Global price justifies price hike of steel in domestic market

Rise in global prices has indeed justified the price hike of steel in the domestic market of India and somewhat neutralised the direct impact of price increase on the user industries, some of whom allege that by influencing the government to impose a series of import-restricting measures, the price rise in the domestic market was more symbolic of meeting the gap in availability at higher price. The rising prices are particularly helpful for the industry engaged in brown field expansion and it can be safely predicted that unless the same trend persists for the next few quarters, it would be difficult for many of them to embark on capacity augmentation via green field expansion mode.

Organisation for Economic Co-operation and Development (OECD) in its latest report has focused on the issue relating to excess supply syndrome in steel engulfing the globe. It has rued the fact that notwithstanding falling prices, low capacity utilisation following subdued demand, slew of trade measures by the major consuming centres thereby becoming highly protective, excess capacity scenario and enhancement of self-sufficiency rates in the emerging economies are going to prevail. While Europe, Nafta, CIS, Africa, West Asia, Japan and South Korea have already eliminated or postponed steel capacities totaling 26.79 MT, expansion of around 100.4 MT has been undertaken by CIS, Latin America, Africa, West Asia, India and ASEAN countries.

China, which has already abandoned a few steel making capacities, is also in the process of addition in capacities mostly by their SOEs by around 28 MT by 2017. As a result the global steel capacities, currently at 2.32 billion tonne, are slated to reach 2.42 billion tonne by 2017 and a major part of which would be contributed by the emerging countries (80% of incremental capacity additions).

India is shown to complete a major portion of brown field expansion of around 30.8 MT between 2014 and 2017 to take its current crude steel capacity of 108 MT to reach 138.8 MT in next two years' time at an average rate of 9.5% per annum. This appears to be a little optimistic, as by 2015 the capacity addition in India has been of the order of around 3 MT only, by 2.8% annually. Secondly, even assuming a higher capacity utilisation of around 90% of crude steel from the current level of 81% and assuming 90% conversion ratio of crude steel, the finished steel availability in the country by 2017 comes to around 112.4 MT.

The critical issue is if there would be adequate apparent steel consumption to take care of the total availability in 2017. The ASC has touched 80.3 MT in FY16 at an annual growth rate of 4.3%. At an average annual growth of 10% (highly optimistic though) in the next two years the total finished steel demand is likely to be around 97.2 MT by 2017, much below the projected availability.

US and other countries call for urgent action on steel overcapacity

The United States and seven other countries called on for urgent action to address global steel overcapacity, a day after China and other major steel producing countries failed to agree on measures to tackle an industry crisis.

Representatives of the United States, Canada, the European Union, Japan, Mexico, South Korea, Switzerland and Turkey agreed that urgent steel industry restructuring was imperative, and must be market driven, according to a joint statement released by the U.S. Department of Commerce. They also agreed that their governments should not provide subsidies or other support that sustain loss-making steel plants or encourage additional capacity. In a separate statement, U.S. officials said they would continue to lobby for action on steel with trade partners.

"It is our shared goal that other economies, including China, will come to recognize the value of these actions and will join our collective effort to address the causes of the current excess capacity problem," Secretary of Commerce Penny Pritzker and U.S. Trade Representative Michael Froman said in a separate statement.

"The United States will continue to engage bilaterally and multilaterally with trading partners, including China, to take

meaningful action to meet that goal."

A meeting of ministers and trade officials from over 30 countries, hosted by Belgium and the OECD, concluded only that overcapacity had to be dealt with in a swift and structural way. Washington pointed the finger at China for the talks failure, saying Beijing needed to cut overcapacity or face possible trade action from other countries. But Chinese officials said it was already taking sufficient steps to curb capacity, while state news said blaming China for the global steel industry crisis was a lazy excuse for protectionism that would be counter-productive.