

Steel consumption dips in August 2021 with prices continuing on the upward trajectory

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The production of crude and finished steel during the month of August 2021 was 8% higher than August 2020 and 11% higher than August 2019 but the consumption of finished steel was lower than that registered by them in the corresponding month of the preceding two years i.e. August 2019 and August 2020 by 1% and 14%, respectively. The demand for steel generally slows down during the monsoon season due to slowdown in construction activities, which is the largest user industry accounting for 70% of the total demand. This year the demand has been doubly impacted due to slowdown in auto production as well, caused by the global semi-conductor shortages.

The passenger and commercial vehicles sales declined by 12.2% and 7.4%, respectively in August 2021 compared with July 2021 due to the ongoing chips shortage, which led to reduced output by many Auto OEMs. This has impacted the domestic steel consumption, which fell by 3% y-o-y and 1% m-o-m in August 2021.

Demand from the overseas market also remained weak as the European Union has already exhausted its annual import quota for Indian flat steel products in the first five months of Calendar Year (CY) 2021. Besides, stringent lockdown measures in Vietnam, one of the largest importers of finished steel from India due to the Covid-19 pandemic, has led to reduced buying. Consequently, finished steel exports fell by 12% m-o-m in August 2021.

Table 1: Steel industry’s performance in August 2021

	'000 tonnes	Yoy growth	Mom growth	% change (Aug 2021 vs. Aug 2019)
Crude steel production	9,850	8%	0%	11%
Finished steel production	9,030	6%	3%	8%
Finished steel import	396	146%	-3%	-54%
Finished steel export	1,331	28%	-12%	35%
Finished steel consumption	7,917	-3%	-1%	-14%

Source: Joint Plant Committee, CMIE

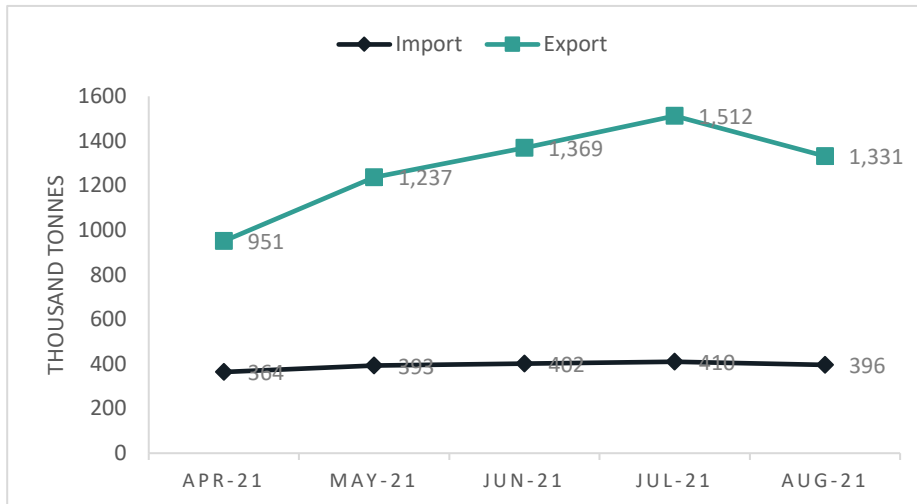
The consumption and net export taken together were lower than production during August 2021 which resulted in increase in inventories with the steel producing companies. Accordingly, the closing stock of finished steel at the end of August 2021 was 7.9 million tonnes which is 2.3% higher than that at the end of previous month and 36% lower than the same month of previous year.

Export-Import Scenario:

Export of finished steel increased consistently till July 2021 but declined in August 2021 m-o-m. Demand from the overseas market remained weak due to exhausted quotas for India in the European Union and speculations over China’s steel export tax policy.

Imports during the first five month of this fiscal have remained range bound as may be seen from the following graph:

Chart 1: Trend in import and export of finished steel

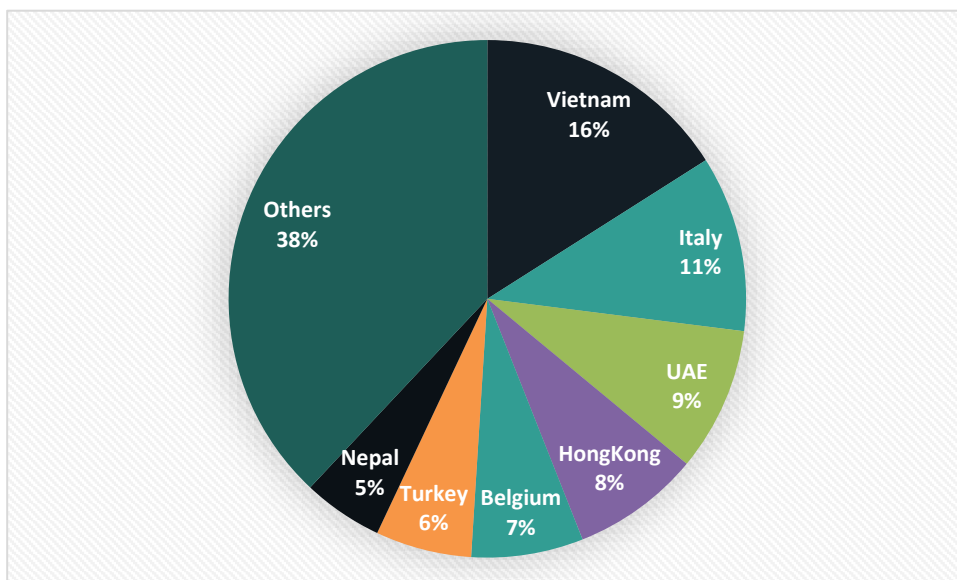


Source: Source: Joint Plant Committee

India was net exporter of finished steel during August 2021 recording a net trade surplus of 0.94 MT. Export and import of finished steel during August 2021 increased by 28.1% and 145.9% over August 2020, respectively. Compared to July 2021, export and import of finished steel in August 2021 declined by 12.0% and 3.4% respectively.

Share of Vietnam, Italy, Hongkong, Belgium and Turkey in total steel export from India was higher in August 2021 as compared to August 2020. However, share of UAE and Nepal in India's total steel export declined over the same period.

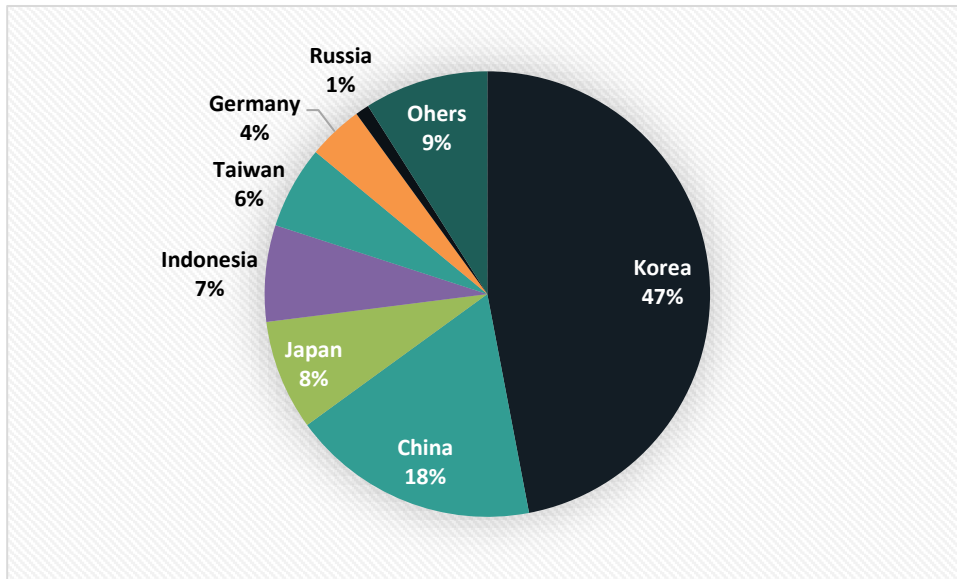
Chart 2: Country-wise finished steel exports from India



Source: Source: Joint Plant Committee

Share of Korea, China, Indonesia and Germany increased in total steel import of India in August'21 as compared to August'20 while it declined for Japan, Taiwan, and Russia over this period as may be seen from the following graph:

Chart 3: Country-wise finished steel imports from India



Source: Joint Plant Committee

Global crude steel production

The global production of crude steel increased by 3.3% in July 2021 over July 2020 with all major steel producing countries, except, China reporting improved production over July '20. All major steel producing countries (with production of 1 million tonne for the month) including USA, Japan, Germany, India, South Korea, Vietnam, Spain, Mexico and France registered higher than global average of 3.3% growth in steel production in July'21 over July '20.

China was the only one to record a decline during July'21 over July '20. China's steel production fell by 8.4% yoy in July '21.

Chinese government has instructed steel mills to keep steel production for CY21 lower than CY20 in order to curb carbon emission. The country has also decided to reduce steel exports to cater to local demand and encourage import by removing duties.

Table 2: Country-wise steel production in July 2021

	Jul 2021 (Mt)	% change Jul 21/20	Jan-Jul 2021 (Mt)	% change Jan-Jul 21/20
China	86.8	-8.4	649.3	8
India	9.8	13.3	68	28.7
Japan	8	32.5	56.1	16.2
United States	7.5	37.9	49.5	18.5
Russia	6.7	13.4	44.9	9.2
South Korea	6.1	10.8	41.3	8.7

Source: World Steel Association

Steel price scenario:

After catching its breath in July 2021, domestic steel prices continued to trend upwards in August'21. Prices of Hot-rolled coil (HRC) stood around Rs 66,500/t in Aug 2021, as against Rs 64,800/t in July 2021.

Prices of iron ore and coking coal, two of the most important steel making ingredients, are moving in opposite directions.

Iron prices have fallen by more than 50% to below \$ 100/tonne since peaking in May'21 at \$ 233/tonne. China is the largest importer of iron ore in the world. China's efforts to curb its steel production is behind the crash in demand and consequently prices of iron ore.

On the other hand, the price of metallurgical (met) coal has risen to record levels due to escalating trade tensions between China and Australia. Premium hard coking coal prices, fob Australia, have more than tripled to \$ 410/tonne since \$ 114/tonne in May'21. Chinese steel-makers are following the government directive to avoid importing metallurgical coal from Australia. However, China has been unable to fully replace Australian volumes and steel mills in China are buying coal at record high prices.

Outlook:

Chinese government's policy to cap 2021 steel production below 2020 is expected to keep China's steel supplies lower in the second half of 2021.

China's exports of finished and semi-finished steel products are expected to decline in 2021 compared to 2020, while imports will increase in line with Beijing's plan. This will give opportunity to Indian steel mills to scale up exports and expand to newer markets in FY22.

Higher coking coal prices, lower supply from China and higher global demand backed by global stimulus measures should keep steel inventories low and prices firm in FY22.

Also, domestic steel prices have remained at a sharp 15-20% discount to international steel prices over the past year and it still continues to remain at a sharp 15% discount to landed steel prices which is also supporting domestic steel prices.

Domestic steel demand was impacted by the second wave of the Covid-19 pandemic and the seasonally weak September quarter due to the monsoon season. However, demand is expected to improve sequentially once the festive season begins. Finished steel consumption is expected to cross 100 million tonnes in FY22 as against 93.4 million tonnes in FY21.

Domestic crude steel production is up 35.8% y-o-y during the first five months of FY22 and is well on path to achieve the 9-11% forecasted growth during the whole FY22 compared with FY21.

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