal in steel prices in the fourth quarter that will support steel product margins. For rebar, production cuts would limit supply even more than for HRC.

	Unit	Monthly average	Previous month average	Change	August Maximum	August Minimum	Current quarterly average	Previous quarterly average
Iron Ore								
Iron Ore 65% Fe Fines/62% Fe Fines Differential	Usd/tonne	12.22	13.13	▼ 0.90	13.03	11.27	12.66	13.81
Iron Ore 67.5% Fe Pellet Feed Premium	Usd/tonne	2.18	2.25	▼ 0.08	2.50	1.90	2.21	2.04
Hot Metal								
Hot metal cost (Iron ore 62% Fe fines, PHCC)	Usd/tonne	367.73	360.51	▲ 7.22	379.35	357.75	364.20	359.62
East China Domestic HRC / Hot Metal Spread	Usd/tonne	112.81	121.62	▼ 8.80	134.59	90.79	117.11	140.38
East China Domestic Rebar / Hot Metal Spread	Usd/tonne	74.81	88.06	▼ 13.25	86.90	62.78	81.28	104.97
Scrap								
South Korea import HMS 1&2 VS South Korea import H2	Usd/tonne	26.55	25.00	▲ 1.55	31.48	14.61	25.77	28.70
Vietnam import HMS1&2 VS Vietnam import H2	Usd/tonne	11.25	19.38	▼ 8.13	15.00	10.00	15.31	20.58
China steel scrap premium over hot metal	Usd/tonne	-6.04	0.53	▼ 6.57	6.22	-19.45	-2.76	12.44
Steel billet spread (Steel billet import cfr SE Asia VS scrap HMS cfr Vietnam)	Usd/tonne	129.89	129.93	▼ 0.04	143.00	123.00	129.91	143.96
Steel scrap Shindachi Premium over steel scrap H2 fob Japan	Usd/tonne	27.38	31.31	▼ 3.93	30.02	22.93	29.34	27.14
Steel Mills Margin								
China steel mills' Rebar Margin Proxy	Yuan/tonne	-93.87	1.62	▼ 95.49	-16.50	-144.95	-47.23	5.77
China steel mills' HRC Margin Proxy	Yuan/tonne	216.36	274.24	▼ 57.89	373.50	114.60	244.63	285.95

IRON ORE SPREAD

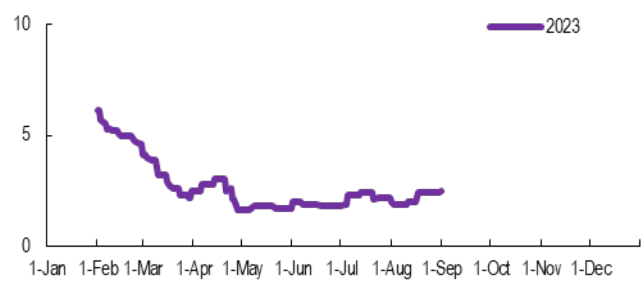
Iron Ore 65% Fe Fines/62% Fe Fines Differential, usd/tonne



Formula: Fastmarkets' Iron ore 65% Fe Brazil-origin fines, cfr Qingdao, $/tonne - Fastmarkets' Iron ore 62% Fe fines, cfr Qingdao, $/tonne

The differential indicates the price competitiveness between seaborne Brazilian high-grade iron ore fines and seaborne mid-grade iron ore fines driven by the fundamental supply and demand of the two products.

Iron ore 67.5% Fe Pellet Feed Premium, usd/tonne

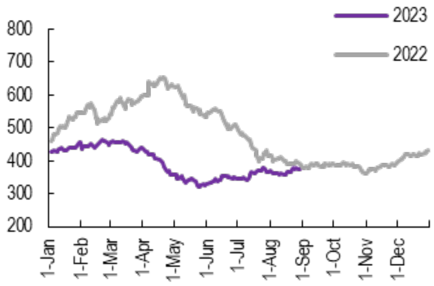


Price: Fastmarkets' iron ore 67.5% Fe Pellet Feed Premium, cfr Qingdao, $/tonne

The pellet feed premium represents the premium that high-grade pellet feed commands on a cfr Qingdao spot basis over the benchmark Fastmarkets' 65% Fe Brazil-origin fines index.

HOT METAL COST

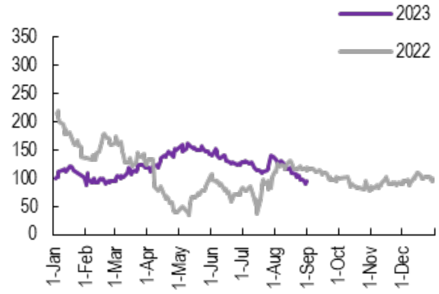
Hot metal cost, usd/tonne



Formula: 1.6*Fastmarkets' Iron ore 62% Fe fines, cfr Qingdao, $/tonne + 0.77* Fastmarkets' Premium hard coking coal, cfr Jingtang, $/tonne

The cost of hot metal in the blast furnace steelmaking route in China with imported mid-grade iron ore fines and imported premium hard coking coal.

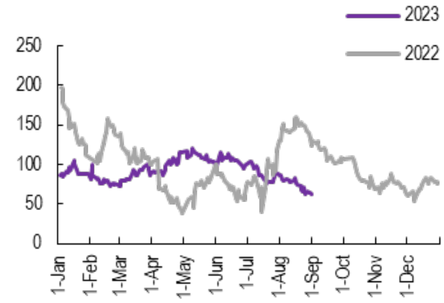
East China Domestic HRC/Hot metal spread, usd/tonne



Formula: Fastmarkets' Steel hot-rolled coil domestic, ex-whs Eastern China, ¥/tonne (converted to usd/tonne) - Hot metal cost

The spread between China's domestic hot-rolled coil price in the eastern region and the cost of hot metal indicates the profitability of HRC producing steel mills.

East China Domestic Rebar/Hot metal spread, usd/tonne

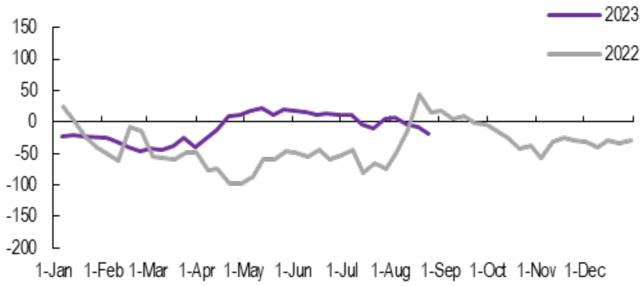


Formula: Fastmarkets' Steel reinforcing bar (rebar) domestic, ex-whs Eastern China, ¥/tonne (converted to usd/tonne) - Hot metal cost

The spread between China's domestic reinforcing bar price in the eastern region and the cost of hot metal indicates the profitability of rebar producing steel mills.

SCRAP

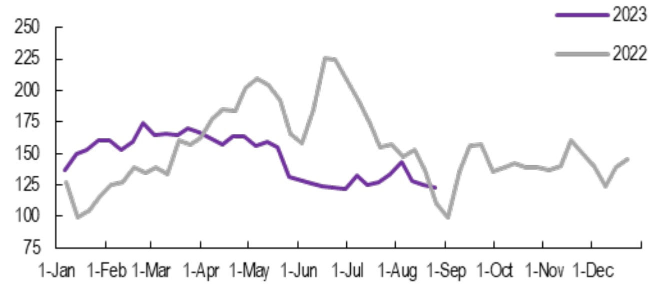
China steel scrap premium over hot metal, usd/tonne



Formula: Fastmarkets' Steel scrap heavy scrap domestic, delivered mill China, ¥/tonne (converted to $/tonne) - Hot metal cost

The premium indicates the price competitiveness between China's domestic steel heavy scrap and the cost of hot metal.

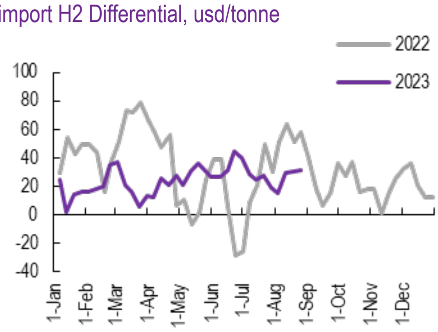
Steel billet spread (Steel billet import cfr SE Asia VS scrap HMS cfr Vietnam), usd/tonne



Formula: Fastmarkets' Steel billet import, cfr Southeast Asia, $/tonne - Fastmarkets' Steel scrap HMS 1&2 (80:20), cfr Vietnam, $/tonne

The spread indicates the price competitiveness between Southeast Asia imported steel billet and Vietnam imported recycled steel.

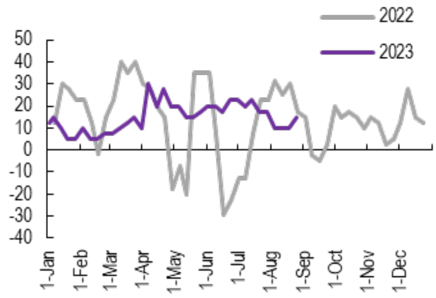
South Korea import HMS 1&2/South Korea import H2 Differential, usd/tonne



Formula: Fastmarkets' Steel scrap HMS 1&2 (80:20) deep-sea origin import, cfr South Korea, $/tonne - Fastmarkets' Steel scrap H2 Japan origin import, cfr main port South Korea, ¥/tonne (converted to usd/tonne)

The premium for deep-sea origin HMS 1&2 scrap over Japan-origin H2 scrap on a cfr South Korea basis shows which material is more competitive for Korean steelmakers to purchase.

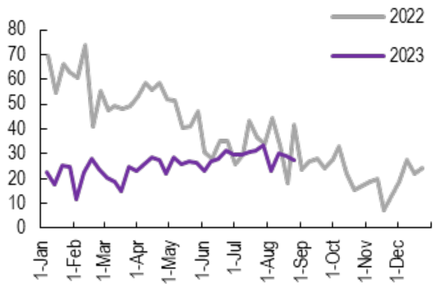
Vietnam import HMS1&2/Vietnam import H2 Differential, usd/tonne



Formula: Fastmarkets' Steel scrap HMS 1&2 (80:20), cfr Vietnam, $/tonne - Fastmarkets' Steel scrap H2 Japan-origin import, cfr Vietnam, $/tonne

The premium for deep-sea origin HMS 1&2 scrap over Japan-origin H2 scrap on a cfr Vietnam basis shows which material is more competitive for Vietnamese steelmakers to purchase.

Steel scrap Shindachi premium over steel scrap H2 fob Japan, usd/tonne

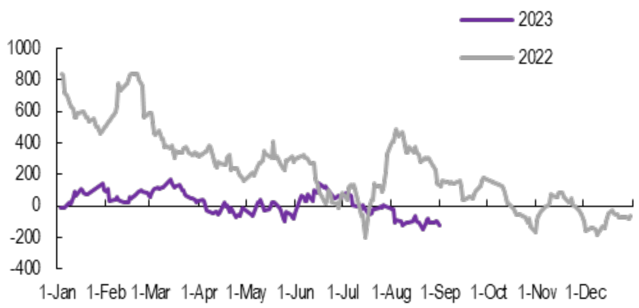


*Formula: Fastmarkets' Steel scrap Shindachi export, fob main port Japan, ¥/tonne (converted to usd/tonne) - Fastmarkets' Steel scrap H2 export, fob main port Japan, ¥/tonne (converted to usd/tonne)

The premium for Japan export Shindachi over Japan export H2 shows how competitive high-grade busheling scrap prices are compared with those for the base-grade heavy scrap material.

STEEL MILLS MARGIN

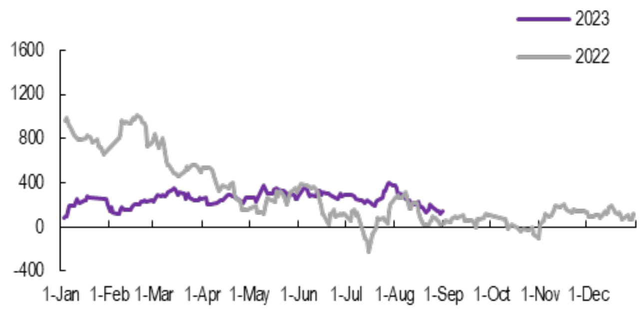
China's Steel Mill rebar margin proxy, yuan/tonne



Formula: Fastmarkets' Steel reinforcing bar (rebar) domestic, ex-whs Eastern China, ¥/tonne - 1.6*Fastmarkets' Iron ore 62% Fe fines, fot Qingdao, ¥/wet tonne - 0.5*China Domestic Coke price - Other costs (1250¥/tonne)

The profitability of China's rebar producing steel mills with portside purchased iron ore and domestic coke.

China's Steel Mill HRC margin proxy, yuan/tonne



Formula: Fastmarkets' Steel hot-rolled coil domestic, ex-whs Eastern China, ¥/tonne - 1.6*Fastmarkets' Iron ore 62% Fe fines, fot Qingdao, ¥/wet tonne - 0.5*China Domestic Coke price - Other costs (1250¥/tonne)

The profitability of China's HRC producing steel mills with portside purchased iron ore and domestic coke.