Kallanish Steel Weekly

YOUR MARKETS OUR VIEWS

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Top News:

US 232 move holds market hostage

The global market is collectively holding its breath while US President Donald Trump carefully and calmly considers his response to the US Department of Commerce's 232 investigation. The department's preliminary recommendation is multiple choice. It is either a blanket tariff of 24% on every country and every product, a 53% tariff on 12 countries with 100% 2017 quotas on the rest, or 63% 2017 quotas across the board.

Rest assured, President Trump is putting more thought into this than he would a 3 AM tweet. After all, there is a lot at stake.

Then-candidate Trump ran on a platform of jobs, jobs, jobs in 2016. He and Vice President Mike Pence admitted in a listening session with Congress earlier this month that the 232 national security investigation was mostly about national security. That said, it was also mostly about retaining and breeding American manufacturing jobs.

"I think that it's fair to say that we all support national security," Vice President Pence said in the session. "I think that's evidenced by the recent budget agreement that the president helped drive, and Republicans and Democrats have supported, for a historic increase in our national defence. But we also all support American jobs."

President Trump – per usual – put it more bluntly.

"Last year, I directed the Secretary of Commerce to investigate whether steel and aluminium imports are threatening to impair US national security," he said. "You see what's happened with our steel and aluminium industries. They're being decimated by dumping from many countries, in particular one, but many countries. They're dumping and destroying our industry and destroying the families of workers. And we can't let that happen."
The US military accounts for about 3% of domestic steel demand, something easily covered by extant capacity. President Trump has been told so by several military and non-military sources over the course of the 232 investigation.

We can probably dispense with the national security aspect of the investigation out-of-hand therefore, as several major trade groups – including the American Institute for International Steel – have already done. There are very few scenarios in which the US would not be able to make enough steel to defend itself or maintain its infrastructure in the event of conflict. Chances are, that such a severe conflict would make steel availability the least of the country's concerns.

That leaves the jobs element of the equation, and at least some domestic steel players have little confidence that a strong 232 will provide employment solutions, either.

A lack of import checks on domestic prices will undoubtedly be good, in the short term, for domestic steelmakers. Everyone aspires to a fair and level playing field, but these measures will undoubtedly chill legitimate trade, as well. That will give domestic steelmakers carte blanche in the pricing arena. It was not too long ago – right before the Great Recession, in fact – that one domestic mill claimed that $1,000/short ton hot-rolled would soon be the new normal. The ceo that made that proclamation, in fact, served as an economic adviser to candidate Trump on the campaign trail.

Great for steelmakers, not so good for service centres, end-users and the all-important consumer. At the end of the day, the US economy still runs primarily on Average Joe buying Average Joe stuff – cars, refrigerators, cans of beer and beans, etcetera. Higher prices almost always translate to lower buying volumes. This in itself might negate the benefits of the 232 while actually eating away at the steel industry's long-term health by driving big customers and projects offshore. President Trump has partially addressed this by promising to slap a tariff on autos produced overseas for import to the US market, but there is a point of diminishing returns on such a strategy. Let us also not forget that the US is not the only steel customer in the world. If you are going to have to pay a tariff one way or another – either on raw material or the finished product – what is the use of building a plant in the US, anyway?

And all of this ignores the other elephant in the room – non-steel retaliatory actions by targeted countries. US consumers who may already be paying a premium for their aluminium can of beer and steel can of beans may soon be paying more for the agricultural products in those containers, as well.

President Trump has to make a decision on the 232 by mid-April. Until he does, it is probably not safe to take a deep breath.

This week, we look at rising US prices, partly as a function of the 232, its trading partners' responses, rebar movement in Europe and the Middle East and China's return to the marketplace.

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How is Vietnam's quest for steelmaking self-sufficiency progressing?

Iron Ore 62% Fe / Qingdao CFR USD/t

W-o-w avg change			**+0.9%**
19 Feb 2018	$	76.58	low
20 Feb 2018	$	76.83	
21 Feb 2018	$	77.09	
22 Feb 2018	$	77.81	
23 Feb 2018	$	78.38	high
Average	**$**	**77.34**	
12 Feb 2018	$	76.48	
13 Feb 2018	$	77.19	
14 Feb 2018	$	77.27	high
15 Feb 2018	$	76.05	low
16 Feb 2018	$	76.39	
Average	**$**	**76.68**	

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Global Overview

America

- Sheet, plate prices on the rise
- OCTG stays flat – for now
- 232 stirs up potential trade conflict

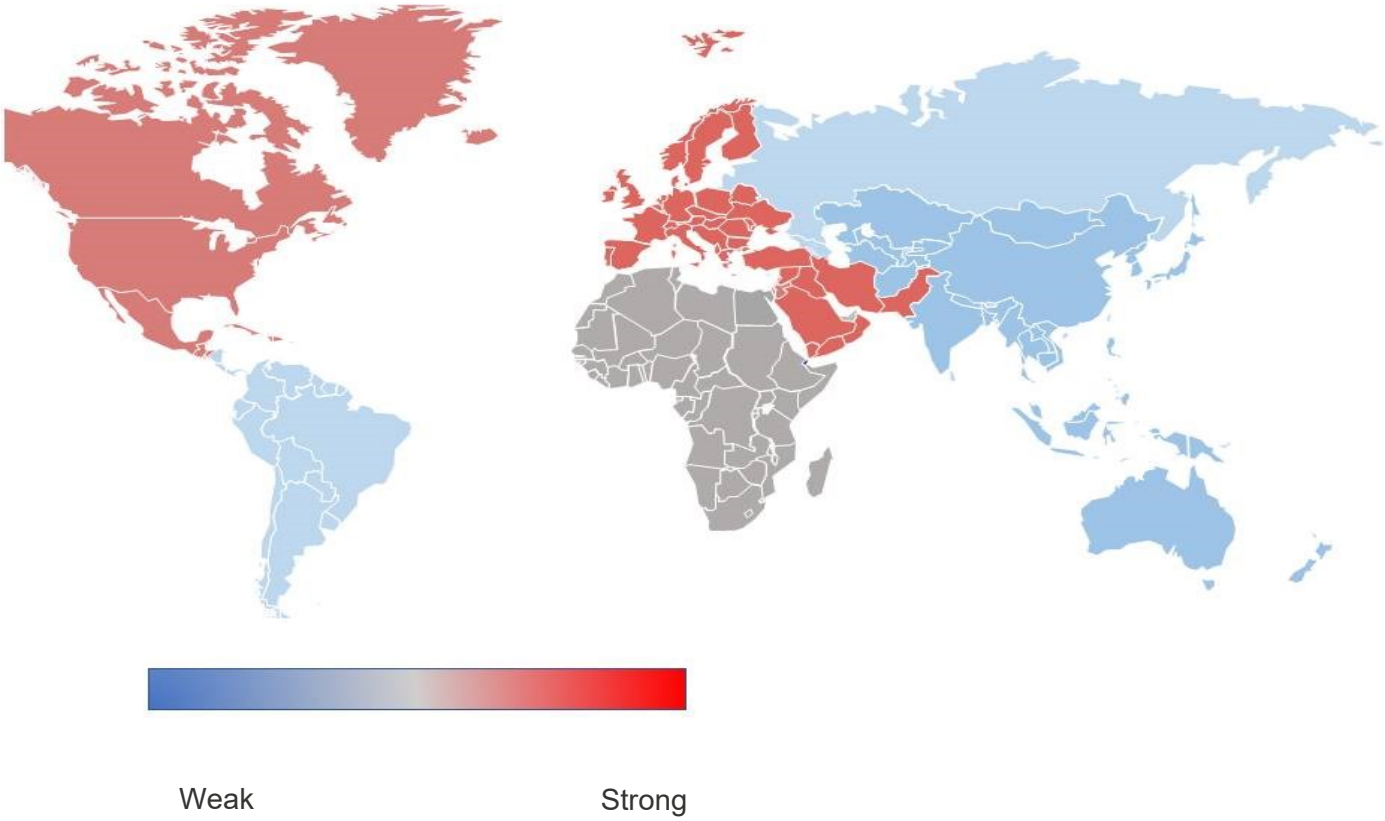
Europe

- NW Europe foresees rebar hike
- Italian longs soften
- Spanish rebar slips
- JSW Steel acquires Aferpi

Asia

- Iron ore approaches $80/ tonne
- Steel prices slip slightly, stocks rise
- Chinese exports remain quiet

Global Sentiment Map



Middle East

- Scrap prices rise further
- Turkish domestic rebar demand drives pricing
- Billet booked into Turkey
- Tunisia scraps billet import duty
- Turkish HRC prices tick up

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