Overview on Global steel demand and prices

- Namita Naik

Steel prices have risen significantly in the recent past in anticipation of recovery in demand and production. As far India and China are concerned, there is real demand. China and India are showing real demand growth. China has registered over 19 percent demand growth and India has been at the level of 9-10 percent and it is picking up. India's steel consumption rose by 6.8 percent during April-November 2009 over the same period a year ago on account of improved demand from sectors like automobile and consumer durables.

On the other hand, India accounts for around 5 percent of the global steel consumption. Almost 70 percent of the total steel used is for kitchenware. However, its use in railway coaches, wagons, airports, hotels and retail stores is growing immensely. The demand has shrunk considerably the world over to the extent of 25 percent. As far as price correction in November is concerned, domestic prices were more than international prices. India's steel production reached 28.49 million tons (MT) in April-September 2009. In 2008-09, production of finished (carbon) steel was 59.02 million tons. Production of pig iron in 2008-09 was 5.299 million tons (see table 1).

Table 1: Last 5 year's production of pig iron in million tons

Category	2004-05	2005-06	2006-07	2007-08	2008-09
Pig Iron	3.228	4.695	4.993	5.314	5.289
Finished Carbon Steel	40.055	44.544	55.416	58.233	59.02

Source: JPC

Significantly, state-owned steel maker, Steel Authority of India (SAIL), which reported a net profit of US$ 571 million in January-June 2009, has become the most profitable steel company globally, beating steel majors such as ArcelorMittal, POSCO, Baosteel and Nippon in the half yearly profits. A Credit Suisse Group study states that India's steel consumption will continue to grow by 16 percent annually till 2012, fuelled by demand for construction projects worth US$ 1 trillion. The scope for raising the total consumption of steel is huge, given that per capita steel consumption is only 35 kg, compared to 150 kg across the world and 250 kg in China.

The National Steel Policy has envisaged steel production to reach 110 million tons by 2019-20. However, based on the assessment of the current ongoing projects both in greenfield and brownfield, Ministry of Steel has projected that the steel capacity in the county is likely to be 124.06 million tons by 2011-12. Further, based on the status of MoUs signed by the private producers with the various state governments, it is expected that India's steel capacity would be nearly 293 million tons by 2020. Steel players like JSW Steel and Essar Steel are increasing their focus on opening up more retail outlets pan India with growth in domestic demand. JSW Steel currently has 50 such steel retail outlets called JSW Shoppe and is targeting to increase it to 200 by March 2010. They expect at least 10-15 percent of their total production to be sold by their retail outlets. Essar Steel, which currently has over 300 retail outlets across the country, plans to set up 5,000 outlets of various formats soon. It expects to sell 3MT of steel through the retail route in two years.

In terms of inputs, in April 2009, Indian steel companies entered into annual contracts for coking coal at about US$130 per ton, which was significantly lower than the US$300-350 per ton in early 2008. However, spot coking coal prices are hovering around US$170-180 per ton and are expected to rise to about US$200 per ton in 2010. If the trend prevails, companies that depend on imported coal will have little choice but to renew contracts (due in April 2010) at higher prices leading to pressure on costs. Similarly, global spot iron ore prices, which had dropped to almost US$65 in early 2009, have risen to over US$120 per ton. These, too, are expected to remain firm.

Price rise

The mismatch in demand and supply is considered to be the main reason on the demand side for the rise in steel prices (see table 2).

Table 2: Projected Compounded Annual Growth Rates for Production, Imports, Exports and Consumption of Steel in India (2003-2004, 2004-2005 and 2019-2020)
(Million Tons)

Year	Production	Imports	Exports	Consumption
2004-05	38	2	4	36
2003-04	35	2	6	31
2019-20	110	6	26	90

Source: Indiastat.com

Steel minister has held discussion with all major steel investors including Arcelor-Mittal, POSCO, Tata Steel, Essar, Ispat and also SAIL, RINL to explore the possibility of expediting the ongoing as well as envisaged steel projects. As seen trend in prices in the recent past, two of India's top steel producers raised their prices. Tata Steel raised prices by Rs 2,000 a ton whereas SAIL withdrew the discounts it offered to customers. Very soon, others such as JSW Steel, Bhushan Steel and Essar Steel are expected to increase prices by about Rs 1,500 per ton. Price regulation of iron & steel was abolished on 16.1.1992. Since then steel prices are determined by the interplay of market forces. There has been an up-trend in the domestic steel prices since 2006-07 and the trend accentuated since January this year. Rise in raw material prices, strong demand in the international and domestic market and up-trend in the global steel prices have been some of the reasons cited by the industry for increase in the steel prices in the domestic market.

The price hikes are in line with the rise in international steel prices, which is due to higher costs of coking coal and iron ore. Also, global demand has been looking up due to improving economic outlook and restocking of inventory. According to data from 66 countries, production was up 24.2 percent in November 2009; Chinese steel production was up 37.4 percent whereas India's was up 4.7 percent. Meanwhile, most of the rise in steel prices is on account of the cost push. Hence, gains will not be significant for companies that do not have sufficient captive inputs. Thus, only integrated players like Tata Steel and SAIL stand to gain; for the former, the overhang of its Corus operations could limit the gains. Analysts say while the short-term (five-six months) outlook for the sector looks good, steel prices are not expected to move up drastically in the long run given that the global demand is still low and any meaningful recovery is expected only in 2011. However, shares of steel companies have risen significantly in the recent past in anticipation of the recovery in demand and prices. This is also reflected in their valuations, given that most of these stocks are trading at 9-10 times their estimated earnings for 2009-10.

Government initiative

Subsequent to the recent fall in international prices of commodities and to protect Indian producers, the Indian government has announced some changes in customs duty rates, which were effective from November 2008. The government has removed full exemption of customs duty on some industrial and agricultural commodities. Iron and steel products like pig iron, semi-finished products, flat products and long products are now subject to a basic custom duty of 5 percent ad valorem. The Indian government plans to invest over US$ 350 billion in industries related to infrastructure and construction which will give a fillip to the steel sector. Moreover, in the Union Budget 2009-10, the government has made a 23 percent hike in allocation for highway development and US$ 1.034 billion increase in budgetary support to railways which will further promote the steel industry.

The government also took various fiscal and other measures for stabilizing the steel prices like exempting pig iron, non alloy steel and steel making inputs like zinc, ferro-alloys and metcoke from customs duty; withdrawing DEPB benefits on export of various categories of steel products and bringing back railway freight on iron ore from classification 180 to 170 for domestic steel producers.

In May 2008, the government imposed 15 percent export duty on semi-finished products and hot rolled coils/sheet, 10 percent export duty on cold rolled coils/sheets and pipes and tubes and 5 percent export duty on galvanized steel in coil/sheet form in order to further curtail rising prices and increase supply of steel in the domestic market.

Exports

Positively, there is some relief for Indian steel manufacturers given the recent hike in export duty on iron ore by 5 percentage points. However, the move will have some negative implications for companies like Sesa Goa, which exports about 90 percent of its iron ore production, of which a large part is sold in the spot market. According to analysts' estimates, the hike in export duty could impact the company's earnings per share (EPS) by less than 5 percent. They now peg the EPS for 2010-11 at Rs 34 based on the average spot price of US$ 85 and the contract price of US $70 for a ton of iron ore. At the current price of Rs 404, they believe the stock is fairly valued and could move up only if iron ore prices gain more ground.

Table 3: India's Exports in million tons

Exports (Qty. in million tons)		
Year	**Finished (Carbon) Steel**	**Pig Iron**
2004-2005	4.381	0.393
2005-2006	4.478	0.44
2006-2007 (Prov.estimated)	4.75	0.35
2007-2008	4.627	0.56
2008-2009 (Prov.estimated)	3.482	0.35

Source: JPC

Out of India's annual iron ore production of more than 200 MT, about 50 percent is exported. India's iron ore exports more than doubled to 9.3 million tons in October 2009 as compared to 4.4 million tons in the same month a year ago on the back of increase in demand from Chinese steel producers, as per a joint study by a group of iron ore exporters. Iron ore is a key input in steel making. The country's iron ore exports during April-October 2009 period grew 20 percent over the year ago period to 53 million tons, as per the study.

Greater demand ahead

While the demand for steel will continue to grow in traditional sectors such as infrastructure, construction, housing,

automotive, steel tubes and pipes, consumer durables, packaging, and ground transportation, specialised steel will be increasingly used in hi-tech engineering industries such as power generation, petrochemicals, fertilizers, etc. The new airports and railway metro projects will require a large amount of stainless steel. According to an estimate, with the growing need for oil and gas transportation infrastructure, a US$ 118 billion opportunity is waiting to be tapped by steel manufacturers in the next five years. Indian steelmakers are set to make the most of booming global demand for steel pipes and tubes with the government withdrawing the 10 percent duty on the exports of these products. According to a study by ICICI Direct, Indian steel companies are likely to get 19 percent of the total global demand in the years to come. A host of steel companies have lined up major investment proposals. Furthermore, with an expanding consumer market, the

Table 4: Investor-wise Projected Crude Steel Production in India (2011-2012)
(In Million Tons)

Investor	Existing Capacity	Brownfield Expansion Plan	Greenfield (Most Likely Scenario)	Total Likely in 2011-2012
SAIL	12.84	12	-	24.84
RINL	2.9	3.9	-	6.8
Tata	5	5	3	13
Essar (Hazira)	4.6	3.9	6	14.5
JSW	4.1	6.9	-	11
JSPL (Chhattisgarh)	1.2	4.8	4.45	10.45
ISPAT (Maharashtra)	3	2	-	5
NINL				1.1
Bhushan Power & Steel (Orissa)	-	-	5	5
Bhushan Steel Ltd. (Orissa)	-	-	6	6
Monnet (Chhattisgarh)	0.6	0.9	1	2.5
Sub Total	34.24	40.5	25.45	100.19
Other Secondary Steel	22.6	-	3.27	23.87
Total	**56.84**	**40.5**	**28.72**	**124.06**

Source: Indiastat

Indian steel industry is likely to receive huge domestic and foreign investments.

The domestic steel sector has attracted a staggering investment of about US$ 236 billion, according to the Minister of State for Steel A Sai Prathap. This consists of nearly 222 MoUs signed between the investors and various state governments mostly in the states of Orissa, Jharkhand, Chhattisgarh and West Bengal. According to the Investment Commission of India, investments of over US$ 30 billion in steel are in the pipeline over the next 5 years. Tata Steel has raised US$ 500 million by issuing 'Global Depository Receipts' (GDRs) aiming at expansion of its Jamshedpur plant and overseas mining projects. The state-owned Steel Authority of India Ltd (SAIL) will invest US$ 724.12 million to set up a 4-million ton per annum steel mill at its Bhilai Steel Plant. SAIL is also planning to set up a 12-million tons plant in Jharkhand. Stainless steel manufacturer and exporter, Varun Industries, is setting up a US$ 171.63 million stainless steel-cum-alloy steel plant at Rohat, Jodhpur. India's largest engineering conglomerate Larsen & Toubro (L&T) and state-owned Nuclear Power Corporation of India Limited (NPCIL) have formed a US$ 370.09 million joint venture for specialised steel and forging products.

Global output and demand

World crude steel production in 2009 reached 1,220 million metric tons, a decrease of 8 percent as compared to 2008. Steel production declined in nearly all the major steel producing countries and regions including the EU, North America, South America and the CIS in 2009. However, Asia in particular China and India, and the Middle East showed positive growth in 2009.

Table 5: Top 10 steel-producing countries

Rank	Country	2009	2008	per cent 2009/2008
1	China	567.8	500.3	13.5
2	Japan	87.5	118.7	-26.3
3	Russia	59.9	68.5	-12.5
4	US	58.1	91.4	-36.4
5	India	56.6	55.1	2.7
6	South Korea	48.6	53.6	-9.4
7	Germany	32.7	45.8	-28.7
8	Ukraine	29.8	37.3	-20.2
9	Brazil	26.5	33.7	-21.4
10	Turkey	25.3	26.8	-5.6

Source: Reuters

China's crude steel production in 2009 reached 567.8 mmt, an increase of 13.5 percent on 2008. This is a record annual crude steel production figure for a single country. China's share of world steel production continued to grow in 2009

producing 47 percent of world total crude steel, an increase of 9 percentage points compared to 2008. India's crude steel production was 56.6 mmt in 2009, a 2.8 percent growth on 2008.Asia produced 795.4 mmt of crude steel in 2009, an increase of 3.5 percent compared to 2008.

Its share of world steel production increased to 65 percent in 2009 from 58 percent in 2008. The EU-27 where all major steel producing countries including Germany, Italy and France showed substantial decline recorded a decrease of -29.7 percent compared to 2008, producing 139.1 mmt of crude steel in 2009. In December 2009, world steel output for the 66 member-countries of the WSA was 106.4 mmt, an increase of 30.2 percent compared to December 2008. Most major-steel producing countries showed two-digit growth in December 2009. The world crude steel capacity utilisation ratio of the 66 countries in December 2009 was 71.5 percent, a decrease from 74.7 percent in November 2009. Compared to 2008, the utilisation ratio in December 2009 increased by 13.4 percentage points.

World steel demand is forecast to reach over 1.45 million tons in 2011.This represents a 320 million tonne hike on the outturn in 2006 and a massive 88percent (680 million tons) leap in the ten years from 2001.MEPS told manufacturingtalk.com that it predicts a slowdown in the rate of growth towards the end of the current decade. Global finished steel consumption in 2007 is expected to expand by 7.1percent, year on year. A further 21percent increase is anticipated over the period to 2011.Asia expands onwards – Asia will lead the way – consuming two thirds of the extra world steel output in the five years from 2006.Significant gains are also anticipated in the other emerging nations. Consumption growth of almost 20percent is expected in the former USSR. A massive 50percent rise is forecast for Africa/Middle East. More than 40percent is predicted for China. In Asia (excluding China and Japan) the figure is likely to be almost 30percent. In the mature economies of the industrialised nations, the growth rate will be modest. In 2000, the industrialised nations consumed almost 50 percent of the global requirement. By 2006, the figure had dropped to around 33percent. In 2011, MEPS anticipates it falling to near 27percent of the world total.

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