

Investor caution despite signs of recovery in ArcelorMittal and Evraz Highveld, writes Charlotte Mathews

Global steel demand and prices predicted to rise

TWO separate steel industry reports are forecasting that global steel demand and prices will accelerate over the next three years, spurring early signs of recovery in the share prices of SA's two listed steel producers, ArcelorMittal SA and Evraz Highveld Steel.

But investors, who have seen too many false dawns in the past

five years, remain cautious. Mittal's shares have gained 45% in the past five months to about R35 from May's lows of just under R24.

But the price is only a fraction of June 2008's high of R260.

Evraz, at R17.30, is 37% above its January low of R12.60, but in 2008 it hit a peak of R188. In April, Russian majority shareholder Evraz said it had received

an offer for its 85% stake from a black empowerment consortium at the equivalent of R35 a share (depending on the exchange rate). This week it said talks were still under way, and it expected the transaction would be concluded by the end of the year.

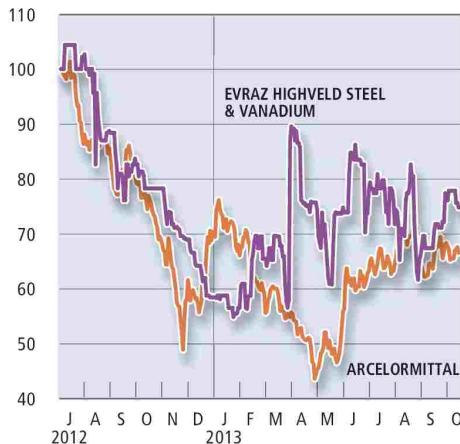
This potentially puts a cap on the price as other shareholders could expect to receive an offer at the same level.

Last week, the World Steel Association said in its latest "short range outlook" that global apparent steel use, which rose only 2% last year, will increase 3.1% to 1.48-billion tonnes this year and 3.3% to 1.52-billion tonnes next year.

Apparent steel use is deliveries of steel to the

STEEL PRICES READY TO RECOIL?

ARCELORMITTAL AND EVRAZ HIGHVELD STEEL & VANADIUM
Base = 100



STEEL PRICE
Daily (\$/ton)



Graphic: RUBY-GAY MARTIN Source: I-NET BRIDGE

market from producers and imports, and does not take into account drawdown from inventories. The association's forecasts assume that the US will resolve its fiscal constraints and the improvement in European Union (EU) economies will continue for the rest of this year.

While steel demand from the emerging markets is weak, China has proven the exception, where offtake is expected to grow 6% this year, as a result of government stimulus measures focus-

ing on infrastructure. The association predicts steel demand in developed economies will return to positive growth next year, although the pickup in the EU is likely to remain weak. Chinese demand will grow more slowly next year than this year and emerging economies will continue to grapple with structural issues, political instability and volatile financial markets.

In a separate report, international analysts MEPS said global steel prices would rise each year

until 2016, from this year's low point. But it said there were still problems to overcome. MEPS said iron-ore costs could fall in the medium term, which would limit steel price increases, but steel mills were likely to try push for price increases as demand improved, to try recover profitability. "MEPS, therefore, envisages an upturn in average annual steel transaction values through to 2016," it said.

RBC Capital Markets analyst Tim Huff said in a note on the

global ArcelorMittal group last week, that there was potential for steel price weakness in the fourth quarter of next year as more idled steel capacity would come back on stream in Europe and the US Federal Reserve was expected to start tapering off its quantitative easing programme.

In a note on Mittal after its investor day on May 31, JP Morgan analysts Alex Comer and Avinash Kalkapersad said management went to great lengths to assure investors that an operational and earnings recovery was imminent, but Mr Comer and Mr Kalkapersad were cautious about purchasing the stock at that point.

Underlying steel demand in SA remained weak, and Mittal faced strong competition from imports. They said it would be a long recovery and the company had other risks, such as carbon taxes, the Sishen supply agreement and Competition Commission enquiries.

In a note on Evraz in July, Imara SP Reid analyst Steve Meintjes said at a price of R17.30, the share was not far above net asset value so the downside was limited, and it could be worth a speculative buy up to R21. Evraz is geared towards improving steel prices, which could happen next year, Mr Meintjes said.

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