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Steel glut unlikely, expert predicts

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14feb06

FEARS that overproduction in China will destabilise the global steel business in the coming year may be misplaced, according to industry experts.

The projections increase the chance that Mittal Steel, which has launched an E18.6 billion (\$30 billion) takeover bid for rival steel company Arcelor, may be forced to increase its cash-and-shares offer.

Mike Locker, president of US steel consultancy Locker Associates, said: "My view is that the steel business in 2006 will be steady and flat. I think the Chinese Government will act to ensure that the risk of overproduction by Chinese mills will be relatively small."

Some worries have been expressed in the past year that output overruns in China - responsible for nearly a third of world steel production - could lead to the country becoming a large net exporter of steel.

The extra material entering global markets could depress prices and damage steel industry profitability.

However, forecasts by Meps, a British steel consultancy, suggest that net steel exports by China in 2006 will be only 7 million tonnes, compared with 0.5 million tonnes in 2005.

In 2004, China was a net importer of steel of 12.8 million tonnes, with imports of 33.2 million tonnes and exports of 20.4 million tonnes.

Peter Fish, managing director of Meps, said: "The picture for 2006 that we are seeing for the steel industry is rather benign and not particular exciting, but this is positive from the point of view of the steel industry, which is not helped by large swings in prices and supply-and-demand conditions."

Luxembourg-based Arcelor is fighting the unsolicited offer by Mittal, headed by Indian billionaire Lakshmi Mittal, on the grounds that the bid both undervalues Arcelor and does not follow industrial logic.

Perceptions that the steel business is entering a fairly calm period, with relatively few risks of a sudden fall in prices, may help to maintain investors' thinking that the current high

valuations for steel companies globally are justified by fundamental economics.

Some steel industry observers believe Mittal might need to raise its bid - or increase the amount of cash in the offer - to improve its chance of winning over Arcelor shareholders.

Mr Mittal has said Mittal has no plans to increase its bid.

This week both companies are announcing their financial results for 2005.

Tomorrow Mittal, created in its current form from a previous merger only one year ago, is expected by analysts to announce pre-tax profits of some \$US4.6 billion (\$6.2 billion) on sales of \$US28.8 billion.

The following day Arcelor is thought likely to announce pre-tax profits of E4.3 billion, up from E3 billion in 2004, on sales of E32.3 billion.

According to projections by Meps, average world steel prices will fall only marginally from \$US549 a tonne to \$US542 by January 2007.

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