

Inflation in Steel industry

— Steelworld Correspondent

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A lot of efforts have been attempted to diagnose the recent run up in steel prices. Certainly raw material factors are still the primary contributor to the sharp rise in steel prices (iron ore costs up 65% year over year, coking coal costs tripling, scrap prices jumping, high energy costs, transportation vessel shortages, freight fuel charges, etc.). Instead, there are other primary factors influencing the run in US prices such as, The weak dollar's effect on steel imports, Global consolidation in the industry

The weak dollar and resulting drop in imported steel outweigh the impacts of global demand. In fact while demand in many US industries is high, the contraction in automotive, housing and appliance sectors is keeping the overall US demand in check. Unlike the period of 2004-2005, when steel-making costs jumped AND demand spiked, this market is marked by high steel-making costs and moderate global demand. The big difference now is that domestic steel mills have been able to charge what they want due to a lack of cheaper-priced imports. In other words, the weak dollar has put the brakes on steel imports. Global consolidation in the industry is also playing a significant part. In the past, mills stayed within their home regions whenever acquisitions were made (Asian mills buying Asian mills, US mills buying US mills, etc.). Today, global mills are very often acquiring mills in different parts of the world.

There are Chinese government that has severely modified export tax rates and VAT changes which have seriously curtailed steel exports from China. We also have a far savvier "Big Steel" industry that has closely matched production to actual demand preferring the shuddering of older inefficient mills to operating at just above cost (or in some cases below cost) which used to be the operating norm. This shift, which occurred in the late 90's, is a marked change from how mills used to operate. The result – a

perfect storm of price increases for steel buyers!

The steel industry has proposed a slew of measures that will bring down prices by 12-15 per cent with immediate effect. Sajjan Jindal, vice chairman and managing director, JSW Steel said the industry has suggested three measures that the government could take for bringing about a price reduction. An excise duty cut from 14 per cent to six per cent could bring down the steel prices by eight per cent, a 25 per cent export duty on iron ore would impact the prices by five per cent and the withdrawal of import duty on input materials such as coke, limestone, ferro alloys, aluminium and copper would drag the prices by two per cent. Jindal said the industry had decided to hold the priceline for now and would take a call once the government decides on the required measures.

An industry source said, "We have informed the government that we will not increase the prices now. But a hike in the prices of raw material, especially by NMDC, will compel us to hike the prices." The government-owned NMDC has already written to some long-term customers hinting that prices will be hiked in April and the change will be implemented with retrospective effect. NMDC has long-term contracts with most of the major steel producers without captive mines. However, a Federation of Indian Mineral Industries (FIMI) delegation met the commerce secretary today and gave an assurance that exports would not be at the cost of the domestic industry. They further agreed to interact with others in the value chain, including sponge iron, pig iron and steel industries, in a week's time to find ways of reducing the prices. Steel industry sources said the raw material costs have increased by Rs 12,000 a tonne in the past year. Steel prices, which have been on an uptrend since the start of the calendar year have risen by an average Rs 6,000 a tonne since January this year.