Steel prices retain high levels in 2005

Analysis and Forecast

Consl ine AG
The 2004 price development for steel products continued in the first quarter 2005

Price development for HR and CR coil in Germany*

* The German prices correspond to the development of prices in other European countries.

Source: SteelHome.cn, January 2005

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Most companies raised their prices for 2005 and expect further increases

- **Corus** plans to increase **steel prices**, especially for the automotive industry, **by at least 20 percent** in the first quarter 2005, further increases in spring might follow (finanzen.net, imesonline, 04.01.2005)

- **Baosteel (China)** has raised **steel prices by 11 percent in the first quarter 2005**. This means problems for the automotive industry, as the Chinese market suffers from a price war bringing down margins further. (emfis, 07.12.2004)

- Following the move of Baosteel, **almost all Chinese steel makers raised prices** for hot rolled products (Steelhome, 29.12.2004)

- Earlier in 2004, **Arcelor had announced to raise steel prices in 2005**, mainly for the automotive industry, by at least 20 percent. (Deutsche Welle, 04.10.2004)

- Experts expect steel prices to further increase in 2005. (dpa-afx, 02.01.2005)

- Ekkehard Schulz, CEO of **Thyssen Krupp**, **expects the boom in the steel sector to continue in 2005**. Further **price increases** for steel and raw materials were **likely**. (Financial Times Deutschland, 24.01.2005)

- Analysts from Kepler Equities see a slower growth of demand, but **prices would be supported by higher commodity prices**. In general, there was a positive environment for the steel sector in 2005. (vwd, 13.01.2005)

- Managing Director and chairman of Indian state-run Steel Authority of India (SAIL), V.S. Jain, **expects steel prices in India to go up**, tracking a firm trend in the international markets. (Reuters, 27.01.2005)

- Korean steel producer **Posco expects rising steel prices for 2005**. The company increased its sales forecast by 16 percent to about 16.8 bln euros. Posco CEO Lee Ku-taek said, the assumptions of a few experts who estimate falling prices after the first quarter were very unlikely. Posco plans to hiken prices further due to increasing commodity costs and the weak supply situation. (FTD, 14.01.2005)
Raw material prices are to rise sharply in 2005, putting further pressure on steel companies

- The **price of iron ore is expected to rise between 30% and 50%** in major international contracts in 2005, according to industry analysts and consultants. Last week, Brazil's Companhia Vale do Rio Doce SA, the world's largest iron ore company, **confirmed it was seeking a 90% increase in 2005** from some steelmakers, including big Luxembourg-based steelmaker Arcelor SA, which calls the increase "absurd." Meanwhile, **prices for coking coal are set to more than double** to between $120 and $130 a metric ton from 2004 levels of $55 a metric ton. (Wall Street Journal Europe, 27.01.2005)

- Despite a moderating economy and an attempt to curb growth, **China is expected to remain a big consumer**, with **iron-ore imports expected to rise 23% to 245 million metric tons this year**. (Wall Street Journal Europe, 27.01.2005)

- The **price of contract coking coal for 2005-06 has been increased by 120 percent** in negotiations between Australian exporters and the Japanese steel mills, to a record $US125 a tonne. **Australian iron ore exporters are likely to win the greatest price increases ever for iron ore over 2005-06**, according to analysts. Some have recently doubled their expectations of the price rise from 25 per cent to 50 per cent. But market watchers such as Macquarie Bank commodity analyst Jim Lennon argue that these estimates may be too low. (Australian Financial Review, 21.01.2005)

- Japanese steelmakers said Wednesday that **the cost of raw materials**, such as coking coal and iron ore, **could rise by more than Y1,000bn ($9.8bn)** in the fiscal year starting April, underlining tight supplies amid strong demand from China. (Financial Times, 19.01.2004)
Apart from Coke, steel input costs will further increase in 2005 and lead to higher steel prices.

- Coke prices are forecasted to decrease about 20 percent in 2005.
- Scrap prices should be stable.
- Prices for Iron Ore, Coking and Thermal Coal are to increase in 2005 again.
- In general, the AIECE expects lower commodity prices for 2005 for most products, as demand will slide and supply will increase.

Source: Steelonthenet, James F. King, Steel Analysis; AIECE – Association of European Conjuncture Institutes, October 2004.
Rising production will not lead to an oversupply situation and consolidation is going to continue

- Consolidation in the steel sector is proceeding which will lead to a more stable pricing policy and higher price levels in the future compared with recent years (Arcelor CEO Guy Dolle). (dpa-afx, 02.01.2005)

- Dolle said 2005 pricing policy for flat carbon steel consisted in passing on raw material price hikes to clients, and that the average extra cost of raw materials in 2005 over 2004 would slightly top the budgeted 30-35 euros, “maybe 35-40 euros”, depending on the rate of the euro against the dollar. **Arcelor has raised flat steel prices slightly in the first quarter, and there was “a slight possibility” for prices to rise again slightly in the second quarter**, he added. Dolle said prospects for the second half depended on apparent demand - which includes stock building - and that production would be cut back if necessary, to protect margins. He remained optimistic about the second half and does not see prices collapsing. (Reuters, 19.01.2005)

- Because of the general high demand for steel and a supply shortage for commodities, capacity expansion would be limited in 2005, according to Lakshmi Mittal, owner of British steel producer Mittal. Even the fact, that China will be exporting a greater amount of steel in 2005, an oversupply situation should not occur. (Financial Times Deutschland, 17.01.2005)

- As Steel producers and mining companies increase their production capacities, there might be a problem of overcapacities in a few (5) years again. On the other hand, the **HWWA does not expect steel prices to fall in the short term** (Tagesspiegel, 30.12.2004)

- A study by McKinsey expects further concentration in the steel industry. **In 10 years, the CR4 ratio would reach 70 to 80 percent of the market.** Since the latest merger, Mittal Steel, Arcelor and Nippon together control only 12 percent of the world market. (FTD, 27.10.2004)
The gap between imports and exports of China is closing, but still the country is a net importer of steel.

Chinese imports and exports of finished an slab steel

- Chinese steel imports in 2004 totalled 29.3 million tonnes, Wang said, down from 37.17 million tonnes in 2003. Exports rose from 6.96 million tonnes to 14.23 million tonnes. Net steel imports were still 15 million tonnes in 2004, although this figured is half that of 2003, she pointed out. Exports as a percentage of China's total production of 270 million tonnes last year remained relatively insignificant at around 5 percent. (Metall Bulletin, 18.01.2005)

- Steel exports from China this year will rise substantially from 2004 but not enough to cause a global supply glut, according to Lakshmi Mittal, chairman and owner of Mittal Steel - the world's biggest steel producer. (Financial Times, 17.01.2005)

Source: Chinaesteel.com, Import and export of slab steel and finished steel of China

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A hard landing of the Chinese economy is becoming unlikely

- The always feared hard landing of the Chinese economy is becoming very unlikely as the country has a very high backlog demand which will not be compensated in a few years. (dpa-afx, 02.01.2005)

- Demand for export, consumption and investment will maintain robust growth in 2005 and support China's economic development
  - Urbanisation, industrialisation and Internationalisation are bringing rapid economic growth
  - Household consumption is on the rise (per capita GDP reached 1,000 US-Dollars in 2004)
  - World economy is in a period of mild increase in 2005, too. IMF forecasts the world economy to grow by 4.3 percent in 2005 (5 percent in 2004) (Chinasteel.com, 05.01.2005)

- Especially in the construction sector, pushed by the special showcases Olympic Games in Peking in 2008 and the World exhibition 2010 in Shanghai, demand is growing in the double digits. (Handelszeitung, 31.12.2004)

- Salzgitter CEO Wolfgang Leese sees the Asian economy on an enduring high level (Reuters, 17.12.2004)

- Dolle (CEO of Arcelor) played down fears that China would soon be disturbing the worldwide steel market, although he said it was already self-sufficient in terms of long steel products and could become so in stainless steel in the next two years. And for flat steel, the prospect of Chinese self-sufficiency is still at least 3-4 years away, Dolle said. "Very clearly, I don't see China starting to directly disturb the global flat steel market before 2010." (Reuters, 19.01.2005)

- China is not about to become export-orientated in steel, Wang Xingjie, special counsellor of the China Iron & Steel Assn, told the OECD/IISI Outlook for Steel conference in Paris. China's expected economic growth will ensure steel consumption continues to rise, albeit at a slower pace, while domestic production will be limited by rising costs and limited availability of raw materials, she said. (Metall Bulletin, 18.01.2005)
The awaited relaxation to the beginning of 2005 did not arise – steel prices in China climbed again

China Domestic steel prices in 7 major areas

- After a decrease in the second quarter due to rising concerns about a burst of the „Chinese bubble“, steel prices soared again
- Despite rising concerns that steel demand could fall because of shrinking economy growth, steel prices have increased again in January
- Most companies in the steel sector expect rising prices due to higher commodity costs and growing demand for the current year

Source: Chinaesteel, Average prices für HR Sheet (Q235) in the areas of Beijing, Tianjin, Shenyang, Shanghai, Wuhan, Guangzhou and Xi'an

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But economy and steel demand in China are expected to grow slower than last year

- **As the Chinese government expects a weaker steel demand** in 2005 and higher Chinese production, prices should not increase too much in 2005 (dpa-afx, 02.01.2005)
- German steel association expects the **Chinese steel consumption in 2005 to increase by 10.5 percent** (which is about half of the increase of 2004) (Reuters, 17.12.2004)
- Steel producer **Mittal sees steel demand from China increase by 10 percent** in 2005 compared to last year. This is less than in 2004 and results from the efforts to protect the Chinese economy from overheating. (FTD, 17.01.2005)
- In 2005, demand for steel worldwide continues to rise. The International Iron and Steel Institute (IISI) projects that **demand for steel globally in 2005 will grow at around 5 percent**, year-on-year, and China will remain the world's highest steel consumer, with a total consumption of 290 million metric tons, this year. (Thai News Service, 24.01.2005)
- **Growth this year will still be at a brisk 8 per cent-plus.** And many China economists, such as CLSA's Andy Rothman, argue that a slowdown may be occurring, but from a higher base than the official Chinese numbers might indicate. Mr Rothman said that growth may be slowing from levels closer to 10 to 11 per cent than the consensus view of 9.4 per cent in 2004. **In other words, growth might be slowing to 9 per cent rather than the consensus view of 8.2 per cent.** (Australian Financial Review, 21.01.2005)
First forecasts of stable or decreasing prices for some products arise, making the outlook more difficult

- Research Institute MEPS (UK) believes that the growth in steel production and exports in China will lead to a relaxation and prices would have their peak fall by up to 10 percent in 2005.

- According to a report by Asia Pulse, Huang Hai, Assistant Minister in the ministry of Commerce, expects steel consumption in China to increase by 11 percent from 310 mln tonnes to about 344 mln tonnes in 2005. Domestic production is forecasted to increase by 12 percent to 325 mln tonnes. In total, the Ministry of Commerce expects steel prices to fall compared with 2004. (emfis, 04.01.2005)

- As the soft landing of the Chinese economy would lead to slower growth, steel prices are to stabilise on the current high level, according to analysts from Bankhaus Lampe (vwd, 13.01.2005)

- Cheap imports, a softer construction market and higher input costs were likely to impact negatively on the Australian steel industry in 2005, according to a report by international broking house Merrill Lynch. So, most local manufacturers were expected to have a tougher time in 2005. While hot rolled coil (HRC) prices would strengthen this year, the report said the makers of the cheaper and technologically easier long product steel would be exposed to increasing input prices and import pressure. The report said it expected HRC producers to pass on the dramatic increase in coking coal and iron prices but long product steel producers would find it harder. (The Courier Mail, 21.01.2005)

- AIECE (Association of European Conjuncture Institutes) estimates a lower increase in demand and higher supply leading to lower prices. Most steel and metal prices already would have reached their highest levels.
Conclusion: In 2005, steel prices should only climb slow. In H2, prices might fall slightly back to the level of early 2005

- **Factors influencing steel price development**
  - 1. **Raw materials**
    - Costs for raw materials, especially steel input costs are expected to rise sharply in 2005
    - All suppliers of raw materials intend to hike prices by up to 50 percent
  - 2. **Demand in China**
    - Economic growth until 2007 at least 8% p.a.
    - Hard landing is becoming unlikely as the measures by the Chinese government take effect
      - In general, industry demand growth is slowing down, but still in the double digits
  - 3. **Threats**
    - Lower growth of world economy
    - Slower than expected growth of the Chinese economy
    - Higher production and rising capacities in the near future
  - 4. **In the long run**
    - Demand from China is going to stay high and grow steadily
    - Concentration in the sector leads to stable and high price levels
    - Steel and raw materials will stay expensive for the next few years
Consline expects steel prices to increase in the first half and to stabilise until the end of 2005

-Average price for Hot rolled coil per ton – 2004-2005*

Meps.co.uk (figures until October 2004) and Analysis Consline AG (estimation)

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Business Intelligence Today, Juli 1999

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