China to Face another Difficult Year

The risk to face another difficult year is not faraway. The last figures on January to November 2015 from China, the main steel producer, showed minus 19.3 percent on the turnover, minus 73.3 percent on the sale prices, minus 2.2 percent on the steel output against the previous year, but also $ 8.18 billion lost by the steel makers. That could be the confirmation of a non-positive sentiment for all the steel chain operators.

Looking at the market with this strong uncertainty does not help the branch, but if the steel industry likes something better than surviving, it should be concentrating on what it can control, like cost and profitability, using all capability to work any M&A possibility, to

maximize the profit by reducing the cost. That means when where yesterday three people were needed for a certain job, today has to be done by two.

Regarding the Italian market, at the beginning of December all the mills were in a hurry to receive scrap and a lot of them were willing to pay higher prices. Consequently the prices on the domestic market moved up around 10 €, with some peaks of 20 €. The contracts on monthly basis with the European suppliers have been settled with 10 €increase. During the second half of the month the operations have been conditioned by the seasonal limitation in the railway deliveries, the holidays and the consequent closing of the mills production. The arrivals at the Italian ports in December were very important abt 56 Kt the scrap, abt 165 Kt the pig iron and abt 120 Kt the HBI. Thanks to the vessels arrival and the lower December consumptions the mills inventories at the end of the year were better recovered that the previous months. The scrap yards inventories are always reported low, due to the difficulties in the scrap collection.

Indonesia Steel Demand Surge

Indonesia's steel demand is rising, particularly now government-led infrastructure development seems to have kicked off since mid-2015. However, the domestic steel supply remains low according to Suryawirawan. Late last year, Hidayat Trisepputro, Executive Director of the Indonesian Iron and Steel Industry Association (IISIA), said it helps if the government would order the mandatory use of domestically-produced steel in these infrastructure projects. In that case utilization of Indonesia's steel capacity could reach up to between 80 and 100 percent in 2016, up from 50 percent in 2015. a 50 percent utilization rate of Indonesia's steel production capacity implies that it is not only a matter of having too low steel production capacity to meet domestic steel demand but that other factors are at play that cause the limited utilization of Indonesia's steel production capacity.

The chronic oversupply of steel in China, which put severe downward pressure on the global steel price last year, made it cheaper to import steel than to purchase steel from Indonesia's steel manufacturers. Moreover, foreign-made steel is regarded higher quality. In 2015 the global steel price plunged 37 percent to USD $325 per ton, a decade low. Due to China's economic slowdown, the country's steel production failed to be absorbed by domestic demand (China is the world's largest steel market and steel manufacturer with an estimated installed annual production capacity of 874 million tons). This year, however, the steel price has climbed 8 percent to USD $305 per ton in the first month on the back of China's plan to cut back on steel production. China's plan to reduce steel output is the key reason why US-based Morgan Stanley expects the steel price to rebound further this year.

Meanwhile, Indonesia is eager to boost domestic steel production capacity. One of the projects that will enhance Indonesia's domestic steel production capacity is the integrated Krakatau Posco steel plant in Cilegon (West Java). This mega-project, involving a joint venture between Indonesian steel maker Krakatau Steel (30 percent stake) and South Korean Posco (70 percent stake), is built in two phases.

The first phase, which was completed in December 2013, involved the construction of a steel plant with a production capacity of three million tons per year. The second phase, which is scheduled to be completed by 2018, will add another three million tons to its steel production capacity. After the second phase has come online, Indonesia could manage to account for at least 70 percent of its steel consumption.

Earlier, FE Steel Galvanizing Indonesia started production at its steel plant in Bekasi. This plant has an annual production capacity of 400,000 galvanized steel sheets.