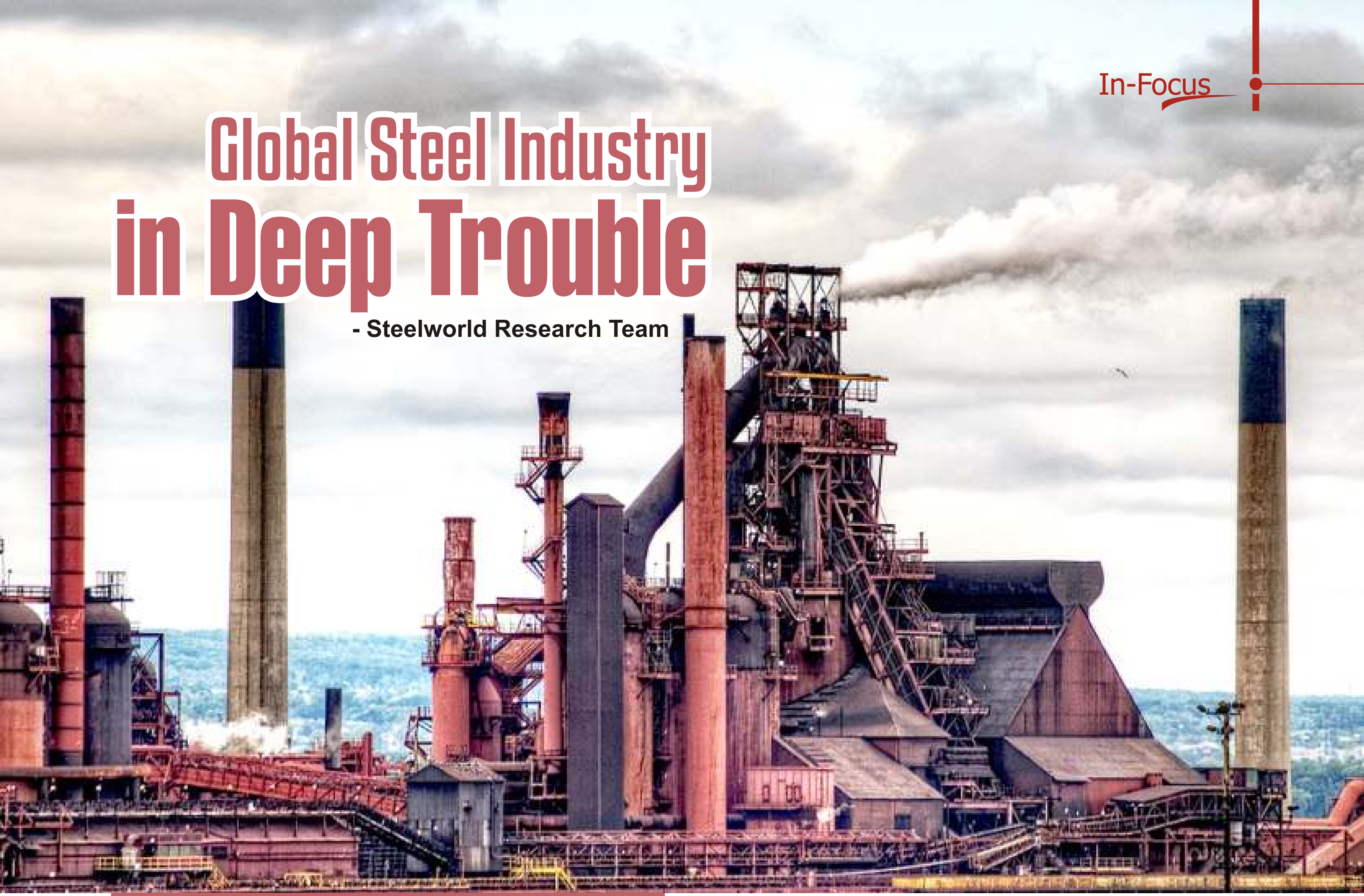

Global Steel Industry in Deep Trouble

- Steelworld Research Team

World steel demand has been dwindling for over three years due to global economic slowdown. While developed countries have deferred their planned investment on infrastructure, developing world is not immune to it. As a consequence, steel demand has slumped globally resulting into a supply glut. Since the global commodities' markets are facing a rout, steel prices remained subdued. Average steel prices hit an all-time low on July 9. CISA notes that in September, steel demand contracted 8.9 per cent from the same time a year before, and medium and large steel mills have lost $4.4 billion in the first nine months of 2015. While the world economies led by Europe have been working hard to bring growth on track, its result is far in sight. The scenario has prompted, therefore, for global producers to look for a dumping ground where cost of production is high. India was the soft target so far. But, the Indian government took the complaints of industry players seriously and levied anti dumping duty on certain grades of steel imports. But, major steel producers continued to face problems. Let's assess the world steel situation through individual countries:

China in Dire Straits

China's steel industry, the biggest in the entire world, is in crisis. The disaster is the result of a combination of factors, including a slowing Chinese economy, falling commodity prices, and an industry loaded with debt. Earlier this month, state-owned enterprise Sinosteel defaulted on a debt interest payment of $315 million on bond notes maturing in 2017. It's a sign that, despite China's best efforts at fiscal policy easing and pledges to reform "zombie" SOEs, the worst may be coming faster than policymakers expected.

China's economy is trying to make the difficult transition based on investment and one based on domestic consumption, so it's useful to think of its economy in two parts - new China and old China. New China includes businesses in the services sector like technology, retail and banking. Old China includes the country's once-booming property and construction sectors, manufacturing, and Chinese exports. Companies exist in Old China carry huge debt which has made companies less profitable as they spend significant sums of money making payments on that debt. As new China rises, old China is fading. But the rising is happening slowly, and the fading is happening faster than anyone thought. The Chinese government faces the colossal challenge of managing this transition without a string of credit events crippling the economy. That's where the danger in China's steel industry comes in. A senior executive of the China Iron & Steel Association (CISA) said recently that collapsing demand is putting the entire industry at risk.

In fact, production cuts are slower than the contraction in demand, therefore oversupply is worsening. Although China has cut interest rates many times recently, steel mills said their funding costs have actually gone up. China's steel demand evaporated at unprecedented speed as the nation's economic growth slowed. As demand quickly contracted, steel mills are lowering prices in competition to get contracts. Crude steel production in China will collapse by 23 million tons next year, according to the nation's leading industry group. That's equivalent to more than a quarter of annual output from the U.S. Supply from the top producer may drop 2.9 percent to about 783 million tons from 806 million tons in 2015, according to the China Iron & Steel Association. The slump would be driven by a deepening downturn in local demand and as mills encounter stiffer opposition to exports, Deputy Secretary General Li Xinchuang said.

In fact, entire Asian economy is facing huge slowdown. Property developments used to enjoy annual growth of 20 percent and now at best it is 5 per cent. Infrastructure investments haven't taken off due to lack of funds despite of all the planned numbers of projects. Manufacturing investments have also dropped like a stone.China's mills, which produce about half of worldwide output, are battling against losses, oversupply and sinking prices as local consumption shrinks for the first time in a generation. The fallout from the steelmakers' struggles is hurting iron ore prices and boosting trade tensions as mills seek to sell their surplus overseas. Shanghai Baosteel Group Corp. has forecast that China's steel production may eventually shrink 20 percent.

The volume of Chinese steel mill exports increased by 25.4 per cent to 90.1 million tons in year-to-date (YTD) 2015 over 71.8 million tons in YTD 2014 (through October). Notable increases between YTD 2015 and YTD 2014 included exports to Turkey (up 204.7 per cent), Vietnam (up 65.2 per cent), and Indonesia (up 59.2 per cent). Chinese steel mill exports and imports both decreased between September and October 2015, with China's steel trade surplus narrowing by 21 per cent to 7.88 million tonnes. In October 2015, Chinese exports decreased 20 per cent to 8.8 million tons from 11 million tons in September. October 2015 exports were up 6 per cent from one year ago and up 90 per cent from three years ago. From September to October 2015, Chinese imports decreased 9.3 per cent to 0.96 million tons. China's steel imports in October 2015 were down 12.4 per cent from imports a year ago and down 8.7 per cent compared to three years ago. The United States received the 16th largest share of Chinese steel exports at 2 per cent, or 1.8 million tons, in YTD 2015, a decrease of 29.4 per cent over YTD 2014. South Korea received the largest share of Chinese steel exports at 11.1 million tons, a 4.1 per cent increase from YTD 2014.

Steel demand in China is estimated at 654 million tonnes in 2016, a marginal decline of 14 million tonnes from the estimates of 668 million tonnes in 2015. China's steel production capacity is likely to peak in 2016 as capacity is eliminated, gradually outpacing additions, Fitch Ratings has predicted. The rating agency expects China's steel production capacity to increase about 1.17 billion tonnes in 2015 from 1.15 billion tonnes in 2014. In 2016 and 2017, annual new capacity of around 16 million tonnes will be added, although this will be offset by shutdowns of plants with total capacity of 75 - 85 million tonnes over the next five years, resulting in capacity peaking in 2016. Total, iron ore imports may drop to 920 million tonnes in 2016 from about 930 million tonnes. There's about 300 million tonnes of surplus capacity in China that needs to be not just shut down. Producers in China are making losses of about $50 on every tonne, experts believe. At current steel and raw-material prices, China's steel mills have negative margins.

Medium- and large-sized mills incurred losses of 28.1 billion yuan ($4.4 billion) in the first nine months of this year, according to a statement from CISA. Steel demand in China shrank 8.7 percent in September on-year. Crude steel output in the country fell 2.1 percent to 608.9 million tonnes in the first nine months of this year, while exports jumped 27 percent to 83.1 million tonnes. China's mills face some of their worst conditions ever and the vast majority are losing money, Citigroup Inc. said. The outlook is the worst ever amid unprecedented losses, Macquarie Group Ltd. said.

Year	Production (In Million Tonnes)
2012-13	78.42
2013-14	81.69
2014-15	88.98
2015-16* (April - November)	59.75

Source : Joint Plant Committee, *Provisional

India in Limelight

Crude steel production in India is consistently increasing. Data released by the World Steel Association (WSA) on global crude steel production during January-October 2015 indicates that India has now become the third largest producer of crude steel in the world. Steel being a deregulated sector, the investment decisions are taken by the individual companies/investors based on commercial considerations and market dynamics. The current crude steel capacity in the country is 110 million tonnes, which is envisaged to increase to 300 million tonnes by the year 2025. On an average, Rs. 6000 crores are required for setting up a steel plant of one million tonne. Steel is the core sector of the economy. Several sectors, which are part of 'Make in India' initiative, have strong linkages to steel. The Government of India has taken a number of initiatives to promote the domestic steel industry and enhance steel production. A Special Purpose Vehicle (SPV) framework adopted to encourage large capacity green field projects in iron ore rich States of Jharkhand, Odisha, Chhattisgarh and Karnataka. Public sector units have undertaken expansion plans to increase the steel production capacity. SAIL has undertaken modernization & expansion plan to enhance its crude steel production capacity from 12.8 million tonnes to 21.4 million tonnes. RINL has undertaken expansion and modernization of its capacity from 3 million tonnes to 7.3 million tonnes.

NMDC has undertaken setting up of a new steel plant of 3 million tonnes. The government notified the Coal Mines (Special Provisions) Amendment Act, 2015 on 30.03.2015 to streamline coal block allocations.

Hopes on United States

The US Fed painted a dovish picture of the country's economy while raising interest rates by 25 bps in December, first of its kind in a decade which cast a dark cloud on the country's steel consumption going forward. From September to October 2015, US imports of steel mill products increased 7.3 per cent to 2.8 million tonnes. In October 2015, the steel trade deficit widened to -2 million tonnes from -1.8 million tonnes in September, an 11 per cent increase. US steel production increased by 1 per cent to 6.74 million tons in October 2015 from 6.68 million tonnes in September. From September to October 2015, U.S. imports of steel mill products increased 7.3 per cent to 2.8 million tonnes from 2.6 million tonnes. In year-

to-date 2015, U.S. imports of steel mill products totaled 30.8 million tons, an 8.3 per cent decrease from 33.6 million tons in 2014 (through October). In value terms, year-to-date imports have shown a larger decrease than by tonnage, declining by 15.1 per cent to $26.6 million in 2015 from $31.4 million in 2014.

Falling demand has reduced capacity utilization of steel mills in the US at 64.2 per cent by the end of December. Adjusted year-to-date production through December 12, 2015 was 83.86 million tonnes, down 9 per cent from the 92.12 million tonnes during the same period last year, when the capability utilization rate was 77.5 per cent.

Conclusion

Steel mills in the European Union are facing huge crisis due to a slowdown in its demand from across the world. A number of large mills led by ArcelorMittal and Tata Steel have cut their output in sync with demand and have minimized expenses through job cuts. Steel mills in Japan and South Korea are also facing hurdles due to anti dumping duty levied by the Indian government for protecting the interests of local producers. Until the global economic growth comes back on track, steel mills would continue to suffer worldwide.