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PROCUREMENT UPDATE

JUNE 2025

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SUMMARY

The recovery in both global and local demand remains slow, uneven, and fragile, susceptible to external shocks such as geopolitical tensions, a stalled construction pipeline, and sluggish manufacturing activity. On a positive note, recent PMI (Performance of Manufacturing Index) readings are now expansionary.

Global steel and metal markets remain in a cyclical downturn, with demand patterns reminiscent of the post-GFC period and prices bottoming out across many product categories internationally.

Chinese construction is entrenched in a multi-year slump, developed economies are struggling with high interest rates and "sticky inflation," and global manufacturing is only slowly regaining momentum. Geopolitical uncertainty – from regional conflicts to a resurgence in protectionist trade measures – continues to inject volatility into all markets and threatens to constrain global growth.

Domestically, however, tentative signs of stabilisation are emerging. Residential consents have likely bottomed; growing policy support for infrastructure investment is evident through initiatives like the Crown's National Infrastructure Funding and Financing Company and the forthcoming 30-year national plan to put in place a stable base of development; and the improvements in manufacturing seem set to be stimulated through the recently announced "Investment Boost" tax incentive.

Steel prices have stabilised at historically low levels following the 2024 trough, but any near-term upward movement is expected to be constrained by fragmented trade flows, surplus Chinese supply, and still-muted global consumption. As such, conditions are favourable for steel buyers in the short term. Potential remains for shifts in input costs or changes in supply chain dynamics as the world navigates a fragile and uneven recovery path shaped by persistent geopolitical tensions and shifting global trade conditions.

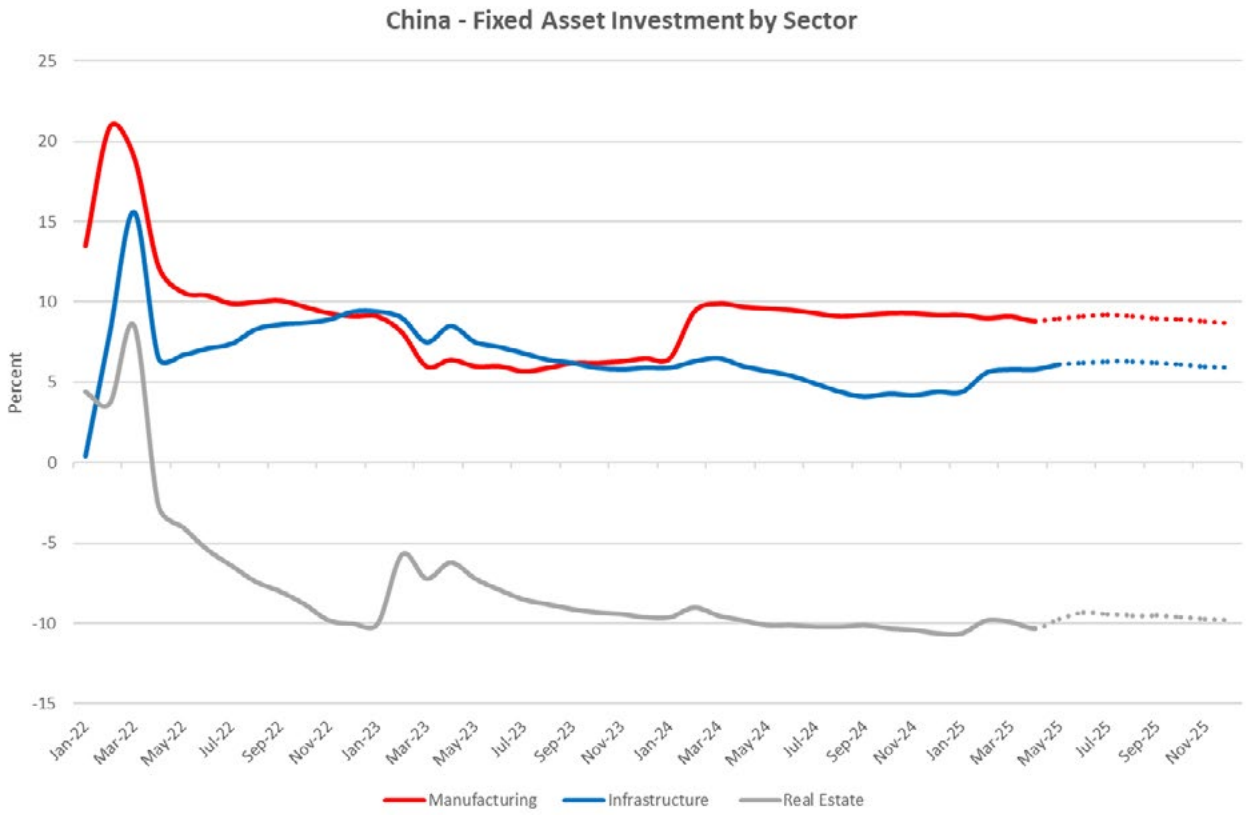
GLOBAL OVERVIEW

GLOBAL STABILISATION

Global economic conditions are showing tentative signs of stabilisation, with key indicators beginning to level out. Recent easing of U.S. - China trade tensions, slowing inflation in major economies, and slight improvements in global manufacturing activity have boosted market sentiment. The World Steel Association forecasts a 1.2% lift in global steel demand for 2025 – the first positive movement in three years – supported by India's growth and a gradual recovery in the U.S. and EU. Meanwhile, the World Bank projects global GDP growth to steady at 2.7% through 2025–26.
While these signals suggest the bottom of the cycle may be in sight, the recovery is patchy, and uneven regional and sector performance along with uncertain trade policies continue to cloud the outlook.

CHINESE STEEL: WEAK DEMAND, RECORD EXPORTS

China's fixed asset investment continues to show a two-speed trajectory, with manufacturing and infrastructure spending providing modest support to domestic steel demand, while real estate remains a persistent drag.



Source: Macromicro, Forecasts by 'Procurement Update' Author

Manufacturing investment accelerated in early 2024, rising nearly 10% year-on-year, reflecting renewed strength in industrial and export-oriented sectors. Infrastructure investment remains steady at around 6% growth, underpinned by targeted government funding. However, real estate investment remains firmly in contraction, down over 9% year-on-year, confirming that a structural downturn in the property sector is continuing into 2025. With weak property-linked demand, China's steel mills remain reliant on exports to absorb excess capacity, as shown below.

The below combined chart of China's Steel Export Volumes and Inventories of Major Steel Products tells a compelling story about the structural shifts in China's steel market from 2022 through 2025.

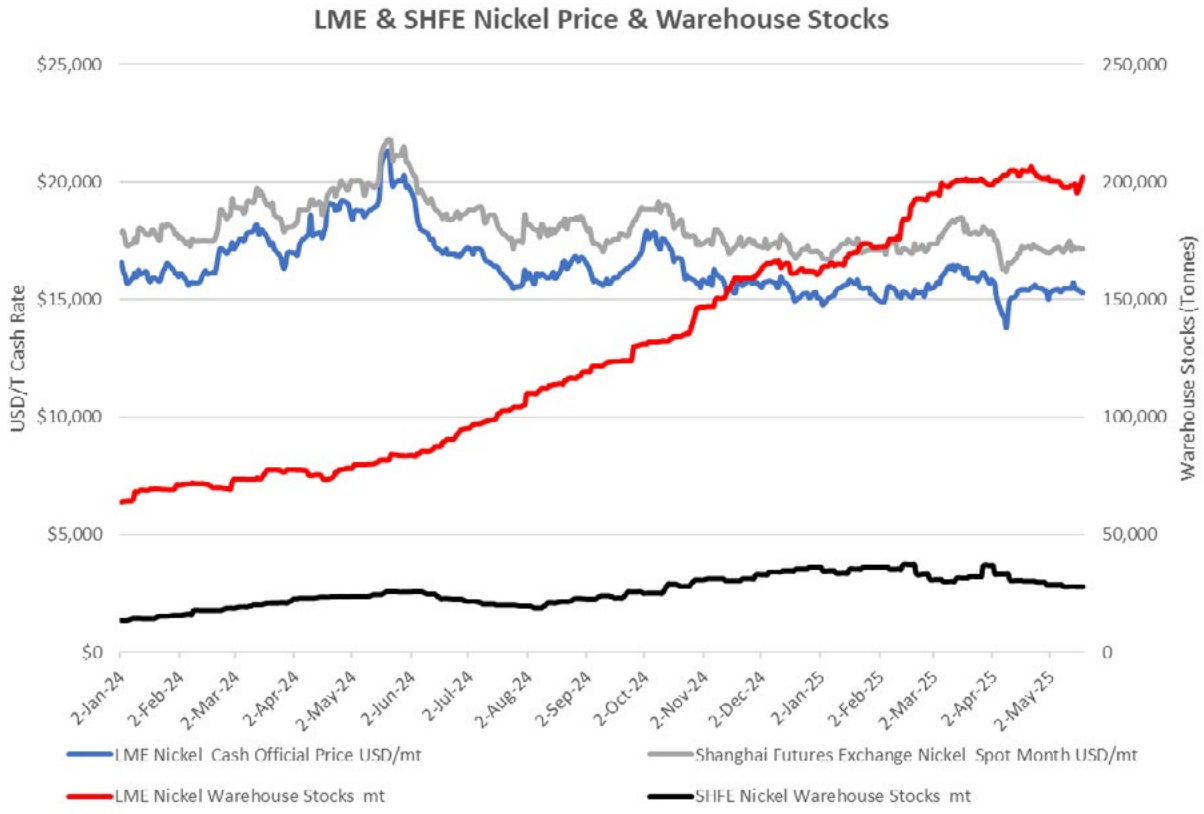
Source: General Administration of Customs China, Forecasts by 'Procurement Update' Author

China's steel export volumes and inventory levels have shown a counter-cyclical behaviour over the past three years, with exports rising while inventories fall.

Steel which would typically be stockpiled domestically is being pushed offshore – a pressure release valve for China's oversupplied mills. A record 110.7 Mt (Mill TNs) of steel products were exported in 2024 (68% to Asia).[1] This oversupply is meeting mounting resistance, with over 41 trade cases brought against Chinese steel since last year. Subsequently China has signalled plans to curb steel output to address the oversupply and meet carbon goals, with industry observers expecting a 50 Mt (~5%) production cut target.[2] China's steel exports are projected to fall ~10% in 2025 as a result,[3] in line with projections in Steel & Tube's December 2024 'Procurement Update'. Despite the mix of stable core demand and reduced steel production, Chinese mills are still forecast to produce steel which is surplus to domestic demand as long as residential construction remains suppressed. While mill exports remain elevated to balance surplus volumes, a steady but competitive global supply environment for steel is expected to remain into Q4 2025 at least keeping steel pricing competitive but volatile.

KEY MATERIAL MARKETS

NICKEL & STAINLESS STEEL



Source: Argus Media

The nickel market has been fundamentally reshaped by Indonesia's rapid ascent as a production powerhouse. Indonesia's share of global refined nickel has jumped to over 50%, up from just 23% in 2020.[4] So while demand for nickel has remained robust – with stainless steel production (which accounts for ~70% of nickel use) rebounding in 2024, the EV battery sector's nickel consumption steeply rising, and recent Chinese monetary stimulus measures – the supply surge has so far managed to meet it.

Nickel prices have continued to trend downward, with the London Metal Exchange (LME) cash price falling from around $16,800 USD/t in January 2025 to ~$15,300 USD/t by mid-May, a decline of nearly 9% year-to-date. The Shanghai Futures Exchange (SHFE) spot price mirrored this trajectory, easing from ~18,000 USD/t to ~17,100 USD/t.

Despite the price decline, LME warehouse stocks have surged, rising from ~85,000 tonnes (TNs) in early January to over 200,000 TNs in May – a more than 130% increase. Similarly, SHFE nickel stocks have climbed steadily from below 18,000 TNs to above 27,700 TNs. These rising inventories suggest ample supply and slow consumption, reflective of weak end-use demand in the stainless steel and battery sectors.

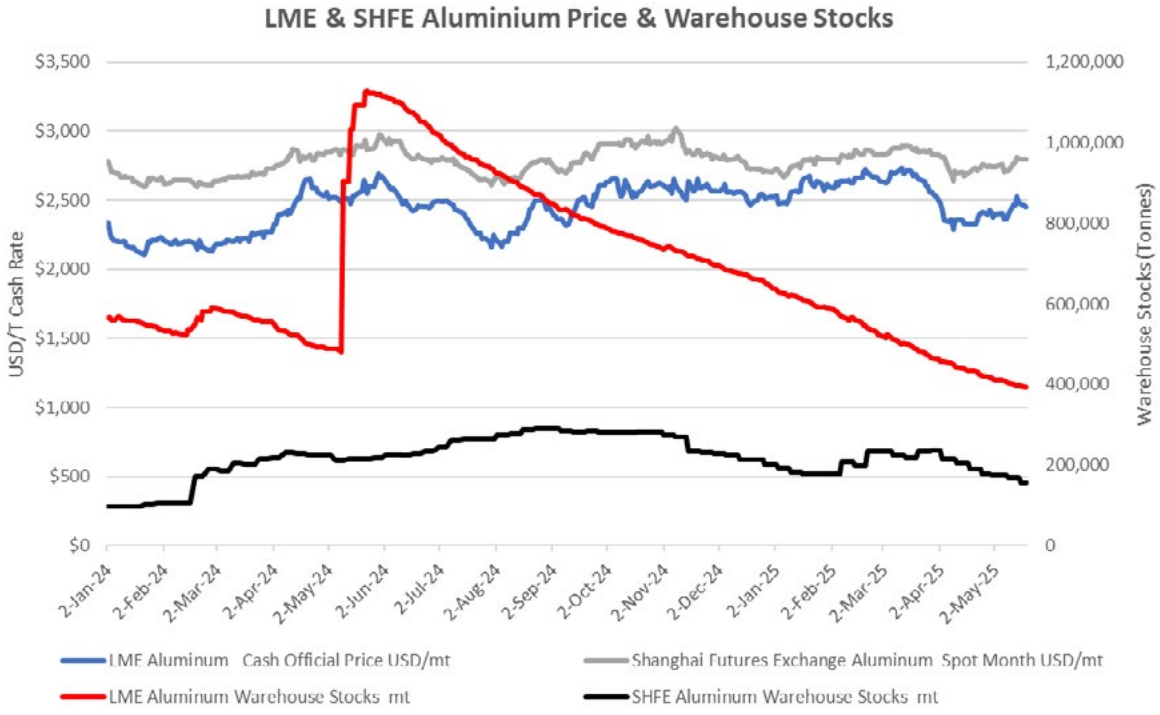
The current low nickel prices may, however, be a catalyst for induced supply cuts even for major producers such as Indonesia, which supplies 18% of global nickel. Indonesia has been tightening export policies with a proposed 14% to 19% royalty increase and withholding 30% of mining permits for environmental review. These measures aim to boost their domestic processing but may constrain global supply.[5] The proposed royalty increase is expected to add $50–70 USD/t to production costs. Indonesia's issue is that their reserves contain higher concentrations of iron and other impurities, requiring more intensive processing which is expected to add approximately $200–300 USD/t in extraction costs relative to conventional sulphide ore.[6]

Another factor which may impact future stainless-steel prices is chromium. Chromium prices are under upward pressure due to the volatile supply out of South Africa, which supplies 82% of the world's ore and ferrochrome requirements.[7]

Presently, however, China's domestic oversupply of ferrochrome and stainless steel continues. China, which produces over 60% of the world's stainless steel, increased its exports 62.7% year-on-year in 2024. It will likely divert up to 500,000 metric tonnes of stainless to Southeast Asia, because of the U.S. trade tariffs, potentially depressing regional prices. Specialty stainless steel grades like 316L, which contain 2–3% molybdenum, will add further complexity and cost volatility to the market. Molybdenum price fluctuations of between USD $15–25/kg translate to significant additional production costs and could contribute to broader pricing instability in premium product categories.[8]

It would take the combination of LME nickel warehouse stocks reducing below 100,000 (trending to 50,000) tonnes and a 10–12% cut to Chinese output over 2025 to prompt a major upswing in stainless steel prices. Conversely, stainless steel demand is expected to grow 3–4% annually through to 2030, driven by urbanisation in India and Southeast Asia.[9] With more modest growth in nickel production, through capacity cuts in certain regions in 2025 and some improvement in demand for stainless, the current oversupply in the market is likely to ease, which will potentially result in upward price movement in 2026. Any market price increase is likely to be volatile, driven more by cost pressures and supply adjustments than by a robust resurgence in underlying demand.

ALUMINIUM



Source: Argus Media

The notable spike in the LME warehouse stocks in the graph above is superfluous to the actual market supply and demand mechanics. The sharp rise in LME warehouse inventories, which surged by 88% in a single day to over 900,000 metric tonnes was primarily due to a strategic financial manoeuvre by trading house Trafigura. Over 425,000 tonnes of Russian-made aluminium were delivered to LME warehouses in Port Klang, Malaysia, to profit from rule changes regarding storage fees under rent-sharing agreements.[10]

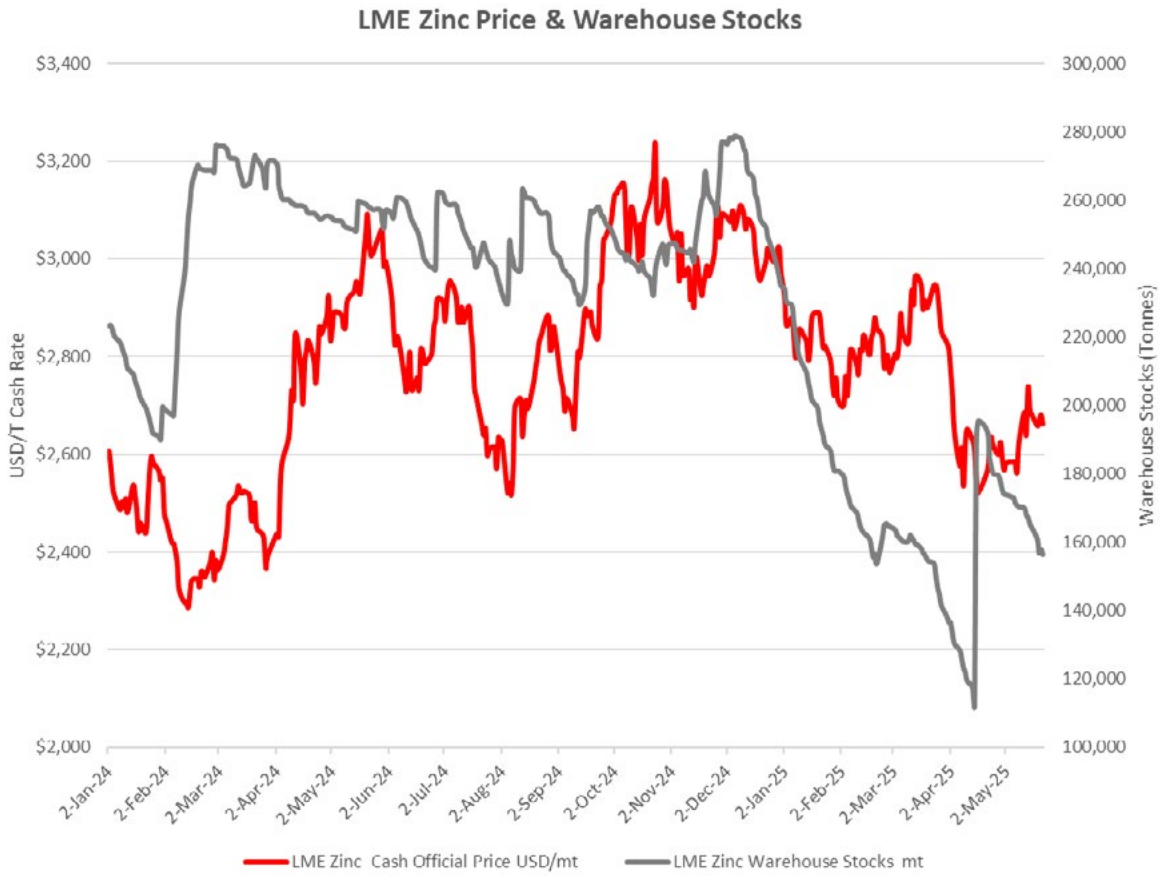
In 2025, aluminium prices have experienced volatility and shown modest strength, with the LME cash price peaking at ~$2,700 USD/t in March before easing back to ~$2,450 USD/t in mid-May. Year-to-date pricing remains up by ~6%. This fluctuation reflects a market influenced by both supply and demand uncertainties.

On the supply side, China's aluminium production increased by 3.4% between January and April 2025, reaching 14.8 million tonnes, despite Chinese smelter curtailments due to power rationing. This uptick in production has contributed to rising (SHFE) inventories.[11]

Demand factors are also impacting the market. Goldman Sachs has revised its aluminium price forecast downward, citing mixed global manufacturing indicators (PMIs), a weaker global economic outlook, a slowdown in EV-related demand and increased tariffs. The bank now anticipates prices to average $2,000 USD/t in Q3 2025, before rebounding to $2,300 USD/t by December 2025.[12]

China's longstanding production cap of 45 million tonnes per year (introduced in 2017 to curb overcapacity) will continue to underpin the market, providing a floor for prices globally given China accounts for about 60% of global production of aluminium.[13]

ZINC



Source: Argus Media

Similar to what was seen with LME aluminium warehousing, the notable spike in LME zinc warehouse stocks between 15–17 April 2024 reflects a one-off delivery surge, with over 70,000 tonnes added – primarily into Port Klang, Malaysia. This is a likely result of a confluence of factors: proactive inventory movements in anticipation of U.S. tariffs, increased transparency from new LME reporting protocols, and strategic shifts in response to the LME's expansion into Hong Kong.

From a pricing perspective, LME zinc prices have shown relative stability with modest upward pressure from January 2024 to May 2025, rising by approximately 2.1%, from $2,607 USD/t to $2,662 USD/t. This pricing resilience has occurred despite a substantial drawdown in LME warehouse inventories, which have decreased by 30% over the same period – from 223,225 tonnes to 156,225 tonnes, which places them just above the 150,000 tonnes considered as the "tight supply" threshold for zinc on the LME.

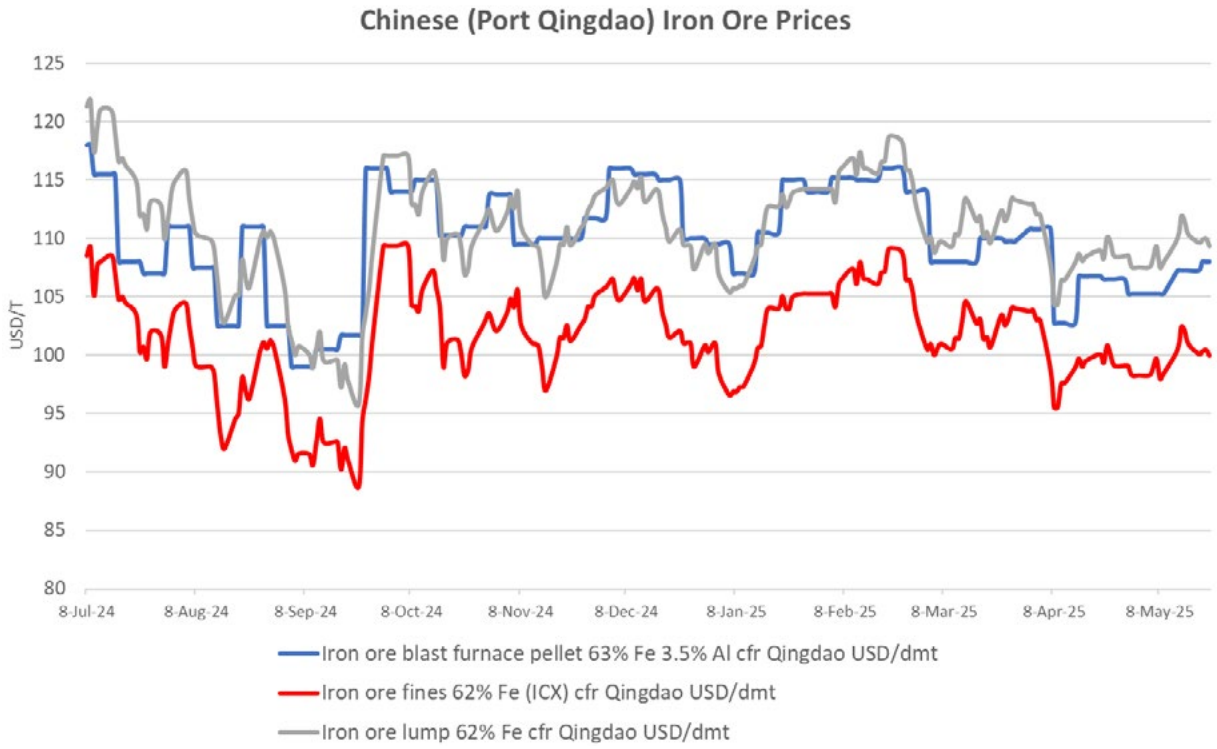
The modest price momentum was on account of growth in India and Southeast Asia. China, the world's largest zinc user (~50% share), experienced a ~2% decline due to its struggling property sector and from raw material bottlenecks that hit Chinese smelters, limiting output of refined zinc.[14]

The outlook for zinc demand is modestly positive but not dramatic. According to industry forecasts (e.g. Australia's Dept. of Industry Resources and Energy Quarterly, Mar 2025), global zinc demand is expected to grow about 2.1% per year on average. This should see zinc prices gradually strengthen in the latter half of 2025, assuming China's construction sector stabilises somewhat, and global infrastructure spending picks up. One wildcard is India's growth: India is rapidly urbanising, and its zinc consumption could significantly increase, given its population and infrastructure needs. The International Zinc Association expects India's zinc demand to approach 2 million tonnes p.a. within a

decade. Such huge incremental demand could make India second only to China in terms of their usage i.e. 14% of the world's zinc supply in comparison to China's 50% usage level.[15] If this doubling of zinc demand from India materialises sooner and follows a trajectory like China's rapid industrialisation (2000s–2010s), LME zinc prices could breach the $3,500–4,000 USD/t range unless new mine supply or recycling ramps up. This presumes that China's zinc demand remains stable, prompting LME zinc inventories to fall below 150,000 tonnes which would induce speculative trading amplifying market tightness.

Longer term, even without a demand spike, a higher zinc baseline price is likely with analysts predicting a range of $2,800–3,200 USD/t.[16] Overall, supply remains tight, and uncertainty persists in the zinc market, driven by factors such as global economic conditions, mine production levels, and demand from key sectors – particularly infrastructure, construction, and manufacturing in the world's most populous regions.

IRON ORE



Source: Argus Media

As in the last two years, over the past few months iron ore prices have risen and fallen in line with market speculation of further policy announcements in China. As of May 2025, iron ore prices have experienced moderate volatility trading within a narrow month-on-month range of $2–$9 USD/t suggesting a stable and range-bound market environment so far this year, navigating a delicate balance between supply and demand. While prices have shown resilience, the outlook remains cautious due to persistent demand-side challenges and anticipated increases in supply.

Supply pressures are intensifying alongside projected demand softness for the remainder of 2025 and into 2026. Major iron ore mine expansion projects in Western Australia and West Africa are expected to add an additional 60 million tonnes per annum (Mtpa) to global supply by 2026, representing a growth of nearly 5% over current levels.[17]

The above factors have analyst forecasts for iron ore predicting modest price softening by 2026–2027 due to new supply and plateauing Chinese demand; the upside risks are however real and multifaceted. Key triggers such as delays to the ramp up of new mine projects, stimulus policy boosts in China, and rising Indian demand could keep prices above $100 USD/t, particularly if combined with logistical or geopolitical shocks such as escalating trade tensions.

STEEL SCRAP

Source: Argus Media

In 2025, the global ferrous scrap market has demonstrated resilience and a firm pricing bias, despite more subdued finished steel production in China, broader macroeconomic uncertainty, and softening iron ore prices. Key prices for Heavy Melting Steel Scrap (HMS 1/2 80:20) – notably in Turkey, China, and Taiwan – have held within relatively narrow bands, reflecting stable or slightly rising demand.

Chinese scrap prices have fluctuated moderately between $390–415 USD/t, reflecting China's measured import needs, relatively stable domestic scrap supply, and reducing steel output in response to government production caps and slow real estate recovery.

Taiwanese scrap pricing has remained softer, trading in a band around $340–370 USD/t, with flat demand from local re-rollers under pressure from Chinese suppliers and lower finished steel exports.

Turkish scrap import prices, while broadly following a similar trend, have had more downward pressure in early 2025, averaging $360–385 USD/t, as Turkish mills face weaker EU demand and currency volatility.

This firmness in scrap prices, at a time when finished steel prices are lacklustre, underscores the unique supply-demand dynamics of scrap.

Demand for scrap is fundamentally supported by the steel industry's structural shift toward Electric Arc Furnaces (EAF) and secondary steelmaking. EAFs now account for roughly 30% of global steel production and rising. They rely predominantly on steel scrap as feedstock (with some ability to use direct reduced iron or pig iron as supplements). China, for instance, has stated it is aiming to have 15% of its steel made via EAF by the end of this year.[18]

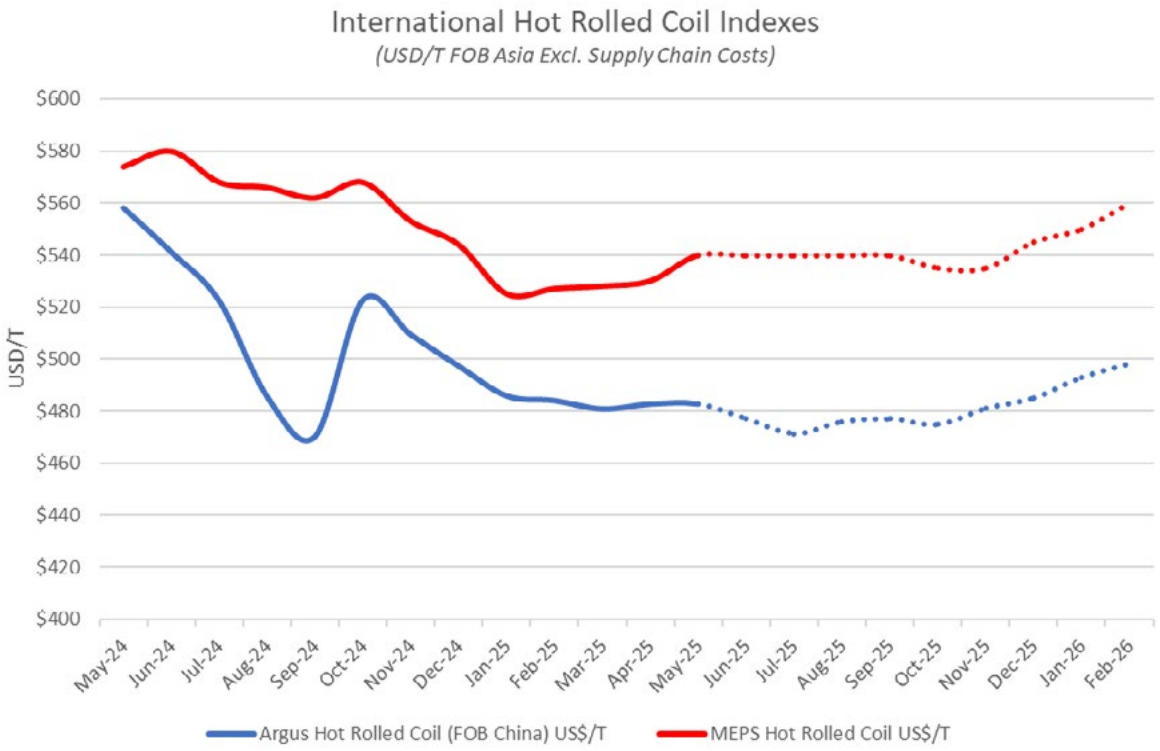
This global trend means that scrap is in high demand everywhere: whenever scrap prices dip, EAF mills quickly buy up more, pulling prices back up. The circular economy push (recycling metals, reducing waste, lower carbon steel) further puts scrap in the spotlight, making the supply side relatively inelastic in the short term. Some regions are now seeing lower scrap collection rates, so scrap exports have been restricted, potentially underpinning the slight improvement in prices in recent weeks.

Scrap prices are expected to remain relatively elevated compared to iron ore. The two often move together when driven by global steel cycles, but scrap has a higher floor due to its utility and limited supply elasticity (a lot of the

output reduction is on the blast furnace side i.e. China cutting production). The proportional use of scrap could rise as EAFs gain share. This seems to be happening – while iron ore demand falls, scrap demand holds or even increases slightly, hence scrap price strength. Some forecasts see ferrous scrap prices rising modestly through 2025 as EAF capacity additions come online in Asia and the Middle East, creating new demand centres.

In practical terms, we don't foresee scrap-driven reductions in steel prices this year in key ranges like structural steel – if anything, scrap might add upside pressure, or is at least unlikely to soften significantly, even if iron ore-based products trend lower.

STEEL PRODUCT INDICES AND OUTLOOK



Source: MEPS, Argus Media (Argus Forecast from Jun-25 by 'Procurement Update' Author)

The forecast Hot Rolled Coil (HRC) price indexes for the period June 2025 to February 2026 reflect a muted and cautious market outlook, rather than a strong recovery. Both the MEPS index and the extrapolated Argus (FOB China) index indicate that prices have likely found a floor, with modest gains of 3–5% projected through early 2026.
This outlook aligns with ongoing market commentary highlighting macroeconomic headwinds, broad-based weakness in steel demand, and stabilising input costs across iron ore, coal, and scrap. The forecast factors in limited support from international trade defence measures – such as tariffs – which are curbing both production and export volumes. It also assumes a moderate lift in seasonal construction activity and a gradual global increase in infrastructure spending.

The slight divergence between the Argus and MEPS indexes reflects the more volatile market in China reliant on export dynamics, driven by weak residential construction demand with a gradual uplift from policy stimulus. In contrast, the MEPS index incorporates a broader Southeast Asian pricing base, smoothing out some of that volatility, and reflects anticipated price adjustments due to anti-dumping measures and currency fluctuations, with some improvement in general construction.

Overall, the pricing outlook suggests a fragile and policy-sensitive recovery, where any upside is expected to be slow, uneven, and vulnerable to shifts in sentiment or trade dynamics.

SHIPPING MARKET TRENDS

Source: Container News

The container shipping market in the Asia-Pacific region has entered 2025 with renewed volatility, following a period of relative stability in late 2024. The anticipated post-Lunar New Year rebound failed to materialise at scale. As a result, the China Containerized Freight Index (CCFI) –which reflects export freight rates from ten major Chinese ports – has fallen from 1,547 at the start of January to 1,104 by late May, a decline of 28.6%. This sustained downward trend underscores soft global demand and persistent overcapacity on major trade lanes, despite carriers' ongoing efforts to manage supply through blank sailings and vessel idling.

Similarly, the Shanghai Containerized Freight Index (SCFI), which tracks spot market rates for exports from Shanghai, recorded a 46% drop in Q1 – the steepest first-quarter decline since the index's inception in 2009. The sharp correction across both contract and spot markets highlights the fragility of current market conditions. Much of the uncertainty is being driven by shifting U.S. trade policies, which have dampened restocking activity, prolonged consumer caution in the U.S. and EU, and contributed to a lagging recovery in global manufacturing.

Maritime consultancy Drewry forecasts global container port volumes will decline by 1% in 2025 as a direct result of U.S. trade-related disruptions. This would mark only the third annual drop in global container demand since Drewry began collecting data in 1979 – the others occurring during the 2009 global financial crisis (-8.4%) and in 2020 amid the onset of COVID-19 (-0.9%).[19] Such a volume contraction is likely to keep downward pressure on freight rates well into the second half of the year.

While lower inbound freight costs may benefit New Zealand importers, there are trade-offs. A soft freight market often results in reduced sailing frequency, delayed trans-shipment connections, and even temporary service suspensions – particularly on secondary routes such as those linking New Zealand with North Asia. Notably, shippers appear to be holding freight rates to New Zealand at a premium compared to other trade lanes, a cost that may need to be absorbed to preserve schedule reliability and long-term supply chain resilience.

WHAT DOES THIS MEAN FOR STEEL & TUBE AND OUR CUSTOMERS?

Steel & Tube remains committed to providing stability and continuity in what continues to be a volatile and uneven recovery phase in global steel markets. The ongoing fragility in demand, with subdued market activity across all sectors and shifting trade dynamics, reinforces the importance of proactive procurement, supply chain resilience, and informed sourcing and purchasing decisions.

While steel pricing has largely stabilised after the significant lows of 2024 the near-term movements are expected to remain modest and uneven across product categories. We have seen customers take advantage of opportunities in the current environment to secure competitively priced material in key steel and stainless segments – particularly in value-added grades, where raw material shifts (e.g., molybdenum, chromium) are driving volatility.

Similarly, zinc and aluminium markets are tight, with future upside risk should Indian demand accelerate or mine supply falter.

Shipping costs, while lower overall globally, may not deliver full savings to New Zealand as shippers hold rates to preserve schedule reliability into our ports.

In this environment, customers can expect Steel & Tube to:

- **Monitor** material cost inputs closely and provide timely advice on potential risks or opportunities in forward pricing.
- **Work** with customers to lock in pricing where appropriate, ensuring project certainty and mitigating exposure to cost fluctuations.
- **Support** sustainable supply chain strategies in response to the ongoing shift toward recycled and low carbon emissions steel inputs (especially as EAF production expands globally).

In short, while challenges persist, Steel & Tube's procurement strategy remains focused on providing reliable supply, competitive pricing, and end-to-end confidence for our customers navigating a dynamic and evolving market.

Prepared for Steel & Tube by Brendan Smith | Product & Market Manager - Strategic Growth

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As experts in our field, we pride ourselves on being able to offer a consistent end-to-end customer service experience, advising, sourcing and supplying customers with all their product requirements. And underlying everything we do, is our continued commitment to quality.

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