CRITICAL STRATEGIC METALS

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Your monthly guide to the latest information on the world's strategic metals

India Profits from Downturn in World Steel Production

Welded carbon steel pipes await installation. *Photo courtesy of Vietnam Business News*

The EU crisis and global recessionary trends have dampened steel production. With lowered prices and falling demand, steel producers are looking to cut costs by shutting down unprofitable plants. According to

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researcher World Steel Dynamics, prices for hot rolled steel have fallen by 12% since February 2012 and a further drop in price is expected. Capacity utilization is also down to 76% from 80% . To keep prices stable in the current global environment, steel production needs to slow down. Germany's ThyssenKrupp AG is trying to sell its loss-making sheet-metal plant in Alabama, while Arcelor-Mittal has closed a Belgian plant and is idling some of its other plants.

Steel production had grown to a record1.5 billion metric tons last year on the back of projections of a strong demand for steel. Since then the EU crisis has killed Europe's public infrastructure and construction projects and even China's growth story has slowed down. However, steel imports into the U.S rose by 18.8% during the first quarter of 2012 due to demand from its recovering automobile and manufacturing industries.

The Chinese steel industry has been hit by overproduction, impacting margins due to a huge surplus. Falling demand is also seeing iron ore piling up in China's ports, and fresh imports are being rejected due to lack of storage space. It has been reported that 41.2% of Chinese firms reported losses during Q1 of 2012 representing a 23-fold decline from last year . According to China Iron and Steel Association the growth in demand for steel fell to 8% in 2011 and is expected to fall by another 4% this year. Chinese steel companies' woes were further compounded by China's policy measures to rein in its domestic property market, which is a major steel consumer.

Declining Chinese demand for iron ore and falling prices could not have come at a better time for Indian steel producers who are facing a huge shortage of iron ore due to a ban on illegal mining in key iron ore mining regions in India . With the current gap between domestic and international iron ore prices, Indian companies are capitalizing on the advantage with iron ore imports.
The WSA (World Steel Association) indicated that India's demand for steel is set to grow by 6.9% in 2012 and reach levels of 9.4% in 2013 owing to rapid urbanization and growing infrastructure investment. In fact at 6.9%, India's demand for steel is twice the global growth . The Rio Tinto group is advancing its study of an Indian iron ore mine to take advantage of India's growing demand for steel.

With a downturn in Europe and China, Russian steel major Evraz, is eyeing opportunities in North America. The company plans to invest around 6 billion dollars over the next four years to gear up to meet the growing demand for pipelines and railway lines in North America . Evraz has projected a growth of 4% per year through 2016 in the North American steel market.

In a protectionist measure the U.S. International Trade Commission voted to continue imposing anti-dumping duties on steel pipe and tube imports from Brazil, India, Korea, Mexico, Taiwan, Thailand and Turkey. Meanwhile China has decided to stop investigating an anti-dumping probe against Russian steel.

China has been very selective in allowing foreign direct investment in its domestic steel companies. Most recently, Arcelor-Mittal was prevented from becoming a majority stakeholder in China's Hunan Valin Steel . South Korean Posco and Nippon Steel of Japan made better progress in acquiring stakes in Chinese companies as they focused on major value added steel areas. This is in line with Chinese policy to encourage joint ventures in areas where China can gain access to cutting edge and high-end technologies.

Russia's entry to the World Trade Organization this year is being viewed with a mixture of wariness and anticipation. While some countries are jostling to get ahead in exporting goods and services into Russia, others are wary of Russian steel exports playing havoc with international pricing and negatively impacting European steel producers.

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Russia & Brazil's Strategic Alliance Continues

Brazilian President Dilma Rousseff & Russian President Vladimir Putin

Russia and Brazil, both major commodity nations, make a strategic pair with Russia ranking among the world's top producers in the energy and metals sectors while Brazil is a strong exporter of agricultural products, cars, machinery and iron ore. Trade between the two countries grew five-fold in the period from 2002-2008. In 2010 Brazil and Russia entered into an agreement to boost trade between their countries and enter into strategic partnerships in the areas of energy, infrastructure and space exploration.

More significantly, in advance of global credit possibly drying up, the two countries along with the other BRICS nations of China, India and South Africa, are firming up agreements to trade in their own currencies instead of the U.S. dollar.

Since the fall of the Soviet Union, Russia has transitioned from a globally isolated economy to a more global market oriented economy. With the decks cleared for Russia's entry to the World Trade Organization the country will open up to products and services from countries all around the world. With the exception of the energy and defense related sectors most of Russia's industries were privatized in the 1990's. However, the private sector is still subject to strong interference by the state. Since much of the country's economy is based on commodity exports, it is subject to the wild swings of global commodity prices. Russia was hard hit by the 2008-09 global oil crisis and the Russian government spent billions of dollars of international reserves to slow down the run on the ruble. Since 2011, high oil prices brought the country's economy back on an even keel.

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However, 2012's falling oil prices have caused another run on the ruble. Russia's over dependence on oil makes it very vulnerable to crude market shocks.

Russia belongs to the G8, G20 as well as BRICS. It has all the aspects of a developed economy as well as many aspects of a developing economy. With its as yet untapped, vast and significant mineral resources, and technological advancements Russia has the ability to become a global powerhouse. Russia is the world's largest miner of diamonds accounting for 25% of global production. It also has large reserves of gold and silver and accounts for a significant percentage of global production. In 2011, Russia became the world's leading oil producer. It is the second largest producer of natural gas and the third-largest producer of steel and aluminum. It has the world's largest natural gas reserves, second largest coal reserves and the eighth largest oil reserves.

The Russian mining sector is unable to attract the kind of investments that it needs because of the country's bureaucracy and restrictive laws for foreign investment and mining permits, especially in mineral categories deemed as critical or strategic by the Russian government.

Brazil is one of South America's most influential countries and one of the world's largest democracies. Similar to Russia, in Brazil also the state plays a very strong role in critical strategic sectors like energy, oil and banking. Since 2003, the country has steadily improved its overall macroeconomic stability. In 2008 global recession did not spare Brazil as the country's commodity based exports were hit by falling global demand and lowered spending. With a series of government initiatives, in 2010 the country was one of the first emerging markets to post a recovery. High interest rates make Brazil a haven for foreign investors, and this has resulted in huge capital inflows that have contributed to the appreciation of the Brazilian real. When currency appreciation started hurting Brazilian manufacturers the government stepped in to contain the foreign exchange markets by imposing higher taxes on some of the foreign funds. The Brazilian government's considerable influence in every facet of the country's economy is visible in the slew of stimulus projects that it has set in motion to blunt the current slowdown.

Brazil is rich in Iron Ore, Tin, Pyrochlore (from which ferroniobium is extracted), Bauxite, Manganese, Tantalum, Gold, Gemstones and China clay. Most of this mineral wealth has only been partially exploited to date. Brazilian company Vale is the world's second largest mining company and the world's largest iron ore producer with 65% of its revenues coming from iron ore exports. The company has emerged as a global player with stakes in mines all over the world. Brazilian iron ore exports account for 78% of the country's mining exports powered mainly by Chinese demand for steel. Brazil is the world's second largest producer of manganese after South Africa. Though Vale accounts for 95% of Brazil's manganese ore production, manganese accounts for only 2.2% of the company's overall business.

Gold has become Brazil's second important mineral export after iron ore. With 4.5% of the world's gold reserves, the country has become the world's 13th largest gold producer accounting for 2.5% of global gold production. Brazil has the fifth largest global Bauxite reserves and accounts for 14% of the world's bauxite production. It is also home to a fifth of the world's tin reserves, 3% of world's zinc reserves, 6.6% of the world's nickel reserves, 2% of the world's copper reserves and 7% of global uranium reserves. Brazil has 90% of the world's known niobium resources and dominates world niobium production. Despite its considerable phosphate and potassium reserves Brazil still depends on fertilizer imports for its agricultural industries.

Though Brazil is home to significant and abundant mineral resources, and has drawn in huge investments, lack of infrastructure and access to advanced technology is seen as a major stumbling block to achieve full scale development.