Flat steel producers go for price hike effective August 2017

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As per media reports, flat steel producers increased the prices up to Rs.3, 000 per tonne effective 1st August 2017. The increase in prices can be attributed to two reasons, expected improvement in domestic demand and growth in international steel prices.

In the first quarter of the current financial year 2017-18, finished steel consumption increased by 4.6% on a y-o-y basis.
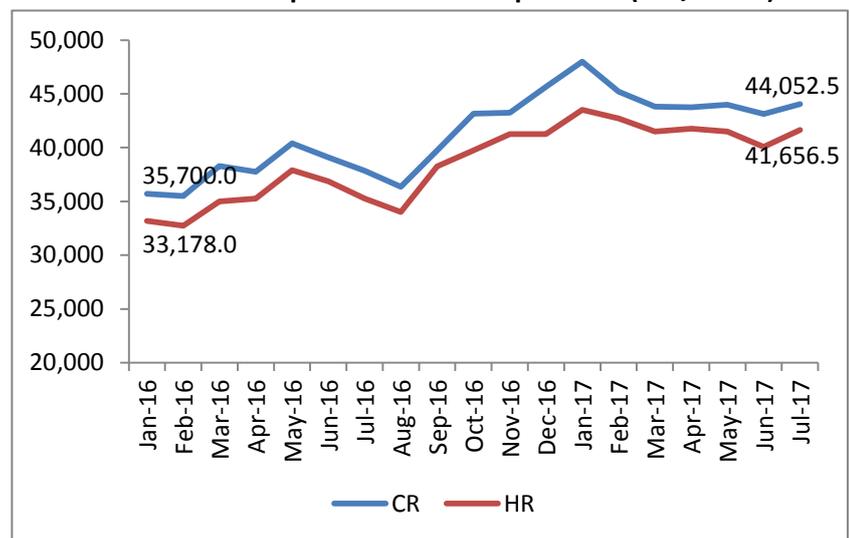
Chart 1: Trend in prices of flat steel products (Rs. /tonne)

Source: CMIE

In July 2017, the prices of CR coils and HR coils stood at Rs.44, 052.5 per tonne and Rs.41, 656.5 per tonne, respectively. The prices were up by Rs.929-Rs. 1580 per tonne compared to the prices in the previous month (June 2017).

The price rise for both the varieties in the range mentioned above on a sequential basis was after a gap of five months. In January 2017, the prices had increased in the range of Rs.2,250-Rs.2,350 on a m-o-m basis.

The prices in July 2017 are believed to have increased on account of an improved domestic demand and a rise in international steel prices.

So, if the price hike which is undertaken for August 2017 is sustained and not rolled back, then the prices will be up for the second month in a row on sequential basis.

Chart 2: Trend of HRB prices in China (in Dollars per Metric Tonne)

Source: SteelBenchmarker

The HRB prices in China were at their highest in February 2017 since start of the year 2016. They stood at USD 470.5 per tonne during the month. After this, the prices declined in each of the next two months and remained flat in May 2017 on a sequential basis. The prices however increased in each of the months during June-July 2017 on m-o-m basis. The improvement in prices can be attributed to supply cuts undertaken by the Chinese government to reduce over capacity and also to handle pollution. Also, improved demand for steel in China backed by government stimulus is also believed to have supported the prices.

In addition to this, the Chinese government aims at cutting output during winter so as to keep a check on quality of air. This we believe will keep the prices stable in the near term. This, in turn, will support the steel prices in India. As China is the largest producer of steel in the world, the prices in China have an impact on the prices in India.

Concluding remarks

- *CARE Ratings believes that if the increase in domestic steel prices is sustained and there is no roll back of this increase in prices in the coming months, it will indicate the revival of domestic steel consumption in the country.*

- *We expect steel prices in China to remain stable in the near term backed by Chinese government's aim to reduce over capacity and to protect the air quality in the country. This, in turn, will support the steel prices in India.*