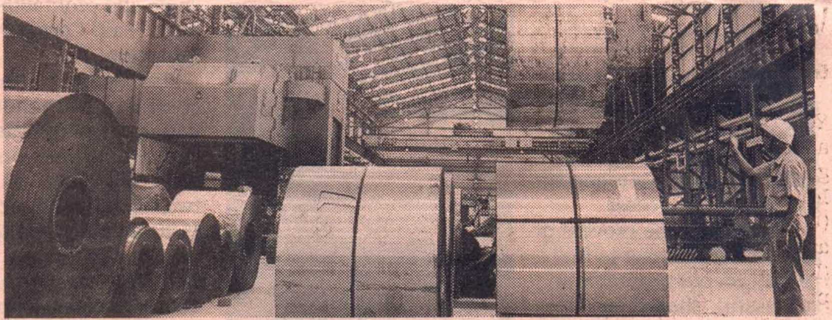
BUSINESS STANDARD
THURSDAY, JANUARY 11, 2018

Steel mills see room for more price hikes in February

DILIP KUMAR JHA
Mumbai, 10 January



After raising prices by five to six per cent in January, steel mills plan to do so by another ₹2,500-3,000 a tonne in February, to bridge the gap between domestically produced and landed cost of imported steel, beside other cost pressures.

Government-owned NMDC raised iron ore prices this month by 19-22 per cent, one of the steepest ever. This followed similar price hikes by private miners in Odisha due to suspension of production at five major mines in the state, by Supreme Court order. NMDC had also raised ore prices in December, by 10-13 per cent. In calendar year 2017, the country's largest iron ore miner has raised prices 48 per cent, to match those in international markets. This has prompted steel makers to pass it on to consumers. They raised product prices by up to ₹2,500 a tonne for January to maintain their profit margin.

"Recent increase in iron ore price by NMDC and Odisha's private miners are forcing steel companies to pass on increased cost of production. Increased cost of other raw materials like coal, refractory and electrodes is further fuelling this," said Sajjan Jindal, chairman of the JSW Group, in a twitter post.

In another tweet, he said, "With closure of mines, people are losing jobs and the government is losing royalty. Instead of stopping iron ore production in Odisha due to non-payment of compensation by lessees, a new solution should be worked out. The government must approach the Supreme Court, considering the iron ore shortage of an additional 20 million tonnes will lead to a disastrous situation, wherein small companies will be forced to shut operations."

Prices of other raw materials have also risen significantly in the past six months. After a rally in April 2017, prices of coking coal plunged towards end-May but then bounced back starting June. It is up 73 per cent to $269 a tonne at present in the Australian benchmark. Other raw materials such as refractory and graphite electrodes have seen similar price spikes in six months.

"Imported steel continues to remain costlier by ₹2,500-3,000 a tonne. There is a room for a steel price increase of this much to pass on the raw material price hike to consumers," said Jayant Acharya, director (commercial) at JSW Steel.

Companies with captive ore availability, Tata Steel and Steel Authority of India (SAIL), also face a margin squeeze due to increase in the prices of other raw materials they buy. Hence, they've also raised steel prices. Adds a senior SAIL official: "Raw material price increase is not the only factor we consider before revision in steel prices. We also see whether the market can absorb the price increase or not; currently, we see a possibility. The steel cycle has become so short today that we cannot forecast our action plan three weeks in advance. Sometimes, the steel price moves in the opposite direction of raw material prices. Therefore, we will take a price revision call as per the market situation at that point in time."

Credit Suisse says there's a strong possibility of further spike in global steel prices. "After some weakness in the first half of 2017, steel prices in all regions are up year-on-year. We still think further upside is possible. Steel prices remain low compared to the 2011 upcycle and, when taking into account inflation, also low relative to 2003-04. We are now nearly two years into the global steel market recovery since the trough of Q4 in 2015 and Q1 in 2016. Yet, fundamentals continue to be strong, steel making margins remain healthy and, if anything in 2018, we should see an acceleration in ex-China fundamentals. Equities, however ,continue to discount an imminent downturn in steelmakers' earnings that we do not think is likely in 2018," said Michael Shillaker, an analyst with Credit Suisse.

The foreign brokerage believes potential global supply constraints in iron ore, metallurgical coal and graphite electrodes could significantly tighten the market further. "Investor sentiment remains negative and valuations are generally attractive (for raw material companies). The stage is set for the global carbon steel market to improve considerably in 2018, with the outlook for the year ahead relative to investor expectations arguably as positive as at any time since 2003-04," it adds.