



Investment Holds the Key to South Africa's Steel Demand Outlook

Steel demand is showing resilience despite weak GDP growth, but a sustained recovery will depend on investment moving from project announcements to actual construction and steel consumption



INSIDE THIS ISSUE

Steel Demand Gains Momentum — But Investment Is Key

Steel demand is strengthening, but infrastructure execution and the investment cycle will determine the pace and durability of growth through 2026–27.

IMPORT UP, EXPORT WEAKENS

July data shows rising import dependence and a weakening export position. Primary imports rose 33% in July and 14% YTD, while downstream imports increased 5% YTD. In contrast, primary and downstream exports fell 14% and 17% YTD, respectively.

Steel-Consuming Sectors Show Mixed Demand Signals

Steel-consuming sectors are sending mixed signals. Building plans point to a stronger forward pipeline, while weak construction completions, softer mining and manufacturing output, and declining vehicle exports continue to constrain near-term steel demand.

Scaw's Hot Strip Mill Reaches Commercial Scale

From first coil in 2024 to 25,000–30,000 tonnes a month, Scaw Metals' Hot Strip Mill is rapidly maturing into a significant new supplier to South Africa's flat-steel market.



INVESTMENT HOLDS THE KEY TO SOUTH AFRICA'S STEEL DEMAND OUTLOOK

Steel demand is showing resilience despite weak GDP growth, but a sustained recovery will depend on investment moving from project announcements to actual construction and steel consumption.

South Africa's economy remains in a low-growth environment, with the latest national accounts pointing to weaker momentum. Real GDP grew by 1.1% in 2025 and increased by 0.4% quarter-on-quarter in Q1 2026, before contracting by 0.2% in Q2. The contraction was broad-based, with trade, manufacturing and mining among the largest negative contributors. While household and government consumption each increased by 0.4%, this was more than offset by a deterioration in net exports as imports rose 4.9%, compared with 0.9% growth in exports.

For the steel industry, however, the more important indicator is fixed investment. Gross fixed capital formation was equivalent to approximately 13.7% of GDP in 2025 and declined a further 0.2% quarter-on-quarter in Q2 2026. Investment in construction works fell 4.0%, transport equipment 3.4% and transfer costs 7.9%, partly offset by higher investment in machinery and other equipment.

This remains a key constraint on the steel demand outlook. Infrastructure development, electricity transmission, renewable energy, logistics and industrial projects offer the strongest potential sources of incremental steel demand. The critical issue is execution: announced investment only translates into steel demand once projects move into procurement, construction and physical implementation. The continued decline in fixed investment suggests that this transmission has yet to gain sufficient momentum.

Steel consumption indicators are nevertheless more encouraging. Apparent steel use (ASU) increased 2.5% in 2025 to 4.55 million tonnes and is forecast to increase a further 4.9% in 2026 to 4.78 million tonnes. Real steel use (RSU), a stronger measure of underlying consumption, increased 4.3% in 2025 to 4.58 million tonnes and is expected to rise by a further 4.5% in 2026 to 4.78 million tonnes.

The inventory cycle also provides some support. Steel stocks declined in 2025 and are expected to fall further in 2026, indicating that consumption is drawing down inventories rather than generating significant stock accumulation. If end-user demand remains firm, depleted inventories could eventually require replenishment, providing an additional lift to steel orders.

The medium-term outlook is therefore more constructive than the weak GDP environment suggests. ASU is projected to grow at a compound annual rate of 3.7%, while RSU is forecast to expand by 4.4%. Faster execution of infrastructure and industrial projects could provide further upside to these projections.

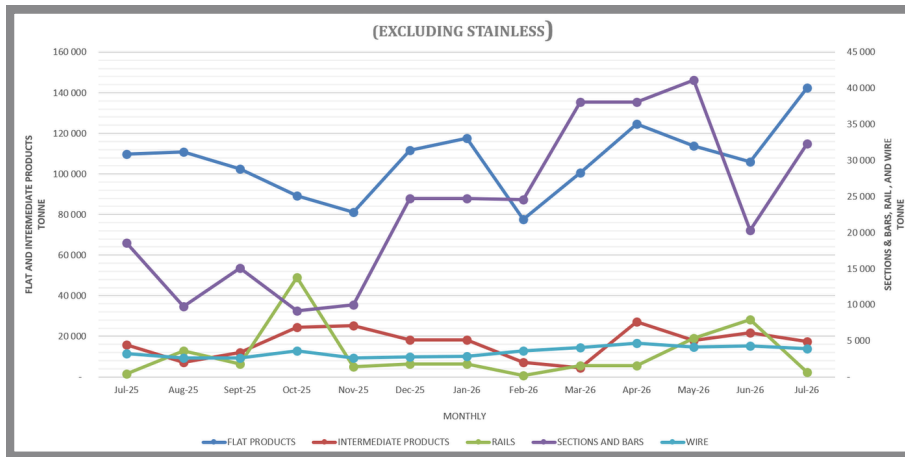
However, the market remains exposed to high electricity and logistics costs, import competition and potential trade diversion. These factors will continue to influence the competitiveness of domestic steel producers and downstream manufacturers and could limit the extent to which improving demand translates into higher domestic production.

The key message for 2026–27 is that steel demand is improving, but investment execution will determine whether the recovery becomes sustained. Infrastructure and industrial projects provide the clearest upside, while the Q2 contraction in GDP and fixed investment highlights the continuing gap between announced investment and actual economic activity.



PRIMARY STEEL TRADE STATISTICS

IMPORTS: PRIMARY STEEL (EXCL. STAINLESS, WIRE, & RAIL)

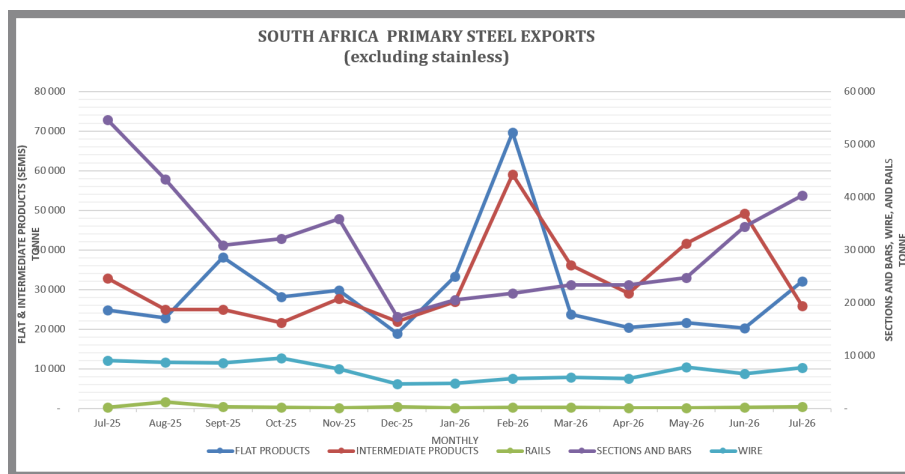


Primary steel imports(excluding, strengthened significantly in July 2026, rising 33% year-on-year to 192,065 tonnes, from 144,244 tonnes in July 2025. The increase was broad-based, with particularly strong growth in:

- HR coil/sheet & plate coil reached 47,164 tonnes (+110.3%).
- HR sections heavy/light reached 11,017 tonnes from 1,540 tonnes.
- HD galvanised sheet reached 33,633 tonnes (+ 35.5%).
- Plate in coil $\geq 4,75\text{mm}$ reached 9,799 tonnes from 1,131 tonnes.
- Wire rod reached 6,116 tonnes.

On a YTD basis, imports reached 1.12 million tonnes, up 14% from 975,386 tonnes in January–July 2025.

EXPORTS: PRIMARY STEEL (EXCL. STAINLESS, WIRE & RAIL)

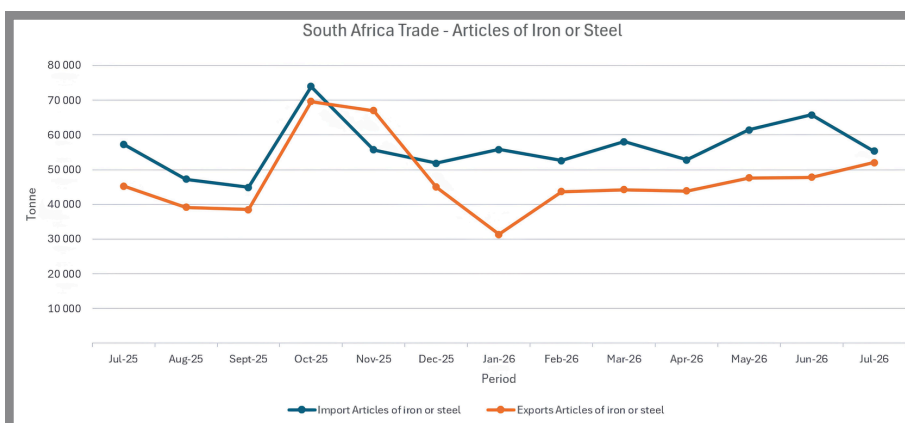


Primary steel exports were broadly unchanged in July, at 98,144 tonnes compared with 98,315 tonnes a year earlier.

However, the YTD position remains weaker, with exports declining 14% to 677,067 tonnes from 783,404 tonnes in January–July 2025. The decline is concentrated in key export products, most notably reinforcing bar and wire rod.

Overall, South Africa primary steel trade balance continued to deteriorate, with imports expanding strongly while YTD exports remained under pressure. This reinforces the concern around rising import penetration alongside constrained domestic steel production.

VALUE-ADDED STEEL PRODUCTS



Downstream steel imports fell 8% y/y in July 2026 to 49,521 tonnes, from 53,940 tonnes in July 2025, mainly due to lower imports of small- and large-diameter welded tubes and pipes, high-pressure containers, and kitchen and household articles. YTD imports, however, remained 5% higher at 370,727 tonnes.

Downstream exports declined 11% y/y in July to 44,695 tonnes, while YTD exports fell 17% to 269,419 tonnes. The decline was led by seamless tubes and pipes, partly offset by stronger exports of structures, towers, scaffolding and bridges and small-diameter welded tubes.

Downstream trade performance remains subdued. While YTD imports are moderately higher, exports have contracted significantly.

STEEL CONSUMING SECTORS

Construction: stronger pipeline, weaker conversion

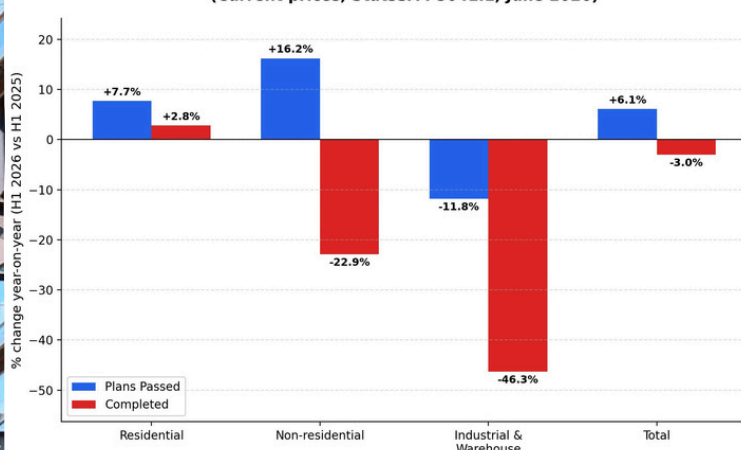
South Africa's building pipeline remains mixed, with stronger plans passed but weaker construction completions. The value of building plans passed increased 6.1% year-on-year to R48.9 billion in H1 2026, while completions declined 3.0% to R22.5 billion. In real terms, plans increased 1.3%, but completions fell 7.2%.

The divergence is more pronounced in non-residential construction. Plans passed increased 16.2% in nominal terms and 10.7% in real terms, providing a constructive signal for future steel demand. However, completions fell 22.9% in nominal terms and 26.4% in real terms, pointing to weaker near-term steel offtake.

The industrial and warehouse segment, a key market for structural steel, roofing products and reinforcing steel, remains a concern. Plans passed declined 11.8% to R5.0 billion, while completions fell a sharp 46.3% to R1.6 billion.

The key takeaway for steel demand is that the pipeline remains intact, but conversion into actual construction is weak. If the Q2 acceleration in non-residential plans is sustained, it could support steel demand later in 2026 and into 2027. However, the continued weakness in industrial and warehouse activity, particularly in Gauteng, remains a near-term constraint.

South Africa Building Activity: Plans Passed vs Completed
(Current prices, StatsSA P5041.1, June 2026)

**Automotive: strong local sales, but exports tell a different story**

South Africa's new-vehicle market remains in good health. naamsa reported August sales of 57,898 units, up 11.4% year-on-year, with growth across passenger cars and all major commercial-vehicle segments. Exports, however, fell 11.9%, pointing to a less buoyant production picture than the domestic sales numbers suggest.

The weakness is concentrated in light commercial vehicles (LCVs), where exports declined 29.0% YTD. Passenger exports increased 2.0%, while truck exports more than doubled, but from a very small base. With 69,880 LCVs exported YTD, the bakkie segment remains far more significant to overall export volumes.

For steel, this distinction matters. LCVs are relatively steel-intensive and closely linked to local assembly. The export decline therefore points to softer demand from export-oriented automotive production, although strong domestic sales provide some offset.

Mining: weaker output weighs on steel demand

Mining production fell 4.0% year-on-year in June 2026, with declines in PGMs (-8.4%), coal (-6.6%) and iron ore (-10.2%) accounting for most of the contraction.

Seasonally adjusted production edged up 0.3% month-on-month, following a sharp 5.2% decline in May. The monthly recovery therefore provides limited evidence of a sustained improvement in mining activity.

Manufacturing: modest June recovery masks weaker second quarter

Manufacturing production fell 1.7% year-on-year in June 2026, despite a 0.9% month-on-month increase. More significantly, seasonally adjusted production declined 1.5% in Q2, with seven of the ten manufacturing divisions contracting.

The basic iron and steel, non-ferrous metals, metal products and machinery division declined 1.2% in Q2, contributing 0.3 percentage points to the overall contraction. This points to continued weakness across important steel-consuming activities.



INTERNATIONAL STEEL PRICES

Iron ore prices lower year-on-year

World Bank iron ore prices declined 3.4% year-on-year to US\$96.30/dmt in August 2026, from US\$99.70/dmt in August 2025. Prices also eased from the US\$108.60/dmt May 2026 peak, falling 11.3% by August.

The decline through the third quarter indicates weakening iron ore demand and softer steelmaking conditions, particularly as Chinese steel production and property activity remain subdued. The correction also suggests that the stronger prices recorded in the first half of 2026 were not sustained.

Steel scrap firmer year-on-year, but momentum has moderated

LME steel scrap prices rose 8.4% year-on-year to US\$375.55/t in August 2026, from US\$346.40/t in August 2025. Prices peaked at US\$411.84/t in May before easing, leaving August prices 8.8% below the peak.

The year-on-year increase reflects tighter scrap availability and resilient EAF demand, particularly in Turkey, although the correction since May points to moderating momentum and a more balanced market.

Rebar prices remain firmer year-on-year

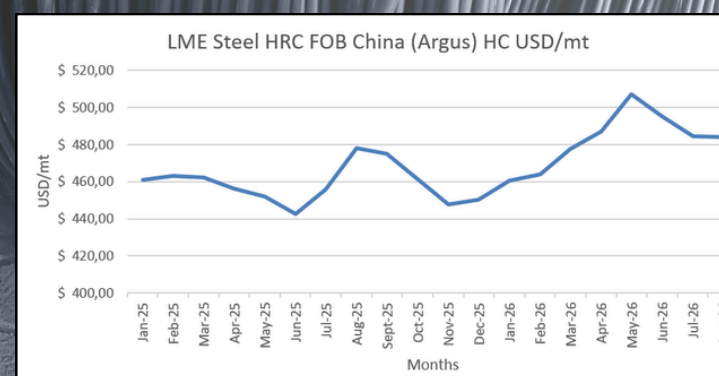
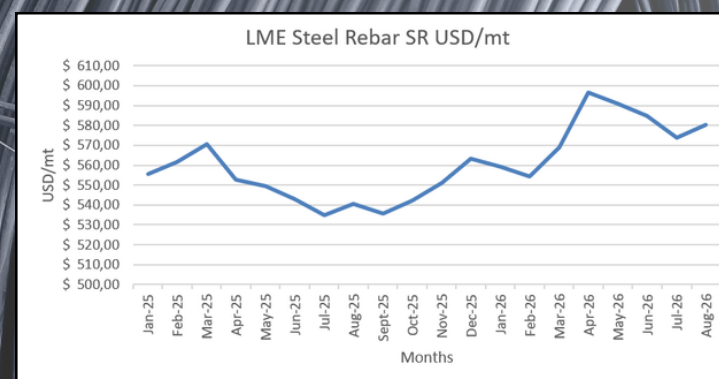
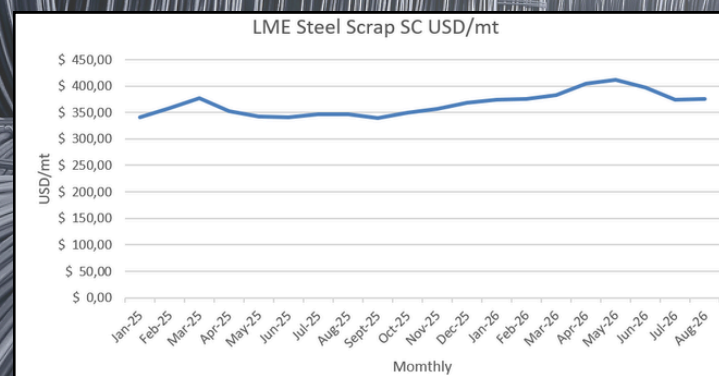
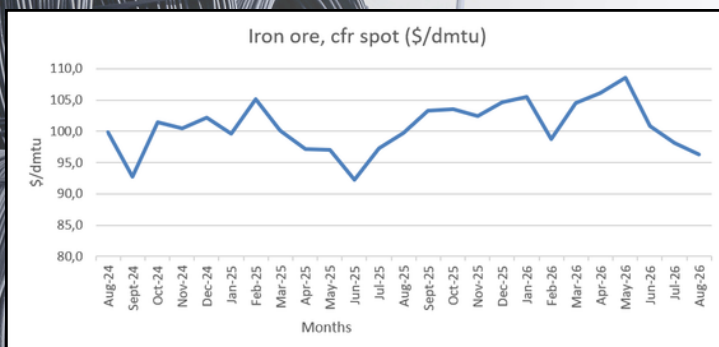
LME rebar prices increased 7.4% year-on-year to US\$580.25/t in August 2026, from US\$540.48/t in August 2025. Prices have remained relatively firm despite easing from the US\$596.50/t peak in April, with August still 1.9% below the 2026 high.

The year-on-year increase points to firmer input costs and improved pricing conditions, although the modest pullback from the April peak suggests that demand remains uneven and price momentum has moderated.

HRC prices marginally higher year-on-year

The LME Steel HRC FOB China (Argus) prices marginally higher year-on-year.

China HRC FOB prices increased 1.3% year-on-year in August 2026 to US\$484/t, from US\$477.90/t in August 2025. Prices were also 4.5% below the 2026 peak of US\$506.95/t recorded in May, indicating a modest easing from mid-year highs despite remaining above 2025 levels.



SCAW'S HOT STRIP MILL REACHES NEW HEIGHTS AS PRODUCTION AND EFFICIENCY CONTINUE TO IMPROVE



Since producing its first hot rolled coil in late 2024, Scaw Metals' Hot Strip Mill (HSM) at its Union Junction complex has progressed steadily from commissioning and product qualification into a rapidly maturing operation that is now delivering meaningful volumes to the South African flat steel market. The commissioning of the Hot Strip Mill marked a significant milestone for both Scaw and South Africa's steel industry. As the country's first new flat-steel mill to be commissioned in decades, the investment reintroduced competition into the local flat steel market and expanded Scaw's product offering beyond its traditional long-steel portfolio.

From the outset, management recognised that ramping up a modern flat-steel mill would require a phased approach focused on process optimisation, product quality and operational stability. Since its original production commenced in October 2024, the mill has gradually increased output as production teams worked through commissioning challenges, system integration requirements and the development of capabilities across a range of thin-gauge hot rolled coil products.

The ramp-up journey has demonstrated the effectiveness of Scaw's execution strategy. The construction phase was completed with commendable schedule adherence, supported by a management approach that ensured key decision-makers remained closely involved on site. This enabled challenges to be resolved quickly and efficiently, avoiding lengthy approval processes and helping the business maintain momentum throughout the project.

Over time, production volumes have increased consistently as operational experience has grown and processes have stabilised. Following the commissioning period and subsequent optimisation initiatives, the mill is now operating at significantly higher levels than during its early production phases and is currently producing approximately 25,000 to 30,000 tonnes of hot rolled coil per month. This represents a major achievement when compared with initial startup volumes and reflects the significant progress made by operating, maintenance and technical teams over the past two years.

Equally encouraging has been the steady improvement in mill yields and product quality. During the commissioning phase efforts focused strongly on quality control, process discipline and achieving tighter operational control across different product specifications. As a result, yields have improved progressively over time as operators gained experience and operational efficiencies were achieved across various hot rolled coil gauges and dimensional tolerances. These improvements have reduced process losses, enhanced product consistency and strengthened the mill's overall competitiveness.

The progress is particularly noteworthy given the challenging market conditions encountered during the ramp-up phase. The HSM entered a highly competitive market environment characterised by imported material, pricing pressure and aggressive volume strategies from established producers. Delays in the implementation of safeguard measures also contributed to increased import competition during the mill's early operating period. Despite these headwinds, Scaw continued to build market presence while simultaneously improving its production performance and product quality.

Looking ahead, the outlook for the Hot Strip Mill remains positive. Although some safeguard protections and anti-dumping measures are in place to supporting the domestic market, much more is required to provide a sustainable environment for local producers to prosper and protect local sales volumes and pricing. Combined with ongoing operational enhancements and continued yield improvement, the mill is well positioned to increase its contribution to Scaw's broader growth strategy and to South Africa's manufacturing sector.

