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NEWS LETTER

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INTRODUCTION

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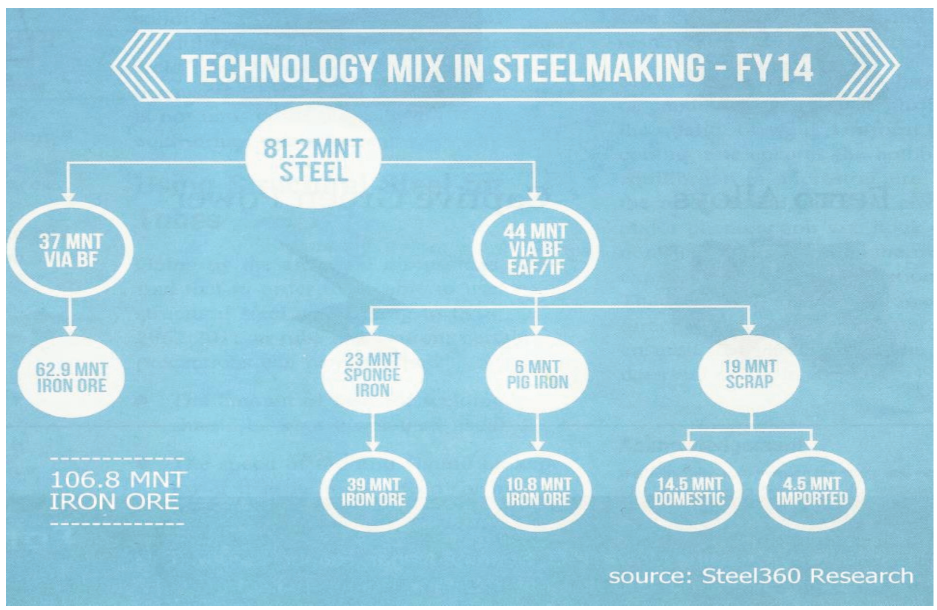
India's Steel Dream

A country made of a billion people (with zillion dreams) has a GDP of USD 1.7 trillion; 2% of this owes to steel. Hence, the significance of this 2% is immense. It corresponds to a common Indian's dream of building a house, buy a car, get latest electronics, or buy stainless steel for domestic use. A common Indian dreams about getting it all, cheaper, better & more, true even in context of steel.

The Indian Steel sector has proved to be one of the most stable and progressive in the world, as it was among the few nations that had a positive CAGR in 2013 (as per the WSA report). With 81 MnT Crude steel production, it is world's fourth largest producer and in years to come might overtake Japan & US to move up to second in the list. There's going to be bullish expansion; whose plans are chalked out till 2020 and 2016 will carry the vibes.

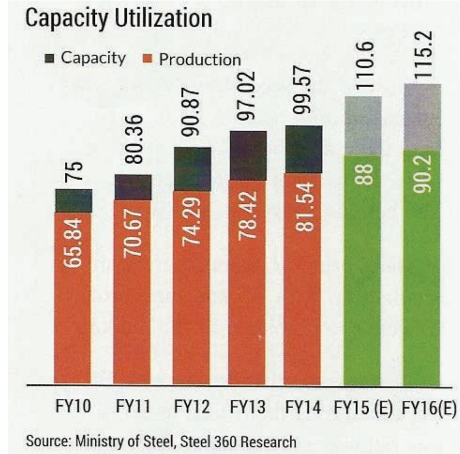


These expansions would not only result in production of more steel, they will also boost competition. Prices will decline owing to mass production via the BF route; quality will get better. We, at Steel 360 have made an attempt to study the upcoming scale ups and depict how in 2016 Indian Steel Biz will look like. The conclusions drawn are on the basis of expansion projects planned by the Indian Steel makers, without considering unforeseen events.

Since 2013 till now, there have been fewer signs of revival, and the eclipse continues to spread on the raw material used in Steel. Interrupted mining operations in most of the Iron ore producing states followed by Coal blocks which were declared illegal, raw material situation in the country has seldom been normal in the last few years. But, we still managed to produce about 81.2 MnT of Steel i.e. about 4% higher compared to FY13. During the same period, GDP grew by 5.63%.

Steel in India – FY16

FY15 & FY16 are to witness good number of Crude steel installation across India. Mostly, the growth will come via the BF route. SAIL & RINL each have a plan to ramp up by 3 MnT and Tata Steel & Bhushan plan to expand Crude steel capacity by 1 MnT each. This will add up 8 MnT of installed capacity to India's portfolio. In addition, there are a few EAF capacity planned by JSW, JSPL, RINL & SAIL. Looking at such installations, we've adjusted the CAGR to little above 4% Y-o-Y, owing to bullish expansions of steel giants. Perhaps, India will make more than 90 MnT of Crude steel in Fy16.

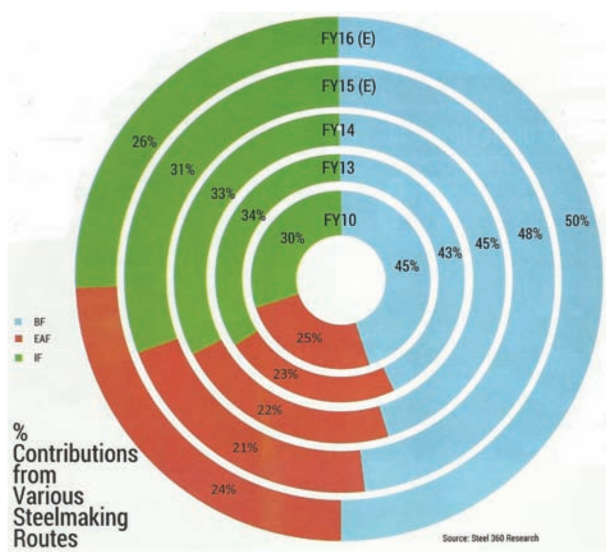


Indian Steel Blueprints

- The capacity utilization might be close to about 82% in FY16. The average rate between FY10 &FY14 was close to 84%.
- The decline in utilization rate from the average will be owing to the time lag required to optimize a reactor (BF) before it reaches to the best output.
- The utilization rates over the coming years are bound to increase owing to Blast Furnace set ups. On an average a blast furnace operates at 90% of its capacity.
- Till FY13, India witnessed major expansions through IF & EAF routes and perhaps the market is now saturated. However, BF route will be more attractive option in the times to come.

Various Steelmaking Routes

- The EAF & IF capacity has gradually increased over the past few years. During FY10, steel via EAF contributed about 16.46 MnT and IF contribution was close to 19.7 MnT. These capacities ramped up to 18 MnT via EAF and 26.6 MnT via IF in Fy13.
- Most of the secondary manufacturers operate Ifs in India and there are about 47 EAFs as of now. IF will not get to see scale in the coming years but EAF will.
- Many primary manufacturers are coming up with BF and their product is going to dominate in the market.
- Obviousness that comes with BF installation, is their need to remain operational and the companies will operate at their best possible level, at all cost.
- With elevated production level, there will be enough availability of material and hence will invite strong competition.
- Secondary steel manufacturers might have to face the pressure.



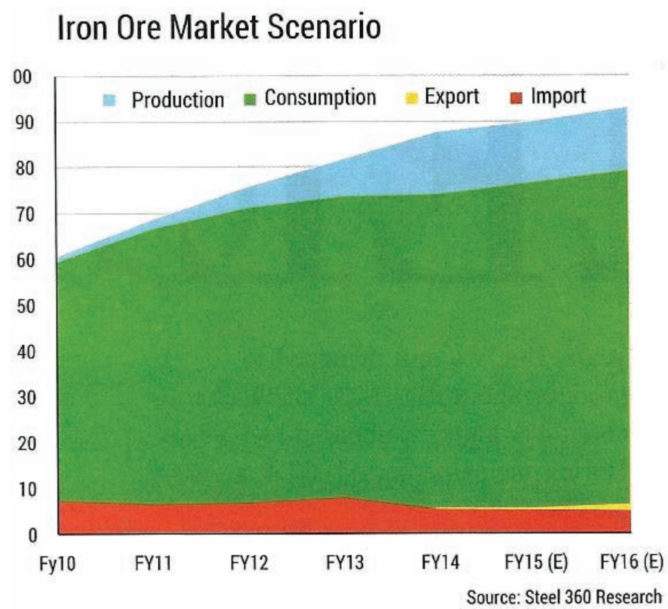
Steel Consumption

Imports

- Owing to the increase in domestic supply, import might decline.

Exports

- One might see finish, semi-finish, pig iron exports increasing during FY16 because BF units might continue to produce throughout.
- Indian will most likely be a net exporter of Steel by Fy16.
- The surge will be owing to two reasons.
- India use to depend on other countries for its requirement of auto grade steel, which it can very well produce now.
- The elevated production level might easily meet Indian consumption giving room to the export market to flourish.

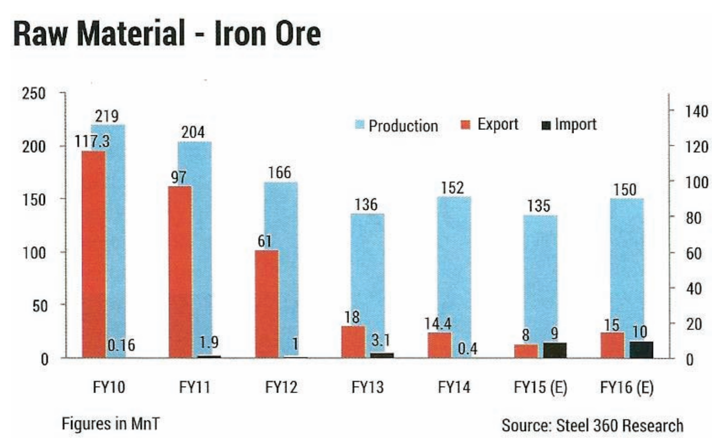


Consumption

- According to WSA, consumption of Steel might increase to 3.8% in year 2016. It is worth noticing that during FY14 consumption increased only by 2%.
- The real consumption of steel declined owing to many factors such as bans, BIS, elections etc. In the coming years, the situation might ease and demand may grow.

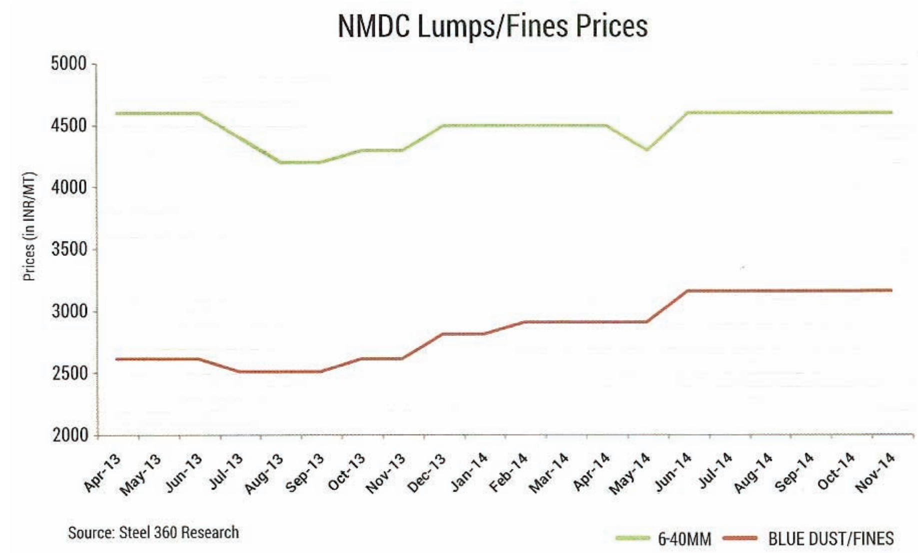
Steel Prices

- Production of Steel will surpass the demand in the domestic market.
- This will exert pressure on Steel prices and we might not see any surge in the next few years.
- The price difference between Primary & Secondary producers will narrow down, which might toughen competition.
- Owing to steel output via BF route, quality output might add to the factors that determine prices. Primary manufacturers will have a opportunity to position their product on the basis of better quality at lower prices.
- Iron ore production has fallen down because of mining ban in Karnataka, Goa, Odisha & Jharkhand.
- Total Iron ore output will be close to about 150 MnT by FY16. Odisha will remain the highest contributor of Iron ore. In addition, Goa mines will start operations and Karnataka's Iron ore production will increase.



- Export might increase to 15 MnT by FY16 owing to increased contribution from mines in Goa.
- Imports will stay around the same level i.e. close to 8-10 MnT.

Iron ore Prices



- Prices in the domestic market will be under pressure owing to slowdown in the global market. The global market remained in the range of USD 80-90 per MT CFR China during Q2 FY15.
- Price gap between Iron ore lumps & fines will narrow down further and might just remain close to about USD 15 per MT.
- During FY16, Pellet manufacturers' profit margins might be hit owing to these price pressure.
- Imports will have some restrictions owing to the lag in infrastructure i.e. we might have enough material to export but it has to stay due to the lack of proper port facility.

Source: Steel 360

Steel Industry Outlook: US Shows Resilience, China Lags - Industry Outlook

Per the latest data available from the World Steel Association, global steel production increased 2.1% to 1,231 metric tons (Mt) in the first 9 months of 2014. China churned out 50% of the total at 550 Mt, an increase of 2.3% year over year (yoy). Production in the European Union rose 2.9% to 128 Mt. United States shared the podium holding the third position, with production climbing 2.3% to 91 Mt. Japan nudged up 0.8% to 83 Mt. Given the weaker-than-expected performance in the emerging and developing economies in the first half of 2014, the World Steel Association has trimmed its short-range outlook for global steel usage, which is now expected to increase 2% in 2014, down from its prior forecast of 3.1%. For 2015, world steel demand is projected to grow at the same pace and reach 1,562 Mt. A slowdown in China, due to the structural transformation of the country's economy, was mainly instrumental in bringing down the outlook. Economic slowdown in China -- the largest steel consumer, accounting for almost half of global steel consumption -- has dealt a massive blow to the global steel industry. In stark contrast to the high demand levels in China in the past years, steel usage in the country is expected to cool down and rise only 1% in 2014, while declining further to 0.8% growth in 2015. In Central and South America, falling commodity prices and delayed structural reforms will affect steel demand. In Brazil, apparent steel usage will decline as high inflation, overvalued currency, high labor costs and infrastructure bottlenecks are curtailing investment activities. In the Commonwealth of Independent States (CIS, also known as the Russian Commonwealth), geopolitical tensions will constrain demand.

Recent reports of weakness in the Euro-zone economy, particularly its leading economy Germany, signal a slowdown in the much awaited recovery in the region. Companies like ArcelorMittal, which generates almost half of its revenues from the region will be affected. Even United States Steel Corp. has significant operations in Europe. However, the picture is not so bleak everywhere. Steel demand is expected to grow in the U.S., riding on the back of an improving global economy, strong momentum in the automotive markets, demand in the energy sector and a turnaround in the construction sector. India will also pick up the pace driven by its construction and manufacturing sectors, and structural reforms from the new government. Much hope is pinned on India to act as the next growth driver, given its high population and rapid urbanization. Demand in Japan will be up in 2014, aided by governmental economic policies.

Sector Level Earnings Trend

The third-quarter earnings season has just taken off. Within the Zacks Industry classification, the steel industry falls under the broader Basic Materials sector As of date, 14.3% of the stocks in the sector have reported their third-quarter numbers putting up a 180.4% year-over-year increase in earnings on the scoreboard. The sector has an impressive beat ratio (percentage of companies coming out with positive surprises) of 66.7% so far. Taking into account the other companies that have yet to report their results, earnings of the Basic Material sector is expected to go up 10.2% for the third quarter, up from the 8.6% increase in the second quarter of 2014. Currently, the sector's earnings are expected to witness a 3.8% rise in the fourth quarter and 15.3% in first-quarter 2015. Overall, in 2014, the sector will log earnings growth of 8.7%, and accelerate to growth of 18.5% in 2015.

Industry Ranking: Overall Negative

We rank all of the 260 industries in the 16 Zacks sectors based on the earnings outlook for the constituent companies in each industry. This ranking is available in the Zacks Industry Rank page . The way to align the ranking and outlook from the complete list of Zacks Industry Rank for the 260+ companies is that the outlook for the top one-third of the list (Zacks Industry Rank of #87 and lower) is positive, the middle one-third (Zacks Industry Rank between #89 and #176) is neutral, while the outlook for the bottom one-third (Zacks Industry Rank #174 and higher) is negative. The steel producers feature in the top tier with a Zacks Industry Rank #69, indicating a positive outlook. The "steel-pipe and tube" and "steel specialty" industries are currently in the bottom tier with Zacks Industry Ranks of #249, indicating a negative outlook. Overall, the outlook for the industry is weighted more toward negative. Please note that the Zacks Rank for stocks, which are at the core of our Industry Outlook, has an impressive track record, verified by outside auditors, to foretell stock prices, particularly over the short term (1 to 3 months). The rank, along with the Expected Surprise Prediction (ESP helps in predicting the probability of earnings surprises.

What's in Store for the Industry?

Overall, steel industry will grow, but at a muted pace supported by the automobile industry and construction sector as well as the energy sectors. Looking at the steel companies in our coverage, Nucor Corporation (NUE), which is a key supplier for real estate companies, and United States Steel Corp., a key supplier for energy companies, will benefit from the strong end markets. Companies like ArcelorMittal and AK Steel Holding Corporation (AKS) generate a large portion of their revenues from auto companies. China will continue to be a deterrent factor and the slowdown in the European Union poses concern. We believe recovery in steel pricing will be driven only by a reviving economy and a rebound in construction activity in the U.S. and developing countries, China and India in particular. We expect M&A activity in the steel space to continue at a slow pace in 2014 until the price stabilizes and the industry strikes a balance between supply and demand. However, M&A activity in the Indian steel industry is expected to go up as the country is the world's third-largest steel consumer and has the potential to take the second spot.

Source: www.nasdaq.com

Indian steel ministry to create INR 100 crore fund for R&D soon

India's steel minister Mr Narendra Singh Tomar announced for creating a fund of INR 100 crore setting up research and development units with the participation from industries and the government to overcome the technological gaps at an ASSOCHAM event held in New Delhi. Mr Tomar said "It is under the active consideration of the government to infuse more funds in this initiative to utilize locally available cheap raw material, to remain competitive in the world market." Mr Tomar said "The steel capacity has increased by 20 million tonnes to the level of 100 million tonnes in 2013-14 from 80 million tonnes in the year 2010-11, while the production has increased merely from 70.67 million tonnes to 81.54 million tonnes in the same period. This clearly depicts the sharp drop in capacity utilization to 82% in 2013-14 from the level of 88% in 2010-11. The significant decline in capacity utilization is solely due to the unavailability of iron ore to steel industries. Iron ore production in the country has come down from 218 million tonnes in 2009-10 to 144 million tonnes in 2013-14 due to restriction of mining." He further said, "India's per capita steel consumption is around 60 kg, which is not only very low, but also much lower than the international average of over 215 kg. This indicates a huge gap in prosperity levels, though it also reflects a huge potential for the growth in steel consumption. Realizing the enormous potential the high level committee on manufacturing has decided to plan ambitiously for crude steel capacity of 300 million tonnes by 2025-26." He added "Overall techno-economic performance of Indian steel industry is below global benchmarks mainly due to poor quality of raw materials/inputs, prevalence of obsolete technology and lack of R&D to overcome the technological gaps. Indian steel industry would need to adopt measures like beneficiation of iron ore & coal and increasing use of agglomerated burden in blast furnaces. Investment in R & D in Indian steel industry has been very low in the range of 0.15-0.25% of the sales turnover. I will also urge upon the Indian industry to focus on R&D initiatives in a big way to utilize locally available cheap raw material, to remain competitive in the world market."

Source: Steel Guru

Rare Earth Metals Industry: Indian Scenario

During the Indian Prime Minister's recent Japan visit, a pact was signed between India and Japan to jointly produce mixed rare earth, with Japan set to start importing from India in 2015 as it tries to wean itself to its reliance on China. Indian Rare Earths Ltd and Japanese Trading House Toyota Tsusho signed a contract on joint production as early as September 2014. IREL will make mixed rare earth materials from uranium and thorium ores, which Toyota will use to produce neodymium for electric and hybrid cars as well as lanthanum, cerium and praseodymium. The annual production will be about 2,000-2,300 tonnes, equal to around 15% of Japan's demand and roughly 2,000 tonnes a year could be exported to Japan starting as early as February 2015.

Rare Earths are characterized by high density, high melting point, high conductivity and high thermal conductance. These unique properties make them indispensable for a variety of emerging and critical technology applications relevant to energy security, i.e. clean energy technology, defence and civilian applications. Rare earths are not rare in the sense of their abundance, but have earned this descriptive because they are rarely concentrated enough for an easy recovery from their ores. There is large amount of reserves of rare earths minerals in the world. China's reserve of rare earths is 36 mt, but it contributes with 97% of global production. India has 3.1 million tonnes (mt) of rare earths reserves and currently has a little over 2% share of global output of rare earths, but that still leaves it the second largest producer after China. In India, monazite is the principal source of rare earths, Kerala, Orissa and Tamil Nadu account for nearly 95% of the country's production of rare earths.

One of the biggest roadblocks for mining companies is obtaining environmental clearances for rare earths production. Mining rare earths has raised green hackles because of the mildly radioactive slurry tailings, a result of the presence of thorium and uranium in rare earths ores. The toxic acid used in the refining rare earths is another area of concern. The recovery of rare earth elements from monazite has been restricted due to its thorium and uranium content. There is a need for concerted efforts to explore other primary sources of rare earth elements.

India has two major advantages in the RE industry. It has a large resource base in RE raw materials. It also has a large domestic market for both civilian and military products that gives it significant leverage, if used wisely. India also has a reasonable R&D base especially within the mission organisations of the country. However, the major inadequacies in converting indigenously available knowledge and technology into commercially viable products and services need to be rectified. For a national level strategy to be successful India needs to understand in much greater detail the technology – product – market links in the various key industries likely to be affected by RE shortages. This industry level analysis using a dynamic life cycle approach should also study in detail the various material and technology alternatives for dealing with RE bottlenecks and to set priorities.

Extracted by
Shri S C Suri, Chairman, IIM Delhi Chapter
From Metal News (October 2014 issue)

<u>**Visit to 'Mahavir Die - Casters Faridabad' (08Nov.2014)**</u>

– A Brief Review

The Indian Institute of Metals – Delhi Chapter regularly organizes visits to eminent industries in and around NCR, for benefit of its members. In this series, a team of IIM-DC members visited ***'Mahavir Die Casters, Faridabad'*** on 08 Nov.2014, on initiative taken by some of IIM-DC members.

Mahavir Die Casters are part of `Oswal Group of Industries' founded by eminent Industrialist Mr. R.K.Jain. Oswal Group of Industries - a leading manufacturer of High Pressure Aluminium Die Cast Components in India - have five Units, three in Faridabad, one in Manesar and one in Hosur Bangalore.

Mahavir Die Casters, Faridabad, is a leading manufacturer of High Pressure Aluminium Die Cast Components in India having current annual turnover of approx. Rs. 275 crores, installed production capacity of about 7500 tons of Casting annually, and provides complete solutions viz. Tool design & manufacturing, Mold Flow and Simulation, Die casting, Machining, Surface Treatment, Painting processes & assemblies, having elaborate facilities for each activity. The plant is spread over an area of ~ 2 acres.

Global Customers of *Mahavir Die Casters* are Electrolux, Paulstra France, Hutchinson Poland, Tyota Tsusho japan, etc. A wide range of Domestic clients include Tata Motors, Hero Motors, Mitsuba, Bridgestone, Yamaha, TVS, Ashok Leyland, Nissan, Sona, Sanden, GE etc.

Mahavir Die Casters is a Quality certified company with TS 16949 and ISO14001 certifications.

In addition to Pressure Die Castings, Company also has CNC Machining, liquid and powder painting & sub assembly of various parts and in-house facilities for Tool Designing & Tool manufacturing.

Capabilities

Company has capability to provide Total solutions to customers from Tool Designing to Sub-assemblies, providing customers with quality parts.

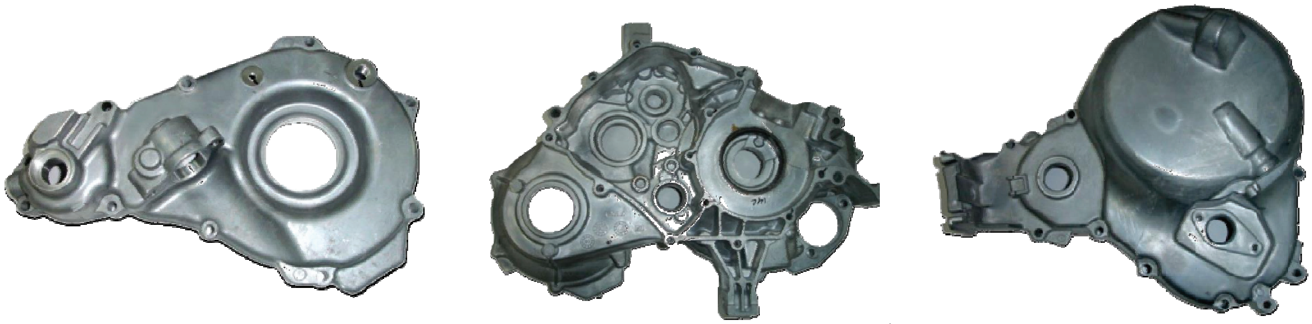
Some of the capabilities are detailed below:

Tool Making	In-house tool making facilities, having ~ 10 Flow simulation & Thermal analysis stations
High Pressure Die Casting equipment	87 Die casting machines ranging from 180 Tons to 1300 Tons. Makes include LK, Toshiba, Zitai, Yizumi, Ube
Surface Treatment	Buffing, Shot Blasting etc to provide excellent surface finish
Machining CNC	A range of CNCs, VMCs & SPMs, having 50+ Machining centres
Paint shop	A world class Paint shop for Liquid painting, made by R Devis.

Some of the Products of the company are shown below:

Transmission Parts

Three Wheeler Parts



Vehicle Parts

INTERACTIONS WITH SENIOR OFFICIALS

IIM-DC members went around all the facilities of the Plant and interacted extensively with the Senior Officials of Company (Mr. Rahul Khanna Director and Mr. Anil Saharan Corporate Head QA & MPD). Different activities of IIM Delhi Chapter also were explained in detail. It was agreed that IIM-DC would assist in providing technical support to the operatives of *Mahavir Die Casters* by organising a Technical Workshop for Aluminium Die casting Units. A mutually suitable time frame will be finalised.

Senior officials of IIM-DC met Chairman, Mahavir Castings Ltd., Mr. R.K.Jain and apprised him of various Chapter activities.

The visit to *Mahavir Die Casters Faridabad,* ended with thanks to their senior officials for facilitating this visit.

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SAIL coking coal imports to touch 35 million tonnes by 2025

A company official said that state-run steel maker SAIL's coking coal imports will touch 35 million tonnes by 2025 when the targeted production capacity is projected to touch 50 million tonnes. Mr P Roychaudhury executive director of SAIL said that "Presently, SAIL's coking coal imports is around 12 million tonne to 13 million tonnes. This will go up to 18 million tonnes by 2017-18." Mr Raychaudhury at the CII Logistics Colloquium, said that when the projected steel production capacity was to touch 50 million tonnes per annum as per Vision 2025, the quantum of coking coal imports would reach 35 million tonnes. Regarding exports of steel, he said that presently SAIL was exporting 0.5 million tonnes of steel, which was supposed to go up to two million tonnes post expansion. To handle the increasing amount of imports, the SAIL official said that the company was looking at other ports besides Haldia, Vizag and Paradip.

Source: Steel Guru

Infrastructure creation for 4 mega steel plants assigned to SAIL, RINL and NMDC

PTI reported that creation of basic infrastructure for four mega steel plants, estimated to cost USD 40 billion, has been put on fast track with SAIL and RINL being assigned the job along with the existing nodal agency NMDC. NMDC was earlier given the task of putting in place basic infrastructure, including land acquisition for the plants, each with 10 million tonne to 12 million tonne capacity, in Chhattisgarh, Jharkhand, Karnataka and Odisha. A source in the Steel Ministry said that "November, with the slow progress in readying the necessary and basic infrastructure including land acquisition, government has decided to devise the job to SAIL and RINL as well." As per the proposed plan, SAIL, RINL and NMDC would tie up with state industrial development corporations for forming SPVs that would create the infrastructure for such ultra-mega steel plants. Tying up with Industrial Development Corporations would also help SPV to secure land and create other necessary infrastructure without facing much hurdles. IDCs will have some stake in the SPVs. The plan was that after developing the infrastructure, NMDC will sell it off to steel firms who intend to set up shop in India, but have been deterred by bottlenecks.

Source: Steel Guru

HR steel levels break tradition and reach uniformity in EU before the year closes

EU domestic steel market has been at the receiving end for the entirety of 2014 amidst slow demand from end use segment. As the economy struggles its way through the worst debt crisis in Italy & Spain, Germany has been sucked in the process with overall slow industrial production and auto sale growth. One year down the road price levels in these three vital nations have undergone many undulations but the gradient has been downward with slight spark in September. Year back the price levels prevailing in Germany, Italy and Spain were EUR 460, 425 and 435 per tonne EXW. The same differential has been maintained till summer when the price gap between Spain and Italy expanded with Spanish price levels nearly at par with the big brother Germany probably signaling more than expected healthy growth in demand as the Spanish economy clawed its way back with spending on infrastructure and consumer durables. German price levels afflicted with declining industrial production and economic growth and receding infrastructural spending has been the main loser. Moreover it is learnt that Russian mills particularly Severstal is exporting lots of HR to Germany owing to proximity the freight being only EU 20 per tonne which is probably lower than even within Russia. The future looks even more ominous with nearly 1 million tonnes of HR likely to be diverted after the imposition of anti-dumping duty in USA on Russian material. Import from global bell whether China is no threat in EU since the domestic mills are selling at very competitive rates. HR in Germany is available at EUR 405 per tonne EXW, whereas import offers from Russian mills at EUR 390 per tonne CFR are finding no takers in Spain. The above factors have led to harmonization of prices across 3 countries with near equality at EUR 41X, 41X and 40X per tonne EXW in Spain, Germany and Italy till recently. In fact the peculiarity of German price slumping below the Spanish levels is explained by the above factors.

Source: Steel Guru

Low growth and high volatility

Low growth might be the 'newnormal' until the emerging economies pick up, says Hans Jürgen Kerkhoff, chairman of worldsteel's economics committee.

By Matthew Moggridge

GLOBAL apparent steel use will increase by 2% to 1.56 billion tonnes in 2014 following growth in 2013 of 3.8%. In 2015 world steel demand will grow by another 2% to 1.59 billion tonnes, according to worldsteel's short-range outlook, which was presented to delegates at the 48th World Steel Conference in Moscow. "The reason for such a low growth rate is mainly due to slow growth in the emerging world, explicitly in China," said Hans Jürgen Kerkhoff, chairman of the worldsteel economics committee. He added that China's economic slowdown was an important feature of the global steel market. "However, in the developed world the recovery remains on track," he said, "but it was not enough to offset the sluggishness in the emerging world, which accounts for over 70% of world steel use."

Global GDP revised downwards

Kerkhoff said that the picture for the emerging world in 2015 was more optimistic in general, but that China will continue to show low growth. He pointed out that global GDP in 2014 was revised down by 3.4% in July by the International Monetary Fund (IMF) because of downward revisions to many emerging economies. "On the other hand, the developed economies fared well," said Kerkhoff, highlighting a moderate pick-up in Japan and the EU and strengths in the USA. The outlook for developing countries was improving with reforms making progress in some countries. Uncertainties resulting from geopolitical tensions in the CIS and the Middle East are expected to dissipate.

Lower steel demand growth

According to Kerkhoff, positive momentum in global steel demand in the second half of 2013 abated in 2014 with a weaker than expected performance from the emerging and developing economies. "As a consequence we are issuing a lower steel demand growth figure than our forecast released in April this year." The slowdown in China's steel demand, Kerkhoff explained, reflected the structural transformation of the economy and contributed significantly to worldsteel's lower global growth projection. "We have also seen a major slowdown in South America and the CIS countries due to falling commodity prices, structural constraints and geopolitical tensions," he said, adding that, in contrast, the developed economies fared well and recoveries in the European Union, the USA and Japan were stronger than previously thought – but not strong enough to offset slowdowns in the emerging economies. Steel demand growth in developed economies is expected to be moderate in 2015, said Kerkhoff, while growth in emerging and developing economies are projected to pick up. He said that China's rebalancing act would continue to act as a drag on steel demand. The World Steel Association believes that its outlook is 'prone to risks coming from various fronts'. One such risk is that US interest rates increase in 2015 and are likely to impact global capital flows and create instability in vulnerable emerging markets where structural reforms and geo-political tensions, caused by global energy prices, have emerged as a new threat. China's transition towards a consumption-driven economy is not without its challenges, claimed Kerkhoff, and the recovery in the European Union is still constrained by household and government deleveraging.

China's 'new normal'

In China, apparent steel use is expected to slow to just 1% growth in 2014 (748.3Mt) as the Chinese real estate sector cools off and the government's efforts to rebalance the economy curtail investment and weaken business sentiment. Weak growth momentum is expected to continue into 2015 when China's apparent steel use will grow by 0.8% to reach 754.3Mt. Possible use of targeted stimuli and the easing of restrictions on the real estate market in response to slower GDP growth could increase the forecast. China's economy, said Kerkhoff, has been decelerating since 2012 as the government pursues rebalancing. "So we have seen China's GDP growth coming down to around 7.5% along with decelerating investment," he said, adding that the Chinese had used mini-stimuli to smooth out the fall in investment but refrained from using major stimuli in order to boost GDP growth. "So we noticed an important switch in the government's stance towards growth versus rebalancing," explained Kerkhoff. The current slowdown as the 'new normal' for the Chinese economy that China will have to accept. This means that despite the slowing growth, the government will not actively stimulate the economy as it did in the past while mini stimulus might be used where necessary," he said. Kerkhoff said that China's slowdown was necessary in order to implement reforms and prevent further issues concerning China's structural problems such as local government debt, the real estate bubble and overcapacity, which could develop into a crisis if not managed properly. "China's slowdown and its structural transformation, which seems to be smooth so far, is a risk factor to be monitored. The good news is that the old risks related to the Eurozone crisis and the US government's fiscal problems, have receded considerably. The recovery in the EU is on track, even if it is still not solid enough today, and the US recovery is strengthening."

The 'new normal' in China

"The steel industry in China is facing a 'new normal' that is even more drastic than GDP. Steel demand is expected to grow by 1% this year due to a depressed real estate sector and the current trend is expected to continue into 2015," Kerkhoff said, adding that it reflected the Chinese government's will to push forward with the rebalancing of the economy. China's pro-business environment, brought about by the new government, has brightened the outlook for India's steel industry where apparent steel use is expected to increase by 3.4% this year and further accelerate to 6% in 2015. Where China's slowdown is concerned it is thought that the Chinese economy will have 'a soft landing' as a result of government intervention to avert disaster following a severe downturn in the real estate market, which worldsteel believes will recover during H2 2015. "In a way the current slowdown in China is a reflection of the structural transformation taking place now in the Chinese economy," said Kerkhoff. "It is unlikely that the investment boom of the past will return; instead the current slowdown signals the end of an era of high growth in China's steel demand." Steel demand in China, said Kerkhoff, will be peaking soon and steel demand in the emerging economies will continue to grow at a fast speed and gain a rising share of investment.

Other emerging markets

Where the emerging markets, excluding China, were concerned, Kerkhoff said that 'we saw continued weakness this year' in the shape of a combination of factors. "In much of Brazil and India, the themes leading to weak growth in 2013 – continued high taxes and subsidies, corruption, a lack of infrastructure, elevated inflation and weak profitability – are the cause and it is being compounded by geopolitical tensions. He said that the share of investments in all emerging economies was stagnating. "However, the reforms taking place in some emerging economies, such as Mexico and Chile, are encouraging development." In India the outlook is improving thanks to the election of a new government promising pro-business reforms. In 2014, India's steel demand is expected to grow by 3.4% to 76.2Mt, following growth of 1.8% in 2013. Structural reforms and improving confidence will support a further 6% growth in steel demand in 2015, but elevated inflation and fiscal consolidation remain key downside risks. In Japan, steel demand in 2014 is revised upward to increase by a further 2.3% to 66.8Mt following a 2.1% increase in 2013. However, as the positive impact of "Abenomics" fades away and with another consumption tax hike on the cards, steel demand is expected to decline by -1.5% in 2015. In the USA, steel demand is increasing by 6.7% to 102.2Mt in 2014, a large upward revision, helped by strong growth in the automotive and energy sectors. Steel demand is expected to increase by 1.9% in 2015 and in Mexico it is expected to grow by 6.9% this year and by a moderate 3.5% in 2015.

Poor performers in Latin America

Apparent steel use forecasts in Central and South America have been revised down with most countries registering negative growth and are expected to decline by 2.4% to 48Mt in 2014 from 4.2% growth in 2013. The region's woes are attributed to falling commodity prices and delayed structural reforms, which are hurting steel demand across the region. Steel demand is expected to increase by 3.4% in 2015. In Brazil, apparent steel use will contract by 4.1% in 2014 to 25.3Mt and will rebound by just 1.5% in 2015 due to high inflation, over-valued currency, high labour costs and infrastructure bottlenecks, all of which are curtailing investment activities. Brazil has entered recession and GDP growth is expected to be 0.5% this year. The current slowdown is partly attributed to the ending of stimulus, but there are deeper roots, said Kerkhoff, and structural issues. "No significant pick-up is expected in 2015," he added, explaining how the economic performance of other Latin American countries was 'mostly disappointing' with unfavourable policy development in Argentina and Venezuela. "Most Latin American countries expect to record negative growth this year, leaving Columbia as the lone success story in the region," said Kerkhoff.

Eurozone growth

The steel demand outlook for the EU 28 has grown by 4% to 145.9Mt after increasing by 0.8% in 2013. The improvement reflects a pick-up in steel-using sectors in most countries, but notably the UK and Poland and those countries that underwent structural reforms. While apparent steel use in 2015 is projected to grow by 2.9%, the EU is facing disinflation and geopolitical tensions, which threaten the continued recovery. Apparent steel use in Germany is expected to grow 3.2% to 39.1Mt in 2014 and by 2.3% in 2015. "Recent indicators show that the recovery [in the Eurozone] is losing traction," said Kerkhoff, but he added that reforms in Spain and Portugal have led to an economic pick-up thanks to improved competitiveness. In France and Italy restructuring has been sluggish resulting in weak economic activity. In Germany, GDP is generally strong but exports and business confidence are suffering, he said, adding that the Eurozone was facing the challenge of 'disinflation'. Steel demand in Germany rose by 3.2% in H1 2014 supported by strong increases in steel using sectors, such as construction and automotive, which are expected to slow in H2 2014. "Italy and France, which are lagging behind in reforms, are marked by low growth rates," said Kerkhoff, while steel demand in the UK is expected to increase by 7.7% supported by a strong labour market and recovery in the residential building sector. Despite the improving picture, the recovery is still prone to risks. Challenges to the EU's recovery include the threat of 'disinflation', the slow pace of reform and the impact of geopolitical tensions on economic activity. Portugal and Greece have benefitted from structural reforms while Spain continues to grow thanks to a strong automotive sector helped by exports. Simultaneously, residential construction, which has suffered from years of decline, has continued to improve. "In the EU we expect to see relatively strong growth of 4% this year supported by growth in most countries including Germany, Italy and Spain, the UK and Poland. In 2015 EU steel demand will continue to grow but 25% below the peak level of 2007. "The European Central Bank has cut interest rates recently and will start implementing a limited version of quantitative easing. In summary we expect a modest pick-up to continue into 2015," Kerkhoff said.

Geopolitical strife

Apparent steel use figures in the CIS have been revised down significantly in 2014 by -3.8% to 56.9Mt, following 2.8% growth in 2013, but is expected to rebound in 2015 assuming no further escalation of the crisis in Ukraine. In Russia, the weak trend in steel using sectors during the second half of 2013 continued, and in 2014 weak infrastructure investments, combined with geopolitical tensions, constrained steel demand and led to growth of -0.5% (43.2 Mt). Recovery is expected in 2015 when growth is expected to reach 1.1% (43.7Mt). The conflict in Ukraine is a severe blow to the country's economic activity. Apparent steel use is expected to decline by -19% in 2014 as the crisis has undermined investor confidence in the region. CIS growth of 1.9% in 2015 is expected, but this is assuming that the political situation stabilises. Worldsteel's current short-range outlook assumes that the situation in Ukraine will stabilise by the end of this year implying considerable outside risks if this does not happen, but even under the base scenario an immediate rebound is not likely. In Russia, structural weaknesses and geopolitical tensions have led to a decline in investment activity and, as a result, apparent steel use declined in 2014 but will rebound by 1.1% in 2015 on the back of economic stabilisation and large infrastructure projects. In Turkey economic activity is slowing this year due to weak domestic demand and increased political tensions in neighbouring countries, such as Syria and Iraq.

Middle East and North Africa

Steel demand in 2014 for the MENA region has been revised down due to political instability, but is expected to grow by 3.3% to 67.6Mt and by 6.6% in 2015 due to the strength of oil-producing countries in the region. Moderate growth is expected in Africa this year, while in the Middle East apparent steel use will increase moderately by 2.3% in 2014 due to political unrest in some parts of the region. Slow improvement is expected in 2015. Steel demand in Central and South Africa will continue to struggle due to weakening economies and structural issues. North Africa's ongoing political tensions continue to dampen economic activity. A recovering Egyptian market is driving regional steel growth. Construction activities in the Gulf Cooperation Council (GCC) region accelerated during 2014 and were underpinned by government-driven infrastructure projects.

Asian slowdown

Steel use in Asia and Australia is expected to slow down due to a deceleration of steel demand in China, but partly offset by a healthy upturn in developing Asia – excluding China. Asia accounts for 66% of world steel demand. Kerkhoff said that apparent steel use in South Korea is expected to increase in 2014, helped by restocking, while the country's steel consuming sectors will remain at a low level. In 2015, improvements in production facilities in the automotive and construction sectors will result in a 1.6% increase in apparent steel use. Developed Asia will show an increase this year but will stagnate in 2015.

NAFTA recovery

In the NAFTA region, after a contraction of GDP in Q1 2014, economic activities are recovering at a sustainable pace and are strengthening housing investment, manufacturing and employment in the process, according to Kerkhoff. He said that steel demand in NAFTA countries is expected to increase in 2014 after a decrease last year and is supported by a strong pick-up in the energy and automotive sectors. The pickup in construction is not expected to be as strong due to an expected interest rate hike. There has, in fact, been a large upward revision reflecting strengths in the US and Mexico. In 2015 NAFTA apparent steel use is expected to slow to growth of 2.2%. Steel demand in the USA is expected to increase this year while in Mexico construction appears to have bottomed out after a difficult 2013. Automotive output is strong, helped by deliveries to the USA. "This will continue in 2015 along with an expected continued improvement in the construction industry," said Kerkhoff.

Divergent growth dynamics

Developed economies overall, said Kerkhoff, were showing higher growth rates than developing economies. He said that overall apparent steel use in the developed economies will register over 4% growth in 2014, but will slow to 1.7% in 2015. Emerging and developing economies, excluding China, will grow by 1.7% in 2014, followed by a rebound of 4.7% growth in 2015. "There continues to be strong potential for growth in developing markets aided by a growing middle class, a relatively young population and the need for large scale investment," said Kerkhoff. In recent years, he said, there had been increasingly divergent growth dynamics across the world and no unified pattern of steel demand growth within an economic growth region. "In the Middle East, for example, we see a very divided picture between the regions of the GCC and those elsewhere experiencing political instability," he said.

Taking a fresh look

The differing inter-regional economic growth dynamics, Kerkhoff suggested, means that it is probably time to take a fresh look at worldsteel's conventional groupings of regions and economies. "This is something the committee will look into in future," he said. "Under the current global situation we see new risks are emerging from various fronts while old risks are receding," said Kerkhoff. "First of all, geopolitical risks are prevalent in many places and our forecast is based on the assumption that uncertainties related to these tensions will dissipate. A lack of structural reform in emerging economies will make those economies vulnerable to external shocks." Kerkhoff warned delegates that the global steel industry faces a period of low growth and high volatility with new risks emerging from developing economies and low steel demand due to a lack of significant growth engines. "Low growth might be the 'new normal' until the emerging economies pick up," he concluded.

Source: www.steeltimes.int.com

Indian steel firms to provide seed capital for SRTMI for steel R&D

Business Line reported that the country's public and private steel companies have identified a participative funding formula for the proposed Steel Research and Technology Mission of India, which will spearhead research and development activities in the Indian steel industry. Under this formula, the steelmakers would bring in a seed capital equivalent of INR 25 for every tonne of crude steel produced in 2013-14, or INR 5 crore, whichever is higher. Steel ministry sources, who did not want to be named, said that the companies are soon to finalise the contributions through respective board approvals. The Government wants to establish the SRTMI as a registered society with an initial corpus of INR 200 crore within the next three months. The entity will invest in R&D for the steel sector, and aims to raise steelmakers' combined investment level of 0.2% to 0.3% of the turnover to the international benchmark of 1% to 2%. According to estimates, about INR 130 crore could be pooled in by the top integrated steel makers, while the Steel Ministry has made a commitment of providing INR 100 crore from the Steel Development Fund.

Source: Steel Guru

Assocham writes to RBI chief seeking concessions for financially stressed steel industry

Apex industry body Assocham has urged the Reserve Bank of India (RBI) to advise all commercial banks to extend the credit for payment of penalties due to coal blocks' de-allocation by the Supreme Court and payment of upfront bid amounts for participation in the coal block bidding by deserving steel companies to ensure competitiveness of steel produced relative to imports of steel. "The aggregation of challenged raw material availability owing to increased price trends, declining end products' demand together with falling steel prices have been causing a severe blow to the domestic steel industry resulting in closure of numerous small and medium steel factories thereby putting operations and viability of larger ones in question," said The Associated Chambers of Commerce and Industry of India (Assocham) in a communication addressed to the Reserve Bank governor, Raghuram Rajan. "The steel industry in India has been passing through a very tough phase for past five years owing to low metal demand and extreme price pressures notably as steel prices dropped by Rs 4,000 per ton during the course of past few months," said DS Rawat, secretary general of Assocham.

"The problem has aggravated due to coal blocks' cancellation by the apex court thereby creating uncertainty over availability of coal at competitive prices in the future," said Rawat. As such, Assocham has sought longer maturity of term loans for projects in operation to coincide with useful life of the plant to ease the pressure of cash flow. The apex chamber has also suggested for refinancing of rupee term loan through foreign currency loans and also refinancing of external commercial borrowings (ECBs) through fresh ECBs. Assocham has also urged for conversion of interest burden up to March 2016 into terms loans without impacting asset classification to improve cash flows. "The industry is currently finding it difficult to finance the interest and CDR window is the only way to reduce interest burden, therefore it is requested to allow conversion of part interest into funded interest term loan (FITL) to ease the cash flow position for the most stressful period, without changing the asset classification." Assocham has further said that condition of new set of lenders for 25 per cent joining the existing lenders (for balance 75 per cent) may kindly be dispensed with to enable re-financing of loans by existing lenders as new lenders are reluctant to join for re-financing. The chamber has raised concerns that though iron ore prices have dropped globally owing to increased number of sea-bound suppliers, there is severe scarcity in India due to closure of various mines in key iron ore producing states of Goa, Karnataka and Odisha which has also led to significant rise in prices.

Source: The Times of India

Asian steel makers profitability to rise in 2015 - Moody's

Argus quoted Ratings agency Moody's Investors Service as saying that profitability of large Asian steelmakers may rise slightly next year, as capacity additions slow and blast furnace utilisation rates increase. Mr Jiming Zou analyst of Moody's said that "We believe steelmakers' profitability has bottomed out and will increase slightly in 2015. Demand for steel will likely increase a modest 3pc, outpacing net production capacity additions. Declining raw material costs will also support steelmakers' profitability."

Iron ore prices have been forecast at USD 50 per tonne to USD 70 per tonne next year by various analysts, which would provide significant cost relief for steelmakers globally. Moody's pointed out that while China is the major steel producer and consumer in Asia, Chinese steelmakers are the least profitable in Asia. Prominent Chinese steelmakers, such as Baosteel, will likely modestly grow profits and gain market share at the expense of smaller companies as the Chinese government gets aggressive on removing redundant production capacity. The ministry said that China's ministry of industry and information technology earlier this month released a third list of 21 iron and steelmaking companies that will have to eliminate their outdated production capacity by the end of this year. Provincial governments should dismantle the outdated equipment mentioned in the list and ensure they are never brought back to use. Moody's said that Japanese steelmakers Nippon Steel & Sumitomo Metal Corporation and JFE Holdings are better positioned than other producers in Asia to increase their profitability because of a growing domestic economy. South Korea's POSCO and Hyundai Steel's profits will increase with capacity expansion. POSCO will also higher earnings from its non-steel businesses. It said that capacity additions and high utilisation rates at existing plants is also likely to boost profitability for large Indian producers such as JSW Steel, Sail and Tata Steel.

Source: Steel Guru

Raising import duty on stainless steel Finance Ministry's call: Steel Ministry

The Steel Ministry has pitched for a duty hike to safeguard domestic stainless steel industry from Chinese imports, but a final call in this regard will be taken by the Finance Ministry. Acknowledging problems of domestic stainless steel industry on account of rising imports, a senior Steel Ministry official said recently that a call on raising import duty to the optimum 10 per cent level would be taken by the Finance Ministry. Reeling under severe capacity under-utilisation, domestic stainless steel makers, with a cumulative 5 million tonnes per annum capacity, received a breather in the last Budget as the government raised import duty on flat-rolled products from 5 per cent to 7.5 per cent. The industry now wants that raised further to 10 per cent.

"In terms of duty structure (on imports of stainless steel), the higher one can go is 10 per cent in this country because that is the decision taken at the WTO. Beyond that, we will not be able to do. We are already at 7.5 per cent. I don't know what the final view the Finance Ministry will take," said Syedain Abbasi, Jt Secretary, Ministry of Steel. "If it does, that will give some protection from China. But we must remember that as far as South Korea and Japan are concerned, we have FTAs and there the duty structure will be at zero. So that competitive pressure will continue," he said, addressing the concerns raised by the stainless steel makers at an industry event here.

India is now world's third largest producer of stainless steel behind China and the second largest consumer of the alloy. India's per capita consumption at 2 kg is much lower than the world average of 5 kg, while imports are nearly 30 per cent of the domestic consumption. With squeezed margins and mounting losses, the largest domestic producer Jindal Stainless has seen its net worth dip more than 90 per cent in the last four years pushing it into "potentially sick" unit category. Others are also not in good shape. Abbasi said the government would take a considerate view taking into account the volume of imports and keeping in mind the trade-off of downstream industries. The "very survival of the industry is at stake", Jindal Stainless' Chairman & Managing Director Rattan Jindal said. "The domestic industry has invested close to Rs 35,000 crore on capacity expansion and modernisation. This entire loan can become NPA if the government does not do something urgently." Apart from China, Japan and South Korea export stainless steel to India. The industry wants government to raise import duty to 10 per cent and bring down duties on imports of the raw material for making stainless steel such as nickel and stainless steel scrap.

Source: The Economic Times

Mr Modi assures support for POSCO plant to Korean head

According to a statement issued by the Korean government, Prime Minister Mr Narendra Modi, who met South Korean President President Mr Park Geun-hye at Myanmar, has offered full support for the establishment of the mega steel plant proposed by POSCO in Odisha. According to the South Korea government, "With regard to the POSCO project, he (Modi) expressed his full support for it and said, he would make efforts with the Odisha state government to resolve any outstanding issues." Both the leaders met at Korea-India summit, organized on the sidelines of East Asia Summit, held at Naypyitaw, Myanmar and discussed various issues faced by Korean companies in India. During the discussion, Geun-hye raised the issue of delay in allocation of a captive mine in favour of the steelmaker, which has maintained that it will not invest in plant construction until the mining lease has been granted. The statement said that "Taking note of the delay in addressing the issue of the right to mine exploration, which is key to POSCO-India's commencing the construction of a steel plant in Odisha, President Park requested the Prime Minister's interest in this mega investment project."

Despite order of the Supreme Court of India for allotment of an iron ore mine in favour of POSCO in May last year, things have not moved in favour of the Korean company due to differences between the state government and central government over allotment of the area for prospecting license (PL). The Union government had returned the lease recommendation files sent by the Odisha government twice, asking it to follow proper procedures, which included separate recommendations for notified and non-notified areas. Earlier this month, the state government sent a revised recommendation, requesting the Union government to grant PL for the notified area of 2,083 ha in Khandadhar iron ore deposit area, instead of earlier proposal of 2500 ha. The Centre has not taken any decision yet whether to accept or reject recommendation of Odisha. A PL can be issued for maximum period of three years, followed by reconnaissance permit and mining lease and is considered as a preferential right document in favour of the licensee.

Source: Steel Guru

Govt to set up Research Centre for steel industry

The Union Government has decided to set up a research centre for the steel industry. According to a SAIL release, the Minister for Mines & Steel, Narendra Singh Tomar, said this at a function at the Indian Institute of Metals in Pune on 14th November 2014. The centre will spearhead research under the proposed 'Steel Research & Technology Mission of India' (SRTMI) to promote collaborative programmes in the sector. It is envisaged that the research will be done in priority areas covering best usage of available raw materials, conservation of natural resources, optimum energy conservation, minimum emissions leading to innovations, development of design, engineering and manufacturing facilities of key steel plant equipment.

Apart from SAIL, Tata Steel, JSW Steel, JSPL, Essar Steel, RINL, NMDC and MECON will be the initial participating companies.

Special purpose vehicles

The Minister also talked about forming special purpose vehicles (SPVs) with iron ore rich states for de-bottlenecking the clearance procedures for mining projects to revive investment in the steel sector. The role of SPVs will be to acquire land and obtain all necessary environment and forest clearances. NMDC Ltd will spearhead in creating these SPVs.

Special mining zones

The Ministry of Steel has also proposed 'Special Mining Zones', where regions with mineral resources will be identified as strategic resources and one nodal authority will arrange necessary green clearances for mining projects in such areas. At the event, Chairman of SAIL, CS Verma, was conferred with the IIM - JRD Tata Award for 'Excellence in Corporate Leadership in Metallurgical Industries' for the year 2014.

Source: The Hindu Business Line

India's Steel Industry Braces For Chinese Construction Investment

A report in China Daily quoted a senior officer of India's Tata Steel saying that for Chinese steel companies facing overcapacity problems, it might be a good idea to invest in India, which is now allowing 100% foreign direct investment in construction projects for the first time.

Such is the hysteria being whipped up around Chinese steel imports by this news, that the domestic India media is full of reports that speak of the Indian Government seriously contemplating increasing import duties on steel in the coming days from present levels of between 5 and 7.5%. This may mollify the Indian steel companies but will such a protectionist regime help India's economy? That's is the question that needs to be discussed, according to some economists. The foreign direct investment announcement may also necessitate an upward correction in most of the previous steel growth predictions. Just a few days before the government's proclamation, the World Steel Association (WSA) had predicted India's steel demand would hit 76.2 million tons this year, up by 3.4% from 2013. In 2015, it predicted the same to grow by an additional 6%. Compare this to India's 1.8% growth in 2013 to understand how much demand growth is forecast to jump. The FDI move was necessary since India needs to enhance its affordable housing stock to stop the slums in its metropolitan areas from spreading. Also, the new government has announced plans to build 100 "smart" cities, which again, is likely to spur steel demand. The real estate sector saw rising FDI between 2006 and 2010, but afterward both spurts leveled off. Between 2000 and 2014, construction development received FDI worth $23.75 billion.

So, while India's steel consumption is clearly set to rise, China's is set to go the other way. Indian steel companies are left wondering how they will cope with the rise? They currently are producing only about 80% of their installed capacities because of the shortages of iron ore and coal, both crucial in steelmaking. So, Prime Minister Narendra Modi's, "Make In India" program will clearly have to rely on Chinese steel to see the light of day. Ravinder Bhan, deputy general manager of marketing at state-owned Steel Authority of India Ltd. (SAIL) was quoted in The Economic Times saying "The 'Make in India' slogan has to be true for steel also. Let steel firms get iron ore and other raw materials. But that's not happening." A forecast by Deutsche Bank said India's steel demand was expected to rise by 4-5% this year, and would touch 15% CAGR after fiscal year 2017 "as the country has the potential to emerge as the second largest steel consuming market after China during FY15-20." The research report said India would emerge as a large importer of steel particularly in FY 2019-20 with imports of as much as 24 million tosn of steel – equivalent to 17% of its consumption. Domestic steel production is estimated to rise by 48% by 2020, it said. So, they may not like it and certainly oppose it, but from the looks of it, India's steel companies may have to live with China breathing down their backs for some time. Or they need to pray to the gods they believe in that China's economy picks up soon.

Source: MetalMiner

Trouble Ahead for Steel Industry Stocks?

For the steel industry, demand in the U.S has been solid and markets like India continue to display great growth prospects. Still, there are plenty of reasons to be careful in the steel industry stock space in the near term. Below, we discuss some of the key reasons and what investors in the steel sector can look forward to in the coming months and years.

Slowdown in China

Demand in China, that alone accounts for almost half of the total steel consumption has slowed down due to the country's tepid property market and weaker infrastructure investment growth. China's growth rate was in the double digits until 2008 and even during the global financial crisis steel consumption in the country increased, mainly due to infrastructure expansion. Subsidies from the Chinese government also provided a boost to the steel industry. However, for 2014, the World Steel Association's has projected 1% growth in steel usage in China. This would be the second time in a decade that Chinese steel consumption grew at a slower rate than rest of the world.

Excess Capacity: Perennial Problem

The biggest obstacle in persistent growth and profitability of the steel industry is its excess capacity. The industry remains highly fragmented compared to other global businesses and the restructuring and consolidation needed to eliminate overcapacity is progressing at a slow pace.

Rise in Cheap Imports in the US

Even though steel demand has slowed, steel production is still increasing in China. The surplus enters the international markets. This was partly a result of the subsidies that the Chinese government provides to its steel industry as well as the devalued Chinese currency, which makes steel imports cheaper from the country. In September, China's steel exports have hit record levels at 7.14 million metric tons. These cheap imports hurt the margins of US steel players.

Low Crude Steel Capacity Utilization

The crude steel capacity utilization ratio in the Jan–Aug 2014 timeframe has remained stubbornly below 80%. In fact, the capacity utilization rate in August was the lowest so far this year at 74.2%. Even though, steel production is on the rise, the capacity utilization rate has gone downhill. Excess steel capacity has been a perennial problem for the steel industry and steel prices generally move in tandem with capacity utilization rates. To remain competitive, some major steel companies have idled steel plants in a bid to rationalize operations.

Increasing Use of Aluminum in Auto Industry Poses Threat

Currently, steel is the major raw material used by the auto industry, the second largest steel consumer. The major automakers like Ford, General Motors and others in specific and the industry as a whole is also becoming increasingly aluminum-intensive, given the metal's recyclability and light-weight properties. The global push to improve fuel efficiency in vehicles is expected to more than double the demand for aluminum in the auto industry by 2025. In order to remain competitive, steel companies have to come up with improved and lighter varieties of steel.

Slowdown in Europe

In terms of consumption, the European Union holds the second spot after China. The Euro-zone economy stalled in the second quarter, indicating that the region's much hoped recovery has lost momentum. Europe's growth engine, Germany, shrank for the first time in more than a year. The steel industry was counting on a recovery in the European Union. However, the slower-than-expected GDP growth rate was a negative for it.

Falling Iron Prices

This year, iron ore prices have been plummeting, losing more than 40% and tumbling to a 5-year low in September, due to continued slowdown in China, combined with a surge in supply. In the next few years, a wave of new supply of iron ore is slated to hit the market as the major iron ore producers are going gung ho with their expansion plans to augment production capacity. Brazil and India will also step up their exports. A combination of weak demand and oversupply will continue to pressure iron prices in the near term.

Source: www.zacks.com

DG INSDAG urges for immediate steps by government to curb Chinese imports

Mr Sushim Banerjee Director General of Institute of Steel Growth and Development in an article in FE wrote that "Eliminating the import duty on raw materials by 2.5%, enhancing import duty on finished steel at least by 2.5% and a complete review of the economic impact of FTAs to reconsider preferential duty structure may be the immediate support the domestic steel industry is expecting eagerly from the government." He highlighted the threat from steel imports from China "In the last few years, China has consistently added capacities in almost all steel categories in anticipation of demand growth. With decline in domestic demand since 2012, Chinese firms were saddled with surplus capacities (total finished steel surplus: 130MT in 2013) in almost all categories, which prompted them to export increasing volumes to all major steel producing countries. India became an easy destination due to its large market size, preference for low end products at cheap prices and logistic advantage for China. While 27.3% of total carbon steel import has arrived from China in the first 7 months of the current fiscal (against 14% in 2013), China has emerged as the major supplier to India capturing more than 60% share of the total import of alloy/stainless steel category in the current period (against 38% in 2013)."

Mr Banerjee wrote that "In both these categories, China remained a low cost producer mostly supported by government policies, namely, nil import duty on raw materials (scrap, ferro nickel, ferro molybdenum, and pure nickel), low capital cost (interest rate: 3.5-4.0%), power supply at huge subsidized rates. Compared to this Indian steel producers pay at least 30% more for power, pay duty at the rate of 2.5 -5.0% on imported raw materials including coking coal with much higher cost of capital (interest rate: 8.5-9.5%). Further, import duty on flat steel in India is 2.5% lower compared to the level in China." He opined that the government needs to address these issues urgently without waiting for annual budget announcements, three months later.

To understand the threat of imports as outlined above, we need to look at current CFR prices for imports vis-à-vis prevailing domestic prices at Mumbai.

Item	*CFR USD*	*Landed INR*	*Domestic*	*Diff*
Rebar	455	31000	32600	-1600
HR	495	34300	36871	-2571
CR	565	39000	43228	-4228
Plates	505	35000	38736	-3736

Landed import prices in INR include 5% or 7.5% import duty and port expenses and are basic without taxes. Domestic prices are in INR per tonne without taxes. The vast difference for flat products strengthens the argument made for urgent action by Indian government to stop further woes for Indian steel mills

Source: Steel Guru

China crude steel production in Oct falls to 67,520,000 tonnes

According to the announcement by the National Bureau of Statistics of China, China's production quantity of crude steel in October was 67,520, 000 tonnes, down 20,000 from the previous month. Its production quantity per day in October was 2,178,000 per tonne largely down 80,000 per tonne from 2,250,000 per tonne in September. In China, environmental restrictions have been tightened, and such information was reported for certain manufacturers to be forced into a suspension of operations, which can be taken factual. According to the announcement, its crude steel production in that month decreased by 0.3% from the same month last year. Its cumulative production quantity in January to October was 685,350,000 per tonne up 2.1% from the same period last year. Its production quantity of steel products in October was 95,250 t/t, down 0.5% ditto. Its production quantity per day was 3,070, 000 per tonne down 120,000 per tonne from 3,190,000 per tonne in the previous month. It increased by 2.0% from the same month last year. Its cumulative quantity in the same period was 934,470,000 tonnes up 4.7% ditto. Its production quantity of pig iron was 57,010,000 per tonne down 3.2% ditto, and also down 3.1% from the same month last year. Its cumulative quantity in the same period was 599,520,000 per tonne up 0.1% ditto. In China, operations of blast and electric furnaces were suspended in early November mainly in the Heibei Province. Therefore, its production quantity is seen to decrease in November as well. The environment over steel seems to be so severe due to the sluggish demand, tightened environmental restrictions and lack of money to purchase among distributors. Steel products which are unable to be domestically sold are likely to be diverted to export and a decrease in export quantity will not be expected for the time being.

Source: Steel Guru

Steel ministry asks for steel to be kept on negative list for RCEP

Apprehending that the domestic steel industry might face increased risk of dumping from China, Japan and South Korea due to India's participation in a 16-country trade bloc called Regional Comprehensive Economic Partnership (RCEP), the steel ministry has requested its commerce counterpart to keep the commodity on the 'negative list' of items of this multilateral agreement. The negotiations on RCEP are scheduled to take place shortly. The bloc includes 10 ASEAN countries - Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam - and their six partners with whom they have free trade agreements (FTAs), including Australia, China, India, Japan, Korea and New Zealand. India has experienced a surge in steel imports from Korea and Japan after signing trade deals known as Comprehensive Economic Partnership Agreement (CEPA) in 2010 and 2011, respectively, with these countries. According to official data, the share of these countries in steel imports into India has jumped from 24% before CEPA to 53% by 2013-14. In addition, India's steel imports from China, the world's biggest producer of the alloy, more than doubled in April-September from a year ago to 1.34 million tonnes. India imported 5.445 million tonnes of steel in 2013-14. The steel ministry apprehends that any decrease in import duty from China may result in a further spurt in cheap imports, harming domestic firms such as Tata Steel, Steel Authority of India (SAIL), Essar, JSW and Jindal Steel. "Till last year, export growth was more than import. But this year it seems net imports will increase, although item-wise variation exists for different steel products. "The government believes the industry needs handholding and this intervention has been made only to produce a conducive environment for them," a senior steel ministry official said. The Indian steel industry wants to take its total capacity to 300 million tonnes by 2020 and the government does not want a situation where capacity addition cannot be done, added the official, who did not wish to be identified. India's steel production capacity stood at 99.57 million tonnes at the end of March. According to Essar Steel's chief commercial officer H Shivramkrishnan, steel imports surged 40% during April-October, compared with the year-ago period. Almost 85% of the imports are from Korea, Japan and China, he said. "The industry is facing a shortage of iron ore fines, cut in gas allocation, etc., which are impacting our steel production. It is important to bring in timely measures to curb the surge in imports and also revisit the FTA agreements and the necessity for import of various grades of steel which are otherwise available with Indian steel mills," Shivramkrishnan told ETin an emailed response. Economists say that a stand needs to be taken now if India wants to avoid further lowering of tariffs on steel imports from China because duties will go to zero under RCEP on movement of goods and Indian players cannot compete with the Chinese products.

Source: www.metaljunction.com

India tops in steel output growth in October

An improvement in overall business sentiment, the government's announcements on big-ticket investment in infrastructure and a post-monsoon pick-up in demand led India to post the fastest growth in steel production globally in October. At 8.5 per cent, India's pace of growth was also the fastest among the major steel producing countries, including the top three producers China, Japan and the US, all of which saw decline in steel output during the month. India produced 7.08 million tonne (mt) steel in October, compared to 6.52 mt in year-ago period. According to monthly data compiled by World Steel Association (WSA), which represents 65 steel producing nations, China, largest producer of steel, reported a 0.3 per cent fall in production during October to 67.5 mt. Similarly, steel output declined 1.7 per cent to 9.4 mt in Japan and 0.7 per cent to 7.3 mt in the US in October. The top four steel producers, including India, contributed over 91 mt to world's total production of 136.7 mt steel during October, a month when global output remained flat. Elsewhere in Asia, South Korea produced 6.2 mt of steel, up 4.5 per cent over the corresponding month last year. Even as China, Japan and US reported lower growth, Russia posted a 1.6 per cent growth in October compared to the yearago period. Among European Union nations, Germany produced 3.5 mt of crude steel in October, a decline of 5.9 per cent over the year-ago period.

Source: www.metaljunction.com

Global steel prices continue to fall, India may follow

Indian steel producers are in for tough times, as prices of the ferrous metal across the world continued to weaken in the fortnight ended November 17. Weak demand, coupled with increased exports from China led to CIS export prices witnessing a bigger fall compared to domestic prices. While CIS prices are down 8.5 per cent, European prices are down five per cent over the past month, and domestic steel prices are down three to four per cent. Across different markets, prices have fallen between four per cent and 12 per cent. The reason behind the weakness in steel prices globally is the sharp increase in Chinese exports. Between January and October, Chinese exports were up 42 per cent year-on-year at 73.9 million tonnes. India has also seen steel imports surge. In the financial year to date, India's steel imports have risen 35 per cent, while imports from China are up 135 per cent, claim analysts. Analysts believe prices are expected to remain depressed in the near term. Despite a sharper fall in the global markets, domestic prices have declined three to four per cent. Analysts expect a further three to five per cent fall in prices by December-end. Margins and realisations of domestic steel producers are expected to contract in the second half of the financial year. The metals sector has significantly underperformed the Street's expectations on earnings even in the September quarter and the disappointment is expected to continue. Most brokerages are in the process of downgrading the earnings estimate of domestic producers. Metal stocks have rallied in the past six months, as input prices declined and Indian steel companies imported iron ore, thanks to shortage in India. However, most of the raw material price gains have been priced in and a further decline these prices will push down realisations much faster. Iron ore prices have continued to tumble in the global markets, with the 62 per cent grade ore declining by six per cent in the fortnight ended November 17 and 58 per cent grade ore declining by three per cent. Emkay Global says after maintaining prices for four months despite a decline in global prices, NMDC, too, revised prices for lumps downwards by Rs 200 a tonne, keeping prices for fines unchanged. However, the brokerage does not expect a sharp fall in steel prices, though they might remain weak. While many steel producers have hinted at price hikes in January 2015, analysts believe this may prove to be difficult.

Source: www.metaljunction.com

Operating capacity of stainless steel mills slumps 55% on huge Chinese imports

The operating capacity of India's stainless steel (SS) mills has declined to the alarmingly low level of 55% due to cheap imports from China and other Free Trade Agreement (FTA) countries amid weak demand. The production capacity has come down from 65-70% level a year ago. Speaking on the sidelines of the announcement of Indinox 2015, a two-day SS industry event scheduled to be held between January 24 and 27, 2015 at Gandhinagar, N C Mathur, president of Indian Stainless Steel Development Association (ISSDA), said, "The SS mills have steadily invested $5 billion since its peak days of 2006-07 to create an overall installed capacity of around 5 million tonnes. Against that, we estimated a total production at 2.6-2.7 million tonnes in 2014-15." This is because of dumping Chinese goods into India with some of them of substandard quality with low nickel and chromium content in it, Mathur said. India's production capacity has drastically come down in the last 6-7 months as imports from China, Taiwan and Korea have shot up by 150%. According to industry body ISSDA, India's SS imports have gone up to around 40% of annual consumption. Until the last financial year, total import from all countries combined was 100,000 tonne. But total imports from China alone have shot up to 250,000 tonne in the first half of the current financial year. India's annual SS consumption stands at 2.7 million tonnes. "The biggest problem Indian SS mills face is high electricity and logistics cost, unbearable rate of interest on working capital, continuous investment on pollution control equipment etc. Raw material exports from China attract high duty of upto 40% to discourage shipment of inputs like SS scrap, ferro nickel. Over and above, the Chinese government is incentivizing upto 13% on export of SS, apart from low interest rate on working capital loan and cheap power there. The industry will be protected only with a minimum differential duty of 7.5% which currently exists at 5%," said Hiten Bhalaria, managing director of Bhalaria Meal Craft, a SS utensil manufacturer and exporter. Jindal Stainless has invested around Rs 12,000 crore in its 1-million-tonne greenfield project in Odisha, which is currently operating at 30% of its operating capacity. Its Hisar facility is currently operating at 60-70% capacity. Similarly, the Salem steel plant by the Steel Authority of India Ltd (SAIL) has invested heavily on capacity additions. "When Prime Minister Narendra Modi is emphasising on 'Make in India', here is an industry which is bleeding due to imports despite having enough production capacity. We certainly need protection in terms of 'anti dumping duty'. The difference between raw material and finished products imports currently stands at 5per cent in India as against 10% in China," said Mathur. Free trade agreement is another area where the government should look bilaterally. Currently, India is at receiving ends with import from FTA countries rising significantly without any jump in exports. With crude stainless steel production at 3 million tonne, India ranks as the third largest producer and second largest consumer of stainless steel. The market for 2013-14 was at 2.5 million tonne of which flat products accounted for approx 2 million tonne. With a low per capita consumption of 2.1 kg (as against the world average of ~5 kgs) there lies a huge potential for future growth but slowdown in sectors such as infrastructure, railways, seaports, airports, highways, and bridges etc. have been major obstacles. Bhalaria said that the European Union has already initiated investigation against Chinese dumping of SS which India must follow

Source: www.metaljunction.com

CONGRATULATIONS

Mr. L. Pugazhenthy, Past President, IIM (2008-09) & Executive Director, ILZDA received the "**PLATINUM MEDAL"** at the NMD Award function at Pune on 14 November 2014 for his significant and outstanding contributions to the nonferrous metals sector.

Vedanta to put $782m into local zinc mine

INDIA's Vedanta Resources, one of the world's largest zinc miners, will invest $782m in a zinc project over the next three years, building a new mine in the Northern Cape to replace output from its Lisheen operation in Ireland, which is nearing closure. The new Gamsberg mine, at Aggeneys in the Northern Cape, will cost $630m and produce 250,000 tonnes a year of zinc in concentrate, said Kishore Kumar, the CEO of Vedanta's Africa Metals Business. Vedanta, a diversified resources company listed in London, will truck 150,000 tonnes of zinc-and manganese-rich concentrate to its Skorpion zinc refinery in Namibia to process into metal. The remaining 100,000 tonnes of concentrate will be sold on the open market. Vedanta will spend $152m on converting the Skorpion refinery to treat the sulphide concentrate coming from Gamsberg, about 360km away, Mr Kumar said. The Skorpion mine is coming to an end in 2017, ceasing supply of oxide material to the refinery. Exxaro Resources, one of the largest black-owned mining companies in SA, is the 26%-black economic empowerment (BEE) partner in Vedanta's Northern Cape assets, known as Black Mountain Mining. It would have to pay $163m as its share of the capital to build the Gamsberg mine. "We will, at the appropriate time, consider the future funding. A decision has not been taken as yet," Exxaro spokesman Hilton Atkinson said. Over the past two years, Exxaro has divested from its Rosh Pinah mine in Namibia and closed its zinc refinery, Zincor, in Gauteng. "However, we retained the investment in Black Mountain as Vedanta's BEE partner. Our ultimate strategy is still to exit from zinc," Mr Atkinson said. The funding would comprise cash generated from Vedanta's zinc assets and debt, Mr Kumar said. South African financial institutions would be included in providing loans.

CONGRATULATIONS

The IIM Fellowship is conferred on members in recognition of their services to The Indian Institute of Metals and to the Metallurgy Profession.

The 2014 Fellowship has been conferred to the following from Delhi Chapter of IIM:

a) Shri Anil Gupta, Former Chairman Delhi Chapter

b) Dr. Arvind Bharti, Member, IIM Delhi Chapter

c) Dr. AK Srivastava, Member, IIM Delhi Chapter

The Fellowship award was received by them at the NMD Award function held at Pune on 14th November 2014.

The Delhi Chapter extends its heartiest felicitations to the above Awardees.

"We are in the final stages of negotiations with various stakeholders. Obviously, you have internal stakeholders and our investors who would be very keen to look at the final outcome on the pricing from the market," he said. Asked about Exxaro, he said: "They have an obligation to contribute to the project. They have indicated their desire to exit the zinc business from their portfolio." The JSE-listed company was "locked in" to Black Mountain Mining until 2016, he said. There was no rush to conclude financing as there was enough cash to secure the start-up of the project for the next 12 months.

The open-cast project will be started in the first quarter of next year and will need 40MW of power, for which Vedanta had reached a supply agreement with Eskom, Mr Kumar said. "Eskom has assured us of their support and the supply of energy over and above the 20MW at Black Mountain," he said. The Lisheen mine produces about 200,000 tonnes of metal and Gamsberg will replace this lost output. Black Mountain, which has annual production of about 30,000 tonnes of zinc in concentrate a year, 40,000 tonnes of lead, 7,000 tonnes of copper and 50 tonnes of silver, has a life beyond 2020. There is an additional project in the area, called Swartberg, which had been mined in the past. It is undergoing a feasibility study and should replace Black Mountain's output. "We hope by the end of 2015 we should be able to discuss that project in detail," Mr Kumar said. The zinc price for deliveries in three months is about $2,243 a tonne in London. The price had gained 10% this year because of expectations of a deficit, Reuters reported. Zinc inventories have been falling for two months and are standing at just below 700,000 tonnes, according to the London Metal Exchange. In three to five years there will be mine closures in Australia and Canada, as well as Lisheen, Mr Kumar said. "Three or four of those closures are significant suppliers, so timing-wise we are well positioned at Gamsberg."

Source: www.bdlive.co.za

SAIL Chairman Mr CS Verma receives IIM-JRD TATA award for 2014

Mr CS Verma chairman of Steel Authority of India Limited has received the IIM-JRD TATA award for excellence in corporate leadership in metallurgical industries for the year 2014. SAIL said that the award, instituted by TATA Steel in 2007, had so far been given to industry champions like Mr Ratan N Tata and Mr E Sreedharan to name a few. Union steel and mines minister Mr Narendra Singh Tomar presented the award in Pune on 14th November 2014 that also carries a cash prize of INR5 lakh. Mr Tomar said that the government would soon be making a research centre where all steel companies in India will contribute for carrying out path-breaking research.

Source: Steel Guru

You Can't Get Ahead When You're Trying To Get Even

Never cut what can be untied. When you have been wronged, a poor memory is your best response. Never carry a grudge. While you're straining under its weight, the person you're mad at is out producing.

Forgive your enemies-nothing annoys them more. There is no revenge so sweet as forgiveness. The only people you should try to get even with are those who have helped you.

"Forgiveness ought to be like a cancelled note-torn in two, and burned up, so that it never can be shown against one" (Henry Ward Beecher). One of the greatest strengths you can show is when you forego revenge and dare to forgive an injury.

"He who cannot forgive, destroys the bridge over which he may one day need to pass," said Larry Bielat. The one guaranteed formula for limiting your potential is unforgiveness. Hate, bitterness and revenge are luxuries you cannot afford.

People need loving most when they deserve it least. Forgiveness heals; unforgiveness wounds. When we think about our offense, trouble grows; when we forgive, trouble goes.

When you don't forgive, you are ignoring its impact on your destiny. "Hate is a prolonged form of suicide". How much more grievous are the consequences of unforgiveness than the causes of it! Norman Cousins summed it up when he said. "Life is an adventure in forgiveness."

It's true that the one who forgives ends the quarrel. Patting a fellow on the back is the best way to get a chip off his shoulder. Forgive your enemies-you can't get back at them any other way! Forgiveness saves the expense of anger, the high cost of hatred and the waste of energy. There are two marks of greatness: giving and forgiving.

If you want to be miserable, hate somebody. Unforgiveness does a great deal more damage to the vessel in which it is stored than the object on which it is poured. "Every person should have a special cemetery lot in which to bury the faults of friends and loved ones. To forgive is to set a prisoner free and discover the prisoner was you".
This is the sixth of series of "Nuggets of truth" which are our sound food for soul. Get ready to blow the lid off our limited Thinking & create your recipe for happiness & success.

Compiled by Shri K L Mehrotra
Vice Chairman – IIM-DC & Former, CMD – MOIL


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