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Steel Prices Update

17th October 2023

Dear Customers and Suppliers,

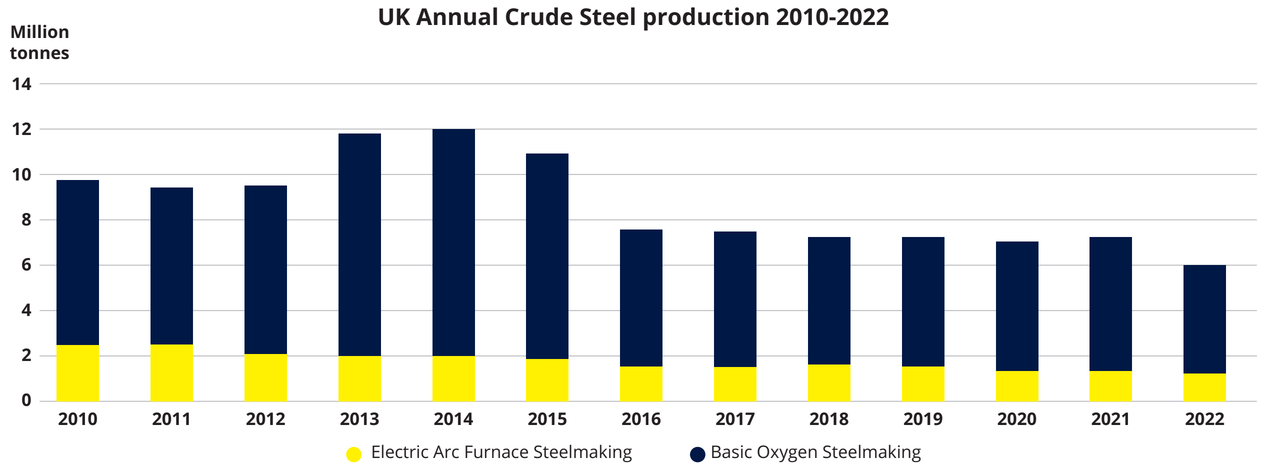
It has been several months since we last discussed steel prices in the UK Construction and Manufacturing sector. However, recent developments have brought about a definite change in sentiment and direction. Current demand in both sectors remains lackluster, primarily driven by inflationary pressures and market confidence. Underpinning all of this is the woeful effort by the UK government to stimulate infrastructure and commercial projects. With both construction and manufacturing PMIs below 50 for the most recent months, this indicates a clear contraction in market activity.

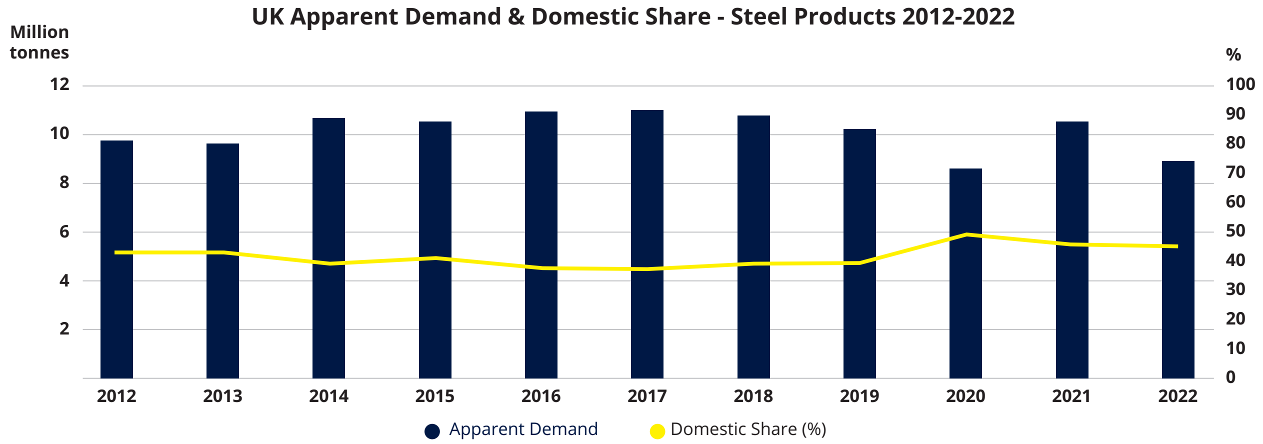
However, the number of planning approvals coming through has increased, particularly in steel-intensive sectors such as commercial, industrial, and the public sector. According to the "*Construction Industry Forecast 2023-2025*" published by Glengian's, construction activity (new starts) is projected to grow by 12% in 2024. Public sector construction is expected to be a bright spot in 2023, as government departmental capital programmes receive a boost from the rolling forward of 2022/23 underspend into the current financial year. Additionally, the incoming 2024 elections are certain to generate significant spending. Renewed construction growth is forecast for 2024 and 2025 as the strengthening UK economy boosts consumer and business confidence. Improved household spending and consumer confidence are expected to lead to increased activity in consumer-related areas. Firm development pipelines are also expected to support a rise in industrial and office starts as investor confidence improves.

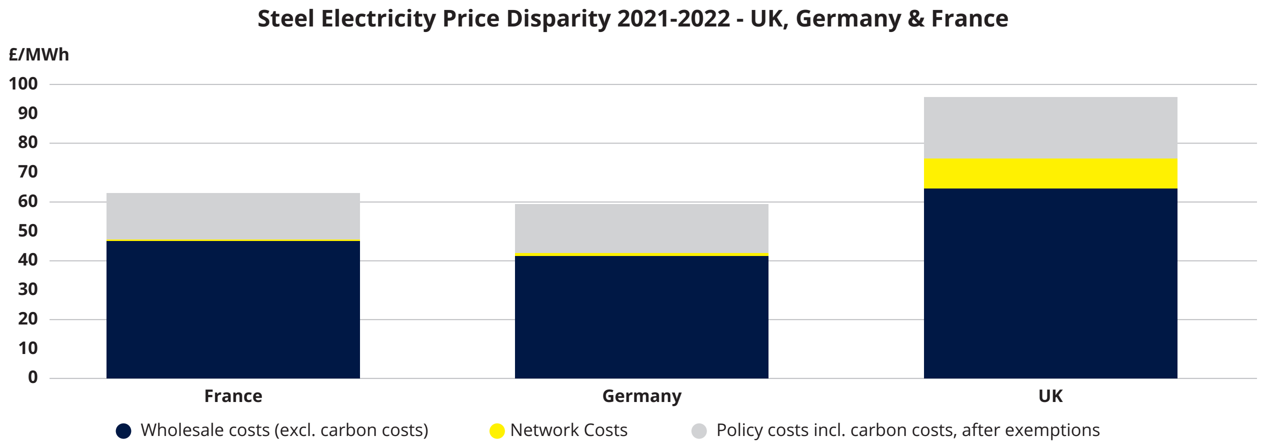
We believe that with the improving economic outlook going into 2024, along with several factors detailed below, there will be a strengthening in steel prices (Graphs referenced from UK Steel):

1. UK Steel Production

Capacities continue to decline, and there are no immediate plans to increase capacity with any of the domestic manufacturers. The media has extensively covered the financial support packages being delivered to support UK steel mills and their production costs. A sector that directly employs 40,000 people, with an average salary 43% higher than the national average, is largely dependent on blast furnace operations, but is burdened by high electricity costs. Furthermore, the added pressure of net-zero and EU carbon reduction legislation makes the cost of production in the UK significantly higher than most imports. Coupled with the ongoing maintenance of these aged assets is an intensive refurbishment program, which at times can take down core production lines for weeks, if not months. This ultimately means less capacity and a restriction on supply, which is what we are currently seeing in structural steel, with volumes down by about 25%. UK domestic steel production accounts for roughly 50% of demand and 6 million tonnes per year, making it an essential part of the supply chain, and any disruptions have an immediate effect on supply.







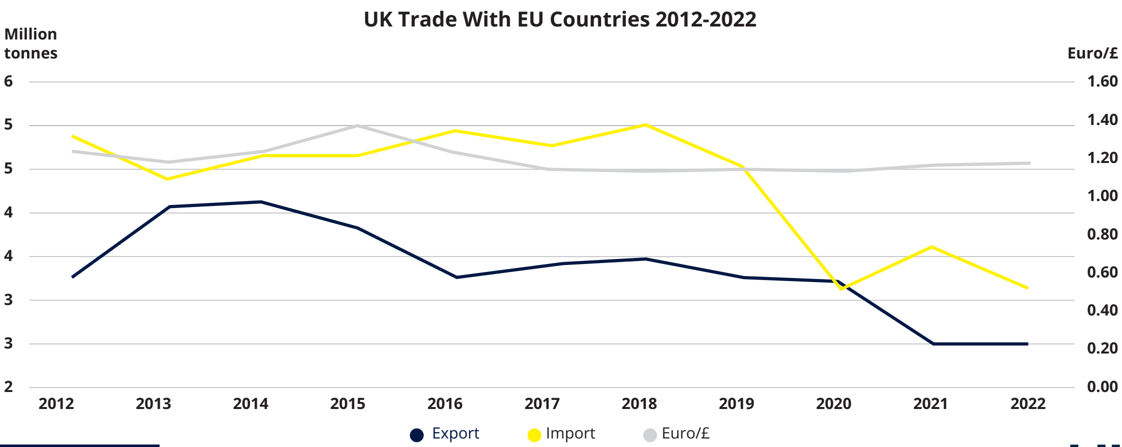
2. Energy costs are increasing due to the unfolding conflict in Gaza and the approaching winter months

Conflict and war have a long-established trend of pushing up energy prices due to scarcity. While there was an immediate increase in oil prices (up to approximately $90/barrel) following the outbreak, the longer-term effects are yet to be felt. More tangibly, everyday fuel prices at the forecourts have risen by about 25% since the beginning of summer, and further increases could occur. With winter fast approaching and supplies in the EU and UK yet to be fully ratified given the change in supply routes, most traders are forecasting increases across the board for power prices. The table below illustrates both the short and long-term views held by power traders in the UK market. Steelmaking is the most energy-intensive process in the manufacturing world, so any changes are immediately seen in production costs.

Power	6th Oct (£/MWh)	9th Oct (£/MWh)	Day-On-Day	Day-On-Day %	Week-On-Week %
Day-Ahead	51.42	84.94	33.52↗	65.19↗	-12.60↘
Month-to-date DA avg	67.78	74.27			
Nov-23	90.27	100.77	10.50↗	11.63↗	
Dec-23	101.72	109.89	8.17↗	8.03↗	
Jan-24	114.18	122.37	8.19↗	7.17↗	
Jan-24	110.10	118.54	8.44↗	7.66↗	
Feb-24	99.64	105.06	5.42↗	5.44↗	
Mar-24	97.96	103.36	5.40↗	5.51↗	
Sum24	98.79	104.20	5.41↗	5.48↗	
Win24	116.46	121.34	4.89↗	4.20↗	
Sum25	91.64	94.97	3.33↗	3.63↗	
Win 25	106.52	109.73	3.21↗	3.01↗	
Sum26	88.51	91.52	3.01↗	3.40↗	
Win 26	98.87	101.86	2.99↗	3.02↗	
Sum27	79.45	82.65	3.20↗	4.03↗	
Win 27	93.99	96.98	2.99↗	3.18↗	

3. EU Directive 833/2014 sanctions against Russia

Russia has always had a significant presence in the steel supply chain, and due to sanctions, coupled with the issues experienced last year when the war broke out in Ukraine, there has been significant disruption in the steel industry. Given this new directive, the responsibility for ensuring no Russian-origin material is supplied within the EU and UK has shifted to the supply chain. The penalties for supplying Russian-origin material in any form are severe, and the legislation applies to all trades with no exceptions. This ultimately means the supply chain upstream must shift their buying to appropriate sources, but it also requires significant resources to administer compliance in this area. Coupled with import quotas into the UK on core structural products, it is clear that trade is becoming increasingly restrictive for certain steel product lines in both the EU and UK. With steel imports from the EU into the UK decreasing over the last few years, there is greater reliance on domestic mills that are under extreme cost and capacity pressures, leaving them no option but to increase outsell prices.



4. UK Steel inventory levels are at an all-time low

Following the high levels of activity seen during the post-COVID recovery and issues surrounding the war in Ukraine, which led to unprecedented hikes in material costs, the past year has witnessed a significant correction in costs. Given the high levels of inventory previously held and declining forward prices, all suppliers made a concerted effort to reduce inventory (in excess of 30% for some) to reduce exposure to losses on high-priced stocks and to match the poor latent demand in the market. This has led to a record low level of stock currently being held on the floor in the UK, with very limited material on order (as also seen in the latest mill output figures). This has created a situation whereby the volume of supply will be lower, but prices will be pushed up higher. Equally, the strength of GBP Sterling has deteriorated since July 2023. The US dollar is globally used in steel pricing, and this change in currency reflects a 13% increase in prices compared to what we were seeing in July. This puts further pressure on the choices and, in turn, makes the UK an unattractive import route for Steel Traders. In addition, the largest importer of structural sections into the UK, ArcelorMittal, has today (17/10/2023) announced a £30/t increase immediately, and labelled it the "first increase."

Here at ParkerSteel, we have been closely monitoring the situation over the past few months, and we thought it prudent to share our views on the current and future trends we are seeing. The views expressed here are strictly those of the author from ParkerSteel Ltd and are designed to provide opinions on how we view the market to best assist our customers with their planning and material purchases.

At this stage, we are unsure about the exact increases, but we understand the stresses on the supply chain and have acted accordingly. We have contacted all our major suppliers and increased quantities on all our supply orders to ensure our product range and depth is as good as it always is. We will keep you updated on any further news, and if you have any questions, please get in touch with your friendly and dedicated Account Manager.

Yours Sincerely,

Dylan Alexander
Managing Director