SUPPLIES OUTPACE DEMAND; CHEAPER IMPORTS COINCIDE WITH BLUNTED EXPORT COMPETITIVENESS

Domestic steel prices plunge to 45-month low

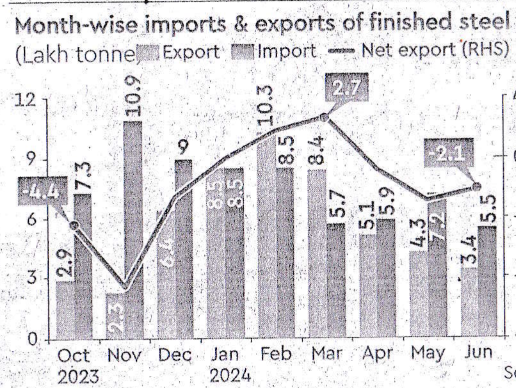
SURYA SARATHI RAY
New Delhi, August 7

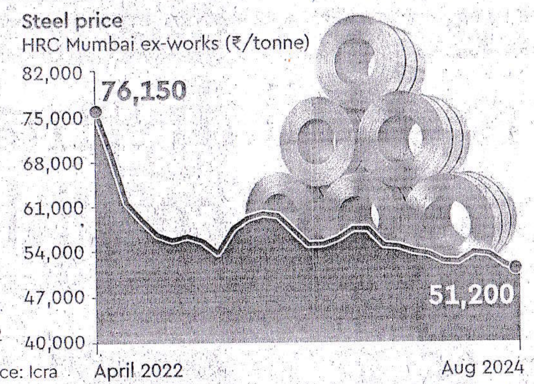
DOMESTIC STEEL PRICES have tumbled to a 45-month low despite strong consumption, as falling exports and rising imports boosted supplies. The subdued prices, if not corrected, might derail India's ambition to have 300 million tonne per annum (mtpa) steel-making capacity by 2030, as the margins of major manufacturers could come under pressure, industry executives say.

Lower steel prices, however, may help combat inflation, as the alloy is a key industrial raw material. Data compiled by rating agency Icra showed that at ₹51,200 a tonne, the August (ex-works) price of the benchmark hot rolled coil (HRC) was at its lowest since November 2020, when it was ₹45,975 a tonne in the Mumbai market. TV Narendran, CEO and MD, Tata Steel, said, "These prices aren't sustainable. We expect the trend to reverse in the next few weeks."

"Indian steel prices have fallen to their lowest levels in over three years, largely due to shifts in the global market. A notable slowdown in China's economy has triggered a correction in global steel prices, with Chinese export prices dropping to a four-year low. This decline has led to a surge in HRC imports from Vietnam and China into India," said Dhruv Goel, CEO, BigMint.

Furthermore, the increased presence of Chinese steel in the international market — Chinese exports have risen by approximately 20% year-on-year (y-o-y) from January to July 2024 — has rendered Indian steel exports uncompetitive in various regions, resulting in a significant drop in export volumes. The interplay of rising imports and falling exports has affected pricing dynamics within the Indian industry, he added.





Domestically, the situation is compounded by an influx of additional supplies from major producers such as JSPL and NMDC, aggravating the supply-demand imbalance. This surplus, combined with the global factors at play, has exerted substantial downward pressure on steel prices in India, creating a challenging landscape for the industry.

It's worth noting that just three years ago, mills enjoyed better margins, even when coking coal prices were around $100 per tonne, compared to the current price of $250.

In a results call with analysts, JSW Steel joint managing director and CEO Jayant Acharya said, "The Indian steel imports in Q1 were up by 27% y-o-y, while the numbers were lower q-o-q (quarter-on-quarter). But elevated exports from China continue to be a concern. The Chinese production continues to remain higher. Domestic demand is still softer and therefore the excess is flowing out to the world. Many countries have put barriers to such surplus steel coming into their countries. India is a soft target, and we do not have any kind of trade measures in place... Imports from other FTA countries have also gone up by 43%, raising our concerns for trade diversions into India."

Analysts see no stopping of the trend shortly unless India clamps down on "predatory imports", particularly from China. Significant imports from free trade countries — Japan and South Korea — are also limiting domestic companies' capacity to increase prices.

According to steel ministry data, China contributed 30.5% of India's total imports during the April-June period, compared with 28.4% a year ago. Japan's share rose to 26.9%, compared to 12.7%, while South Korea's share fell to 27.5% from 35.5% a year ago. India remained a net importer during the April-June period of the current financial year, following the trend that started in August of FY23, barring aberrations in February and March of FY23.

Analysts cited four primary reasons for the worsening steel trade balance — weak global demand due mainly to tightening monetary policies and geopolitical shocks; a slowdown in the Chinese economy, particularly its real estate sector; low-priced imports from steel-surplus countries; and a robust growth in India's domestic market that was supporting elevated domestic prices and reduced exports.

In FY24, India's finished steel consumption grew 13.4% over FY23 to stand at 136 MT. However, finished steel production grew 12.4% to 139 MT. India was a net exporter of steel for an extended period. However, the trend took a U-turn, and India became a net importer of steel last fiscal year when its imports exceeded its exports by 0.83 MT. In FY23, India's exports exceeded imports by 0.7 MT. In FY24, imports grew 38%, while exports rose 11.5% over FY23. Domestic firms also allege that the Indian steel sector is subjected to structural disadvantage due to various embedded taxes, duties and levies. Instead, a financially-strong country like China gives a variety of subsidies to its steel industry. India remains vulnerable due to its inability to counter subsidies due to the prevailing archaic Lesser Duty Rule in its anti-dumping investigations. In the Lesser Duty Rule, duty is imposed to the extent of dumping margin or injury margin, whichever is lower.

Ranjan Dhar, Director and VP (sales & marketing) at AM/NS India, said, "We are proactively reaching out to the government to initiate urgent measures to protect the industry from imports. Unbridled imports will not only derail the government agenda to create employment but also the Atmanirbhar Bharat vision."

Kolkata