

# Covid 19 corollaries

September 21, 2020

## For steelmakers, exports save the blushes

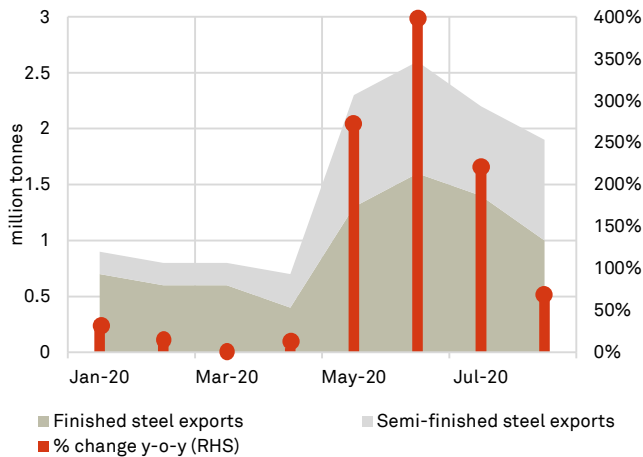
Weak domestic demand due to the Covid-19 pandemic and strict lockdowns in India, coupled with higher export demand – mainly to China – following global supply disruptions, has led Indian steel manufacturers to export huge volumes since April. As a result, India turned net exporter of steel to China for the first time in several years, with 69% of semi-finished steel and 28% of finished steel heading there between April and August.

Indeed, it was exports that saw large/ primary steel makers through the peak lockdown months, with 60-80% of their total production between April and August finding its way to various destinations, with China leading the pack (see chart below).

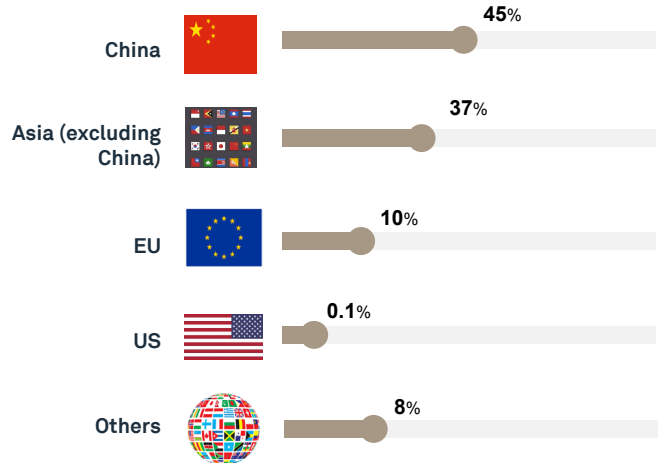
Consequently, crude steel production fell a lower 27% on-year despite a massive 38% fall in domestic demand (April-August). The fall in production was far less severe for export-oriented primary manufacturers (20% decline), compared with secondary steel makers (40%).

However, the jump in exports – by as much as 400% on-year in June – has come off peaks since then, owing to easing of domestic lockdowns and some revival in economic activity, reclaiming domestic demand for steel.

**Steel exports jumped amid weak domestic demand and higher imports from China**



**Share of total steel exports, April-August 2020**

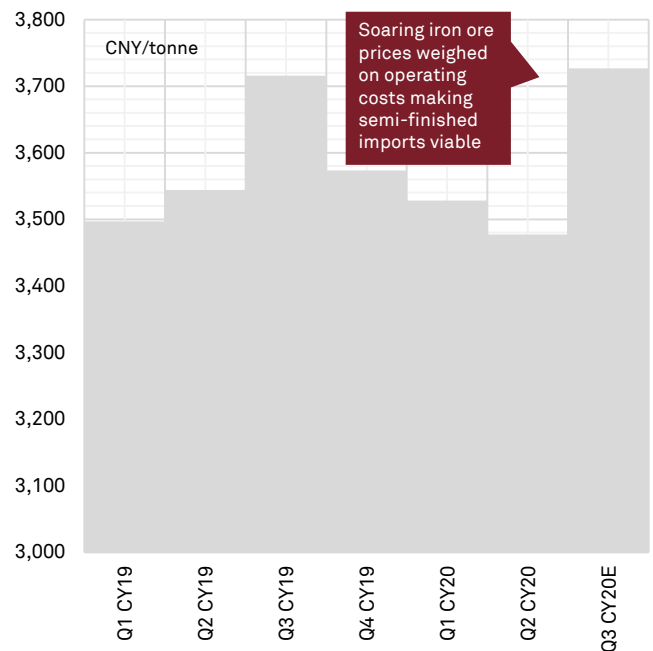
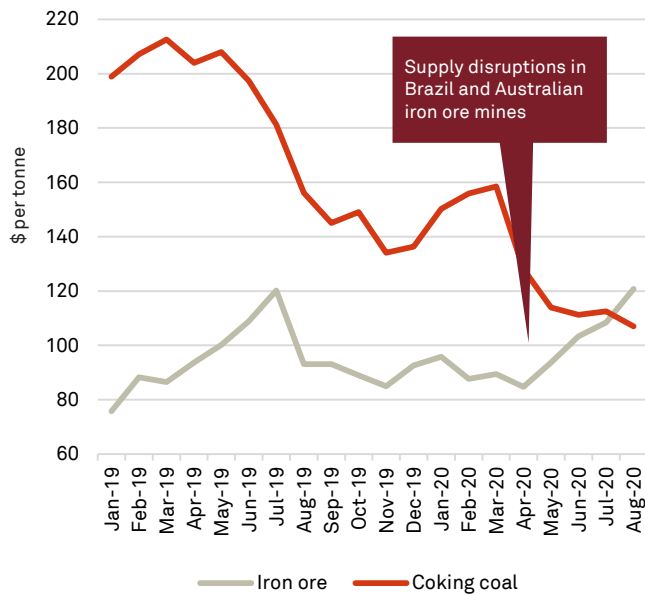


Source: Directorate General of Foreign Trade, Joint Plant Committee, CRISIL Research

For China, supply disruptions and elevated global iron ore prices led to higher steel imports in these months, given that it imports over 90% of its iron ore requirement. While global steel prices were on a slide from end-February till June, iron ore prices soared, led by supply side disruptions especially in Brazil and Australia. Iron ore prices zoomed past coking coal prices – another first in the past 25 quarters. This prompted port-based capacities in China to import semis and process them further in order to save on increased iron ore costs.

More than two-thirds of Indian semi-finished exports were to China in April-August.

**Global iron ore prices soar, driving billet exports to China, especially for port-based capacities**

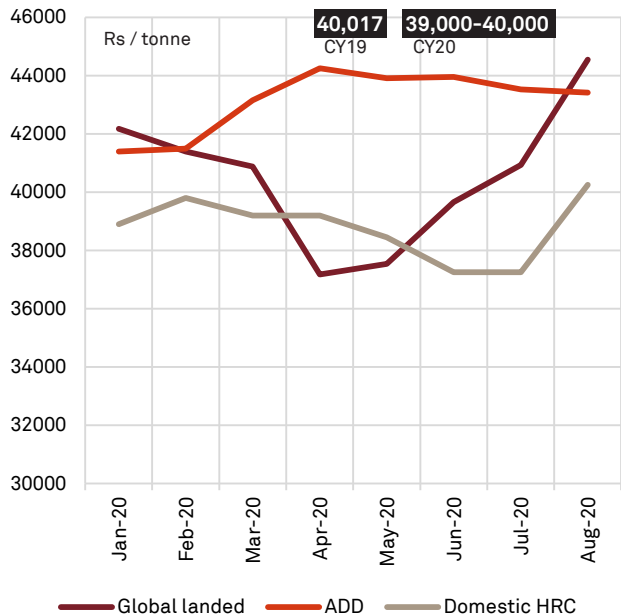
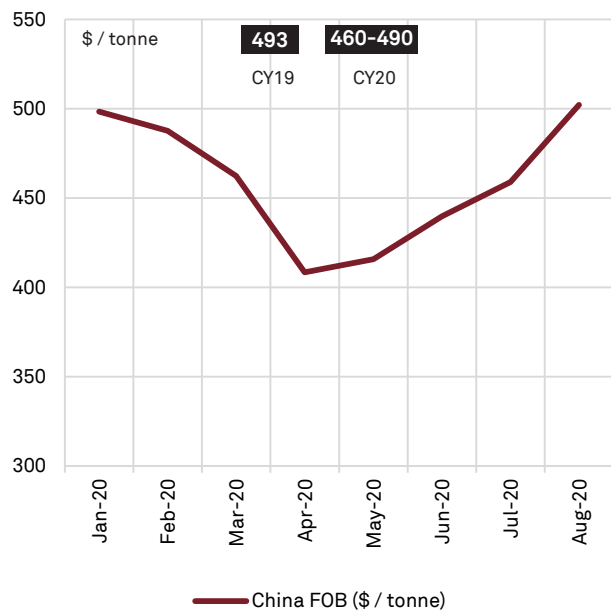


Note: CY – calendar year  
Source: CRISIL Research, industry

Notwithstanding soaring iron ore prices, global steel prices fell to a low of \$409 per tonne in April, the lowest since October 2016, given weak demand and limited export opportunities. But demand recovery in China, especially in the current quarter, aided a 9% on-month rise in steel prices in August to \$502 per tonne. CRISIL Research expects global steel prices to rise here to close at \$460-490 per tonne, or 3-5% lower on-year.

In India, though, the fall in domestic prices has been limited, owing to rupee depreciation (which impacts global landed prices). August also saw domestic prices climb back 8% on-month on account of a mild recovery in domestic demand. Thus, while global steel prices will witness a 3-5% drop on-year in calendar 2020, domestic prices are expected to decline only 1-2%, also given that anti-dumping duties are in place.

**Domestic steel prices recover, to decline only 1-2% on-year despite hit to demand**



Note: FOB – free on board, ADD – anti-dumping duty, HRC – hot-rolled coil  
Source: CRISIL Research, industry