Steel mills reduce prices of auto-grade offerings

CHANGE OF HEART. Slowdown in export markets, recessionary pressures steer the shift

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Some Indian steel mills have reportedly cut prices for auto-grade offerings by ₹4,000-5,000 per tonne for October-December contracts, in view of higher available stocks and weakening commodity cycle. Automakers have already announced price hikes January onwards.

Mills and original equipment makers (OEMs) had agreed to switchover to quarterly contracts since April this year in view of higher commodity price volatility. Previously, auto contracts were reviewed and negotiated once every six months.

According to data collated by Steelmint, Indian mills have agreed to a reduction of ₹4,900/tonne in hot rolled coils (HRCs) and ₹4,200/tonne in cold rolled coils (CRCs) prices in Q3 FY23 auto contracts. Auto segment accounts for 9-10 per cent of India's steel consumption.

As per trade sources, price hikes in Q1 FY23 – when quarterly contracts came into force – was in the range of ₹4,000-6,000 per tonne across CRC and HRCs. However, in Q2, when the metal cycle was weakening, mills went in for cuts of approximately ₹10,000 per tonne (across both HRC and CRCs).

HOW DEEP IS THE CUT. Indian mills have agreed to a reduction in prices of HRCs by ₹4,900/tonne and CRCs by ₹4,200/tonne in Q3 contracts, show data REUTERS

FOR THE LONG-TERM

Trade sources told *businessline*, Indian mills are looking at liquidating stock and also cater to customers like automobile makers, focusing on the long term. A slowdown in export markets and global recessionary pressures have made mills look into the domestic markets.

India's finished steel production dropped by 5 per cent November to 9.5 million tonnes (mt) as against October, when it was 9.9 mt. Variation in stock went up to 149,000 tonnes, up 40 per cent m-o-m, a report by the Steel Ministry shows. Variation in stock is the difference between opening and closing stock indicative of the fact that mills are unable to liquidate offerings quickly because of slowing demand.

"Mills have cut production in November and have more stock now. Export activity still needs to return to satisfactory levels. So some of the mills are now targeting the automobile industry with lower priced offerings anticipating to service them as long term customers," a trade source said.

DOMESTIC JITTERS

Trade channels are reportedly not approaching mills as they continue to hold inventory at higher prices; and they aren't ready to off-load the same at lower prices.

The Steelmint report said imports — from Japan and Vietnam — are cheaper than domestic HRC prices. It also adds that there was a fall in key raw material prices — iron ore and coking coal — in Q3 that has been factored in by the mills, thereby leading to subdued demand of HRC and CRC prices.