



Indian steel sees price rise

- Namita Naik

Steel majors Steel Authority of India (SAIL) and Tata Steel have hiked steel prices on account of excise duty hike and a perceptible rise in demand. The rise in fuel prices also induced the steel majors to increase the prices as transportation costs shot up. Tata Steel has increased prices of long steel products—used mainly in the construction and infrastructure sectors—by Rs 1,000 a ton and that of flat steel products—used mainly by the white goods industry—by about Rs 2,000 per ton. The Steel Ministry is also considering a 20 percent export duty on Iron Ore. A top official from Steel Ministry commented that there is a general consensus that we should use maximum Iron Ore for our own value addition. A ban is not a measure that we have thought of. If it will happen, it will happen only through fiscal measures. Though the Ministry had sought a duty of 20 percent on Iron Ore lumps and fines going out of the country, the Finance Ministry enforced only a 5 percent duty in December 2009.

However, steel companies have spared the galvanised corrugated steel sheet from any price hike to give some relief to end consumers. The country's largest steel maker SAIL increased prices of its products by up to Rs 600 a ton to pass on the excise duty burden to

consumers. Declining to give specific details, a SAIL spokesperson said: "The hike in excise duty has been passed on to consumers. Earlier, when the excise duty was reduced by the government, that benefit was also passed on." The government brought down excise duties from 10 percent to 8 percent in February last year as part of its measures to boost the economy following the global meltdown. Simultaneously, the state-run steel maker Rashtriya Ispat Nigam Ltd (RINL) crossed Rs 9,000 crore in sales turnover till the end of February, with the volume touching 2.67 million tons.

As the much-awaited Budget is out the after-effects are being felt across all sections of industries. Partially rolling back the fiscal stimulus, the government has raised excise duty by two percent across the board. The major steel players wasted no time in reacting to hike in excise duty in the Union Budget by increasing the prices of both their long and flat products from March 1 2010. The impact of the higher excise duty translates to a Rs 500-600 a ton increase for consumers. Before the price hike, long product prices in the domestic market ranged between Rs 27,000 and Rs 29,000 a ton. Long products are used mainly in the construction industry. The price of flat

products, used primarily in the automobile sector, stood at Rs 34,000-36,000 a ton.

JSW Steel Ltd has raised the price of all products by two percent. Seshagiri Rao, joint MD of JSW Steel said: "Partial withdrawal of stimulus packages by way of a hike in excise duty, restoration of custom duty and excise duty on petroleum products is inflationary." An Essar Steel spokesperson too said, "We will levy the duty as per the revised notification. According to Ispat Industries Ltd director (finance) Anil Surekha, "Apart from an increase in excise duty, the cost push is also responsible for the steel price hike." Iron ore prices in the last 15 days rose by seven percent to around US\$142 a ton for export to China. Iron ore contract prices for FY09 were sealed at US\$75 a ton, and those for coking coal at US\$300 a ton. In FY10, long-term coking coal prices reduced to US\$128 a ton.

Despite the Steel Ministry's concerns and suggestions to control rising steel prices, producers had in February 2010 raised them by Rs 500 a ton because of rising costs and an uptrend in international prices. Before that, steel players had in December and January also increased prices of their products by 3-5 percent on the back of good

**Table 1. Iron & Steel : Delhi Local Market Price (Apr 2010)
(Per Tonne : Inclusive of Excise Duty)**

	12	13	14	15	16
Amba Saria (ISO:9002)					
10	39,100	39,100	39,100	39,100	39,100
12	38,500	38,500	38,500	38,500	38,500
16-25	38,300	38,300	38,300	38,300	38,300
Amba Shakti (TMT)					
8 MM	40,100	40,100	40,100	40,100	40,100
Billets					
5*	36,500	36,500	36,500	36,500	36,500
Capital Angle (ISI)					
35 x 5 65 x 6	36,200	36,000	35,900	36,100	36,100
40 x 5 40 x 6	35,900	35,700	35,600	35,800	35,800
50 x 5 50 x 6	35,700	35,500	35,400	35,600	35,600
Garder Joist					
125 x 70	36,200	36,500	36,400	36,600	36,600
200 x 100	36,200	36,000	35,900	36,100	36,100
Ingot					
Bhilwari	26,000	26,000	26,000	25,000	25,000
Gaziabad	==	==	==	==	==
Gobindgarh	29,500	28,400	27,400	26,300	26,300
Muzaffamagar	29,200	28,100	27,100	36,100	26,100
Kamdhenu (ISO : 9002)					
10	40,100	40,100	40,100	40,196	40,100
12	39,450	39,450	39,450	39,450	39,450
8mm	40,800	40,800	40,800	40,800	40,800
Plate					
Prime (Scrap)	41,500	40,000	40,000	40,000	40,000
Mill Heavy	23,800	22,800	21,800	21,100	21,100
Sheet (HR Black)					
Bokaro (12)	41,700	40,200	40,200	40,200	40,200
Bokaro (14)	42,000	40,200	40,200	40,200	40,200
Bokaro (8-10 Gauge)	42,000	40,200	40,200	40,200	40,200

demand and firming international prices. The recent Care Ratings report noted that the increase in excise duty is expected to be negative for steel manufacturers; the overall impact is likely to depend upon their ability to pass this on to consumers. Currently, iron ore lumps attract a duty of 10 percent from five percent earlier, while iron ore fines attract a duty of five percent, up from nil till December. An official said that the method to slow down iron ore exports hasn't been finalised yet. There are issues on both sides—steel companies and iron ore exporters. “We are

exporting away our future. That ore will come back to us in the form of steel in future, because we will not be able to produce it here,” said a senior executive from Tata Steel. On their part, iron ore exporters are predictably unhappy with the government imposing duty on exports. A top official from Federation of Indian Mineral Industries (Fimi), said, “We export mostly fines, which are not used by Indian steelmakers... They are wasted here and the Chinese have the technology to use fines in their steelmaking process. So, why shouldn't we be allowed to export material that is not used in India?” “Fines are not used in India as of now, but there will be increased use of fines now as new plants, which are coming up are all based on sinter or pellet plants. So we will see more use of iron ore fines,” commented an official from the Steel Ministry. In the next three years, India is expected to grow at around eight percent of GDP according to rating agency Crisil, a subsidiary of Standard and Poor. Robust growth will be seen in sectors like banking, insurance and asset management in 2010-11 and credit in the banking

exporting away our future. That ore will come back to us in the form of steel in future, because we will not be able to produce it here,” said a senior executive from Tata Steel. On their part, iron ore exporters are predictably unhappy with the government imposing duty on exports. A top official from Federation of Indian Mineral Industries (Fimi), said, “We export mostly fines, which are not used by Indian steelmakers... They are wasted here and the Chinese have the technology to use fines in their steelmaking process. So, why shouldn't we be allowed to export material that is not used in India?” “Fines are not used in India as of now, but there will be increased use of fines now as new plants, which are coming up are all based on sinter or pellet plants. So we will see more use of iron ore fines,” commented an official from the Steel Ministry. In the next three years, India is expected to grow at around eight percent of GDP according to rating agency Crisil, a subsidiary of Standard and Poor. Robust growth will be seen in sectors like banking, insurance and asset management in 2010-11 and credit in the banking

Table 2. Steel Prices of Middle East (UAE)

	April 2010
Billets – Blooms	670 – 690
Reinforcing Bars	710 – 720
Angles	670 – 690
Beams	680 – 700
Wire Rods	690 – 700
HR Plates	700 – 720
HR Coils > =2mm	700 – 720
CR Coil, 1mm	830 – 850
HD Galvd. Coils, HR Base	830 – 850
HD Galvd. Coils, HR Base	880 – 900
Prepainted Galvd. Coils 0.35	1030 – 1070
Tinplate 0.32mm	1250 – 1300
SS HR Coils 304 base	3050 – 3150
SS HR Coils 316L base	4450 – 4550

industry may grow at an estimated 20-22 percent, said Crisil. The rating agency also said that the non-performing assets may reach 3.5-4 percent by March 2011. Financial stability will be underpinned by regulations. It cautioned that capital control measures may appear at the cost of maintaining financial stability.

China's Iron and Steel Sector

The prices of high grade Iron Ores, the main raw material for steel making, has touched its highest level since August 2008 as a result of China's ban on import of low grade ores by traders into the country. Ores with 63.5 percent iron traded at US\$180- 182 a ton basis C&F, up about 9 percent from US\$167, China's Consultant Mysteel's data showed. Indian exporters also quoted prices at US\$180-182, but said few deals were being done due to a shortfall of high-grade ores. The China Chamber of

Table 3. LME Steel Billet Prices (\$/tonne)

Date	Mediterranean			Far East		
	Sett.	3m	15m	Sett.	3m	15m
09 Apr. 10	601.00	616.00	655.00	595.00	610.00	655.00
12 Apr. 10	595.00	614.00	645.00	595.00	610.00	645.00
13 Apr. 10	569.00	601.00	635.00	590.00	605.00	635.00
14 Apr. 10	575.50	605.00	680.00	590.00	605.00	680.00
15 Apr. 10	570.50	600.00	680.00	590.00	605.00	680.00
Average (Mar'10)	499.33	518.17	556.09	501.09	516.09	556.30
Stocks (Month – end in tonnes)	----- 30,615 -----			----- 4,810 -----		

Fig 1: Prices of China's spot iron ore imports



Commerce of Metals, Minerals and Chemicals Importers and Exporters (CCCMC) banned its members from importing ore with iron content of less than 60 percent in a move seen slashing India's exports, which comprise mainly low-grade ores. In a report titled 'Irrationality fast sending iron ore prices to US\$200 a ton', Credit Suisse said the China restrictions and the Indian monsoon, among other factors were firming up the market. Steel and freight prices, that iron ore traders track to get a future direction on prices, were both up.

China now has a massive production capacity of 660 million tons, with 58 million more tons of capacity under construction, its overcapacity amounting to 200 million tons. Utilisation rates at Chinese steel mills currently stand around 90 percent. China by far is expected to rev up production by nearly 10 percent till the end of 2010. The fragmented steel industry has caused overcapacity, inferior bargaining power for raw materials imports and for product pricing and lower profitability as a result. According to a state-owned government adviser, guidance for steel industry is under preparation by the Ministry of Industry and Information Technology, and the policy aims to consolidate the industry by forming one or two steel producers with annual output of 100 million tons by 2015. Meanwhile, the guidance will facilitate top steel producers, i.e. Baosteel, Hebei Steel, Angang,

Wugang, and Shandong Steel, etc., to consolidate other steel mills. China's steel consumption is expected to remain high but grow slowly in the short-term. Imports of Iron ores were 49.4 million tons in February 2010, up 5.6 percent from a year earlier and 5.9 percent from the previous month, which is very normal level of imports to sustain the ramping up of steel

production in the months ahead. Chinese steel demand is profound, and rising raw-material costs are driving an inflationary spiral in the region as steelmakers and their customers clamor for material. China's exports have dropped between 10 and 50 percent, depending on the product and country in the last year.

China's surging demand for steel this year is expected to dominate the global steel industry as never before. Massive government stimulus and infrastructure plans including for rails, roads and bridges in eastern China and for general construction and factory building in the western part of the country are fueling demand. In addition to domestic consolidation, the Chinese government will also encourage domestic steel firms to acquire Iron Ore and coal resources overseas to meet the growing demand where China accounted for half of the world's Iron ore imports. It is expected that all the large steel companies will benefit from the long-term consolidation trend and improvement in price negotiation power.

China also is trying to unite a fragmented domestic industry to present a strong voice in price negotiations for sales and purchases of raw materials. With China now the world's largest steel producer - accounting for half of global production in 2009, up from 38 percent in 2008 - its position is vital for both sides. China needs the iron

ore, and the miners need its business on favourable terms. With global steel demand and prices now soaring again as the worldwide economy continues to recover, the negotiations will centre on how much iron ore prices need to rise, with some analysts predicting the miners may call for a 40 percent increase. To secure the extra Iron Ore imports it needed last year from outside the benchmark agreement, China turned to a recent development in the sale and purchase of Iron Ore - the 'spot' market. The spot price is rising strongly because steel demand is soaring globally, with even the steel market in Europe picking up. As a result, the supply of Iron Ore is going to be tight in 2010. Demand is stronger than supply again. With spot prices expected to keep rising, it is financially vital for China to be able to agree to a new benchmark price at or around the current spot price level.

According to miners and exporters, the trading volumes were dismal as the market waited for more clarity on China's ban of imports of ores with iron content below 60 percent in a bid to ease prices. "Our clients in China are not affected by this ban, but still we are not trading. We are waiting for more clarity," said a mid-sized miner and exporter based in Goa, which produces large amounts of Iron Ore fines. A trader in Orissa said that ore cargo is there at the mines but none at the ports as the state government has placed a ban on movement of Iron Ore in a long-standing action against illegal mines. One dealer in a large trading company in South India said Iron Ore of grade 58 quoted at US\$145-146 C&F, up just a couple of dollars. However, India's exports are expected to fall with the onset of the monsoon next month that could further tighten global supplies, according to traders. Monsoon, expected to be normal this year, hits India at the end of May and lasts till September and would close most shipments of Iron Ore fines that tends to absorb moisture and make the ships too heavy for normal operations.