

# METALS & MINING

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# CRU meet takeaways: Outlook for steel and aluminium

- India demand outlook healthy for steel and aluminium; although aluminium demand less likely to be impacted by election
- While global iron ore price easing on readjusting China outlook; coking coal price to ease through CY24 on supply recovery
- Flat steel producers need to access exports to maintain market balance, aluminium producers cost competitiveness set to improve

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**India steel demand growth healthy:** CRU and industry participants concurred that healthy steel demand growth past CY24 will be driven by the Indian government's investment-led growth strategy. While CRU sees CY24 as a tale of two halves with the slowdown in H1 offset by a pickup in H2, industry is more hopeful of resilience in the absence of signs of a funding crunch for infrastructure projects.

India flats steel need to export: With ~30mt of flats supply addition over CY23-CY26, CRU highlights the need for industry to access export markets till supply is fully absorbed by CY28. It expects risk to margins if exports recovery is slower.

**Iron ore domestic market to remain tight in CY24:** Demand from ramp up of new steel expansions, continuing China demand for lower-grade iron ore at least in CY24, and lag in ramp up of medium- and higher-grade ore to support tight market.

**Coking coal price to ease over CY24:** CRU expects met coal prices to ease to US\$ 250/t by mid CY24 and to US\$ 200/t by end of CY24 with the supply recovery.

Long runway to domestic aluminium demand: Aluminium demand could continue its double-digit growth trend for several years, benefitting from structural trends like electrical transmission, solar power, electric vehicles, defense manufacturing.

**Aluminium less exposed to election than steel:** Given lower exposure to construction than steel, we believe there is a good possibility that domestic aluminium holds up better than steel demand in CY24 – an election year.

**Aluminium cost competitiveness to improve:** With Indian majors focusing on increasing self-sufficiency of key inputs, such as coal, alumina and bauxite, the cost of production for Indian aluminium industry is set to improve.

**Our Ferrous sector view:** We expect Indian steel sector margins to stay at midcycle level over the next two years. While we expect global steel demand to stabilise gradually, we believe supply pressure from a likely surplus in China will keep a lid on margins.





We attended the annual CRU India Commodities Briefing on 13 Mar 2024, in which producers, end-use consumers, industry associations and consultants participated. We highlight key takeaways for steel and aluminium chain outlook below.

# Steel outlook

# India steel poised for growth after CY24

### Healthy growth after CY24 seems current consensus view

CRU as well as industry participants concurred that healthy steel demand growth beyond CY24 would be driven by the Indian government's investment-led growth strategy. CRU highlighted that flat steel demand growth was supported by foreign direct investment (FDI) in manufacturing.

Alok Sahay, Secretary General of the Indian Steel Association, shared that Indian industry is looking for a reasonable 8% growth on average in CY24 and CY25 after clocking 9.6% in CY23 from the construction segment and resilient growth outlook across other segments.

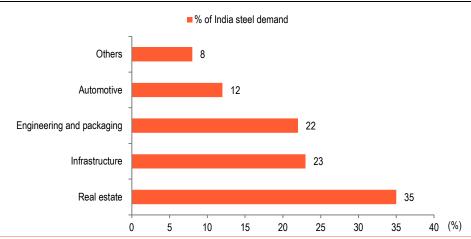
Fig 1 - Steel demand growth from end-use segments

(%)	CY23	CY24	CY25
Construction	9.6	8.0	8.0
Consumer durables	NA	7.0	6.0
Capital goods	8.4	5.5	4.5
Intermediate goods	9.6	6.0	6.5
Automotive sector	10.4	7.0	8.0
Railways	19.4	8.0	8.0

Source: Indian Steel Association, BOBCAPS Research

Separately, CRU indicated the following end-use breakdown of steel demand in India.

Fig 2 - India steel demand breakdown



Source: CRU, BOBCAPS Research



# Industry is watchful of near-term election jitters

While CRU sees the possibility of a slowdown in H1, industry participants are more hopeful of demand resilience.

- CY24 a tale of two halves for CRU: While CRU flags a slowdown in infrastructure spend in H1CY24 due to election, it highlights a sharp rebound in H2CY24 after the election.
- Industry participants more hopeful of resilient CY24: While industry participants are watchful of a potential slowdown due to the election, they are not yet seeing clear signs. In the past, funding slowdown ahead of election was the main driver of demand slowdown. This year funding seems resilient for approved projects. While the slowdown in approval of new projects is a possibility, there is a strong possibility this could be offset by renewed vigour to implement infrastructure projects post-election.

### Key risks to demand growth

While industry sees China's imports as a key downside risk for Indian industry to miss the benefit of domestic demand growth, an uptick in private capex in FY25 post election is a potential upside risk.

# India steel market turning surplus?

#### Flats steel producers may need to access export option in near term

With capacity expansions, a domestic surplus is likely to emerge in the near term for flats steel producers, rather than for longs, and they may have to participate more in export markets till capacity is absorbed domestically by CY28. In the case of slower export recovery, this could potentially result in the build-up of domestic inventories leading to compressed margins. CRU highlighted the following expansion plans for the Indian steel industry:

- crude steel capacity addition of 35mt over CY23-CY28;
- flat products capacity addition of 21mt over CY24-26 on top of the 8.5mt delivered over the past two years;
- long products capacity addition of 4mt.

### India not likely to need 300mt capacity by FY31

While India's Ministry of Steel has set a target of 300mt of steel capacity by FY31, CRU and industry participants do not yet see similar ramp up in demand growth to underpin the need for such a capacity expansion. CRU is currently forecasting domestic steel demand of 170m-180mt by CY30 and see the need for around 240mt capacity to support the same.



### Global steel drivers

#### Chinese steel exports could back down in CY24

The increase in Chinese exports in CY23 was not only driven by domestic weakness but also supported by a gap in the global market with a drop in exports from Russia/ Ukraine following the start of the war and one-off drop in exports from Turkey in Feb'23. CRU highlights that several countries have initiated discussions on trade protection measures for CY24. Further, Chinese policy is not supportive of exports of semi-finished products, and the Chinese currency strengthening in CY24 (as the US lowers interest rates) could lower the export competitiveness of Chinese players.

# Domestic iron ore market to remain tight in CY24

**Tight domestic market in CY24E:** Given the increase in domestic iron ore demand with the ramp-up of crude steel expansions, continuing demand from China for cheaper lower-grade fines in CY24 amid weak steel industry margin in China, the Indian iron ore market is likely to remain tight in CY24E, according to CRU.

**Medium-term supply growth to lag demand:** As Indian steel production ramps up over the medium term, and iron ore supply growth for medium and higher grades lag steel production growth, these would result in tighter demand supply balance for richer grades.

**Beneficiation plants will be needed in the longer term:** Indian integrated mills will have to start utilising current beneficiation capacity and invest in beneficiation projects over time as they have a large low-grade resource base left out as companies have been prioritising mining of high-grade base so far.

Global iron ore prices correct: Global seaborne iron ore prices have corrected sharply with early signs or fears of steel production cut amid concerns on slower pickup in domestic demand in China. Earlier BHP highlighted in its commodity outlook that it saw US\$90-100/t as a floor. (Read-across from BHP Commodity Outlook)

# Coking coal price will ease with supply recovery

**Met coal prices to ease over CY24...:** CRU expects met coal prices to ease to US\$ 250/t by mid CY24 and to US\$ 200/t by the end of CY24.

... as supply increase comes through over CY24-CY26: CRU expects supply to ramp back to CY19 levels in CY24. The increase will now be driven by restarting idle projects (<5mt), the ramp up of committed projects in Australia (~10mt) and incentivised projects outside Australia (~20mt).

# Pellets manufacturers explained their case for no export duty

**Exports of pellets do not compete with iron ore for integrated steel.** Pellets are manufactured out of waste fines which cannot be directly utilised by Indian integrated steel manufacturers.



Merchant pellet plant needs flexibility of markets. Keeping in view cyclicality of a typical commodity industry, pellet manufacturers need flexibility of markets to make reasonable returns through the cycle. Currently the Indian pellet industry has a capacity of around 137mt. This includes 70mt of capacity with integrated steel manufacturers, 50mt with merchant plants and the balance with sponge iron manufacturers. Merchant plants need flexibility to move across markets to work against cyclicality in the industry.

# Decarbonisation: India's steel industry exposed to transition

India's steel industry has high decarbonisation transition risk. Indian steel mills are at the upper end of the global emissions curve. This is in significant contrast to its position on the traditional cost curve where carbon cost is not factored in. With the levy of carbon taxes under the European CBAM, India's cost competitiveness rank for HRC supply to the EU will drop sharply to 17 (2034) from 5 (2023).

India's steel production cost to increase after CY30. India's steel production cost will also start rising as India starts adopting green technology. India will have to continue to depend on ore-based metallics (OBM) as the domestic scrap generation rate is still likely to be relatively lower given the stage of economic development. The usage of green OBM and green electricity will increase the cost of steel production.

**Green steel not available today.** Unlike aluminium, very little steel qualifies today as green steel in the absence of usage of renewables for steel making. While steel produced through the electric arc furnace (EAF) route have a lower carbon intensity than the blast furnace-basic oxygen furnace (BF-BOF) route, it still does not meet criteria for green steel. Steel making will need to develop additional pathways to lower carbon intensity.

# **Aluminium outlook**

# Long runway to domestic demand

**Domestic aluminium demand more resilient than steel in CY24.** Given lower exposure to construction than steel, we believe that there is a good possibility that domestic aluminium holds up better than steel demand in CY24 which is an election year.

Long runway to aluminium demand. Aluminium demand could continue its double-digit growth trend for several years, benefitting from several structural trends, according to Anurag Sharma, Joint President, Hindalco. Currently aluminium demand growth is supported by use in electricals (as it has substituted copper in the transmission segment). In the medium term, acceleration of development of solar generation and electrical vehicles should underpin demand. Over the longer term, India's investment in domestic defense manufacturing opens up additional avenues for continued demand growth.

**India undergoing structural shift.** Indian industry is focusing on growing semis production in response to increasing demand for value-added products. Strong growth in the transportation sector is boosting demand for semis and rolled products. At this point, around 350kt of new semis capacity is under construction with casting, cold



rolling and can recycling accounting for nearly two-thirds of the new capacity. Despite these investments, India is still going to be a net importer of flat rolled products (FRP).

**Key risks to domestic demand growth.** Continuous investment in downstream aluminum capacity is key to driving demand growth dynamics in the domestic aluminum industry. However, cheaper import inflow remains a key concern for domestic players.

# Aluminium cost competitiveness to improve in India

With Indian majors focusing on increasing self-sufficiency of key inputs – coal, alumina and bauxite, cost of production for the Indian aluminium industry is set to improve from here on.

- Thermal coal: This is going to be the key driver in improving competitiveness of Indian aluminium players. As Indian majors operationalise and ramp up coal mines to become self sufficient in thermal coal, the cost of production is likely to reduce significantly.
- Alumina: While the Indian industry as a whole is surplus in alumina, Vedanta
  (VEDL), one of the largest manufacturers in India, has been importing alumina with
  its structural short position. With its 5mtpa Lanjigarh expansion, VEDL is likely to
  achieve self sufficiency over the next couple of years as per company plan.
- Bauxite: While the aluminium industry has been investing in the expansion of domestic bauxite assets, CRU believes Indian industry as a whole is likely to be a net importer over the medium term.

### Decarbonisation: Renewable electricity key to transition

**Green aluminium production is c20%.** Unlike steel, green aluminium (defined as CO2 intensity below 3.9tCO2/t of aluminium) accounts for 20% of current aluminium production. This is produced using renewable energy source, ie, mainly hydroelectricity in several regions such as Norway, Cananda, Yunnan in China, and Malaysia.

**Key transition requirement is use of renewable electricity.** Green aluminium can be produced with existing technologies by replacing thermal electricity by a renewable energy source. However, it is not easy. Besides availability, the intermittent nature of renewable electricity, like solar and wind, poses additional challenges for a very stable grid.

Consumer willingness to pay green premium varies. According to a survey carried out by CRU, the Transport and Packaging industries are more willing to pay green premiums among end-use industries. Construction, electrical, machinery and equipment end-use industries are not supportive of green premium. Other segments such as aluminium foil stock and consumer durables are neutral.



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