

Brazil Metals Report Q3 2012

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Abstracts

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This report is focused on the potential threat of de-industrialisation which currently hangs over the Brazilian steel and aluminium industries. They face increasing pressure from the rising competition of cheaper imports, as well as a lag between demand growth and capacity expansion, which is holding both industries back and restricting profit potential.

Growth Spurt In 2014 And 2016 Due To Global Games Domestic flat product sales growth is set to slow to 6% in 2012 from just under 12% in 2011 when 4.29million tonnes (mnt) were sold. Buyers are likely to reduce their stocks by 10% this year to 900thousand tonnes (kt). Slow sales, stock draw-downs and rising import levels will impact on steel output, prompting concerns of deindustrialisation. The imports growth will prevent Usiminas, Brazil's biggest flat steelmaker, and rivals CSN and ArcelorMittal Brazil from hiking prices for types of plates and hot- and cold-rolled products.

Insufficient rolling capacity and high costs of production will prompt a rise in exports of slab, which is the current focus of capacity expansion, and imports of semi-finished and finished steel products. Brazil will fail to add value to output and there is a danger of import reliance on some steel products. At the same time, high exports of slab have the potential to make the Brazilian steel industry extremely vulnerable to an oversupplied global market. Nevertheless, Brazilian longs production will be bolstered by growth in the domestic construction sector, which is being assisted by rising property values and preparations to host the 2014 FIFA World Cup and the 2016 Olympic Games in Rio de Janeiro. More troubling for Brazil is the sign that automotive output, which helped fuel most of the growth in flat products, is in decline.

Government To Address Aluminium Industry Woes Energy costs account for nearly

35% of total production costs in Brazil, which is relatively high compared to global standards. This has led to production declines over the past years and even talks of facility closures by the major aluminium producers in the country. The Brazilian government is currently considering power sector reforms which should be able to address these concerns. Preliminary aluminium consumption data (January to April 2012) for Brazil has shown a significant decline going into 2012 with consumption at 330kt, a decline of 7.8% from 2011 levels. Nevertheless, we are maintaining our 5% consumption growth forecast for 2012 and our strong consumption forecasts until 2016 due to power sector reforms, the 2014 FIFA World Cup and 2016 Olympics, and recent interest rate cuts. Production data has shown some resilience with January to April 2012 production at 486kt, an increase of 2.8% from 2011 levels.

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