

SEA steel industry to recover slowly in 2010

- Steelworld Research Team

Driven by high stimulus packages to salvage economies from insolvency, South East Asian (SEA) countries have indicated signs of recovery well ahead of developed regions including America and Europe. The improvement in global economies is likely to offer much needed fillip to steel consumption in the region where clear focus on infrastructure development has already been prioritized. Therefore, steel consumption in the region is estimated to take a rebound steadily in 2010.

Vietnam's stimulus package totaled US\$6 billion in value, which is about 6.5 percent of its GDP. Philippines' government has also introduced its own economic stimulus plan worth US\$6.9 billion which accounts for as much as 4.4 percent of its GDP. Meanwhile, Indonesia's stimulus plan of US\$6.5 billion is equivalent to only 1.4 percent of its GDP.

A significant portion of the spendings from the stimulus packages announced by the governments in the region will be made on infrastructure development. Nevertheless, the improvement in residential and commercial construction activities will depend largely on the return of credit and confidence in the region. The construction sector is a significant contributor to steel demand in the region, averaging more than 60 percent of total steel consumption. During the Asian financial crisis in the late 1990s, apparent steel consumption and investment collapsed sharply. Apparent steel consumption fell from a peak of 33 million tonnes in 1996 by nearly half to 19 million tonnes in 1998. The economic upturn from 1999 onwards was largely led by a recovery in private consumption which was less steel intensive. However, the recovery from the current crisis,

\\ Aimed to improve infrastructure, SEA countries announced stimulus packages worth US\$102.1 billion which expert believe will drive steel demand this year //

High stimulus to help steel demand growth

Aimed to improve infrastructure, SEA countries announced stimulus packages worth US\$102.1 billion which expert believe will drive steel demand this year. Thailand's government has announced two phases of the package which will total US\$50.4 billion, equivalent to 19 percent of gross domestic product (GDP). Malaysia's stimulus packages totaled US\$18.3 billion which is about 9 percent of its GDP, followed by Singapore with US\$14 billion worth of package or 8 percent of its GDP.

Stimulus packages in South East Asia

	Billion USD	Value of stimulus plans (Billion USD)	Pump Prime (% of GDP)
Indonesia		6.5	1.4
Malaysia Phase I	2.0		
Malaysia Phase II	16.3	18.3	9.0
Philippines		6.9	4.4
Singapore		14.0	8.0
Thailand Phase I	4.6		
Thailand Phase II	45.8	50.4	19.0
Vietnam		6.0	6.5
Total		102.1	

expected to kick in by 2010, will be led by investment, driven by the governments' stimulus packages. The pick up in steel demand is, therefore, expected to be more rapid than the last crisis.

Steel consumption to see a turnaround

Southeast Asian countries are traditionally large net importers of steel and their crude steelmaking capacity is much lower than rolling capacity. In the coming years, demand should recover faster than capacity, suggesting that net imports could remain very high in the ASEAN 6 including Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam countries.

After a steady economic growth between 4-6 percent in 2008, global



Nevertheless, Asian Development Bank (ADB) foresees a recovery in economic growth rates for all South East Asian countries in 2010.

Estimates indicate that apparent steel consumption in the SEA countries registered 42.5 million tonnes in 2008, a slight drop of 1.8 percent y-o-y.

Thailand and Singapore were the only two countries that still enjoyed a significant growth rate in steel consumption by 7.5 percent and 8.1 percent respectively. Vietnam's steel industry was hit hard by the economic crisis, resulting in a negative

growth rate in steel consumption of

South East Asian countries are traditionally large net importers of steel and their crude steelmaking capacity is much lower than rolling capacity

ASEAN 6 steel flow (million tonnes)

	Capacity	Consumption	Production
2001	24	33	10
2002	26	38	11
2003	27	36	11
2004	28	42	16
2005	29	47	17
2006	30	45	18
2007	31	52	20
2008	31	56	19.5
2009	37	45	15
2010*	39	50	-
2011*	40	52	-
2012*	40.5	57	-

* Forecast

economic meltdown hit the SEA countries badly in 2009. Singapore was hit hardest with an estimated negative GDP growth rate of 5 percent in 2009, a sharp decline from 1.1 percent growth in 2008. Thailand's GDP growth in 2009 is also expected to be negative at -2 percent, down from the growth rate of 2.6 percent in 2008. Malaysia's GDP growth rate is expected to contract substantially from 4.6 percent in 2008 to -0.2 percent in 2009. On the other hand, Vietnam and Indonesia seem to be the only two countries that would still enjoy respectable growth rates of 4.5 percent and 3.6 percent respectively in 2009, while Philippines' GDP growth is expected to increase by 2.5 percent in the same year.





\\ The global economic outlook continues to improve in 2010 //

11.4 percent to 8.26 million tonnes. Flat product consumption in the ASEAN countries registered a decline of 4.7 percent to 22.3 million tonnes. There was a sharp drop in local production of around 17.5 percent, while import still remained high at 22.2 million tonnes. Export decreased by 4.8 percent to 7.4 million tonnes. Meanwhile, long product consumption was somewhat steady with marginal decline in growth rate of 0.6 percent to 20.2 million tonnes.

Availability of iron ore may hit steel mills hard

The global economic outlook continues to improve in 2010. Global 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. In terms of GDP growth, the World Steel Association witnessed 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 will pick up 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. The European Union, however, will experience a stable pace in construction sector growth up to 2020.

However, there are signs of uncertainties regarding the outlook for iron ore production. The outlook for domestic iron ore production in China is one of the main uncertainties in the iron ore market. According to Citigroup Global Markets, China's iron ore import share has increased from 60 percent in 2008 to 73 percent in 2009. The question is whether or not the China iron ore import trend will persist. China's crude steel production is expected to grow by about 10 percent per annum. Citigroup has predicted that in the longer term, Chinese imports of iron ore will continue to increase at a robust level. 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, a scenario South East Asian steel mills will have to face. However, iron ore demand will slow down in 2013 and there will be sufficient supply of iron



Under new guidelines, China's obsolete steelmaking capacity of around 28 million tonnes will be removed by 2011

ore from 2013 onwards.

China's possible dumping on SEA

Touching on China's steel industry development and its impact on the steel industry in SEA, CRU has predicted that Chinese apparent steel consumption will pick up year-on-year to hit the peak only after 2010. On the supply side, new capacity will be strictly controlled, and steel plants will be allowed to be built only on the precondition of elimination of obsolete capacity. Under new guidelines, China's obsolete steelmaking capacity of around 28 million tonnes will be removed by 2011. It is predicted that a large amount of the currently under-utilized capacity will be brought back



on stream. Together with the new implementation of large projects, China would have added at least 70 million tonnes of steel capacity by 2013. Capacity utilization is estimated to register between 85 percent and 90 percent by 2013. However, CRU forecasted that China's crude steel production annual compound growth rate will be around 4 percent between 2008 and 2013, much lower when compared to the peak rate of 26 percent in 2004. As a result, it is predicted that China will be exporting less, approximately 20 million tonnes in 2009. If steel demand picks up rapidly, China might become a net importer by 2013. South East Asian countries could take this opportunity to invest in new projects, especially to enhance competitiveness.

Scrap import soars

According to South East Asia Iron & Steel Institute observations, the global economic outlook continues to improve in 2010 thereby a pick up in proportionate steel demand. Many mills have started to rebuild inventory which will result in more demand in the market. 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 percent to 4 percent per annum up to 2020. Industrial production is expected to follow the same pace as GDP growth. Construction sector will pick up significantly in the long run, especially in China, South Asia and Middle East.

In the past few weeks, with the rising of iron ore price, the import price of Southeast Asia scrap steel recovered after festival, up US\$25-40 per tonne (CFR). News from Vietnam, Malaysia and Singapore noted that the import and settled prices of No.1 and No.2 mixed heavy scrap from Europe and America boosted from US\$340-365 per tonne (CFR) to US\$380-390 per tonne (CFR), and the import price of container scrap was slightly lower, at US\$350-370 per tonne (CFR).