worldsteel ASSOCIATION

04.07.2016 News Brief

Report Overview

Total Clips (19)

Headline	Date	Outlet	Link
1. Production and Capacity (5)			
India's PMI growth not seen replicated in steel output	04/07/2016	Platts - Online	Text | View Clip
DRI output falls, but global capacity growing	04/07/2016	Platts - Online	Text | View Clip
Output control still paramount for July-December: CISA	04/07/2016	Platts - Online	Text | View Clip
Reducing industrial overcapacity crucial but tough	04/07/2016	China Metallurgical News	Text | View Clip
Steel advocates back Pennsylvania's anti-dumping resolution | CPBJ	01/07/2016	Central Penn Business Journal - Online	Text | View Clip
2. Markets, Trade and Price (7)			
Russian companies emerge from bond market wilderness	04/07/2016	FT.com	Text | View Clip
German mechanical engineering industry sees order drop: VDMA	04/07/2016	Platts - Online	Text | View Clip
EU steel industry able to protect itself better without UK	04/07/2016	Platts - Online	Text | View Clip
Baosteel seeks longer 337 probe timeline; USS objects	04/07/2016	Platts - Online	Text | View Clip
The High Price of U.S. Protectionism	01/07/2016	Bloomberg News Online	Text | View Clip
China steel consumption may	01/07/2016	Sydney Morning Herald Online.	Text | View Clip

contract as much as 20pc, says Goldman		The	
Trump's message shines in faded steel city	01/07/2016	FT.com	Text | **View Clip**

3. Consolidation and Restructuring (2)

Steel Industry Requires More Than a Trim-- Beijing Review	04/07/2016	Beijing Review - Online	Text | **View Clip**
Tata pulls back from Port Talbot sale process after Brexit vote	04/07/2016	Telegraph (Online), The	Text | **View Clip**

4. Raw Materials (5)

Argentina extends ban on ferrous scrap exports	04/07/2016	Steel First	Text | **View Clip**
Rio Tinto shelves $US20bn Simandou iron ore project	04/07/2016	China Metallurgical News	Text | **View Clip**
New Rio CEO Skirts M&A for Focus on Own Mines to Navigate Slump	03/07/2016	Bloomberg News Online	Text | **View Clip**
Rio Tinto says commodities rout far from over	03/07/2016	FT.com	Text | **View Clip**
BHP Billiton-Vale's Brazilian mine said to be seeking cash injection	02/07/2016	Sydney Morning Herald Online, The	Text | **View Clip**

India's PMI growth not seen replicated in steel output | View Clip
04/07/2016
Platts - Online
Growth in India's manufacturing sector during June, as indicated by Nikkei India's Purchasing Manager's Index (PMI), likely had only a negligible impact on steel demand during the month.

The PMI for last month released Friday showed a reading of 51.7 for June, up from 50.7 in May and pointing to an improvement in the health of the country's overall manufacturing industry. Yet, though the PMI indicated output growth at a three-month high, the rate of expansion remains weak by historical standards, with the PMI average for April-June being lower than that seen in the January-March quarter, the Nikkei said.

“Indian factories registered a welcome upturn in growth of both production and new orders mid-way through 2016, but producers clearly remain stuck in low gear,” said Pollyanna D'Lima, chief economist with Nikkei.

Indeed, this will probably be mirrored in production of steel last month which a Delhi-based mill official described as “flat”. This was due to stagnant demand, further dulled by the arrival of monsoons in June, he said. Data for steel production and sales for last month from the Joint Plant Committee are yet to be tabled but, as steel is a crucial input for the manufacturing sector, June production data when released is unlikely to reflect the rise in PMI, the mill official suspects.

During May, India's steel output inched up by 3.2% year-on-year to 8.6 million metric tons, the JPC numbers for that month show.

Meanwhile, “the domestic market continues to be the main growth driver, as the Indian economic upturn provides a steady stream of new business,” the Nikkei economist said. But again this is not replicated in finished steel consumption which edged up only marginally by 0.9% y-o-y in May to 7.35

million mt, JPC data shows.

Nonetheless, there were also signs of an improvement in overseas markets as new foreign manufacturing orders rose in June following a decline in May, the Nikkei statement said. This was reflected by the slight 5% increase in India's overall steel exports of 379,000 mt in May, according to the JPC.

Return to Top

DRI output falls, but global capacity growing | View Clip
04/07/2016
Platts - Online

World production of direct reduced iron fell by 2.7% in 2015, according to statistics compiled by the US DR technology supplier Midrex. It said the decline in output was commensurate with steel output's drop of 2.5% and was due largely to falling prices for steel.

World DRI output of 72.57 million metric tons in 2015 was nearly 2 million mt below 2014's 74.55 million mt and down 3% from the peak of 74.9 million mt produced in 2013. As a result of over-supply of steel from China, at least 12 natural gas-fuelled DR modules were closed in 2015 and remain idled, Midrex said.

India remained the largest DRI-producing country with 17.7 million mt last year. Iran was second with 14.6 million mt. Then came Saudi Arabia (5.8 million mt), Mexico (5.5 million mt) and Russia (5.4 million mt). These top five countries combined produced over two-thirds of the world's DRI.

Venezuela – once the world's largest DRI producer – managed to increase its production by over 1 million mt last year as two plants came back into operation. But, at 2.75 million mt, national production was only about 30% of its peak ten years ago.

International trade in DRI and hot-briquetted iron was slightly higher in 2015 than in 2014. Russia and Trinidad & Tobago were the largest exporting countries, shipping 2.6 million mt and 2.3 million mt respectively. Venezuela increased its exports to over 850,000 mt. Other countries exporting more than 100,000 mt were Oman, Bahrain, Qatar and Libya. The US remained the largest importer with almost 1.9 million mt.

Midrex noted that some 25 million mt/y of new DR capacity is under construction, notably in Iran, Algeria, Russia and the US.

Return to Top

Output control still paramount for July-December: CISA | View Clip
04/07/2016
Platts - Online

Chinese steelmakers need to recognize the importance of output restraint and self-discipline if the industry is to remain stable during the second half of 2016, China Iron & Steel Association executives agreed at a meeting last week.

According to a CISA web post Friday reporting on the internal meeting in Beijing the previous Wednesday, the association agreed that China's domestic steel market situation for the July-December half will remain largely unchanged from H1. Consequently, it was crucial for Chinese mills to closely monitor their production and inventories levels for them to regain profitability or maintain modest margins.

But attendees at CISA's recent steel and iron ore event in Shanghai had predicted a tougher H2 than H1, pointing out that the central government is unlikely to loosen its monetary policies. Delegates also noted growing uncertainty in the global steel market following the UK's decision to withdraw from the EU that may affect steel exports.

CISA did acknowledge the continuing difficulties steel mills face securing financing as banks have reduced the loan proportion to steelmakers by 10-20% on year.

China's steel industry improved moderately over January-June, especially since March when CISA member mills on average returned to profits, the association noted. Over January-May, these mills posted a total profit of Yuan 8.7 billion ($1.3 billion), with profits in May alone being the highest in five months at Yuan 8.5 billion.

CISA attributed the steel industry's better performance to three core factors: production cuts among members despite the substantial domestic price recovery since March, a reduction in the “irrational” pricing war mills waged against each other, and relatively low steel inventories.

CISA's member mills produced 54.5 million mt of crude steel in May – down 0.7% on year – to take their total output for the five months lower by 2.64% on year to 254.7 million mt. Their steel inventories were lower at 14.2 million mt as of June 10, down 12.9% on year though up 1.7% on month.

Return to Top

Reducing industrial overcapacity crucial but tough | View Clip
04/07/2016
China Metallurgical News
An important mission of the supply-side reform is to reduce overcapacity, which is essential for the healthy development of the Chinese economy in the long run. The increase in labor cost and the other factors of production have not only weakened some conventional industries' advantages, but also worsened the overcapacity problem.

Yet reducing overcapacity does not mean eliminating conventional industries completely. So the reform should be carried out according to the specific conditions of specific places.

It is a remarkable that China took just 60 years to build a relatively complete industrial system while some developed countries took more than 200 years to do so. But since China's industrialization is not yet finished, the government still has to recognize the leading role of manufacturing in boosting economic growth.

Western countries implemented neo-liberal economic policies in the 1970s to pull their economies out of the quagmire of stagnation, which resulted in the large-scale relocation of conventional industries to developing countries, the idling of domestic industries and the decline of conventional manufacturing industries.

Before the global financial crisis of 2008, the share of manufacturing in many developed countries' industries was about 10 percent, with the service sector, mainly in finance, insurance, tourism, consultation and restaurants, accounting for more than 75 percent.

This de-industrialization of Western countries has had serious consequences. After the global financial crisis broke out, their economies declined fast and the growth in their citizens' incomes stopped or even fell. Investments became insufficient and exports dwindled, with stagnation becoming an almost normal phenomenon.

Drawing lessons from these countries, China should not support the survival of enterprises with overcapacity, which also pollute the atmosphere and have no scope of being upgraded. But the enterprises that can still be innovative and transform their production methods should be reformed.

Reducing overcapacity also means cutting conventional industries' operating costs, strengthening their comparative advantages and helping them upgrade their technologies.

Reform is an effective way of solving the overcapacity problem. But the market should be allowed to play a decisive role in the distribution of resources, because it can force enterprises to constantly improve their competitiveness. And the government should enact policies to ensure the process to reduce overcapacity is carried out in an orderly and rational manner.

As for the enterprises, they should pay attention not only to upgrading their technologies but also to moving up the value chain, transforming from the labor-intensive to tech-intensive model, and enhancing their core competitiveness.

The process to reduce overcapacity must also take the enterprises' economic and social capacities into consideration. Since China still needs to maintain a certain level of economic growth, it should take some measures to create a good macro-economic environment for reducing overcapacity. And it needs to follow a pro-active fiscal policy and a prudent monetary policy, in order to stimulate growth, boost consumption and expedite urbanization.

Moreover, the enterprises have to improve their products' quality and pursue innovation, especially because Chinese consumers' demand for high-quality and smart commodities has been increasing by the day. The government should take steps to bridge the development gap between different regions.

Also, since the Beijing-Tianjin-Hebei integration development plan, Yangtze River Economic Belt development plan and the Belt and Road Initiative, the Silk Road Economic Belt and the 21st Century Maritime Silk Road, are all related to the project of reducing overcapacity, there is need for China to foster international industrial cooperation and promote its competitive industries一such as steel, construction materials, high-speed railway, electricity, telecommunications, engineering machinery and ship-building一to enter the global market through investments, technological cooperation and equipment export, and by winning contracts.

Return to Top

Steel advocates back Pennsylvania's anti-dumping resolution | CPBJ | View Clip
01/07/2016
Central Penn Business Journal - Online

State lawmakers and steel industry groups are calling on federal officials to enforce U.S. trade laws in the face of alleged "dumping" by China.

The bipartisan Senate Resolution 365 was adopted on Thursday. A similar House resolution was passed in May.

The resolution calls on President Barack Obama and Congress to take all necessary action to protect the domestic steel industry from unfair competition, including illegal steel dumping. It also urges the U.S. Department of Commerce to maintain China's “non-market economy” status to preserve the ability of U.S. companies and workers to access domestic trade law remedies.

"As a military veteran, I know firsthand that a strong steel industry is not only good for our economy; it's vital to our national security,” said state Sen. Guy Reschenthaler, R-Allegheny County.

"The passage of these Senate and House Resolutions sends a strong message to Washington D.C. that Pennsylvania's elected officials demand action on unfair and illegal trade practices that are harming our steel industry," Reschenthaler said.

The issue has had a ripple-effect across the U.S. and worldwide, as critics of Chinese policy say that nation has been selling steel internationally at artificially low prices, undercutting domestic producers, as its own economic growth slows and demand for steel cools within China.

Observers have suggested that trend as a factor in the ongoing woes of ArcelorMittal, which in January confirmed that sale talks were underway for its steelmaking plant in Steelton.

The Pennsylvania Steel Alliance, a trade group, praised the Senate resolution.

"The American steel industry and its steelworkers work tirelessly to meet the highest standards to produce world class steel products, but our industry is severely threatened by illegal steel dumping and unfair trade practices," said Christopher Masciantonio, general manager of government affairs for U. S. Steel and co-chairman of the alliance.

"The Pennsylvania Steel Alliance commends the Senate and House of Representatives of Pennsylvania for expressing its strong support for rules-based fair trade and enforcement of our nation's trade laws."

The nation's steel industry employs more than a million people across the country, including 136,000 in Pennsylvania, according to American Iron and Steel Institute statistics.

Return to Top

Russian companies emerge from bond market wilderness | View Clip
04/07/2016
FT.com

Russian companies are returning to international bond markets with the largest wave of debt issuance since the country's annexation of Crimea left it in the capital markets wilderness more than two years ago.

Steelmakers Evraz and NMLK and shipping group Sovcomflot issued eurobonds of nearly $2bn in total in June. Bankers and executives told the Financial Times that other Russian groups were planning to issue debt in the coming months.

The moves highlight an uptick in Russian market conditions, as a rebound in oil prices combines with a reduction in the amount of debt available to buy following a drought in issuance in the past two years.

Andrei Soloviev, global head of debt capital markets at Russian investment bank VTB Capital, said Russian companies were exploiting opportunities to issue new debt and buy back previous issues due to mature soon. VTB underwrote the bond issues of Evraz and Sovcomflot.

“Last year there were very few Russian placements with the overall volume at $4.5bn, while the amount of matured debt was equal to $19bn,” Mr Soloviev said. “This year, another $16bn worth of Russian debt matures, so there is quite a high level of liquidity, which market players are looking to invest.”

Russia's economic crisis, coupled with US and EU sanctions restricting access to western capital markets, saw the corporate sector's external debt drop 21 per cent from December 2013 to December 2015.

That risk means Russian corporate bonds also offer relatively high returns: the Evraz bond priced at a yield of 6.75 per cent, while the NMLK issuance priced at 4.5 per cent.

“Even before the crisis, this would have been a good deal,” said Rustem Teregulov, a partner at PwC in Moscow.

The bond sales have prompted several other Russian companies to announce they are exploring debt markets. Andrei Guryev, chief executive of fertiliser producer Phosagro, said the company was looking for opportunities to refinance its eurobond maturing in 2018.

“I think the economy and the situation for Russian bonds will be better,” Mr Guryev said. “Because all the banks, the American banks, the European banks here, they want Russian corporates again to be in the market because they see huge demand from the global market for Russian bonds.”

Mr Guryev said the UK's vote to leave the EU had not deterred him from issuing: “If there's demand and, most importantly, rates below our debut issuance, we'll issue.”

Alexei Mordashov, chairman and controlling shareholder of steelmaker Severstal, said the company would constantly “look at possibilities to reshuffle our debt portfolio to minimise our interest rate”. Severstal issued a $200m convertible bond at the end of April.

Mr Soloviev said interest had been raised by Russia's surprise sovereign debt issuance in May, its first since sanctions were introduced. The government only raised $1.75bn of an initially planned $3bn after Euroclear and Clearstream declined to settle the issue despite $7bn in demand.

James Friel, head of investment banking at Renaissance Capital, said major corporate issuances gave investors a way to invest in Russia without fear of violating sanctions. “The Gazprom bond was a proxy sovereign,” he said.

But Dmitry Konov, chief executive of Sibur, Russia's largest petrochemicals company, said the recent deals looked “expensive”.

“The companies were sitting with no ability to tap international markets, and once it appeared they said, ‘OK, now we can do this, we are not sure whether it will be possible tomorrow, so we do it today',” he told the FT.

Return to Top

German mechanical engineering industry sees order drop: VDMA | View Clip
04/07/2016
Platts - Online
Germany's mechanical engineering industry saw a year-on-year fall in orders of 4% in May, as non-EU demand continued to drop, according to the latest figures by engineering federation VDMA. The federation expects the first effects from Britain's decision to leave the EU on German exports to become manifest from Q4 onwards.

Non-domestic orders went down by 10% y-o-y in May; orders from non-EU countries fell by 14%, while orders from EU partners that went up by 3% y-o-y could only marginally compensate for the drop.

Domestic orders grew 8% y-o-y showing a positive trend over the first five months of the year, with a 4% rise compared to the same period last year.

On a three-month-comparison (March-May) orders went up by 6% y-o-y. Domestic orders went up by 5% y-o-y, while non-domestic grew by 7% y-o-y.

According to VDMA chief economist Ralph Wiechers, it is not yet possible to forecast the consequences of Britain's departure from the EU. "The arising insecurity will hamper investments. How this will develop specifically, however, we can only speculate," he added.

German mechanical engineering companies experienced an export drop into the UK of 4% y-o-y in Q1. The UK was the fourth largest export market for Germany in 2015, with export volumes worth €7.2 billion.

Return to Top

EU steel industry able to protect itself better without UK | View Clip
04/07/2016
Platts - Online
Great Britain's decision to leave the European Union (Brexit) is potentially a chance for the steelmakers in the remaining EU countries to become more united in the protection of their internal markets. The UK has traditionally been more supportive of the distribution segment than steel producers in the EU, said Stefan Dzienniak, director of Polish steel federation HIPH.

Without the UK, typically less keen on protectionist measures than other EU states, the EU steel industry could speed up the work on the removal of the lesser duty rule and have more space to take action against unfair trade, Dzienniak noted.

Polish steelmakers can also take the opportunity to fill the vacuum left by the UK mills in the EU markets due to all perturbations related to the exit negotiations and the then potentially more difficult access of the UK steel into the EU markets. “But really, the [extra] volumes will be small compared with the existing imports [from the CIS] at 2.5 million metric tons," Dzienniak noted.

But for the Polish economy as a whole Brexit "is very bad news." He anticipated the Polish GDP to decline by 0.2-0.3% as soon as this year, due to the UK's leave vote.

Return to Top

Baosteel seeks longer 337 probe timeline; USS objects | View Clip
04/07/2016
Platts - Online

China's Baosteel, a key target in the US "Section 337" investigation sought by US Steel Corp, requested the US International Trade Commission extend the deadline to investigate the unprecedented number of respondents and products, Baosteel said in a filing. USS is seeking to block imports of Chinese steel on the grounds that Chinese companies conspired to fix prices, stole trade secrets and circumvented duties by false labeling.

Baosteel requested a 20-month target date for the investigation instead of the typical 16-month target because of the "complexity and novelty of the claims asserted by US Steel" as well as the large number of respondents. Of the 40 respondents named by USS, at least 15 have appeared through counsel, according to Baosteel's filing.

"It will inevitably take the parties more time to develop the proper factual record and to brief the relevant legal principals given the novel claims that US Steel has raised. All of these claims also require US Steel to prove injury relative to three distinct set of claims, distinct parties, and specific products/markets - a more rigorous and fact-intensive exercise than proof of a domestic industry in patent-based investigations," the filing said.

Baosteel also noted that USS's "alleged security breach leading to its trade secret claim occurred in January 2011," and USS waited five years to file for the Section 337 investigation.

In a response, USS said the ITC is mandated to complete the investigations "expeditiously," and the wide scope and magnitude of the harm caused by unfair acts warrants quick resolution of the case. USS urged the administrative law judge for the case to not let the investigation go beyond the established 16-month target date for completion.

USS agreed that the investigation "involves multiple causes of action, many respondents (most of whom are located outside the United States), potential third-party discovery, and trade secrets," but noted that these factors have been handled in other 337 cases without an extended target date.

"Not only is Baosteel's request contrary to the Commission's statutory and regulatory mandate, it also ignores the unique circumstances presented by US Steel in this investigation. US Steel has already experienced massive harm from respondents' collective unfair acts. Between 2013 and 2015, US Steel's domestic sales revenues in flat-rolled and tubular products dropped nearly 30% from $12.94 billion to $9.191 billion," USS said in a filing.

Return to Top

The High Price of U.S. Protectionism | View Clip
01/07/2016
Bloomberg News Online

We have been pushovers for too long when it comes to trade, says Donald Trump.

In a speech in Pennsylvania this week, he said: "When subsidized foreign steel is dumped into our markets, threatening our factories, the politicians do nothing. For years, they watched on the sidelines as our jobs vanished and our communities were plunged into depression-level unemployment." He did, however, put in a kind word for the tariffs the Reagan administration imposed in the 1980s to protect U.S. semiconductor and motorcycle industries.

Trump's history is wrong. Far from doing nothing, politicians have adopted measures to protect American steelmakers from foreign competition during the Johnson, Nixon, Carter, Reagan and

George W. Bush administrations. Our actual practice has been to work toward a world with lower trade barriers while also offering protection for specific industries, in response to import surges and political outcries. Trump would break from that history while ignoring one of its lessons: The protection we have offered has been expensive and achieved little.

Trump would change our traditional policies in four ways. He promises to make more aggressive use of existing trade laws that authorize protection from imports. He says he will revisit trade agreements we have on the books. He would make only bilateral deals, not multilateral ones. And he does not view liberalizing trade overall as a goal.

It's a different approach from the one taken by recent leaders from Ronald Reagan to Barack Obama. Reagan imposed trade barriers on occasion -- but he also vetoed protectionist legislation, oversaw negotiations to lower trade barriers around the globe, and started the process of creating the North American Free Trade Agreement, which Trump reviles. Obama imposed tariffs to help the tire industry but also concluded some bilateral free-trade deals -- Trump thinks they're bad ones -- and pushed for new multilateral ones like the Trans-Pacific Partnership.

The most successful protectionist policy of recent decades is generally considered to be the rescue of Harley-Davidson. Tariffs in the 1980s seem to have given the company time to turn itself around (although just how important the tariffs were is still the subject of dispute). Automakers benefited from protectionism at that time, too, raising their prices and profits. But they didn't use the opportunity to reform. The semiconductor protectionism of the period was controversial because of its effects on industries that used semiconductors: They complained that for them protection meant shortages, higher costs, and lost sales and jobs.

Unintended harm to American companies is a recurring problem with tariffs, even those meant to protect American jobs from competition that our government deems unfair. After Bush imposed steel tariffs, steel-consuming industries pointed out that they employed far more Americans than the steel industry itself, and argued that the net effect of the policy on jobs was negative.

Anti-dumping laws, which put tariffs on foreign imports that are supposedly being sold at too low a price, usually target intermediate goods and therefore make the downstream American producers that use them less competitive. Daniel Ikenson, a trade-policy analyst at the Cato Institute, notes that the government, perversely, is forbidden by law from considering the impact of tariffs on these producers before levying the tariffs.

Then there's the question of costs. Gary Hufbauer and Sean Lowry, a senior fellow and research associate, respectively, at the Peterson Institute for International Economics, calculated that Obama's tariffs on Chinese tires cost American consumers at least $900,000 for every job they saved for one year. That's before taking account of job losses caused by lower spending by consumers on other products and by retaliatory Chinese tariffs. This very high cost per job, they point out, is consistent with research on other instances of trade protection.

In an interview, Hufbauer notes that our efforts to protect industries from competition have typically not resulted in their revival and impose extremely high costs for any jobs they save. He cites the textile and maritime industries, both of which have been protected for decades, as examples of these disappointing results.

“Watching on the sidelines” as jobs are lost does not sound like a very appealing policy. But it might have been better than what our government has actually done, and what Trump would have our government do more of.

Return to Top

China steel consumption may contract as much as 20pc, says Goldman | View Clip
01/07/2016
Sydney Morning Herald Online, The
Goldman Sachs is forecasting that steel consumption in China will shrink again from next year after a brief respite in 2016, and the nation's iron ore imports will eventually start to decline too as policy

makers shift the economy away from investment.

Steel demand will contract 2 per cent in 2017 and a further 2 per cent in 2018 following a 1 per cent expansion this year, Goldman said in a report received on Friday that summarised results of new modelling. China's steel consumption may end up dropping as much as 20 per cent, according the bank.

Asia's top economy accounts for about half of the world's steel production, and the prospect of weakening demand for the alloy, as well as lower imports of iron ore, represents a challenge for miners including Rio Tinto Group, BHP Billiton and Vale. While the biggest low-cost producers have managed in recent years to expand seaborne sales into China as local mine output was displaced, Goldman's outlook raises the prospect of a shrinking market.

"Demand for imported iron ore has benefited from the closure of domestic mines and the strength of Chinese steel exports earlier this year," analysts Hui Shan, Amber Cai and Christian Lelong wrote in the report dated June 30. "But neither of those trends is sustainable and falling steel consumption will eventually lead to a decline in iron ore imports," it said.

Ore with 62 per cent content delivered to Qingdao was at $US55.66 a tonne on Thursday, according to Metal Bulletin. Prices have gained 28 per cent in 2016 after dropping for three years. Goldman Sachs left its long-run forecast unchanged at $US35 a ton.

China imported a record 953 million tons of iron ore in 2015, up from 933 million tons in 2014 and 619 million tons in 2010, according to customs figures. In a separate June 15 note, Goldman forecast China would import 971 million tons this year, then see shipments little changed at 975 million tons in 2017, before dropping through 2020, when they would total 904 million tons.

Steel consumption in China is declining for the first time in a generation as growth slows and policy makers seek to steer the economy toward consumption. Faced with declining local sales, Chinese mills have shipped record volumes overseas, helping to prop up purchases of seaborne ore. This year's uptick in steel demand came after China added stimulus.

"The ongoing growth deceleration and rebalancing away from the old economy implies a secular downward trend in steel demand," the bank said in the latest report. "At the same time, economic activity and steel consumption respond to periodical policy shifts that generate credit impulses and mini-cycles."

Return to Top

Trump's message shines in faded steel city | View Clip
01/07/2016
FT.com

When Johnny Talarico arrived in Monessen in 1947 to start his new life in the US, the young Italian barber from Calabria found a bustling river town with a booming steel industry that was the epitome of the American dream.

Seven decades later, Mr Talarico still cuts hair in Monessen. But the city has fallen into deep decay with the exodus of the steel mills that were the life and blood of the Appalachian area for much of the 20th century.

A day after Donald Trump came to the city and promised to bring jobs back to the US, Mr Talarico said he will abandon his life-long support for the Democrats and vote for the businessman because politicians have done nothing to tackle the rot in the city. “Oh yeah, guaranteed, unless I have died,” said Mr Talarico, who will turn 92 the day before the election.

“It was good when I came to this country. Truman was president . . . the valley was booming,” he said, before describing the devastation over the past three decades. “The mills are gone, so all the workers took off . . . I told my wife I'm glad we're both old and don't have to worry about this crap.”

Over the past year, Mr Trump has tapped into the frustration felt by people in areas such as Monessen that have not reaped the gains of globalisation that have accrued to other parts of the US economy.

Against a backdrop of condensed scrap aluminium blocks inside one of the few metals-related businesses in the city, Mr Trump told a small audience that workers in Pennsylvania had been given a raw deal over the years despite their role in building America.

“The legacy of Pennsylvania steelworkers lives in the bridges, railways and skyscrapers that make up our great American landscape but our workers' loyalty was repaid with betrayal. Our politicians have aggressively pursued a policy of globalisation — moving our jobs, our wealth and our factories to Mexico and overseas,” he said in a speech tailored to the dilapidated city. “Many Pennsylvania towns once thriving and humming are now in a state of despair.”

Lou Mavrakis, the colourful Greek-Italian mayor, was instrumental in bringing Mr Trump to Monessen, a heavily Democratic city whose last high-profile political visitor was President John F Kennedy in 1962.

Mr Mavrakis, 78, a retired steel workers union boss who previously campaigned for President Barack Obama, believes Mr Trump offers a better chance of restoring vitality to Monessen, a city that once made the cables for the Golden Gate Bridge but has seen its population fall from 25,000 in the heyday to 7,000.

The mayor said Mr Trump will win more votes than any previous Republican in Monessen because people are rebelling against the establishment just as UK voters thumbed their noses at the elite with Brexit. “You are having a form of revolution in this country . . . Trump is even going against the Republicans to some degree. The people like that." He criticised Mrs Clinton for only visiting Pittsburgh, which has seen an impressive revitalisation in recent years.

Monessen has been Democratic for as long as residents can remember. During his visit, Kennedy joked that he would find the 1,600 people who did not vote for him out of the 9,100 votes cast by the town in the 1960 election.

“People here still vote the way their grandfather told them to vote,” said Richard Kopco, 81, an accountant. “When I told my mother that I was a registered Republican, she thought I was coming out of the closet and she was upset as hell.”

But Monessen is also changing in ways that mirror the rest of the US. Roughly one-third of US voters now describe themselves as independents, while many party members are frustrated with their own party establishment. “I am not supporting Donald Trump because he is a Republican, but because he will bring back jobs,” said Marianne Stearns, a Republican who attended the Trump rally.

Sitting in his office overlooking the Monongahela river, Mr Mavrakis said he started courting Mr Trump after Mr Obama did not respond to letters in which he had asked: “If our government gives billions of dollars to foreign governments why cannot our federal government help our city?”

“We have a gap between the rich and the poor (with) no more middle income . . . Trump is saying what the people wanna hear,” he said. “I haven't heard Hillary Clinton say well we're going to bring back steel, we're going to bring back coal.”

Monessen's biggest employer is an ArcelorMittal coke plant, but the introduction of new technologies over the years and the dismantling of the integrated steel mills means there are nowhere near enough jobs to support the population.

The fall in the tax base due to people abandoning Monessen and the related lack of jobs means the city cannot afford the roughly $8,000 a unit to tear down the several hundred blighted homes and buildings that litter its downtown and deter investment. Mr Mavrakis said he also cannot afford to replace the badly decayed 100-year old sewage system without big rate increases in a city where the median income is less than $33,000 and 20 per cent of the people live below the poverty line. “In

Monessen, it is going to cost you more to shit than it is to eat. It is unreal."

One bright spot is a school called Douglas Education Center that trains students to create the special effects and characters used in horror movies. Mr Kopco says the young students bring some life to Monessen, but not enough for his wife of 58 years who moved back with him decades ago. "I think she's still pissed off at me for coming back here."

Return to Top

Steel Industry Requires More Than a Trim-- Beijing Review | View Clip
04/07/2016
Beijing Review - Online

On June 26, Wuhan Iron and Steel Co. Ltd. and Baoshan Iron and Steel Co. Ltd., two of China's largest state-owned steelmakers, announced the suspension of trading in their respective shares on the Shanghai Stock Exchange from June 27 while strategic restructuring takes place.

According to their announcements, the two listed companies would publish further details of the restructuring five trading days after the suspension of share dealing.

The restructuring is not breaking news, as speculation has circulated since Ma Guoqiang, former General Manager of Baoshan Iron and Steel Co. Ltd., was appointed Chairman of Wuhan Iron and Steel (Group) Corp. in June 2015. With similar product ranges, the two companies are probably price competitors in some sectors, which makes the restructuring understandable.

Given the steel industry's serious excessive capacity, though, the key issue is that the restructuring will be meaningless if its purpose is simply to eliminate price competition. Whereas their production capacity is excessive in low- and medium-end sectors, Chinese steelmakers are uncompetitive in high-end sectors. Therefore, the purpose of steel industry restructuring must be to improve product ranges and technologies instead of merely eliminating price competition.

The two steelmakers are both competitive in the international market in terms of quantity rather than quality. In high-end sectors, neither of them is sufficiently competitive. Driven by the powerful growth of the real estate market, which lured steelmakers to expand capacity in low-end products, the steel industry experienced years of prosperity, and few steel producers devoted resources to the technological development needed for high-end products. No Chinese company, for instance, engaged in the research and development (R&D) necessary for producing high-end electric cookers. Consequently, better-quality electric cookers made in Japan attract more market share than others.

Obviously, restructuring the two steelmakers must prioritize improving the range and quality of products while cutting excessive capacity and making production more efficient. The two companies must realize that simple restructuring while maintaining the current product range and quality will make it impossible to fundamentally reverse their low profitability. On the contrary, more problems may arise, such as further layoffs, losses and heavy debt burdens.

After discarding redundant production capacity, the two companies must develop new products and technologies as soon as possible. Only in this way can they effectively avoid the problems of more redundancies and greater financial losses. After restructuring, therefore, the two companies must focus more on reorganizing their technology and R&D resources.

Combining the two companies' management strengths to compensate for each other's weaknesses is certainly a goal that restructuring must achieve. Both firms have their own advantages in management, but they both share the weakness of steel companies; they have both market-oriented ideas and old ideas inherited from the planned economy.

More importantly, the two steelmakers should not regard restructuring as the end of reform, believing that it will solve all their problems. If they don't obey market rules, establish modern corporate systems or become real market players, they will face more difficulties and problems.

The State-Owned Assets Supervision and Administration Commission (SASAC) of the State Council, the investor and manager of centrally administered state-owned companies, must also adopt an open approach to the restructuring of the two steelmakers, transforming the new company into a state-capital-invested company in which the SASAC maintains responsibility only for the investment of state capital and refrains from intervening too much in corporate operations.

Steel companies are usually very large in size. After Baoshan Iron and Steel Co. Ltd. and Wuhan Iron and Steel Co. Ltd. are merged, the SASAC must be prudent in approving such restructuring between other state-owned steelmakers. If only giant companies exist in the steel industry, market competition will be affected. Whether mergers between state-owned and private-sector steelmakers can be realized is another question the SASAC must consider.

Return to Top

Tata pulls back from Port Talbot sale process after Brexit vote | View Clip
04/07/2016
Telegraph (Online), The

Rescue efforts for the steel industry in Port Talbot have become mired in Brexit worries, with Tata Steel pulling back from a sale of its plant while it works out the implications of the UK leaving the European Union.

Tata Steel, which has at least two bids and a management buyout plan to consider for the site in south Wales, is thought to have paused the process to consider the future of EU trade deals, as well as the liabilities in the group's £14bn pension scheme.

One source familiar with the bidding process complained that the Indian parent company has been dragging its heels. “There's no point hiding behind Brexit. The company has been in limbo for nearly four months. This needs to be resolved and there are people ready, willing and able to resolve it,” they said.

Spokespeople for Tata did not respond to a request for comment.

As well as offers from the likes of Endless Capital and Liberty House, Tata is still weighing the chances of a management-led plan to cut some of the 4,000 jobs at Port Talbot but keep the business afloat.

The latest scheme has been dubbed “Super Bridge”, as it would likely go further than an earlier turnaround plan known as the Bridge, raised by UK bosses but rejected by the parent company in April. The original plan sketched out 1,000 job cuts to bring Port Talbot back into profit within two years.

Tata, under pressure from a global rout in steel prices as China's import demand dwindled, sold off its long-products business in Europe to Greybull Capital in June and has been seeking a buyer for the rest of its UK operations.

Before the EU vote, the Government offered to take a 25pc stake in the Port Talbot business in order to secure a rescue deal.

Tata wrote to its employees in June to point out the relationship with Europe “is very relevant for the company. The EU is by far our largest export market, with over a third of our UK steel heading there…. access to that market is fundamental to our business”.

Return to Top

Argentina extends ban on ferrous scrap exports | View Clip
04/07/2016
Steel First

The Argentinian government has extended a ban on ferrous scrap exports for another 360 days from July 2.

The ban aims "to [ensure] a continuous availability of the raw material to the national industry" according to a decree published in the country's official gazette on Friday July 1.

"For structural reasons, our country suffers [from a] scarcity of ferrous scrap, an input required [for] the normal development of the steel industry," the decree said.

The suspension will apply to products classified under the tariff codes 72041000, 72042100, 72042900, 72043000, 72044100, 72044900 and 74045000.

It also applies to some copper and aluminium scrap.

The ban was imposed in 2014 and was extended in 2015.

This measure had previously been imposed as a temporary measure in 2009, 2010 and in 2012, according to the decree.

Return to Top

Rio Tinto shelves $US20bn Simandou iron ore project | View Clip
04/07/2016
China Metallurgical News

A $20 billion project to develop the world's biggest untapped deposit of iron ore has been shelved by Rio Tinto, in the latest twist in a long-running and contentious saga.

Simandou, in Guinea, has more than two billion tonnes of iron ore, and the colossal scheme has the potential to double the size of the west African country's economy.

But Jean-Sebastien Jacques, who starts work today as chief executive of Rio Tinto, has told The Times that the enormous cost of developing the mine could not be justified in an iron ore market that is suffering from huge overcapacity.

Mr Jacques's comments mark an abrupt change in tone from his predecessor, Sam Walsh, who had repeatedly insisted that the mine would be developed.

The move risks exacerbating relations with the Guinean government, which has responded by saying it would not let the project be derailed by “a global agenda that actually has nothing to do with the project economics”.

ASX-listed Rio Tinto shares had jumped by 1pm (AEST), gaining $3.58 per cent to $47.72 against a 0.31 per cent rise in the benchmark index.

The Simandou project has become a notorious example in the mining industry because of accusations that a rival of Rio Tinto corruptly gained control of half the concession. The accusation, which was upheld by a review by the Guinean government but denied by the company, has led to criminal inquiries and several civil court actions.

Mr Jacques said: “We've been very clear that it's a very expensive project. We did deliver the BFS (bankable feasibility study) to the government as per the agreement a few weeks ago and we've been very clear that in the current market environment we don't see a way forward in relation to Simandou.

“We've been absolutely on record on this one. It's not the right time to develop this project from a Rio standpoint. The other stakeholders might have different perspectives on this one.”

Rio (RIO) has written off the entire value of the project on its balance sheet but said in February that the “accounting measure” had no impact on its commitment or the timing of the project.

Rio was granted the rights to explore the mountainous Simandou area in 1997. It was stripped of the northern half of the concession in 2008, ostensibly amid Guinean frustration at the length of time it was taking to develop the mine. The northern part of the concession was granted to BSG Resources, a mining group controlled by Beny Steinmetz, an Israeli diamond tycoon.

A government review found that BSG had bribed the wife of the Guinean dictator at the time to win control of the concession. It later sold half of its concession to Vale, the Brazilian giant, at a huge profit. BSG has always denied wrongdoing. The case is also the subject of a US criminal investigation.

Mr Jacques said that investing in Simandou was not top of Rio's list of priorities: “The market conditions in iron ore are clear — there is overcapacity in the marketplace. So when you look at the capital intensity of the project and the current iron ore market conditions, the alignment of stars is not the right one from our perspective.”

A Guinean government official said: “We expect Rio Tinto to stick to its commitments in the investment framework. We are confident that a funding solution will be found with our partners based on a long-term perspective without delaying the project.

“We have had confirmation, as part of the BFS, from a reputable independent firm, that Simandou will be potentially, ‘in terms of cost competitiveness, the fifth most profitable iron ore mine in the world by 2025'.

“We expect all stakeholders to share our long-term view. Guinea will not let the Simandou project be driven by a global agenda that actually has nothing to do with the project economics. The (capital expenditure) is indeed a challenge, but we will overcome it.”

Return to Top

New Rio CEO Skirts M&A for Focus on Own Mines to Navigate Slump | View Clip
03/07/2016
Bloomberg News Online

The new Rio Tinto Group chief's approach to navigating the downturn in the mining industry is simple: Keep calm and carry on.

That's the mantra 44-year-old Jean-Sebastien Jacques plans to adopt after just taking over as chief executive officer of the world's second-biggest mining company. Not undertaking a more aggressive approach to mergers and acquisitions will surprise those who predicted his appointment would signal more deals as a commodities rout forces distressed rivals to sell assets.

“M&A is not on the top of the agenda today,” Jacques said in an interview at the company's London headquarters on Wednesday ahead of taking the helm on July 2. “We have been very clear with the shareholders and the market that unless we see a way which creates value for our shareholders, so the right price, we will not do it.”

Jacques, who was Rio's top copper executive, has taken the CEO role at a time the industry is battling a slowdown in China that sent commodity prices tumbling and left the world awash with supply. With M&A not the focus, Rio's growth plans will center on developing existing projects and cutting costs.

Walsh's Era

The Frenchman's predecessor, Sam Walsh, led the 140-year-old company by reducing spending and stripping out more than $6 billion of costs. He pursued a conservative M&A strategy in the hope the raw-materials rout would make some of the more prized, higher quality assets available at knock-down prices.

That didn't really happen, and Rio has largely waited on the sidelines following a pair of disastrous acquisitions -- a $38 billion takeover of Alcan Inc. in 2007 and a A$3.9 billion ($2.9 billion) coal mine purchase in 2011. The Alcan deal led to billions of dollars of writedowns and loaded the company with debt while the coal asset was later sold at just a fraction of the original price.

Jacques, who last month announced a reshuffle that saw the head of iron ore depart, said recent copper-mine deals had been attractive for sellers, evidence that top assets still can't be bought for relatively cheap prices. Rio would be interested in all commodities other than oil and gas, he said.

Right Price?

“Our priority is quality of assets, it's not about a commodity play,” he said. “We know which assets we would love to have in our portfolio. Are they available for sale today? Maybe. Maybe not. Can you buy them at the right price? That's the real question.”

Recent history offers two high-profile examples of new CEOs making major decisions quickly. In 2007, BHP Billiton Ltd.'s Marius Kloppers launched an ultimately unsuccessful all-share bid for Rio just months into the job. Earlier that year, Tom Albanese, who had recently become Rio's CEO, oversaw the calamitous Alcan deal.

Rio will focus on existing projects like a $6 billion expansion of its giant Oyu Tolgoi copper mine in Mongolia and building the $1.9 billion Amrun bauxite project in Australia. The second-largest iron ore exporter will soon decide on a new mine in Australia's Pilbara region, which would cost about $500 million.
‘Need to Grow'

“Mines are being depleted, we need to grow,” he said. “Otherwise you don't have a business very, very fast. We will grow at the right pace.”

Profits have been eroded by a more than 40 percent slump in commodity prices in the three years that Walsh was CEO, forcing competitors like Anglo American Plc and Glencore Plc to sell assets to cut debt. In February, Rio reported a 51 percent drop in full-year profit, spurring it to scrap a progressive dividend policy and pledge future payouts at 40 to 60 percent of underlying earnings.

Rio shares gained 1.4 percent by 9:09 a.m. in London. They're up 20 percent in 2016, after sliding 44 percent in the previous three years. The stock has outperformed BHP Billiton and Anglo American since 2011, the year commodity prices began a five-year slump.

Jacques's recent management overhaul sparked Sanford C. Bernstein analyst Paul Gait to speculate that Rio was preparing to spin out a suite of less desirable assets, similar to the South32 Ltd. transaction completed top miner BHP Billiton last year. Jacques rejected that notion, saying: “It's not a South32.”

Biggest Challenge

For Jacques, who joined in 2011 after four years as head of strategy for India's Tata Steel Ltd., the biggest challenge remains uncertainty over economic growth and government policy in China, the largest metals user.

“I don't have any doubt in my mind that the political authorities in China have a clear plan to restructure the coal, the iron ore, the steel-making and so on and so forth,” he said. “However, there is clearly some uncertainty about the timing, how quickly and how effective they can be and that creates a massive source of uncertainty in the system.”

Overcapacity in iron ore means Rio doesn't currently see a way forward for its $20 billion Simandou iron ore project in Guinea, the world's largest untapped deposit, Jacques was quoted Monday as telling The Times newspaper in a separate interview. Guinea's government last year complained over a lack of progress on developing the site.

Return to Top

Rio Tinto says commodities rout far from over | View Clip
03/07/2016
FT.com
The new chief executive of Rio Tinto has warned there is no end in sight to the commodities

downturn, saying a supply glut will continue to put pressure on prices for the mining company and its rivals.

Jean-Sébastien Jacques, who became chief executive of the Anglo-Australian company this weekend, said in an interview with the Financial Times that supply was still outstripping demand for most major raw materials that Rio mines.

“Oversupply is there in all commodities, let's be clear,” said Mr Jacques. “The first one that may come out of the oversupply is copper. If you look at the others — iron ore, coal and so on — there is a long way to go. Our view is that prices will remain under pressure with lots of volatility.”

During the boom years of the commodities supercycle of the previous decade, mining companies ploughed hundreds of billions of dollars into new projects as China's rapid economic growth sucked in ever increasing amounts of raw materials. Much of the fresh supply hit the market as China's economy started to slow, triggering the worst price rout in a generation last year for Rio and its rivals.

Although commodities prices have rebounded somewhat this year, they are far from the highs of five years ago.

Rio's profits depend hugely on the market for iron ore, the steelmaking ingredient. The iron ore price of $54 per tonne now compares to $184 in January 2011, before the slump set in.

Many analysts predict commodities prices will soften later this year because mining companies have large stockpiles of raw materials.

Mr Jacques said Rio, the lowest-cost iron ore producer, would not chase market share by adding more tonnes of the steelmaking ingredient to the market. “It's about value over volume and market share,” he added.

Rio has been accused by some smaller rivals of trying to drive them out of business by flooding the market with more supply from its huge mines in Western Australia.

During the three years that Sam Walsh, Mr Jacques' predecessor, was Rio's top manager, the company increased its annual output of iron ore by more than 20 per cent to 328m tonnes and built infrastructure capable of handling 360m tonnes.

Reflecting a belief that the long-term market for copper should be relatively strong, Rio's board in May gave its blessing to a $5.3bn expansion of its Oyu Tolgoi mine in Mongolia.

Mr Jacques' promotion to chief executive is in part a reward for his perseverance in securing a deal with the Mongolian government last year to put the copper project back on track.

He said he saw little impact on Rio from the UK's referendum vote this month to leave the EU, adding the company — which has stock market listings in the UK and Australia — would retain its headquarters in London.

“London is a very good place for us . . . the bankers, the lawyers fully understand our business,” he said. “There are very good analysts here who understand the mining industry.”

Return to Top

BHP Billiton-Vale's Brazilian mine said to be seeking cash injection | View Clip
02/07/2016
Sydney Morning Herald Online, The

Vale SA and BHP Billiton's Brazilian mining joint venture is seeking capital injections from its owners as it runs out of cash after a deadly accident halted output, people with knowledge of the matter said.

The iron-ore company's cash will expire by August and it needs contributions from Vale and BHP to stay afloat, two people said, asking not to be identified because talks are private. Samarco, as the venture is known, has already started exploring ways to restructure about $US1.6 billion in bank loans and may seek to put off bond payments until it can resume operations, the people said.

Mining has been halted since November, when a tailings dam collapse killed as many as 19 people and contaminated waterways. After reaching a multibillion-dollar settlement with the government in March, the company hoped to secure licensing to resume operations this year, but probably will have to wait until 2017. Meanwhile, stockpiled ore has run out and the venture is fighting civil claims and prosecutors' efforts to overturn the March settlement.

Samarco declined to comment on any discussions with its owners. BHP declined to comment on Samarco's financial position and Vale referred to comments made by investor relations director Rogerio Nogueira on June 16 that it would only inject money if there's a prospect for Samarco to restart.

The venture's debt isn't guaranteed by its owners, which don't intend to make payments on the company's behalf, one person familiar with the matter said.

Samarco hired JPMorgan Chase & Co to help it with bank restructuring talks, BHP hired Rothschild & Co, Vale has Moelis & Co advising it, while banks holding the mine's debt are working with FTI Consulting, people with knowledge told Bloomberg earlier this month.

The venture's $US2.2 billion of bonds have coupon payments scheduled for as early as September. The notes lost investors 20 per cent in June, the worst performance among debt issued by mining and metal companies tracked by Bloomberg.

Samarco reported about 15 billion reais in debt ($US4.7 billion) at the end of 2015 and 1.8 billion reais in cash. Its obligations include about 328 million reais of payments this year and 324 million reais in 2017, the company said.

"Running out of cash makes for a good reason to restructure bonds," said Omar Zeolla, an analyst at Oppenheimer & Co in New York. "But I think shareholders would support the company. Annual interest expenses are not all that high."

Samarco's March settlement includes 4.4 billion reais over the first three years and about 12 billion reais over 15 years, with Vale and BHP offering to finance any potential shortfalls. On Thursday, Brazil's Superior Court issued an interim order suspending a lower court ratification of that settlement and reinstating a 20 billion-real civil claim. BHP said it would appeal the Superior Court decision.

Samarco was scheduled to lay off about 1200 employees after June.

Return to Top