Outlook for global ferro chrome industry

Ferro chrome imparts the non-corrosive property to stainless steel and, thus, there is a deep correlation between the outlook for both the industries. During the first 6 months of 2013, stainless steel crude production reached an all-time high of 18.6 million tonne - up 4.6% for the first half of 2012, according to ISSF. However, a closer look shows mixed results with production in China growing by 15% to 8.8 million tonne - nearly half the global output - while output actually declined in Americas, Western Europe, Africa and Asia (excluding China); Eastern Europe was the only other region to register a growth in output mainly due to strong performance by Russia. Global stainless steel crude production is expected to hit a new high of 36.4 million tonne in 2013 registering an increase of 2.9%.

However, the ferro chrome industry has not particularly benefited from the growth seen in the stainless steel industry due to several factors including rising costs, infrastructural constraints and over-capacity. During the period January - June 2013, figures collated by ICDA show that ferro chrome production (high / medium / low carbon ferro chrome and ferro silico chrome) actually declined by 3% to approximately 5 million tonne. Here too, regional

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performance was mixed with Western Europe and Turkey growing by 60% although their combined share of global output remains low at 6%; while output in Asia and Australia remained steady accounting for 46% of global output, a deeper look shows that only India registered growth in output during the first 6 months of 2013 while production in China and Japan declined; producers in Eastern Europe, CIS and Middle East reduced their output by 5% and accounted for 18% of global output while production in Africa and Americas representing 30% of world output declined by 14% mainly on account of constraints in South Africa and Zimbabwe.

A significant development over the last few years has been the increase in ferro chrome production in China which overtook South Africa to become the world's largest producer in 2012 despite relying almost entirely on imported chrome ore. That trend has continued in 2013 and is unlikely to change in the near future given massive capacity additions underway and/or under consideration in China fed by ever increasing ore exports from South Africa which is still grappling with the fallout of the energy crisis that first surfaced in 2008. The delay in adding electricity generation capacity by Eskom has not inspired confidence and, anyway, significant tariff hikes have taken the sheen off the ferro chrome industry. Almost as a direct consequence, exports of ore and concentrates from South Africa - mainly to China - have shot up manifold. However, with over 70% of the world's total chrome ore resources, South Africa will continue to play a significant role even though its glory days as a ferro chrome producer may well have been left behind.

India has been an enigma as far as the ferro chrome industry is concerned. Redistribution of chrome ore reserves in the late 90s led to a paradigm shift and rapid growth in output which, though, stagnated around the 1 million tonne per annum mark. Constraints in ore output, rising electricity tariffs (though

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several producers now either have captive power generation or are planning to set it up), high internal logistics costs have somewhat dampened sentiments although the outlook for fully integrated producers is decidedly better. Prospects for growth are tempered by limited ore resources and fragmented capacity and, as such, the industry is ripe for consolidation.

Global production of chrome ore and concentrates including metallurgical, refractory, chemical-grade and foundry sands though did not follow the downward trend of ferro chrome output and during the first 6 months of 2013 reached 12.8 million tonne - a growth of 8% as compared to the corresponding period in 2012 and only marginally lower than the peak of 12.9 million tonne reported in the second half of 2012. Growth came mainly from Western Europe and Turkey where output increased by 31% and Africa where output increased by 14% despite the ban on exports in Zimbabwe which has been in effect since 2011. Similarly, output increased by 11% in Eastern Europe and Middle East and 35% in Americas (although the region per se only accounts for 2% of world output). Finally, Asia and Australia was the only region to register a decline with output decreasing by 15% mainly due to disruptions and stoppages at several chrome ore mines in India as well as the exit from the industry of the only miner in Australia.

The highlight as far as chrome ore is concerned is China's voracious appetite with 91% of the world's total ore and concentrate exports headed there to cater to the ever increasing ferro chrome output !

To summarise, while stainless steel output continues to increase mainly on the strength of robust growth in China the ferro chrome industry is passing through an uncertain phase. The traditional powerhouse, South Africa, has been upstaged by China but will continue to be a significant player. In turn, it also remains to be seen if China can overturn conventional wisdom that value addition takes place where there is occurrence of ore. Finally, India's role as a niche producer is well established but a more pragmatic approach is needed if it is not to become a net importer of chrome ore / ferro chrome on a sustained basis.

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