

November 2, 2018 | Industry Research

Steel Update H1FY19: Production, Prices and Trade

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Finished steel production and consumption

Finished steel production and consumption increased on a y-o-y basis in each of the months during the initial six months of FY19. On a cumulative basis, finished steel output grew by 6% to 53.9 million tonnes during April-September 2018 while consumption rose at a faster pace of 7.8% to 47.7 million tonnes during the period. During the corresponding period last year, production had increased by 2.5% to 50.8 million tonnes and consumption had grown by 7.6% to 44.2 million tonnes y-o-y.

Chart 1: Finished steel production and consumption in India (in million tonnes)



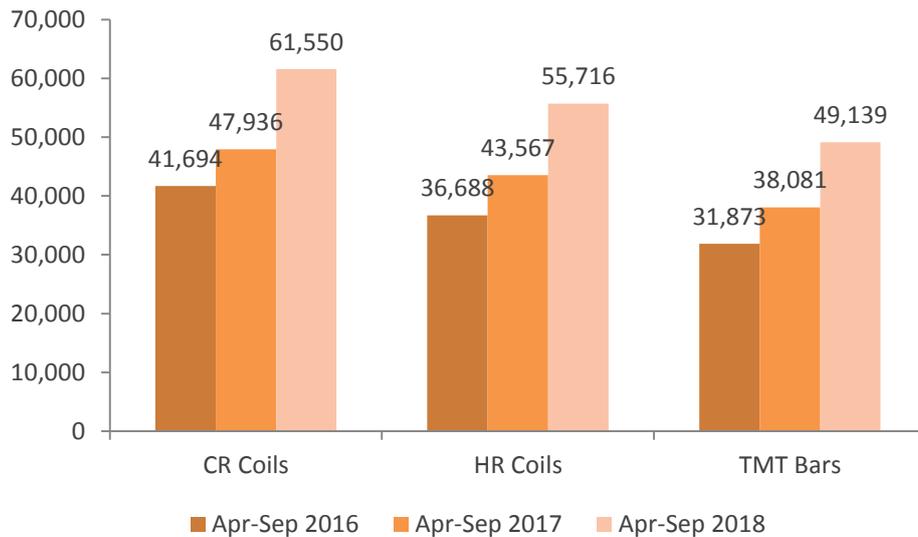
Source: CMIE

For the second half of FY19, the upward trend in production and consumption is expected to continue backed by an increase in demand from user industries like construction and infrastructure, automobiles among others. Therefore, we maintain our production growth estimate of 6%-8% for FY19.

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Steel prices

The average domestic steel prices of CR coils, HR coils and TMT bars increased in the range of 27%-29% on a y-o-y basis during April-September 2018. The prices of CR coils, HR coils and TMT bars averaged at Rs.61,550 per tonne, Rs. 55,716 per tonne and Rs.49,139 per tonne, respectively, during the period. This increase was over 15%-20% y-o-y growth witnessed by the prices during April-September 2017.

Chart 2: Trend in Indian steel prices (Rs. / tonne)


Source: CMIE

The price increase in the current financial year is on account of a growth in domestic demand (higher by 7.6%) and a rise in input costs. The all-India iron ore prices (65% and above Fe lumps) surged by 40.7% y-o-y to Rs.4,325.5 per tonne during April-July 2018 primarily backed by higher demand in the domestic market. In addition to this, the prices of coking coal imported by India from Australia were up by 5.7% y-o-y to USD 197.5 per tonne for the period April-August 2018.

Going ahead, the demand for steel from user industries is likely to keep the prices firm during H2FY19. The domestic prices however could get impacted by the demand-supply situation in China (the world's largest steel producer). The demand for steel in China remains usually weak during winters as construction slows down in the country. This, in turn, can bring some moderation in international steel prices. On the supply side, China would undertake some production cuts during winter season to control pollution which may restrict sharp fall in international steel prices.

While domestic steel production, consumption and prices is providing support to the Indian steel industry, the country's situation on trade front poses a challenge as India turned net importer of steel in H1FY19 after remaining net exporter of steel in the last two financial years.

India turns net importer of steel

India was a net exporter of steel in the last two financial years FY17 and FY18. The trend however witnessed a change in the current financial year with the country's imports exceeding exports during the period April-September 2018.

Finished steel imports by India declined by 7.4% y-o-y to 4 million tonnes in during April-September of FY19, while exports fell at a faster pace of 35.2% y-o-y to 3.1 million tonnes during the period. Resultantly, imports surpassed exports by 0.9 million tonnes in the first half of FY19.

Chart 3: Finished steel imports and exports by India (in million tonnes)


Source: CMIE

Higher imports from South Korea led the rise in India's steel imports. This is primarily on account of import duty imposed by USA on its key allies in March 2018. With this, steel imports are subject to 25% and aluminium 10% tax. The import duty is believed to have diverted exports from key allies like South Korea to India. Also, India is subject to imposition of this import duty.

Concluding remarks

- For the second half of FY19, the upward trend in production and consumption is expected to continue backed by an increase in demand from user industries like construction and infrastructure, automobiles among others. Therefore, we maintain our production growth estimate of 6%-8% for FY19.
- The average domestic steel prices of CR coils, HR coils and TMT bars increased in the range of 27%-29% on a y-o-y basis during April-September 2018. Going ahead, the demand for steel from user industries is likely to keep the prices firm during H2FY19. The domestic prices however could get impacted by the demand-supply situation in China (the world's largest steel producer).
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