Chinese rebar/HRB hijinks: Wild swings in the price spread

As indicated in Figs. 1 and 2, the Chinese ex-works domestic price of hot-rolled band (HRB) has often sold about US$1/metric ton above the price of rebar. This price premium reflected the higher cost to produce HRB and the continuing oversupply of rebar in the country due to the hundreds of small-sized integrated producers with the capability to ramp up output once the price more than covered their marginal cost.

However, this traditional pricing relationship has turned topsy-turvy this year. In early 2017, HRB, ex-works, rose briefly to a price premium of...

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Figure 1

China daily benchmark prices of hot-rolled band and rebar (US$ per metric ton).
Source: SteelHome.

Figure 2

Chinese hot-rolled band minus rebar price (US$ per metric ton).
Source: SteelHome.
US$67/metric ton versus rebar. Then, by May, the HRB price sold at a discount of US$62/metric ton to the rebar price — for a swing in the spread this year of US$129/metric ton.

There have been several key events:

- The Chinese government mandated in January 2017 the closure by 30 June 2017 of the country’s clandestine induction furnace (IF) steelmakers. These IF companies were not reporting the 30–50+ million metric tons per year of low-quality billet they were producing. (Note: The IF billet is low quality because the induction steelmaking furnace, when melting the scrap to liquid steel, has no means by which to remove the phosphorus from the steel.) Hence, with IF production being eliminated and steel demand surging — consistent with the government’s vigorous efforts to promote gains in infrastructure spending — a shortage of rebar developed.
- Concurrently, a glut of steel scrap developed because this was the raw material used by induction furnace steelmakers when making steel. Also, the Chinese domestic integrated mills that account for about 92% of the country’s steel output were using less than 10% steel scrap in the basic oxygen furnaces (BOFs). Hence, even though the country’s integrated steelmakers were just beginning to use more steel scrap in their BOFs, China’s steel scrap prices were so low that, despite the 40% export duty, scrap exports began to rise.
- As of early August 2017, with the price of hot-rolled band up sharply reflecting strong demand at home and on the export market, the prices of HRB and rebar were about the same.

It’s noteworthy that global HRB prices and steelmakers’ raw material prices rose this summer, as it’s normally the time of year that steel prices are in the doldrums.

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