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# steelMatters



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## Steel is suffering a blow by the sector-wide strike!

The sector-wide strike, which lasted for three weeks from 5 October 2021, had a significant impact in the steel industry and negated much, if not all, progress made in the recovery of the sector thus far. This after the industry was beginning to normalise following the 2020 hard Covid-19 lockdown which impacted activity and supply chains into 2021.

Primary steel production at most of the steel producers continued throughout the recent strike, despite sporadic instances of employees being intimidated or threatened at entry points to certain operational areas. However, the strike impacted the customer base severely, which had an indirect impact on the steel mills. Less than 10% of customers could remain open across all provinces, including those whose workforce is not affiliated to NUMSA but rather belong to non-steel sector associations. Most customers indicated that their employees who wanted to work faced intimidation daily and some downstream customers suspended all operations when their premises were violently breached. Videos illustrating acts of violence and intimidation have been widely shared on social media corroborating what has been reported.

The automotive sector did not stop production in South Africa throughout the difficult months during

2020 and 2021, which is a testament to the South African local supply chain, in comparison to global the factories of global OEMs which shut for various supply chain reasons. However, the auto industry was severely impacted by the strike, with Ford, Toyota and other OEMs announcing that they had suspended activity because of the impact on their workforce and the unavailability of components from manufacturers and service centres. The industry expects that it may take months to recover from the impact of the strike.

The primary steel mills continued production of steel throughout the strike period on both flat and long products against orders placed by customers, even though most customers were unable to receive material due to the strike, resulting in high stocks available for customers on reopening.



## World Steel Association's short-range outlook for 2021

According to the World Steel Association, steel demand will grow by 4.5% in 2021 and reach 1,855.4 Mt after 0.1% growth in 2020. In comparison, steel demand in South Africa will reach 4.892 Mt in 2021 after the market shrunk by 20% to 3.776 Mt in 2020.

Due to stronger than expected recovery in steel demand, global steel demand outside China is expected to return earlier than expected to its pre-pandemic level during 2021.

Strong manufacturing activity bolstered by pent-up demand is the main contributor. The developed economies have outperformed earlier expectations by a larger margin than the developing economies, reflecting the positive benefit of higher vaccination rates and government support measures. In the emerging economies, especially in Asia, the recovery momentum was interrupted by the resurgence of infections.

While the manufacturing sector's recovery remained more resilient to the new waves of infection than expected, supply-side constraints led to a levelling off of the recovery in the second half of the year and are preventing a stronger recovery in 2021.

The recovery of the construction sector is uneven across regions. In developing economies, ASEAN for example, where vaccination rates have been low, construction recovery has been fragile.

The outlook for global infrastructure projects is affected by two conflicting forces. On the

one hand, many governments are trying to use infrastructure as a recovery tool aligned with green initiatives, especially in the developed economies. On the other hand, governments' fiscal position has worsened due to the pandemic. Many governments in developing economies will have reduced ability for financing infrastructure investment.

The residential sector has benefited from accumulated savings during the lockdown and the spread of working from home, which has resulted in rising demand for home space. The other side of the coin is that the non-residential sector will see a sluggish recovery due to reduced demand for office space.

The automotive sector, which saw the sharpest decline among the steel-using sectors during the lockdown in 2020, saw a strong recovery in the second half of 2020. Although supply chain disruption is still evident in some markets, the recovery is driven by pent-up demand and increased household savings.

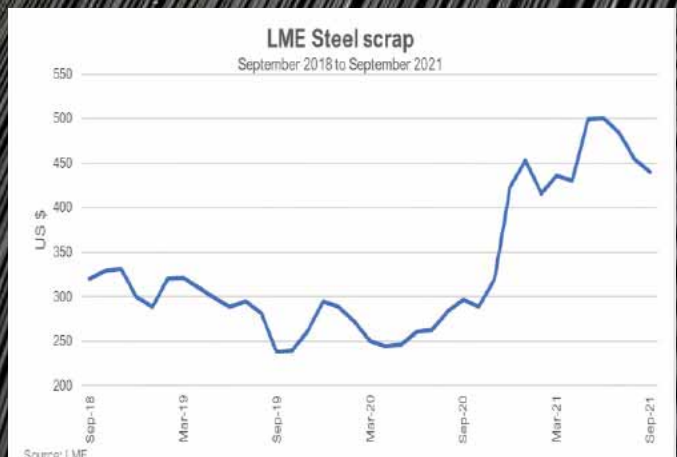
Persistent rising inflation, continued slow vaccination progress in developing countries and further growth deceleration in China all pose risks.



## International steel prices

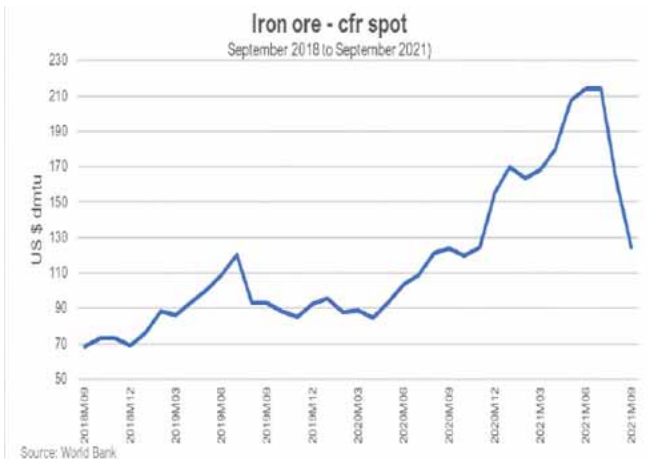
According to the London Metal Exchange the cash settled futures on hot-rolled coil, fob China, decreased by 1,2% during September 2021 compared with August 2021.

Reinforcing bar decreased by 3,3% during September 2021 compared with August 2021. Scrap decreased by 3,2% during September 2021 compared with August 2021.





## World iron price



The world iron ore price hit a decade-high level and then retreated sharply.

Strong demand in some of the advanced industrialised nations has been unable to offset the impact of weaker Chinese demand. Prices are expected to ease further as Brazilian supply recovers and growth in world demand slows down.

According to the World Bank, the CFR spot price on iron ore decreased by 23,2% during September 2021 compared to the previous month.

## South African steel plant performance

### Average capacity utilisation

According to a survey amongst SAISI members, the steel mills' average capacity utilisation was above 80% during October 2021, notwithstanding the impact of the strike. However, the converters were severely impacted when production was halted, and the impact will be felt for the remainder of the year.

### Average on-time delivery performance

All the steel mills are supplying within their stated delivery lead-times. The average on-time delivery performance remains below four weeks during October 2021 and the challenge in November will be to work away the delivery backlog resulting from the strike. Almost all production units are in production with limited maintenance shutdowns.

SURVEY PERIOD: CURRENT AND NOVEMBER 2021

### South African Steel Mill's Average Capacity Utilisation (%)



### The average On-Time-Delivery Performance of the South African Steel Mills



## South African steel use



South Africa's crude steel production volume declined by 14,6% during August 2021 to 405 200 tonnes from 474 000 tonnes produced during July 2021.

Steel use in 2021, on the other hand, is expected to increase by 27% compared to last year.

However, imports of primary steel remain high and will be more than 25% of domestic apparent steel consumption.



## SA primary steel and articles of steel show a huge import surplus on the net trade position

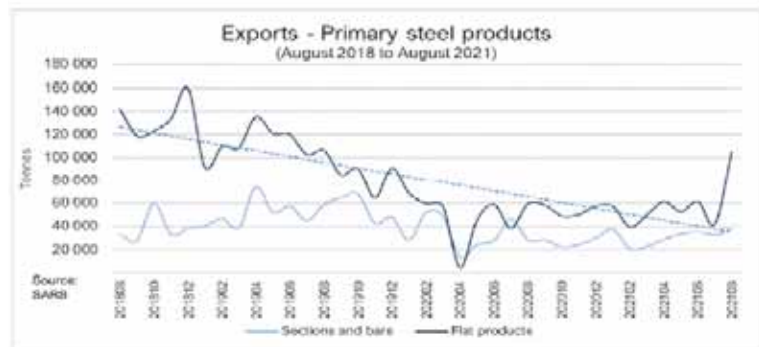
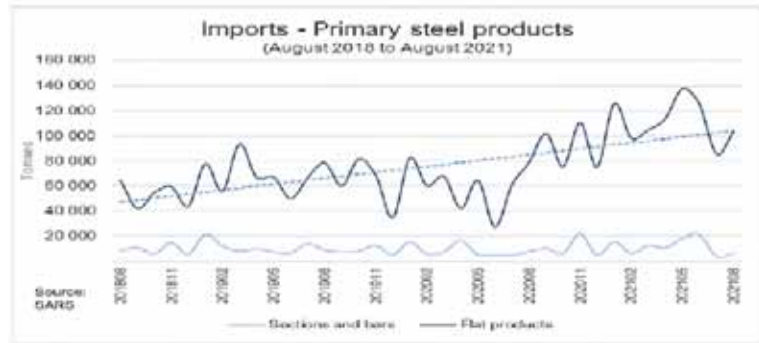
### Primary steel product trade

#### Imports:

South Africa's primary steel product imports, including drawn wire and rails, according to data released by the South African Revenue Service, increased by 82,7% during the first eight months of 2021, compared with the corresponding period in 2020.

#### Exports:

The exports of primary steel products, according to AR data, increased by 4,2% during the first eight months of 2021, compared with the corresponding period in 2020.



### Articles of steel trade

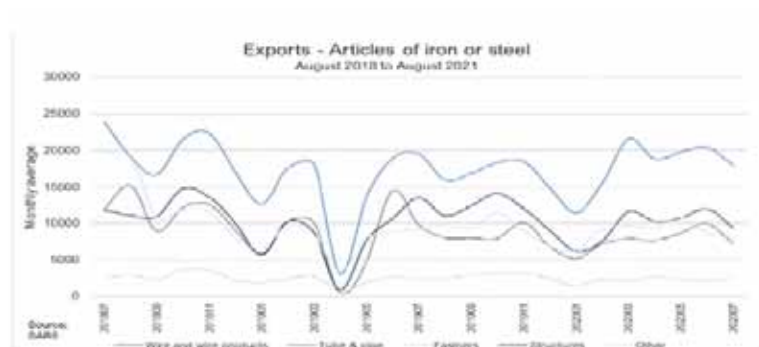
#### Imports:

The imports of articles of steel, according to AR data, increased by 38,4% during the first eight months of 2021, compared with the same period in 2020.



#### Exports:

The exports of articles of steel, according to AR data, increased by 12,7% during the first eight months of 2021, compared with the same period in 2020.





## Steel demand drivers

**Manufacturing** production increased by 11,7% during the period January to August 2021, against the first eight months of 2020.

The value of recorded **buildings** completed at constant 2015 prices increased by 20% during the period January to August 2021, compared to the same period in 2020.

**Mining** production increased by 16,9% in the period January to August 2021, compared to the period January to August 2020.

In September 2021, the **SACCI BCI** declined to 91.0, after registering 97.0 in May, the highest level so far this year. Nevertheless the September level reflects improved business confidence compared to the pre-Covid level of 89.9 in March 2020.

