

Iron ore and steel: FY19 review and outlook for FY20

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India is one of the few countries globally that produces steel and iron ore in large quantities of more than 100 mn tonnes. This report summarises the performance of these two industries in FY19 and gives an outlook for FY20.

Iron ore industry:

FY19 review

Production: India is amongst the top producers of iron ore globally, with total production growing to around 220 mn tonnes in FY19, growth of ~9.5% Y-o-Y.

Exports: In the last 2 years exports of iron ore are on a decline. In FY19, it de-grew 33% to 16.2 mn tonnes, after witnessing a fall of 21% in FY18. China was the principal iron ore importer from India with 75% share, followed by Japan, South Korea, UK, Malaysia and Nepal. A high export duty of ~30% is one of the reasons that discouraged export of iron ore from India.

Imports: FY19 saw a surge in iron ore imports. It imported 12.6 mn tonnes during Apr'18-Feb'19, registering a sharp growth of 72% compared with corresponding period last year. In July-18, imports were as high as 1.9 mn tonnes which were the highest in past 5 years. However from Aug-18 onwards they declined owing to weakening of Rupee that reduced spreads between landed cost and domestic prices of iron ore making imports less viable for Indian steel makers. Imports from Australia more than tripled to 7.2 mn tonnes. The other sources of imports are South Africa, Brazil and Bahrain.

Iron ore pellets: India exported 8.4 mn tonnes of iron ore pellets in the first 11 months of FY19 which is a marginal decline of 1.2% on a Y-o-Y basis. Though China was the largest importer of Indian iron ore pellets (74% share), it declined by 9.8% during this period. Other countries like Japan, Oman, Singapore, U.A.E. and Vietnam also witnessed a fall in demand for Indian iron ore pellets. Uncertainty of winter output cuts in China and slow inquiries from non-Chinese market led to a drop in exports. Currently pellets are trading at ~USD 130/tonne in the international market while in India they are at ~Rs.7,000/tonne.

During the year, Indian pellet exports also saw some new markets such as Turkey, South Africa, Poland, Netherland, Mexico, Chile and

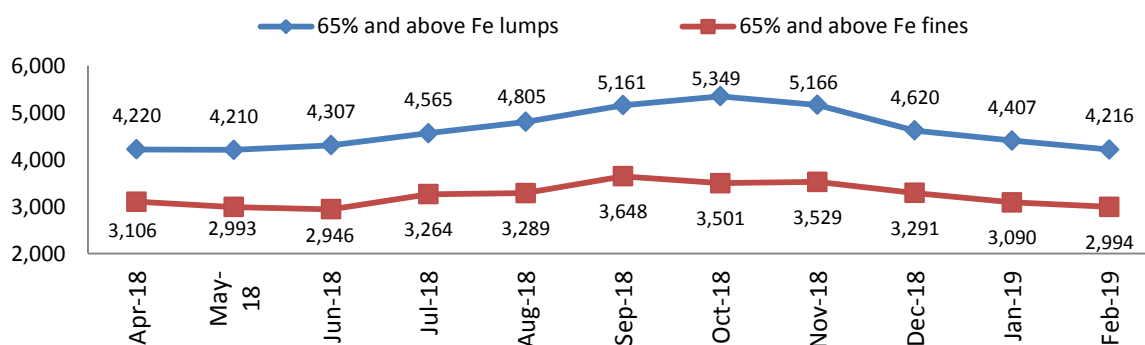
Indonesia. Exports to UK and Malaysia they grew as much as 313% and 118% respectively.

Domestic prices:

Lumps: Domestic iron ore prices of high grade lumps were on an upward trend till Oct-19 and declined in subsequent months. They rose sharply by ~39% during the year (up to Feb-19).

Fines: Domestic iron ore prices of high grade fines remained in the range of Rs. 3,000 – 3,600 / tonne and rose ~21% in FY19 (up to Feb-19). Domestic iron ore prices are largely influenced by demand-supply scenario of Indian steel market.

Chart 1: Domestic prices (Rs/tonne)

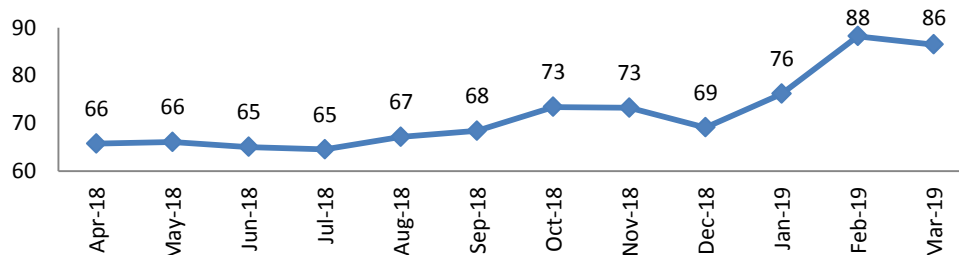


Source: CMIE

Global price movement

As seen in the chart below, global iron ore prices remained in the range of USD 65-73/dmtu up to Dec-19 but rose sharply in subsequent months. In Feb-19, they peaked to USD 88/dmtu, the highest since Aug-14. Brazil’s mine dam collapse in Jan-19 created worries of global iron ore supply crisis, which inflated its international prices. Currently, iron ore is trading at around USD 110/tonne in the global market.

Chart 2: Iron ore (any origin) fines, spot price, c.f.r. China, 62% Fe in USD/dmtu*



* dry metric ton unit (dmtu) is the internationally agreed-upon unit of measure for iron ore pricing. dmtu has the same mass value as a metric tonne, but the material has been dried to decrease the moisture level.

All prices are monthly averages

Source: World Bank

Outlook for FY20

Production:

- Domestic: With some iron ore mines licenses expiring in the coming year, miners are expected to ramp up production and build inventories. Production growth in FY20 is expected to be in line with FY19.
- Global: Recent iron ore supply disruptions due to Vale's dam collapse have created a shortage of ~60-70 mn tonnes globally. The undersupply in global markets is expected to be offset by stepping up production in Australia to a certain extent.

Prices:

- Domestic: With elevated global prices, demand for domestically produced iron ore is expected to rise. This shall keep domestic prices elevated during the year.
- Global: Vale's dam collapse and a tropical cyclone in Australia has created global supply disruptions and inflated the global iron ore prices in recent months. We expect this rally to continue in FY20, keeping prices on an upside.

Iron ore pellets:

- Production and exports: Domestic production of pellets is expected to ramp up with an increase in demand in domestic market as well as international markets, especially China. Quantity of exports shall vary depending on the premium offered in the international market to Indian pellet manufacturers.
- Prices: Indian pellets prices are expected to remain firm at ~Rs. 6000-7000/tonne mainly on account of higher iron ore prices.

Steel industry:

FY19 review

During the year, finished steel production rose by 5.9% y-o-y to 111 million tonnes backed by a consumption growth of 7.5% to 98 million tonnes. An increase in demand from user industries like infrastructure and construction, railways, consumer durables among others were the driving factors for the rise in steel output and consumption during the year.

Higher demand from user industries along with stable international prices supported the domestic steel prices and they increased in the range of 18%-22% on a y-o-y basis during FY19. The prices of CR coils, HR coils and TMT bars averaged at Rs.61,209 per tonne, Rs.54,990 per tonne and Rs.48,750 per tonne, respectively, during the year.

Table 1: Steel production and consumption

	FY19		FY20*	
	(in million tonnes)	y-o-y growth	(in million tonnes)	y-o-y growth
Finished steel production	111	5.9%	115-116	3%-4%
Finished steel consumption	98	7.5%	102-103	5%-6%

Source: CMIE

*FY20 numbers are estimates

Outlook for FY20

Finished steel production growth is likely to decelerate to 3%-4% during the year FY20 on a y-o-y basis. This is because no major capacity is expected to come up from large steel players while the small steel players are estimated to increase their output at a rate similar to last year. The steel production rate is a downward revision from our earlier estimate of 6%-8% released in February 2019.

India's steel consumption is expected to grow by 5%-6% on the back of government's expenditure towards infrastructure and construction. With the same government coming to power, the focus will continue to remain on infrastructure development in the country.

While the international steel prices has seen some softening during the last 6-8 months (prices have declined from around USD 600 per tonne in June 2018 to around USD 520 per tonne in May 2019) prices in the domestic market has remained firm mainly on account of stable demand from the end user sectors and the protectionist measures adopted by the government safeguarding the domestic steel prices.

Going ahead, the international steel prices are likely to hover around USD 525-550 per tonne mainly on account of expectations of a stable demand growth. However, the global prices may witness an upward trend, if the current trend of higher raw material prices, especially iron ore continues.

In the domestic market as well, steel prices are likely to be supported by the stable demand outlook. Also, increase in global steel prices on account of rise in raw material prices will provide additional support to domestic steel prices as domestic steel prices follow landed price parity.