Top News:

Automotive sector remains the biggest victim of coronavirus

Fitch Solutions expects global automotive production to decline -11.5% on-year in 2020 as a result of Covid-19-related lockdown measures and supply chain disruption.

The current crisis has hit the industry harder than the 2008/09 global financial crash. “Even back in the global financial crisis the industry could still operate, so companies could still produce, dealers could still sell,” Fitch Solutions autos research head Anna-Marie Baisden said during a webinar. “What we’re expecting now is… actually more than double the decline during the global financial crisis.”

A second wave of Covid-19 could push the automotive sector recovery into 2022 instead of the mild recovery currently forecast from 2021.

Carmakers have taken on vast credit in recent years to heavily invest in electrification and autonomous vehicles. These are sectors that have not yet provided a return on investment, and now their income has been weakened further. This will spell a difficult operational environment for these companies in 2020-21.

Electric vehicles (EV) will, however, benefit from pollution concerns linked to Covid-19, a respiratory disease. Consumers are seen becoming increasingly cautious of climate change and their carbon footprint post Covid-19. Governments will promote the use of electric cars as these have zero tailpipe emissions and contribute to CO_2 and NO_2 reduction, Fitch Solutions says.

EVs will be at the centre of the production restart for at least four reasons. They are more automated and less labour intensive; lower scale, cheaper in nominal terms, and more commercially viable for automakers with challenging operational costs. Moreover, ramping up production of EVs coincides with the requirement to reduce average fleet emissions in Europe. Finally, they typically require fewer component parts and narrower supply chains at a time of heightened supply chain risk.

As a result of the pandemic, “…automakers will increasingly look to diversify their supply chains away from China,” said Fitch Solutions principal autos analyst Joshua Cobb. There will not be a mass exodus but automakers will reduce their capacity in China and relocate closer to their primary markets.

Nevertheless, “…there’s no other country that can come close to China when it comes to manufacturing capability,” Cobb observed. India comes close in terms of labour costs, but still needs significant development to absorb that capacity from China.

Morocco for example – where French carmakers have established manufacturing capabilities – could benefit from carmakers leaving China or Algeria, where operational risk is rising.

The World Steel Association in its latest economic outlook confirmed that the automotive industry is expected to be the biggest victim of coronavirus. “In 2020 the automotive industry is expected to experience a loss of sales of 20% on top of the losses in the past two years. Recovery to pre-crisis levels will take several years due to income growth and remote working, but safety concerns might boost demand for passenger cars in the short term. Furthermore, the supply disruptions may continue beyond the lockdown period as liquidity problems will deter the restart not only of car producers, but also of auto part suppliers,” Worldsteel said.

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How is the ASEAN steel market responding in the post lockdown situation?

KORE 62% Fe / Qingdao CFR USD/t

W-o-w avg change		**+3.2%**	
19 Jun 2020	$	103.84	
18 Jun 2020	$	104.52	
17 Jun 2020	$	104.94	
16 Jun 2020	$	105.45	high
15 Jun 2020	$	103.53	low
Average	**$**	**104.45**	
12 Jun 2020	$	105.17	high
11 Jun 2020	$	102.36	low
10 Jun 2020	$	104.16	
9 Jun 2020	$	104.81	
8 Jun 2020	$	104.57	
Average	**$**	**104.12**	

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Global Overview

North America

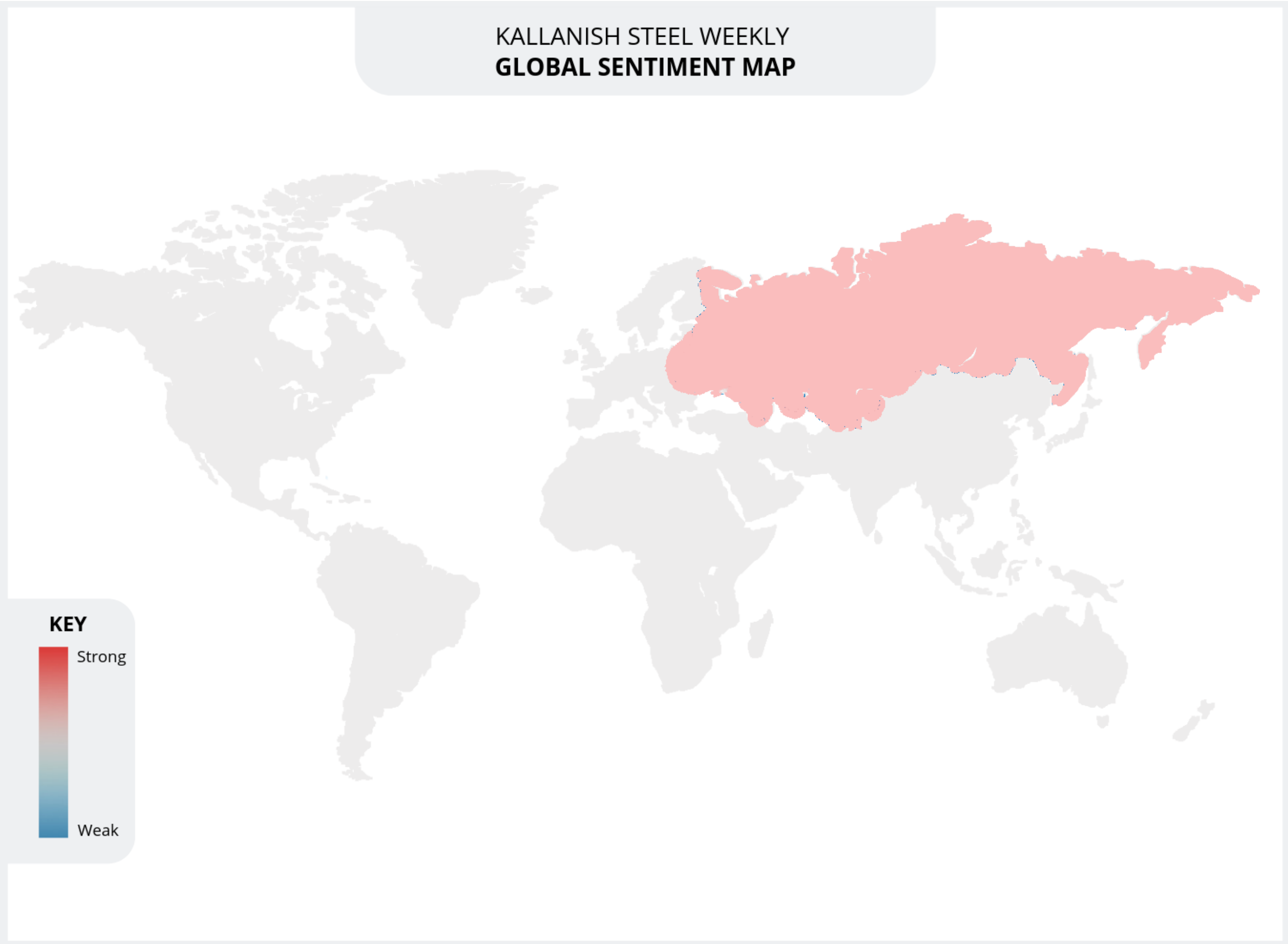
- US sheet trajectory stumbles on one-off deals
- US energy tube remains static, low
- AHMSA to merge with Villacero

Europe

- Coil prices in Europe yet to recover
- USSK restarts BF
- EC to approve safeguard review

Asia

- Chinese rebar down
- Iron ore holds
- Thailand restricts HRC imports



See the interactive version online

South America

- VALE restarts Itabira mine

Middle East

- Turkish scrap uptrend halts
- Turkish rebar demand slows
- Turkish HRC mill reduces export quotes

CIS

- CIS billet offer uptick subdues demand
- CIS HRC hikes further on low availability

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Word of the week

Basic Oxygen Furnace

The basic oxygen furnace converts iron from the blast furnace into steel. When oxygen is blown over the molten iron in a BOF vessel, it combines with and removes carbon as carbon monoxide and carbon dioxide. Unwanted silicon, phosphorus and other elements are also driven off, while other impurities are combined with fluxes which are removed and then made into slag. The reactions in the BOF vessel creates heat, so ferrous scrap is added to cool it down.

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If you found this issue of Kallanish Steel Weekly interesting please let us know, we would love to hear from you.

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