Middle East Steel Industry Bounces Back

- Steelworld Research Team

When the global steel market was reeling under tremendous pressure with muted growth, the steel market bounced back in the calendar year 2017 in the Middle East witnessing double the world average. This indicates that the Middle East steel industry bounced back following stagnation in the prices of crude oil, the region's economic backbone. Increased focus on infrastructure coupled with global attention on the Middle East for sharing a pie of the region's economic growth has encouraged steel producers to ramp up their production capacity amid expectations of growth in consumption.

15% Production Growth

Data compiled by the World Steel Association (WSA) showed steel production grew by a staggering 15 percent in the Middle East region double than the world average of 7 percent. Total crude steel production in January 2017 was reported at 136.5 million tonnes, 7 percent increase from the corresponding month last year. But, the Middle East posted steel production at 6.13 million tonnes for January 2017 compared to 5.34 million tonnes in the corresponding period last year. Following expectations of high future demand, the region's smallest producer Morocco reported steel production growth of 127.27 percent to 50,000 tonnes for January 2017 versus 22,000 tonnes for the same period last year. With 2.93 million tonnes (2.59 million tonnes) of steel output in January 2017, Turkey remained the largest producer followed by Iran with 1.52 million tonnes (1.37 million tonnes) and Egypt with 535,000 tonnes versus 387,000 tonnes in January 2016. Interestingly, Algeria did not report steel production.

The Middle East reported a steady growth in the region's steel production with 4.56 percent increase in calendar 2016. The region registered a total steel production at 68.24 million tonnes of steel production for 2016 compared with 65.26 million tonnes in the previous year. While Turkey contributed the over half with 33.16 million tonnes for 2016 versus 31.52 million tonnes in the previous year, Iran shared almost 25 percent or 17.89 million tonnes for 2016 versus 16.11 percent for 2015. But, monthly crude steel production responded to the demand in the region. After 5.34 million tonnes of steel production in January 2016, steel mills in the Middle East region reported around 6 percent decline in steel output at 5.04 million tonnes in February 2016. Steady growth began since then with the steel production reached the highest month level of 6.59 million tonnes in May 2016. The output declined again to the level of 5.46 million tonnes in July 2016. Steel mills in the Middle East, however, ended the year with monthly steel output at 5.98 million tonne in December 2016.

MONTHLY MIDDLE EAST STEEL PRODUCTION ('000 TONNES)			
Country	Jan-16	Jan-17	% Change
Egypt	387	535	38.24
Iran	1365	1520	11.36
Libya	76	50	-34.21
Morocco	22	50	127.27
Qatar	199	247	24.12
S. Arabia	416	483	16.11
Turkey	2598	2930	12.78
UAE	281	318	13.17
Total	5344	6133	14.76

Higher Production Cost in Saudi Arabia

Saudi Arabia's decision to hike fuel prices last year to support its oil-reliant budget has affected the Kingdom's steel industry, which is reeling under lower import prices. Steel plants in Saudi Arabia are suffering from higher production costs following the 25 percent increase in power tariff and 80 percent hike in price of heavy fuel for furnaces. Lower demand coupled with cheaper imports led to the recent lows in steel prices but Al-Ayed expects them to rebound by five percent. Steel plants in the Kingdom have suffered heavy losses recently as they had to sell at cost price or even less.

Many of them will be forced to shut some of their production lines. Saudi Arabia is also suffering from dumping by foreign steel producers who sell at 12-15 percent below domestic prices. Al-Riyadh published figures which showed that the country was the largest Arab steel producer in 2015, with production standing at around 5.7 million tonnes. In late 2015, Saudi was considering lifting the ban partially on steel and cement exports to tackle oversupply in the local market.

This represented a vast improvement on 2015 when a slump in oil prices and a surge in exports from China dented Middle Eastern steel demand and regional steelmakers' market shares. Since the fourth quarter of 2016, especially, the region's mills have benefited from increased sales volumes and margins thanks to higher Chinese steel prices, which have also weakened Chinese mills' export competitiveness.

OVERALL STEEL PRODUCTION IN THE MIDDLE EAST	
Year	Output (MT)
2006	45.49
2007	50.71
2008	50.89
2009	49.03
2010	56.27
2011	61.74
2012	63.21
2013	69.00
2014	70.46
2015	65.25
2016	68.24

In Africa, Egyptian crude steel production fell -8.5% in 2016 to 5.04 mt as gas shortages and currency issues continued to hamper steelmakers. Mills offset this with increased merchant billet imports. Algeria, meanwhile, is adding sizeable crude steelmaking capacity that will see imports significantly reduced, but its budget cuts are forecast to hamper steel demand. Despite China's retreat from the market, imports are still very much on the agenda. Now the decision makers mull need for a trade defence measures – which have been on the cards for many years – given its sizeable investment into local capacity in recent years.

Facing massive oversupply from Chinese producers, and the potential entry of Iran as a major local producer, many producers in the Middle East and North Africa have struggled to compete. The Arab countries must do something to protect their national industries. Otherwise factories will close, the people, the workers, will be retired, and this will make an economic and political crisis in each country.

According to an estimate, Chinese producers were currently producing 400 million tonnes a year more than needed, and the overcapacity was being dumped onto the market cheaply. It's known to everybody that the Chinese product is the cheapest product in the world. This is because the Chinese government is supporting the steel industry in China.

Listed some of the protection already in place, such as Algeria putting a quota on rebar imports earlier this year, Iran raising tariffs on imports, Morocco putting anti-dumping duties on float rolled products from the EU and Turkey, and the GCC beginning an investigation into coated flats imports. The region's cutback in spending due to lower oil prices had resulted in slow growth in the steel sector, but this varied within the region.

Demand Rising in Oman

Omani steel demand has accelerated quickly in the last 2-3 years. This reflects a major effort to diversify the economy and has led to investment in infrastructure in new geographic locations. Demographic pressures of a rising young population are one driving force for economic diversification. Total steel demand is estimated to hit 1.5m tonnes in 2014 compared to just 0.6m tonnes in 2009.

Moreover, the investment level is continuing and the industry sees further growth in 2015-16 with steel demand reaching 2m tpy by 2018. Oman is becoming a medium-sized steel producer in the region. Jindal Shadeed brought on its billet mill in 2014 and would steadily ramp-up capacity through 2015, when it will also commence operations on its rebar mill. Sharq Sohar,

OMANI RAW MATERIAL BALANCE ('000 TONNES)							
Particulars		2015	2016	2017	2018	2019	2020
Iron ore	Output	9000	9000	9000	9000	9000	9000
	Import	0	0	0	0	0	0
	Export	6687	6687	6687	6687	6687	6687
	Consumption	2313	2313	2313	2313	2313	2313
DRI	Output	1550	1550	1550	1550	1550	1550
	Import	75	150	150	150	150	150
	Export	150	0	0	0	0	0
	Consumption	1475	1700	1700	1700	1700	1700
Scrap	Generation	663	707	776	801	826	851
	Import	600	600	800	775	750	725
	Export	50	50	50	50	50	50
	Consumption	1213	1257	1526	1526	1526	1526
Crude	Output	2750	3000	3000	3000	3000	3000

Muscat Iron & Steel and Jazeera Steel also all completed investments in 2014. This will drive finished steel output sharply higher in 2015/16.

At that point, Oman will move to being a net importer of steel to a net exporter. It will, however, remain an importer of flat rolled steel. Demand here has not seen such explosive growth, but it is estimated to grow close to 10% on average for the next few years. Higher utilisation rates at tubular mills along with construction products investment should see flat steel demand double by 2020. The industry continues to expect that this will all be imported. However, traders are sceptical that additional capacity will be added as is proposed by Sun Steel and Moon Steel. Feasibility studies have been submitted but, there is no additional gas availability for large-scale DRI projects.

Moreover, Oman would become a net importer of scrap from 2015 to feed its mini mills. With Jindal ramping up output of steel products, it will exit the DRI merchant market by 2016 and it may actually import DRI to meet its additional needs. As such, sourcing raw materials will be difficult for the new mills while they will have to be export-oriented to maintain output and that will be difficult without being cost competitive.

Omani GDP growth has been between 4-6% per annum since 2009, but is forecast to slow in the near term. The population has been growing quickly but the government finances remain robust. The kingdom remains dependent on oil and gas revenues, but has made efforts to diversify its economy over the last five years as oil and gas reserves are running low and has focused on the development of heavy industry around Sohar along with finance, tourism and services around the capital Muscat.

Oil is expected to fall from 46% of the economy in 1996 to 9% in 2020. There were some political disturbances in early 2011, but the kingdom remains relatively popular and the political response of channelling more money into infrastructure and social support is likely to be reasonably successful in the short term.

It is also likely to result in further investment to stimulate employment. Based on current output levels and without new discoveries, oil may run out within 20 years, although enhanced oil recovery techniques could boost that as would new discoveries. In 2011, the government commenced a 5-year programme of infrastructure investment totaling $78 bn. The current value of projects in the kingdom is estimated at $145 bn – a major step-up in the overall expenditure.

Transport construction accounts for 66% of the total. Key projects include: New roads - $4.4 bn, 6 new airports and expansion of existing ones – around $4 bn, Port of Sohar investment - $12 bn, GCC railway - $14 bn, Duqm Port - $12 bn, National Rail Project - $22.9 bn, Energy & Resources account for 25% of the total. Key projects include $2 bn on renewable projects including solar power plant and solar panel production facility, Khazzan, Kish and Makarem gas field & pipeline $12 bn, Sur power plant $1.5 bn, and Haya Water Project $1 bn.

Conclusion

The region in 2016 remained one of the fastest and growing in terms of steel production consumption due to the massive projects in the construction and infrastructure sector, second only to Asia. GCC finished steel consumption rose by 6.1% in 2016 and is forecast to further grow by 6.3% in 2017. Despite infrastructure headwinds, steel industry in the Middle East is on growth path.