

UK Steel Price increases to continue into 2018

The National Association of Steel Service Centres (NASS) reported last November that UK steel price increases were inevitable in 2017. In recent weeks NASS has conducted a number of surveys with its Members within the UK and its supply base. Business sentiment remains firm with further supply increases for Q4, 2017 and Q1, 2018 already in place. Given the continued price pressure evident in the steel supply chains, NASS has again taken this opportunity to comment and reflect upon current market conditions in the UK as 2017 comes to a close and we look forward to 2018.

2017 began with a continuation of the trends established in the second half of 2016 with price increases implemented across all products. This momentum paused in the summer months but recovered strongly with substantial price increases negotiated for supply in Q4. This upward trend is expected to continue into Q1, 2018 as further increases have been announced by both domestic Mills and Traders alike in line with global movements.

Steel prices reflect the continued impact of currency which, over the last two years, in relative terms has effectively added £150 per tonne to the cost of Mainland European imported steel. Raw material prices have fluctuated throughout 2017 but iron ore and coking coal prices remain significantly above levels seen 15/18 months ago.

Likewise, the price of scrap has peaked at circa \$360 per tonne into Turkey in recent months which has now fallen back to circa \$300 per tonne. It is expected that scrap prices will rise again before the end of the year and remain firm.

Other key factors which steel Producers are having to incorporate into forward pricing of their products include increasing energy costs, oil prices, transport costs, ferro alloy price movements and the significant increase of the cost of graphite electrodes used in electric arc steel making.

All of these factors underline the need for steel Producers to increase prices in both the short/medium term if margins are not to be squeezed to unacceptable levels.

Steel consumers therefore need to take note of these factors as steel prices are likely to continue to rise during the remainder of 2017 and going into the first half of 2018 to reflect import/ conversion costs and will be further influenced by supply and demand in the UK Market.

In 2016, demand for NASS core products namely Hot Rolled, Cold Rolled, Hot Dipped Galvanised, Electro Zinc, Heavy Section, Merchant Bar, Structural Hollow Section and Reversing Mill Plate exceeded expectations with an 8 year high of 6.6mt. In the first half of 2017, demand has again been significant at similar or increased levels for all products. It is interesting to note that the cumulative demand of Hot Rolled Coil, Hot Dipped Galvanised and Heavy Section represent over 70% of UK demand for the NASS core products portfolio.

Supply to the UK Steel Market in 2017 has been influenced by reduced UK production and restricted import availability due to import protection duties being imposed on Hot Rolled, Cold Rolled and Hot Dipped Galvanised material. In the case of the latter, significant purchases of Hot Dipped Galvanised Material have been made in the first half of 2017 which has created some imbalance to supply and demand but this position is likely to be reconciled by the end of the year. In fact gaps and shortages of some sizes within product ranges held by Service Centres are anticipated. This situation will be further exacerbated as foreign Mills and Traders consider the “attractiveness” of the UK market relative to opportunities in other geographical markets.

The current NASS inventory data indicates a mixed picture for the first 8 months of 2017. The Long Product portfolio has seen a 5% stock draw and stockdays reduced by 8 days. Conversely, Flat Products has seen a dramatic increase, heavily influenced by the above with overall inventory levels increased by circa 20% plus and stockdays up by 11 days. Hot Rolled and Hot Dipped Galvanised stock levels were the major contributor to this situation. The forecast for the remainder of 2017 is that Flat Steel inventories will significantly be reduced as Service Centres utilise existing stocks and only purchase on a “need to buy” basis. Long and Plate Product inventories are likely to be in balance.

In conclusion,

- Demand within the UK in 2017 is likely to exceed 2016 levels. The initial view of 2018 is that similar levels are anticipated despite the concerns of any Brexit issues.
- The Import Protection Duties being imposed on Hot Rolled and Hot Dipped Galvanised products together with those already in place for Cold Reduced Material will test the “attractiveness” of the UK Steel Market. This in turn could well result in pressure on steel supply chains in terms of consistency of supply and potential outages/gaps in steel Service Centre inventories.
- Steel consumers should take note of the dynamics of the UK Steel Market, as steel prices going forward into 2018 will have to reflect increased import/conversion costs for steel Producers, exacerbated by currency and subject to availability of supply.
- **UK Steel Service Centres have an important role to play in continuing to effectively communicate the above to steel supply chains**

NASS looks forward to the future with continued optimism and takes note of interesting times ahead!!

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Director General

The National Association of Steel Service Centres (NASS)