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STEEL MARKET

Moving Up

Steel prices tick up on weak rand, global firming

TERENCE CREAMER | EDITOR

Steel group ArcelorMittal South Africa (Mittal), which slumped to a R518-million headline loss in 2012, has confirmed that it has already raised prices twice in 2013 to compensate for a weakening rand and higher international steel prices.

Chief marketing officer **Sunil Kumar** reports that long steel product prices were hiked by about R450/t in January, while flat steel prices were increased by around R150/t.

From February 1, long and flat prices were increased by an average of around R200/t.

Kumar says the January increases were implemented primarily as a result of a weakening in the rand exchange rate, while the February increases related to changes in the international steel price environment.

Mittal no longer uses a basket of domestic selling prices in six markets to set its prices, having abandoned that model once it was unable to secure domestic iron-ore from Kumba Iron Ore on a cost-plus-3% basis.

The terms of that supply agreement, which dates to the 2001 unbundling of Iscor into separate steel and iron-ore producers, will be the subject of an upcoming arbitration process.

Government has been calling for a 'developmental' steel price, whereby downstream consumers of South African-made steel share the benefits of competitively priced iron-ore.

It is opposed to a formula that sets prices on the basis of import-parity pricing.

Kumar acknowledges that its prices are currently about 5% above import-parity levels, but stresses that calculation is sensitive to exchange rate fluctuations and is currently premised on an exchange rate of R8.70 to the US dollar.

The group has not offered visibility on the price path for the remainder of the year, but CEO **Nonkululeko Nyembezi-Heita** has indicated that the group is likely to recover to a break-even position in the first quarter, owing to a modest rise in international steel prices and domestic demand.

"Sales volumes are expected to be higher amid restocking in the market and increased production volumes," she says.

The group says stock levels have fallen to around six weeks of consumption, which is well below historical levels of between eight and ten weeks.

It expects that inventory levels will be rebuilt to around the eight-week level over the short term.

Mittal is less certain about the outlook for fundamental demand, noting that, during 2012, key steel-consuming sectors, particularly the building and construction sector, which accounts for the largest share of steel consumption, remains weak.

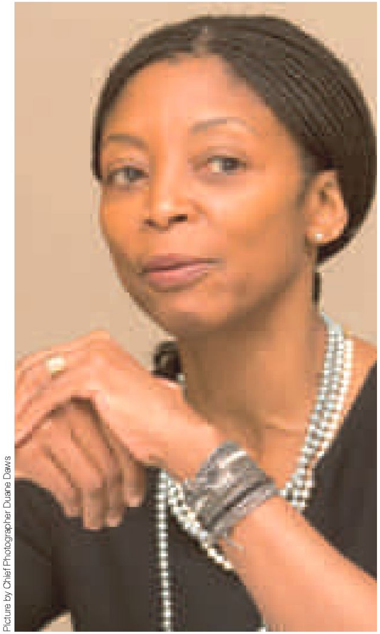
However, Nyembezi-Heita says there are some "weak" signals of a possible recovery during 2013.

The group has already reduced its yearly nameplate capacity to 6.5-million tons from 8-million tons and has no immediate intention to restart capacity that has been idled.

Instead, it has set an aspiration to raise capacity utilisation on the lowered base to 80%.

In 2012, the group's liquid steel production was down 7% to 5.1-million, translating into a capacity utilisation of 66%.

In this context, Nyembezi-Heita found statements that government is aiming to facilitate the introduction of new steelmaking capacity "curious".



Picture by Chief Photographer Duane Daws

NONKULULEKO NYEMBEZI-HEITA
Restocking likely to drive demand in first half, no visibility yet on fundamental recovery