

# Global steel looks east

The coronavirus crisis has slashed global demand for steel and its major products. As the market watches for signs that Asian economies will bolster consumption, steel production and manufacturing are likely to continue shifting eastward. By Paul Bartholomew

Global manufacturing was in the doldrums for much of last year, pulled down by weak demand in key consumer-driven segments amid ongoing trade tensions and slower economic growth.

Countries such as Japan, South Korea and Germany that rely on exports found it tougher to sell to overseas customers, while the downturn in auto sales in the United States exemplified what was happening to the sector internationally. When the coronavirus outbreak hit in early 2020, it was akin to kicking manufacturing when it was already down.

While the full weight of COVID-19 hit the manufacturing sector in April, with many countries around the world in lockdown, China was already starting to get back on its feet.

Manufacturing activity in Japan, Europe and the US slumped to depths last seen during the global financial crisis of 2008-2009; Indian manufacturing fell to a

15-year low. In China, the manufacturing purchasing managers' index published by the National Bureau of Statistics softened slightly in April compared with March but indicated the sector was still growing.

Prices of hot-rolled coil, or HRC – the core steel product used in manufacturing – were already drifting down in major markets before COVID-19, due to tepid demand from the sector. S&P Global Platts

## Steel hot rolled coil prices in key markets



Source: S&P Global Platts

assessments show that between the start of 2019 and mid-June this year, US HRC prices fell by 30%, while European HRC prices slumped by 24%. China's domestic HRC prices rallied in May and are back at a similar level to the start of 2019.

In contrast to metals prices generally, prices of seaborne iron ore have been remarkably resilient, even during the worst months of the coronavirus outbreak, because Chinese crude steel production continued largely unabated. The Platts 62% Fe iron ore benchmark averaged \$88.7/metric ton CFR China over January-May, while Chinese mill margins for domestic HRC sales over this period averaged \$30/mt.

Manufacturing has been particularly vulnerable to the coronavirus outbreak. The sector relies on global supply chains and is therefore susceptible to disruptions. Port and transport links were impacted in many countries by measures to quell the coronavirus outbreak. Some Chinese steel mills were unable to take deliveries of iron ore in February because truck drivers had not returned to work. Factories could no longer deliver finished goods to their customers.

Japanese and South Korean automakers had to stop building cars when they were unable to source vital parts from their operations in southwest China during the lockdown there in February. South Korean automakers with facilities in China had to cut output because they were unable to import steel from their parent companies in South Korea.

New export orders for manufactured goods have virtually dried up due to logistical challenges and because there is simply no demand. With most people across the world sheltering indoors, appetite for new cars, fridges and washing machines has dropped dramatically.

Surveys indicate that consumer confidence will take a long time to return, even after lockdowns are eased. Further, while there will be pent-up demand for manufactured goods, many people have lost their jobs due to the virus and may not be able to afford those new cars and fridges.

Cars may become more popular as people avoid public transport. But the pressure on the manufacturing sector is likely to continue for much of this year. Even

## China, India, and emerging Southeast Asian countries such as Vietnam, Indonesia and the Philippines still have tremendous growth profiles that will drive demand for steel

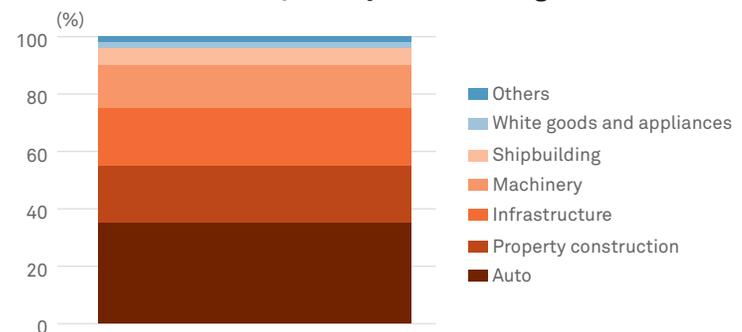
in China, most metals market participants do not envisage a real recovery until Q4.

The breakdown in supply chains and logistics has sparked debates about whether countries and companies should be more self-sufficient by repatriating manufacturing – or conversely whether they should diversify their supply bases to spread out the risk. Whatever is decided will not happen quickly.

The steel and metals sector is adept at dealing with trade actions such as antidumping duties and tariffs, and will have to remain so as countries look to protect their wounded economies. More antidumping measures are inevitable.

Weaker currencies have enabled countries such as Turkey and Russia to compete beyond their traditional export markets at times. Exports act as a release valve when domestic demand cannot absorb enough domestic production. Global steel trading is fluid and

### Chinese steel consumption by end-user segment



Source: S&P Global Platts, Worldsteel, analyst reports

flexible, and mills and traders are skillful at finding new markets when others are closed off. But it is getting tougher.

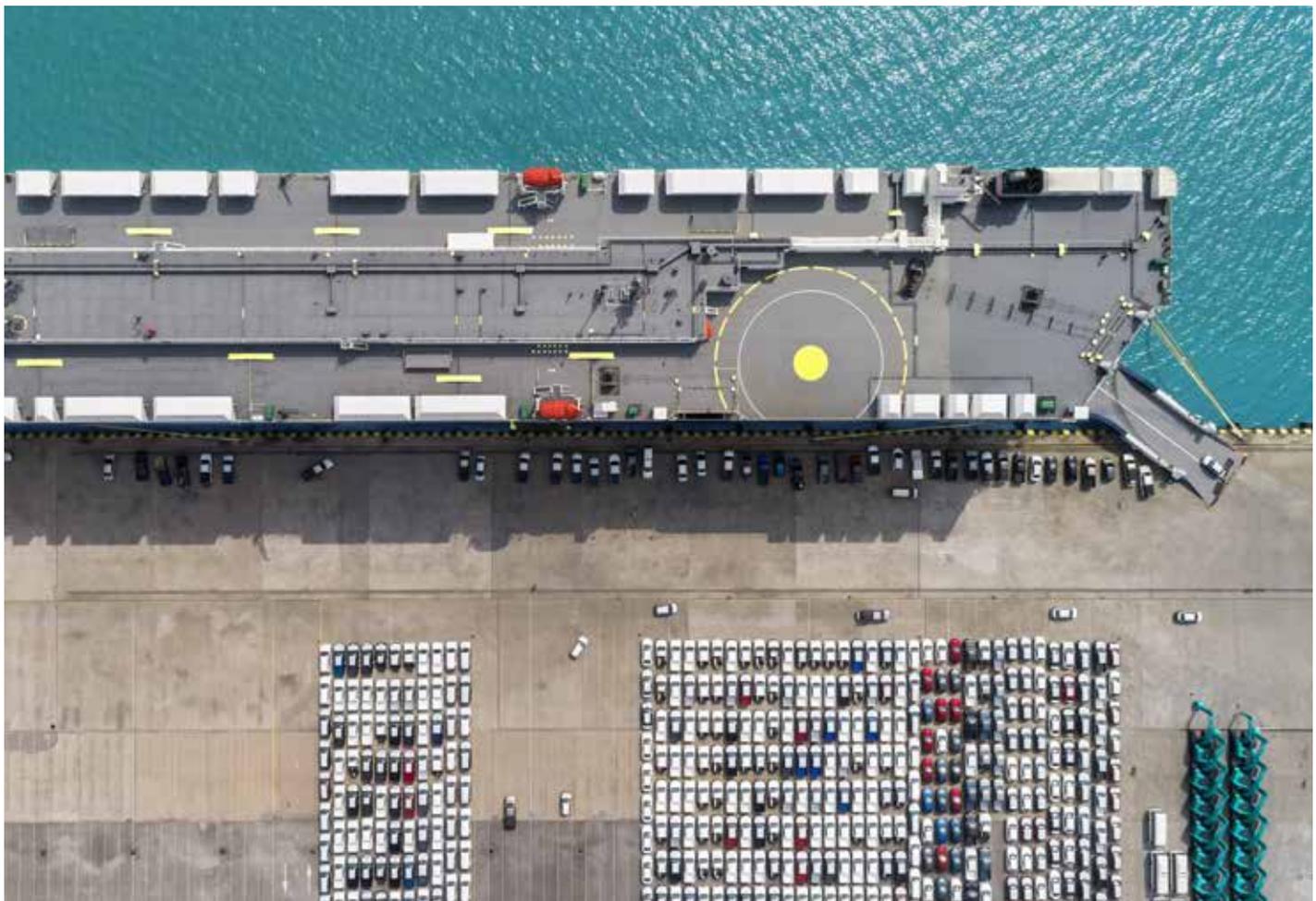
The challenge has been that global demand for steel has dropped off dramatically. Southeast Asia is routinely the “go-to” market when customers elsewhere do not want to buy steel. But lockdowns in the region have dampened demand, regardless of whether Indian, Turkish, Russian, Chinese or Japanese material is the cheapest.

Furthermore, the region is slowly becoming more self-sufficient in steel, and has big project plans on the table, so this market may be largely closed off to opportunist sellers in the future. Southeast Asian manufacturing is likely to receive a boost by companies relocating operations out of higher-cost – and perhaps given recent experiences, less reliable – China.

Due to its comparatively robust market, China found itself in the rare position of being a target for steel exports from countries including India, Japan, Russia and Turkey. Over January-May, China’s finished steel imports grew 12% on year to 5.464 million mt, while its exports were 14% lower at 25 million mt, China Customs data revealed. Most other countries are at least 2-3 months behind China in their management of the coronavirus outbreak and are unlikely to recover as strongly.

## Production cuts

The big question is what happens to global steel production if a sizeable chunk of demand – namely manufacturing – permanently disappears? Platts estimates that Japanese car makers will have used up to 15% less steel in the first half of 2020 than



they did in the same period last year. In 2019, Japan exported roughly a third of the 99.3 million mt of steel it produced, Platts estimates based on Japan Iron and Steel Federation data.

Supplying Japanese auto and appliance subsidiaries and manufacturing hubs in Southeast Asia and elsewhere this year has been challenging due to coronavirus-related lockdowns and transport restrictions. In response to falling demand at home and abroad, Nippon Steel and JFE Steel reduced blast furnace output from April, but they may need to cut production further.

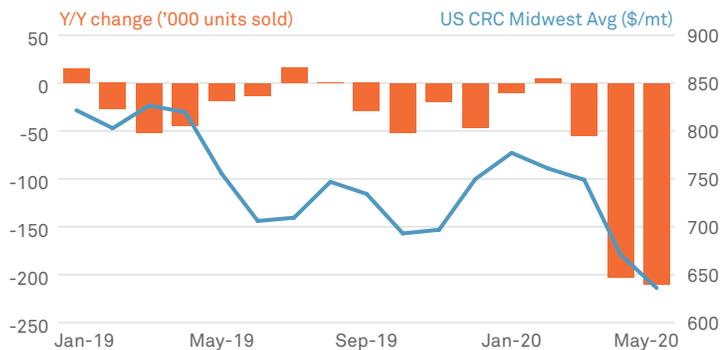
South Korea's car production in May was 37% lower than the year before, while its car exports sank by 58%. The country's car exports to the US in April fell by 28% on year, according to the Ministry of Trade, Industry and Energy. South Korean steelmaker POSCO produced 42.8 million mt in 2018 but is targeting just 4 million mt this year due to reduced demand from the auto sector and some maintenance work at its facilities, the company said in April.

US steel mills slashed production in line with the country's carmakers halting their output, and were operating at around 53% of capacity mid-May, compared with 80% in early March, American Iron and Steel Institute data showed. In Europe, steel production was cut by 50% as a result of new orders falling by as much as 75%, industry association Eurofer told Platts in late April.

Fortunately for them, steelmakers in India and China are less exposed to the auto sector, where it accounts for less than 10% of steel consumption. China's auto demand had already plateaued as most people that want a car already have one.

S&P Global's Indian subsidiary CRISIL had expected steel demand from India's car sector to grow by 6%-7% in coming years but that may be harder to achieve in light of the pandemic. The Indian government wants to grow manufacturing's share of the country's GDP to 25% by 2022 from around 16% currently.

### US auto industry posts slight recovery



Source: US Bureau of Economic Analysis, S&P Global Platts

The manufacturing share of GDP in China will drift down from around 40% as the country gradually becomes a consumption-driven economy and less reliant on exports.

China, India, and emerging Southeast Asian countries such as Vietnam, Indonesia and the Philippines still have tremendous growth profiles that will drive demand for steel from infrastructure developments and property construction for a long time to come.

For developed countries the picture is less rosy. With the exception of the US' much-mooted, but still no nearer, \$1 trillion infrastructure makeover, the growth potential from infrastructure and construction is far lower. High quality manufacturing steel will still find customers, but probably fewer of them. Unless markets are protected, it will become increasingly hard to make money from commodity grade products.

The coronavirus outbreak of 2020 has merely sped up a market dynamic that was already occurring. It seems likely that the steel production capacity transfer from developed to emerging economies will gather pace. Notwithstanding the anti-globalization debates raging in light of the coronavirus pandemic, manufacturing will continue to follow suit. ■