

RESEARCH**METALS & MINING**

Steelmaking raw materials turning into modest surplus: BHP

SUMMARY**METALS & MINING**

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- BHP expects modest global steel production growth and modest surplus in global iron ore and coking coal supply through CY25
- Pace of stabilisation of China's property sector and addressing of steel capacity surplus in China are two key swing factors for the sector

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Soft backdrop: From a soft commodity demand backdrop, BHP is cautiously optimistic about bottoming out of real estate in China over CY25 and notes steady growth in several commodity-intensive segments like conventional infrastructure, zero- and low-emission technologies, machinery, automotive and shipbuilding.

Medium-term volatility in commodity markets: BHP expects small-to-mild surplus for a number of commodities over next couple of years, leading to volatility in prices.

Modest growth in global steel production: BHP expects a small improvement over CY24-CY25, with growth led by India and Southeast Asia and some recovery in developed regions. While BHP expects China's steel production to ease in CY24, it reiterates production plateau of above 1bn tonnes to continue over the mid-2020s.

Era of adjustment for steel-making raw materials: BHP highlights several drivers that could potentially influence steel value chain trade flows – (a) decline in China's steel production, (b) growth in India's steel production, (c) new low-cost iron ore supply, (d) operational uncertainties of coking coal supply, and (e) decarbonisation.

Soft iron ore price outlook: BHP anticipates the iron ore surplus to increase through CY25 and sees the cost support level at US\$ 80-100/t on a 62% Fe CFR basis. Persisting surplus could lead to the exit of some high-cost suppliers over time.

Soft coking coal price outlook: Despite continuing operational challenges, BHP expects the seaborne coking coal market to be in a mild surplus in CY25 whereas the supply of higher quality coals to be relatively tight.

Wild cards: BHP flags pace of stabilisation of China's property sector and the government's approach to regulating steel production as large swing factors.

Read-across for ferrous players: We have a neutral stance on Indian ferrous players with stocks largely pricing in future volume growth. BHP's outlook ties in with our view of (a) cap on steel margins until steel capacity surplus is addressed in China and (b) easing of iron ore and coking coal prices over the next two years.



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