
# Steel Industry in Middle East Present & Future

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Middle East Steel Producers have had a rocky voyage in the last couple of years. The very low prices caused by excessive Chinese exports in 2015 reversed during 2016 and 2017. Steel Billet prices have recovered from levels of 250 USD CFR GCC Ports at the end of 2015 to 500 USD or higher CFR GCC Ports by end 2017. Similar prices increases apply across all the steel segments and have lead to substantial relief for Iron Ore Based Integrated Steel Producers in the Middle East. However for both Rolling Mills and Scrap based Steel Producers the increase in price has not lead to similar increases in margins as their raw materials have increased in line with finished goods prices.

Different parts of the Middle East find themselves in different situations. The major change that has occurred has been in the GCC market. The decrease in global Crude Oil prices caused by the emergence of Shale Oil in the USA has caused a major decrease in the available budgets of most GCC governments. This has lead to both austerity programs and cutting of spending budgets and removal of energy subsidies and increase of taxation and other costs incurred by Steel Producers. Due to decrease of government and private spending in most GCC countries steel consumption has dropped in every country except the UAE. Only Dubai has been seemingly immune and has continued robust construction growth. Dues to the decrease in Steel Consumption, all GCC countries except the UAE have seen their markets turn from net importers into net exporters of Steel. Obviously this has been challenging to the margins of most producers. As there is no imminent expectation of any major increases to the global Oil price, it appears that the oversupply situation will continue into the future.

For Iranian Producers, the situation is somewhat different. Iran has all the natural and energy resources to enable the production of substantial quantities of Steel through the DRI – Arc Furnace route. The Iranian government has been strongly promoting the steel industry. Iran was a net importer of Steel before sanctions were applied. During the sanction years, they undertook major investments in the Steel industry and that has allowed Iran to become a major exporter for both Billet and Slab Semi's globally. At present Iran is exporting approximately 5 million tons per annum. It is likely that Iranian Steel Industry and exports of different steel products will continue to grow in the foreseeable future.

Other Middle East markets and North African related markets such as Egypt have seen continued growth in steel consumption that is supported by a rising population base. Markets such as Egypt have therefore become importers of Steel Products from both Iran and Saudi Arabia. It is likely that this trend will continue as the less developed Middle East Countries and North Africa will continue to grow organically due to population growth. They growth of these markets is limited by the economic development and we need to see sustained economic development in the poorer MENA countries to see large rises in steel consumption.

For strife torn markets such as Iraq and Syria, unfortunately, it seems it will still take more time to return to normalcy and as such we do not expect any large changes in demand in the immediate future. Possibly in a few years once serious reconstruction is under way we can see healthy demand from these markets for the Middle East Producers.

GCC based producer are facing new challenges such as lack of demand and oversupply in domestic markets as well as removal of subsidies. These steel producers will be forced to adapt to the new realities and will have to adjust their performance accordingly. For most producers that will mean concentrating on cost cutting and increase of efficiency and perhaps attempting to move up the value chain by producing a larger variety and better qualities of products. The Middle East and in particular Iran and the GCC are still relatively low cost producers and as such do retain an advantage in exports relative to many other regional producers.

The world steel market is strongly influenced by China. The size and competitiveness of the Chinese Steel Market and individual Steel producers in China has a critical role to play in Steel Prices. Recently due to strong economic growth within China, exports have been limited. The Chinese government has also made attempts to cut down in Net capacity and has closed many induction furnace and some older blast furnaces in an attempt to curtail capacity. Though these attempts are in the correct direction, increases of new capacity have been larger than the cuts. The reality is that in 2017 China produced more steel than any previous year and they consumed more steel than any previous year. As there consumption grew faster than production, net exports diminished. However, it is unclear how the Chinese Domestic market will fare in the future, there are already signs that investment in infrastructure and hence requirements for steel are decreasing. The Chinese government is in a dilemma with their economy. They know that they need to restructure the economy from investment to consumption. However, undertaking such a shift would potentially disrupt major sectors such as Steel and other commodity markets. There is also fear of a property bubble in China and if such a bubble exists and were to pop, it would cause havoc in the Chinese financial and commodity sectors. 2018 will be a critical year in understanding the mood of the Chinese leadership and their commitment to make the right changes to support a healthy economic transition in China.

For GCC steel producers due to the open nature of their markets with few to none anti dumping barriers and protection measures, the health of the Chinese Steel sector is critical. If Chinese producers were to start to export in a similar manner to 2015, it would have a very disrupting effect on the MENA market. The rest of the world has adopted or is in the process of adopting very strict antidumping and protectionist measures against Chinese Steel exporters. In case the Chinese do try to return to a higher volume of exports, they are likely to face substantial resistance unlike in 2015. As other markets would be have more barrier to Chinese exports, the MENA market with the GCC in particular would be an easy target for the Chinese Producers. Unfortunately, it seems that GCC governments are very hesitant to protect the Steel Industry in their countries and it would be extremely difficult for Steel Producers if they were faced with both a weak domestic market and increased threat of exports from China to their market.

In the longer term, it appears that Asia and Steel demand in Asian countries other than China will continue to grow as these countries grow. Middle East and GCC steel producers would do well to start to develop such markets for future potential exports.