

Stainless Steel Prices- Review for 2013 and Outlook for 2014

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Foreword

The stainless steel prices in the global market continued to be stagnant in the previous 3 quarters of 2013, during which time the slow global economic recovery caused withdrawal of U.S. quantitative easing to delay and the European debt crisis influenced the growth of emerging markets. In addition, the unexpected cooling down of Chinese economic performance also dragged down the demand for products in home appliances, automobiles, railways, and construction sectors using stainless steel. However, the global production of crude steel continued to increase, directly resulting in the severe imbalance between the supply and demand in the stainless steel industry. In 2013 the price of cold-rolled stainless steel wavered between US\$2,400-3,100. It is expected, with the imbalanced supply and demand influenced by the slowdown of the global economy and the decline of the nickel price, the price of stainless steel will remain at a low level in 2014.

The Stainless Steel Industry in 2013 and 2014

1. In the first half of 2013, the markets recessed excluding China and Eastern Europe

According to data of International Stainless Steel Forum (ISSF), the global production of stainless steel in the first half of 2013 increased by 4.6% over the past corresponding period to 18.6 million tons. However, the production in different areas differed dramatically between the lowest 15% drop to the highest 15% growth. The stainless steel production of Asia (excluding China), which represented 70% of the global market, dropped by 3.7% in the first half of 2013 to 4.3 million tons over the past corresponding period; India showed an increase in the production while Japan, S. Korea, and Taiwan all showed a decline; China climbed 15.1% to 8.8 million tons; In Western Europe and Africa the production dropped by 4% to 4.1 million tons; Americas fell 1.9% to 1.2 million tons; East Europe increased by 12.4% to 207 thousand tons. In Q2, the production and growth rates around the world (excluding Eastern Europe)

all showed a decline. Asia declined by 3.9% (China grew only 0.2%) while Americas dropped by 2.7% and a 5.6% decline for Western Europe and Africa. Nevertheless, the total production in Q2 in the global market was 9.2 million tons, still the best level ever in history.

2. International Nickel Price Less Likely to Surge Substantially in 2014

The economic recession in the global market, as well as the adoption of Rotary Kiln and Electric Furnace Process (RKEF) by Chinese manufacturers to produce ferronickel, both further deteriorating the overcapacity of ferronickel, prevented the nickel price from increasing. Some Chinese manufacturers, on the other hand, used nickel laterites to refine stainless steel and produced steel billets with the costs of 20%-30% less than those for refining pure nickel, diminishing the demand for pure nickel and resulting in the increase of nickel inventory of London Metal Exchange (LME). As the nickel price continued to drop, the average nickel price during Jan. through Nov. 2013 was only USD15,262 per ton (which decreased USD2,400 per ton to USD17,673 per ton during the corresponding months of 2012). Consequently, the international nickel price may not show any increase in a short time and the average nickel price for 2014 is expected to reach about USD15,000 per ton.

3. Currency Exchange to Influence Metal Prices

The current debt crisis in the euro zone has not yet been effectively dealt with. In a mid to long term, the continuous drop in the exchange rate of euro to US dollar shows an obvious trend of negative correlation between the metal prices and US dollars. Dollars will remain upward fluctuation and will certainly cause pressure to the metal prices. If the main driving force of increase comes from the improvement of US economy, the original negative impact on the prices will be offset by the positive impact of economic growth, thus reducing pressure on the prices. However, as economic recovery in the US, Europe, and Japan was slow, the easing money policy promoted by Bank of Japan will push dollars to appreciate due to the demand for risk avoidance. Effects brought by those negative factors will impose more pressure on the metal market, preventing the metal prices from increasing substantially.

4. Unclear Outlook for the Global Economy

ISSF once warned that the imbalanced supply and demand will cut down the profit gains of the stainless steel industry. Moreover, it may result in international trade disputes when the supply is larger than the demand. Steel & Metals Market Research (SMR) considered that the global demand for stainless steel would increase by 3% in 2013, mainly driven by the growth in emerging countries, especially in China. SMR expects that in 2014 the global demand for stainless steel will increase by 4%, mainly benefited by the assumed growth in Europe for 2% and China for 7%. However, the uncertainty still remains after The 3rd Assembly of Central Commission of Chinese Communist Party was held.

Conclusion

Based on the reasons aforesaid, in 2014 the stainless steel market is not expected to demonstrate substantial increase. Only when the nickel price shows substantial fluctuation is the inventory of suppliers likely to result in a loss within 1 year, so the purchase of materials has to be carefully considered. ■