Iron ore, steel to remain under pressure

Chinese demand slack, production in Europe hit by high energy prices: Experts

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Iron ore and steel prices will likely be under pressure for the remaining part of the year on slack demand from China for ferrous metals, besides high energy prices affecting production in Europe, experts have said.

Iron ore prices have dropped 9.5 per cent in the past month and over 45 per cent year-on-year, though they have gained 9 per cent this week. Steel prices have declined 12.5 per cent in the past month and over 30 per cent year-on-year. This week, they are up 2 per cent.

Steel rebar prices, which had surged to $875 a tonne in October last year, are currently ruling at $575 a tonne. Hot rolled coils, which had topped $1,900 a tonne in September last year, are quoted at $918 now. Iron ore prices, which had zoomed to a high of $239 a tonne in May last year, are currently hovering just above $100.

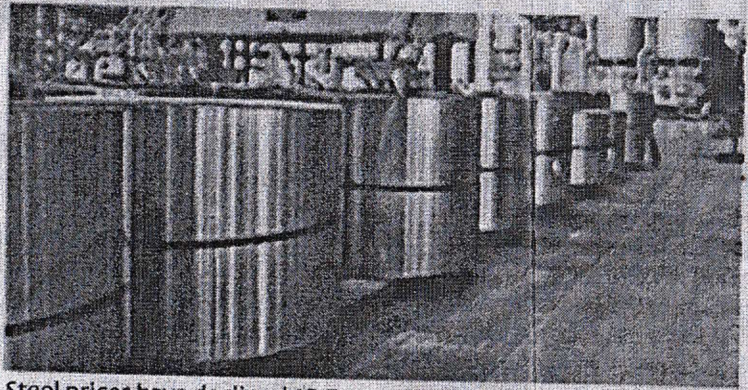
Caught in sell-off

"Iron ore has been unable to escape the broader sell-off in commodities. Macro concerns have been key to driving prices lower," said Warren Patterson, Head, Commodities Strategy at ING Think, the economic and financial analysis wing of Dutch multinational financial services firm ING.

"A negative sentiment surrounding the Mainland Chinese economy and weak physical demand hammered prices. Indeed, second quarter GDP data this year showed that the Mainland Chinese economy expanded by 0.4 per cent year-on-year, reflecting a sharp slowdown from 4.8 per cent year-on-year in Q1," said Fitch Solutions Country Risk • and Industry Research (FSCRIR), a research unit of US-based Fitch.

Tough Beijing curbs

With China being the world's largest consumer of steel as well as iron ore, Fitch Solutions said it expects further weakness in the prices of steel and iron ore in the coming weeks, especially as the country has extended lockdowns in numerous cities as Covid-19 cases continue to rise.



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According to World Steel Association, China's steel production in the first half of 2022 has declined by 6.5 per cent to 526.9 million tonnes (mt). It has been one of the primary factors affecting global steel output since July 2021. "China's attempts to squash outbreaks of Covid-19 have seen fairly tough restrictions, which have not been supportive for demand. In addition, there are growing concerns over the macro-outlook," Patterson said.

Soaring inflation is seeing central banks, particularly the US Federal Reserve having to take a more aggressive approach to monetary tightening, the ING Commodities Strategy head said. "Ultimately though the iron ore outlook is going to largely depend on how China approaches any further Covid outbreaks through the year as well as the scale of stimulus we see the government unleashing," he said.

Fitch Solutions said Brazil's leading producer Vale has cut its iron ore production guidance for this year to 310-320 mt. The pruning of its guidance will not have any impact on iron ore prices as demand is seen cloudy.

Bearish long-term outlook

"We are likely to revise downwards our forecasts for iron ore and steel in the coming weeks," it said.

Patterson said fundamentals have not been great either. "However, low Chinese stocks and hopes of a China recovery in the second half should provide support in the near term. The medium to long-term outlook is more bearish," he said.

Vandita Pant, Chief Commercial Officer, BHP, told *BusinessLine* that developments relating to the Ukraine war and the Covid pandemic were causes for concern for ferrous metals sector. "Steel outlook is stable for the year, though the margins were underpinned in the second quarter," she said.

Covid lockdowns have weighed further on both steel demand and supply, Patterson said, and added that China's state planner has made it clear that it wants crude steel production capped at below 2021 levels, which looks like a bearish for iron ore.

The ING commodities chief said the lower steel output this year leave some headroom to increase output.

Pant said demand is likely from the perspective of end-users such as electric vehicles, machinery makers and real estate. "Chinese stimulus which will come over a period of time will also help the demand," she said.