

SEA Steel Industry Set to Battle with Global Recession

- Steelworld Correspondent

Waning demand for steel in the global market due to deepening financial crisis across the world has forced steel producers to cut steel production at a large scale. The sub-prime crisis monster has already gulped almost all major industrial sectors in America and Europe. And it has started spreading its tentacles in Asian markets also. Until now, there are no major sings of slowdown in demand in Asian markets.

No doubt, China is the largest steel producer and consumer in the world, but we cannot ignore the contribution of South East Asian countries for the steel industry. Major South East Asian steel producers like Indonesia, Malaysia, Philippines, Thailand, Singapore and Vietnam have witnessed a healthy economic growth in 2007. But for the past few months, there has been a marginal slack in steel production. According to the released

figures (Table 1), there would be no steeper decline in economic growth of SEA. Experts predict that with a 7 percent growth rate year on year, it is believed steel consumption in South East Asian region would reach 47 million tons level in 2008.

It is apparent from the demand side, that the growth is not restricted. Moreover, the regions' trust on infrastructure is providing further impetus to steel production. It is



estimated that under the current plans, there will be an increase of up to 20 million tons of iron-making capacity and 10 million tons of steel-making capacity in the region in coming years.

Despite the possible fall out from the widely projected slowdown in US economy in 2008, the South East Asian steel producers are not expected to be badly affected and will continue to see healthy growth, albeit at a slower rate. The regional steel consumption is anticipated to maintain its growth path and continue to expand in 2008.

Glance at SEA Steel Producing Countries:

Indonesia:

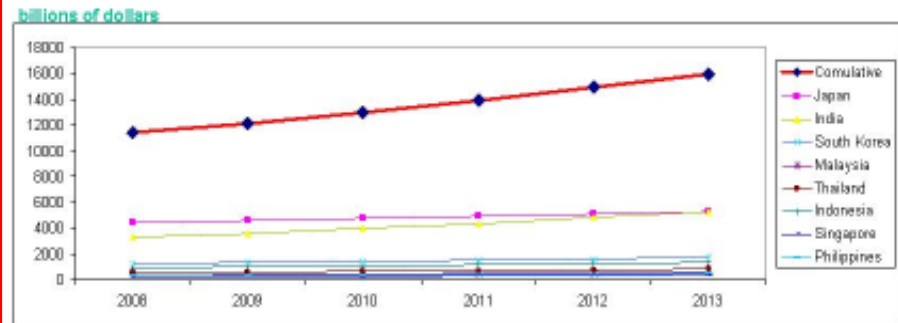
According to a UBS forecast, a positive grow in export will help Indonesia to maintain GDP rate at 6.2 percent, the same growth rate as in 2007. With regards to steel consumption, preliminary estimates indicated that Indonesia has enjoyed a robust growth rate of around 18% in 2007. As a result, there was a surge in the import of many steel products in 2007. Export of major steel products such as section, wire rod and hot rolled coil registered negative growth rate when compared to 2006, possibly due to the strong domestic demand. Going forward, steel consumption is expected to grow in 2008, albeit at a slower pace than 2007, but still a strong projected growth rate of 10%.

Thailand:

The recent quarterly GDP growth in Thailand has improved. This is due to

Economy Health in next 5-6 Years

Table 1



4439	4586	4752	4936	5117	5296
3290	3617	3980	4389	4829	5305
1276	1356	1446	1547	1651	1757
383	410	443	479	518	559
558	600	647	700	756	816
907	981	1064	1160	1261	1369
242	257	277	299	322	346
323	348	376	408	441	477

- Booming Economic growth heads to boom in savings, investments and capital formation leading to boom in steel consumption in construction and capital goods.
- Boom in GDP also increases demand for luxury goods like consumer durables leading to boom in steel demand in manufacturing segment.

Sources:

International Monetary Fund, World Economic Outlook Database, April 2008: Nominal GDP list of countries. Data for the year 2007. [1]
 International Monetary Fund, World Economic Outlook Database, April 2008: Nominal GDP list for The World and the European Union. Data for the year 2007. [2]
 CIA World Factbook [3]
 World Bank - July 1, 2008. Data for the year 2007.

government consumption and an increase in total investment. The 2007 GDP growth reached at 4.6%. Macquarie predicts growth of 5.7% in 2008. The acceleration in the implementation of mega-projects could be the main driver for economic growth as well as steel consumption in the coming years. The steel consumption pattern is expected to see an improvement with a 5% growth rate in 2008.

Malaysia:

The outlook for Malaysia's economic

growth has also been positive. The Malaysian Institute of Economic Research (MIER) has predicted 5.4 percent GDP growth for 2008. Despite several barriers, steel consumption is being expected to grow at a rate of 7 percent in 2008. Long products consumption will increase at a faster pace. This is proven by the doubling in import volume registered in 2007. The import was mainly to meet the shortage of construction bar in the domestic market. While export volume of steel products from Malaysia doubled in 2007, the



Major Investments in ASEAN

Table 2

Steel Making	Thailand
Total capacity expansion is around 10 mtpy (major investment is in Vietnam)	✦ Siam Yamato Steel - to expand its bloom/billet plant by 0.2 mtpy
	✦ Thai Intersteel Group - to build 0.35 mtpy of billet plant (Thai-Chinese JV project)
	✦ TBS Steel Group - to build 0.15 mtpy of billet plant
	✦ Chow Steel - to build 0.40 mtpy of billet plant
	Malaysia
	✦ Ann Joo (former Malayawata) - billets from BF route
✦ Eastern Mills - 0.5 mtpy of slabs from BF route	
Vietnam	
✦ Billet plants from EAF route > 4 mtpy	
✦ Billet plants from BF route > 4 mtpy	

Source : SEASI

quantity was nevertheless not very significant. However, the trend indicated that export of steel products will continue to grow in future.

Philippines :

Market analysts have painted quite a positive picture of Philippines' economic performance in 2008. This is evidenced by the pickup in private construction as well as growth in investments in durable equipments in the country. Steel consumption has started registering a steady growth since 2005 and is continuing at same pace today. It is expected that steel consumption in Philippines will register a positive growth rate of 5% for 2008. It is also predicted that domestic producers will enjoy an increase in production volume for long product to serve the increasing demand in the construction sector. Demand for flat products is expected to increase as well with the bulk of the supply coming from import.

Vietnam:

Vietnam's economy as well as steel consumption has experienced significant growth in recent year. According to Vietnam Steel Association, steel consumption in 2008 could register a record high growth rate of 42% y-o-y. The momentum of growth is expected to continue in 2008, with projected growth rate of 15%.

Barriers for SEA's steel Growth :

The predications seem to be difficult, when some core problems are unsolved. In comparison with world giants steel companies, major steel mills in the region are relatively small. Taking a glance at the current trend of consolidation in steel industry worldwide, there are now higher numbers of big steel companies than there were 10 years ago. The largest steel mill in 1998 was POSCO with total capacity of 26 million ton per year, while in 2007 POSCO dropped to number four in

ranking with total capacity of 33 million tons a year. Arcelor Mittal has emerged as the largest steel mill with total capacity of 116 million tons per year, followed by Nippon Steel with 36 million tpy capacity. It would appear that in the current era, one would need to have at least 10 million tons of annual capacity to be considered a major steel producer. Interestingly, China currently has more than 20 steel companies each with over 10 million tons of annual crude steel production capacity.

In comparison, major steel mills in the South East Asian region at most have only 2-4 million tons of annual production capacity. Moreover, the region is very much dependent on outside suppliers for key products, including materials and quality steel to fulfill the needs of strategic industries such as automotive and electrical appliances. Many steel mills in the region encountered material shortage when Chinese government started to control the export of semi-finished steel products. Fortunately, global steel demand has been growing consistently in the last few years, especially steel import requirements from USA. This has stirred up capacity utilization of many steel mills in the region to serve the export market in USA. However, with the current talk of American financial crisis and its effect on global economic development, the impact on steel industry in the South East Asian region will be seen in near future.

