

Steel Industry to Maintain Stable Growth

- Namita Naik

In 2009, despite the global economic crisis and difficulties due to low-priced imported steel and rising production costs, the steel industry is one of the industrial sectors that achieved high growth with an output increase of 25 percent and consumption up 30 percent over the previous year. However, this year, the steel sector still faces many difficulties, of which the price hike of materials for steel production such as coal, electricity, oil and iron ore is a big one. Cheap imported steel is also still a large obstacle standing in the way of sustainable development of the steel sector. As a result, the price of steel is forecast to increase in 2010. In terms of GDP growth, the World Steel

Association noted that the recovery, which started in the second half of 2009, will follow a stable path with the world GDP growing at around 3-4 percent per annum up to 2020. Industrial production is expected to follow the same pace as GDP growth. Construction sector is expected to grow significantly in the long run, especially in China, South Asia and Middle East. Meanwhile, the construction sector in North America will only start to recover in 2012. Although steel manufacturers saw good results in production and business last year, the steel sector would still face many difficulties in 2010, as said by Do Huu Hao Deputy Minister of Trade and Industry. Global

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Country	2004	2005	2006	2007	2008
Australia	6,207,958	6,670,298	6,332,232	7,613,954	7,854,808
Indonesia	5,717,855	7,235,366	6,245,012	7,244,741	8,822,855
Japan	75,678,176	78,125,955	78,471,793	81,337,991	77,691,084
Korea	47,784,008	47,709,477	50,646,898	55,864,978	59,532,967
Malays	7,137,913	6,825,993	6,779,458	7,694,494	8,275,984
Philippines	3,040,606	3,076,136	3,140,998	3,599,666	3,560,267
Singapore	3,126,967	2,528,026	2,575,494	3,063,473	3,643,395
Taiwan	22,729,538	20,677,190	19,597,988	16,102,469	16,016,299
Thailand	13,097,247	14,135,529	13,010,029	12,587,861	13,465,906
Vietnam	5,311,680	5,659,876	6,146,947	9,316,168	8,183,626
TOTAL	189,831,948	192,643,846	192,946,849	204,425,795	207,047,191

Table1: Apparent Steel Consumption

(Unit: Metric Tonnes)



steel demand also seems to pick up accordingly. The World Steel Association has remarked that the recovery was possible, as a result of massive government stimulus packages and the recovery in emerging Asian economies, especially China. Additionally, many mills have started to rebuild inventory which will result in more demand in the market.

Due to an improvement in steel demand from South East Asia, steel industry is expected for a recovery with an average capacity utilisation of about 70 percent to 75 percent. Many



industry players are expecting an increase in restocking activities as consumers (steel buyers) prepare for strong construction demand. Malaysia, Indonesia, Philippines, Singapore and Thailand are expected to spend a total of about RM102 billion on infrastructure projects, financed by their economic stimulus packages. The infrastructure expenditure in Malaysia include the Light Rail Transit extension, Gemas-Johor Baru electrified double-tracking, the low-cost carrier terminal, the upgrading of roads, bridges and community halls in rural areas, the upgrading of schools and hospitals as well as the urban transport system. It is also reported in Metal Bulletin that over the past two years, local steel mills had been exporting about one million tonnes of steel products. Malaysia's exports of steel products increased after China imposed a 25 percent tax on exports

of billets which created a shortfall of about five million tonnes of billets in the South-East Asia (SEA) market. Previously, China supplied about 75 percent of the total SEA billets requirement.

On top of this, the competitive pressure from imported steel has increased, especially from China and South Korea, because of tax reductions in line with WTO commitments, and the government has ceased the stimulus packages and increased basic interest rates. Additionally, there would be harsh competition in domestic construction steel markets in 2010 due to a surplus, steel prices are expected to jump a further 15 percent to 20 percent as governments in East Asia restart spending on major infrastructure-related projects and restocking activities increase. The current steel bar price in the domestic market is



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about RM2,000 (US\$585) per tonne while the international market price is about US\$565. Meanwhile, analysts expect feedstock iron-ore prices to increase by 20 percent to 40 percent from 2010 onwards due to the emergence of highly monopolised supply from the impending merger between iron-ore giants BHP Billiton Ltd and Rio Tinto Group. BHP is currently in talks with China to set the annual iron-ore prices. Together with Vale SA, the world's biggest producer, the move could signal contracts doubling the spot market prices this year.

However, there are signs of uncertainties regarding the outlook for iron ore production. Talks of consolidations among the steel manufacturers as well as iron ore suppliers are the current hot issues. The outlook for domestic iron ore production in China is one of the main uncertainties in the iron ore market. China's crude steel production is

expected to grow by about 10 percent per annum. With China's iron ore import share expected to increase up to 80 percent, the supply side will have to boost their capacity to serve the growing demand. In this connection, Australia and Brazil, the world's largest iron ore suppliers, are expected to boost up their capacity utilization to meet the increased demand. Nevertheless, it is expected that there will be a shortage of iron ore from 2009 to 2012. However, iron ore demand will slow down in 2013 and there will be sufficient supply of iron ore from 2013 onwards.

Meanwhile, VNSteel General Director Dau Van Hung said that the sector needed the government's support in stimulating the domestic market, maintaining stable forex rates and offering sufficient foreign currency for the import of raw materials for production purposes. For the corporation, it will continue the



implementation of key, strategic development projects and focus on research and analysis, strengthening trade promotion, trademark development and the search for new export markets. The last two weeks of December 2009 saw a significant turnaround in demand. India's top steelmakers led by Steel Authority of India (SAIL) saw up to a 50 percent sales jump in December from a year ago. Already, steelmakers such as SAIL, Tata Steel, Essar, Bhushan and JSW have hiked prices by up to Rs 2,000 a tonne on rise in demand. Steel prices have risen US\$30-40 per tonne to US\$580 a tonne globally in the past one month alone. Steel products in the domestic market are currently selling marginally higher than the landed price of imported steel. Rise in prices of key raw materials, iron ore and coking coal, was also putting pressure on metal prices.

Though steel demand was still modest in some parts of the US and Europe, prices are expected to remain volatile due to the pick up in Asian economies. Private steelmaker JSW, meanwhile, posted a 50 percent jump in sales from the year before. Demand for construction-grade steel, which slumped in August 2009 due to the monsoon, picked up again in the last quarter not just in India, but also other big markets like China and Japan. Overall steel usage in India is estimated to rise over 12 percent, compared with the global demand of 9.2 percent in 2010. That will be a far cry from December 2008 when steel demand was battered by the global slowdown forcing most steelmakers to cut production by 50 percent or more. Indeed, the demand was from the automobile and infrastructure industries as well as the low-base factor sales in December 2008 were subdued due to the downturn made it a staggering year-end for steel companies. The state-run company's sales in the third quarter ended December 2009 grew 23 percent from a year earlier due to an increase in products consumed by the construction industry.