# Wheezing China gives way to India

## Change in momentum

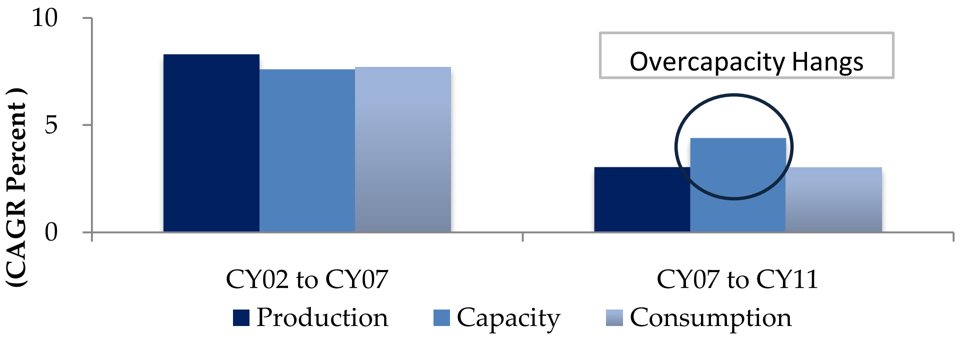
As if nothing has happened, post the financial crises, global commodity markets witnessed a sharp rebound in demand during Calendar Year (CY) 10 and CY11. The macroeconomic stimulus measures helped push demand and prices of most of the metals on an upward journey, thereby encouraging producers to increase their output. All the major steel producing and consuming countries recorded a robust Y-o-Y (Year-on-Year) double digit growth, consequently leading to rise in global steel consumption by around 15 per cent and 6 per cent respectively during CY10 and CY11. However, since the start of CY12, global steel industry has witnessed a rather significant shift in momentum as the industry faces the pressure of increasing over capacity and slowing demand situation.

The paradigm shift in sentiment which brought about a sudden change in momentum is the reflection of the slowing Chinese economy and its severe impact on the global metals and mining industry. The first two quarters of CY12 witnessed the Chinese economy increasingly losing its momentum after it recorded a drop in its Q1GDP numbers for CY12 to 8.1%. Going further, the Q2CY12 GDP numbers recorded its worst performance in the last three years, with the economy growing by just 7.6%.

China which accounts for a share of more than 35 percent in the production and consumption of almost all the metals (ferrous and non-ferrous) is largely dependent on the developed markets to push its manufactured products (European Union is the world's biggest purchaser of Chinese goods with the market worth about US$ 380 Bn. (CY10)). However, increasing uncertainty and rising debt levels of the developed world is a matter of concern for the emerging economies which shows clears signs of unified risk from the developed countries.

Contracting global demand as against the prevailing over capacity situation has highly increased the downside risk for the global steel industry. However, extended stimulus measures by many countries across the globe are likely to add some support to the otherwise bleak outlook for the global steel industry in the next few years.

**Changing dynamics of the global steel industry**



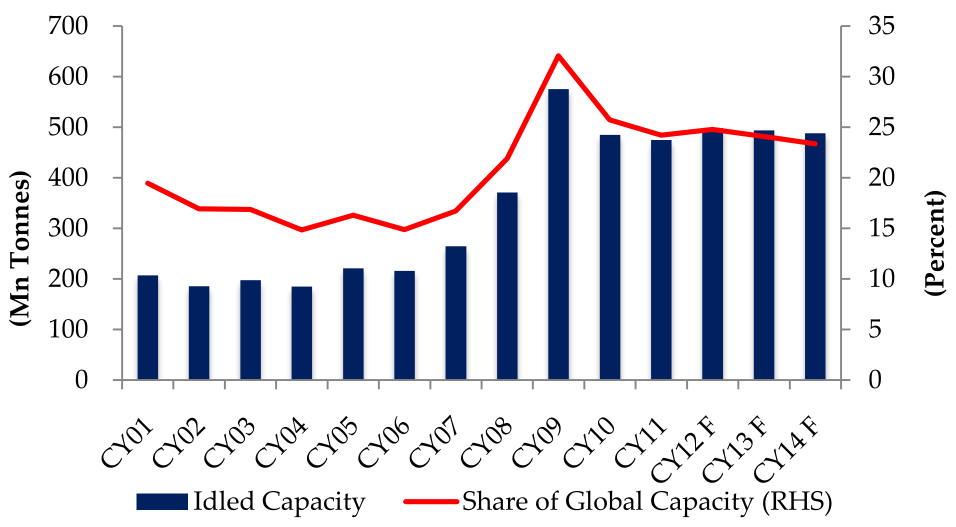

Source: IISI, CARE Research Forecast, *F - Forecasted*

## "INDISIPLINE" is the key word

Majority of the steel producers in the world recorded huge losses in the latter half of CY08 and in the initial quarters of CY09, however, India and China remained exceptional. During CY09, crude steel production in India and China increased at about 9 percent and 14 percent respectively on Y-o-Y basis. When the global steel industry in Europe and other regions was reeling under the recessionary effects, demand for steel industry in China and India remained less-affected mainly on account of their domestic demand.

Despite of the declining margins and slowing demand growth, global steel industry continues to add capacity. CARE Research expects another 130mn tonnes of net addition in global steel capacity during the next 3 years, while consumption during the same period is likely to increase by about 120mn tonnes.

**Global share of Idle Capacity**




Source: CARE Research, *F – Forecasted*
*Note: Idle capacity (Capacity – Consumption)*

## Onus on major players to bring back discipline

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CARE Research expects global supply of steel will continue to adjust itself with the change in global demand. Global steel production is likely to increase at a CAGR of around 2 percent during CY11 to CY14. However, the global operating rates are likely to remain marginally lower when compared with the operating rates of about 78 percent during CY11. Being in a surplus situation, any increase in global steel capacity utilization rate is likely to negatively impact the prices of finished steel products.

While the global steel demand is likely to increase at a CAGR of about 3.2 percent during the CY12 to CY17, global supply of the metal, during the same period is likely to increase at a similar rate. Despite a slower growth in steel supply when compared with the growth in demand, CARE Research expects the global steel industry is likely to remain in a surplus state during the next four years. Increase in demand is likely to be offset by the increase in production as there is enough scope for the manufacturers to improve upon their operating rates.

## Modest domestic demand to outstrip Chinese growth

Pushing back the developed world, past decade, witnessed the Chinese steel demand growing at a CAGR of about 14 per cent (CY01 to CY11), while India closely following its neighbour recording a steel consumption growth of about 9 per cent. The global steel industry witnessed a rather structural shift in its consumption pattern as the demand for steel in the European Union and the US failed to reach the consumption levels it achieved in CY01. On the other hand, steel apatite from the emerging economies like China and India increased significantly. China swallowed 3 times as much more steel in CY11, when compared to CY01, while India's steel consumption, during the same period, increased by about 1.5 times.

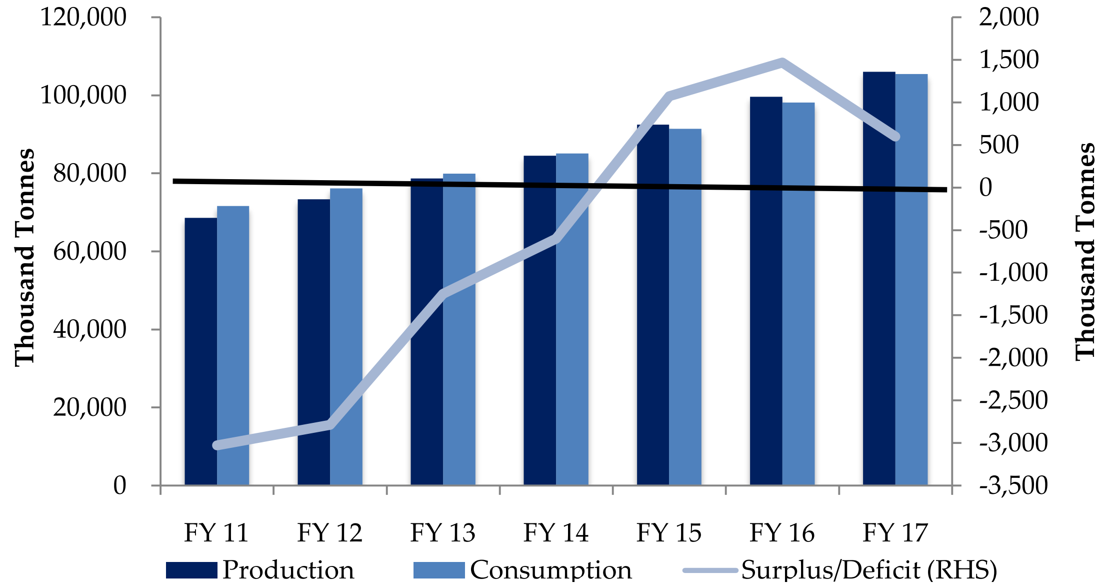
Intimidating the robust growth in consumption, Indian steel industry responded positively by increasing its capacity to cater to the increase in demand from the domestic market. Domestic steel capacity increased at a CAGR of 8 percent in FY05 to FY12. In line with the domestic steel capacity, steel production in the domestic market also recorded a similar increase during the same period.

Going ahead, CARE Research expects the domestic steel demand to grow at a CAGR of 6.7 percent during the period FY12 to FY17 much faster than the expected growth in Chinese demand during the same period. While the demand for flat products in the domestic market is likely to be supported by the automobiles and the pipe manufacturing sector, although at a timid pace, demand for long products will continue to increase on the back of modest growth in demand from the construction sector.

## Domestic demand-supply balance

While the domestic steel demand is likely to increase at a CAGR of about 6.7 percent during the CY12 to CY17, domestic supply of the metal, during the same period is likely to increase at a CAGR of about 7.6 percent. Despite a slower growth in steel consumption when compared with the growth in domestic supply over a five year period. In the near term, CARE Research expects the domestic steel industry is to remain in a deficit state for the next two years. CARE expects the operating rates to be maintained at around the current levels of about 88-90 per cent. Increase in demand is likely to be offset by the incremental increase in supply of the metal, thereby keeping the domestic demand stable.

**Slowing inching towards a net exporter of finished steel**




Source: CARE Research

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