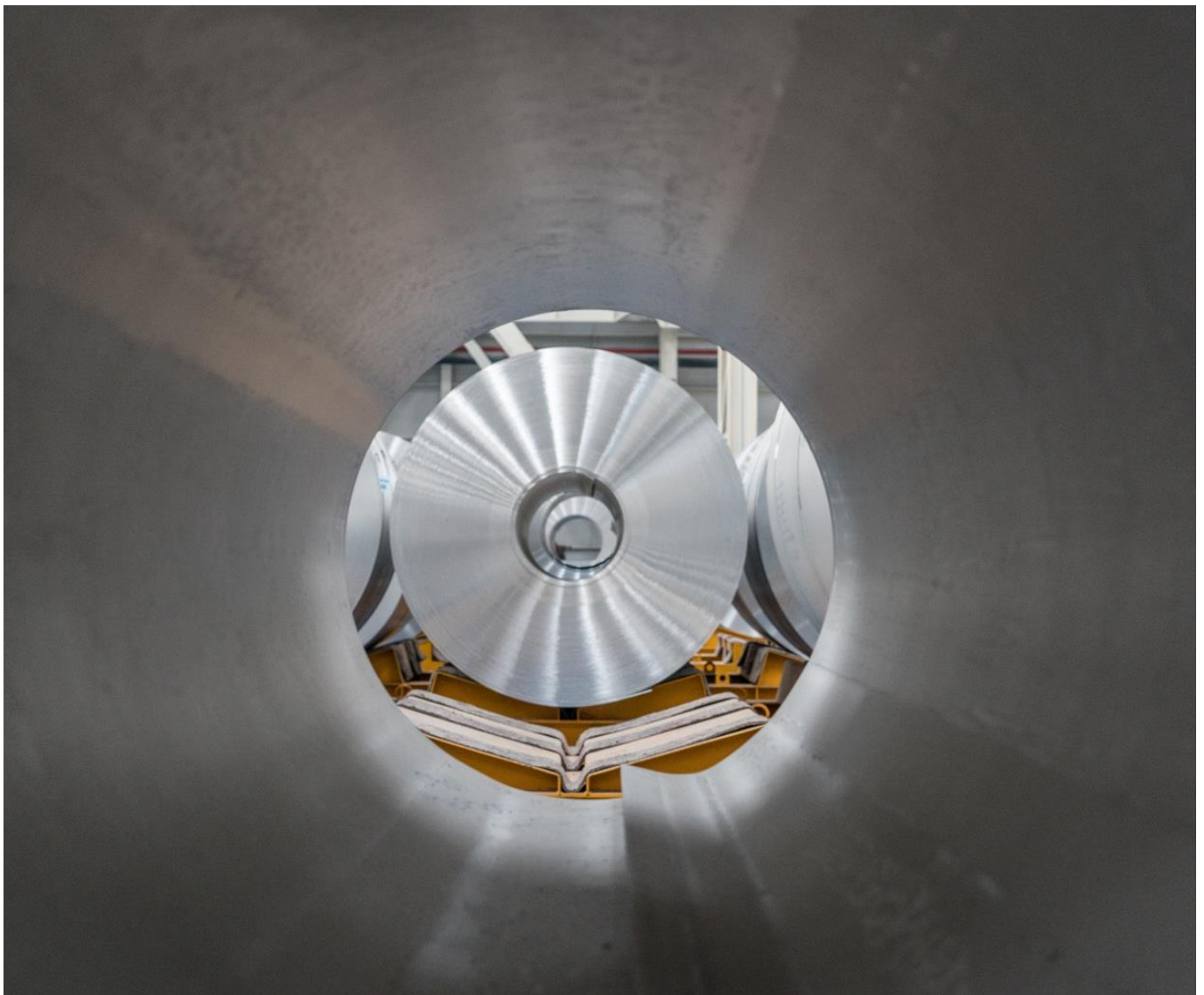


Steel exports riding on rich realisations

After a 29% gallop last fiscal, steel exports should head higher in the first half of this fiscal given higher realisations and new capacities coming on stream

April, 2021



Prices pierce past a 12-year high

After a brief cooling phase in February this year, global steel prices continued to rally and touched \$830 per tonne in the last week of March, the highest in the past 12 years.

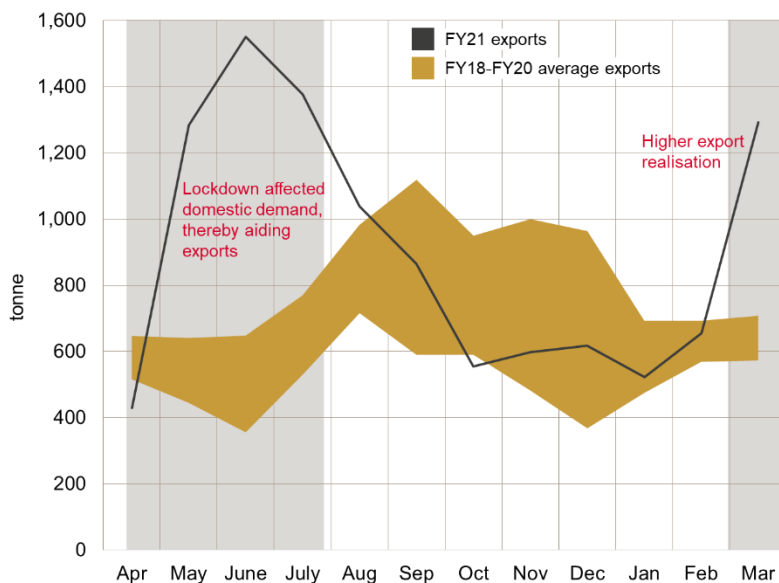
Healthy demand in China, low-base effect of the January-March 2020 quarter, and small steps towards de-carbonisation that's impacting supply lifted global steel prices to \$690 per tonne on average in the last quarter of fiscal 2021, compared with \$483 per tonne in the same period a year before. Iron ore supply hiccups at mines in Brazil and Australia also lent lift.

However, in January-March 2021, domestic steel prices rose slower than global prices, which widened the spread between landed global prices and domestic prices to 19% in March from 2% in October. This drove exports up 126% on-year in March to 1,290 kilo tonne (KT), compared with a monthly average of 650-750 KT in recent times. While exports of finished steel in the first quarter of fiscal 2021 were driven by lacklustre domestic demand, the surge in the last quarter was led by higher export realisation.

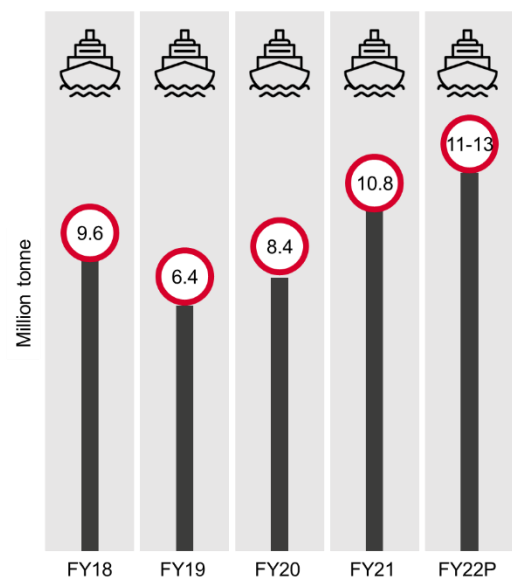
Overall in fiscal 2021, exports increased 29%. The momentum is expected to continue and push finished steel exports another **12-16%** higher this fiscal, helped also by three factors:

- Expectation that global steel prices will remain elevated, especially in the first quarter of this fiscal, before cooling sequentially
- Widening spreads between export and domestic realisations
- Expectation that incremental supply will exceed incremental demand with the commissioning of 6 million tonne of new supply

Indian finished steel exports surge in March



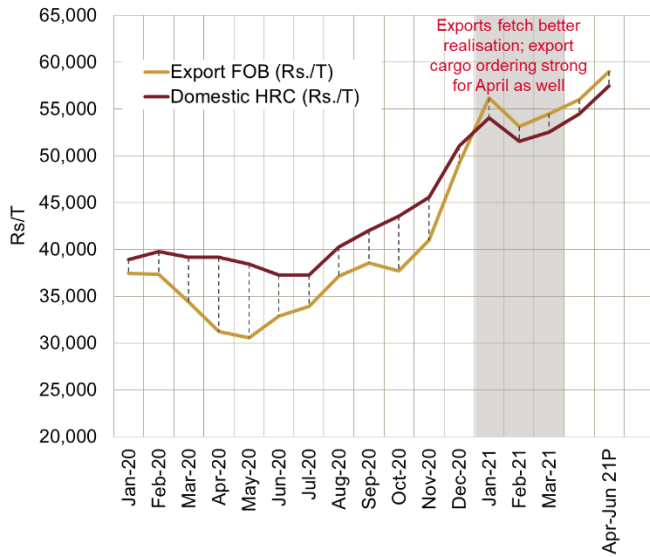
Export volume to rise to 11-13 MT this fiscal



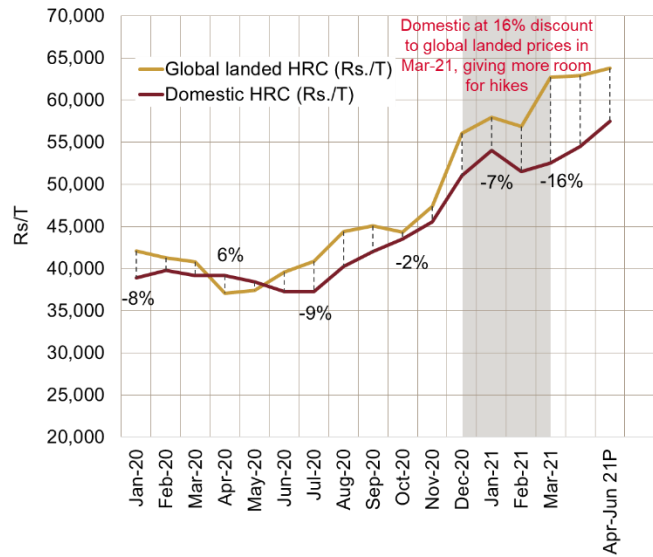
Source: JPC, CRISIL Research, Industry

Interestingly, there were variations in the geography mix of exports last fiscal. In the first half, China accounted for ~30% of finished steel exports. In the third quarter, however, that number plunged to a mere 8% with January and February seeing negligible exports. In contrast, the share of the European Union surged from 13% of exports in the first quarter of last fiscal to over 39% in January-February.

Exports fetch higher realisation in March 2021; momentum to sustain through the first quarter of fiscal 2022



Spread between domestic and landed steel prices widens



Note: % above indicates global landed and domestic price differential. For instance, -2% indicates domestic prices were at a 2% discount to global landed prices in October 2020

Source: Industry, CRISIL Research

Domestic prices are expected to remain elevated through the first quarter of the current fiscal, with average price hikes of **Rs 5,000 per tonne** likely sequentially.

But from the second quarter, both global and domestic prices would cool sequentially. For the current fiscal, they are expected to increase **13-15%** on-year.

Supply-tightening reforms in China and the second wave of Covid-19 are the key monitorables.

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