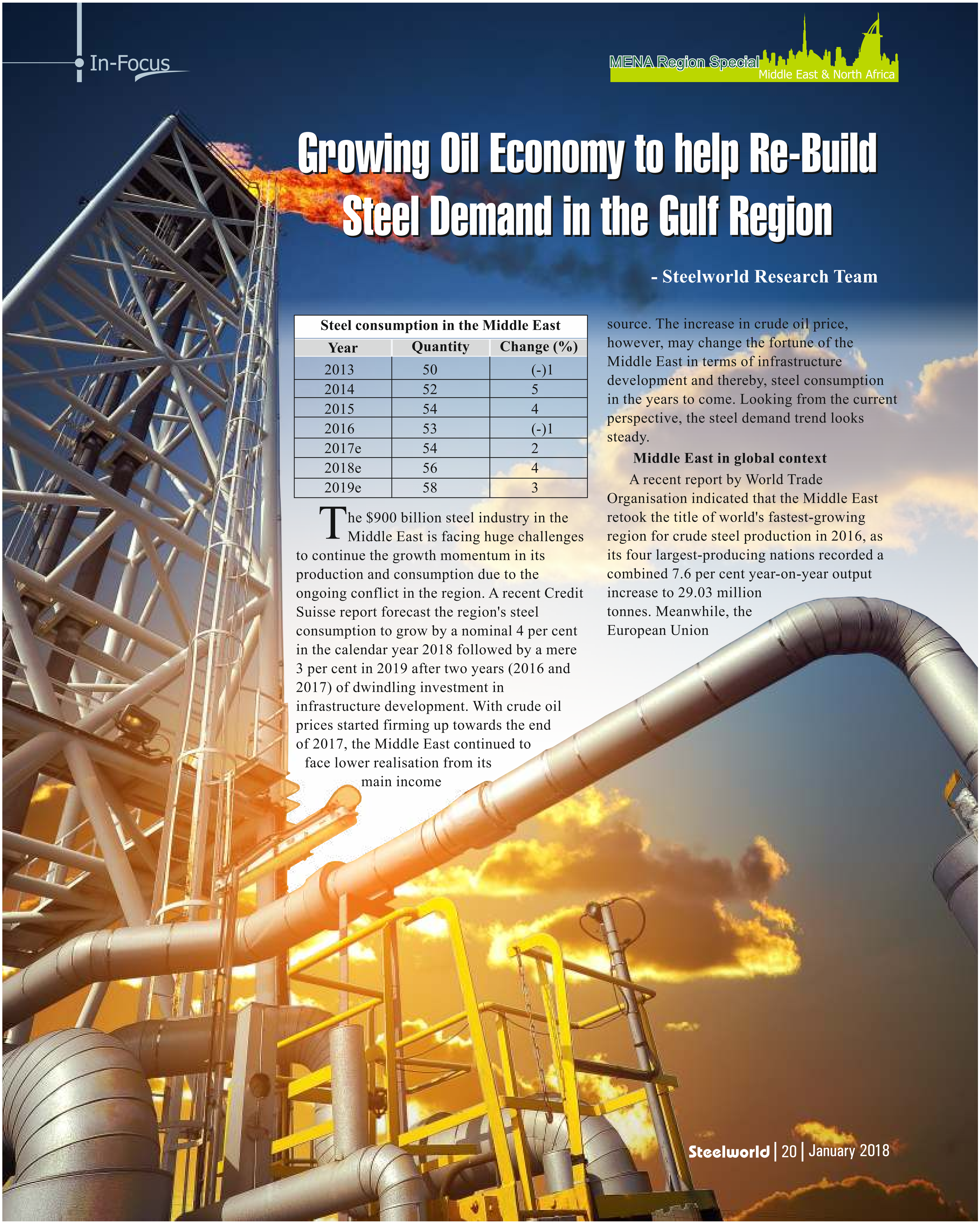

Growing Oil Economy to help Re-Build Steel Demand in the Gulf Region

- Steelworld Research Team

Steel consumption in the Middle East		
Year	**Quantity**	**Change (%)**
2013	50	(-)1
2014	52	5
2015	54	4
2016	53	(-)1
2017e	54	2
2018e	56	4
2019e	58	3

The $900 billion steel industry in the Middle East is facing huge challenges to continue the growth momentum in its production and consumption due to the ongoing conflict in the region. A recent Credit Suisse report forecast the region's steel consumption to grow by a nominal 4 per cent in the calendar year 2018 followed by a mere 3 per cent in 2019 after two years (2016 and 2017) of dwindling investment in infrastructure development. With crude oil prices started firming up towards the end of 2017, the Middle East continued to face lower realisation from its main income source. The increase in crude oil price, however, may change the fortune of the Middle East in terms of infrastructure development and thereby, steel consumption in the years to come. Looking from the current perspective, the steel demand trend looks steady.

Middle East in global context

A recent report by World Trade Organisation indicated that the Middle East retook the title of world's fastest-growing region for crude steel production in 2016, as its four largest-producing nations recorded a combined 7.6 per cent year-on-year output increase to 29.03 million tonnes. Meanwhile, the European Union remained the top exporter with a 38 per cent share of world exports of iron and steel. The Russian Federation rose from sixth to fifth position in 2016, while India climbed from tenth to eighth place. With growth in infrastructure and construction, the demand for iron and steel is on a surge. This growing demand is an indication of a robust world economy. While countries of the world are witnessing a gush in demand for steel, progress in the Middle East steel market has also been positive. Experts, however, believe that with new construction and infrastructure projects underway, the demand for steel will continue to grow across the region and internationally. The region has shown some of the latest innovations in the iron and steel industry and also outlined the trends in the coming year. The overall demand for the iron and steel will increase 1.6 per cent to 1.65 bn tonnes next year, according to estimates by the World Steel Association. That compares with an underlying growth rate of 2.8 per cent in 2017. Steel is used across varied sectors. As such it is used as a barometer to measure the economic growth of the country. With the Middle East witnessing uplift across diverse industries, the region is all set to maintain a positive momentum in the year to come.

Protectionist measures

Two years ago, decision makers in the Middle East started protectionists' measures to promote domestic industries by discouraging import of steel and other commodities in the region. Not only, leaders of individual countries in the region announced tariff barriers, they also levied new taxes to reduce import and thereby, automatically support domestic producers and consumers in the region. Experts however, believe that trade protection measures in the Middle East could support local steel producers' attempts to capture much of the increased regional steel demand expected in 2018. Gulf Co-operation Council (GCC) nations are due to make a final decision by the second quarter of this year on whether to impose anti-dumping duties on Chinese non-welded oil country tubular goods (OCTG) made of iron or steel with a radius under 16 inches. The GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates. Meanwhile, Egypt decided in December to impose definitive anti-dumping duties on rebar from China, Ukraine and Turkey for five years. These add to measures that were considered or introduced over the past year in the region to stem imports of substandard steel products and safeguard the local steel industry Rebar imports to the Middle East decreased significantly in 2017 with demand in the region being met by local producers. Apart from that, the region has imposed value added tax and import duty on certain goods to curb their unwanted dumping into the Gulf region.

Expanding Iran's footprints

Iran is increasingly heard in the global steel market when it comes to semi-finished steel products trade as growing steelmaking capacities in the country, together with weakening domestic demand, push export volumes up. In the first half of the current Iranian year (March 21-Sept. 22, 2017) the country exported 3.2 million tonnes per year (mty) of semi-finished steel products, up by 77% compared with last year's 1.8 mty. This growth was mainly attributed to higher slab shipments, which reached 1.6 mty over the period, having almost tripled year-on-year. Billet and bloom exports rose by 25% year-on-year, totaling 1.6 mty in March-September. Over the 12 months of the current Iranian year (ending March 20, 2018), the country targets the export of 5.3 mty of semi-finished products, with around 35% due to slabs and the rest to billets and blooms. Expansion of the country's steelmaking capacities in 2016-17 was one of the major factors influencing the growth of export volumes. For slabs, it was the massive expansion at the country's largest steelmaker Mobarakeh Steel Company and its subsidiaries, which increased the company's total capacity to produce slabs by 2.6 mty, to 10.3 mty per year. In November 2016, the company added a 1.8 mty continuous casting machine at its main plant located in Isfahan Province, which increased its slab production capacity to 7.2 mty. In April 2017, the producer also doubled, to 1.6 mty, slab production capacity at its subsidiary Saba Steel Complex. Another MSC subsidiary, Hormozgan Steel Company, has the capacity to produce 1.5 mty of slabs. In total, MSC holds 85% of the country's 12 mty of slab-making capacity as well as 71% of its 10 mty capacity for hot-rolled flat products. The billet segment has also seen capacity increase by around 5 mty over the past two years, with the majority of projects launched in 2017. This means that they still need time to strengthen their positions and get exports going. Among them is the 800,000 tpy Qaenat Steel Complex, a 650,000 tpy expansion project at Khorasan Steel Complex, both located in Khorasan Razavi Province, the 1.2 mty Chadormalu Steelmaking Plant in Yazd Province and the 1 million tpy Bardsir Steelmaking Plant. In 2016, only Esfahan Steel Company expanded billet production, by adding a 1.2 mty billet continuous casting machine to its 3.8 mty existing capacity. These launches helped lift the country's total capacity for billet production to around 23 mty. However, around a half of these capacities remains under-utilized due to the lack of finance and demand in the domestic market.

Meanwhile, domestic semi-finished steel consumption in the first half of the current Iranian year dropped by 4% to 7.26 mty in the country, the Iranian Steel Producers Association announced. This was mainly attributed to the drop in finished long steel production amid a lack of financing in the domestic construction sector. Despite this, both billet and slab output in Iran rose, supported by higher exports, demonstrating a 15% and 13% growth to reach 5.6 and 4.9 mty, respectively.

Price revision despite quite market

Prices for imported steel billet and rebar in the UAE and Saudi Arabia have increased, while domestic rebar prices in the UAE have remained stable. Demand for locally produced rebar, meanwhile, was strong in and market participants expect prices to increase. Iranian mills were offering billet at $535-540 per tonne cfr to the UAE, while billet from Gulf Co-operation Council (GCC) countries was on offer at $535 per tonne container freight rate (cfr). About 30,000 tonnes of billet was booked to the UAE from Iran at $509-510 per tonne cfr. The price assessment for UAE billet imports was $509-535 per tonne cfr on January 2, widening from $525-530 per tonne cfr. Interestingly, there was no demand for rebar imports in the UAE and Saudi Arabia, while offer prices increased. Turkish steelmakers were offering rebar at $565-570 per tonne cfr on a theoretical weight basis to the UAE. Weekly price assessment for UAE rebar imports was $565-570 per tonne cfr on a theoretical weight basis early January 2018, up from $540-545 per tonne cfr. Turkish producers were offering rebar to Saudi Arabia at $565-575 per tonne cfr on a theoretical weight basis, with one buyer was bidding $555-560 per tonne cfr. But market participants were already expecting the price to increase.

Economic recovery

Economic growth prospects of the oil exporting countries from the region, particularly the GCC countries are projected to improve in 2018. Although 2017 showed signs of improvement in GDP growth compared to 2016, this was less than anticipated at the start of the year due to the oil market. Brent crude oil has averaged $52/barrel (Dh190.84) so far this year, lower than about $58/barrel expected at the start of the year. This, according to PwC was due to inadequate compliance with cuts, at least until August plus revivals in production in Libya, Nigeria and US shale. While Saudi Arabia's real GDP growth is forecast to be flat at 0.1 per cent, down from 1.7 per cent last year. Next year Saudi's GDP is likely to see a marginal improvement largely driven by non-oil sector growth. Saudi Arabia's real GDP growth is expected to be close to zero (0.1 per cent) as oil GDP declines in line with Saudi Arabia's commitments under the Opec agreement. However, the IMF expects to strengthen over the medium-term as structural reforms are implemented. Non-oil growth in Saudi is projected to pick up to 1.7 per cent in 2017 with further uptick in 2018 with a projected overall GDP growth of 1.1 per cent. The UAE's economic growth, which faced a persistent slowdown from 2015, is expected to bounce back in 2018, according to the IMF. The IMF has projected a 1.3 per cent growth in the UAE's real GDP in 2017, which it expects to surge to 3.4 per cent in 2018. With economic recovery, steel demand in the gulf region is set to improve in 2018.