

Steel price

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Rising steel prices spook inflationary fears

After a slight dip in February 2021 domestic steel prices recovered in March 2021 and are expected to remain elevated over the coming months on the back of higher international steel and iron ore prices. It is anticipated that HRC prices are expected to go up by at least Rs 3,500-4,000 per tonne in April 2021. A Rs 4,000 per tonne hike will take domestic HRC prices to Rs 59,000-60,000 per tonne, which would be the highest level seen since 2008. Steel prices in the world are at an all-time unprecedented high due to steep increase in the prices of iron ore as well as due to the strong growth in steel demand from China, India, USA, Europe and other emerging markets as global markets recover from a year-long slowdown with the reopening of business activities and vaccination drive.

However, while this upward cycle in steel prices brings relief to the domestic steel companies who were grappling with low demand and stagnant prices, it has spooked the end-user sectors who are worried about steep increase in their raw material cost. Besides, Increase in steel prices also raises fear of inflation rising in the domestic markets as raw material cost for many sectors goes up which will have a cascading effect on consumers.

Table 1: Steel price trend since April 2020

	Domestic HRC	World HRC(FOB)
April 2020	Rs 37,433/tonne	USD 391/tonne
March 2021	Rs 55,000/tonne	USD 810/tonne

Note: prices are average of month, source: Steelbenchmarker, CARE Ratings

Among the worst-hit sectors are automobiles and infrastructure sector. The construction and real estate sector accounts for almost 55-60% of total steel consumption followed by auto sector which accounts for nine percent and capital goods and consumer durables with a share of 8% and 6%, respectively.

Most of the top auto manufacturers are expected to take a second price hike in the range of 1-3% in April 2021 after already having taken 3-4% hike this year, to offset impact of higher steel cost. The Ministry of highways and construction has said that higher input cost can affect viability of some construction projects.

With an increase in overall manufacturing costs there has been a pick-up in wholesale inflation in the economy. The overall WPI inflation in February 2021 rose by 4.7% compared with 2.03% in January 2021 and 2.3% in the corresponding month of the previous year. The metals group with a weight of 9.6% in the index, has witnessed WPI inflation of around 13% in February 2021 (over February 2020) and 14.5% in January (over January 2020). Among the basic metals sub-groups, flat steel products which includes products such as HRC and CRC, mainly used in auto sector has seen the sharpest rise. WPI for flat steel rose 21.6% yoy in February 2021 compared with a 4.8% fall in February 2020. WPI for long steel products such as TMT bars and rods and rebars which are mainly used in the construction sector witnessed growth of 18.3% in February. Inflation in semi-finished steel products rose by 10.2%.

Table 1: WPI inflation for Basic Metals

Month	Total	Inputs into steel making	Metall ic iron	Mild steel - Semi finished steel	Mild steel - Long products	Mild steel - Flat products	Alloy steel other than Stainless steel-shapes	Stainle ss steel - semi finished	Pipes & tubes	Manufact ure of non-ferrous metals incl. precious metals	Castin gs	Forgin gs of steel
Weight	9.7	1.4	0.7	1.3	1.1	1.1	0.1	0.9	0.2	1.7	0.9	0.3
Jan-20	-3.3	-6.0	-6.7	-1.6	-4.2	-7.5	-7.0	-2.0	-0.7	-2.5	1.3	7.0
Feb-20	-3.6	-4.2	-3.4	-2.2	-3.9	-4.8	-9.1	-7.4	-0.9	-4.1	-0.8	4.0
Mar-20	-4.6	-4.4	-5.6	-2.3	-3.2	-7.5	-9.6	-7.0	-2.4	-4.5	-6.1	5.0
Apr-20	-3.2	6.5	-3.8	-1.7	-3.5	-9.4	-8.1	-7.2	-1.4	-4.7	-5.5	3.4
May-20	-5.8	-7.3	-12.0	-2.7	-3.5	-7.3	-7.1	-9.8	-2.5	-5.0	-4.1	1.7
Jun-20	-4.5	-7.6	-10.8	-1.9	-3.3	-6.3	-4.8	-4.7	-6.8	-1.7	-5.2	2.8
Jul-20	-2.9	-4.4	-8.0	0.0	-3.1	-5.4	-3.1	2.1	-2.9	0.1	-7.6	-1.0
Aug-20	1.8	5.4	4.0	4.4	0.3	0.8	3.3	4.5	0.6	2.3	-6.3	-0.9
Sep-20	3.6	9.8	6.6	4.1	2.8	4.9	3.1	4.9	-1.3	3.7	-4.9	-4.2
Oct-20	5.3	10.7	8.9	3.5	5.3	11.9	3.8	7.4	-1.4	4.8	-4.1	-3.4
Nov-20	7.8	12.9	11.6	7.3	10.7	15.7	8.2	6.9	2.4	6.4	-2.8	-4.0
Dec-20	11.8	20.3	17.5	10.1	15.4	19.4	14.1	9.3	2.6	11.3	-3.7	-2.1
Jan-21	14.5	20.0	18.7	10.7	18.7	26.5	17.9	18.9	4.3	11.1	-1.4	0.3
Feb-21	13.0	16.4	13.6	10.2	18.3	21.6	18.4	11.3	6.6	13.9	0.8	-0.3

Concluding remarks:

- Higher international steel and iron ore prices along with strong demand from China, USA, Europe is driving international steel prices higher.
- Correspondingly, domestic steel makers have also effected several price hikes since H2FY21. Higher steel prices have increased input costs for many end-user industries such as automobiles, construction, machineries and consumer durables among others.
- This has also contributed to increased inflation in the economy on account of considerable rise in inflation in manufacturing segment. The overall WPI inflation in February 2021 rose by 4.7% compared with 2.03% in January 2021 and 2.3% in the corresponding month of the previous year. The inflation in basic metals segment which has a weight of 9.6% in index, rose by a sharp 13%.
- Steel prices are expected to remain at elevated levels in 2021 fuelled by higher demand which will have an impact on the core inflation as well and keep core WPI inflation at elevated levels.
- Global steel prices have remained higher than domestic prices on landed price parity basis which is keeping imports in check.

Contact:

Madan Sabnavis
Rashmi Rawat
Mradul Mishra

Chief Economist
Deputy Manager
(Media Contact)

madan.sabnavis@careratings.com
rashmi.rawat@careratings.com
mradul.mishra@careratings.com

+91-22-6837 4433
+91-22-6837 4405
+91-22-6754 3573

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Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel.: +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

