
MEPS forecast for steel prices

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As predicted, the MEPS global carbon steel price moved up by USD 20 per tonne in February 2010. Advances were recorded for both flat and long products. Mills in all regions were able to push through increases as a result of growing input costs. Sales volumes to certain sectors improved, notably to pipeline, automotive and domestic appliance manufacturing.

However, consumption in many other industries remains poor. Construction activity continued to be weak, partly due to ongoing poor weather conditions. Stock levels throughout the supply chain were low as many buyers were wary of building inventories. World crude steel production expanded. Nevertheless, capacity utilization rates are well below maximum.

MEPS said that "Our forecasts are little changed from January. We still believe that the global price will continue to move higher in the short term. End-user demand is likely to improve as the year progresses. Warmer weather should help to boost activity in many steel consuming sectors. Stockists are also expected to increase purchase volumes as they re-fill depleted inventory levels. Significant increases in settlements for the annual raw material contracts in 2010 will add to the upward pressure on transaction values. Nevertheless, customers may try to resist attempts to push through significant advances due to current weak market conditions but their success will be limited."

Blast furnace re-starts by many mills around the world could move the market back into oversupply later in the year. Steel buyers are expected to remain cautious as a strong recovery in end-user demand is unlikely in the short term. Construction activity in particular is forecast to stay weak during 2010. This, coupled with traditionally lower demand over the winter months, may result in some price slippage in the final quarter.

The MEPS EU all products composite average transaction value has increased by EUR 20 per tonne in February. Mills were able to push through advances as a result of rising raw material costs. End user consumption continued to improve in some sectors, notably the automotive and pipeline industries. However, general demand remains subdued. Ongoing poor weather conditions dampened construction activity further. Stock levels are still low throughout the supply chain. Imports were restricted due to the weak Euro. Local mills continue to operate at less than full capacity, despite increased production levels. This has resulted in delivery lead times lengthening.

MEPS said that "Our forecast is little changed from last month. The all products average transaction value is expected to climb further in the short term as raw material costs increase. Mill sales are expected to improve during 2010. Distributors are likely to refill depleted inventories and many customers may also need to restock soon. This should help to boost steel prices during the second and third quarters."

A slow recovery in end-user demand is predicted as high government debt in all EU nations restricts public spending. Consequently, rises in steel selling figures could be tempered this year. Nevertheless, we expect growth of around 10% to 15% in apparent steel consumption in Europe for 2010. Seasonally lower consumption during the winter months, coupled with a possible rise in imports, could lead to some price slippage during the fourth quarter.

The MEPS North American all products average transaction price expanded by USD 40 per tonne in February. Rises were noted in both flat and long categories this month on the back of escalating raw material costs. Adverse weather conditions put pressure on the supply of steel from some US producers. Buyers were wary of refilling warehouses as consumption remains low. The automotive sector was one of the few industries with strong activity levels. Despite a rise in the value of construction starts during January, sales were poor. Commercial building projects continued to be restrained by the inability of some developers to obtain credit. Nevertheless, there is now optimism that end user demand may improve during the spring. Crude steel production continued to rise as mill sales volumes improved.

MEPS said that "Our forecast is little changed from last month. The all products selling figure is expected to continue moving higher in the short term. Mill sales will, almost certainly, improve as service centers refill depleted inventories. End-user demand is likely to strengthen over the coming months as warmer weather arrives. Supply tightness could grow if imports remain low. Anticipated rises in raw material costs will also put upward pressure on transaction values during the second and third quarters. The MEPS North American all products average price is, therefore, forecast to climb to almost USD 800 per tonne during the summer.

As predicted, The MEPS Asian all products average transaction price climbed to near USD 630 per tonne in February, mainly as a result of rising raw material costs. Increases in local currencies were noted in three out of the four countries researched.

High inventory levels in China, coupled with government credit restrictions, put downward pressure on selling figures in this nation. However, selling numbers stabilized towards the end of the month. Supply shortages started to develop for some categories across the region and speculative purchasing helped to boost mill sales. Demand from the automotive and home appliance sectors was healthy across the region. Construction activity remains sluggish.

Many customers will keep their purchasing volumes to a minimum as the fiscal year end approaches. This could limit gains in selling figures in March. Some mills have already announced increases for the second trimester on the back of escalating input costs. Other regional producers are likely to do the same. We believe that these advances will be, at least partially, successful due to growing demand and supply shortages.

Settlements for 2010 raw material contracts are expected to be considerably higher than in 2009. This will, almost certainly, put further upward pressure on steel transaction values during the second half of the year. However, extra capacity, due to be brought back on stream, could create oversupply and limit the potential for large increases. Nevertheless, exports from the region will probably rise over the forecast period, helping to remove some of the excess material from the Asian market.

(Sourced from MEPS)

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