November 30, 2023

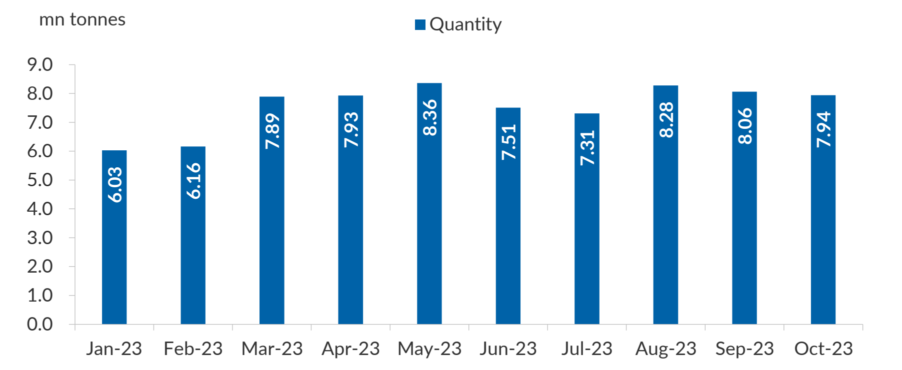
SECTOR REPORT | Sector: Metals and Mining

Steel Sector Monitor

Awaiting a decisive price recovery...

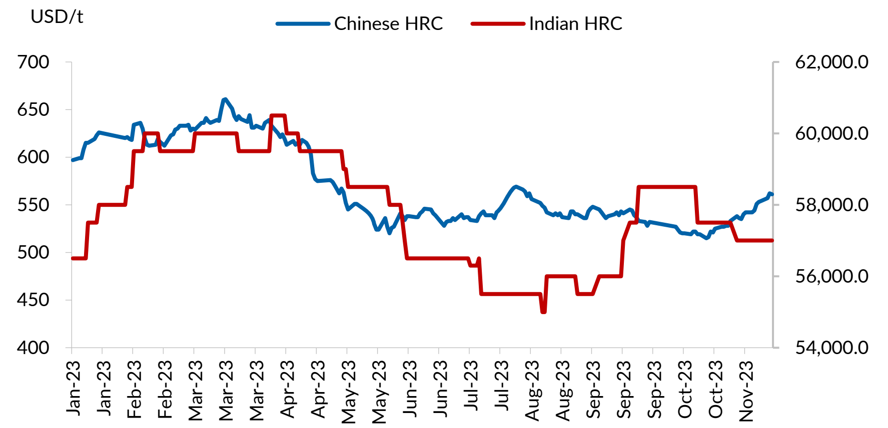
- International coking coal prices have been on a roller coaster ride during CY23. With coking coal having sustained above the $300/t mark over the last month and global steel prices still hovering in the $540 – 560/t range, the steel spreads are taking a hit.
- Chinese pricing has been under pressure for quite some time now. Weak domestic demand, surplus production capacities and extensive exports have suppressed steel prices well below the $600/t mark.
- As per WSA, steel production in China is expected grow by a mere 2% YoY, which is a dismal show compared to past years. Given weak domestic demand, Chinese producers have been forced to dump low-priced steel in global markets including India.
- India has been importing cheaper steel from China, Korea, and Vietnam over the last six months, clearly a bleak scenario for domestic players. However, strong domestic demand is likely to keep the steel outlook positive for the domestic players for the foreseeable future.
- Chinese exports reached 75.47 mt during the Jan-Oct'23 span, 34% higher than steel exports from the corresponding span in CY22.

Exhibit 1: Chinese Exports



Source: China Customs, YES Sec

Exhibit 2: HRC Prices comparison



Source: Bloomberg, YES Sec

Stock Recommendations

Stock	Recommendation	TP (Rs)
Tata Steel	NEUTRAL	133
JSW Steel	NEUTRAL	794
NMDC	NEUTRAL	186
SAIL	REDUCE	85

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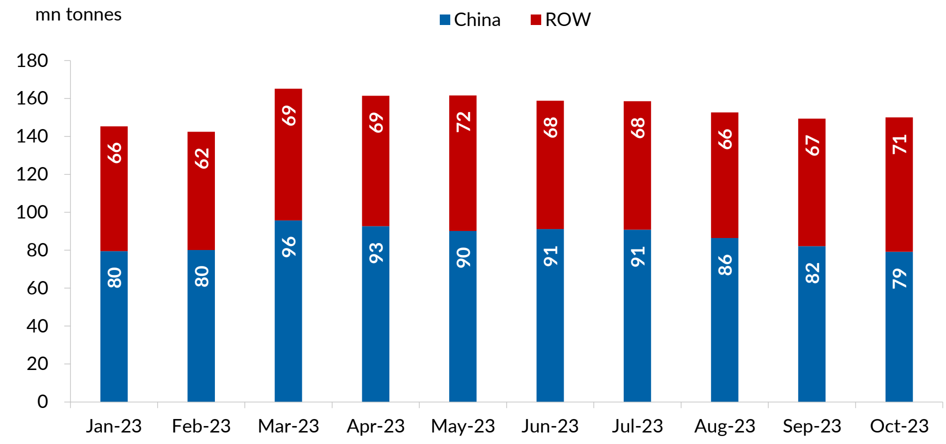
How is the global steel industry faring?

During the Jan-Oct'23 period, global production reached 1.545 bt with China producing over 55% of it (867.50 mt). Chinese production continues unabated despite drastically falling demand vis-à-vis prior calendar year. In CY23, Chinese production upped by about 10 mt of the last year's production during the CPLY. Further, exports have considerably increased.

Exhibit 3: China vs ROW - Production



Source: World Steel Association, YES Sec

Since the start of CY23, China's production had been on the rise, which is why the industry had great expectations from China's reopening on the demand front, while harboring hopes of higher prices eventually. However, the story turned out to be just the opposite and steel producers suffered a big hit on the realization front. Globally too, steel production significantly suffered, barring a few countries like India, Japan and Vietnam.

The global demand is expected to grow by a mere 1.8% on a YoY basis for CY23 and 1.9% for CY24 as per the WSA. China's demand is expected to remain sluggish on the back of poor real estate sector performance, which accounts for over 1/3rd of the country's steel demand. The fall in the real estate demand dampened the global steel price sentiment, and the Chinese government had to provide aid to the industry as a protectionist measure.

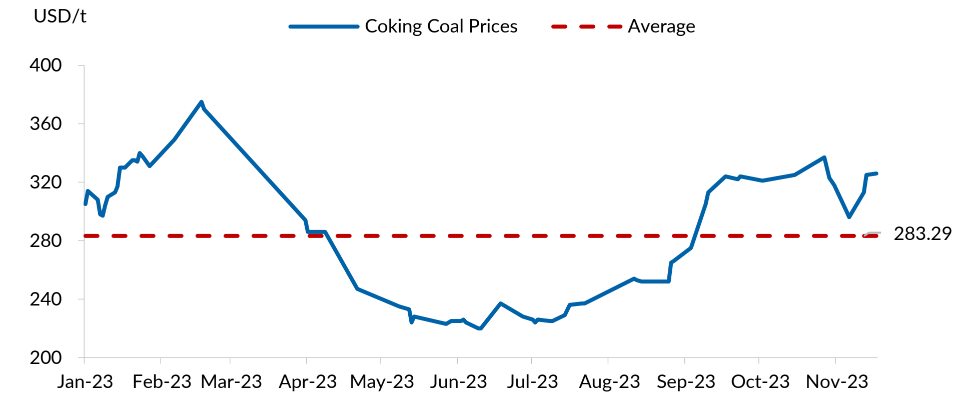
During the Jan-Oct'23 period, China exported 75.47 mt. In CY23, China has already exported more steel in the global markets in the first 10 months than it did annually since 2017. The resultant effect can be seen in the form of the pricing pressures in the industry. Subdued demand globally and in China, cheap exports from China, and a weak outlook of global steel demand have been key causes of concern for Indian steel producers, given the opportunity for cheap imports to penetrate the Indian market and a price ceiling imposition on Indian finished steel products.

The Indian steel producers hope that a fall in Chinese exports might help steel prices recover. On the cost front, coking coal prices have been a point of worry since the start of the year. They started declining in March and further eased during the June quarter, given that the Australian supply picked up, global steelmaking industry has shown signs of softening, and steel demand post China reopening has failed to emerge.

However, given the Australian coking supply issues and government effort to revive Chinese demand coming into play during the June-September quarter, we have seen coking coal prices rising back to levels above $ 300/t. In fact, over the last month and a half, international coking coal prices have been experiencing a roller-coaster ride.

India is now looking at different avenues for sourcing raw material with the prime objective of escaping the higher cost of purchase. India is contemplating talks with Mongolia as also exploring various investment opportunities for easier coking coal imports. The Indian steel industry is facing constricting issues importing coking coal from Australia. As Mongolia is a landlocked nation, the coking coal shipments can be routed through rail and port facilities in Russia and China. However, more development on the same is yet to be seen

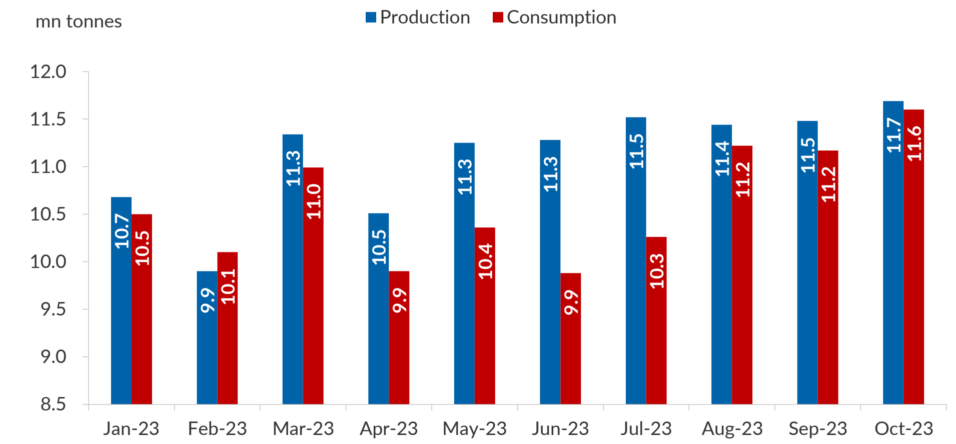
Exhibit 4: Coking Coal Prices



Source: Bloomberg, YES Sec

On the domestic front, the demand has remained strong in India; however, the Indian steel producers have a stiff challenge in the form of cheap Chinese steel imports into the country. On the bright side, the production in India seems largely unaffected. With upcoming capex pipelines aiming to increase plant capacities and efficiencies, the Indian steel producers look well positioned to benefit from the higher per capita use of steel expected in the upcoming years.

Exhibit 5: Indian Steel Picture

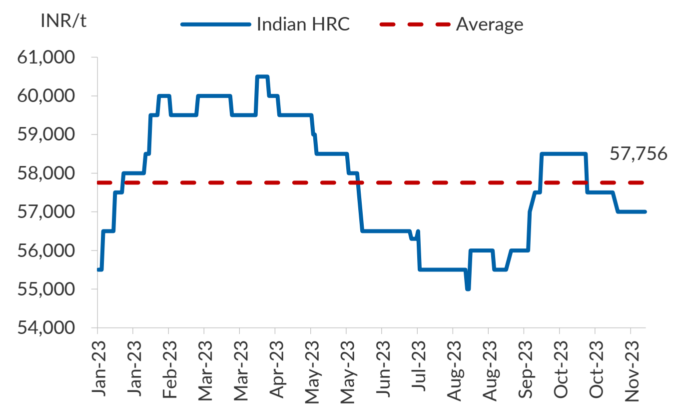


Source: Ministry of Steel, YES Sec

During H1FY24, Indian steel players endured two different scenarios on both pricing pressures and coking coal costs. While Q1FY24 brought in high-cost coking coal, Q2FY24 brought a sigh of relief with coking coal prices averaging in the range of $ 230-250/t. Now with coking coal prices again elevated, we should expect the impact of rising costs during H2FY24, particularly in Q4FY24. With China's production drop, steel prices have indeed moved up, however they are still way below the sustainable $600/t mark. Steel spreads for both the Indian and Chinese steel players are way below the traditional mark, and steel producers keenly await an uptick in steel prices to ease the coking coal cost burden.

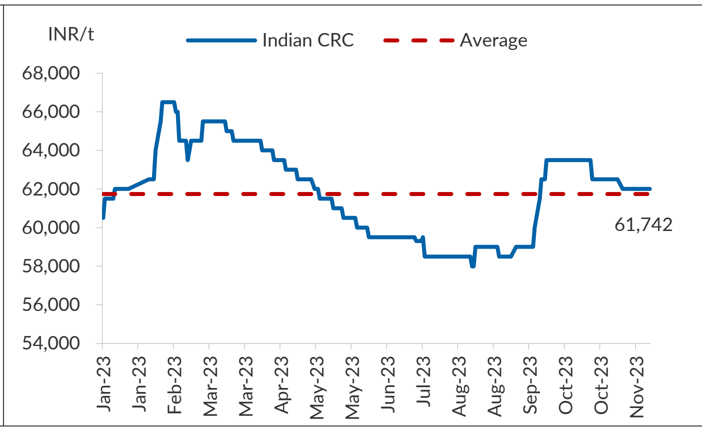
STEEL AND RAW MATERIAL PRICING

Exhibit 6: Indian HRC Prices



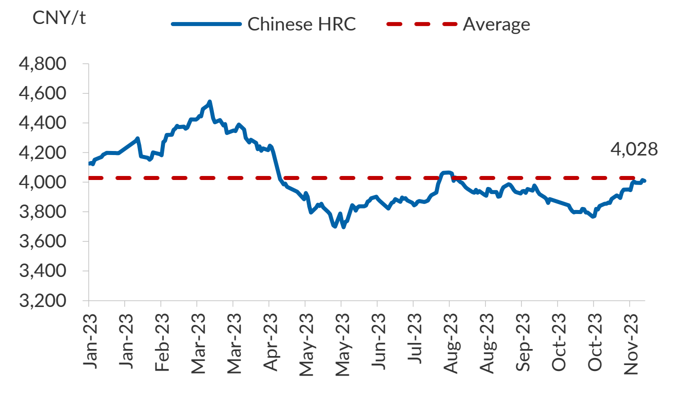
Source: Bloomberg, YES Sec

Exhibit 7: Indian CRC Prices



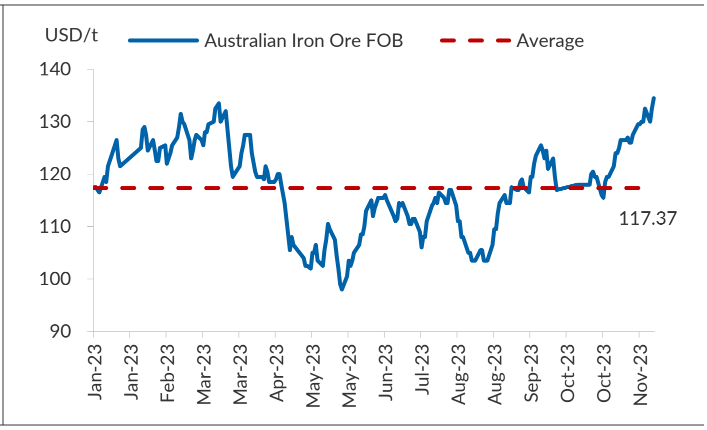
Source: Bloomberg, YES Sec

Exhibit 8: Chinese HRC Pricing



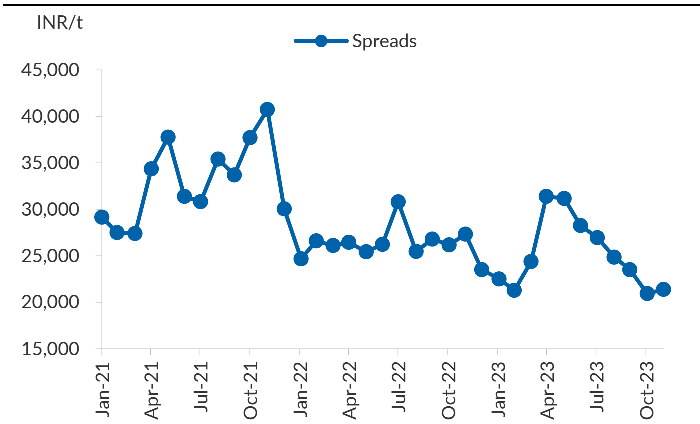
Source: Bloomberg, YES Sec

Exhibit 9: Australian FOB Iron Ore



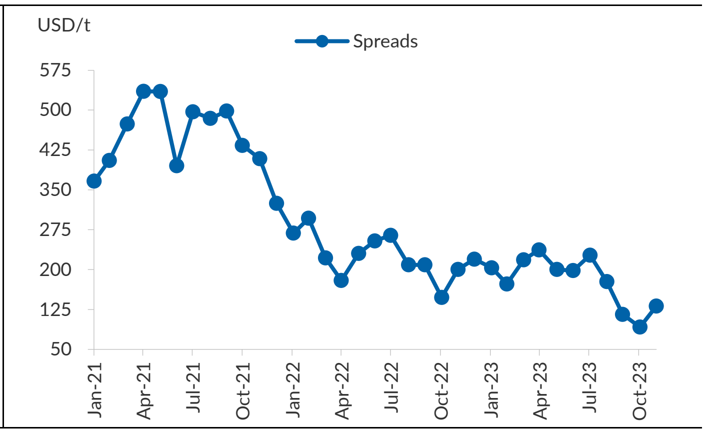
Source: Bloomberg, YES Sec

Exhibit 10: Indian Steel Spreads



Source: Bloomberg, YES Sec

Exhibit 11: Chinese Steel Spreads



Source: Bloomberg, YES Sec

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