

August 28, 2024

SECTOR REPORT | Sector: Metals and Mining

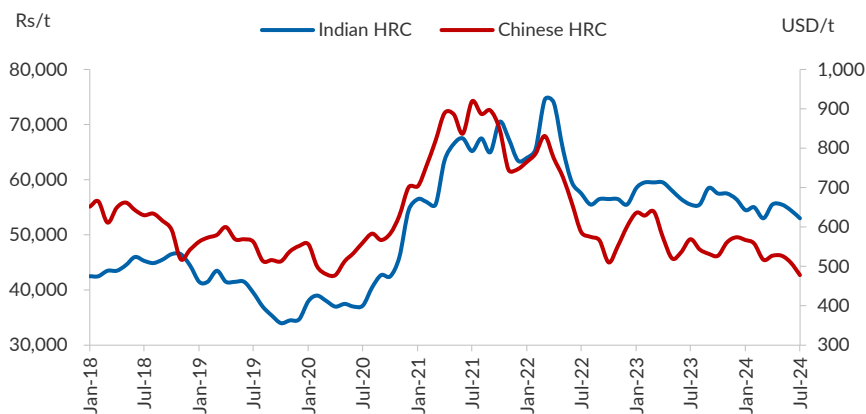
Steel Sector Monitor

Global pricing remains under-pressure...

The global steel prices continue to remain under-pressure owing to the strong steel production from China and a weak steel demand leading to higher exports from the country.

- The housing sector remains stressed with the government's stimulus packages not yet showing signs of a turnaround, translating into a weak demand for the steel sector in China. WSA estimates a 1% contraction in the country's steel demand for CY24. China has been forced to dump excess steel to other nations like India, Middle East, and South Korea.
- The rise in the exports since the start of CY24 has been sharp, averaging 8.75 mn tonnes on a monthly basis (vs average of 7.60 mn tonnes in CY23), causing the Chinese HRC prices to fall from the highs of ~\$570/t in January 2024 to ~\$490/t by the end of July 2024.
- The Indian steel demand however remains robust encouraging the domestic steel producers to add more capacities in the upcoming two to three years.
- On the iron ore front, the prices in India remain elevated (vs CY23) despite facing a Rs 1,000/t price cut during the months of monsoon. Iron ore demand in India is expected to remain strong as new steel capacities are being commissioned and are in various stages of ramping up to full utilization levels.
- Iron ore mines, however, are not expanding with the same trajectory and we can witness a supply tightness in the industry. Such a scenario should cushion the price fall and enable iron ore prices to firm up.

Exhibit 1: HRC Prices comparison



Source: Bloomberg, YES Sec

Our View

We see that the global steel prices will remain under-pressure, however, will show some signs of recovery with production cuts in China expected during the second half of the year which could eventually translate into lower exports from the country.

On the iron ore side, we believe that the domestic iron ore prices could witness initial signs of recovery with the conclusion of monsoon season. This should primarily benefit the domestic miners like NMDC and GPIL.

Stock Recommendations*

Stock	Recommendation	TP (Rs)
GPIL	BUY	1,390
JSW Steel	ADD	911
Tata Steel	ADD	169
NMDC	ADD	239
SAIL	REDUCE	112

* as per latest Research notes

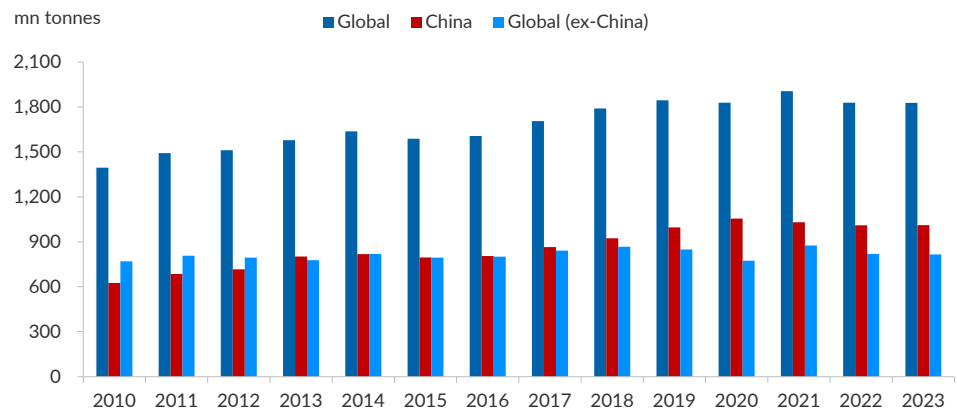
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INDUSTRY OUTLOOK

China's steel production doubled from 2010 till 2023 on the back of strong growth in its construction sector particularly the housing segment despite the changing macro-economic scenario during the period. China's housing sector continues to remain in a slump despite stimulus initiatives by the government. China is yet to announce a thorough plan of action on the way forward for its various sectors including the housing sector. The steel demand recovery from the construction sector is expected to remain a concern for the country forcing it to dump excess of steel produced by the mills. On the contrary, the country is now seeing new avenues of steel demand pickup - the infrastructure space. We see that the peak steel demand maybe a thing of the past for China, however a sustainable demand for steel will continue to remain. Additionally, a shift towards a greener and a sustainable future does bring in positives for the sector from an expected increase in renewable energy and EVs usage.

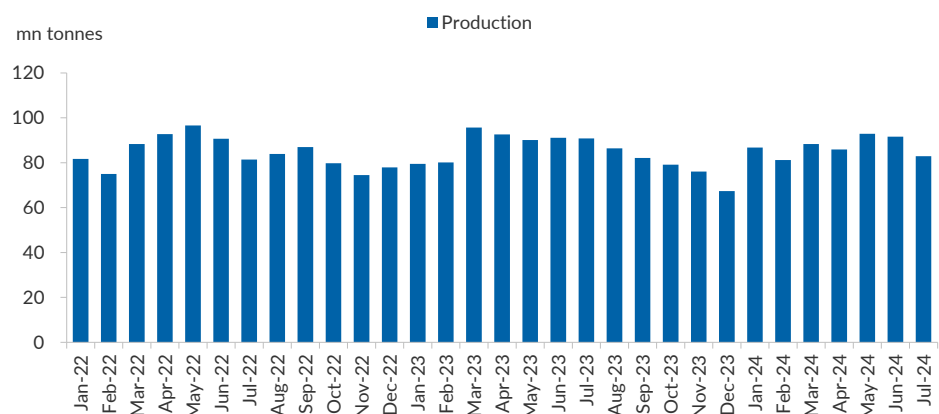
Exhibit 2: China vs ROW – Production Trend



Source: World Steel Association, YES Sec

Since the start of CY24, China's production has been on a rise despite the outlook of the steel demand looking bleak. The effect of this has resulted in China exporting more and more quantities abroad thereby putting the global steel prices under heavy pressure. For CY24, the steel demand in China is expected to remain flattish YoY as real estate investments continue to decline however, the steel demand loss is expected to be offset from the growth coming in from infrastructure investments and manufacturing sectors.

Exhibit 3: China Monthly Production Trend

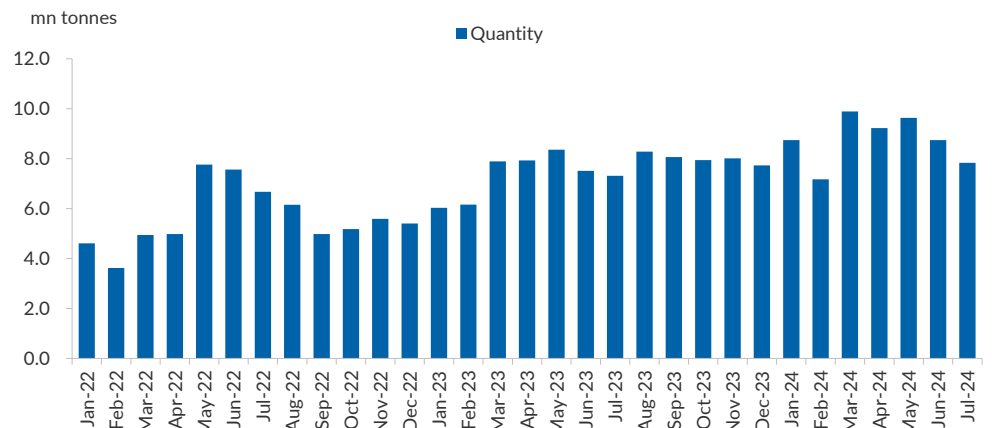


Source: World Steel Association, YES Sec

During the first seven months of CY24, China reported a production of 610 mn tonnes vs 620 mn tonnes during the CPLY. WSA estimates that China's CY24 steel production should remain flat on a year-on-year basis. If China's production is to be capped at CY23 levels, then China should produce ~80 mn tonnes monthly for the remaining months of the year. China's steel production so far has averaged at about 87 tonnes per month. We see that China will bring in some production cuts in the upcoming months which can eventually also lower the country's exports thereby bringing some signs of relief to the global steel pricing as well.

The Chinese steel exports on the other hand have seen a significant rise during CY24. During the first seven months of CY24, China reported a ~20% rise from the same period in the previous year reporting total exports of 61.22 mt vs 51.19 mt in CPLY despite the production falling by ~2%. The rise in the exports reflects the poor state of China's steel demand which continues to remain in a sluggish state due to insufficient efforts to revive the country's housing sector.

Exhibit 4: Chinese Exports

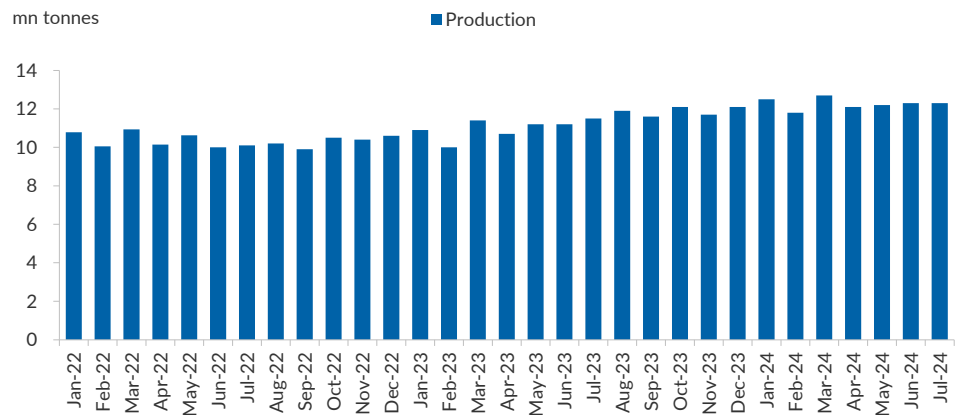


Source: China Customs, YES Sec

On the Indian front, the steel demand remains strong, and is projected to grow by 8% YoY vs CY23, however the Indian steel producers have been facing challenges from the cheap Chinese steel imports into the country. The Indian steel producers feel that a fall in the Chinese exports might help the steel prices to recover and that the prices may now be bottoming out.

In April 2024, China's National Development and Reform Commission (NDRC) announced that it will work with relevant parties to regulate the crude steel production, focusing on energy savings and reducing carbon emissions. It shall also be releasing a guidance on crude steel output for different steel mills later this year after a national investigation on steel capacities is completed. Such a move can change the value-chain dynamics for the industry and potentially lower the raw material prices especially in the case of coking coal and iron ore. Such production cuts might lead to a fall in the steel exports from the country thereby helping the global steel prices move up from the current lows of ~\$470/t.

Exhibit 5: Indian Steel Production Trend

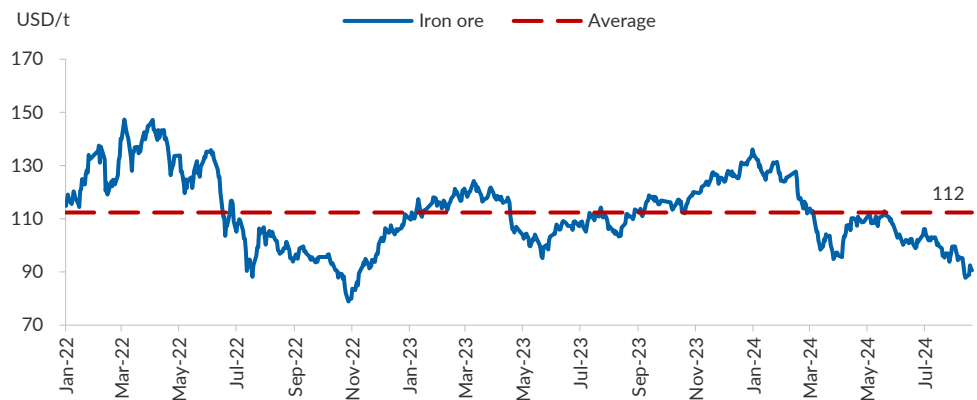


Source: World Steel Association, YES Sec

Iron ore market outlook

The global iron ore prices have seen a decline from May 2024 level of ~\$110/t to a bottom of \$88/t on account of weak demand for the ore in the industry which is seeing stagnant steel production on a global level. At the start of CY24, the iron ore prices had touched highs of ~\$135/t, however the weak demand of the metal and an expectation of the oversupply of the material in the market has forced the downward trajectory. If China, is to come-up with a strong revival plan for its housing sector, then we can see the prices to recover and hover above the two-year average of \$112/t.

Exhibit 6: Iron ore prices

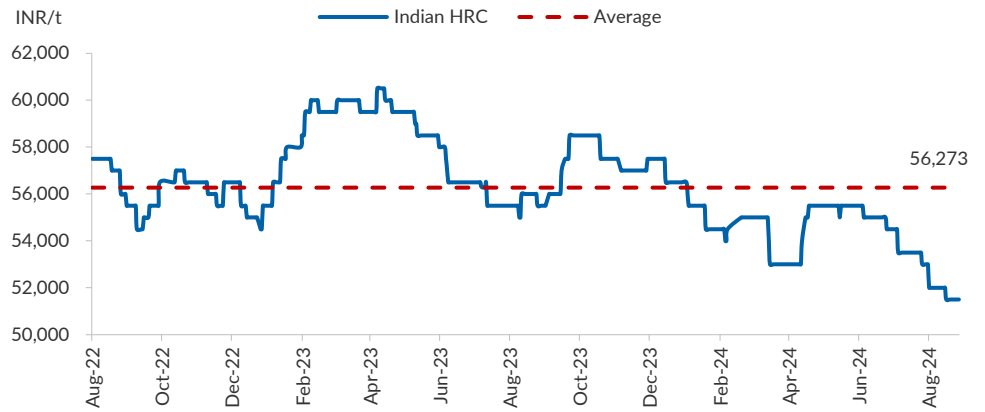


Source: Bloomberg, YES Sec

In India, however the iron ore pricing scenario has been quite the opposite. Iron ore prices have remained elevated during the first seven months of CY24 (vs CY23) with a couple of price cuts taken by NMDC during the monsoons. Over the course of the next two years and a half, ~35 mn tonnes of steel capacities are being set up. These new capacities would require ~55 mn tonnes of iron ore for steel manufacturing. Iron ore capacities, however, are not witnessing the same growth as the new steel capacities. We see that the iron ore industry should remain tight on the supply front thereby strengthening the iron ore prices barring seasonal falls and limiting the global price fall effect. We believe that the Indian iron ore prices can go up from here owing to strong demand for the material.

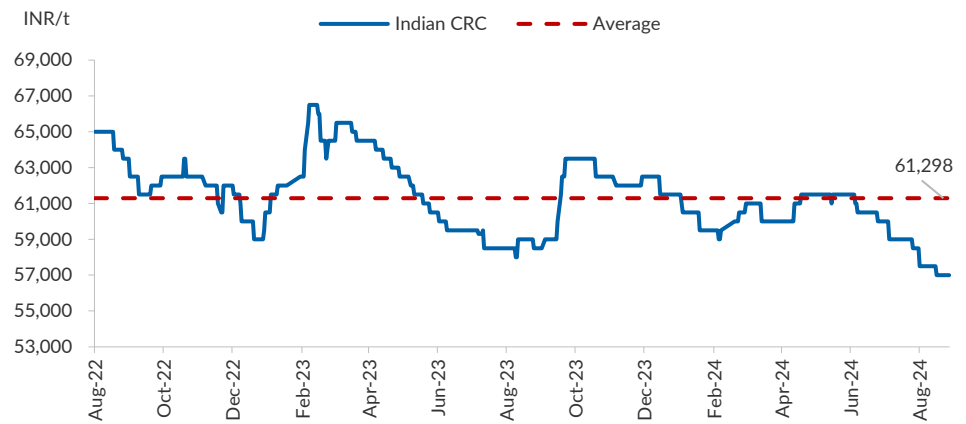
PRICING CHARTS

Exhibit 7: Indian HRC Pricing



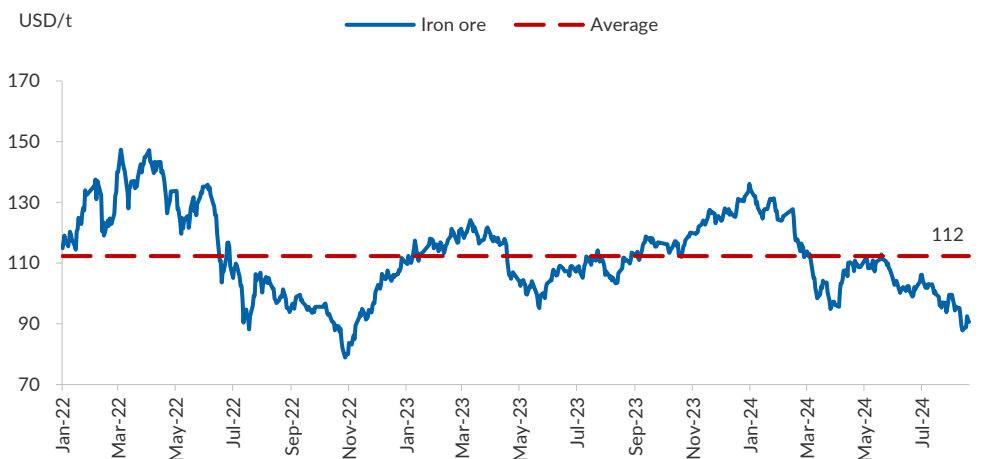
Source: Bloomberg, YES Sec

Exhibit 8: Indian CRC Pricing



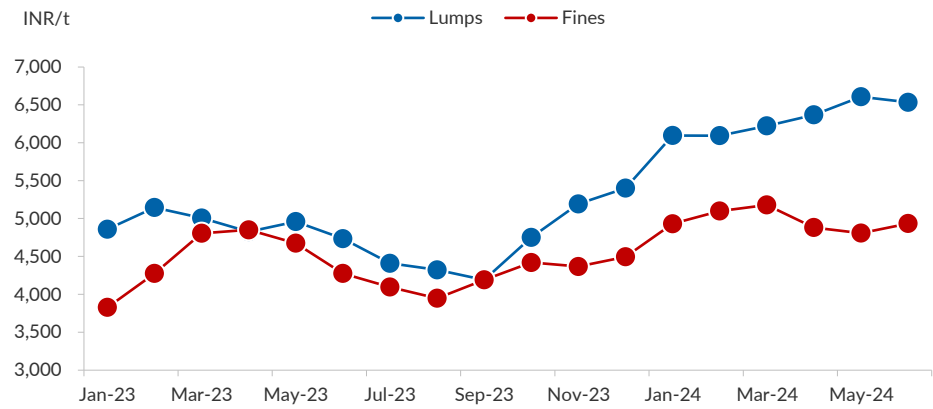
Source: Bloomberg, YES Sec

Exhibit 9: Global iron ore prices



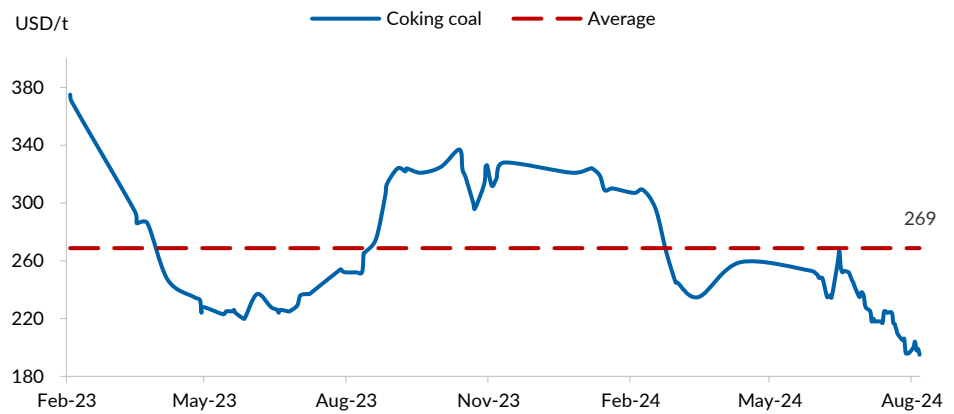
Source: Bloomberg, YES Sec

Exhibit 10: Indian iron ore prices



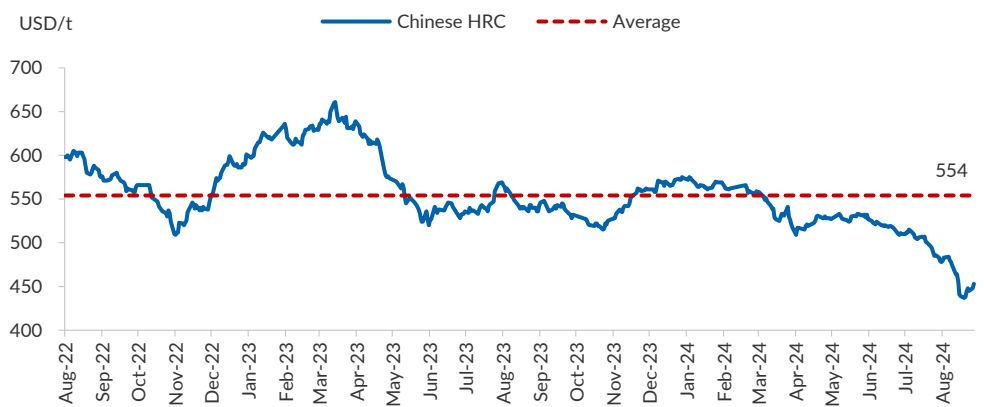
Source: IBM, YES Sec

Exhibit 11: Coking coal prices



Source: Bloomberg, YES Sec

Exhibit 12: Chinese HRC prices



Source: Bloomberg, YES Sec

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