

## Sector update

Fireside Chat with  
Worldsteel Director  
General Dr. Edwin  
Basson

## INDIA

## Metals

## From Chinese stimulus and global restocking in CY20 to infra stimulus ex China in CY21 – has the supply squeeze run its course?

We hosted World Steel Association Director General Dr. Edwin Basson for a fireside chat. Few discussion points stand out. CY21 will be a moderate bull case in China with 3% steel demand growth out of the region as stimulus slows --- demand will be a story of two halves, with second half seeing the possibility of demand slowdown and increase in steel exports. He continues to harp (as he has been over the past 5 years) that export is not a goal but may be an outcome of temporary imbalances. Rest of the world (RoW) is expected to recover in CY21 driven by infra stimulus spending, yet Dr. Basson is of the opinion that structurally, the ability of the developed world to create demand-supply imbalance is behind us. The RM market squeeze is expected to correct progressively over the course of the year, perhaps post a blip-up in Q2CY21.

- ▶ **As Chinese demand cools off, RoW is expected to normalise in CY21.** Coronavirus pandemic in 2020 worked out to be much better than initially expected. As against the initial expectation of CY20 steel demand declining 6.5-7%, demand fell only 0.8%. China did extremely well in 2020 with 9% increase in steel use and 11% decline in RoW. What will 2021 look like? China will continue to grow. RoW will catch up. Dr. Basson expects **5% growth in steel demand in CY21, with 3% in China and 7% in RoW.**
- ▶ **China stimulus + global restocking helped supply squeeze in steel in CY20.** The stimulus in China, which started in 2019, infra and housing development spooled over in 2020 as well. China also discovered itself as an industrial exporter of steel products as global supply chain was recovering. This was due to an efficient production planning within China and a lead-and-lag situation of global demand and supply chain recovery. Thus, while stimulus played a crucial role, global supply chain constraints also helped China export out industrial products allowing a 9% steel demand growth rate (despite sharp fall in net exports of steel).
- ▶ **Interesting private construction trends seen across the world in CY20** – pick up in informal construction around the world in CY20. This collectively increased steel usage. This factor will disappear in CY21 and will be substituted by infrastructure programs driven by stimulus measures in developed economies.
- ▶ **Receding role of Chinese stimulus to pick up steel demand from here on.** Chinese government has started talking about incentivising different industries apart from steel. These, along with reduction in steel Co2 emissions target by 2030 and carbon neutrality targets by 2060, China may be embedded on a path to reduce steel intensity and help the industry become environmentally more efficient. Among short-term trends, in Q1CY21, there has been supply chain disruption that should normalise in Q2 and progressively over the course of the year.
- ▶ **Exports for Chinese steel industry are not an objective in itself**, but only a result of demand-supply imbalance. Process of replacement of SMS is on wherein old BF capacity will be replaced by new BF capacity at a swap ratio of 1:1. That rule is being changed to allow a swap of < 1 and 1:1 for EAF capacities. Availability of increasing scrap in China is a long-term trend as more BF to EAF transition is happening. Excess material availability of exports from China will not be alarming, while scrap availability out of China and reduced demand of iron ore in China will be medium-term trends to follow.
- ▶ **SE Asia – Indonesia and Malaysia are seeing increasing investor interest for capacity creation.** Hence, there is time to rethink of China being the only regional player in the export market. Interestingly, there was no mention of India being a regional export player.

## Research Analysts:

Abhijit Mitra

abhijit.mitra@icicisecurities.com  
+91 22 6637 7289

- ▶ **Developed world infra stimulus has limited steam to create structural demand-supply imbalance.** For Europe and US, it's confirmed that they have not gone back to the steel consumption before the financial crisis. In Europe, as expected, steel use is still down 25%, and in the US it is still at 90% of pre-financial crisis level. Similar trends are being seen in South America (at 93%) and Japan/South Korea (at 90%). Hence, even with an infra stimulus support from these countries, steel demand-supply balance will see a short-term adjustment, as focus remains on green sustainable growth, thereby, not increasing steel intensity significantly. While China will continue to be a strong player, +ive growth is likely in SE Asia, Middle East and Africa, with the axis of growth shifting again.
- ▶ **Raw material adjustments to play out over the rest of the year** post a squeeze in Q2CY21. Trade tensions between China and Australia, creating a squeeze on Chinese profitability, should hopefully get resolved given the interests of both the parties.
- ▶ **Stainless steel market is structurally oversupplied.** We briefly touched upon the subject of stainless steel being structurally oversupplied and lagging behind carbon steel market in finding its solutions on capacity. This has implications on nickel supply as well.

*In case of industry/sector reports or a report containing multiple stocks, the rating/recommendation for a particular stock may be based on the last released stock specific report for that company.*

*This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.*

*"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."*

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)  
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

#### **ANALYST CERTIFICATION**

I/We, *Abhijit Mitra, MBA (Finance), BE*; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### **Terms & conditions and other disclosures:**

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.