

Steel consumption sees steady rise

- Namita Naik

On account of steady demand from sectors such as automobiles, white goods and construction, steel consumption rose 9.6 percent to 4.14 million tons (MT) in April 2010. Consumption was at 3.78 MT in the year-ago period. Production during the reporting period rose 5.3 percent to 4.9 MT over 4.6 MT in April last year, according to the provisional data of the Steel Ministry. Imports surged 47.9 percent to 6.6 lakh ton during the period, thereby further increasing the domestic availability of steel and exerting pressure on local prices. However, steel makers like JSW Steel raised prices by around Rs 2,000 a ton, citing demand and high input cost. Exports continued to slide and dropped 34.8 percent to 1.84 lakh ton in April, revealing the slow pace of recovery in main steel import destination – the US and the European markets. Tata Steel and Rashtriya Ispat Nigam reported 4.7 percent provisional growth to 5.4 lakh ton and 19.8 percent increase to 2.02 lakh ton, respectively in saleable steel production in April over the same period of previous fiscal. State owned SAIL's output in the reporting month remained at last year's level of 9.9 lakh ton according to the official data. However, the figures are provisional and could not be confirmed with the companies. Although fuel price has increased significantly leading to a substantial increase in transportation cost in late 2009, there was a drop in freight rate in January 2010. According to Steel Business Briefing, freight rate for cap size iron ore from Brazil to China almost doubled to US\$45 per ton from October to December 2009. However, the rate dropped by US\$30 per ton in January 2010. Freight rate from West Australia to China jumped from US\$11 per ton in October 2009 to US\$24 per ton in November 2009 and declined substantially to US\$12 per ton



in January 2010. Goldman Sachs foresaw that the freight rate will remain unchanged throughout the first quarter of 2011.

According to the World Steel Association (Worldsteel), global steel output had increased to 109 MT in the month of January 2010, up 25.5 percent from January 2009. Month-on-month, steel output improved a modest 2.1 percent from about 107 MT. World crude steel production has continued to show a steady increase since April 2009 on the back of a moderate rise in demand and the resumption of idled facilities by producers. All major steel producing countries — China, Japan, Germany, the US, Brazil, Turkey, Russia and the Ukraine — have shown peak monthly figures so far this year. Year-over-year crude steel production peaked globally in January 2010. Steel production increased 48.8 percent in North America to 6.1 MT. In the EU, Germany's crude steel production was 3.4 MT (an increase of 27.7 percent), Spain produced 1.4 MT (up 51.1 percent), France's production was 1.1 MT (a hike of 32.3 percent), while Turkey produced 2.1 MT (a 2 percent increase).

Overcapacity in the global steel industry could increase the level of steel imports and result in a downward pressure on steel prices. Overcapacity in China has the potential to result in a further increase in imports of low-priced, unfairly traded steel and steel products to the US. In recent years, capacity growth in China has significantly exceeded the growth in Chinese market demand. The steel industry is rather concentrated in structure, with a few producers accounting for the lion's share of sales. With companies engaged in the extraction of iron ore and coke coal for the processing of iron and steel, this industry includes metal ore exploration and mining services, iron and steel foundries for smelting, rolling, forging, spinning, recycling, stamping, polishing and plating of iron and steel products such as pipes, tubes, wires, springs, rolls and bars. A continuation of this unbalanced growth trend or a significant decrease in China's rate of economic expansion could result in China increasing steel exports. Improving demand from core contract buyers outside of China was also reported to be significant. Major iron

ore miners have boosted up their capacity utilisation to serve recovered demand and have revised their global output forecast. Iron ore exports from Australia's Port Hedland harbour was found to have increased by 41 percent in December 2009, when compared to the same period of 2008. Despite the increase in iron ore production, Goldman Sachs reported signs of supply constraints for iron ore, notably due to a lack of spot cargoes.

Indian mining majors NMDC and Coal India Ltd (CIL) are an aggrieved lot as their plans of venturing into Australian mining activities received a big jolt when the Australian government announced the imposition of a 40 percent super tax on profits of mining companies. The tax proposal would be effective by July 2012 and it would add US\$9 billion into government kitty's every year. NMDC has submitted a nonbinding offer for the US\$2-billion Ridley iron ore project. The agreement will be submitted shortly. "The project will have to be reviewed before the submission of binding agreement, as the internal rate of return (IRR) will fall drastically," according to NMDC Chairman and Managing Director Rana Som. Domestic companies have been increasingly eyeing overseas assets, as securing a licence in India is an arduous task. Similarly, CIL, which has drawn up a Rs 6000 crore mining acquisitions plans in Australia have expressed the concern about change in taxation may have an impact on the viability of proposed ventures.

This has prompted Indian firms to reassess their plans. It may be noted that the Government of South Australia in association with the Australian Trade Commission had recently organised a seminar on Investment Opportunities and Partnership in Mining in South Australia in Mumbai, wherein it invited Indian entrepreneurs to invest in Australian mining sector. On the one hand they are inviting Indian investments and on the other imposing a hefty super tax of 40 percent which will erode the internal rate of return drastically of the potential investing companies from India. The move is



likely to dissuade Indian firms from entering into the Australian mining sector. Also the international mining groups with a large presence in Australia have opposed the new tax, arguing that it could adversely affect the country's competitiveness and curtail investments in the sector.

The steel industry has recorded fast growth rates in both production and consumption over the past few years, benefiting from soaring steel demand in the automobile and construction sectors. Moreover, the cost effective and highly efficient steel-making technologies uplifted US steel demand in Middle Eastern and Asian countries. The Asia-Pacific region, especially China and India, is witnessing higher production and consumption of steel.

This is due to the per capita consumption reaching US/European levels, which could — theoretically at least — double steel demand in the longer-term. China has set up some of the largest steel capacities in the world, driven by an increasing demand for rapid urbanisation and large infrastructure projects. The country accounted for nearly 50 percent of the total world production in 2009.

Monthly steel output in Asia increased 1.2 percent to over 60 MT. Of this, the Middle East edged up 5 percent to 1.4 MT due to booming infrastructure spending. China climbed 18.2 percent to 48.7 MT. Japan produced 8.7 MT (up 36.8 percent), South Korea contributed 4.5 MT (up 32.4 percent), Brazil's output was 2.7 MT (66.6 percent



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higher), Russia produced 5.2 MT (an increase of 33 percent), Ukraine's output was 2.7 MT (28.4 percent higher) and the Australian production was 0.6 MT (a 38.6 percent increase).

ArcelorMittal is the world's largest steel company, with crude steel production of 73.2 MT in 2009, representing about 6 percent of the world's steel output. ArcelorMittal USA is the largest steel producer in North America and the largest integrated steel producer in the US. The largest drivers of steel consumption have historically been the automotive and construction markets, which absorb more than 50 percent of total steel production. Large automakers such as General Motors, Ford Motor Company, Toyota Motor Corporation and Honda Motor Company depend upon the steel industry. Other steel consuming industries include appliances, converters, containers, tin, energy, electrical equipment, agricultural, domestic and commercial equipment and industrial machinery. China's share is larger than the combined production of the US, the European Union (EU), Russia and Japan, which have historically been the largest producers of steel. In 2001, China's annual share of world production stood at 17 percent, while the EU accounted for the largest share at 18 percent. In the eight years since then, China's share of world production has almost tripled while the other producers have seen their shares decrease. Ranked behind China are Japan and the US. China's demand for iron ore surged significantly as reported by many sources. World Steel Association reported that China's domestic production (run of mine) in the first 11 months of 2009 rose by 6.1 percent to 790.54 MT. Meanwhile, imports by China registered 565.86 MT in the first 11 months, an increase of 38.4 percent y-o-y. The stock of iron ore at China's seaports in late-December 2009 saw an increase of 0.43 MT to 66.07 MT, when compared to November 2009.

The global steel demand will improve in the long-term with the recovery of the user industries. Growing



infrastructure-related outlays as a result of government stimulus measures, including in the US, has helped rekindle the demand for steel. Along with government support, the recovering industrial sector is expected to further infuse steel demand, particularly in the US. China is expected to remain the largest consumer of steel going forward. Worldsteel is forecasting an 8.6 percent year-over-year decline in steel production, better than the previous forecast of a 14.1 percent decline, driven by strong growth in Chinese demand. With signs of a recovery across the world since the beginning of the second half of 2009, the association is anticipating global steel demand in 2010 to grow 9.2

percent to 1,206 MT, which is similar to the level in 2008. Domestic sheet steel prices have continued their upward trajectory. Relative domestic prices for most steel products increased in February, with the notable exception of beams. US rebar prices are up 11 percent from January, and have posted increases relative to China and Europe, where prices have slid modestly lower, and versus Japan where prices are up 8 percent after falling 6 percent the month before. Domestic plate prices rose another 7 percent in February and are up relative to China and Europe where prices are flat. With steel demand and prices picking up in the last couple of months, steel producers are restarting facilities. Recently, US Steel Corp.— the eighth largest steel



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producer in the world headquartered in North America and one of the largest integrated flat-rolled producers in Central Europe — has restarted its blast furnace at its Hamilton, Ontario plant after a nine-month shutdown. In response to increased customer order rates, US Steel operated all of its North American blast furnaces in 2009 except the one at Gary Works and the other at its Lake Erie Works due to labour issues. US Steel has also restarted its Keetac iron ore operations.

The current surge in steel demand helped profits of Nucor Corporation, the largest recycler of steel scrap in the US. Nucor returned to profitability in the fourth quarter of 2009 with net earnings of US\$58.9 million or 18 cents per share, ahead of the Zacks Consensus Estimate. Overall, steel mill utilisation increased to 58 percent from 48 percent in last year's comparable quarter. Long-term contracts, cost reduction efforts and a dominant acquisition strategy inspire optimism about the company's performance in the coming quarters. Similarly, commercial metals company AK Steel reported earnings of US\$39.8 million or 36 cents per share in the fourth quarter in contrast to a net loss of US\$430.6 million or US\$3.87 per share in the fourth quarter of 2008, driven by higher shipments. The third largest steel maker in the US, Steel Dynamics Inc., reported a net income of US\$26.7 million or 12 cents per share in the last quarter of 2009, after reporting losses in the first two quarters of the year. Earnings were driven by fixed cost reduction through higher production and shipping volumes at the flat-rolled segment and better-than-expected performance in the metals recycling segment.

The global steel industry is cyclical, highly competitive and has historically been characterised by overcapacity. Production cuts of up to 35 percent are occurring to keep operating rates in the low-80s and balance the market. The US steel industry is currently facing post-recession effects. The complications started in the second half of 2008 when the US saw a complete



failure of its financial market amid the subprime mortgage crisis. Crude steel production dropped around 6.7 percent in 2008 from the previous year and consumption witnessed a steep decline of 10.6 percent. The downtrend continued in 2009, but a recovery is expected in late 2010. The US domestic production capacity utilisation has been falling dramatically since August 2008. Key steel consuming industries such as autos, shipbuilding and construction had been experiencing weak demand in the last quarters, forcing global steel makers to slacken production levels. US Steel slashed production by almost 62 percent during the second quarter of 2009, while Korean steel maker Posco cut production by about 15 percent in

December last year. This was the first time in its history that Posco was forced to take such a measure, proof of the very bad operating environment. As a whole, the steel industry posted weak results in the fourth quarter of 2009. US Steel recorded its fourth consecutive loss of US\$267 million or US\$1.86 per share. By contrast, the company had reported a net income of US\$2.90 million or US\$2.50 per share in the corresponding quarter of the previous year. Allegheny Technologies Incorporated, one of the largest and most diversified producers of specialty materials in the world, recorded a net income of US\$37.8 million or 36 cents per share, down significantly from year-over-year net income of US\$110.9 million or US\$1.15 per share.



ArcelorMittal expects that the developed world's demand for steel in 2010 will still fall 23 percent short of the 2008 level. The company's tempered outlook is influenced by lingering unemployment and growing government budget deficits. The still-weak demand from developed nations is the outlook for cost inflation, as the prices for many key inputs (iron ore, metallurgical coal, scrap and natural gas) are either already rising or

contracts are expected to be reset at higher levels. In particular, seaborne iron ore benchmark prices seem ripe for an increase. While demand for steel in China has remained quite strong and that in developed nations has begun to improve, a full global recovery is uncertain and will likely be drawn out. Meanwhile, last month a report from World Steel Association in its Short Range Outlook for 2010 and 2011 revealed that the world steel usage will

increase by 10.7 per cent to 1,241 MT in 2010 after contracting by 6.7 percent in 2009. With these projections, world steel demands in 2010 will exceed pre-crisis levels. The report said 'In 2011, it is forecast that world steel demand will grow by 5.3 percent to reach a historical high of 1,306 MT. The resilience of emerging economies has been the critical factor enabling earlier than expected recovery of world steel demand.'

LME Steel Billet Prices (\$/tonne)							
Date	Mediterranean			Far East			
	Sett.	3m	15m	Sett.	3m	15m	
07-May-10	485.50	505.00	615.00	525.00	540.00	615.00	
10-May-10	495.50	500.00	610.00	525.00	540.00	610.00	
11-May-10	485.50	500.00	610.00	525.00	540.00	610.00	
12-May-10	465.50	485.00	595.00	525.00	540.00	595.00	
13-May-10	460.00	480.00	590.00	525.00	540.00	595.00	
Average (Apr '10)	542.65	569.35	640.50	571.25	586.25	640.50	
Stocks (Month-end in tonnes)	42,185			4,810			

Steel Prices of Middle East (UAE) (\$/tonne)	
	May 2010
Billets - Blooms	610-620
Reinforcing Bars	640-650
Angles	650-670
Beams	670-730
Wire Rods	670-690
HR Plates	760-780
HR Coils >=2mm	730-750
CR Coil, 1mm	840-860
HD Galvd. Coils, HR Base	870-900
HD Galvd. Coils, CR Base	950-1000
Prepainted Galvd. Coils 0.35	1050-1100
Tinplate 0.32mm	1250-1300
SS HR Coils 304 base	3600-3700
SS HR Coils 316L base	5200-5300

Source: MEsteeel.com

U K Ferrous Scrap Prices (£/tonne)		
	Mar 2010	Apr 2010
0A Plate & Girder	120	185
No 1 Old Steel Scrap	120	175
No 2 New Steel Scrap	110	165
4A Low residual Bales	130	195
4C New production Bales	116	181
Light Iron	105	165
7B Mixed Steel Turnngs	115	165
8B Mixed Steel Cuttings	116	181
Foundry Heavy Cast Iron	130	180
No. 9 Cast	130	180
No. 10 Light Cast	130	180
11 Cast Iron Borings	150	180
12A New production Heavy Steel Scrap	120	185