

Review of 2013 Stainless Steel Market in H1 and Forecast of H2

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Nickel Price Bounce-Back is Unlikely to occur Due to Real Estate Market Regulation

The nickel price trend is closely related to the macro economic conditions as the nickel consumption is always affected by the housing industry. As the development of the housing market always precedes the change of the nickel price, this housing market regulation has had a heavy impact on the nickel price of China.

Earlier, former Premier Wen Jia-bao announced the "Five Regulations skyrocketing the Domestic Real Estate Market" to curb the housing prices while the State Council announced the Enforcement Rules on March 2nd. The control measures include more house purchase limitations, raise of minimum down payment and the loan interest rate in cities where the housing prices are rising too fast and levy of 20% of profits from the sales of residence houses as the income tax. As a result, the regulations triggered a plummeting of the Chinese stock market. The housing market takes up an important portion of nickel consumption. The financial nature of nickel is inextricably linked with speculative house buying behaviors. These housing price control policies will deal a blow to the speculative house transactions and thus shake the bubbling of the nickel prices. The government's crackdown on the speculative house buying will lead to the decrease in nickel consumption. From the perspective of regulations on the nickel prices, the absence of speculative house buying, the main driving force of high housing prices, means the collapse of the foundation of the bubbling nickel prices. The stop of the speedy rise of housing prices will make it difficult for the nickel prices to maintain. The regulation of real estate prices will not only affect the demand for nickel in housing development, but also affect the nickel consumption in the areas of power and home appliances over a long period of time.

The control of the housing market indicates the start of China's regulative policies to prevent the economy from getting over heated. The economic regulation does not support the unlimited rise of nickel prices.

The control of the real estate prices will add pressure to the nickel prices and the full recovery of confidence in a bullish market will be very unlikely to return in the near future. As a result, the recent nickel prices will continue to remain weak currently.

Metal Prices Affected by Exchange Rates

With the euro debt crisis remaining unsolved and the downward trend of Euros against the greenbacks continuing, the negative relation between metal prices and the U.S. dollars trend is still very clear. The U.S. dollars will continue to fluctuate as it rises along the way. The continuous rise of the U.S. dollars will add pressure to the metal prices. If the appreciation is mainly driven by the improvement of the U.S. economy, the negative impact on the prices can be offset by the positive influence of the economic growth without giving too much pressure to the prices. However, the slow economic recovery of the U.S., Europe and Japan and the currency easing policy adopted by Bank of Japan will lead to the need for risk evasion and push the U.S. dollars to appreciate. The dual negative factors will cause bigger pressure to the metal market, which makes it difficult to see a major bounce-back of metal prices.

Accelerated Decrease of Chinese Steel Production

The production of China's steel industry saw a sharp decrease in 2012. According to the statistics of Stainless Steel Branch of SSEA, the national raw steel production in 2012 was 16.087 million tons, an increase of 1.996 million tons or 14.17% over the previous year. The Cr-Ni stainless steel production was about 5.692 million tons, increasing by 153,000 tons or 2.76% over the previous year, which was far below the increase of 28% in the demand for nickel.

The decelerated increase in the demand for stainless steel and the drop of demand for nickel have caused the nickel prices to stay low with a decrease of profits among nickel-related businesses.

Conclusion

Based on the reasons above, a big rise of the stainless market in the second half of 2013 is unlikely to occur. Against the backdrop of major fluctuations of the nickel material prices, a loss is feared by manufacturers with nickel material in stock in the next year. Careful assessment is advised before purchasing the materials. ■

Introduction

The global stainless steel price has taken a dive all the way from the end of last year to this date due to the oversupply of stainless steel and the slow in the demand of the downstream sectors such as metal wares and home appliances. In China, some stainless steel types can hardly obtain orders from the downstream even with their prices dropping from 21,000 RMB to 16,000 RMB per ton. The stainless steel price is expected to remain low with the imbalance between supply and demand due to the global economic slowdown and continuous price drops of nickel and the stainless steel raw material.

Situation Remains Difficult for Stainless Industry in the Next Half Year

No easy recovery in the next half year as China PPI index shows 15 straight months of minus growth

The PPI published by the National Bureau of Statistics of China in May was -2.9%, marking both the minus growth for the 15th consecutive month and a new low in past eight months. This is an indication of low demand in the market and a sign of possible deflation. The PPI published in May dropped by 0.3 percent as compared with April, showing a continuous weak trend of demand in the industry. Not only is it difficult to consume the overproduction, the profit increase of related business has become increasingly unlikely to occur. Since it will take some time to consume the overproduction, an economic rebound within a short time will encounter a bigger pressure.