



KALLANISH EUROPE STEEL MARKETS 2022

Milano, May 30th

Fernando Espada – President

About EUROMETAL

EUROMETAL is the European federation of steel tubes and metals distribution and trading.

The roots of **EUROMETAL** date back to 1950, when the European Community for Coal and Steel was created by Belgium, France, Germany, Italy, Luxembourg and the Netherlands.

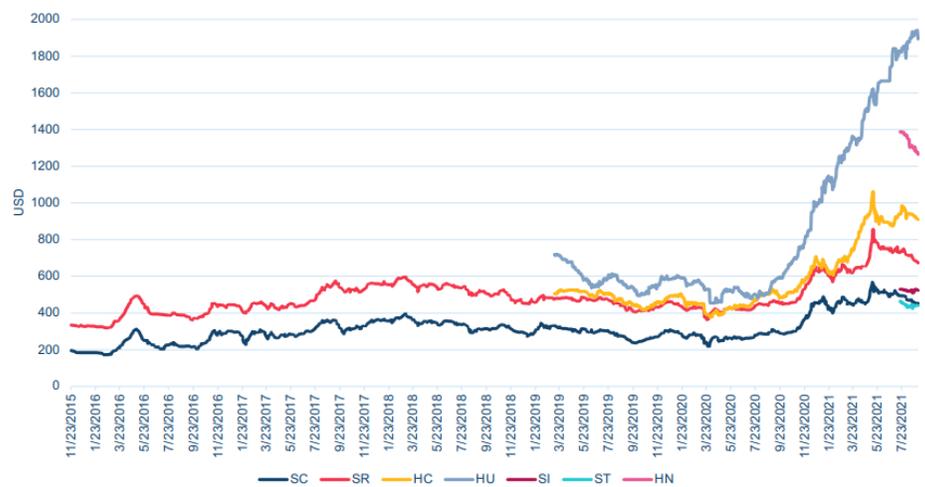
EUROMETAL members are national federations of steel, metals and tubes distribution as well as distribution, SSC and trading companies having cross border activities in European OECD countries.

Flat steel market evolution

Historical tendencies

Prices since 2015 but even before...

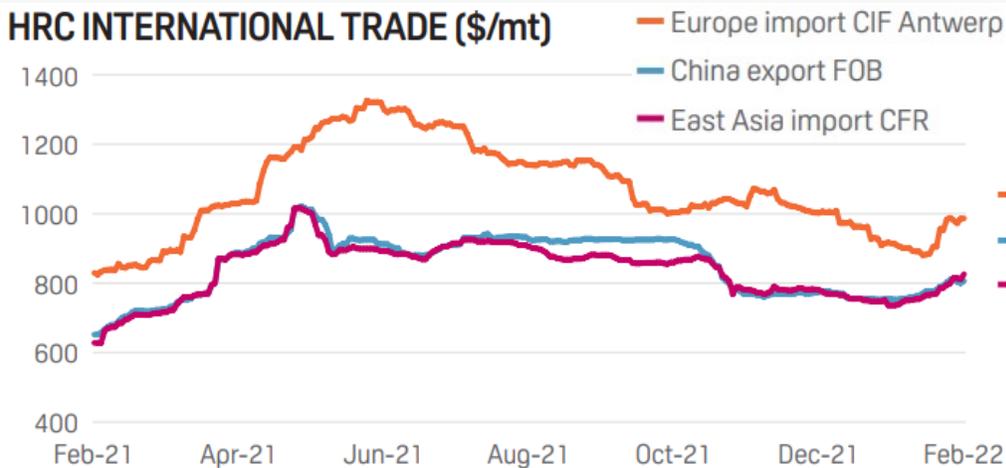
LME ferrous suite, M2 closing prices, USD/mt-st



Source: LME

Prices of HRC since Feb'21

HRC INTERNATIONAL TRADE (\$/mt)



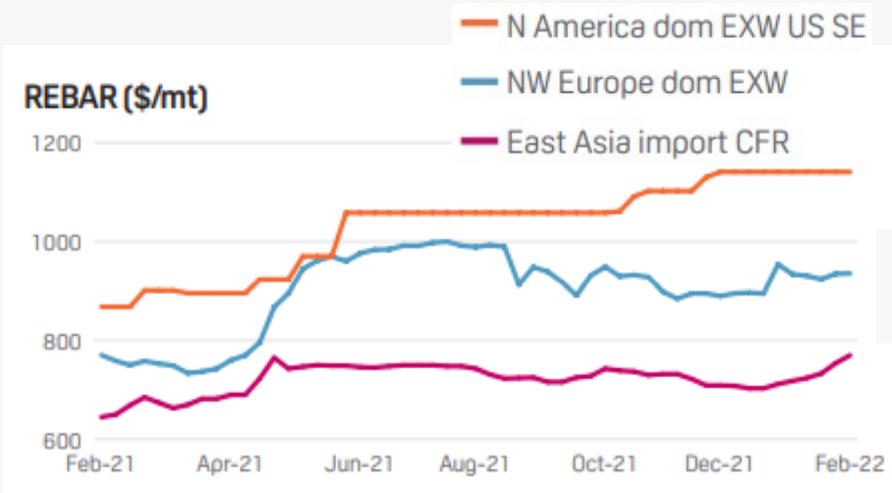
Source: SSB-Platts

Radical change in the market cycle over the last 20 years legacy.

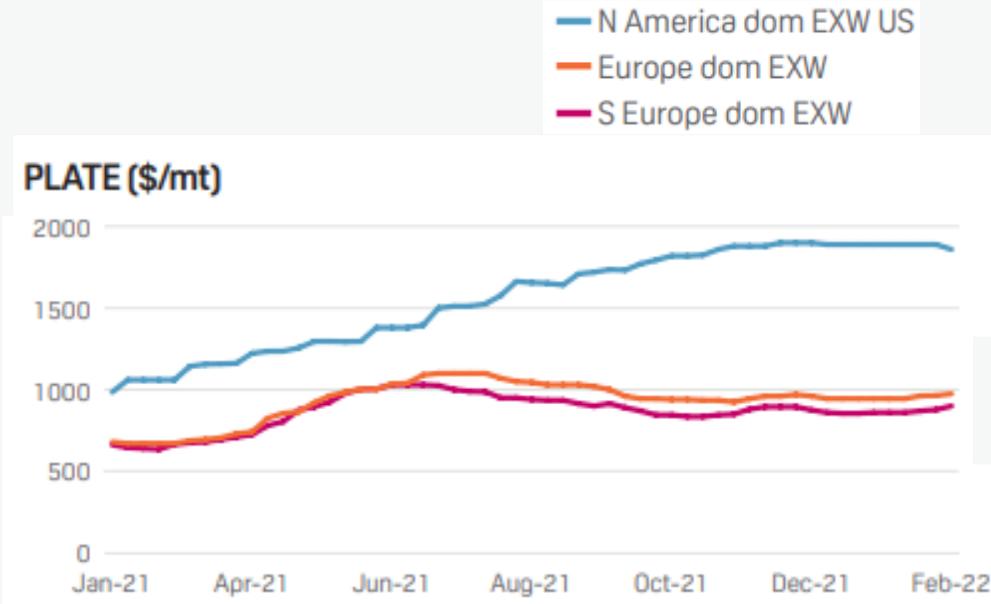
Kallanish Europe Steel Market
Milano, May 2022

Other steel products... too

It is not only flat steel



Source: SSB-Platts



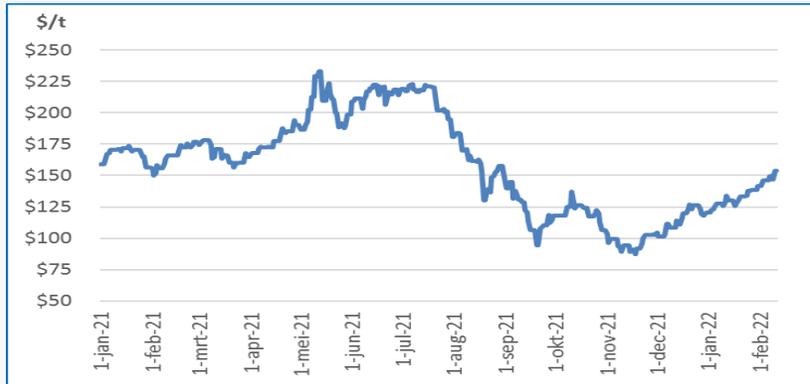
Source: SSB-Platts



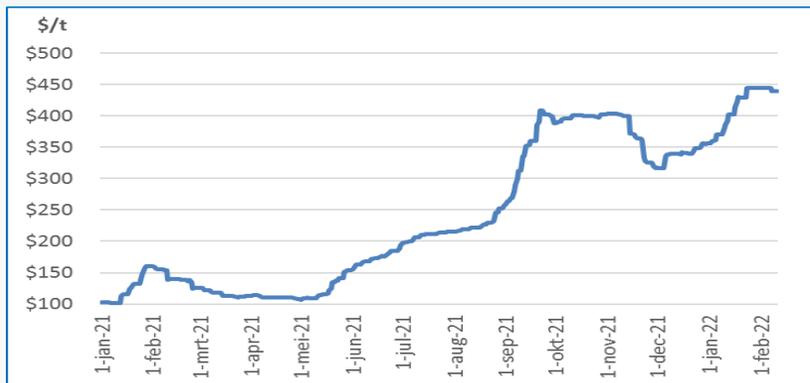
Flat market evolution

Possible causes (i)

1) Iron ore



2) Hard coking cole



First broken paradigm in this new cycle: there is not link between cost of raw materials and selling prices

- 1) International iron ore prices are defined by Chinese procurement capacity
- 2) But not in the case of hard coking cole, as China is self-sufficient



Flat market evolution

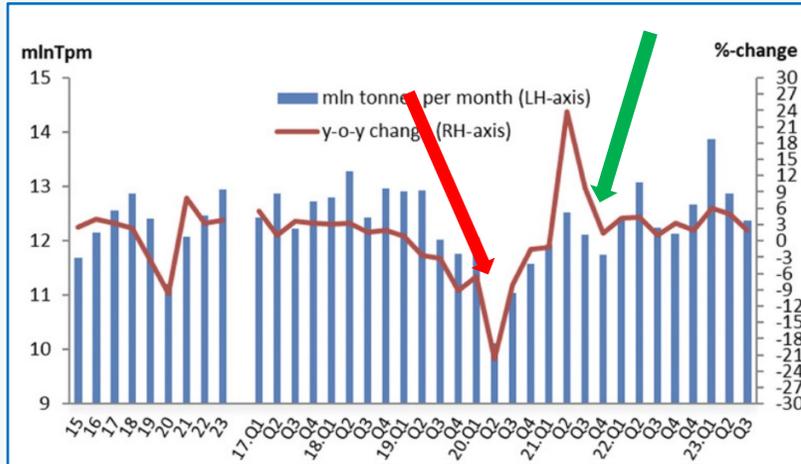
Possible causes (ii)

3) Scrap



3) Another broken paradigm: scrap price movements are also a consequence of steel demand, and not the origin. This has a direct effect on long products.

4) Covid19



4) And post Covid19 demand is not as strong as to determine the last increase in prices



Flat market evolution

Possible causes (iii)

5) Safeguards

Evolución contingentes arancelarios de salvaguardia					UNESID
Período:	T1-2022				
Actualizado:	25-02-2022				
Producto	País	Contingente (miles toneladas)	Contingente utilizado (%)	Tiempo transcurrido (%)	
01 Bobinas y flejes laminados en caliente, no inoxidable	Turquía	323	100	62	
	Serbia	136	56	62	
	Rusia	408	83	62	
	India	166	44	62	
	Corea del Sur	143	72	62	
	Reino Unido	246	14	62	
	Residual T1-2022	2.189	8	62	
02 Chapas laminadas en frío, no inoxidable	Serbia	41	63	62	
	Ucrania	82	50	62	
	Brasil	92	37	62	
	India	148	100	62	
	Corea del Sur	108	43	62	
	Reino Unido	113	27	62	
	Residual T1-2022	277	79	62	
03A Chapas y flejes magnéticos, excepto GOES	Rusia	1	0	62	
	Irán	0,5	0	62	
	Corea del Sur	0,4	0	62	
	Reino Unido	1	0	62	
	Residual T1-2022	2	1	62	
03B Chapas y flejes magnéticos, excepto GOES	Rusia	77	15	62	
	China	16	100	62	
	Corea del Sur	31	30	62	
	Taiwán	12	88	62	
	Residual T1-2022	15	36	62	
04A Chapas y flejes recubiertos de metal por inmersión (sujeto a derechos antidumping)	India	49	87	62	
	Corea del Sur	35	63	62	
	Reino Unido	33	60	62	
	Residual T1-2022	430	100	62	
04B Chapas y flejes recubiertos de metal por inmersión (no sujeto a derechos antidumping)	China	116	100	62	
	India	69	42	62	
	Corea del Sur	176	64	62	
	Reino Unido	33	50	62	
Residual T1-2022	97	100	62		

5) Since the Section 232 issued by the US in May 2018, the safeguards have not prevented from the prices and margins on steel industry to deep below profitable levels: 2019, Q1 2020, and right now are the proof



Flat market evolution

A personal interpretation

1) CO₂

CO₂ reduction is here to stay. Market changes are going further than social or environmentalist action Groups. All productive systems are going to be affected. First Europe, then the rest of the world.

2) Chinese long term policy

Xi Jinping and the *shared prosperity* program



Flat market evolution

Temporary vs structural factors: CO₂

- Almost all European flat steel factories are based on Blast Oxygen Furnaces and are in the need of huge Investments to change the production process
- CO₂ will keep on increasing costs, thus affecting electricity price in the long term, with cost, also, for Electric Arc Furnaces.
- Gas price increases in 2021 and 2022 are so far due to geopolitical factors, no demand increases.... Yet
- The introduction of the Carbon Border Adjustment Mechanism (CBAM) by the EU Commission is going to add a lot of complexity and will affect all markets, not only steel production
- Inflation generated by energy prices (electricity and oil) might last enough to generate a “second round” inflation



Flat market evolution

Temporary vs structural factors: China's position

2) Chinese position in the long term

- Price increases since mid 2021 have their origin on the removal of the tax return on certain steel exports in China.
 - China does not want to produce CO2 to export low value goods
 - Impact was a reduction of 20% of exports
- If China continues with an added value policy, wealth sharing, oligarc control, and middle class growth, if it leaves behind being the cheap producer for the rest of the world:
 - Many equilibriums in different markets will be broken, not only steel
 - Re-align the markets, re-locate the production is going to take decades and will creat many, many problems



Flat market evolution

Temporary vs structural factors: today

Current issues: for the player to check if temp or structural

- War in Ukraine showed a speculative factor, under current correction right now, for most products, not RMP
- Covid Zero policy in China is flooding Asian markets of cheap opportunities
- Inflation rates might launch a stagflation cycle... or create new wealth as new capacity is installed after Chinese deliveries
- Supply Chain issues, as per automotive, might get resolved
-

Thanks for your attention

Any questions?