

AM Insight: Chinese stainless bar market hard to recover until 2013

BEIJING (Asian Metal) 30 Oct 12 - The price of stainless bar in China kept a continuous downward trend since early this year, just after the Spring Festival, so with the approach of the year end, will the market performance make any improvement in the sagging world economic environment?

Statistics from Asian Metal show that the price of stainless bar 304 Φ 60mm in Dainan, Jiangsu Province, the stainless bar producing and distributor center of China, has been decreasing for the 9th consecutive month since February. After the Spring Festival holiday, the price reached the highest point of RMB19,200-19,500/t (VAT included) and then it started the gliding trend. By October 26th, the price decreased to RMB15,500-15,800/t (VAT included), with the markdown of 25% year on year.

Following is the price curve of the stainless bar 304 Φ 60mm in Dainan, Jiangsu Province from October 26, 2011 up to now:



(Data Source: Asian Metal)

Considering the slow economic growth in China, the worsening debt crisis in Europe, coupled with the soft demand, sufficient supply and unstable raw material prices, observers from Asian Metal worry that the price of stainless bar in China will remain the downward trend in following two months of this year.

There are almost 1,000 stainless steel producers and processors in Dainan, Jiangsu Province, while about half of them are stainless bar mills. Currently, although the demand from buyers is soft, most producers hold sufficient inventories or even overstock. According to a medium-sized local stainless bar producer whose production capacity is around 300tpm, 20-30 producers' inventories are over 1,000t and more manufacturers' are 500-600t. "Averagely, each company's stock is over 200t," revealed the source, adding that his daily sales volume is only 1-2t and larger ones' daily level is no more than 10t.

While in Shanghai, there are other two influential stainless bar producers, Qichang Stainless Steel Group and Yatai Stainless Steel Group, who are also facing the high inventory and the slow market performance. Both companies' stocks of stainless bar, plate, and billet are about 10,000t but sales volumes in October decrease by 30-40% compared with those of last month.

Turn to the demand, as the economic situation both home and abroad is unpleasant, many downstream industries are running slowly with difficulty.

First, the development of pressure vessel industry is depressed, with most companies being confronted with decreasing orders and capital shortage. Generally, the sales volume of most producers dropped by about 50% and many mills are half shut-down, which will directly impose negative influence on the demand for stainless steel.

Then, data show that the operation rate of kitchen ware mills in Foshan, Guangdong Province also decreases by around 30% as the sales performance is unsatisfying.

In addition, many screw and nut companies are experiencing a tough time. A nation-wide famous stainless standard component such as screw, nut, and bolt etc, producer in Taizhou, Jiangsu Province, Zhenya Group is on the verge of insolvency and almost halts the production because there are few orders from buyers but the debt is high. The only way for the company to revive is waiting for the help from the government.

Besides domestic market, the overseas situation is almost the same. In Europe, most participants are pessimistic of the market performance next year due to the lack of strong demand from downstream industries. Many processing companies are living on orders taken one or two years ago, so with the decreasing of those orders, their production will

slow down and the development of stainless steel market will be gloomy, which will influence domestic market in reverse.

Last, let's take a look at the price of the raw material-nickel, which has great influence on the price of stainless steel. The price of nickel in the LME futures market went down by over USD3,000/t in recent two weeks with the latest price at USD16,005/t. In China, the price of nickel cathodes also kept decreasing sharply and continuously, with that of Jinchuan 99.9%min down to RMB118,500-119,500/t on October 26, and the markdown reached RMB11,250/t since the National Day holiday. Similarly, worrying that the economic recession in Europe will be worsened, most nickel cathodes traders in China are not optimistic about the coming market.

Following is the price curve of nickel cathodes 99.9%min in China from October 8th to 26th:



(Data Source: Asian Metal)

Following is the price curve of 3-month buyer nickel in the LME futures market from October 8th to 23th:



(Data Source: Asian Metal)

From all above, we can see that the demand from downstream buyers for stainless bar is in a decreasing trend while stocks in mills are at high level; besides, prices of raw materials are hard to rebound in a short term in the unfavorable word economic situation, so we believe that the price of stainless bar will remain low in coming two months, and after the Spring Festival of 2013, the market is expected to make some progress.