



Overview on Global Steel Prices and Consumption

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Indian steel companies are likely to grab the most of the demand opportunities in 2010. In recent years, the Middle East region has stood out as one of the steel world's central pillars of growth, with consumption rising by an estimated 15 percent a year, and imports some 30 percent a year.

Regional steel demand was and will be driven by the region's construction and infrastructure needs. Oil and gas production may be stagnant at present, but steel demand in Egypt, Iran, Iraq and Algeria continues to grow. Indian steel demand has a strong attachment with its economy and is likely to unfold immense demand opportunities towards developing infrastructure grid, urbanization, up gradation of amenities and connectivity in rural and semi-urban areas. Steel prices in the United States have been rising primarily because of higher raw-material costs while the underlying domestic economy remains awful. Prices in the United States surged in the second half of last year.

The average price of hot-rolled steel sheet, the benchmark product used in cars and appliances, was \$500 a ton in December, after tumbling to a five-year low of \$380 a ton in June. If domestic steel companies continue to raise prices, they risk losing market share if the steel price on the domestic market rose any further, foreign steel would become more competitive. The steel price had increased by US\$11.2 a ton since the end of last year. A ton of steel on the domestic market without value added tax now cost between \$622 and \$662 a ton. The price of pig iron on the

world market has risen by \$20 per ton in recent days to \$490 per ton, making imports of the raw material more expensive. Moreover, VAT domestically has increased from 5 percent to 10 percent for steel since the beginning of the year. It is predicted that this year, the steel industry will face further challenges from increases in the price of raw materials such as iron ore, coal and power. That rises in the world steel price would not impact negatively on the country's development as domestic production would meet a large part of local demand. The VSA predicts that 5.8 million tons of steel will be consumed domestically this year, an increase of 10 percent over 2009. Last year, the country consumed 5.3 million tons of steel, of which, 4.7 million tons were produced in the country and 600,000 tons were imported.

Global economy has started reviving out of the recession



coupled with rising demand, improved economy and need for inventory restocking. Accordingly, in 2010 in general would be better for steel producers across the world vis-à-vis 2009, especially in terms steel demand. However, increasing cost of input raw materials would continue to remain a concern. More-over, reformation and global integration process have started getting more active with India being an integral part of the Global-Village. Accordingly, the price lines in the domestic market shall continue to remain more or less at par to the global prices. Flat products have economic attachment divided between the investment and consumption expenditure. Hot rolled coils, sheets and plates are having higher degree of attachment with investment expenditure including infrastructure, construction, capital goods and industrial production manufacturing. While cold rolled and coated steel products are relatively more affiliated to consumption expenditure like consumer durables including automobiles, white goods, appliances, furniture and packaging etc. Demand for flat products for past couple of years has been growing more than the longs clearly reflecting the increasing demand for consumer durable, appliances and automobiles etc from rural and semi-urban areas coupled with an expanding thrust on infrastructure, capital goods and industrial production.

Chinese crude steel capacity was seen at about 660 million tons at 2008 end and it is expected that an additional 55 million tons to 60 million tons of net crude capacity would have got added during 2009 jacking up the overall crude steel capacity to about 720 million tons by 2009 end.

Principally, China considers steel to be highly resource intensive, energy intensive, pollution intensive and last but

Table 1: World Carbon Steel Prices

World Steel Prices US \$/tonne	Hot Rolled Steel Coil	Hot Rolled Steel Plate	Cold Rolled Steel Coil	Steel Wire Rod	Medium Steel Sections
Jul 2008	1099	1307	1186	1067	1234
Aug 2008	1093	1300	1179	1062	1227
Sep 2008	973	1243	1046	977	1154
Oct 2008	865	1150	940	811	1045
Nov 2008	716	1000	802	676	898
Dec 2008	565	901	659	609	780
Jan 2009	575	806	666	626	791
Feb 2009	556	719	637	574	753
Mar 2009	505	643	594	526	714
Apr 2009	487	638	576	500	678
May 2009	474	605	556	490	692
Jun 2009	495	604	579	508	701
Jul 2009	513	604	598	515	682
Aug 2009	544	622	636	527	697
Sep 2009	590	641	680	547	706

not the least is moderately priced in terms of its economic value chain significance. Accordingly, China's mandate is to encourage exports of value added goods rather than the steel as a commodity. During January to November 2009, Chinese steel exports have reduced by almost 63 percent to 21 million tons, which is only 4 percent of its crude steel production as compared to 12 percent in 2008.

In other words Chinese net exports is just 0.6 million tons in 2009 as against net exports of 45 million tons during 2008. More over, China's excess import dependency for iron ore makes steel an extremely cost intensive product which they would like to utilize more and more for expanding value addition rather than export as a bare commodity. Going into the future, China may focus on exports of steel intensive value added manufactured products like auto components, ships, plants & machinery etc. rather than raw steel.

Indian per capita steel consumption of approximately 47 kilograms, as against world average of 190 kilograms further reconfirms the opportunities for steel demand to continue accelerating for times ahead. Steel demand elasticity with its economic growth is anywhere between 1.2 to 1.4, which means that with economic growth of 8 percent to 9 percent per annum, steel demand would accelerate at 10 percent to 12 percent per annum. Accordingly, India has immense potential for rising steel capacity. Now, it is expected that approximately 8 to 10 million tons of crude steel capacity to get added on staggered basis during 2010-11 while there is a growth time-frame for capacity ramp-up of an integrated steel plant. Demand, on the other hand is likely to grow between 10-12 percent per annum. It is therefore unlikely that there will be any surplus situation in 2010-11. Despite over



capacity in Indian long segment and threat of Chinese, there is afloat on Indian prospects in coming times. While most of the global economies witnessed an unprecedented economic and financial crisis during 2009, India continued its positive economic march expanding at GDP of approximately 7 percent. Indian economy continues to strengthen in past more than a decade with savings expanding from the levels of 24 percent to 25 percent resulting into growing investments towards infrastructural development, urbanization, rural connectivity and linkages etc. Investment forms almost 36 percent of its overall economic expenditure balanced with consumption at approximately 55 percent to 60 percent. Steel demand is strongly coupled to the economy and therefore Indian steel demand has reflected the identical positive growth trend.

Infrastructure projects, although with a relative lower intensity have taken off the ground. Growing automobile and auto component production leveraging demand for alloy steel long products. While cement production and demand has grown in excess of 10 percent during April to November 2009-10. Overall long products demand has gone up by 7.5 percent during April to October 2009-10. Overall coated sheets demand was up by 20 percent.

Surge in Indian automobile production is leveraging the demand for CRCA and HR. Consumer durable demand growing at 20 percent during April to November 2009-10, especially leveraged by the exponentially rising demand from rural and semi urban India, with a share in excess of 55 percent. Increasing mining production at approximately 8 percent during April to November 2009-10 has strongly reflected in rising demand for earth moving and mining machineries and thereby the demand for HR sheets and plates. Overall flat steel products demand went up by 6.8 percent during April to October 2009-10.

Indian economy has been witnessing stimulated investment expenditure through monetary and fiscal measures on



infrastructural development and construction with overall investment accounting for approximately 36 percent of GDP as against the global average levels of approximately 22 percent and advanced world's rate of 17 percent to 18 percent. With strong investment opportunities, Indian steel demand is dominated by long products accounting for approximately 56 percent share with balance 44 percent for flats. Further, with Indian economy continuing to accelerate at an average rate of approximately 7 percent to 8 percent while most of the world economies witnessing contraction, indicates the buoying economic opportunities in India and translating into rising steel demand. Rebar accounts for a share in excess of 55 percent amongst the long products. Secondary producers enjoy approximately 75 percent of the domestic demand for Rebars. Secondary steel sector is definitely choked up with a fair degree of excess and partially inefficient capacities. Induction furnaces and EAFs approximately 33 million tons per annum scattered amongst approximately 1050 units averaging to approximately 30 million tons per annum capacity levels. Whereas rolling units measuring approximately 1,650 units with an overall capacity of 30 million ton per annum averages to approximately 18 million tons per annum capacity.

Secondary sector units have the ability to switch on and off depending on the market dynamics. In addition, feasibility of consolidation of few of the efficient secondary sector / stand-alone units with major steel producers continues to exist with rising need to expand distribution reach as capacities expand.

Accordingly, there is an immense scope for restructuring in the secondary steel sector which will ease the over-capacity. Recently released production data indicates that global stainless steel production fell 15 percent through the first three quarters of 2009, compared to 2008. However, the International Stainless Steel Forum reports that



production increased 12.5 percent from July through September, versus the similar period in 2008. ISSF is a Brussels-based trade association representing stainless steel producers worldwide.

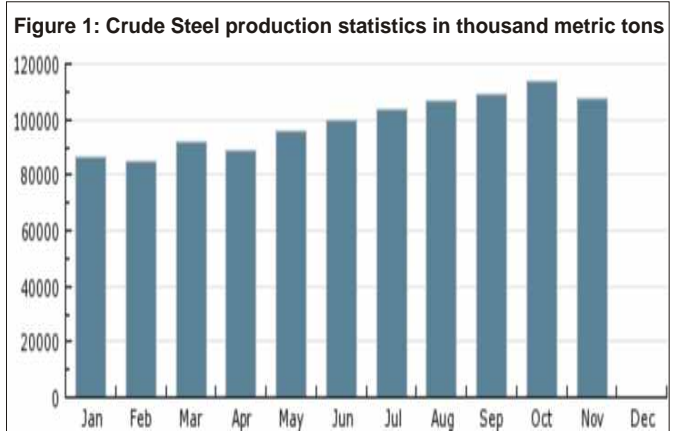
The third-quarter rebound was apparent across each of the five regional markets that the trade group studies: China, Asia (excl. China), Western Europe/Africa, Central/Eastern Europe, and the Americas. Also noted, the increase in stainless production was most apparent for the austenitic (high nickel or chromium) grades, also known as the 300 Series. By contrast, ferritic (lower nickel or chromium) grades, known as the 400 Series, have been in decline due to their common application in automotive exhaust system manufacturing. The 200 Series grades, chromium-manganese or martensitic stainless steels, also lost market share during 2009.

As is now typical, China's steel industry outpaced its global competitors at producing stainless steel in 2009. Chinese producers increased their stainless output 19.1 percent in the first nine months of last year, compared to 2008. China's actual output for the first three quarters of last year was 6.6 million metric tons, and ISSF indicates that China held 26 percent of the world's stainless market share for the period. Excluding China, the rest of Asia produced 5 million metric tons from January through September of 2009, a 23 percent drop versus the same period of 2008. Production fell significantly in India and Japan, and leveled in South Korea and Taiwan, ISSF reported. Stainless production in the Western Europe/Africa region totaled 4.6 million metric tons during the first nine months of 2009, a 31.5 percent decrease.

In North and South America, stainless production fell 1.5 million metric tons, a drop of 22.9 percent versus the first three quarters of 2008. In the Central/Eastern European region, stainless output was just 200,000 metric tons, a dramatic decline of 38.2 percent versus the same period in



2008. Currently it has been estimated that the 2010 global steel output will be an all time high figure – at just above the



2007 peak volume. Total iron production is likely to be 3.5 percent above the previous record outturn.

The combination of the mining companies wishing to retrieve potential lost revenue from the 2009 contracts, iron ore spot prices above contract prices and record demand in 2010, is likely to lead to tough talking in the new negotiations which start in December. The mining companies will have a good case to put to the Chinese who have led the increase in demand throughout the past twelve months. An iron ore price rise of more than 15 percent is highly likely. Prospects of agreement near to 20 percent are a distinct possibility.

In early 2009, several major institutions were forecasting a reduction steel demand of between 12 and 15 percent year on year. MEPS estimated that the decrease will be nearer 8.5 percent. More importantly, steelmaking via the integrated iron making routes will take a larger share of supply. In fact, global iron production in 2009 from the blast furnace and DRI processes will be only 5 percent lower than in the previous twelve months. Real demand for iron ore has clearly been substantially greater than originally anticipated by the negotiators on both sides. Furthermore, it is reported that the Chinese mills have substantially raised their stocks of imported ore during the past six months. The increased consumption has pushed up the spot price of iron ore to above the contract price. This is particularly important for Eastern steel companies. The European, Japanese and Korean mills agreed contract prices with most suppliers for 2009. There are suggestions that the mining companies would like to move to spot iron ore prices for all sales. The mills may have to concede large increases this year to maintain the contract price system.