



Grim outlook for South East Asian steel sector

- Steelworld Research Team

The unprecedented decline in global economic output and trade volumes this year warns that growth would also slow sharply in the vulnerable developing world and the South East Asia is no exception. According the latest forecast by the World Bank, the global economy shrinking by 1.7 percent in 2009, leading to be the first decline in world output since the World War II. Developing countries have been hit harder than anticipated in the global economic crisis and lack the means to withstand the onslaught, the multilateral institution said in an outlook update released before

a 'Group of 20 Summit' of developing and industrialized nations in London to coordinate a global response to the economic crisis. Gross Domestic Product (GDP) growth in developing countries is expected to slow to 2.1 percent from 5.8 percent in 2008. The World Bank forecasts recessions in Europe and Central Asia (negative 2.0 percent), and Latin America and the Caribbean (negative 0.6 percent).

Steel Outlook

Given the weakening economic projection for the current and the next year, the steel industry outlook looks grim. The current financial turmoil has a severe impact on the steel industry.

Steel demand in all countries is linked to fixed capital investment, which in turn is highly dependent on capital availability. Tighter credit conditions will reduce construction activities and other related projects. Lower confidence also has a strong impact on the spending on durables such as automobiles, appliances and other steel-intensive goods. As a consequence of the global economic meltdown, construction activities and capital investment are slowing down in emerging economies. Construction activity in China alone is estimated to contribute slightly less than a fourth of global steel demand. The investment in the real estate industry in China is showing signs of slowing and housing prices are dropping in many major cities. Property-market risks have heightened in India and Russia. Real estate investment in Russia in particular registered a sharp slowdown to 8 percent recently, down from 24 percent a year ago. This was due mainly to a tightening of credit from banks. Steel demand, production and prices have plummeted. Demand for key raw materials such as iron ore, ferrous scrap and coal has weakened. The decline in steel demand is also expected to lead to changes in trade policy in many countries, in order to encourage export growth in response to weakness in domestic markets and to support domestic producers. China, for example, has decided to remove export taxes on some finished steel products, including hot rolled coil, HR sheet, plate, most heavy sections (including H-beams, I-beams and angles), welded pipe, most wire products and most alloy steel, effective on December 1, 2008. However, export duties for semis, rebar, wire rod, bar and light sections remain unchanged. Taiwan has relaxed its control on exports of steel scrap, billet and rebar, by allowing exporters more freedom to export these products for the next six months from October 28, 2008. Vietnam recently removed export duty for billet (from 5 percent export duty



previously), effective on November 17, 2008. At the same time, Vietnam also increased its import duty on cold rolled coil from 5 percent to 7 percent, effective on October 12, 2008. The country's Ministry of Industry and Trade has also proposed to the Ministry of Finance to increase import duties on long products (bar, wire rod, small-medium section, and steel wire) from 8 percent to 20 percent.

South East Asia

Being immune to the global development, steel industry in South East Asia (SEA) is likely to decline this year and next. If there is no improvement in demand, there is a high chance that steel prices will not recover this year. Demand for raw materials from steel mills remained low throughout the first quarter of





2009. Long products demand in the global market remained low and the drop in prices only stabilized in February and early March 2009. Flat products markets appear to be weaker since their main customers, such as

SEASI member countries in 2007

Country	Contribution in %
China	31
Japan	27
India	2
Representatives of Korea	7
Russia	6
Ukraine	2
US	3
Eu25	2
ASEAN	6
Australia	2
Taiwan	4

automotive sector, are suffering from the economic meltdown as well. Latest demand forecasts have to be revised continuously in anticipation of further impacts from economic slowdown, except for China and South East Asia.

Nevertheless, steel makers in South East Asian countries may have to contend with the increasing flow of steel products from other regions. Economic recession has hit steel demand in Europe and the United States. In addition, the American slogan of “Buy America” raises more worries for steel makers in other regions. China, the world’s top steel producer and consumer, is also protecting its domestic market and encouraging exports to help local steel producers. Despite the earlier production cutbacks announced by

many steelmakers in China, the China Iron and Steel Association came out to warn that steelmakers were rushing back to full production after a brief upturn in steel prices in January and early February, which means the market might be flooded by unwanted steel. On the other hand, Russia and Ukraine are trying to export steel products to Asian markets at competitive prices. Recently in March, it was reported that Russia offered slab to Asia at

USD 300 per ton (FOB), compared to the average slab price (FOB) reported by World Steel Association of USD 345 per ton.

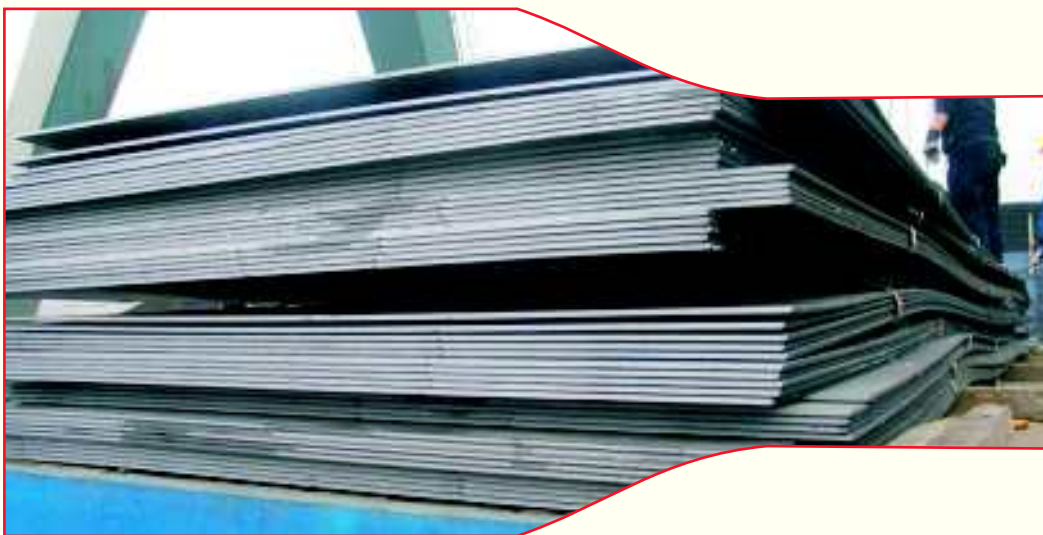
Imports of iron and steel products in the ten SEASI member countries expanded at an average rate of 7.5 percent for the period 1998-2007, higher than the 4.6 percent recorded in the pre-economic crisis years of 1991-1997. Total import volume in 2007 registered 96 million tons, of which 46 percent were intra-group trade. The largest source of import for the group was China which accounted for 30 million tons or 31 percent of the



group's total import volume in 2007. South Korea was the largest importer of iron and steel products from China (among the ten countries), with total volume of 14 million tons in 2007. The member countries are Australia, Indonesia, Japan, South Korea, Malaysia, Philippines, Singapore, Taiwan, Thailand and Vietnam.

Shrinking Malaysia

Economic growth in developing East Asia this year will slow to less than half its rate in 2007 amid sinking export demand from rich nations, but China is likely to start recovering later this year. Collectively, the once high-flying region - which also includes Thailand, Malaysia, Vietnam, Indonesia, the Philippines - will likely grow 5.3 percent this year, down from 8 percent last year and 11.4 percent in 2007. Plunging exports - the region's lifeblood - are causing widespread factory closures, rising unemployment and wage cuts across the region. But, the positive sign in China, predicting that the world's third largest economy behind the US and Japan will likely start to recover later this year. That recovery should take hold next year, and could help lift the entire region. A recovery in China - fueled largely by the country's huge economic stimulus package - is likely to begin this year and take full hold in 2010, potentially contributing to the region's stabilization, and perhaps recovery. The bank predicts that China's economy will grow 6.5 percent this year, down from 9 percent in 2008 but still the strongest rate of any major economy. Cambodia, Malaysia, Thailand and East Timor are projected to experience absolute increases in poverty. The World Bank expects Thailand's economy to suffer the biggest contraction this year among developing East Asian countries, with gross domestic product shrinking 2.7 percent, down from 2.6 percent growth last year. The bank forecasts Malaysia's economy will contract 1.0 percent while Indonesia should grow 3.4 percent, the Philippines expand 1.9 percent



and Vietnam gain 5.5 percent. Other countries considered part of developing East Asia include Cambodia, Laos, Mongolia, Papua New Guinea, East Timor, and the Pacific islands.

Meanwhile, Malaysia's steel industry is likely to slow down but achieve sustainable growth this year due to a downturn in the domestic construction sector and moderate growth in the manufacturing industry. Starting from 2005, the industry is likely to book an average 10 percent growth annually for the next six years. This is in stark contrast to the steel industry's heyday in the mid-1990s, when it chalked up 20-30 percent growth annually. The iron and steel products sector has seen significant developments during the last three decades, in step with the





overall growth of the Malaysian economy. The iron and steel products sub-sector covers the manufacture of primary steel products such as direct reduced iron, hot briquetted iron, blooms/slabs and steel billets and a wide range of downstream flat and long products such as hot rolled coils, cold rolled coils, steel pipes and sections, steel billets, steel bars and wire rods.

Malaysian Iron and Steel Industries Federation (MISIF) deputy chairman Datuk Lew Chin Hoi said steel consumption is expected to be weak this year. He expects consumption to improve marginally next year before picking up again from 2007-2009 in line with the implementation of infrastructure development under the 9th Malaysia Plan and industrial

activities under the 3rd Industrial Master Plan. Steel consumption in 2004 jumped 16 percent to 7.7 million tons from 6.6 million tons a year earlier. Both long and flat products grew by 15 percent and 18 percent respectively in 2004, Lew said. "We do not expect 2005 to experience such a phenomenal growth as the market demand has slowed since the second quarter in view of the slowdown in the construction industry," he said.

Regional Exports

Exports of iron and steel products from the ten member countries surged modestly after the economic crisis, from an average of 6.4 percent between 1991 and 1997 to an average of 3.2 percent between 1998 and 2007. Exports within the group constituted half of the total export volume in 2007. Outside of the group, 29 percent of total export volume was destined for China. The main exporters to China were Japan, South Korea and Taiwan. Japan's total iron and steel exports in 2007 was 34 million tons, the highest among the ten countries. Japan's export volume grew at an average growth rate of 3.2 percent since 1998, which was lower than average growth rate of 4.6 percent before the economic crisis. Major export destinations in 2007 were South Korea (9.6 mt), China (6.3 mt), Thailand (4.3 mt) and Taiwan (3.6 mt). Exports from Korea totaled 17.9 million tons in 2007. However, the average growth rate of 1.1 percent from 1998 to 2007 was sluggish when compared to the average rate of 6.7 percent, registered before the economic crisis.

Major destinations of iron and steel exports from Korea in 2007 were China (4.0 mt), Japan (3.1 mt), USA (2.2. mt) and Europe (1.9 mt). Iron and steel exports from Taiwan grew by a respectable average rate of 6.4 percent per annum after 1998, but still much lower than the pre-crisis level of 21 percent per annum. Total exports in 2007 registered 12.5 million tons, an increase of 3 percent from 2006.



Vietnamese Billet Import Declines

Steel markers only spent US\$121 million for importing 282,000 tons of steel billet in the first quarter of 2009, equaling to 27.5 percent in output and 18.3 percent in value of the same period of 2008, reported Vietnam Steel Association (VSA). Vietnamese steel companies, which can produce around 4.5 million tons a year, have 300,000 tons of ingots in stock, according to Vietnam Steel Association (VSA). As per an estimate, domestic steel consumption fell more than 20 percent in the first quarter. Exports fared even worse in the period, declining by nearly 30 percent to 700,000 tons. With few orders coming in, steel production in the first quarter was down 76 percent year-on-year to around 760,000 tons.

Price Behaviour

Raw material prices, particularly for scrap and spot iron ore, remained in downward trend through the first quarter of 2009. According to Australian miner, Territory Resources Ltd, benchmark contract iron ore prices are set to fall 30-35 percent from levels set last year, a reflection of lower demand amid the global recession. World Steel Association reported that scrap price picked up from 125 USD per ton in November 2008 to 268 USD in February 2009 and dropped dramatically in March 2009 to 230 USD per ton. Meanwhile, semi-finished steel prices continued to decline from 628 USD per ton for billet in November 2008 to 350 USD per ton in March 2009, and from 908 USD per ton in November 2008 to 345 USD per ton in March 2009 for slab.

Scrap-based EAF producers are using up supply inventory and are still able to enjoy profit from the gap between scrap price and finished steel prices. However, re-rolling mills may have a hard time since the price gap situation does not apply in the case of finished steel and semi-finished steel. Concrete reinforcing bar price declined steeply from the peak of 1,115 USD per ton in August 2008 to 450 USD per ton in March 2009. In



December 2008, billet price was higher by about 200 USD per ton, when compared to price of concrete reinforcing bar and wire rod. Similarly, slab price was higher than hot rolled wide coil by 113 USD per ton in early November 2008 and by 200 USD per ton in December of the same year.

Conclusion

Driven by the economic recession in advanced economies, global steel demand could slow down by 3-7 percent in 2009. China's steel demand is expected to continue to increase in view of its expanding industrial production and urbanization trend which will drive the regional demand and may have a repercussion on the overall steel demand in the South East Asia.

