

## Indian lacklustre demand temporary

# Strong fundamentals tags prices overseas

Domestic steel prices are on the decline following a dip in demand recently. Demand from engineering and construction sectors is dull and this is for the first time in several years that after Dassera, demand has slowed down. Steel ingot prices have declined by Rs 1,000 a tonne over the week across all sections in Mandi Gobindgarh in Punjab, the benchmark steel market of the country. The price of ingot is currently quoted at Rs 19,400 a tonne. Plates (5-10 mm) are quoted at Rs 28,000 a tonne, hot-rolled (HR) coil and cold-rolled (CR) coil are sold at Rs 27,500 a tonne and Rs 33,000 a tonne, respectively. HR sheets and CR sheets are quoted at Rs 27,500 a tonne and Rs 33,000 a tonne respectively, while galvanised coil and galvanised Sheets both are sold at Rs 35,000 a tonne. Prices in the Mumbai market are, however, steady. Indian exporters were clueless about stockbuilding in China and European countries in anticipation of a price rise. But there are reports of stock depletion in these countries and Indian exporters can now profit from the exports orders, analysts said. Integrated producers waited for a price

revision for two months and in the physical market also prices remained stable more or less. But, there was a sudden shortfall in stocks. Experts believe that price would close higher this calendar year to Rs 21,000 a tonne of ingot and similar growth would prevail for other varieties also. The price would solely depend upon the budget for the next year. Steel prices have been inching up since September after falling for a year, but analysts say the recovery may be short-lived.

Internationally, steel prices may see a modest rebound in the fourth quarter of this year, but are expected to resume its downtrend in 2006 as demand stabilizes and production rises, said ABN Amro metals analyst Michael Sones. "We do not expect aggressive production growth to slow in Asia. As a result, the global markets look threatened," Sones said. "If European producers wish to enjoy higher prices, they will need to make unprecedented volume cuts," he said. But that is unlikely to happen as "no producer wishes to run the risk of reducing their

own output for the benefit of others." Merrill Lynch metals analyst Daniel Roling expects steel prices to further improve in the fourth quarter, forecasting an average hot rolled coil, or HRC, price of \$550/ton in 2005. Roling, however, predicts lower prices in 2006 and 2007, penciling in \$525/ton and \$500/ton on average, respectively.



HRC prices have been falling from their 24-year high of \$756/ton in September 2004, a level reached when the market saw shortages created by stockpiling on concerns of supply tightness due to heavy Chinese

consumption, said analysts. This was purely speculative and not based on fundamentals, which led to a glut in the market as producers raised output, forcing HRC prices down to nearly \$450/ton in August this year. Hot rolled coil in the U.S. is currently going for about \$560/ton. Big steel producers around the world responded by announcing production cuts in the third and fourth quarters of this year, giving steel prices a much-needed lift. But that may not be enough to ensure a long-term recovery in prices.

### **Oversupply from China to damp recovery**

High inventory levels and a continued increase in output in China threaten to weigh on domestic steel prices, which could eventually damp a global recovery, analysts said. China produced over 30 million tons of crude steel in September, up 22% on year, contributing a third of global crude steel output for the month, according to the National Bureau of Statistics. The country's output in 2005 is forecast to rise over 20% this year to as high as 390 million tons, while consumption remains steady at about 300 million tons. This widening demand-supply gap has dragged domestic steel prices down, with third-quarter hot rolled coil down nearly 20% on quarter, according to the China Iron and Steel Association, or CISA. China's 45 major steel makers met with CISA in Beijing recently in an effort to come

up with a plan to combat the steep drop in domestic steel prices.

In the meeting, CISA recommended all producers cut fourth-quarter output by 5%. The industry body also announced that there would be no further rebate cuts on steel products exports. In May, the Chinese government removed tax rebates on exports of semifinished steel products and cut the rebate for steel products to 11% from 13%. The tax change helped keep steel in China,



thus pressuring domestic prices. As it stands now, China remains a net importer of steel, bringing in 17.5 million tons of steel in the first eight months of this year, while exporting 14.4 million tons in the same period.

### **All eyes on China's National Steel Policy**

However, this has many analysts worried that more exports out of China will cause another glut in the market, especially once steel producers outside China crank up production after the series of output cuts this year.

China's steel prices may improve if the country exports more steel but if it floods the rest of the world with steel, there will be an overall decline in global steel prices, said a Shanghai-based steel trader at a large Chinese investment bank. With Chinese production capacity expected to reach a staggering 490 million tons by the end of next year, the bear camp can barely be optimistic. "The Asian outlook remains clouded with no signs of production rationalization in China,

and further pessimism is on the horizon as reports flow in on how falling domestic prices are leading Chinese producers to focus strongly on exports," said JP Morgan analysts Anindya Mohinta and Jon Bergtheil in a report. All eyes are now on whether China's national steel policy, introduced in July, can rein in the sector.

The policy, which encourages industry consolidation rather than rapid expansion in capacity, aims have the top 10 domestic steel makers producing more than 50% of national steel output by 2010 and more than 70% by 2020. China aims to have two steel makers that can each produce at least 30 million tons of steel a year, and several that can produce more than 10 million tons a year, and for them to be globally competitive, according to the policy. Currently, China's biggest steel maker, Shanghai Baosteel Group Corp., produces about 20 million tons of steel a year. □□□