Steel Pricing does not Reflect Demand

Improving construction demand would be pushing up steel prices if China weren't distorting the market, a study found.

The U.S. construction market has been slowly recovering, which would normally drive up prices for steel studs and wallboard, Thompson Research Group Chief Executive Officer Kathryn Thompson said in a forecast for the Steel Framing Industry Association. But the slowdown in China's economy has led Chinese steelmakers to flood the world with cheap steel, suppressing prices.

"A glut of steel from China and subtle changes in types of buildings are temporarily keeping a lid on price rises," Thompson said.

"The good news for 2016 is that the outlook for construction volumes continues to be positive. The federal anti-dumping

legislation and continued calibration of production volumes by domestic mills will ensure that the steel markets remain as healthy as possible in the current environment."

New construction is expected to grow by 7 percent to 10 percent, with multifamily housing driving much of the demand.

Cold-formed steel volumes are up, and architects are expected to remain busy for the next year or two.

"The primary risk here is introduced by the global markets," Thompson said. "It's a year for vigilance. One where growth, while not explosive, will improve at a steady pace."

Public construction has been lackluster but could pick up by the end of the year if Congress finally passes a federal transportation bill.

"For the nimble and informed, 2016 is a year of opportunity," Steel Framing Industry Association Executive Director Larry Williams said. "The prospects of real growth in the coming year presents to all those who manufacture, distribute and install steel framing with the best opportunity in nearly a decade to increase the use of our products."

Steel Prices Affect Chinese Exports

Steelmakers all over the world are facing a crisis of low demand and very low prices, which leave either slender or no margin for producers. Let us consider the case of ArcelorMittal, the world's largest steel producer. In the third quarter of 2015, its year-on-year sales dropped to $16 billion from $20 billion, causing a net loss of $711 million against a profit of $22 million.

This is in spite of the European part of the company, represented by erstwhile Arcelor, and the group's US and Canadian operations are mostly about products at top end of value chain requiring application of technology that is a close preserve of a few. If this is the condition of an industry leader then the torrid weather faced by those making commodity steel as in India is easily understandable. We have seen quite a few highly disquieting working of Indian steelmakers both in the public and private sectors in the September-ended quarter.

The global steel crisis is largely due to an overcapacity estimated at 600 million tonnes (mt) by the rich country club the Organization for Economic Co-operation and Development (OECD). Worryingly for the global market, half of that excess capacity rests in China, which has its compulsions to make a lot more steel than it needs.

How soon all that extra global capacity is going to go away depends on two things:

First, China's progress in scrapping capacity that is uneconomic and environment damaging. It is common knowledge that the provincial governments in the country remain resistant to mill closure to protect jobs and score province-centred growth often to the point of angering Beijing.

What is obvious is, the provinces are providing large dollops of subsidy to sustain steel production. Chinese companies are found exporting steel regularly at prices 10 per cent below what they charge locally. This, according to The Economist, is the textbook definition of dumping.

No wonder, then, Chinese steel products are from time-to-time attracting retaliatory duties and on occasions, anti-dumping imposts, too, in various parts of the world. In September, India put a 20 per cent safeguard duty on imports of hot-rolled flat steel. The growing arrival of foreign-origin steel not only from China taking advantage of a liberal import duty regime here is cornering a significant share of Indian steel demand at local producers' expense.

This section is a compilation from various company press releases, business dailies & trade publications.