Steel mill utilisation rates climb on margin pressure

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London, 26 October (Argus) — Global steel capacity utilisation increased in September and is likely to continue to rise as steel producers attempt to contain margin pressure from higher coking coal prices, Swiss investment bank UBS said yesterday in a report.

The bank cited World Steel Association (WSA) figures released last week showing that global steel capacity utilisation reached 70pc in September, up by 1.5 percentage points from August, supporting a 2pc year-on-year rise in global steel production during the month to 132.9mn t.

But while Chinese steel prices have declined by $60-100/t since the market peaked in April, when export values for Chinese billet were close to $400/t and hot-rolled coil (HRC) prices neared $500/t fob China, according to *Argus* assessments, fob Australia prices for low-volatile premium hard coking coal have risen by around $150/t.
"As such, we continue to see margin squeeze in the Chinese steel market," UBS said. The bank noted that China's higher steel production, which was 3.9pc higher year on year in September at 68.2mn t, was offset by an increase in domestic capacity, meaning that utilisation rates at Chinese steel mills remained essentially flat last month.

But consultancy Wood Mackenzie has forecast that China will move to increase steel capacity utilisation in the near term to relieve margin pressure exerted by high coking coal prices. Chinese mills are likely to aim for capacity utilisation of 73-74pc by 2020 to enhance industry profitability and steel prices, Wood Mackenzie principal analyst for steel and iron ore markets, Curtis Zhu, said yesterday at the Bureau of International Recycling (BIR) World Recycling Convention in Amsterdam.

Wood Mackenzie estimates that Chinese steel production capacity currently stands at close to 1.2bn t/yr, of which 350mn t/yr is unused. By the end of the decade, the Chinese government wants to bring capacity down by a further 150mn t/yr and narrow the surplus capacity margin to 290mn t/yr, Zhu said.

UBS estimates that global steel utilisation capacity will increase again in October, driven by higher production in the EU and North America, but not by China. China's capacity reduction targets "are achievable" and their implementation may be hastened by the unforeseen spike in coking coal prices, Zhu said.

But Zhu expects that restrictions on Chinese coking coal production in place since the middle of this year, which have been widely blamed for the coking coal price spike, will be relaxed before the end of 2016 and that supply and demand will rebalance in the first quarter of next year.

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