

Steel Demand Seen Gloomy Until Mid-2009

Global demand for steel will slip over the next few months or a year as deepening global financial crisis will weigh on all the sectors. China, the biggest producer and consumer of steel, does not expect any positive sign until mid-2009.

Major steelmakers across the world, including ArcelorMittal, Russia's Severstal and many Chinese mills, are announcing sharp production and workforce cuts since last few months. According to analysts from Barclays Capital, the outlook for steel demand in the short-term appears very weak, with little foreseeable strengthening in consumer activity. With the current market scenario, it would be very difficult to see steel demand picking up before the second half of 2009. Infrastructure sector is the biggest consumer of steel industry, but the infrastructure projects could be put on hold or delayed as tightness in credit markets restricts the availability of finance. In the \$800 billion steel industry, almost all construction or infrastructure projects are financed by credit facilities or bank loans. Middle East is another major hub for steel consumption, but there are

around 3 million tons of stocks waiting at ports, with yet more on vessels in the Middle East and Black Sea region, as a result of falling demand. A senior official of steel supplier company, Dubai, says, in Dubai the projects are going on but they are buying whenever they need it and new projects are on hold and the best strategy for stockholders is now to liquidate. The European Confederation of Iron and Steel Industries expect steel consumption to shrink next year, as construction automotive sectors that are the largest consumers of steel, will be the hardest hit.

In India, Indian mid-cap steelmakers will continue to see slowdown amid falling prices and waning demand prospects. Local firms started signaling the future was not so bright. India asked steelmakers in May to curb any price hikes. India's industrial output grew just 1.3 percent in August. Looking at the weak demand and price scenario, it is very difficult for steel companies to protect their bottomlines now.

Most midcap steelmakers posted a drop in quarterly earnings compared with a year-ago, but analysts suggested the real fall is yet to come.

Global demand for steel will weaken over the next few months as turmoil in financial markets tears into the real economy, while China which remains key for a recovery in demand, is not expected show signs of improvement until mid-2009.

Local players have announced a 15-17 percent cut in prices of hot-rolled coil tracking the overseas market, but buyers eye further falls, analysts said.

JSW Steel Ltd, India's third biggest steelmaker, said last month it will dramatically trim its cost of production, while smaller firms like Ispat Industries, Bhushan Steel and Visa Steel signaled production cuts. Most firms have announced a 15-20 percent cut in production while JSW Steel has delayed commissioning its new plant in the southern state of Karnataka.

Tight cash conditions and high borrowing costs have made it difficult for companies to raise capital, although the central bank eased cash conditions and cut its key interest rates twice in three weeks. Officials and analysts, however, said banks did not pass on the benefit to the customers due to the liquidity pinch.