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SOUTH AFRICAN
IRON AND STEEL INSTITUTE

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MARKET OUTLOOK

The local steel market faced challenges in 2022/23, resembling consumption levels from the turn of the century. Despite a more positive outlook for 2024, the anticipated steel demand isn't sufficient to sustain local production. Over the past two years, steel consumption dropped by 18%, while imports surged to over 25% of apparent steel use, up from 10% eight years ago. The South African steel industry's growth outlook is critical due to factors such as high inflation, logistics issues, weak demand in key sectors, and monetary policy tightening. Elevated imports of primary and value-added steel products in difficult trading conditions further threaten local production, job creation, and investment, according to SAISI Secretary General Charles Dednam

TRADE STATICS

According to South African Revenue Service trade statistics, South Africa reported a preliminary positive trade balance of R556.5 million for the first nine months of 2023 (January to September). This was driven by exports totalling R21.6 billion and imports of R21.0 billion. The trade surplus in Billets and Long steel products played a significant role in achieving this favourable trade position.

SAISI'S STATEMENT ON ARCELORMITTAL SOUTH AFRICA'S LONG STEEL BUSINESS EXIT: A COMPREHENSIVE ANALYSIS

South Africa stands to lose a significant edge in high-tech capability with the announcement made by ArcelorMittal South Africa to start the process of exiting their Long Steel Products business in Newcastle, Vereeniging, and the mills dependent on input material from Newcastle (e.g. ArcelorMittal Rail and Structures (AMRAS) in Emalahleni).

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SAISI's Statement on ArcelorMittal South Africa's Long Steel Business Exit: A Comprehensive Analysis

South Africa stand to lose a significant edge in high-tech capability with the announcement made by AMSA to start the process in exiting their Long Steel Products business in Newcastle, Vereeniging, and the mills dependent in input material from Newcastle (e.g. ArcelorMittal Rail and Structures (AMRAS) in Emalahleni) .

The ArcelorMittal South Africa's (AMSA) Long Steel Products business play a critical role in mineral beneficiation, quadruple the economic value of South Africa's iron ore and is a key enabler of important parts of the economy, especially the Newcastle Works in KZN where its capacity to generate jobs and earn valuable export revenue contribute substantially to the regional economy. The rolling of the products at the different sites operated by AMSA's Long Steel Products are largely linked by their reliance on the steelmaking activity at the Newcastle plant.

Newcastle Municipality relies on AMSA's Newcastle Works to subscribe to its Integrated Development Plan (IDP) which focuses on job creation, inclusive economic growth, quality education and improved social responsibility. AMSA's Long Steel Products business employs 3 500 employees and service contractors. The impact when closing the plant is much wider than the immediate vicinity of its location but will affect various steel-using industries throughout the country due to the business's supply of unique products required especially by the automotive, construction, mining, and agriculture industries. Measuring the impact of employment, nationally, a further c. 35 700 jobs are supported in direct and indirect suppliers, for a total of c. 39 400 jobs nationwide, highlighting the importance of AMSA's Long Steel Products business on the county's employment rate.

The AMSA's Long Steel Products business operations is the only long steel producer in South Africa capable of producing unique products from virgin iron ore. This not only covers the complete range of bar and structural steels on offer, but also their ability to make the range from high to ultra-low carbon, and various alloyed specifications to international standards.

Steelmaking remains a key strategic industry for South Africa and plays a crucial beneficiation role for the country's iron ore, adding R24.6 billion in value to its raw materials base. It also underpins several other key industries including agriculture, construction, automotive and mining.

The top 5 of these industries contribute 20% of South Africa's GDP and employ 8 million people. It would take a decade to re-establish the country's steel industry if it were to dissolve. In this space, the AMSA's Long Steel Products business delivers a crucial contribution in the making of very sophisticated steel grades and special profiles to fabricators in all the key industries. Some 65 countries around the world have a domestic steel industry and foster their integrated steelmaking capability, including all South Africa's peer nations, all the BRICS countries, and other fast-growing developing economies. There is a positive correlation between steel intensity and growth in developing economies, and many elements of South Africa's National Development Plan (NDP) depend on steel, especially those made by AMSA's Long Steel Products business.

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SAISI's Statement on ArcelorMittal South Africa's Long Steel Business Exit: A Comprehensive Analysis

A high-level assessment indicates that around 50% of AMSA's current long steel supply is beyond the ability of local alternatives due to:

1. A narrow size range offered.

2. Steelmaking limitations to produce sophisticated steel grades.

3. Specialised products like cross-ribbed flat bar, hollow drill, half pipe sections, fish plates, tie plates, plough bars, and mine support bars and more.

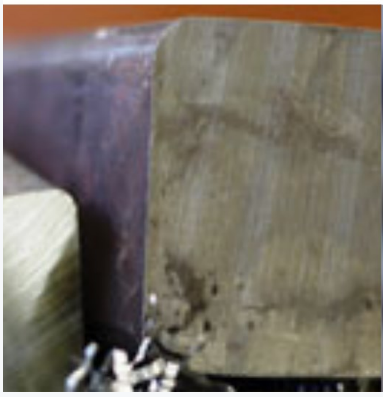
4. Special processing such as kocks-tolerances.

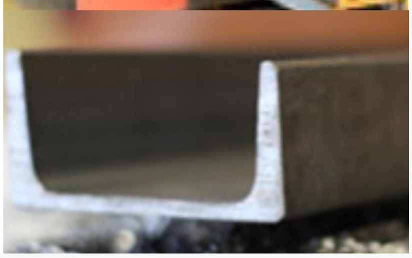
The impact will be significant for some industries such as the Bright Bar Industry, the Spring Manufacturers, the Fastener Industry, Agri-appliances, Automotive components suppliers, those suppliers in the non-automotive components to the mining industry, and lastly the mining industry itself.

The factors cited by AMSA's Long Steel Products business, and particularly the Newcastle Works remains rising cost. ArcelorMittal South Africa continues to face a significant rise in its costs of production. The largest share of this is attributed to iron ore costs, transport costs from Transnet, and coal costs. In the Newcastle Works' case the share is even higher due to the proximity of their market and the fact that none of the products can be moved by rail.

Although the outlook for iron ore prices coming down, the situation in South Africa where the scrap trade is governed by the PPS, creates a significant imbalance for the integrated mill.

The local steel market experienced a tough year in 2022/23 with steel consumption levels like those at the turn of the century. The outlook for 2024, although more positive, does not deliver enough steel demand to sustain local production. Steel consumption has decreased by 18% over the past two years. At the same time, imports surged to above 25% of apparent steel use in the country – up from 10% eight years ago. The result is that the local steel mills compete for a continuing shrinking demand, impacting severely on AMSA's Long Steel Products business.





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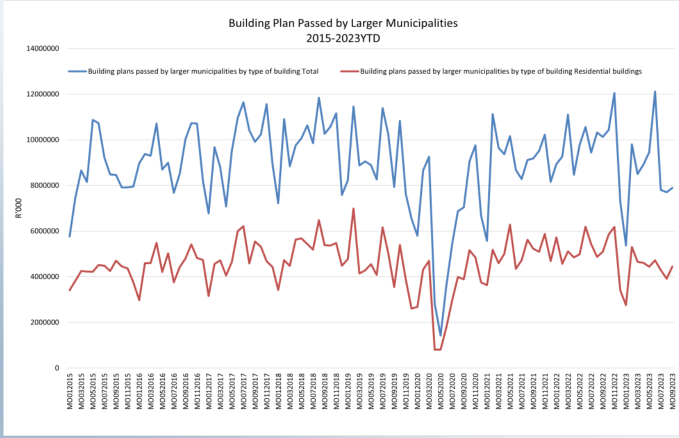
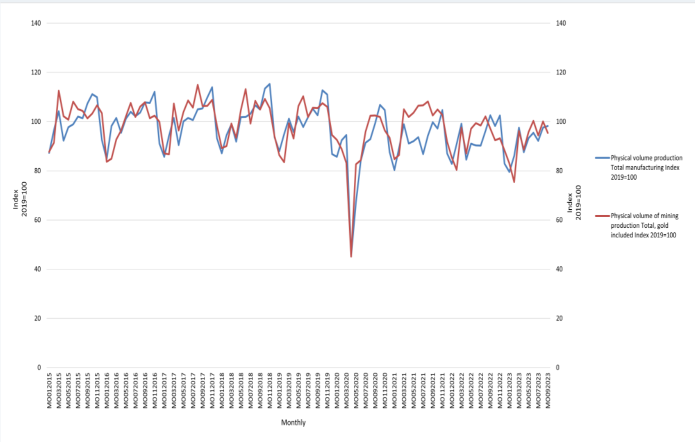
Current landscape poses formidable challenges for key steel consuming sectors

The current landscape poses formidable challenges for crucial steel-consuming sectors, namely construction, manufacturing, and mining. Persistent logistics challenges have disrupted the smooth flow of raw materials and finished goods, introducing delays and additional costs into the supply chain. Simultaneously, the escalation of energy costs and disruptions due to loadshedding, exerts considerable pressure on overall manufacturing expenses. The tightening of monetary policies, in a form of higher interest rates and delays in infrastructure spend, exacerbates the situation by increasing the cost of borrowing for businesses within these sectors.

Challenges faced by the construction sector, marked by a significant decline in building plans and growth constraints due to elevated interest rates, carry notable implications for steel producers. As the construction industry is a major consumer of steel, the slowdown in building activities translates directly into reduced demand for steel products. The increased cost of borrowing for investors, coupled with the burdens imposed by higher municipal rates and taxes, has created a substantial headwind for the construction sector. The decline in the residential property sector, as indicated by STATS SA's data showing a 16.4% decrease in the value of building plans passed (amounting to R7.66 billion), underscores the severity of the situation.



Civil construction activity has experienced a noticeable increase in recent months, driven by investments in renewable energy and heightened tendering activity for roads and water infrastructure projects. While South Africa's Renewable Energy Independent Power Procurement (REI4P) Programme hold ample opportunities. The initial excitement for the steel industry regarding opportunities from the IPP program—especially in the construction of solar farms, wind towers, and other renewable energy projects—may face setbacks. However, concerns arise as the sector heavily depends on public infrastructure spending, and recommended Treasury spending cuts could potentially dampen the recent optimism. Additionally, the potential for further economic weakness poses an additional challenge to the sector.



The recent decline of 4.3% in year-on-year manufacturing production in South Africa for September 2023, coupled with a downward trend in the previous month, paints a concerning picture for the country's industrial activity. This contraction, the most significant since December of the previous year, is attributed to severe power cuts in September, marking a reversal from five consecutive months of growth. Particularly impacted were sectors like food and beverages, witnessing a substantial and motor vehicles, parts, accessories, and other transport equipment, which experienced a sharp contraction. These figures underscore the adverse effects of energy shortages on key manufacturing segments.

The persistent challenges facing the mining sector in South Africa are evident in the latest data, revealing a 1.9% year-on-year contraction in mining production for September 2023. This marks the third consecutive month of declining mining activity, reflecting ongoing issues in the industry. The mining sector, a vital component of South Africa's economy, grapples with a multitude of challenges, including currency fluctuations, high inflation, power blackouts, and logistical issues affecting mineral exports due to deteriorating infrastructure. The adverse conditions in road, rail, and port facilities have added to the industry's woes. Addressing the structural and external challenges facing the construction, manufacturing, and mining industry, including infrastructure improvements and policy interventions, will be critical for restoring its stability and contribution to the overall economic health of South Africa.

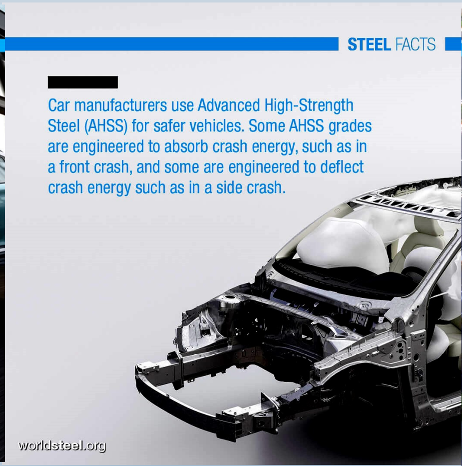
Continued.....

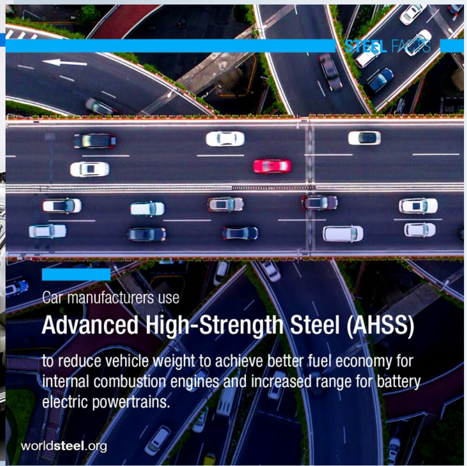
Current landscape poses formidable challenges for key steel consuming sectors

Top steel-dependent industries such as mining, construction and automotive contribute about R600-billion to the country's gross domestic product (GDP), about 15% of the total GDP, and employ about eight-million people.

The automotive industry, a major consumer of locally produced steel, maintains stable usage despite a 2020 COVID-related drop. The outlook is positive, targeting 60% localisation by 2035. South Africa's automotive localisation is robust, supplying well-developed components to the sector. The steel industry produces high-strength low-carbon and ferritic stainless steel for use in producing various automotive components. Despite economic challenges impacting new vehicle sales, the industry remains positive. Vehicle affordability is a concern, with household debt exceeding disposable income by 62.5% in Q2, according to the SA Reserve Bank. Naamsa maintains a positive outlook, emphasising the industry's role in driving Q3 GDP growth.

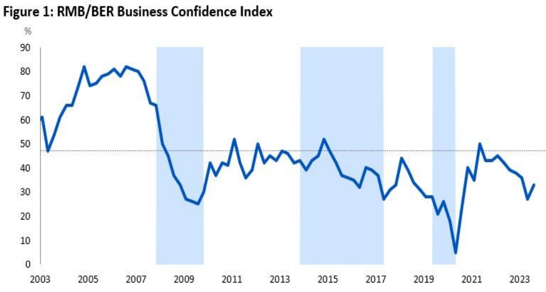
Jan-Oct 2023 saw the automotive industry report total sales of 446,877 units, a 2.1% increase from Jan-Oct 2022. New passenger car sales reached 290,862 units, a 3.5% decline compared to the same period in 2022 when 301,520 new cars were sold.





Confidence and Leading indicator

Figure 1: RMB/BER Business Confidence Index



Source: BER, SARB (Shaded areas represent economic downswings)

In Q4 2023, the RMB/BER Business Confidence Index (BCI) dropped by two points to 31, revealing dissatisfaction among less than a third of survey respondents regarding prevailing business conditions. While three sectors experienced relatively unchanged confidence, a notable rise in retail confidence was counteracted by a significant decline among new vehicle dealers, leading to an overall dip in confidence. The business environment in Q4 was challenging, with conditions worsening against expectations.

Despite reduced load-shedding compared to Q3, there was a slight decrease in activity, and sluggish demand is likely pressuring turnover and profitability. The composite leading indicator is specifically crafted to offer early indications of turning points in business cycles, indicating fluctuations in economic activity around its long-term potential level. Typically, there is a six-month lag associated with this indicator, making it a valuable tool for anticipating shifts in the economic landscape before they fully materialise.

In September 2023, the South Africa Reserve Bank composite leading business cycle indicator exhibited a month-on-month increase of 0.6%, up from 0.4% in the previous month. This marked the fourth consecutive month of economic expansion, reaching the highest level in the sequence. The current South African leading indicator reading is positive, suggesting a potential acceleration in economic activity for the first half of 2024.

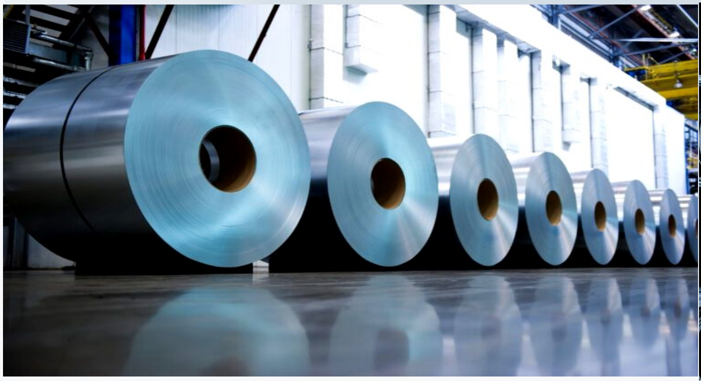
Crude Steel Production

Global steel output experiences lift in Jan-October 2023, slightly more steel produced than in the prior period Jan-October 2022, according to the World Steel Association (Worldsteel). World crude steel production for the 71 countries reporting to the Worldsteel was 1,567 million metric tons in Jan-October 2023, representing a 0.2 percent increase compared with the same period last year.

Africa produced 18.2 Mt in Jan-October 2023, up 4.3% on the same period in 2022. Asia and Oceania produced 1,165.2 Mt, up 1.6%. The EU (27) produced 106.8 Mt, down 8.8%. Europe, Other produced 34.2 Mt, down 8.6%. North America produced 91.6 Mt, down 2.8%. Russia & other CIS + Ukraine produced 73.7 Mt, up 3.1%. South America produced 34.2 Mt, down 6.7%. The Middle East produced 43.4 Mt, the same as in Jan-October 2022.

Looking at year-to-date data for 2023 (January to October), South Africa's crude steel production has demonstrated overall growth. The sector achieved 4,109,400 tonnes during this period, 8.9% up in comparison to the corresponding timeframe in 2022, where production amounted to 3,781,500 tonnes. However, the consecutive contraction in domestic crude steel production for the third consecutive month in October 2023 raises concerns

In October 2023, South Africa's crude steel production registered a decline, of 350,800 tonnes, reflecting a 16.8% reduction when compared with the corresponding month in 2022.



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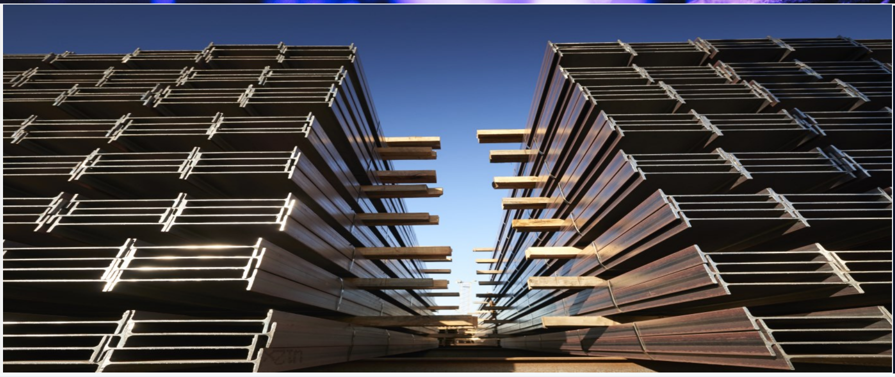


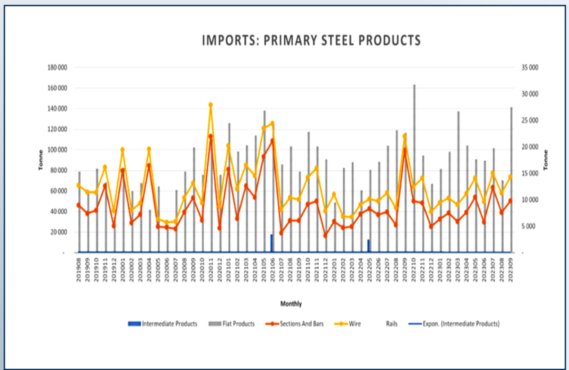
Trade Statistics:

Primary Steel and Articles of Steel Products

According to the South African Revenue Service trade statistics, South Africa recorded a preliminary positive trade balance of R 556,5 million over the first nine months (Jan –Sep 2023), attributable to exports of R21.6 billion and imports of R21.0 billion. Billets and Long steel product ' trade surplus led to favorable trade position.

Imports:

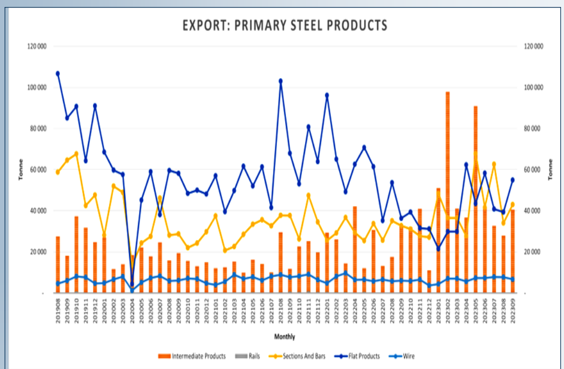
Customs data show that 156 949 tonnes of primary steel products (including semis, drawn wire and rails) were imported into South Africa during September 2023, up 13,4% when compared to September 2022.



Jan-Sep 2023, imports reached 1 028 888 tonnes, up by 13,4% compared to 907 143 tonnes during the same period in 2022.The largest positive contributor to this increase was Flat products (+16,0%), Wire (+25,7%) and Sections and Bars (+3,8%). During this period, the share of imported primary steel products was: Flat products (88,9%), Section and Bar (7,1%) and wire products (3,0%).Imports were from Far East (68,8%) and EU (31,2%).Imports of primary steel remain alarmingly high and is estimated to exceed 25% of 2023's apparent steel consumption.

Exports:

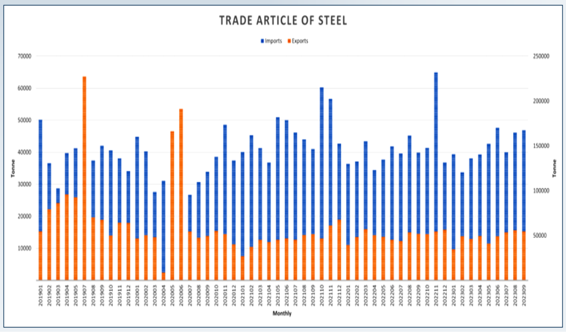
A total of 145 283 tonnes of primary steel products were exported by South Africa in September 2023, up 34,3% compared to September 2022.



Jan-Sep 2023, exports reached 1 173 605 tonnes, up by 8,1% compared to the same period in 2022. The largest positive contributor to this increase was Intermediate (+111,1%) and Sections and Bars (+45,6%).During this period, the share of exported primary steel product was: Section and Bar (33,9%),Intermediate products, (39,2%),Flat products (32,4%), and Wire (2,2%).Exports were mainly destined to Africa (75,6%), NAFTA— Canada, Mexico, and the United States (8,0%), Far East (5,9%), and EU (4,6%).

Articles of steel trade—Import and Exports:

Imports and exports of article of steel increased by 17,6% and 5,5%, respectively during September 2023 compared to September 2022.



A total of 433 864 tonnes of articles of steel were exported by South Africa in Jan-Sep 2023, down 1,1%. Imports reached 373 901 during Jan-Sep 2023, up 5,1%, from 355 667 in 2022. High imports of both primary and value-added steel products during tough trading conditions and low demand are detrimental to sustaining local production, job creation, and investment.

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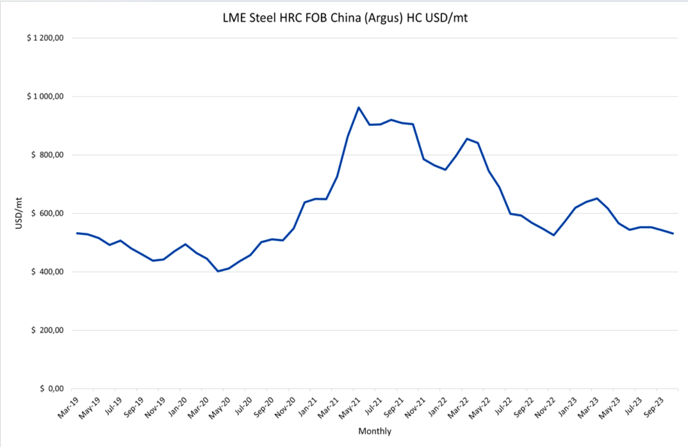
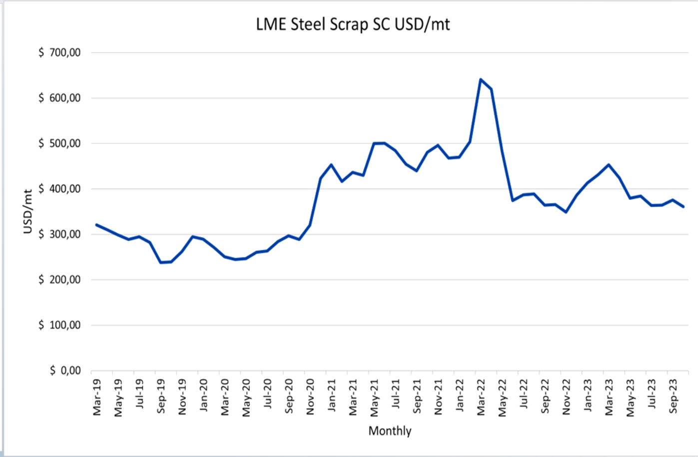
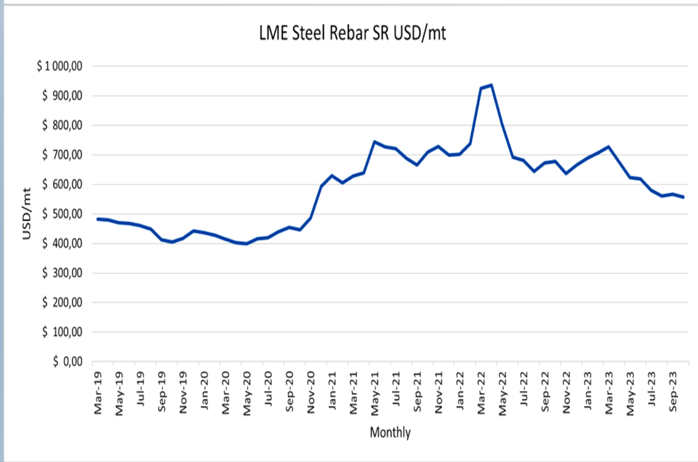
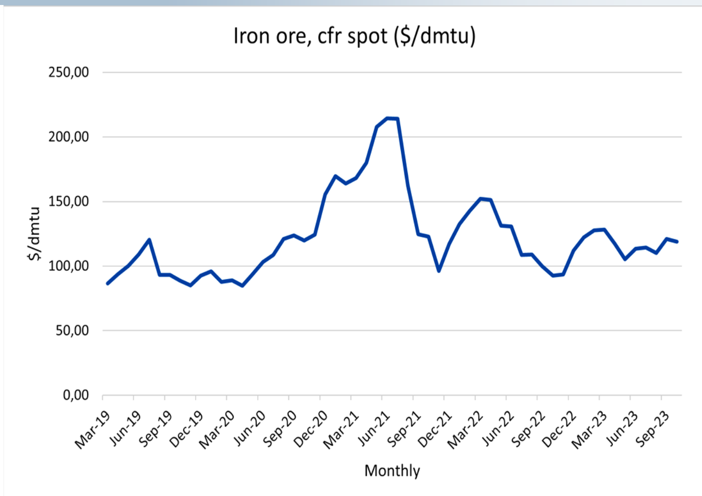
International Steel Prices





In October 2023, cash-settled futures for steel rebar, scrap, and hot-rolled coil showed declines compared to the same period in 2022, as reported by the London Metal Exchange. Specifically, LME Steel Rebar FOB Turkey (Platts), Steel HRC FOB China (Argus), and Scrap CFR Turkey (Platts) experienced decreases of 17.9%, 3.0%, and 1.3%, respectively. Additionally, on a month-on-month basis, in October 2023, LME Steel Rebar FOB Turkey (Platts), Steel HRC FOB China (Argus) declined by, and Scrap CFR Turkey (Platts) saw a decrease of dropped of 1.7%,2.0% ,3.8%.





In October 2023, the World Bank reported a notable 28.3% year-on-year increase in iron ore prices compared to October 2022. However, on a month-on-month basis, a slight decrease of 1.8% was observed from September to October 2023.

Merry Christmas and a Happy New year!

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