BIRFA
Reinforcing Industry Confidence
British Independent Reinforcement Fabricators Association

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Reinforcing steel market conditions

It is probably fair to say that none of us have experienced anything like the market conditions we face today ever before. A number of factors are combining to produce the perfect storm-the situation in the Ukraine, world energy prices and strong construction demand. We do not have the answers, and as yet, I am not sure that we even have all of the questions, but we are attempting here to outline the major issues and what we think could happen.

Steel availability.
For almost ten years the UK has had a substantial mismatch between domestic production and consumption of reinforcing steel. This situation will not change in the short term, and the UK will continue to be highly dependent upon imports.

Imports of reinforcing steels are currently controlled by the Steel Safeguard Measures, which allocate quotas to specific countries. A large part of the rebar quota is allocated to Ukraine, where the mill has stopped production due to the current conflict, and to Russia and Belarus who are unlikely to be able to supply due to sanctions. BIRFA have asked the Trade Remedies Authority to suspend quotas on reinforcing steel products indefinitely, but to date we have no indication as to whether this request will be granted.

The other countries with significant quotas are the EU and Turkey. Both have the capacity to supply increased quantities to the UK. However, the EU mills are subject to escalating energy costs and some are opting to reduce production until energy pricing is more stable. Turkey is more affected by scrap availability and pricing, and the rapidly rising cost of shipping.

There has been some scope for reinforcing steel to be imported outside of quota limits from Developing Countries.These sources are generally more distant, and thus particularly affected by shipping costs. There is also a cap on the quantity that can be imported under this exemption, and they are thus unlikely to provide significant relief.

The UK mills have very limited opportunity to increase production. High energy costs are still affecting outputs beyond the normal winter period.

By March in previous years, a large part of Q2 import requirements would have been placed with mills. Although some Q2 shipments have been secured, most mills are currently unwilling to make firm commitments, and it remains to be seen whether sufficient contracts can be concluded to ensure sufficient arrivals within Q2.

The combination of domestic production, existing stocks and committed import deliveries for Q2 should be sufficient to maintain supply chains at current demand levels through the quarter. However, unless there is easing of the situation fairly quickly, then there is a real possibility of steel shortages in Q3.

Steel Prices
It is clear that steel prices for the foreseeable future will remain at very high levels. Raw materials prices are likely to remain volatile for a while as the market adjusts to changes in availability. The world steel industry has been highly dependent upon Russia and Ukraine, particularly as sources of iron units. Whilst the immediate impact of any loss of Russian sourced material will be on other products, the resulting rebalancing will inevitably impact scrap demand and pricing.

Energy pricing will continue to have a major effect and will impact both production and transportation costs. Transportation costs will also be affected by reduced availability of vessels. It is not yet clear how much of the available shipping fleet is Russian owned or controlled, and hence likely to be affected by sanctions, which are particularly onerous for UK ports.

Offers for steel are likely to remain on very short validities so that prompt decisions will have to be made to secure supplies. There are already signs that mills may seek different contractual terms in order to try and mitigate their own risks. These could include prepayments and changes in shipping terms to move risk from seller to buyer.

Conclusion.
We expect the remainder of 2022 to be challenging with regard to reinforcing steel sourcing. It may be that price levels will have an impact on demand, which would feed through to import sourcing. The higher prices will erode credit limits making cash flows more problematic. For the moment credit insurers have not given any indication of their continuing appetite for risk in the steel sector.

BIRFA members are continually monitoring the situation and we will issue further updates as and when the situation changes or becomes clearer.

Andy Kirkcaldy-Chairman.