Domestic steel selling at premium as supplies from China plunge

With cheap Russian supplies coming in, the premium may not sustain

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After the lows of the last two months, domestic steel prices are now quoting at a premium over imports as shipments from China are getting delayed due to a sharp fall in production there.

Domestic hot-rolled coil (HRC) prices are selling at a premium at $645 (₹51,600) a tonne while Chinese supplies hovers at about $614 (₹49,120) a tonne. China's crude steel production was down 3 per cent at 90.7 million tonnes last month. It dipped 6 per cent to 526 million tonnes in the first six months of this year.

Besides the option of ready delivery, the sharp depreciation of the rupee against the dollar has made imports expensive and this is encouraging domestic steel companies to charge a premium over imports. Traditionally, domestic steel prices are at a discount or at par with imports depending on demand.

However, the premium being charged by domestic steel producers may not sustain with cheap supplies coming in from Russia, though in small quantities as of now.

'Steel'ing the thunder

- Internal problems drag China's steel production
- Russia attempting to test the Indian market
- Importers waiting for govt to solve payment issue with Russia
- If Russia allows rupee payment, will attract buyers given the steep depreciation of the Indian unit against the dollar

'Russia testing waters'

Srinivasan Manoharan, President, Shri Bajrang Power and Ispat, said China has all but quit the export market due to internal issues. Russia is just testing the Indian market by offering good discounts before the countries establish a viable payment options for settling deals. "We are sure that the government will not allow Russian steel companies to flood the market. Moreover, on TMT bars, there is strong consumer affinity to domestic brands due to the superior quality and competitive pricing," he added.

Some white goods manufacturers and institutional buyers may look to source from Russia and settle in a currency other than dollar, said Manoharan.

Hit by the US economic sanctions and with the ongoing face-off with European countries, Russia is tapping the Indian market by offering steep discounts and flexible payment options in different currencies.

Pressure on prices

Steel prices have been under pressure ever since the Centre in May levied an export duty of 15 per cent on select pig iron, flat-rolled products of iron or non-alloyed steel, bars and rods and various flat-rolled products of stainless steel besides a 45 per cent levy on iron ore pellet.

If shipments from Russia gather pace, they can take a toll on domestic producers, especially now when demand for the metal tends to be seasonally low.

Domestic steel prices last month had fallen 5 per cent to ₹59,800 a tonne while that of TMT bars produced by primary producers slipped 4 per cent to ₹59,000 a tonne. But the same products sold by secondary producers saw a 6 per cent jump in prices to ₹55,700 a tonne, largely due to the passing on of the increased production cost.

Prices of iron ore sourced from the open market largely by secondary producers in Odisha increased 6 per cent to ₹3,500 a tonne.

Vishal Chandak, Research Analyst, Motilal Oswal, said domestic HRC prices continue to trend down and the premium on domestic steel may not sustain if the local demand remains muted. Domestic steel prices are expected to fall further while the sharp 37 per cent fall in coking coal prices will help protect the margins of steel producers, he added.