

UPDATE | Global Steel Industry

Correction is inevitable, the question is when ...

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With most steel mills losing money, including the Chinese, current spreads absolutely unsustainable
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Traditional market forces slower to react, but they will prevail
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Signs Chinese mills credit drying up
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Chinese authorities able to enact change faster than the West?
Who fails / blinks first?


PACIFIC STEEL NEW ZEALAND
CERTAIN STRENGTH STEEL


So where to from here for the global steel industry?

PROs


Chinese exports unprofitable and main driver of prices downward, unlikely significantly further downside 


U.S economy continues to grow strongly likewise South East Asia and India which should continue to drive demand, albeit modestly in the medium term 


Raw material prices appear likely to remain suppressed for the indefinite future as significant new capacity continues to come online 

Wage inflation along with tougher environmental laws may push up the conversion cost of Chinese steelmakers which would likely flow through to higher prices 

CONs

 China's recent weak economic data and share market performance points to potentially further weakness in demand than already priced in

 Without capacity exiting the market, particularly in China, there remains plenty of latent capacity to offset any uptick in price

 Trade cases in large markets like the US and Europe risk pushing excess capacity back to Asia further exacerbating the difference in performance of regional markets

Closer to home, we have already seen the rationalisation spoken of underway





Asset and Supply Chain changes

- Fletcher Building interim billet production
- New billet caster Glenbrook – Fletcher Building to close steel billet assets permanently
- Billet railed daily
- Balance of reinforcing, rod and wire production, market offer, and supply chain remains unchanged



Will remain two separate businesses to market, in recognition of unique segments needs and attributes

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Progress update

- First billet cast from Glenbrook expected in coming weeks
- Extensive product evaluation process to be undertaken.
- Expecting full conversion by November



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New Zealand Steel challenge

- Within most recent steel pricing and spread dynamics, New Zealand Steel has become loss making.
- Sustainability requires an ability to avoid cash bleed at cycle low point.
- Embarked on a \$50M cost reduction program.
- Confident that this can be achieved.
- Focus on;
 - Input and services costs
 - Labour costs
 - Internal and freight efficiencies



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In closing

- Unprecedented growth in global steel making capacity and production
- Stagnation of steel consumption growth in China, may have peaked
- Capacity overshoot, steel pricing death spiral
- Most steel makers, including Chinese, deep loss making – unsustainable
- Balance will be restored, but when – ‘normalisation’ likely still a few years away
- Global capacity rationalisation will be the key
- Rationalisation well underway within NZ



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