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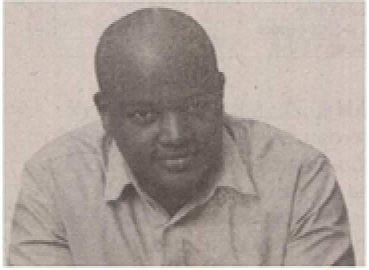
State has a chance to make up for its Iscor mistake



Ron **Derby** In the **MARKETS**

ANGLO's sale of Scaw Metals has given the government what it so desires, a stake in the South African steel industry, and a chance to do what it believes the private sector has so abysmally failed to do: provide cheap steel.

Reducing the cost of doing business in SA and boosting the country's infrastructure came across as one of the stronger aims in President Jacob Zuma's state of the nation address this year.

The unfolding e-tolls saga aside, inroads have been made with regard to February's promises, such as the lowering of Eskom's tariff increase.

The entry into the steel sector through Scaw is the government's second stab at lowering the cost of steel, the first being, ironically, letting go of Iscor. Its privatisation may well have created a more efficient steel industry (depending on who you speak to) and a dominant player in the form of ArcelorMittal SA, but it certainly has not provided the country with cheap steel. The government has since expressed its regret over the sale of Iscor.

Anglo's sale of its interest in Scaw to the state-owned Industrial Development Corporation and a group of Anglo's partners, gives the state a stake in the sector.

Until now, the government has been on the sidelines stamping its feet as it demands a developmental pricing model; and acting as referee in the continuing supply dispute between ArcelorMittal SA and Kumba Iron Ore.

It has been well over a decade since the state has played any meaningful role in the sector. It is going to be very interesting to see just how it will manage to compete against a big fish in the water, ArcelorMittal SA — admittedly a struggling one — which has about 70% of the local market. Apart from competing against the Lakshmi Mittal-owned steel maker, it will have to deal with imports.

What will Scaw's mandate be? Will it be expected to run on business principles with a profit motive like South African Airways — whether SAA manages to do so or not is a topic for another discussion — or will its mandate be a bit more vague, along the lines of that followed by Eskom?

Only time will tell, and I am sure the rules that will guide Scaw will change with the seasons.

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THERE is an oversupply situation, albeit moderate, that may help ease the pressure on the global economy, and it is in oil.

As it stands, the market is well supplied and what was probably the biggest risk to a sharp spike above the $150 mark, the Iranian nuclear crisis, is easing as talks seem to be progressing well with the US and United Nations.

Tension over Iran placed a nearly $15 premium on the price of oil, but as talks progressed, about $8 of that premium was lost.

Cooling prices further has been the re-emergence of the European sovereign debt crisis in global news headlines, damping the demand outlook. China's slowdown remains another cautionary tale. Since reaching its high for the year last month, crude for June settlement has fallen more than 5%. Unfortunately, the rand has weakened more than 3% against the dollar, eroding some of the immediate benefits we may have seen.

The weakness in oil prices can be seen in Sasol's shares, which have fallen more than 11% since reaching its high for the year in January. Its stock price closely follows oil's rise and fall.

But if the rand steadies over the coming weeks, South Africans may see some relief at petrol pumps. After yet another petrol price hike this month, the Department of Energy has decided to probe the higher prices.

A weaker oil price trend, which traders are expecting to see through the course of the year — minus any outside factors — could help bring inflation within the Reserve Bank's targeted range of 3%-6%. SA's inflation has been driven largely by higher fuel and food costs.

The current outlook for oil, and the decline in both soft and hard commodity prices such as copper and platinum may reduce pressure on the Reserve Bank to tinker with interest rates.

Expectations are of tightening at the end of the year or the first quarter of next.

We have already seen inflation easing off somewhat, with the number coming in at 6% last month.

Easing inflationary pressures further can only avoid putting the Reserve Bank in the precarious position of having to either ignore high inflation for the benefit of boosting the economy, or dealing with higher prices by tightening.

The latter comes at the risk of pushing a still sluggish South African economy into a deeper hole.

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