

Steel price rally fails to boost Chinese mill margins in June

While Chinese finished steel prices rebounded in June, margins for Chinese steelmakers, especially those for flat products, struggled to rise due to higher steelmaking costs.

Prices for finished steel improved from multi-month lows last month due to Chinese central bank cuts fueling lending rates; hopes for more stimulus measures; anti-smog production curbs in China's top steelmaking hub; and speculation that local governments will order mills to reduce production to control this year's crude steel output.

Eastern China rebar prices on June 16 were 3,720-3,740 yuan (\$514-517) per tonne – their highest since late April – while eastern hot-rolled coil prices hit their highest since mid-May at 3,900-3,920 yuan per tonne.

Hot metal costs with imported mid-grade iron ore fines and imported premium hard coking coal increased month on month in June by \$6.02 per tonne to \$344.93 per tonne on a daily average basis.

The spread between rebar and hot metal costs dipped by \$4.48 per tonne month on month to \$105.24 per tonne on a daily average basis in June, while that between HRC and hot metal costs shrank by \$17.66 to \$134.02 per tonne on a daily average basis.

A dip in the spread between high-grade iron ore and mid-grade materials in June also suggested that mills had to continue to control

costs, with margins not to their liking, though an increase in supplies of high-grade fines from Brazil weighed on the spread as well.

Analyst comments

Chinese mill margins remain thin amid stifled downstream steel demand. Fastmarkets' research team estimates that rebar producer margins at integrated mills were around \$2 per tonne in the final week of June, while HRC margins were estimated at just \$7 per tonne. Meanwhile, rebar margins at scrap-based electric arc furnaces have been in loss-making territory for a significant period and were at an estimated minus-\$44 per tonne in late June. Nevertheless, steel producer margins may benefit somewhat from a recent improvement in steel prices amid more bullish sentiment after authorities announced measures to support economic activity.

Further stimulus measures are likely to be announced to boost economic activity, which has faced significant headwinds over recent years. Indeed, steel-consuming construction sector output has struggled over the past year, with floor space starts of new real estate construction – when rebar is heavily used – showing a 28.1% year-on-year decrease in May, according to National Bureau of Statistics data. While real estate is only part of the long steel-consuming construction sector, it does indicate stifled economic activity.

	Unit	Monthly average	Previous month average	Change	June Maximum	June Minimum	Current quarterly average	Previous quarterly average
Iron Ore								
Iron Ore 65% Fe Fines/62% Fe Fines Differential	Usd/tonne	11.61	14.29	▼ 2.68	12.85	11.08	13.81	15.05
Iron Ore 67.5% Fe Pellet Feed Premium	Usd/tonne	1.87	1.73	▲ 0.14	2.00	1.80	2.04	4.04
Hot Metal								
Hot metal cost (Iron ore 62% Fe fines, PHCC)	Usd/tonne	344.93	338.90	▲ 6.02	355.96	330.05	359.62	444.97
East China Domestic HRC / Hot Metal Spread	Usd/tonne	134.02	151.68	▼ 17.66	150.83	123.68	140.38	105.90
East China Domestic Rebar / Hot Metal Spread	Usd/tonne	105.24	109.72	▼ 4.48	114.62	94.95	104.97	85.91
Scrap								
South Korea import HMS 1&2 VS South Korea import H2	Usd/tonne	33.73	29.37	▲ 4.37	44.86	26.06	28.70	18.28
Vietnam import HMS 1&2 VS Vietnam import H2	Usd/tonne	20.50	16.88	▲ 3.63	22.50	17.50	20.58	9.29
China steel scrap premium over hot metal	Usd/tonne	13.48	18.33	▼ 4.85	16.66	10.84	12.44	-32.80
Steel billet spread (Steel billet import cfr SE Asia VS scrap HMS cfr Vietnam)	Usd/tonne	124.10	150.41	▼ 26.31	126.50	121.88	143.96	159.77
Steel scrap Shindachi Premium over steel scrap H2 fob Japan	Usd/tonne	27.82	27.04	▲ 0.78	31.32	23.22	27.14	21.43
Steel Mills Margin								
China steel mills' Rebar Margin Proxy	Yuan/tonne	68.71	-23.20	▲ 91.90	140.20	-46.75	5.77	73.11
China steel mills' HRC Margin Proxy	Yuan/tonne	301.21	308.31	▼ 7.10	358.65	259.65	285.95	227.94

IRON ORE SPREAD

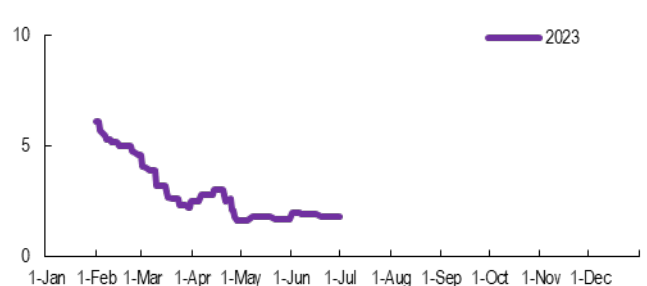
Iron Ore 65% Fe Fines/62% Fe Fines Differential, usd/tonne



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

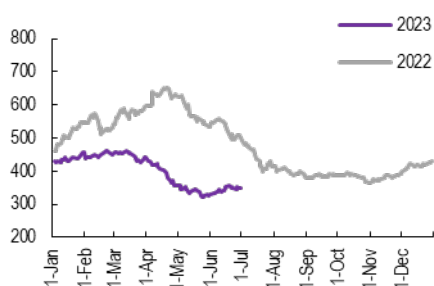


Price: Fastmarkets' iron ore 67.5% Fe Pellet Feed Premium, cfr Qingdao, \$/tonne

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.

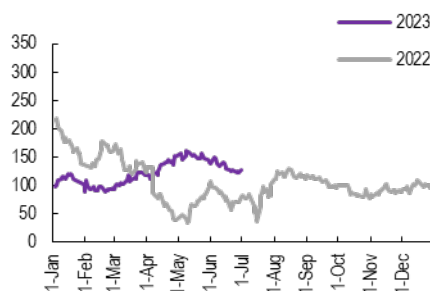
HOT METAL COST

Hot metal cost, usd/tonne



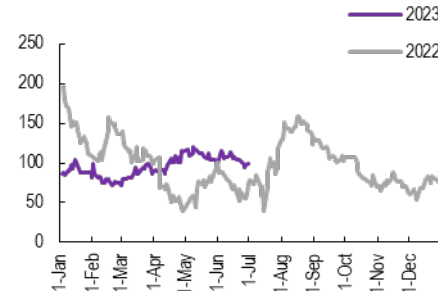
Formula: $1.6 \times \text{Fastmarkets' Iron ore } 62\% \text{ Fe fines, cfr Qingdao, } \$/\text{tonne} + 0.77 \times \text{Fastmarkets' Premium hard coking coal, cfr Jinglang, } \$/\text{tonne}$
 The cost of hot metal in the blast furnace steelmaking route in China with imported mid-grade iron ore fines and imported premium hard coking coal.

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



Formula: $\text{Fastmarkets' Steel hot-rolled coil domestic, ex-whs Eastern China, } \$/\text{tonne (converted to usd/tonne)} - \text{Hot metal cost}$
 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.

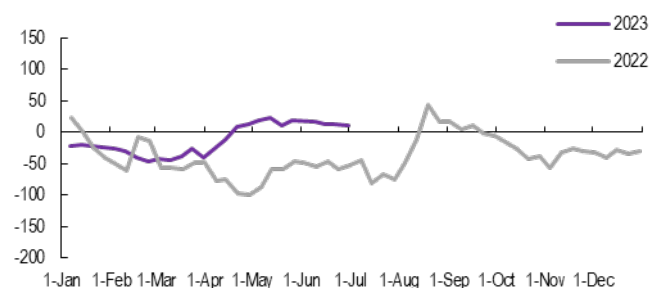
East China Domestic Rebar/Hot metal spread, usd/tonne



Formula: $\text{Fastmarkets' Steel reinforcing bar (rebar) domestic, ex-whs Eastern China, } \$/\text{tonne (converted to usd/tonne)} - \text{Hot metal cost}$
 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.

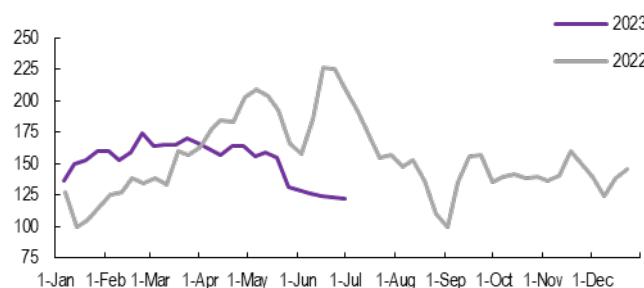
SCRAP

China steel scrap premium over hot metal, usd/tonne



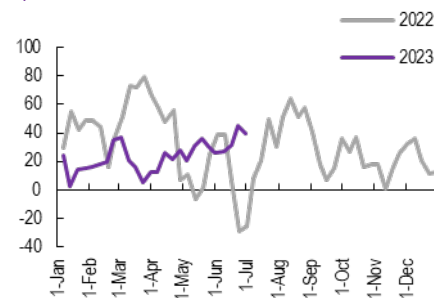
Formula: $\text{Fastmarkets' Steel scrap heavy scrap domestic, delivered mill China, } \$/\text{tonne (converted to } \$/\text{tonne)} - \text{Hot metal cost}$
 The premium indicates the price competitiveness between China's domestic steel heavy scrap and the cost of hot metal.

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



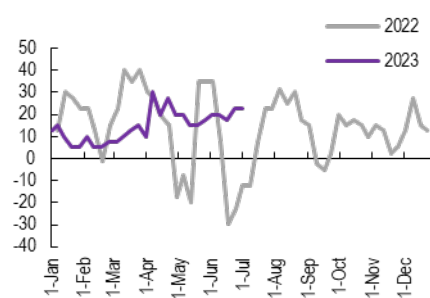
Formula: $\text{Fastmarkets' Steel billet import, cfr Southeast Asia, } \$/\text{tonne} - \text{Fastmarkets' Steel scrap HMS } 1\&2 \text{ (80:20), cfr Vietnam, } \$/\text{tonne}$
 The spread indicates the price competitiveness between Southeast Asia imported steel billet and Vietnam imported recycled steel.

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



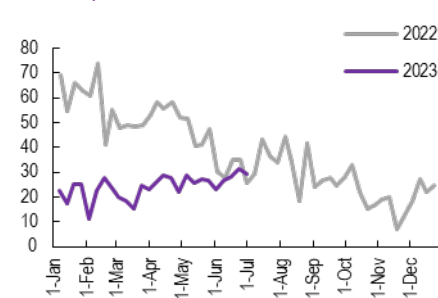
Formula: $\text{Fastmarkets' Steel scrap HMS } 1\&2 \text{ (80:20) deep-sea origin import, cfr South Korea, } \$/\text{tonne} - \text{Fastmarkets' Steel scrap H2 Japan origin import, cfr main port South Korea, } \$/\text{tonne (converted to usd/tonne)}$
 The premium for deep-sea origin HMS 1&2 scrap 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: $\text{Fastmarkets' Steel scrap HMS } 1\&2 \text{ (80:20), cfr Vietnam, } \$/\text{tonne} - \text{Fastmarkets' Steel scrap H2 Japan-origin import, cfr Vietnam, } \$/\text{tonne}$
 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.

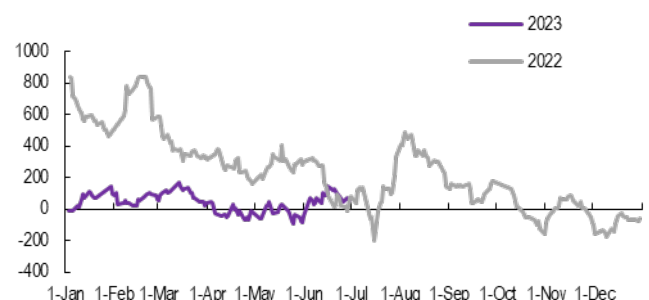
Steel scrap Shindachi premium over steel scrap H2 fob Japan, usd/tonne



*Formula: $\text{Fastmarkets' Steel scrap Shindachi export, fob main port Japan, } \$/\text{tonne (converted to usd/tonne)} - \text{Fastmarkets' Steel scrap H2 export, fob main port Japan, } \$/\text{tonne (converted to usd/tonne)}$
 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.

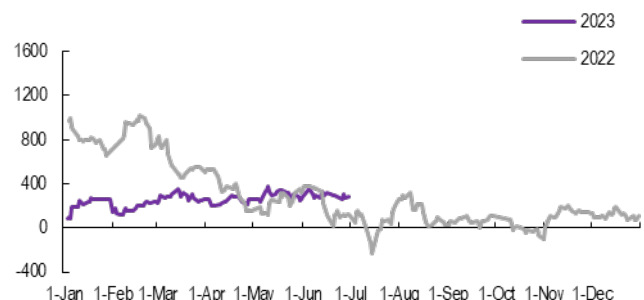
STEEL MILLS MARGIN

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



Formula: $\text{Fastmarkets' Steel reinforcing bar (rebar) domestic, ex-whs Eastern China, } \$/\text{tonne} - 1.6 \times \text{Fastmarkets' Iron ore } 62\% \text{ Fe fines, cfr Qingdao, } \$/\text{wet tonne} - 0.5 \times \text{China Domestic Coke price} - \text{Other costs (1250 } \$/\text{tonne)}$
 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: $\text{Fastmarkets' Steel hot-rolled coil domestic, ex-whs Eastern China, } \$/\text{tonne} - 1.6 \times \text{Fastmarkets' Iron ore } 62\% \text{ Fe fines, cfr Qingdao, } \$/\text{wet tonne} - 0.5 \times \text{China Domestic Coke price} - \text{Other costs (1250 } \$/\text{tonne)}$
 The profitability of China's HRC producing steel mills with portside purchased iron ore and domestic coke.