

Stainless

'Feel-good' factor missing from stainless market

Following what was described in Monte-Carlo as 'a year like never before' in 2007, the stainless steel market has entered somewhat calmer waters this year. However, world production in 2008 may yet fall short of some earlier expectations as mills in key countries struggle to find markets for their products. As a result, producers are adopting a more cautious approach to scrap purchasing.



Russian stainless steel exports have declined from 286 000 tonnes in 2006 to nearer 200 000 tonnes last year.

Global stainless steel production is on course for a significant improvement in 2008 but distinct 'signs of caution' have crept into the market, according to Michael Wright of ELG Haniel Metals Ltd, Chairman of the BIR Stainless Steel & Special Alloys Committee.

He said in Monte-Carlo: 'The scrap buying activities of the major European consumers remained stable in the first five months of 2008, but it became obvious that producers did not wish to build up high raw material stocks.' And he later added: 'Stockists are working from hand to mouth and are reluctant to hold high inventories in view of the uncertain nickel prices and exploding chrome and iron prices.' It was 'too early to call' whether the recent fall in nickel

prices 'will act as a catalyst for them to decide to increase inventory levels', he told delegates.

Following a 6% decline to 350 000 tonnes last year, Mr Wright expected UK stainless steel production to jump 13% this year to 'almost 400 000 tonnes'. From the global perspective, the latest Stainless Steel & Special Alloys World Mirror from BIR predicted that production would leap anything between 8% and 15% from 27.9 million tonnes in 2007 to between 30 and 32 million tonnes in 2008.

Swing into over-supply

However, guest speaker Markus Moll, who is Senior Market Analyst at Austria-based Steel & Metals Market Research, anticipated an increase of 'only 4%' this year to keep production below 29 million tonnes. Whereas 2007 had brought a 'brutal' draw-down of stocks, the pendulum had swung into over-supply during the second quarter of 2008. 'There is no feel-good factor in the market,' he told delegates.

Production growth in Europe and the USA was likely to be no better than 'moderate' this year at below 3% while China was not expected to achieve its familiar double-digit annual output increase because producers were encountering ever greater difficulty in finding markets for their end products.

As regards consumption of stainless steel, Mr Moll noted that six of the world's 10 largest markets were now located in Asia. Chinese consumption was expected to soar from just over 7

million tonnes last year to more than 10.5 million tonnes by the year 2012. During the same period, demand from India would overtake that of the USA and Japan in leaping from around 1.8 million tonnes to approaching 3 million tonnes per annum. At the same time, Turkey would be among the top 12 stainless steel consumers in 2012 as a result of 'growth far over the average of the world market'.

Renaissance for 304 stainless

Mr Moll also announced the 'renaissance' of 304 stainless steel owing to the shrinking cost advantage of alternatives. While nickel prices had been on a downward curve, manganese and chromium had been moving strongly in the opposite direction. Looking ahead to the year 2020, he expected 304 to remain 'the workhorse' of the industry with the 300 series accounting for more than 25 million tonnes of an annual stainless steel production tally of 45 million tonnes. Mr Moll predicted that North America's stainless consumption would fall 6-7% this year. In his



Ildar Neverov of Russia-based Scrap Market (left) and guest speaker Markus Moll, Senior Market Analyst at Austria-based Steel & Metals Market Research.



Stainless steel scrap availability in South Africa has been adversely affected this year.

own summary of the US market, Barry Hunter of Hunter Alloys LLC noted that domestic mills were continuing to enjoy 'good business' but were 'watching inventories very closely as they are able to purchase their scrap needs on a monthly basis now without too much concern for availability and excessive competition'. Mr Hunter questioned the validity of the official US Commerce Department stainless steel scrap export figure for 2007 of more than 880 000 tonnes. He believed the actual figure was likely to be somewhat lower but still 'very significant' at around 750 000 tonnes. 'Approximately 85% of the material reportedly exported from the USA in 2007 was destined for Asian markets, basically leaving 15% for European exports,' he said.

According to the same official figures, Taiwan had overtaken China as the leading Asian consumer of US stainless scrap exports, commanding approximately 42% of the total compared to 25% for China. In order of volume, the balance was made up by India, Japan, South Korea and Hong Kong.

In physical scrap terms, the almost complete disappearance of Chinese buyers represented 'perhaps the most significant change in the marketplace,' said Mr Hunter. But he added: 'As we get further into the year, the general lack of scrap, the continued impact of chrome and iron, and the eventual need for material in China may well rekindle international competition for stainless steel scrap.'

Not good news

In a report covering both the Asian and South African markets, Mark Sellier of Oryx Stainless noted that Chinese production of stainless steel had been 12% lower in the first quarter of 2008 when compared to the final three months of last year, but 30% higher when set against first-quarter 2007. He noted that some Asian manufacturers were expected to implement production cuts of up to 20% beginning in the third quarter of this year, adding: 'As we can consider roughly half of this to be made from input of scrap, the news is not particularly good for us.'

Meanwhile, energy shortages were the major factor in a 17% drop in South Africa's stainless steel production in January-March 2008 when compared to the corresponding period of last year. 'Scrap availability in the region has also been adversely affected,' Mr Sellier pointed out.

Expansion in Russia

While the Russian stainless steel scrap market remained 'export-oriented,' volumes shipped overseas had declined from 286 000 tonnes in 2006 to nearer 200 000 tonnes last year, according to Ildar Neverov of Scrap Market Ltd. He attributed the drop largely to 'tolling procedures that became

very unpopular after fiscal investigations provided by the state authorities last year'. Mr Neverov also pointed out that stainless steel production in Russia was expected to increase 'greatly' in the coming years thanks to significant expansion projects by a number of industrial groups.

According to the special alloys report from Stuart Freilich of Universal Metal Corporation in the USA, which was presented in his absence by Mr Hunter, demand for titanium had suffered as a result of 'production schedule push-outs' by Boeing, Airbus and the military worldwide. The need for large volumes of titanium for these programmes 'will probably not recover until some time in late 2009 or 2010,' he stated.

Meanwhile, orders for ferro-titanium and for scrap high-temperature alloys had remained strong for the most part. 'Scrap demand for cobalt alloys has been more sporadic,' noted Mr Freilich, 'as vacuum melters and their customers have been reluctant to stock any cobalt alloys beyond their current orders.'

Radiation concern

Mr Wright, who has agreed to continue as Chairman of BIR's Stainless Steel & Special Alloys Committee for a further two years, went on to propose the organisation of a meeting on radiation detection. Products from the 1970s and 1980s containing radioactive elements such as caesium and americium were now becoming obsolete and were duly creating 'a serious problem for our industry,' he maintained.

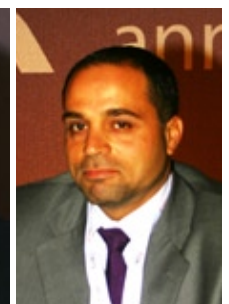
Scrap processors did not put these products on to the market and yet had been 'too willing to accept responsibility' for handling them in their end-of-life phase. 'Why should we be the policemen?' Mr Wright asked delegates in Monte-Carlo. 'It is not a case of "if" a serious accident happens, but "when".' □



Chairman of BIR's Stainless Steel & Special Alloys Committee Michael Wright of ELG Haniel Metals in the UK.



Barry Hunter of Hunter Alloys LLC gave a summary of the US market.



Ahmad Sharif of Sharif Metals, headquartered in the United Arab Emirates.