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Steel market rebound anticipated in 2013

A report published by The Wall Street Journal in August 2012 pointed out that signs of a turnaround in the property market and increased infrastructure investment in China could offer a glimmer of hope that the steel market is headed for a recovery, even as market participants suggest the foundering sector may struggle to rebound until 2013 at the earliest.

AltX-listed steel manufacturer and distributor BSi Steel's Chief Executive Officer Grant Mackenzie projects a rebound in the demand for steel in 2013 as new projects come on line.

"Steel prices continue to fall after a lengthy period of weakness during which the price has dropped below the cost of production for many steel producers. In South Africa, steel manufacturers have experienced a difficult past two years, with the country's steel output falling by 12.7% year on year to 6.7-million tonnes in 2011, this according to the World Steel Association figures," explains Grant.

He adds that reasons for the weak steel market include furnace failures, plant upgrades and the questionable nature of South African steel production and consumption figures, which have not been released since July 2008.

"BSi Steel's tonnages have definitely increased, but profitability has been under pressure due to the depressed

construction and manufacturing sectors. What's more, steel mills are not making money and increased activity, especially in the roads, housing, hydro-power, oil and gas, and rail network across the entire Sub-Saharan region in Africa is shifting interest of major construction groups into the region. The South African government infrastructure spend has not materialised to any degree and the lead-up to the ANC Mangaung Conference has also been a factor in causing stasis in the industry. The negative sentiment has impacted on BSi Steel significantly. A smaller steel market has been the result, causing pressure on margins," he adds.

South Africa needs to ensure that it is not de-industrialising itself in favour of cheaper imports from China and the rest of Asia, Grant stresses. "This would be very bad for the steel industry in general. Rising input costs and a depressed consumer are the primary reasons; however this may be mitigated by a recent weakening of the Rand.

"A strong Rand is a concern for the steel industry as it drives imports of cheaper steel products and restricts export growth. Once the Mangaung Conference ~~crisis~~ is behind us, we anticipate a rebound in demand as projects come on line. Hopefully strong political leadership gives the country direction and improves confidence and general sentiment and we can reverse the perception of de-industrialisation," he adds.

A report released by steel manufacturing giant ArcelorMittal cites that Sub-Saharan Africa's growth rates bode well for the steel demand into the future (exports for South Africa), with consumption levels expected to continue due to a rise in infrastructure development.

The report predicts that steel market opportunities will be wide-spread across Sub-Saharan Africa as most countries are expected to register positive growth rates of above 5% into 2015. What's more, the South African government's capital expenditure plans of spending R809-billion in the next three years, as well as a predicted increase in fixed investment in the manufacturing and mining sectors over the medium term following new capital expenditure announcements, should support steel demand in the near future.

Looking ahead to 2013, Grant says that by positioning itself into a 300 000 ton per annum business, BSI Steel is now ready to capitalise on its diversified product offering and expanded geographic footprint in South Africa and the rest of Africa. "Growth in the top line will be more measured, with the focus now switching to the bottom line as we harness the efficiencies that come from scale and enjoy better returns on our various investments across the continent," he says in conclusion.

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