

China Steel Raises Steel Prices by 18% in Domestic Market in Q2, 2008

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Skyrocketing prices of iron ore and coal have moved China Steel Corp., Taiwan's leading upstream supplier of steel products, to **raise its steel prices of by an average of NT4,200 per metric ton, for a record hike of 18%, in Taiwan in the second quarter of this year.**

It makes a better sense that China Steel, facing overwhelming criticism of its price-raising policy from downstream clients, can't help but raise quotations in the second quarter in Taiwan, when a huge price gap of nearly US\$200 on average between its domestic quotations and international export prices is considered.

Affected by an increase of 65% in a steel ore price, export prices of steel slab and steel billet have respectively risen to US\$740, and between US\$740 and US\$760 per metric ton in Russia and those of hot rolled steel and cold rolled steel have mounted to up to US\$810 and US\$900 in China. In the meantime, quotations of a metric ton of wire rods has sharply risen to between US\$860 and US\$880 and steel plate to US\$1,000 in the Asian market.

In comparison, China Steel's hot-rolled steel sold for around US\$600 (NT\$18,000 at US\$1: NT\$30) a metric ton, cold-rolled steel for US\$700, steel plate for US\$760 and rod wire for US\$670 in the first quarter. This is clear that there was large room for the company to raise its selling prices for the domestic market.

Unsurprisingly, the firm finally decided to adjust upward a quotation of hot-rolled steel at US\$757 a metric ton, cold-rolled steel at US\$833, steel plate at US\$917 and rod wire at US\$812 for the second quarter in Taiwan, as well as electro-galvanized steel coil at US\$985, electrical steel coil at US\$903 and hot-dip galvanized and galvanized steel coil at US\$1,035, respectively up 14.3%, 19.9% and 13.9% from a quarter earlier.

A source very close to China Steel's price-hiking policy said early this March that China Steel projected costs of making a metric ton of steel would increase by at least 40%, when the world's largest mining company, namely Brazil-based Companhia Vale do Rio Doce (CVRD), and its customers reached an agreement on a higher-than-expected surge of 65% in prices of steel ore early this year. That apparently implied at the time that the firm would have to manage to offset the whopping inflation in raw materials by raising quotations of its semi-finished steel products. **The implication of raising steel prices in the second quarter has widely infuriated the firm's downstream clients, including fastener makers, hand-tool makers, shipbuilders, construction companies and, more roughly, any other manufacturers on the island.** Some of construction companies have even slashed in public at China Steel's price-raising policy, saying that they couldn't survive any longer unless the firm freezes steel prices.

However, even though facing such a tension, China Steel's chairman Lin Wen-yuan has ultimately resolved to raise steel prices in the second quarter in response to the seemingly unceasing hikes in steel ore and energy prices. What's more, it is believed that steel prices appear to stay relatively high till the end of this year.

In fact, steel price hikes are inevitable in Taiwan due partly to CVRD's decision of driving up prices of steel ore, which has made international prices of steel scrap and steel billet respectively leap to US\$530 and US\$830 per metric ton, and partly to a severe structural shortage caused by China and Brazil that have moved to limit quotas of or impose high tariff on steel exports. Consequently, the selling price of a metric ton of steel bar has even soared to over US\$867 in the first quarter, further exacerbating the construction industry in production costs on the island.

Furthermore, effects of the steel price spiral will no doubt extend to the consumer market from the industrial market, as most commodities and goods, such as air conditioners, televisions, refrigerators, household electronics, mobile phones, houses and automobiles, all need steel to be manufactured.

Therefore, consumers in Taiwan may perhaps be plagued with higher prices in those products in the future because manufacturers will finally shift their increased production costs to them.

Common Phenomenon in the World

In addition to Taiwan, steep price rise of steel is a common phenomenon in the world as increasingly strong economy in emerging markets, such as China and India, have brought even huge demand for steel there.

According to statistics compiled by International Iron and Steel Institute (IISI), last year China imported 49%, or 380 million metric tons, of the world's total steel ore supply of nearly 800 million metric tons as the biggest importing country of the material, and Japan was second-largest with 100-plus million metric tons, or 17% of the total.

Global supply of steel ore is estimated to exceed 800 million metric tons in the world this year, with 400 million metric tons to go to China, and that for coal to reach more than 226 million metric tons in the year, noted IISI. Noteworthy is that with a steel ore price growing 65%, industry insiders have second-guessed an international coal price to up 100%.

Also, prices of hot-rolled steel have mounted to US\$750 a metric ton in Japan, China and Russia so far, and even up to US\$850 in Europe and America, prompting Asian steel makers, including China's Bao Steel Group, eagerly to increase the quotations in either April or the second quarter of this year.

Perhaps Not Enough

In recent years, China Steel needs for about 16 million metric tons of steel ore and 8 million metric tons of coal to produce steel products a year. The firm signs long-term contracts with suppliers to secure most supply of the material and maintain stable steel prices, as well as procures a small part from the cash market to duly control inventories.

This year's incredibly whopping rises in prices of steel ore, coal and steel scrap have added an increase of US\$1-1.3 million, or 30-40%, in China Steel's production costs, and forced the firm to adjust upward its quotations offered to downstream clients in Taiwan. But, even though it already raises its steel prices by a record high of 18% on average for the domestic market in the second quarter, the increase may be not enough to reflect and cover the firm's rising production costs.

The main reason that China Steel has yet to set as high steel prices as its foreign counterparts is because the firm, used to be a state-owned company, has obligatorily to prevent its downstream clients, or the whole Taiwanese consumer market, from suffering the steel price hike crunches. As a

result, the firm must try to grapple with the problem in a way that Taiwan could go down well with it, when it will most likely consider carrying out another steel price adjustment in the third quarter of this year.

Global Demand for Steel Ore During 2007 to 2011					
Year	2007	2008	2009	2010	2011
Volume (1 million metric tons)	762	803	846	889	926

Source: IISI

Global Demand for Coal During 2007 to 2011					
Year	2007	2008	2009	2010	2011
Volume (1 million metric tons)	217	226	242	257	259

Source: IISI

Comparison of China Steel Corp. and Bao Steel Group in Steel Prices Unit: US Dollars Per Metric Ton						
Product	China Steel Corp.			Bao Steel Group		
	Q1	Q2	Increase	Q1	Q2	Increase
Steel Plate	767	917	19.6%	843	957	13.6%
Wire Rod	660	810	23.0%	721	836	15.8%
Hot-rolled Steel	623	757	21.4%	690	804	16.6%
Cold-rolled Steel	700	833	19.0%	714	829	16.0%
Electro-galvanized Steel Coil	862	885	14.3%	961	1033	7.4%
Electric Steel Coil	753	903	19.9%	874	960	9.8%
Hot-dip Halvanized and Halvannealed Steel Coil	912	1,050	13.9%	747	890	19.1%

Source: Institutional Investors

Applications of China Steel's 7 Major Steel Product Lineups	
Product	Application
Wire Rod	Screws, Nuts, Hand Tools, Parts for Loudspeakers, Auto and Motor Parts, Machinery Parts, Steel Wires, Welding Materials, Chains
Steel Plate	Ships, Bridges, Steel Structures, Oil Pipes, Tanks, Boilers, Pressure Vessels, Truck Classic Systems
Hot-rolled Steel	Steel Pipes, Auto Parts, Cargos, Pressure Vessels, Jacks, Light Steel

	Structures, Deep Drawn Products
Cold-rolled Steel	Steel Pipes, Furniture, Household Electronics, Oil Drums, Auto Body Parts, Hardware
Electro-galvanized Steel Coil	Housings and Parts for Computers and Household Electronics, Auto Body Parts, Building Materials, Household Hardware
Electric Steel Coil	Motors, Converters, Ballasts
Hot-dip Halvanized and Halvannealed Steel Coil	Parts for Vehicles and Household Electronics, Computer Cases, Building Materials