

Europe Tinplate Quarterly Report

July 2022

Example Report





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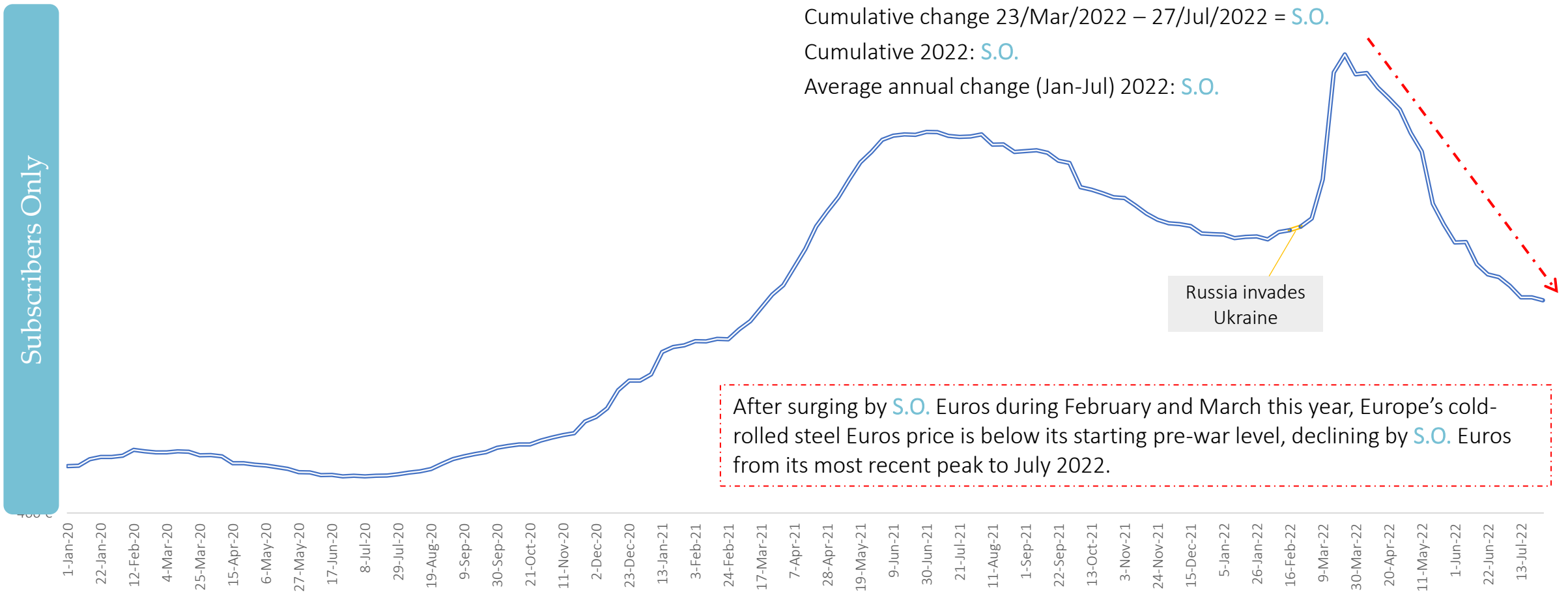
Variables to consider in the short and medium term that could add volatility to the tinplate market.



WHERE WE ARE: TINPLATE PRICE FUNDAMENTALS

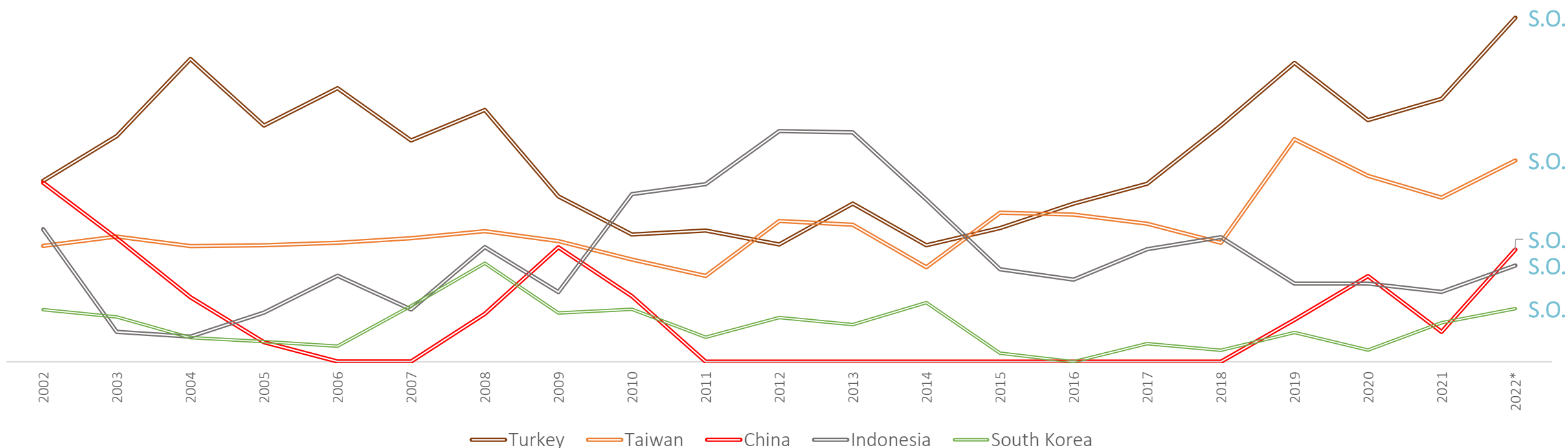
After the panic buying shock caused by the RU-UA war, European steel prices have significantly corrected.

EU cold rolled steel price (Euros per metric ton)



Steel supply, although affected, was not significantly impacted by the UA-RU war as previously expected. Russia continued to export steel as trade reconfiguration was quick, with Russian exports finding their way to other markets at significantly lower prices. Furthermore, mills worldwide found other sources for raw materials and a way to limit their dependence on RU & UA exports.

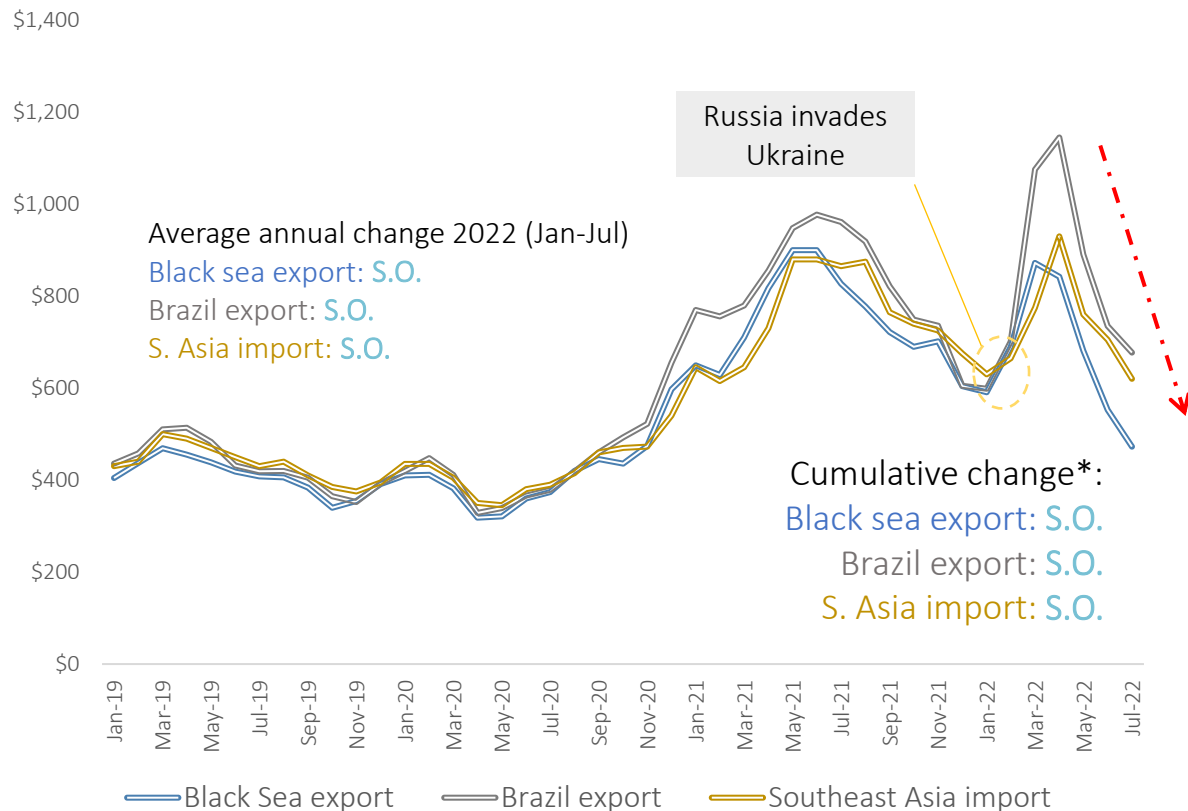
Share of RU semifinished steel on main destinations' imports (RU percentage share of total semifinished imports for selected countries)



Source: HARBOR intelligence with industry and government's data. Based on countries imports statistics.
*January - May 2022.

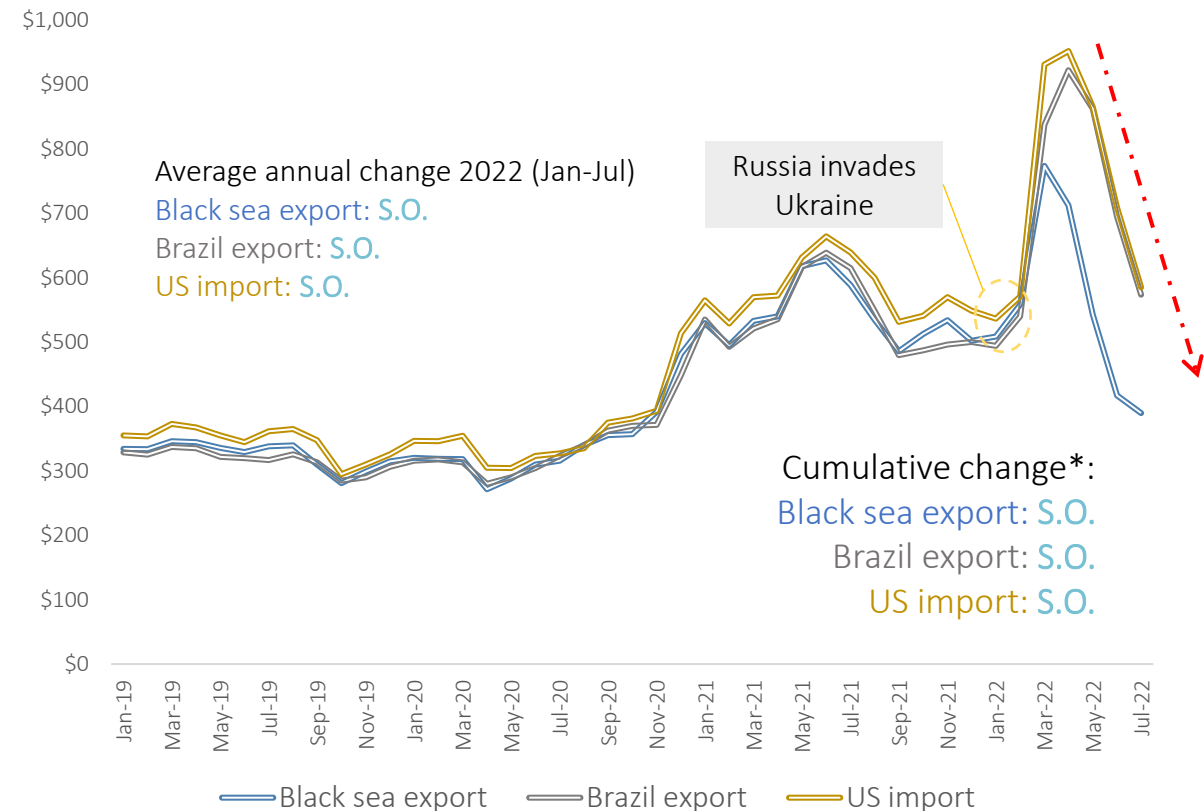
As semifinished and raw material prices quickly corrected, also pulled by significantly lower offers from Russia, the pressure on the world's steel prices, including Europe, eased.

International slab price (FOB, export price, USD per metric ton)



Source: HARBOR intelligence. *From recent high to low point.

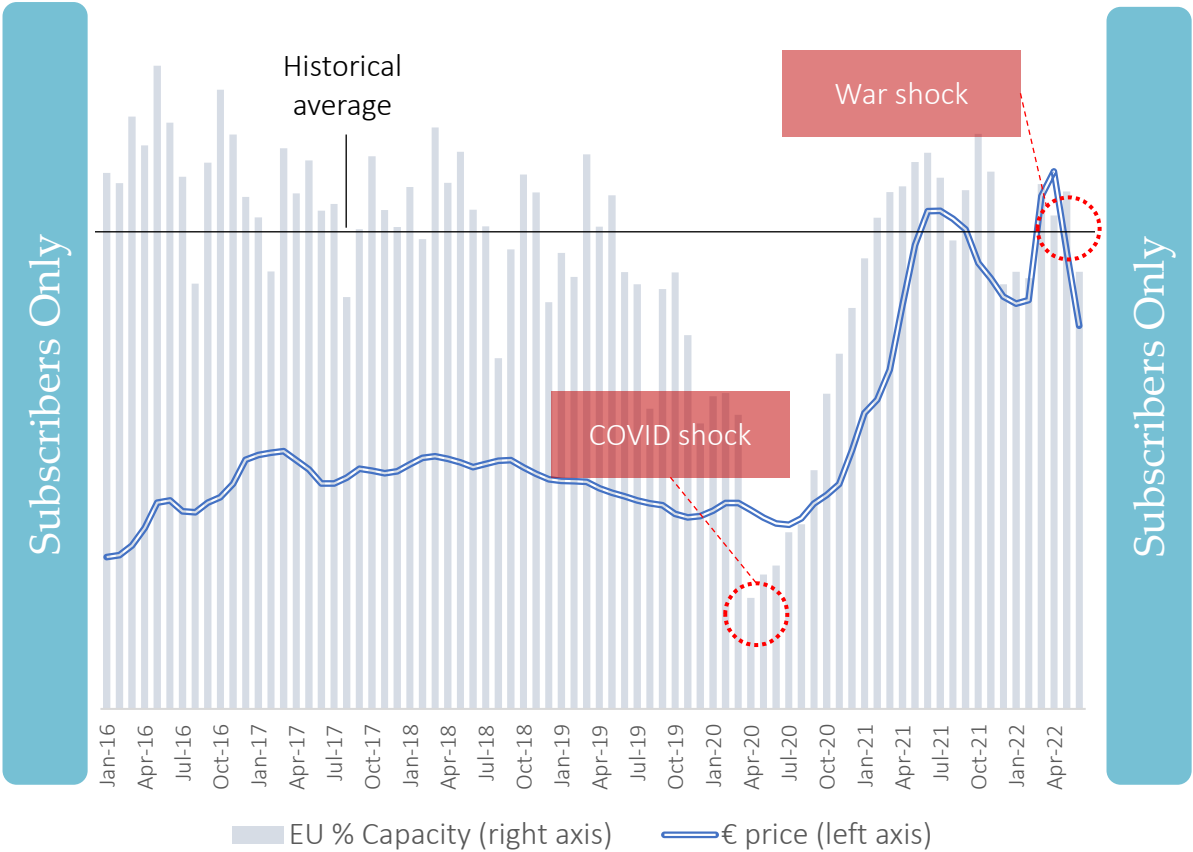
International Pig Iron Price (export FOB, import CIF, USD per mt)



Source: HARBOR intelligence. *From recent high to low point.

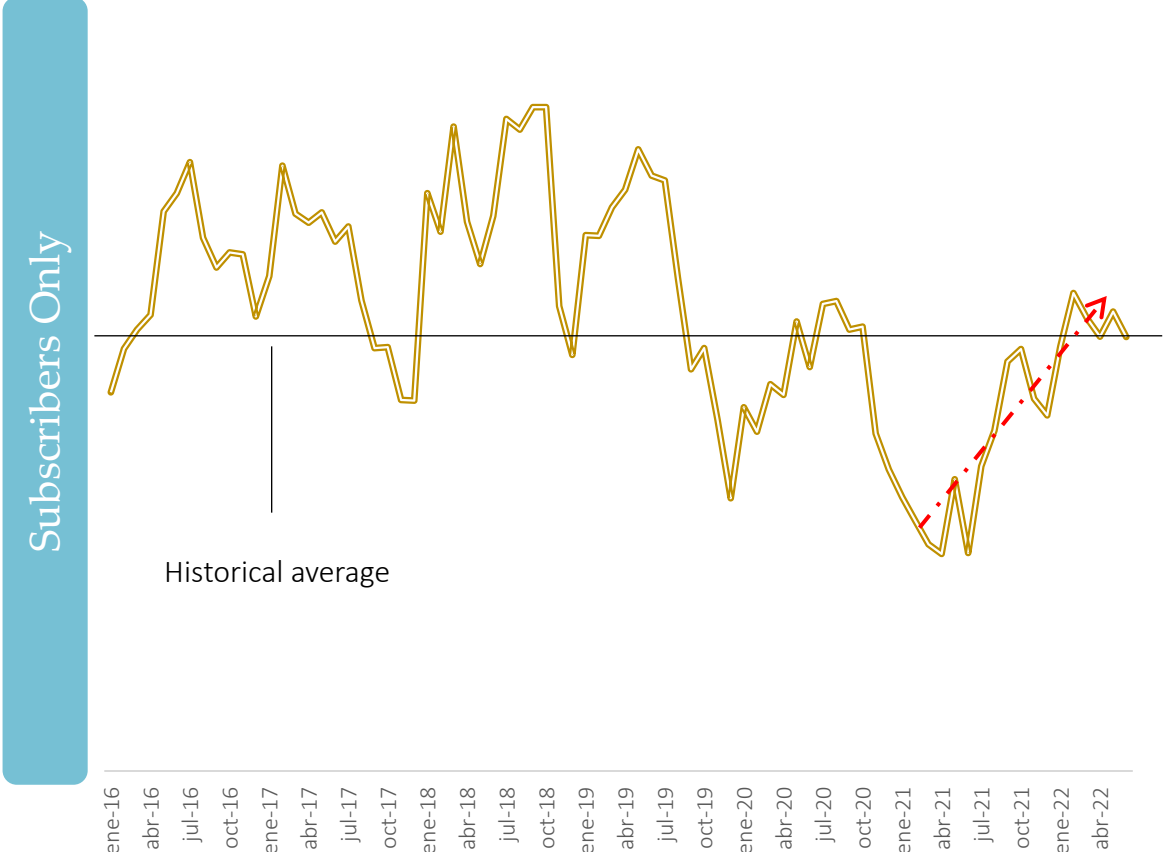
Furthermore, contrary to previous “shocks,” panic buying, given the RU-UA war, came in an environment with above-average capacity utilization rates. Inventories had also recovered, which made consumers adopt a “wait-and-see” attitude towards buying, adding downward pressure on EU steel prices.

EU capacity utilization rate (crude steel, percentage)



Source: HARBOR intelligence with industry data. The figures are compiled from data for the main EU-27 and other Europe countries.

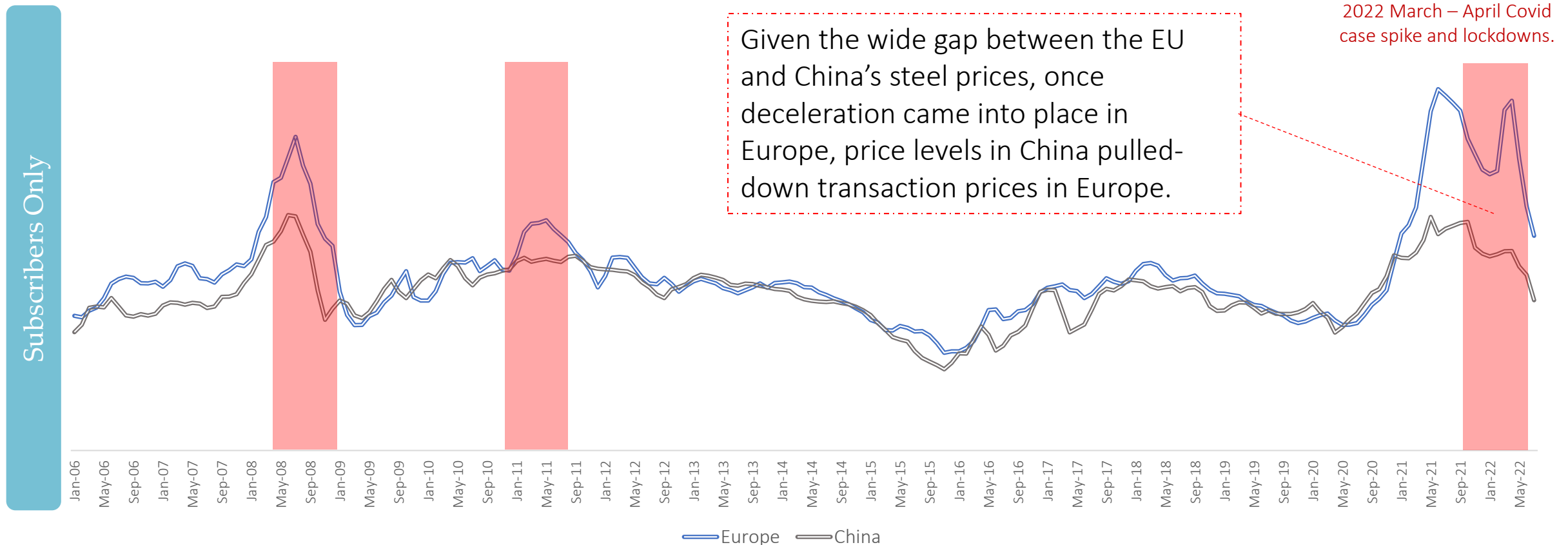
EU steel inventories (German steel stocks, in million mt)



Source: HARBOR intelligence with industry data.

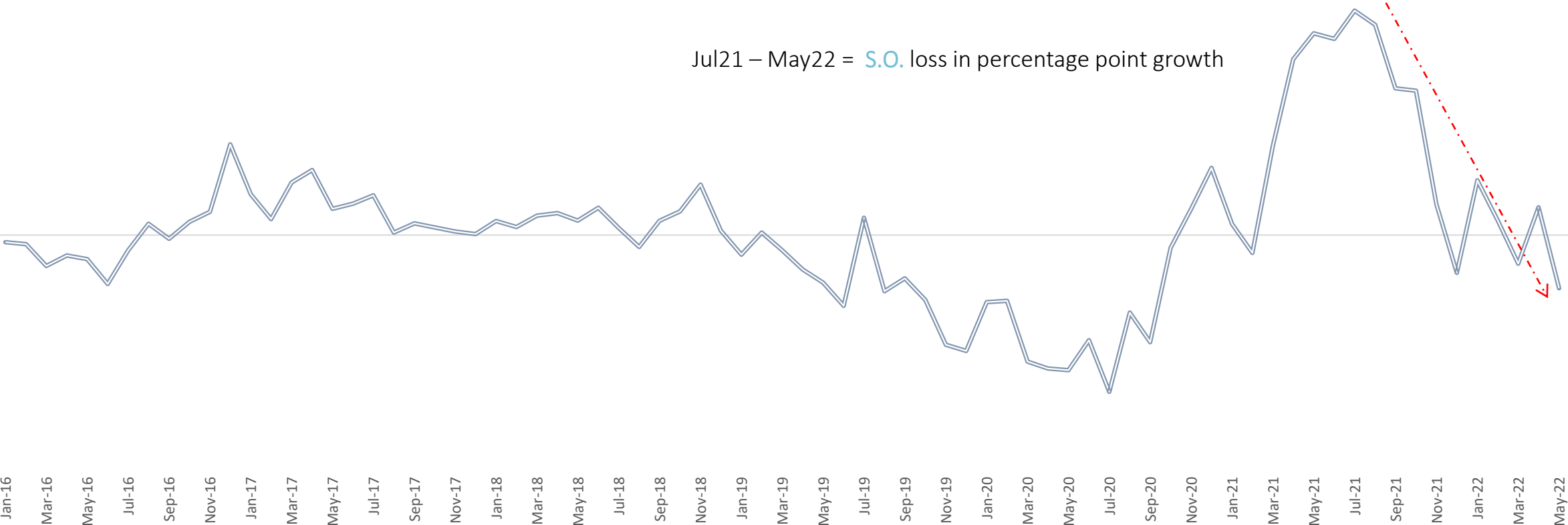
Moreover, China's steel price remained unmuted by the RU-UA war shock. Steel prices in such a region remained negatively affected by the ongoing economic slowdown, exacerbated by the strict zero-COVID policy, which translated into lockdowns and significant deceleration of industrial activity. This negatively affected steel prices in Europe.

EU and China cold rolled steel price (USD per metric ton)



Meanwhile, steel demand in Europe has registered a significant contraction...

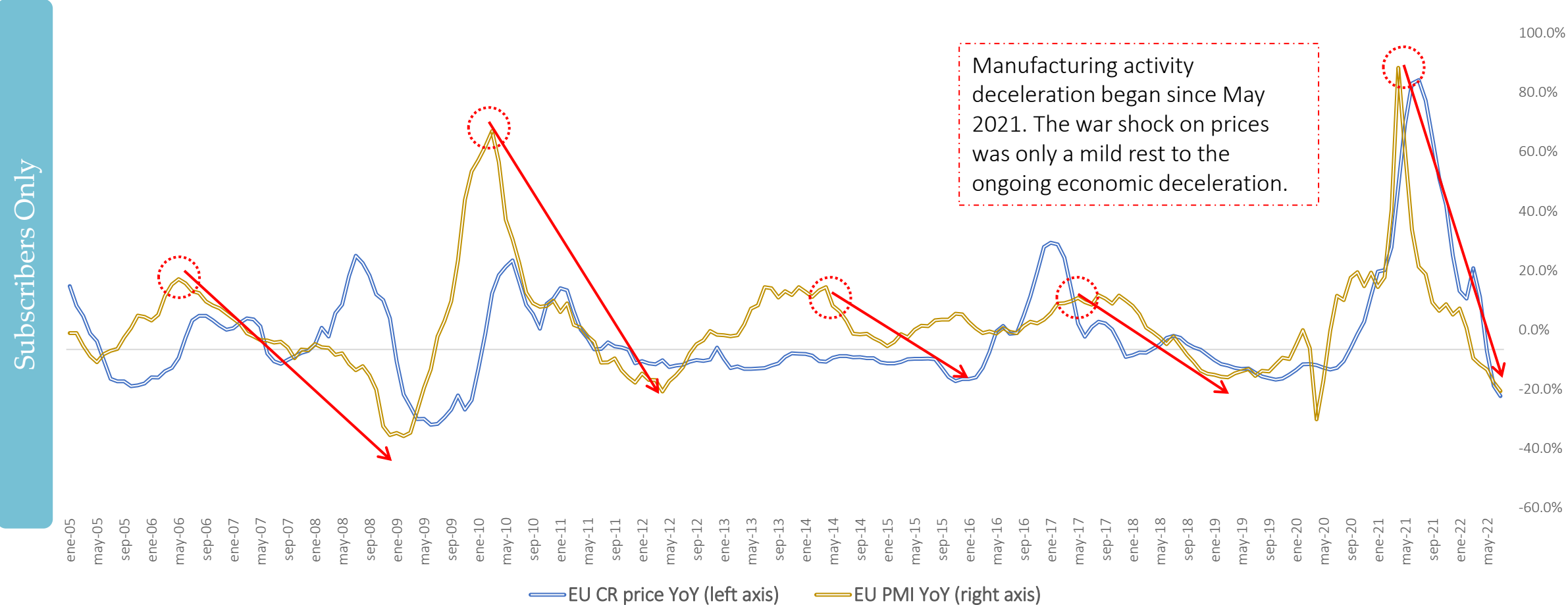
EU steel demand (apparent domestic consumption, annual change)



Source: HARBOR intelligence with industry data. EU-27 countries.

...as Europe's economic environment has worsened. Steel demand deceleration signs began since last year, amid an ongoing cyclical slowdown across industries, which has made steel prices resume their downward trend now that the war's shock has eased.

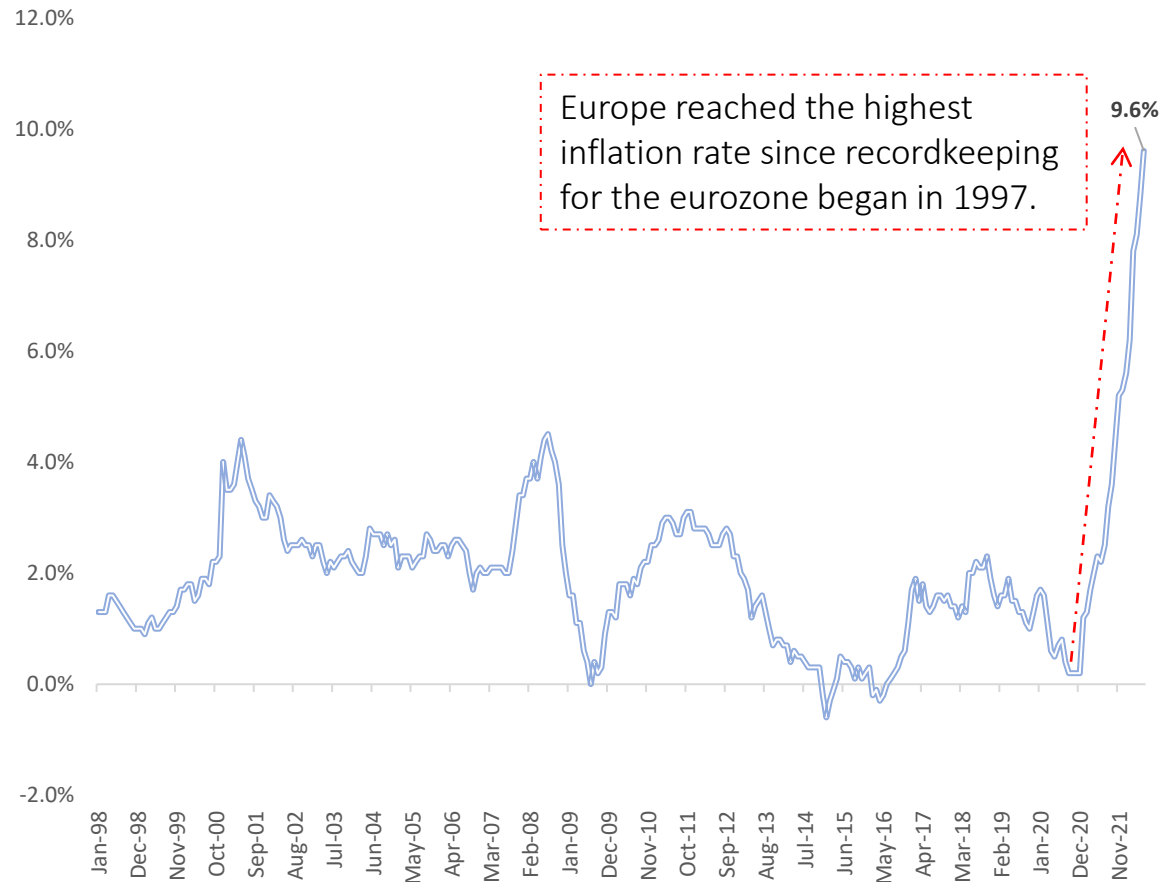
EU cold rolled steel price vs. Europe's Manufacturing Activity (Euros per mt annual change; EU PMI annual change)



Source: HARBOR intelligence with Markit data.

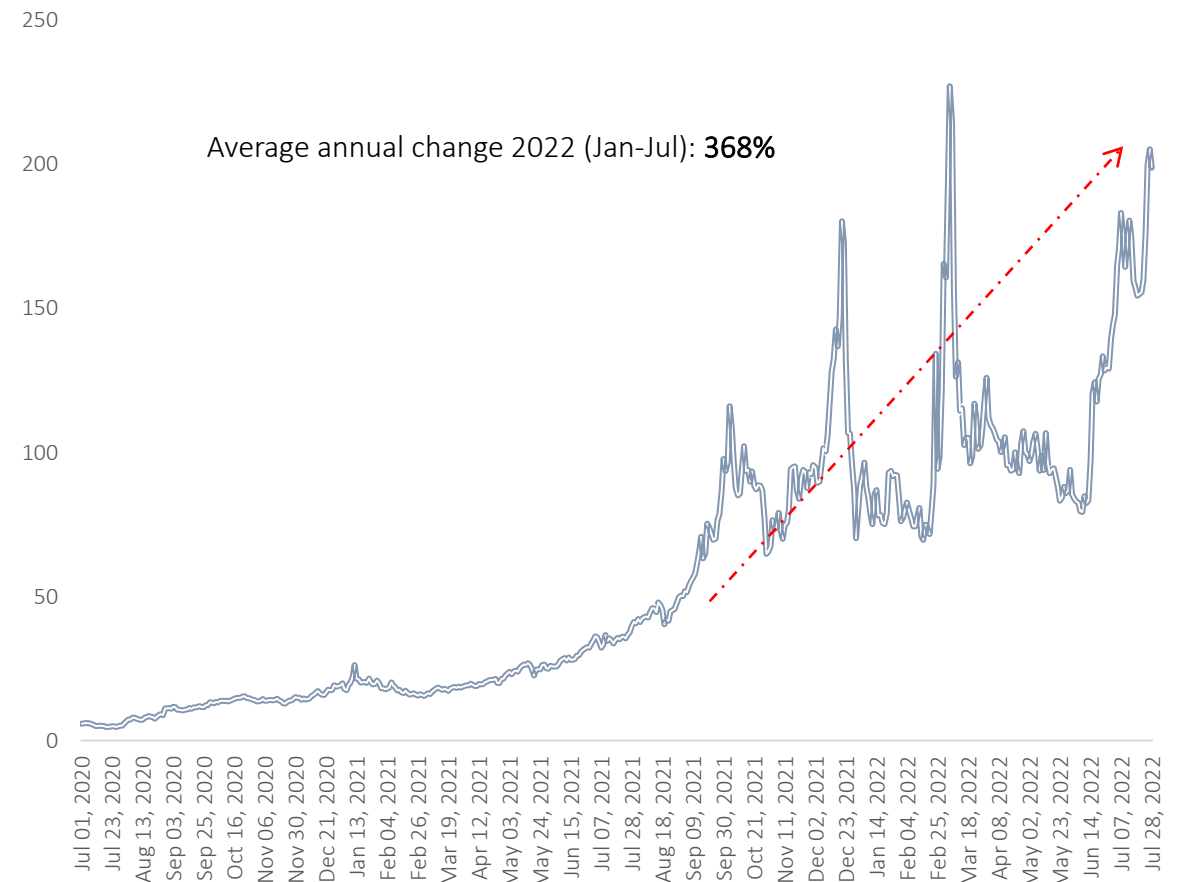
Historic-high inflation rate and soaring energy prices have exacerbated Europe's economic and industrial activity slowdown...

EU consumer price inflation (HICP index annual change)



Source: HARBOR intelligence with government's data.

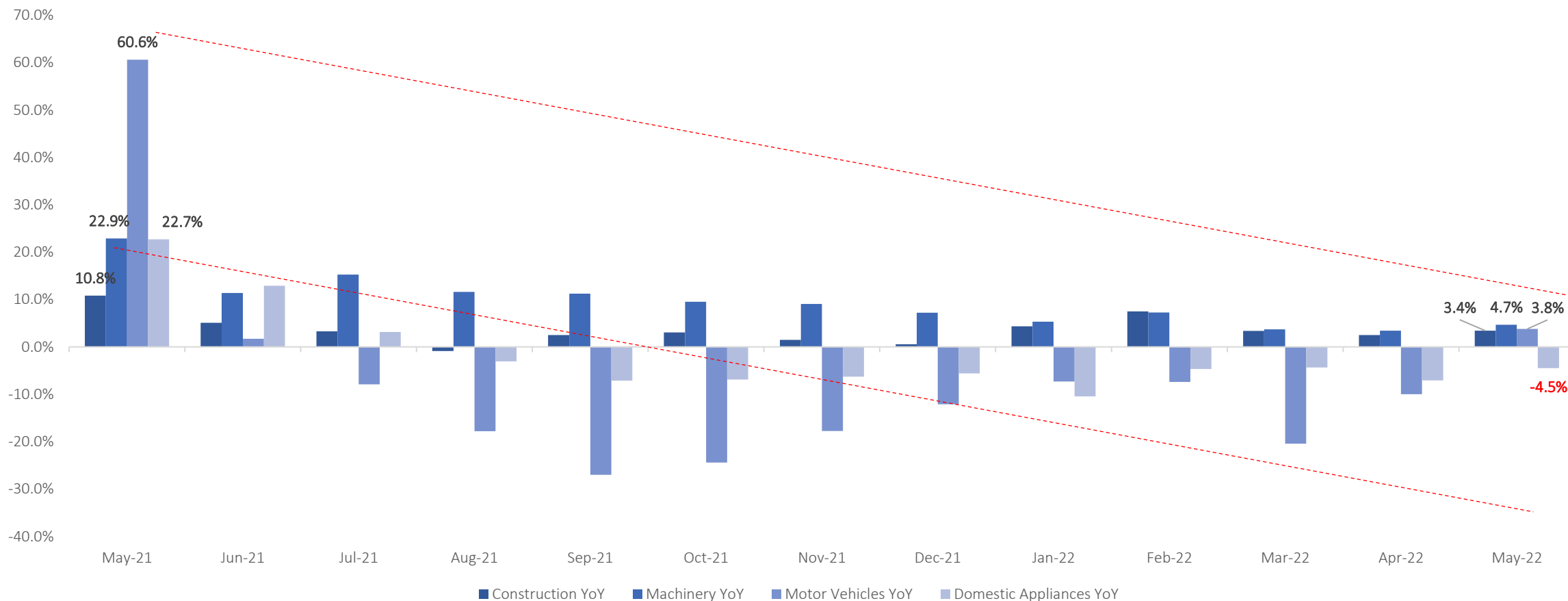
EU natural gas price (Dutch TTF Natural Gas Futures EUR/MWh)



Source: HARBOR intelligence with market data.

...which has reflected in lower dynamics through industrial sectors, including steel-intensive sectors, adding downward pressure on steel prices.

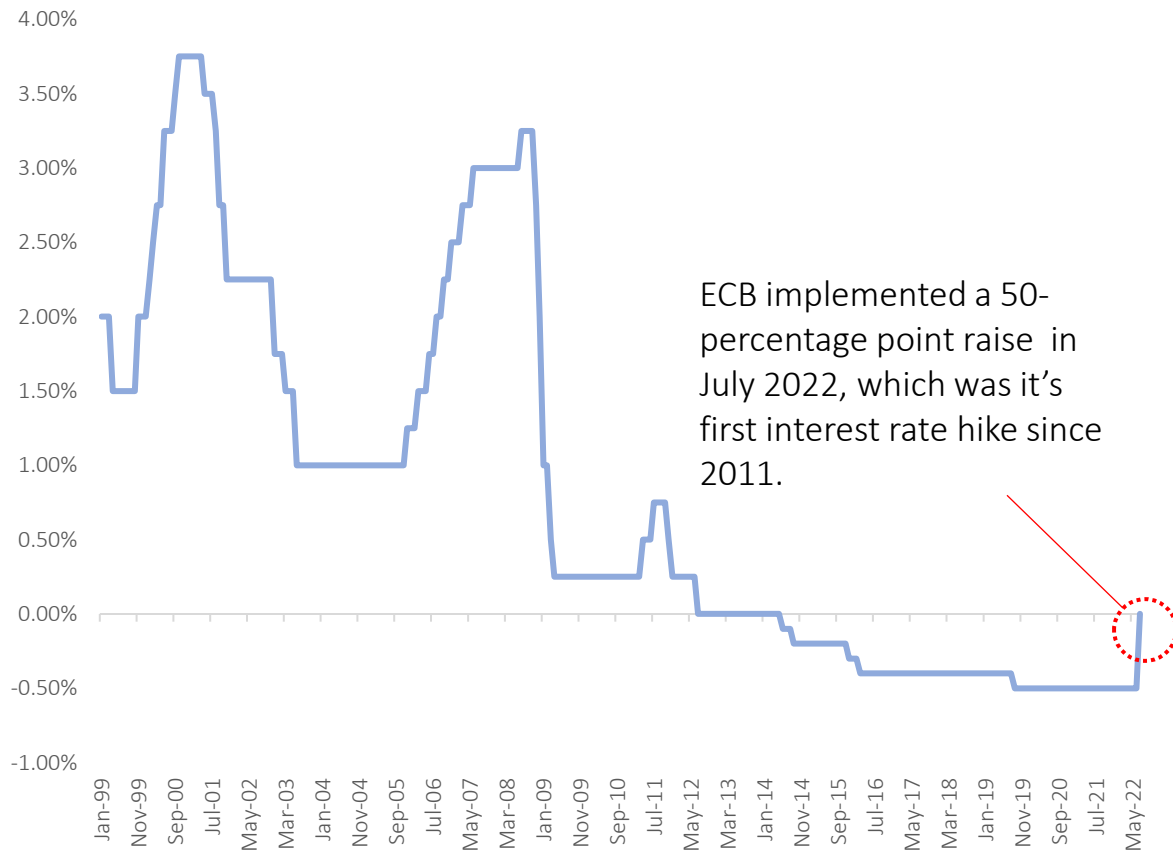
EU Steel-Intensive Industries (annual change)



Source: HARBOR intelligence with government's data.

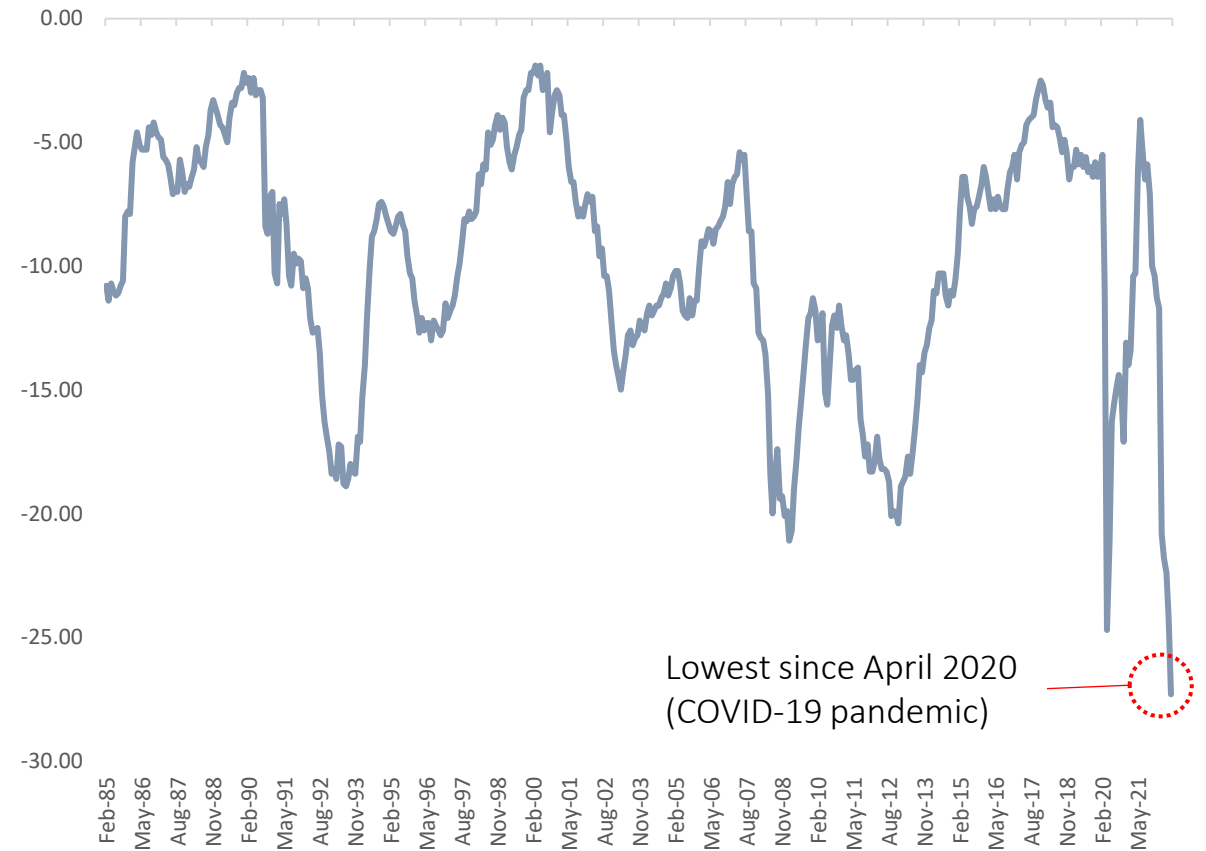
Europe's Central Bank has announced interest rate hikes to combat high inflation, further limiting economic dynamics. Consumer confidence is within historic low levels, suggesting a possible lower consumption of durable goods. This will continue to damage the steel/tinplate price environment during the upcoming months.

Key ECB interest rate (Deposit Facility, percentage)



Source: HARBOR intelligence with government's data.

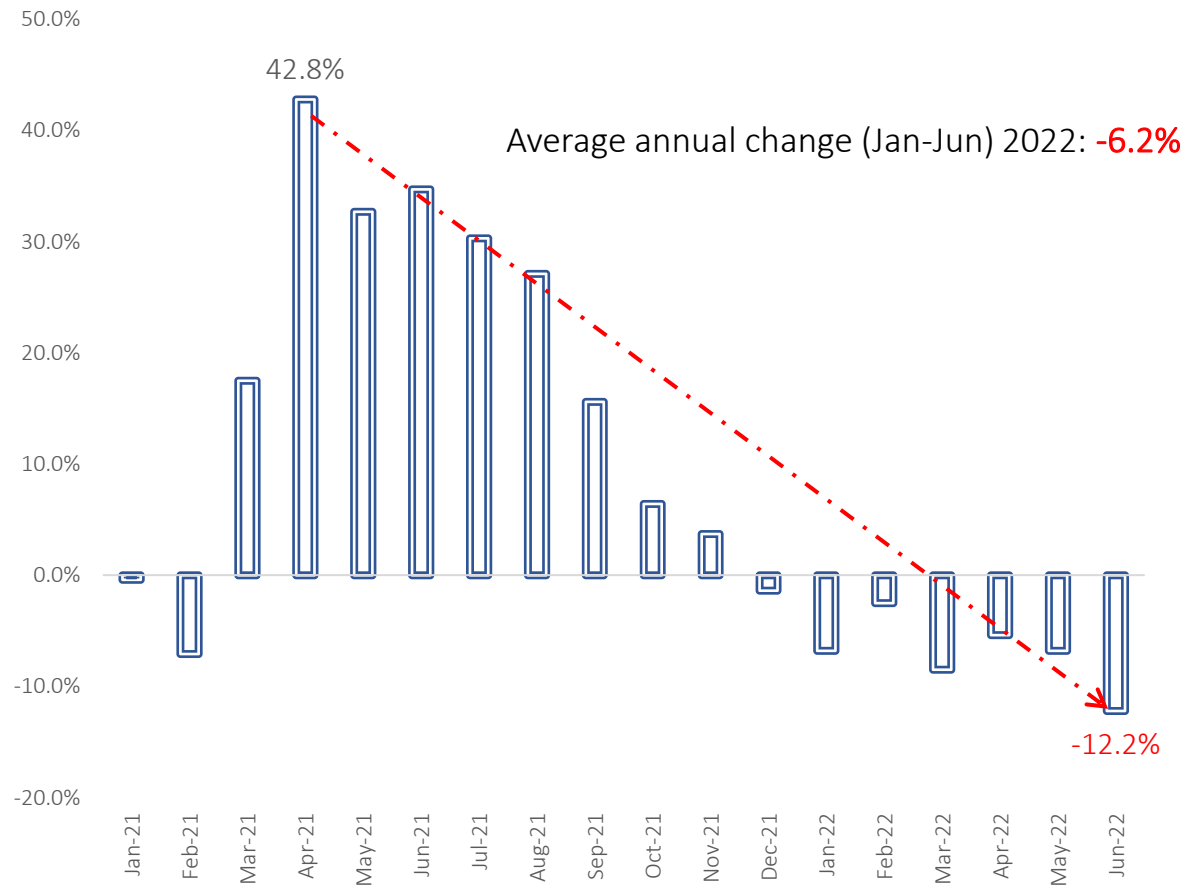
EU Consumer Confidence (percentage points)



Source: HARBOR intelligence with government's data. EU-27 data.

EU mills have started to cut back production, aiming to rebalance supply with the current steel demand weakness...

Europe steel production dynamics (crude steel annual change)



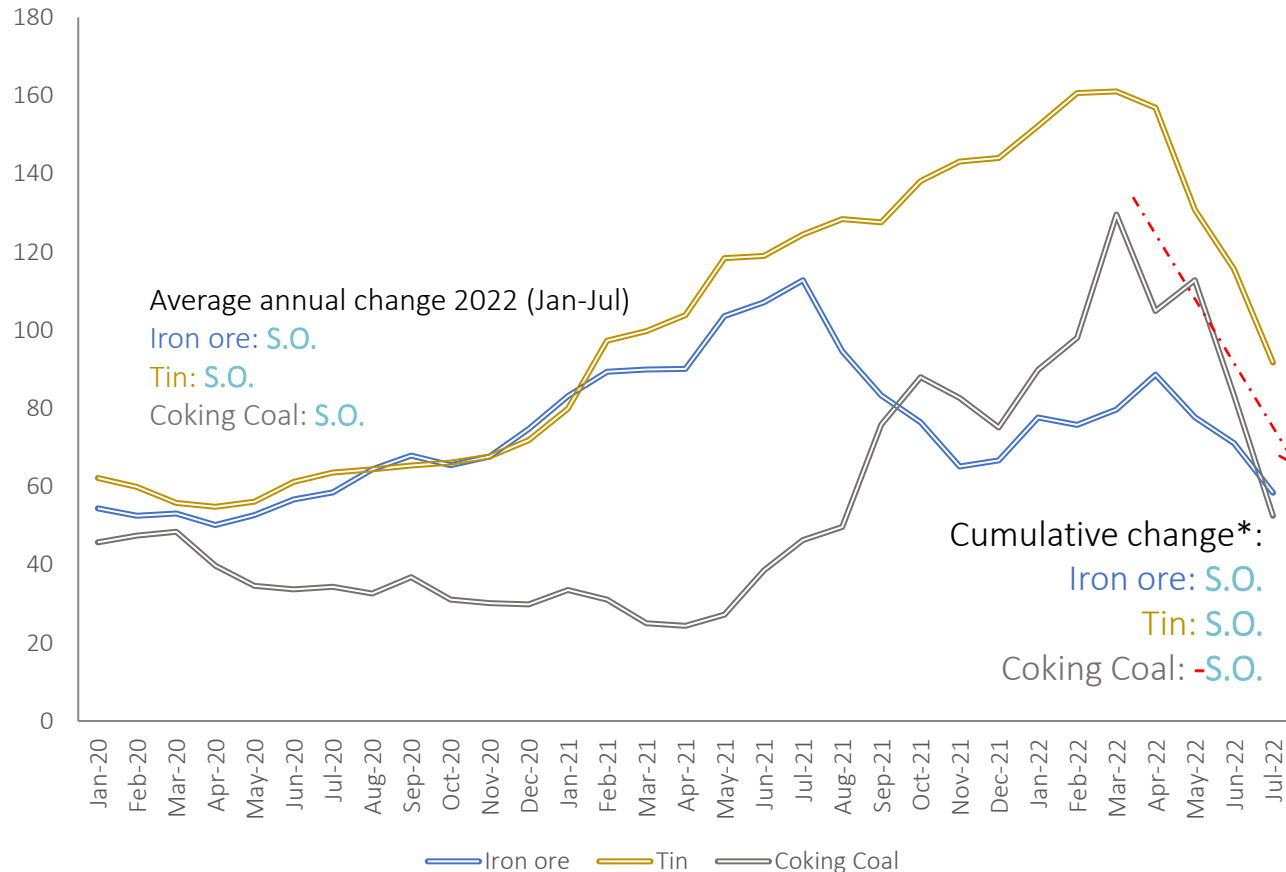
Source: HARBOR intelligence with industry data

Steel mills decreasing production:

- US Steel Kosice idled one of its three blast furnaces in late June, while ArcelorMittal has idled furnaces in France (1.5 million mt/year in Dunkirk), and Germany (Eisenhüttenstadt site, 1.8 million mt). Acciaierie d'Italia also announced a six-week stoppage at one of its furnaces (2 million mt/year), and a planned idling of a second furnace during August 2022 (still not specified which BF). Meanwhile, maintenances has also been scheduled, with British steel improvements at its Scunthorpe plant, while Liberty Ostrava has temporarily idled its blast furnace No. 2 in the Czech Republic for repair and upgrades.
- While such capacity reductions are dispersed and temporary, it could be the starting point of a global cutback trend that could ultimately serve mills to force a bottom on the ongoing steel price downward trend.

...however, such a decrease limited the demand for raw materials, which have significantly corrected their prices from the war shock. Lower steelmaking prices have added downward pressure on steel prices.

Raw Material Prices (index Jan 2011 = 100)



Key drivers behind raw material price downturn:

- As in steel prices, raw material price dynamics were mainly driven by the trade reconfiguration, as Russian semifinished and pig iron exports were redirected to other markets. Similarly, global mills found other import sources and reconfigured their steel production mix to depend less on imported raw materials.
- Even though capacity utilization remains above average levels, steel production worldwide has been decelerating amid high energy costs and steel demand slowdown. Therefore, mills demand less raw materials, which adds negative pressure on their prices.
- The above has been more evident in China, as lockdowns have translated into a decrease in steel production. During the January – June period of 2022, crude steel production was **-6.5 percent** below the steel output level registered during the same period of 2021, negatively impacting iron ore steel prices.



WHERE ARE WE HEADING?

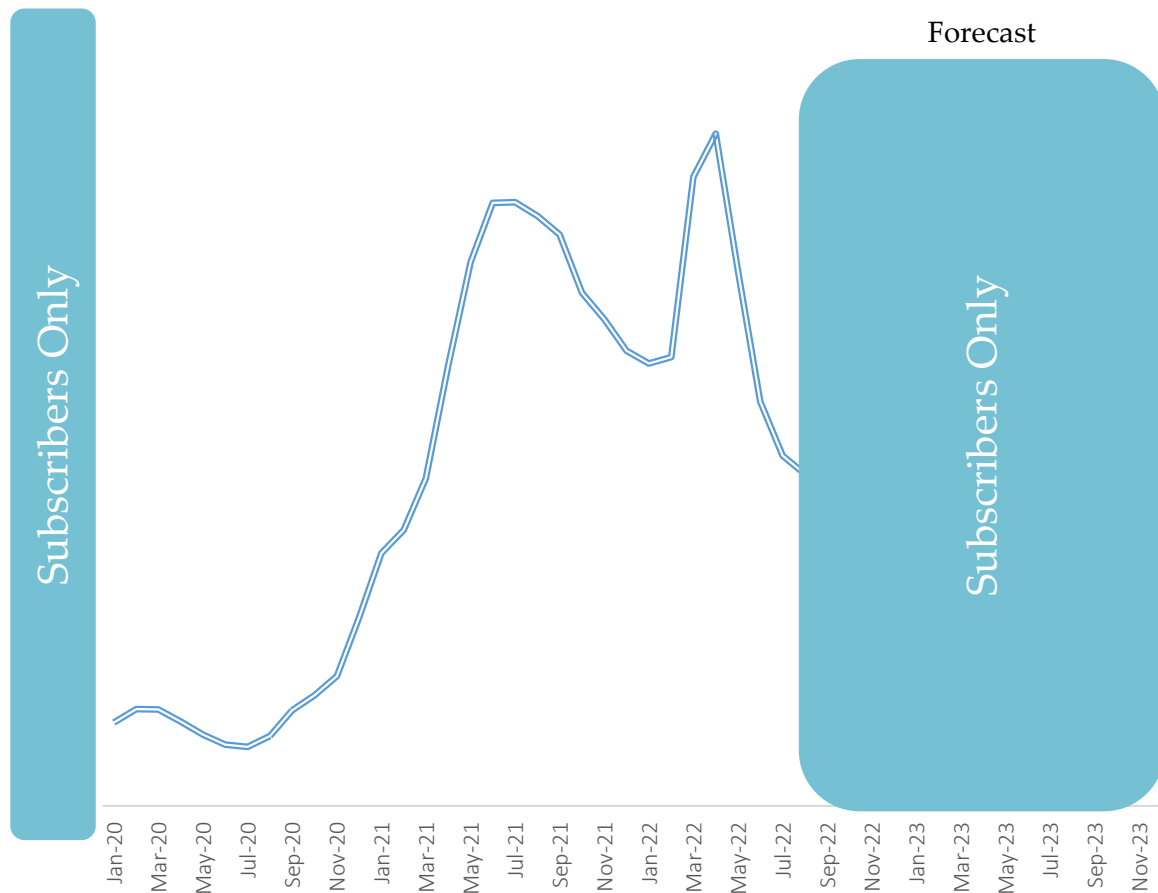
2023 EU Tinsplate Contract Outlook

Tinsplate annual contracts* in Europe for 2023: S.O.% to S.O.% (preliminary range estimate)

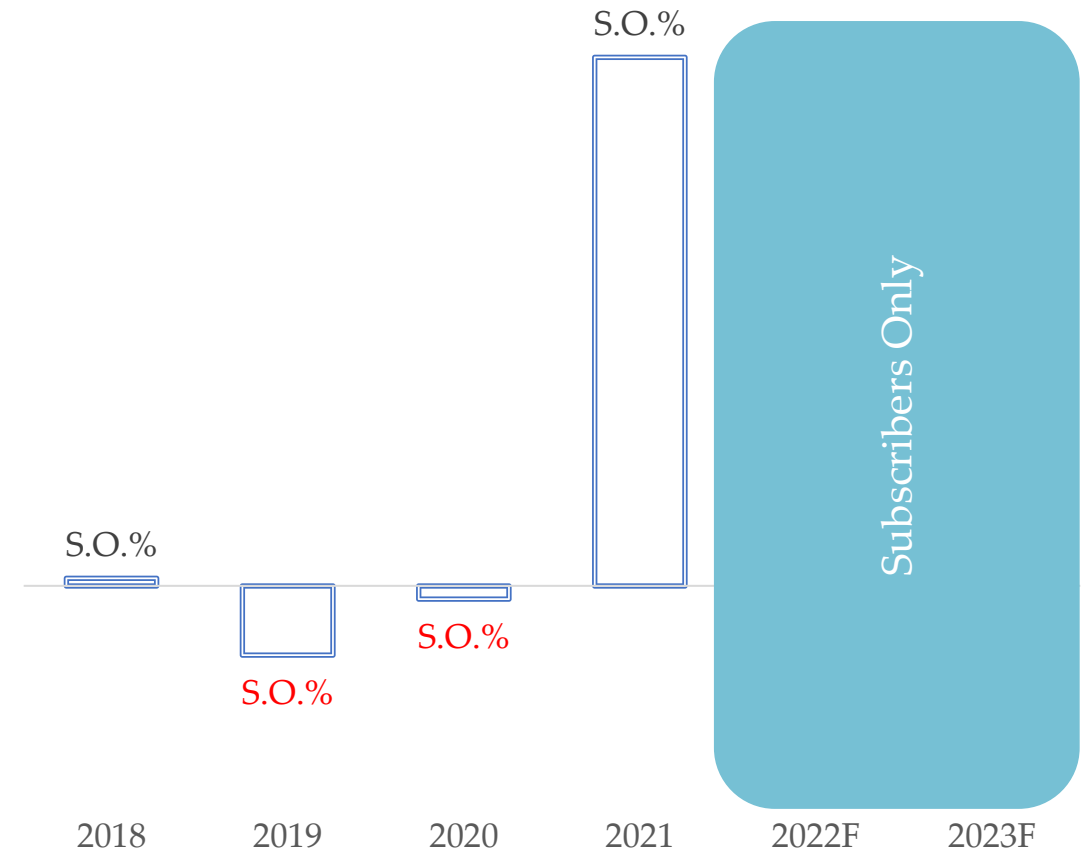
- ✓ We are still far from reaching closed deals in negotiations between mills and buyers regarding the 2023 tinsplate contract price in Europe. We will narrow our preliminary range estimate as soon as there are formal advances on negotiation tables and more concrete numbers regarding tinsplate contract prices for next year.
- ✓ However, our preliminary range estimate considers the current bearish sentiment in the steel market, which could prevail until the negotiations start. Given the recent downward trend of EU cold-rolled steel price, we estimate it will close this year with an average annual decline of S.O. percent. Under the lagged relation between cold-rolled steel and annual contract price change, years with a previous CR annual fall (2022) usually translate into downward pressure on tinsplate contract price (2023). Furthermore, the perspective is also negative for 2023, with an estimated S.O. percent average annual change.
- ✓ Moreover, the lower-than-expected economic dynamics for Europe have negatively affected the dynamics of steel-intensive industries, thus weakening steel demand. The Eurozone GDP for 2022 is estimated to register a S.O. percent growth, significantly lower than the S.O. percent recorded during the previous year. With a continuous deceleration for 2023 (GDP change of S.O. percent), tinsplate contract price negotiations will take place in a bearish economic environment, limiting mills' bargaining power.
- ✓ Given the ongoing deceleration of steel demand, mills are starting to cut back steel production to balance steel supply and demand. However, this means less demand for raw materials, which hurts their prices. With weakness also forecasted for 2023, such a variable will negatively pressure tinsplate contract negotiations.

We expect cold-rolled steel prices to continue to decelerate in 2022 as the outlook of price fundamentals has deteriorated. In 2023, steel prices will face a more challenging environment, although volatility is not discarded. Nevertheless, next year will be an ongoing deceleration year for steel transaction values. Such a negative perspective for CR steel price will add downward pressure on 2023 tinplate contract price negotiations.

EU cold rolled steel price (Euros per metric ton)

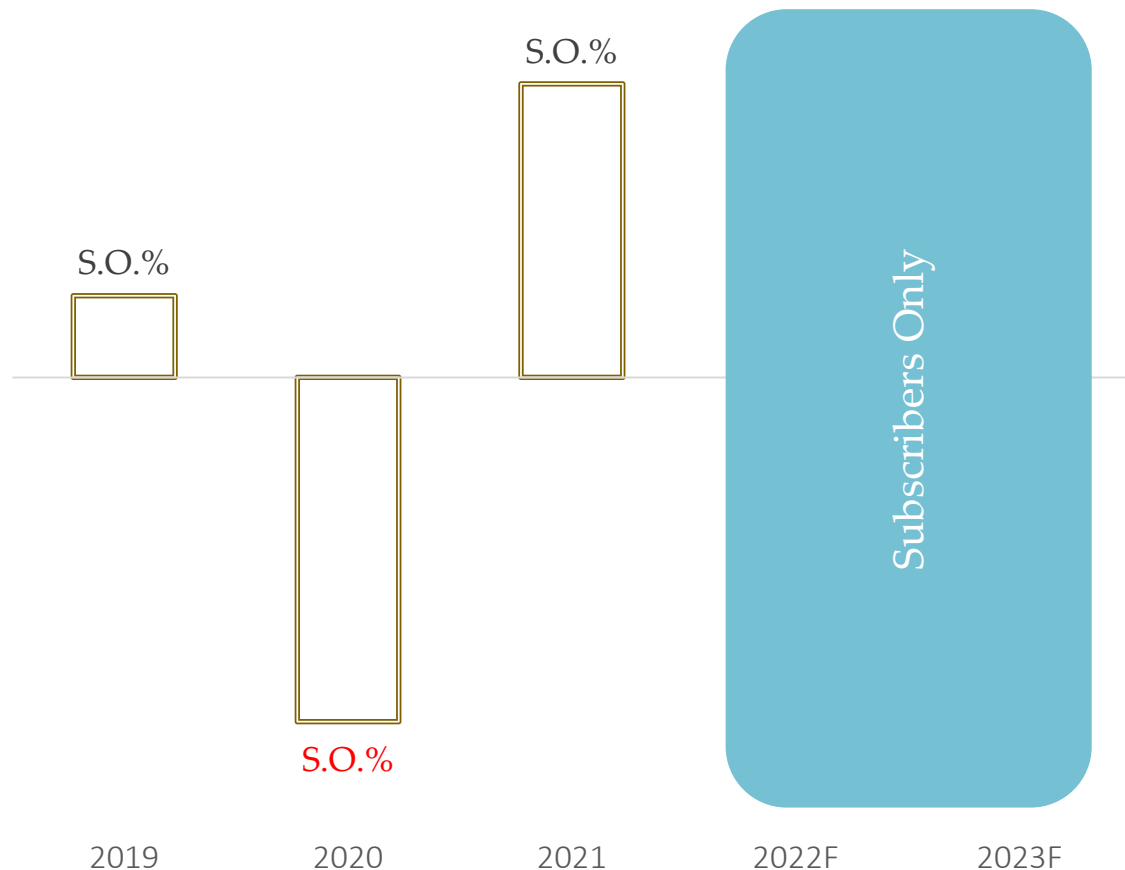


EU cold rolled steel price (avg. annual change)

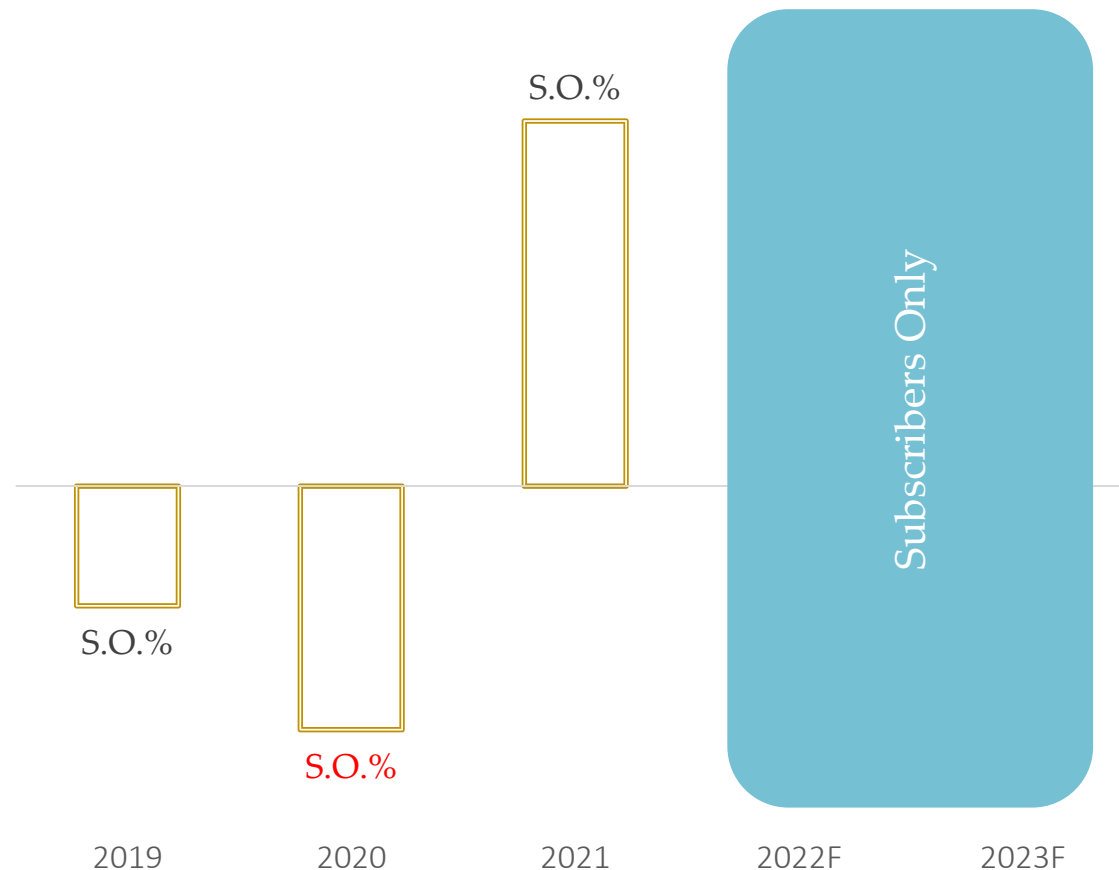


Despite moderating its effect, the RU-UA war consequences are still to be seen in the EU economy. High inflation and energy prices have started to create demand destruction in multiple industrial sectors, which ultimately will reflect on EU steel demand and prices. This will limit mills' bargaining power in the upcoming contract price negotiations.

Euro-area GDP growth (real annual % growth)



EU Steel Demand (real annual % growth)

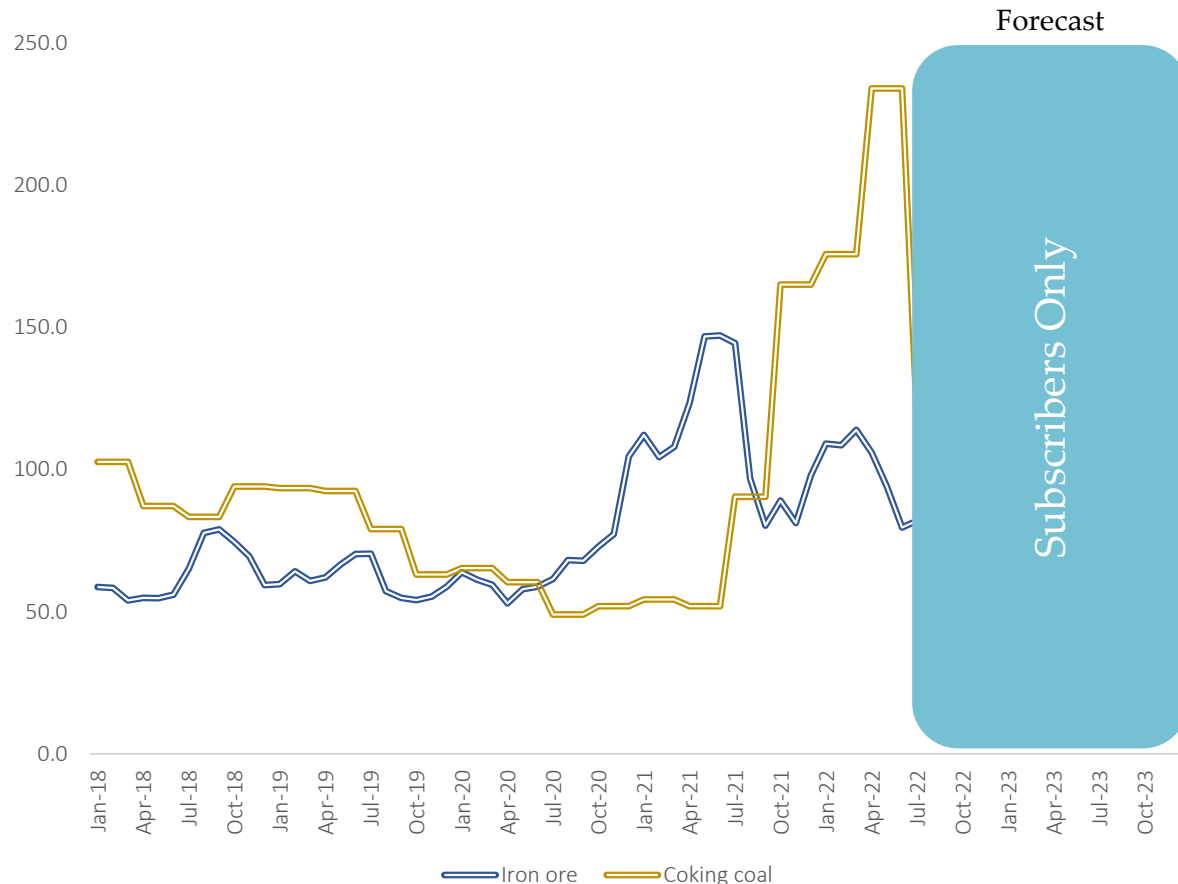


Source: HARBOR intelligence with the country's government agency economic data. Includes revised figures. F = Forecasted.

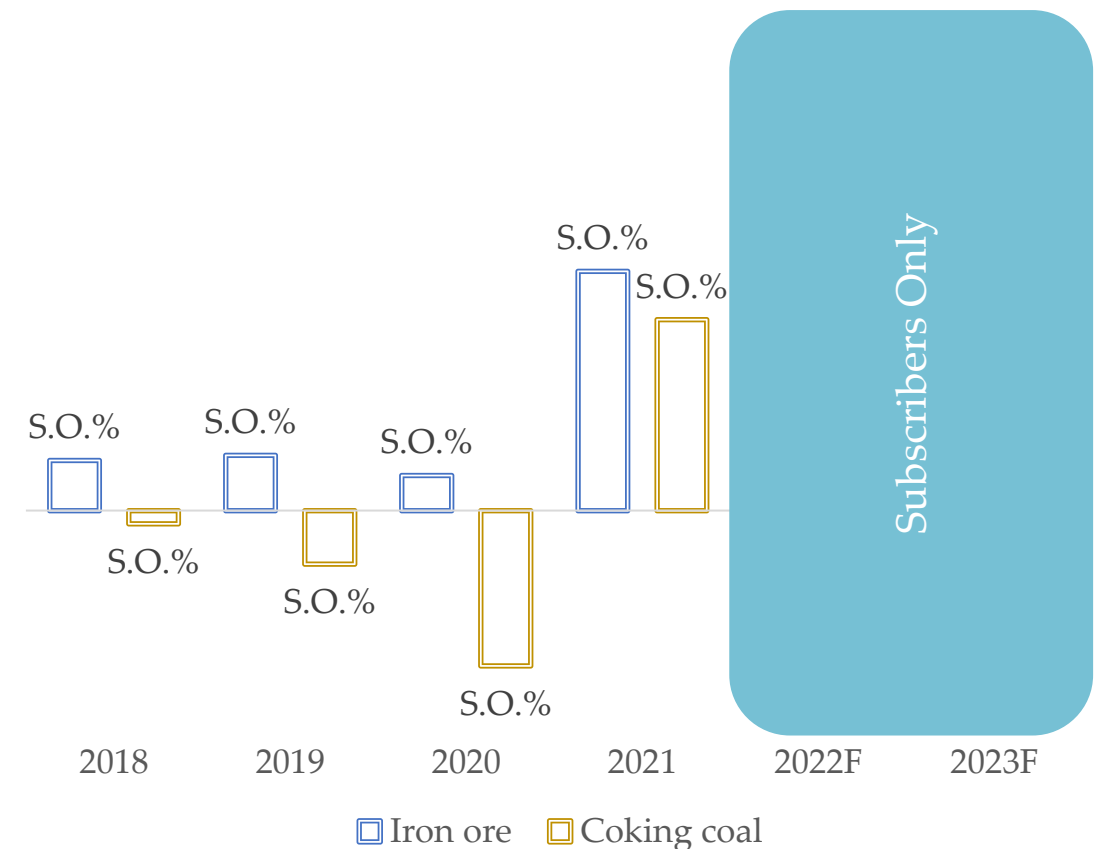
Source: HARBOR intelligence with WSA data. F = Forecasted. Includes revised figures.

Furthermore, raw materials will remain on a downward trend, as mills will cut steel production and, despite the annual increase of some prices, the overall deceleration during 2H 2022 will damage the environment for tinplate contract price negotiations.

Raw Materials: Iron ore and Coking coal price (index Jan 2011 = 100)



Raw Materials: Iron ore and Coking coal price (annual change)



Source: HARBOR intelligence.

1.-Iron ore refers to BF pellet fines, \$/metric ton dry CFR China, spot price. Coking coal refers to metallurgical coal price, \$/metric ton, FOB Australia, quarterly contract price. F = forecast.



RISK FACTORS AND WILD CARDS

Risk factors and wild cards



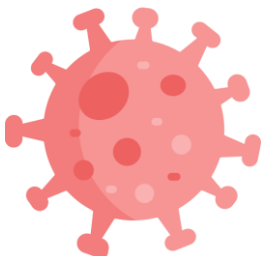
Supply cutbacks are the most obvious solution to the current steel price downward trend. If mills continue to decrease steel production, a rebound in prices could occur, as has happened in recent history. However, it is to be seen how fast and drastic producers can decrease their production, as they still must manage margins and inflation across their production process. If successful, steel prices could rebound and recover the ground lost in 2022.



The economic downturn is evident. However, there is still discussion over whether we will enter a formal recession during the end of 2022 / early 2023 and if it will be a shallow recession (soft landing) or a deep recession. The latter would surely devastate key steel-intensive industries, which would significantly depress steel prices next year.



The RU-UA war is still not over, and a significant escalation would be possible. Russia has proven to have a substantial spillover effect on the world's economy, as most of the current inflation comes from food and energy, in which Russia and Ukraine are major players. The short-term risk relies mainly on Russia's natural gas supply to Europe. EU countries have already pledged a 15% reduction in their gas consumption, given the uncertainty for such fuel availability in the upcoming winter months. If supply is significantly interrupted in the long term, it could dramatically impact many economic variables, including industrial activity, thus steel demand, and prices.



COVID-19 remains a wild card, mainly because of China. The government has given no signs of changing its zero-tolerance policy toward Covid. Suppose significant lockdowns are established, or modest ones remain. In that case, they could continue to deteriorate the economic activity and China and have a spillover effect on global steel demand fundamentals, adding downward pressure on steel prices.



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