

# World Steel Output Falls In November, says IISI

Steel Insights Bureau

## Steel production fell in November: IISI

Steelmakers began to limit production in November after increasing crude steel output in both September and October, according to figures published by the International Iron and Steel Institute (IISI).

November steel production in the 67 countries reporting to the IISI amounted to 109 million tons in November, down from 114 million tons in October but still up 4 percent on production during November a year ago.

As a result global crude steel production amounted to slightly in excess of 1.2 billion tons in the first eleven months of 2007, 7.7 percent higher than the corresponding period of last year, according to the IISI's calculations.

At 39.7 million tons, Chinese steel production was at its lowest since February, and only 4.3 percent higher than November last year. Japanese steel production was up 1.1 percent year-on-year.

Indian steel production was also down on October production by about 1,00,000 tons at 4.6 million tons, although this was up 7.8 percent on last year.

Crude steel production in the 27 member countries of the European Union was only down slightly compared with October at 17.35 million tons in November, and production for the first 11 months of 2007 was up 1.6 percent on the same period last year at 193.3 million tons.

The UK saw the highest gain in production, which rose 20.1 percent year-on-year to reach 1.2 million tons in November, because of ramp-ups at UK mini-mills Thamesteel and Celsa UK.

Turkish production in November amounted to 2.1 million tons, an increase of 10.3 percent compared with the corresponding month a year ago, while Brazilian steel production rose 6.2 percent year-on-year to 2.9 million tons during the same month.

Russian production, however, fell 2.8 percent in November compared with the same month a year earlier to 5.9 million tons, while Ukrainian crude steel production in the month rose 4 percent year on year to 3.5 million tons.

## China's output fell last month but should rise in December

China's daily crude steel output slid 4.4 percent month-on-month in November to 1.32 million tons, according to the National Bureau of Statistics.

This was 64,000 tons lower than the 1.38 million tons in

## Highlights

- Raw material prices have been surging upwards in the spot markets. Iron ore and coke markets are tight and prices are at historical highs. Ocean freight rates are also high. This will lead to higher long term benchmark rates next and is expected to directly lead to a \$100 impact on the cost of producing steel in 2008.
- Steel companies that have been dependant on the spot markets for their raw materials will be affected even more severely. In fact, one of the reasons for the sharp decline in steel production in China in November has been the high spot prices for raw materials and the weakness prevalent in the Chinese steel market at the time.
- With steel production having been cut, high raw material prices affecting everyone and low inventories in the supply chain all round, except Europe, steel prices are expected to sizzle at the start of 2008 in all markets except Europe.
- The Chinese will continue to discourage exports but demand for steel in China is robust and the producers there will try export only as much to maintain demand and supply balance in their home market. We can expect Chinese exports in 2008 to be lower than those in 2007.
- One of the reasons for this phenomenon is the rising threat of protectionism against Chinese exports. The EU has threatened Anti-dumping action against China but consumers, observers and analysts warn that this is not in the long term interest of the EU economy manufacturing would be off-shored to take advantage of the lower costs of Chinese steel.

October, when output fell 2.7 percent from the previous month.

This is the first time that China's daily production volumes have contracted for a period of two consecutive months, and the reason attributed for this was the margin squeeze being faced by standalone producers who depended on the spot markets for their raw materials where prices for coke and iron ore peaked.

**World Crude Steel Production**

	May 2007	June 2007	July 2007	August 2007	September 2007	October 2007	November 20 07
European Union (27)	18,255	17,698	17,112	15,448	17,163	17,793	17,356
European Union (15)	15,250	14,743	14,273	12,627	14,382	15,112	14,563
Other Europe	2,669	2,519	2,634	2,353	2,377	2,564	2,463
C.I.S. (6)	10,448	10,381	10,337	10,182	9,945	10,518	10,145
North America	11,467	11,138	11,171	11,302	10,892	11,505	10,961
South America	4,070	3,926	3,973	4,129	4,036	4,174	4,108
Africa	1,578	1,530	1,541	1,594	1,585	1,543	1,594
Middle East	1,191	1,295	1,235	1,324	1,369	1,400	1,387
China	41,304	42,121	41,252	41,583	42,712	42,922	39,691
India	3,723	3,723	3,850	4,437	4,417	4,631	4,565
Japan	10,172	9,980	10,017	9,962	9,929	10,371	10,114
South Korea	4,505	4,353	4,126	4,265	4,176	4,304	4,165
Taiwan, China	1,785	1,725	1,740	1,740	1,685	1,720	1,665
Asia	61,489	61,902	60,986	61,987	62,919	63,948	60,200
Oceania	769	726	738	745	736	740	747
Rest of the world except China	70 631	68 994	68 475	67 482	68 310	71 262	69 270
Total 62 countries	111,935	111,115	109,727	109,065	111,022	114,184	108,961

But daily output is unlikely to continue to fall in December, as November's decline was abnormal, said market participants. With steel prices rebounding in China, crude steel production is expected to recover.

"I notice that in spite of a steeper decline in crude steel, daily output of both pig iron and finished steel were slightly higher than in October," Beijing-based MySteel Research Institute analyst said. "My understanding is that the production halts in Hebei since October has contributed to this, as Hebei is more of a crude steel production base than a pig iron centre."

China's daily pig iron output in November was 1.33 million tons, up slightly from 1.31 million tons in October, while finished steel output was 1.59 million tons, up from 1.58 million tons in October.

For December, the market expects either crude steel output to pick up or finished steel output to decline. The analyst said it is more likely that crude steel output will recover.

"There must be slab or billet inventories in spite of the production disruption in Hebei, but stocks will not last till December. Given that finished steel domestic prices are not bad at all, crude steel production is likely to pick up to meet demand from mini-mills," he said.

An increase in December's daily steel output would send the country's whole-year crude steel output close to the 490 million tons estimated by the China Iron & Steel Association (CISA).

China's crude steel output in the first 11 months added up to 448.52 million tons.

**Steel production costs could rise by \$100 per ton in 2008**

Steel production costs could increase by more than \$80 per ton (€56 per ton) in 2008 as a direct result of raw material price increases, according to calculations by analysts at Macquarie Research. In a report, they said the cost increase could top \$100 per ton, when sea transport costs are taken into account.

Macquarie is forecasting a 50 percent increase in contract prices for iron ore in 2008, equivalent to additional costs of \$42 per ton of steel produced in Asia (excluding China) and \$46.75 per ton in China.

In metallurgical coal, contract prices in 2008 could also rise by close to 50 percent over this year's levels. For an Asian steelmaker using a mix of different coals, this would add \$34 per ton to steel production costs outside China and \$36 per ton in China. Steelmakers reliant on purchased coke would face still steeper increases.

For coal and ore alone, Asian mills could face cost increases of \$76 to \$82.75 per ton of steel produced from April next year when the new prices come into effect.

Freight costs are also likely to rise, Macquarie says, because many mills will have to renew their one-year contracts of

affreightment in the coming months. As spot freight rates have risen sharply in 2007, these one-year contracts could also rise by 50 percent.

While generalisation is impossible given the many varieties of distances and freight arrangements, Macquarie says this could add \$25 to the cost of producing a ton of steel, bringing the total additional cost to more than \$100 per ton.

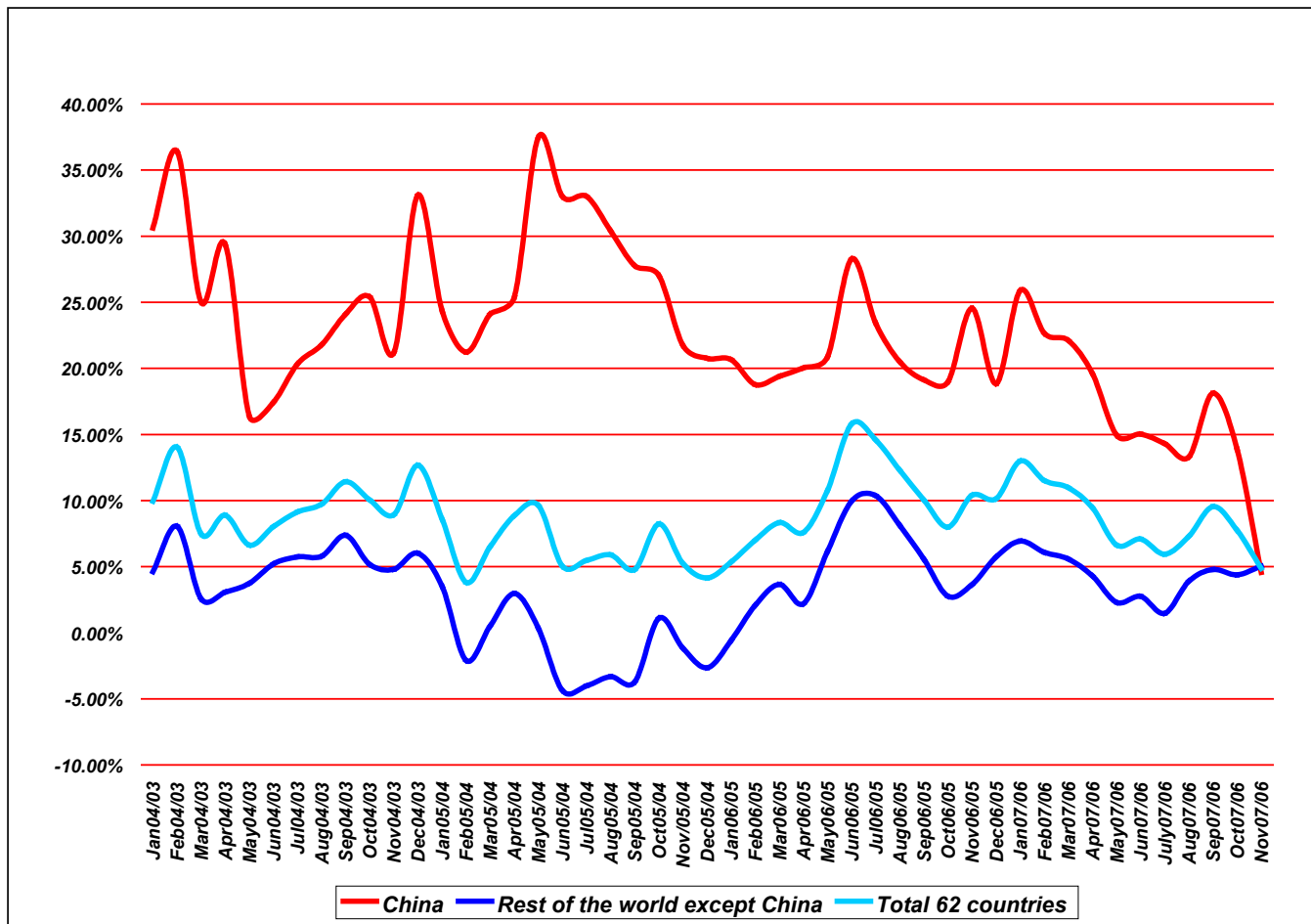
The analysts note that steel prices are already rising in anticipation of higher production costs.

**China's foreign trade drives growth in world steel exports: ISSB**

Growing foreign sales of Chinese steel in the first nine months of 2007 more than nullified the declining steel exports from some of the world's other leading regional producers, according to the latest statistics from the Iron & Steel Statistics Bureau (ISSB).

Exports of steel products rose 10 percent to 209 million tons in January-September 2007 from 191 million tons in the corresponding period of 2006.

The combined foreign sales of mills in the EU27, Ukraine, Russia and Brazil all fell, Pearton pointed out.



**Average Daily Production and M-o-M Variance**

	July 2007	M-o-M Variance	August 2007	M-o-M Variance	September 2007	M-o-M Variance	October 2007	M-o-M Variance	November 2007
European Union (27)	552.00	-9.76%	498.32	14.81%	572.10	0.33%	573.97	0.80%	578.53
European Union (15)	460.42	-11.45%	407.32	17.70%	479.40	1.69%	487.48	-0.42%	485.43
Other Europe	84.97	-10.67%	75.90	4.39%	79.23	4.39%	82.71	-0.74%	82.10
C.I.S. (6)	333.45	-1.50%	328.45	0.93%	331.50	2.35%	339.29	-0.33%	338.17
North America	360.35	0.75%	364.58	-0.42%	363.07	2.22%	371.13	-1.55%	365.37
South America	128.16	4.23%	133.19	1.01%	134.53	0.08%	134.65	1.70%	136.93
Africa	49.71	3.44%	51.42	2.75%	52.83	-5.79%	49.77	6.75%	53.13
Middle East	39.84	5.43%	42.71	6.85%	45.63	-1.03%	45.16	2.37%	46.23
China	1330.71	0.80%	1341.39	6.14%	1423.73	-2.75%	1384.58	-4.45%	1323.03
India	124.19	15.25%	143.13	2.87%	147.23	1.46%	149.39	1.86%	152.17
Japan	323.13	-0.55%	321.35	2.99%	330.97	1.08%	334.55	0.77%	337.13
South Korea	133.10	3.37%	137.58	1.18%	139.20	-0.26%	138.84	0.00%	138.83
Taiwan, China	56.13	0.00%	56.13	0.07%	56.17	-1.22%	55.48	0.03%	55.50
Asia	1967.29	1.64%	1999.58	4.89%	2097.30	-1.64%	2062.84	-2.72%	2006.67
Oceania	23.81	0.95%	24.03	2.09%	24.53	-2.70%	23.87	4.31%	24.90
Total 62 countries	3539.58	-0.66%	3518.23	5.19%	3700.73	-0.47%	3683.35	-1.39%	3632.03
Rest of the world except China	2208.87	-1.55%	2176.84	4.60%	2277.00	0.96%	2298.77	0.44%	2309.00

Russian mills' exports fell 10 percent to 21.5 million tons over the period; EU27 mills' exports dropped 2 percent to 23.5 million tons; Ukrainian mills' exports dropped 3 percent to 22 million tons; and Brazil's exports plunged by 14 percent to 7.9 million tons, the ISSB calculated.

Chinese exports, which have moved down this year since hitting a peak of 7.6 million tons in April, have still risen by 61 percent compared with January-September 2006.

Exports from South Korea and Japan also rose, by 5 percent to 13.6 million tons and 4.6 percent to 26.6 million tons respectively, said the ISSB, which looked at data from 48 key producing countries.

The speed of its development as an exporter is reflected

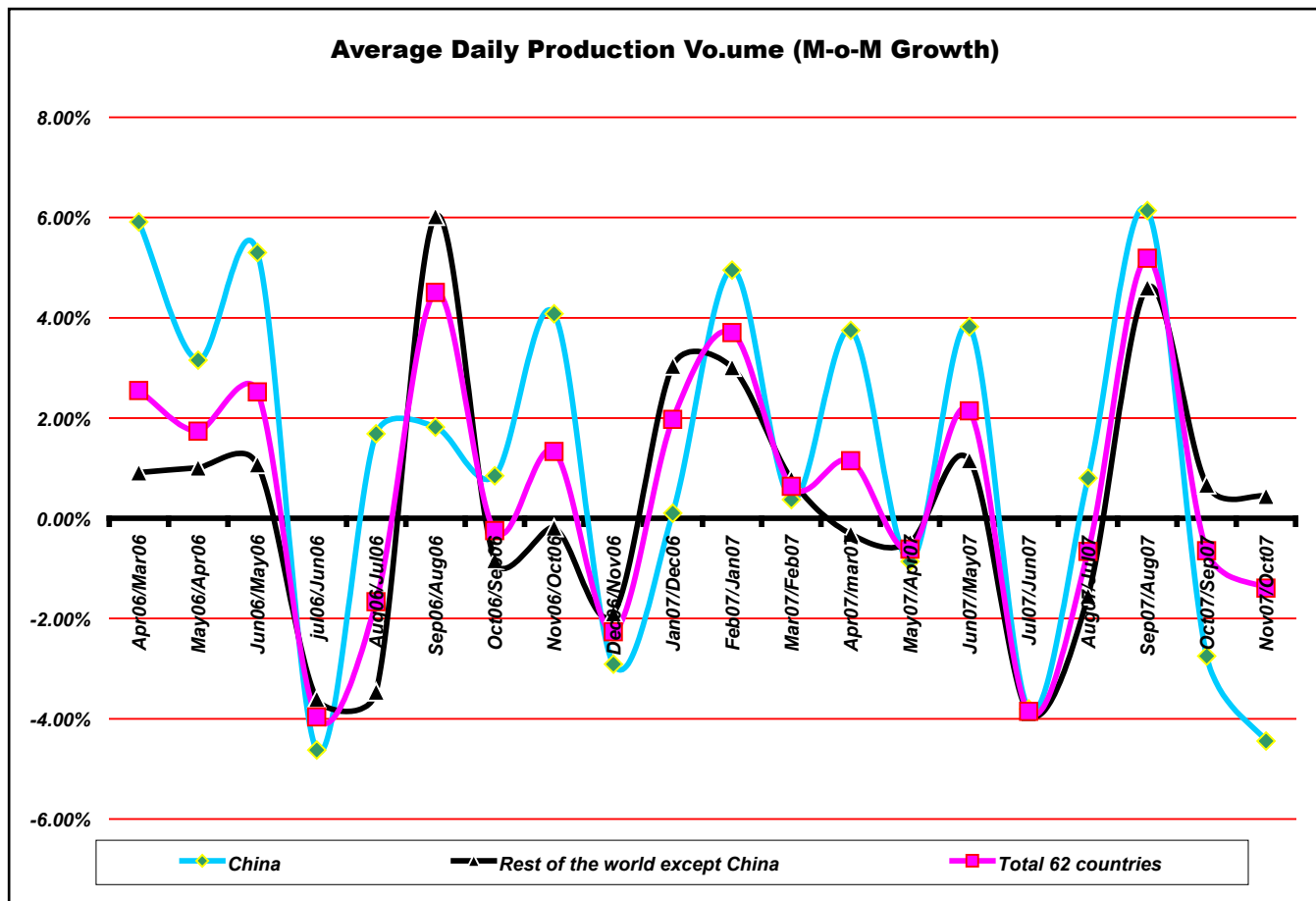
in the comparison the ISSB makes with January-September 2002, when China accounted for less than 3 percent of world exports.

### **China's November finished steel exports down 3.3% from October**

China's November finished steel exports declined 1,40,000 tons or 3.3 percent from October, according to several Chinese steel websites quoting preliminary Customs statistics.

The exports reportedly reached 4.1 million tons in November, down from 4.24 million tons in October, a year-on-year decline of 11.5 percent.

China's monthly finished steel exports have continuously



declined since July, following a series of steel export policy changes from the beginning of this year.

Export volumes have been declining mainly because of attempts to raise export prices in a comparatively quiet market, on the back of domestic prices rises and to transfer extra costs from Beijing’s tax revisions, according to the market.

“There is still demand, but the Chinese steel has been losing its pricing competitiveness because of higher production costs, higher taxes, and the yuan appreciation,” a steel trader in Shanghai said.

Up to November, China exported 57.86 million tons of finished steel, up 54.5 percent year-on-year, but the growth rate was lower than the 63.8 percent for the first 10 months.

The country’s semi-finished steel exports reached 1,70,000 tons, down 10,000 tons from a month earlier, bringing the total for the first 11 months to 6.3 million tons, down 26.2 percent year-on-year.

**Chinese Imports also declining**

China’s finished steel imports reached 1.35 million tons in November, bringing the volume up to November to 15.54 million tons, down 8.6 percent year-on-year.

Semi-finished steel imports for the country was only 10,000 tons in November and 220,000 tons for the first 11 months, down 39 percent year-on-year.

China imported 35.46 million tons of iron ore last month, much higher than the 29.77 million tons in October. The 11-month import volume added up to 349.03 million tons, up 17.3 percent year-on-year.

**China to fight Europe’s HDG anti-dumping charge**

Chinese steelmakers, led by the China Chamber of Commerce of Metals Minerals & Chemicals Importers & Exporters (CCCMC), strongly oppose the European Union’s anti-dumping complaint about hot-dip metallic coated sheet.

A CCCMC official says that Chinese mills are against the action taken by European producers, and challenge the European Commission’s use of Brazil as a surrogate country in investigating the complaint. He said attempts were being made to identify a surrogate country within Asia that better matches China’s economic conditions.

A source close to the issue says anti-dumping complaints from European countries are unreasonable. He points out that Italy – which is one of the key importers – is not even a major user of Chinese HDG; rather it acts as a trading hub

for other European destinations. He sees no reason why Italy should be complaining that Chinese HDG imports has hurt its steelmakers.

China exported about 3.34 mt of HDG to Europe in January-October this year. Of this total, about 304,678 t was exported to Italy, second only to Belgium with 519,785 t.

### **Steel users fear that trade action shifts problem downstream**

Germany's steel fabricators have expressed concern about Eurofer's antidumping suit against Chinese steel imports, and argue that it would simply cause the problem of under-priced import products to be shifted downwards in the value chain.

If the steelmakers' complaint is successfully implemented, "the steel price in China will go down further, and Chinese steel consumers will have a better position for exporting their products such as pots, pans, flanges, and automotive components," says Austrian analyst Markus Moll.

"You won't read those effects from the foreign trade statistics, which only cover sheet or tubes etc., and it will cost more jobs in Europe than you can protect by any measures," Moll says.

He claims that retailers like Wal-Mart and Ikea are the big international traders of stainless steel finished products bought in China. Ikea buys 90 percent of its stainless steel products in China, with some 85,000 tons planned for 2008.

WSM, the federation of Germany's steel processing industry, notes that China had in fact earlier taken steps to reduce steel exporting, with customs measures introduced recently on wire and wire rod. With such moves, "China's trade policy puts non-Chinese mills at an advantage, rather than at a disadvantage," WSM states.

According to WSM, China's duties on wire rod are 10 percent, and 5 percent on drawn wire, while finished products are not charged at all, or are even subsidised. The policy favours downstream products "and negatively affects medium-sized steel processing companies in Europe," WSM states.

Protectionist measures would take away the role imports have as a price corrective in Europe, currently the region with the world's highest steel prices, says WSM, Germany's federation of steel users. Due to their size, the mainly small and medium-sized companies in this segment are especially vulnerable against cost slopes, the federation notes.

Given the maximum profits made in recent years, the potential damage for European mills through imports is questionable, WSM argues. Even though mills would like to sustain the current profitability level, "this doesn't justify the use of trade measures," the federation says.

Observers also argue that European customers might move to Asia to be on the upper end of the slope. "It will really fuel off-shoring, if buyers are prevented from buying imported steel at low costs."

Take large consumers like Miele or Bosch, who would increasingly move to Asia to be able to obtain steel at lower costs there – that would be the worst case scenario.

He adds that such a slope effect has already enabled China to develop processed products that were not even made in the country some years ago, and are now offered by overseas subsidiaries of European groups.

### **US exports continue to rise**

US exports continue to rise to new monthly highs on the back of the weak American dollar. US mills exported 9,56,000 tons in October, up from the previous record of 904,000 tons in September.

Nafta partners Canada and Mexico are still the leading buyers of US-produced steel at 547,000 tons and 193,000 tons, respectively. The next largest recipient is Spain at 20,000 tons.

By product, US exports continue to be dominated by flat products. The October total includes 1,11,000 tons of plate, 1,10,000 tons of hotrolled coils and 1,07,000 tons of hot-dipped galvanized sheet.

The US exported 81,000 tons of heavy structural sections in October.

### **US service centre inventories shrink again**

An uncertain economic outlook, compounded by seasonally low demand, led to reduced shipments of steel from US service centres in November, it is learned from the Metal Service Center Institute's (MSCI) monthly report.

November's end of month inventory on hand was 12.13 m short tons, a three months' supply, compared to 12.26 m s.t, or a 2.6-months supply, in October.

In November of last year, inventories were high at 16.6m s.t, a 3.8-month supply. Current stocks are at their lowest level since November 1997 when inventories totaled 11.8m s.t.

Shipments of 3.9 m s.t in November are down 15 percent from 4.7 m s.t in October. They are also down 8 percent from November 2006 shipments of 4.3 m s.t.

### **Canadian inventories increase slightly in Nov**

Canadian service centres shipped 3,21,400 short tons (s.t) of steel in November, down 3 percent from 331,700 s.t in October. Shipments are flat over the same period last year, according to the Metals Service Center Institute's (MSCI) monthly report.

Month-end steel inventories totalled 1.13 m s.t, a 2 percent increase from October, but a 12 percent decrease from November 2006 supplies of 1.29 m s.t.

At current shipping rates, end of month inventories were sufficient for 3.5 months, up from 3.3 months in October, but down from four months in November 2006. ■