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CRU meet takeaways: India steel to gain demand support in H2

Kirtan Mehta, CFA
research@bobcaps.in

- **India steel prices to improve modestly with kick-off of restocking season in Sep, met coal price to ease further, iron ore range bound**
- **Indian steel margins to initially find support in pull back in met coal prices and then with a modest increase in steel prices post Sep**
- **India flat steel producer margin will stabilise over CY24-CY26 as rising domestic demand would offset the need to export at lower margins**

China's steel margin to improve modestly: While steel demand in China is likely to be weak in CY24, supply response is likely to support recovery in steel margins in China. While China's government has announced a stimulus to offset weakness in the real estate sector, the lack of clarity on the funding structure to support equipment upgrade raises questions on its effectiveness.

Indian steel margin to improve in H2CY24: With infrastructure and real estate consumers procuring on an as-needed basis, steel price and margins were muted in Q1CY24. This could improve in H2CY24 as pullback in met coal prices feed through the cost base and is followed by a modest increase of Rs2-2.5/kg in steel price in the next restocking cycle from September.

India's flat steel producer margin will rise gradually over CY25-27: With 21mt of HRC capacity under implementation, India's steel industry needs to increase exports to 15-18% of HRC production until domestic demand catches up in late CY26/early CY27. Lower export margin will weigh on average margin for flat steel producers.

India's steel industry at an advantage: Relative to Chinese industries, India's steel industry has the advantage of domestic/captive iron ore and a more balanced mix between blast and electric arc furnaces, which limit the downside from faster curtailments.

Met coal prices to ease further: After a sharp drop to US$ 230/t, met coal prices are likely to ease to US$ 200/t by end CY24 with the ramp-up of Australian supplies.

Iron ore prices to be range bound: Iron ore prices to average US$ 106/t in CY24 and fall below US$ 100/t with seasonal recovery in supply amid weak demand. This could dip to US$ 90/t with the ramp up of Simandou project (Republic of Guinea).

Our Ferrous sector view: We expect Indian steel margins to stay at mid-cycle level over the next two years. While we expect global steel demand to stabilise gradually, we believe supply pressure from a likely surplus in China will keep a lid on margins.

We summarise the key takeaways from our interaction with the CRU APAC Steel team. The team was represented by Regional Director Damodharan NK, Principal Analyst Shankhadeep Mukharjee, Senior Analyst Puneet Paliwal and Analyst Lalit Ladkad.

Global demand recovery likely to be gradual

CY24 outlook – modest improvement ahead

China steel demand to remain weak in CY24: Key challenge is stabilising the real estate sector. While the government has proposed stimulus in the form of equipment upgrade for electrical appliances and consumer durables, the lack of clarity on the funding structure raises questions on its effectiveness.

Global steel demand likely to remain muted in CY24: Elections in several parts of the world are likely to weigh on steel demand in CY24.

China's exports likely to ease from high levels in Q1CY24: Based on current deal flows, CRU expects China's exports to decline over the next couple of months from the high levels seen in Mar'24. However, this higher export from China partly fills up the gap in global supply from the back down of Russian steel exports after Russia's invasion of Ukraine.

China's steel margin to improve from recent lows: While steel demand is likely to be weak in CY24, the supply response is likely to support recovery in steel margins in China.

Medium-term outlook contingent on restructuring in China

China: Potential restructuring options to address surplus

- **Restructuring 2.0:** could involve capacity closures, diversion of long capacity to sheet capacity to align with lower demand from real-estate, relocation of long capacity to South East Asia.
- **Restructuring 3.0:** could be a faster transition to green steel to gain global export market share. CRU understands that steel state-owned enterprises (SOEs) are working quietly to expedite the transition to green steel.

Global crude steel production growth over medium term: Global crude steel production is likely to increase by a modest ~50mt over the next five years as growth of 152mt outside China is offset by a likely reduction of 100mt in China.

India outlook

CY24: Tale of two halves

India steel demand growth: Steel demand growth rate to ease in CY24 from high base of CY23. While HRC demand is likely to contract in H1, it will sharply bounce back in H2.

India steel margins are facing demand pressure in H1CY24: With weaker construction demand during the election phase, steel consumers particularly in the real estate and infrastructure segments are restocking and procuring on an as-needed basis. This weakened steelmaking margins in Q1CY24.

Indian steel prices likely to be range bound until early Sep: The next support will come during the restocking period in early Sep, when flat steel consumers in automotive and consumer durables restock steel ahead of the festive season.

Indian steel margins to improve in H2: While a pick-up in steel prices is likely to be limited to Rs2-2.5/kg post Sep, a fall in coking coal costs should support improvement in steel margin in India.

Medium-term outlook

India flat steel producer margin will ramp-up gradually over CY25-27: India is adding 21mt of flat steel capacity over CY23-26 of which 10mt of capacity has already commenced initial operation. This will lead to an increase in the export of flat steel to 15-18% of domestic production until domestic demand ramps up by late CY26 or early CY27. In the interim, typical lower export margin will weigh on average margin for producers.

India's long steel capacity expansions to be largely scrap based

- With India's focus on infrastructure, long steel demand growth is likely to be robust and will support new investments in electric arc furnaces (EAF) particularly near scrap clusters.
- Major ferrous scrap clusters in India are located in Mandi Gobindgarh, Alang, Jalna, Raipur, Hyderabad and Chennai.
- Ferrous scrap recovery is likely to improve with the government's focus on scrap recycling.
- At this point, 4mt of long steel projects are under implementation.

India's steel industry at an advantage

Advantage of domestic/captive iron ore relative to Chinese producers: The consumption cost of iron ore is lower for Indian producers with access to domestic iron ore (with 30% export duty for grades above 58%) and relatively higher availability of captive ore.

Balanced exposure to BF:EAF: With a 50:50 split of steel production between blast furnace and electric arc furnace technologies, the steel industry can easily lower production during periods of low demand. This improves resilience of steel margins in India relative to China where more than 85% of steel production is derived from the blast furnace route.

Indian steel industry has some support against import competition: After the completion of five years of anti-dumping duty in CY21-22 for most steel products, the Indian steel industry is receiving support from non-tariff mechanisms such as quality control orders from the Bureau of Indian Standards and the import monitoring system that requires importers to justify imports.

Indian steel mills: Decarbonisation transition not easy

Indian steel industry is cost competitive today with the advantage of domestic iron ore and occupies a place in the left half of the global cost curve. However, they have high emission intensity falling in the top quartile of the emissions curve. As the transition to decarbonisation gains momentum, the cost competitiveness of India's steel industry will come under pressure.

Met coal prices likely to ease further

Met coal price remained above US$300/t for 28 weeks in a row: Elevated met coal prices were attributed to the supply underperformance in Australia and Russia, which outweighed demand weakness from key markets (India, Japan/Korea/Taiwan and the European Union) as well as supply outperformance in North America.

Met coal price fall has been steeper than CRU expectation to US$ 230/t levels and is further likely to drop to US$ 200/t level by the end of CY24, driven by new supplies from Australia from both categories – restarts and new start-ups.

Upside risks to met coal price forecast: a) Delay in supply ramp-up in Australia, b) potential sanctions risk on Russian supply.

Met coal market, ex China, to remain tight: While demand is likely to grow by 40mt over CY24-25 with the start of new crude steel capacity, supplies are likely to grow by 30mt. Met coal supply will need additional investments to maintain market balance in absence of unconstrained Russian supply.

Global iron ore prices to stay range bound

Iron ore price to remain range bound: Iron ore price to average US$ 106/t in CY24 and to fall below US$ 100 later this year with seasonal recovery in supply amid weak global steel demand.

Demand recovery rather than supply disruptions a key near-term driver: While supply disruptions are likely to continue in CY24, its impact on prices is likely to be cushioned by accumulated inventories.

Iron ore price to retrace to US$ 90/t level with the start of Simandou project: With 120mt capacity, the Simandou project could eliminate the need for production from some high-cost producers in China and help lower marginal price levels. The Simandou project is now included in CRU supply projections from CY26 and is likely to be ramped up.

India iron ore market to tighten over medium term

Low-grade iron ore exports to fall over medium term: As the closure of steel capacity in China over the medium term improves steel margin in China, iron ore demand is likely to shift to high grade from the current low grade to meet emission reduction requirements.

Pellet exports to pick up: Improving margins driven by closure of steel capacity in China will also improve demand for more pellets in the absence of adequate lump availability. This would increase demand for medium and high-grade iron ore in India for pellet manufacturing.

Domestic pellet demand to increase over medium term: As Indian steel mills start to focus on controlling carbon emissions, domestic demand for pellets will also increase.

Indian high-grade iron ore self-sufficiency may be challenged: With ramp-up of new crude steel capacity and increasing demand for medium- and high-grade ore for pellets production (both domestic and export), Indian ore supply is likely to fall short of demand over the medium term.

West coast steel producer could resort to imports to bridge shortfall: In the situation of global prices being lower and domestic market being tight, steel producers on the west coast may resort to importing high-grade ore for part of their needs.

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