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CHINA STEEL INTELLIGENCE REPORT

China's climate ambition is commercial

IN THIS MONTH'S ISSUE

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CHINA'S CLIMATE AMBITION IS COMMERCIAL

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China's climate goals have been given increasing prominence, and measures to improve local air quality levels have already had a significant impact on the steel industry. Will China's new climate goals impact steel in the same way as local emissions controls? And will the impact be as deep? In the long term the global steel industry, China included, will need to invest huge sums of money in replacing equipment with low carbon technologies. In the short term however, the picture is less clear.

In this issue we try to break down some of the impacts of China's targets.

TABLE 1. SUPPLY AND DEMAND

	2020	Jan-Jul 2021	Y-o-y	2021 Outlook	Y-o-y
Official Crude Steel Output	1,115	649	8.00%	1061.4	0.80%
Apparent consumption	1,035	589	5.87%	973.3	-1.20%
End user demand	1,031	556	7.12%	975.2	-0.50%

Source: Kallanish, Million Tonnes

FIGURE 1. STEEL PRODUCTION AND DEMAND 2016-2021

Source: Kallanish, Million Tonnes

China aims to reach peak carbon emissions in 2030 and net zero emissions by 2060. The steel sector however has been given its own targets of peak emissions by 2025 and net zero emissions by 2065. While the peak carbon target is sooner than the national target, it should be easy to achieve. The much harder carbon neutral target can be achieved over the coming 45 years. A peak in carbon emissions from the steel industry by 2025 comes in line with peak production. In terms of emissions from steelmaking it is difficult to

see how emissions could not already be peaking. China aims to keep 2021 crude steel output level from 2020, while at the same time increasing scrap rates and the proportion of EAF steelmaking.

Exact estimates of China's steelmaking carbon emissions using international standards is difficult due to differing material mixes and differing carbon intensities for imported energy. According to the International Energy Association however, BF-BoF steelmaking generates around 1.2t of CO2e per tonne of steel in direct emissions, and 1t of emissions through electricity and heat generation. As China's energy mix remains coal-intensive, the indirect emissions are likely to be higher. Scrap-based EAFs meanwhile generate only 0.04t CO2e per tonne of steel in direct emissions, and 0.3t in indirect emissions. Again, the higher carbon intensity of electricity is likely to boost indirect emissions, but scrap-EAF steelmaking has a clear advantage over BF-BoF steelmaking. The problem with these figures for China however is that EAFs are generally only around two thirds full of scrap. The remainder is DRI/HBI or pig iron. For DRI-EAF steelmaking the IEA gives figures of 1t CO2e in direct emissions and 0.4t of indirect emissions. This is based on a 70% reliance on natural gas rather than coal in reduction. Some Chinese DRI plants however are using derivatives of coal seam gas, which implies an even higher carbon footprint. The IEA notes that coal-fired DRI releases almost three times as much CO2e into the atmosphere in direct emissions as a gas-based DRI-EAF plant. The use of pig iron in EAFs meanwhile implies the running of blast furnaces alongside the EAF, increasing emissions further. Blast furnaces remain the most carbon-intensive part of steelmaking. A true emissions figure for Chinese EAFs based on how they are currently operated is therefore likely to be only slightly below a 100% gas fired DRI-EAF process.

TABLE 1: DEMAND FORECASTS BY SEGMENT

Process	Direct emissions	Indirect emissions	Total emissions
China BF-BoF 2021 e	1.20	1.20	2.40
Global BF-BoF	1.20	1.00	2.20
Global DRI-EAF	1.00	0.40	1.40
China EAF 2021 e	0.60	0.60	1.20
Global scrap EAF	0.04	0.30	0.34

Source: Kallanish, Million Tonnes

This means that, even with the unusual materials mix, more carbon-intensive energy supply and other factors taken into account, Chinese EAF production emits only around half of the emissions as Chinese BF-BoF steelmaking. Even with China's total steel production unchanged therefore, a greater proportion of EAF steelmaking should lower emissions. According to China's own targets, emissions should in fact have already peaked, even as it set its peak emissions target at 2025. Even according to Kallanish's forecast that China will not quite be able to cap crude steel output this year at last year's official level, emissions from crude steel output are likely to have declined slightly. Following our expectations through to 2025, emissions from crude steel output in China could decrease as much as 17% by 2025 just through reducing output and boosting EAF production and scrap use. By 2025, EAFs could produce almost 20% of China's crude steel, but would account for only around 10% of its steelmaking carbon emissions.

China's short term carbon emission goals for the steel industry are not particularly ambitious, and mark an easy lead-in for the sector to adjust. This will be a relief for the Chinese steel industry, which is already grappling with other forms of government intervention. Policies to control carbon emissions are only partially in place and the sector faces certain structural challenges in reducing emissions faster than this base case in the near term. In terms of policy, the steel sector will eventually have to take part in the national emissions trading system. The China Iron and Steel Association (CISA) has already been asked to create a methodology for the allocation of emissions allowances.

FIGURE 2: CHINA'S STEELMAKING EMISSIONS TO 2025

Source: Kallanish, Ironmex CO2e

According to the five-year plan, steel should be included by 2025, but it is expected to join before that, perhaps as early as next year. Initially allocations are likely to be free, and there is a danger that these could be over-allocated. In the European system allocations were based on pre-financial crisis output levels, giving steelmakers a large surplus of credits for several years into the trading system. In China, even without a crisis, historical allocations could lead to over-allocation as steel output should be declining. Firm emissions reduction targets and a mechanism to adjust allocations on an ongoing basis will be needed.

China's steel sector also faces two structural barriers to cutting emissions quickly in the short term: scrap supply and coal-fired electricity. Chinese domestic ferrous scrap demand from steelmaking is expected to grow to around 300mt in 2025, from around 240mt in 2020. Domestic scrap supply meanwhile is expected to grow at around the same pace. Unless global scrap prices become much more competitive than

FIGURE 3: CHINA'S SCRAP SUPPLY GROWTH STEADY BUT MODEST

Source: Kallanish China Scrap Markets Report

ironmaking costs. Chinese scrap markets are likely to remain tight in the coming years. China's five-year plan meanwhile suggests that coal-fired power generation will continue to increase. It aims to limit the growth in coal consumption up to 2025, before beginning to reduce consumption over 2026-2030. This suggests that China's installed coal-fired power capacity will continue to increase from the 1,120 GW expected by the end of this year by the China Electricity Council. This is up from 1,080 GW in 2020 and the council has said capacity should increase to 1,300 GW in 2030. Any improvement in the carbon intensity of China's electricity supply would be modest as long as coal capacity is expanding, and this limits the advantage of electricity-intensive EAF's relative to BF-BoF steelmakers.

China's short-term goals may be modest, but its long-term goals for the steel industry are in line with the elimination of emissions from the sector in the space of a generation. This will generate enormous investment costs, which will require significant government incentives – both carrots and sticks – to push through investments as technologies emerge. China's steelmaking capacity by 2060 is likely to be considerably smaller than it is currently in terms of t/y of crude steel output. Almost none of China's operating capacity at that point should be capacity operating currently. If China was to build 700m t/y of capacity using only BF-BoF, using a simple rule of thumb of around $1-1.5 billion per million t/y of capacity, it would require between $700 billion and $1.05 trillion of investment purely in steelmaking, not including rolling and processing. However, replacing this capacity with equipment that allows China to meet its net neutral targets could be far more expensive. The IEA estimates capex costs for a 100% hydrogen DRI-EAF plant to be around double that of a BF-BoF plant. This implies that the market for new steelmaking plants in China over the coming 40 years would be in the low trillions of dollars. This is a very large sum of money, but over an extended period it is not unachievable. The combination of forced environmental upgrades and returning profitability has already resulted in a sharp increase in investment in ferrous smelting and rolling. Official figures from NBS suggest investment could be in the high CNY 700 billion range in 2021. This figure includes rolling as well as steelmaking, as well as other peripheral investments and ongoing equipment replacement. Nevertheless, the investment needed to reach net zero is likely to be a noticeable increase on current investment levels.

The more interesting perspective as far as China is concerned, is that this investment will be spent on new technologies rather than on existing ones.

FIGURE 4: CHINA'S FERROUS INVESTMENT JUMPS ON POLICY

Source: Kallanish, NBS (CNY billions)

Owning that new technology will be key. For a relatively smaller investment, China could ensure that it owns as much of that technology as possible. Instead of being forced to import equipment with that investment, it could serve domestic engineering companies. Owning the technology also means that China could have access to a much larger market. China is currently home to more than 50% of steelmaking capacity, but in forty years' time its share will be much smaller. The global market for this equipment will be larger than the domestic market, and so by owning the technologies China could turn a situation where it has no choice but to invest large sums of money to sustain its industry, into one in which it dominates a market for equipment larger than any previously seen in the steel sector.

China has begun to move in this direction, and unsurprisingly it has turned to its key policy steelmaker, Baowu Group, to lead the way. The largest carbon neutral fund in China is being established by Baowu in conjunction with the National Green Development Fund Co., China Pacific Insurance (Group) Co. and CDB Financial Asset Investment Co. This will initially run a CNY 10 billion fund, and aims to raise this to CNY 50 billion. The fund not only intends to invest in projects which support emissions reductions, it also aims to invest in the development of technologies that are carbon neutral. Baowu Group has already won headlines for overtaking ArcelorMittal as the world's largest steelmaker. The next companies in its sights may not be steelmakers, but the engineering firms which are positioning themselves to benefit from coming surge in investment.

SUPPLY & DEMAND OVERVIEW

Chinese steel demand fell further in July as the summer slump extended to new lows. China's steel inventory rate increased to the highest level since February and the second highest since March 2020. This was despite crude steel production falling to the lowest since April 2020. Crude steel output in July was down 7.9% month-on-month and 8.4% year-on-year at 86.79 million tonnes, according to the National Bureau of Statistics (NBS). Over seven months this was up 9% at 649.333mt. Data from the China Iron and Steel Association (CISA) shows that output likely declined a little further in August, although output was bottoming out in mid-August.

Data derived from satellite images with the assistance of TathyaEarth confirms that output was lower again in August. Across six key steelworks, average activity readings from their blast furnaces were down in August compared to July at all of them. Shangang, Baosteel in Shanghai and Wuhan Iron and Steel saw minimal declines over the month. Bensi in the northeast and both Handan Iron and Steel and Shougang Jingtang in Hebei saw significant declines in output however. There was no significant reduction in output in the last week of the month however, suggesting that output cuts have now bottomed out. Considering the high output in summer 2020, output is certainly expected to remain down significantly y-o-y, and the ytd y-o-y growth rate should fall steadily as more data is released.

Adjusting for trade and yield loss, China's apparent steel demand in July came in at 78.905mt, down 7.9% m-o-m and 13.4% y-o-y. Over seven months, apparent steel demand is now up only 5.9% y-o-y at 589.258mt. Concerningly for the market however, inventory levels continued to increase over the month, as

FIGURE 1: CISA SHOWS CUTBACKS INTO AUGUST

Source: Kallanish, CISA (mtpa)

FIGURE 6: NORTHERN MILLS REDUCE OUTPUT

Source: Kallanish, TaiyuaSteh

end user demand declined a little further from June. End user demand dropped 3.6% m-o-m and 10.9% y-o-y to 75.04Mmt in July, bringing the ytd total to 556.42mt, up 7.1% y-o-y. The inventory rate in July also increased, explaining the growing pressure on the market which crashed prices in August. The inventory rate hit 115.2% in July, compared to 108.7% the previous month and 100.9% a year earlier. Inventories however have bottomed out in August thanks to lower production levels. Whether steel markets have turned a corner as a result will depend on the strength of demand during the seasonally stronger September-October.

FIGURE 7: INVENTORY RATE GROWS AGAIN

Source: Kallanish

POLICY WATCH

'Common prosperity' has become the dominant watchword of policy making over the last month with a series of coordinated speeches and articles promoting the idea and some significant responses by companies in the sights of regulators. This followed a meeting on 17 August which discussed a roadmap to common prosperity, which is being set up as a major policy objective for Xi Jinping's next term(s) in office. The phrase comes from Deng Xiaoping. Some Chinese were supposed to get rich first, but the end goal was for those newly-rich to pull up the rest of China behind them to achieve common prosperity. The current government believes those who have gotten rich may have forgotten why they were allowed to do so. The government has been keen not to scare the wealthy too much though. Han Wenxiu, deputy director of the Office of the Central Financial and Economic Affairs Commission pointed out that this does not mean 'robbing the rich to give to the poor.' Tech giants have been in the firing line over the recent months, and several such as Alibaba and Pinduoduo have announced new funds to support the common prosperity goal in order to win favour with the government. Alibaba has promised to spend CNY 100 billion by 2025.

The difficulties for the sector to raise funds are deepening. After restricting bank loans and trust fund lending to developers, China has now also moved against private equity financing. In August the Asset Management Association of China said it would no longer accept applications for private equity firms to establish investment vehicles focussed on real estate. By the end of 2020 some CNY 840 billion of private equity money was invested in this way, the association says.

China is looking to bolster its government finances, meaning less spending on projects and less fiscal support for the economy. This follows budget blow-outs in 2020 in response to the Covid crisis. Over January-July, government revenues were officially up 20% y-o-y at CNY 13.77 trillion, according to the Ministry of Finance. Government expenditures however grew only 3.3% y-o-y to CNY 13.79 trillion. Both the Politburo and the Chinese Academy of Fiscal Sciences have come out against any additional fiscal stimulus in H2 despite flagging economic growth.

The State Administration for Market Regulation (SAMR) put semiconductor markets on notice last month that it would act against anyone found hoarding or driving up chip prices for profit. The global chip shortage has had a major impact on production in the automotive and other sectors. China is highly reliant on imports for a number of kinds of chips and plans to prevent stockpiling of chips to ensure a smooth flow of material to manufacturers.

END USERS

REAL ESTATE

China's real estate sector remains under pressure and data showed a concerning slowdown in July. In part this is due to the strong base for comparison in 2020, but it also comes as the sector undergoes a forced restructuring of its debts at the same time as a slowdown in sales growth. Real estate investment over January-July was up 12.7% to CNY 8.49 trillion, but growth has fallen steadily through the year. In July alone, investment was up only 1.4% y-o-y at CNY 1,272 billion. That slowdown has had an impact on new starts, which are now down 0.9% y-o-y over seven months to 1.189 billion square metres. That is the first year-to-date year-on-year decline in new starts since 2020. In July alone new starts slumped 21.9% y-o-y to 176.6 million sqm. Completions have fared better as developers move projects to market. Over seven months these were up 25.7% to 417.82 million sqm, with July completions up 29.7% at 53.01m sqm.

Also of concern were real estate sales. Over seven months these are still up 21.5% y-o-y at 1,016 billion sqm, but growth is down from 124.9%, over the first two months. July saw sales fall y-o-y for the first time since April 2020. They were down 6.0% to 130.13 million sqm. Better news for developers was that average sales prices were up slightly both m-o-m and y-o-y at CNY 10,373/sqm. Prices are still only up 1.8% y-o-y however, limiting revenue growth at developers.

With financing restrictions tightening (see Policy Watch), developers are turning to more drastic measures to raise much-needed funds. Troubled Evergrande is in talks to sell off its New Energy Vehicle subsidiary, which has yet to sell a car, to prevent its losses from further undermining the performance of the parent. Evergrande shares have fallen by more than 60% so far this year and it has had its credit rating downgraded by both Moody's and S&P.

FIGURE 4: REAL ESTATE INVESTMENT SLOWS

Source: NBS, Kallanish (% y-o-y)

AUTOMOTIVE

Chinese automobile output declined further to 1.88 million units in July, representing a decrease of 4.1% on both month-on-month and year-on-year, according to data from the China Association of Automobile Manufacturers (CAAM). Total production in the January-July period was pushed to 14.44m units, an increase of 17.2% y-o-y. New energy vehicles set a new monthly record high at 284,000 units, thus, its cumulative production stood at over 1.0m units, which is already higher than 2020's record total production.

Monthly implied finished steel demand calculated by Kallanish from the CAAM data dropped by 12% m-o-m to 3.03 million tonnes, boosting year-to-date demand through July to 25.2mt, up 17.96% y-o-y, which is the lowest rise registered in any month this year. The problem of chip shortages still plagues passenger car producers, but the negative impact is beginning to ease. Commercial vehicle production fell rapidly due to the implementation of the sixth edition of the national emission standards in various regions starting in July, which require car companies to make changes to meet lower emission requirements.

FIGURE 5: AUTOMOTIVE STEEL DEMAND

Source: CAAM, Kallanish (tonnes/month)

WHITE GOODS

China's white goods sector continues to falter in a deep summer depression. July data shows a drop in production of all major products but especially air conditioners and washing machines. In part the y-o-y decline in output is due to stimulus and 'catching up' in summer 2020. Steel demand levels remain higher than in summer 2019.

In July, finished steel demand from white goods production was down 5.1% y-o-y at 1,260mt, the lowest reading since February. Over January-July, implied demand is still up 18.3% y-o-y however at 9.786mt due to very weak activity in Q1 2020. The sector is expected to continue to underperform in the coming months despite a seasonal recovery. Kallanish expects demand from the sector to be up 7.3% this year at around 16.6mt.

FIGURE 10. WHITE GOODS DEMAND

Source: NBS, Kallanish (forecasts)

SHIPBUILDING

China's shipbuilding completions in July fell from a high of over 4 million deadweight tonnes in May and June. The July data is still slightly higher than the same period last year, however. According to China Association of the National Shipbuilding Industry (CANSI) data, China's shipbuilding completions reached 24.18 million deadweight tonnes in the first seven months of 2021, up by 20.7% year-on-year. However, completions in July declined to 3.28m dwt, down by 19.7% on-month.

This implies that about 8.35mt of steel was consumed by the shipbuilding sector during the first seven months of 2021, including 1.13mt consumed in July only. New orders in the shipbuilding industry continue to rise, thereby also increasing orders in hand. From January to July this year, orders for new ships were 45.22 million dwt, a year-on-year increase of 223.2%. At the end of July, orders in hand were 89.67 million dwt, an increase of 19.8% year-on-year, and an increase of 26.1% from the end of 2020.

During the reporting period, the global market share of China's shipbuilding industry increased and the nation retained its place as largest shipbuilder. Shipbuilding completions, new orders and orders in-hast accounted for 48.1%, 52% and 48% respectively of the world's total in dead weight tonnage.

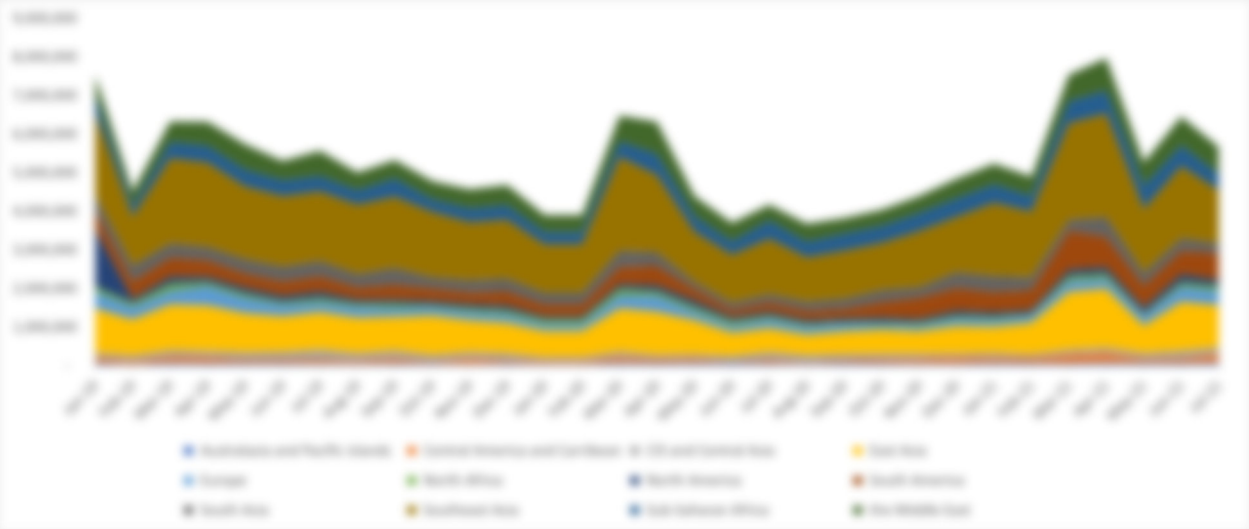
FIGURE 11: SHIPBUILDING COMPLETIONS

Source: CANSI (www.cansi.org)

TRADE

According to China's customs data, net steel exports in July were 3.574mt, down 8% m-o-m, but up from net imports of 1.060 million t in July 2020. Over the opening seven months of this year, net exports were up 89% y-o-y, at 27.844m. Exports in July were 5.670mt, falling 12% from June, but rising 36% from this time last year, while over seven months exports were up 31% to 43.057mt. China's export volumes continue to struggle with high offer prices and weak destination markets. While new export taxes have not materialised, and are now considered unlikely, the uncertainty has further disincentivised buyers. Delays at ports and requests by CISA to mills to reduce export quotas have also left exporters in a difficult position.

FIGURE 12. CHINESE EXPORTS BY REGION



Source: GTT, Kallanish

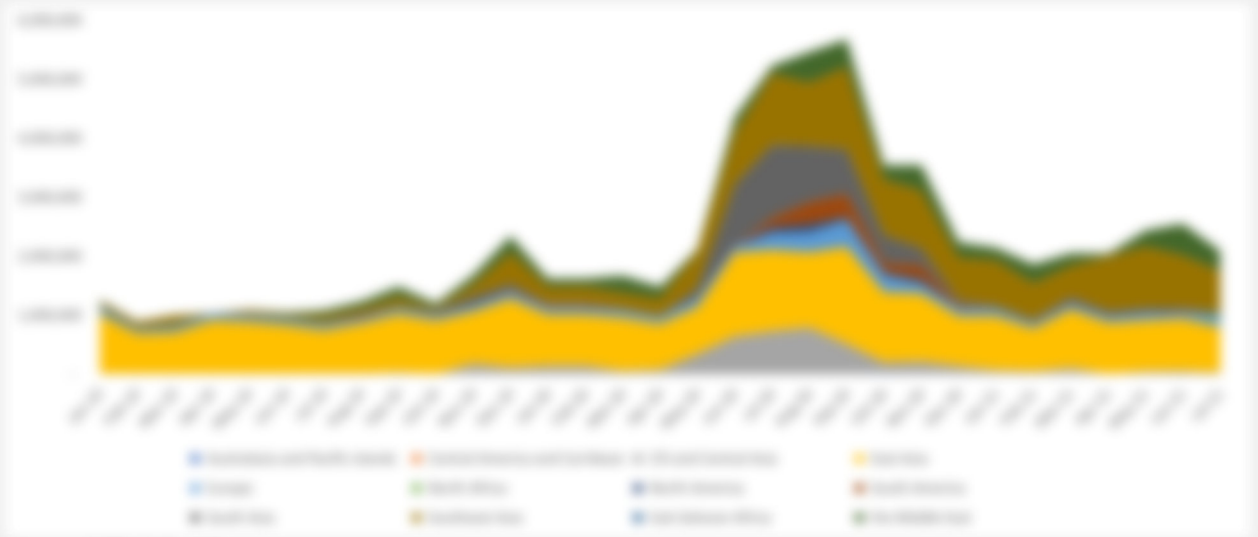
In July 2021, the largest importer of China's steel was Southeast Asia, where it exported 1.374mt of steel, a dip of 26.1% from the previous month and 3.9% from July 2020. However, through January-July this year exports to this region expanded 25.8% y-o-y to 13.650mt. The second biggest export destination was East Asia, whose proportion of China's steel shipments decreased 14% from June this year but was up 77.7% from last year July, to 1.090mt. Over seven months East Asia's volumes expanded 33.5% on-year to 7.58mt. Another 701,105t went to South America in July, up 15.2% m-o-m and 186.1% y-o-y. During the first seven months, this increased 105.9% y-o-y to 4.734mt. The Middle East saw its share of China's steel output go up by 71.3% y-o-y but fall 6.2% m-o-m to 696,377t. Over the opening seven months of the year China's exports of steel to the Middle East were up 22.3% y-o-y, at 4.6mt.

FIGURE 13: CHINESE EXPORTS BY PRODUCT

Source: GTT, Kallanish

The product group most exported by China remains flats. China saw flats exports of 4.088mt in July, down 12.5% m-o-m and 60.3% y-o-y. Over seven months combined flats product exports equalled 29.01mt, up 44.2% compared to last year. Of the total volume of flats exports, 175,077t was carbon and alloy steel HRC to Vietnam in July, a 45.8% m-o-m decrease, but a 140% increase y-o-y. Over seven months exports to Vietnam of these products were up 104% y-o-y to 2.795mt. Meanwhile, carbon and alloy steel HRC exports to Korea were 222,568t in July, a m-o-m fall of 3%, but a y-o-y surge of 469%. Over January-July China managed carbon and alloy steel HRC exports to Korea of 2.795mt, up 104% y-o-y. Global exports of galvanized steel coils in July were 1.305mt, a decrease of 6% in relation to last month, but an increase of 53% compared to this month last year, bringing the total to 8.281mt over seven months, up 38% y-o-y. Global carbon and alloy CRC exports in July meanwhile reached 681,447t, down 14% m-o-m but still up 201% y-o-y. Over seven months, overall exports of this product were up 115% y-o-y, at 3.880 mt. The amount of longs exported by China was down 8.5% m-o-m but up 4.5% y-o-y, at 929,453t. Over the opening seven months longs product exports hit 9.048mt, up 21.3% y-o-y. China also had pipe exports of 651,688t, an m-o-m dip of 15.4% and a y-o-y decline of 11.5%. Between January-July total pipe exports were down 5.7% on-year, at 4.996mt.

FIGURE 14: CHINESE IMPORTS BY REGION



Source: GTT, Kallanish

Meanwhile, China's imports in July were 2.098mt, down 18% from the previous month and 60% on-year, meaning through the opening seven months imports were down 18% to 15.213mt. China imported 768,925t of steel from East Asia in July, down 13.8% m-o-m and 43.9% y-o-y. It imported a total of 6.029mt of steel from East Asia over January-July, down 13.7% y-o-y. Imports from Southeast Asia were down 23.3% from June and 43.1% from this point in 2020 at 683,748t. However, over seven months overall imports were up 43.1% y-o-y to 5.017mt. China also imported 337,677t of Middle Eastern steel in July, falling 37.1% from the month prior, and 151.8% y-o-y. Over seven months it imported 1.624mt from the Middle East, diminishing by 65.1% year-on-year.

FIGURE 10: CHINESE IMPORTS BY PRODUCT

Source: GTT, Kallanish

Semis were again the most imported product by China in July. However, these were down 19.7% m-o-m and 60.2% y-o-y at 1.046mt. During January-July combined semis imports were down 16.8% at 6.816mt. In July, China imported 113,560t of semis from Vietnam, down 45% m-o-m and 74% y-o-y. Over seven months semis imports from Vietnam hit 1.513mt, up 22% y-o-y. Its July imports of semis from Indonesia meanwhile were 236,053t, down 28% m-o-m but up 9% y-o-y. Over January-July, it sourced 1.699mt of semis from Indonesia, a climb of 110% from last year.

The Middle East supplied 333,020t of semis in July. This was a decrease of 38% from the previous month, but an increase of 150% from last year, whilst imports gained 69% y-o-y across seven months, to 1.887mt. The country also saw flats imports of 735,498t, a 14.7% m-o-m dip and a 66.8% y-o-y dip. Flats product imports reached 6.013mt over January-July, down 24.4% compared to the same point in the previous year. China's longs imports were 277,795t in July, dipping 21.8% m-o-m and 21.1% y-o-y, while seven-month imports were up 21.7% y-o-y to 2.137mt. Japan remains a key supplier: in July, 195,151t of their carbon and alloy steel HRC was imported by China, which represents a m-o-m fall of 4% and 21% y-o-y. Over the year to July, China imported 1.372mt of Japanese carbon and alloy steel HRC, a decrease of 4% from a year earlier. The volume of pipes imported by China in July was 36,133t, a 4.7% m-o-m rise, but a 2.9% y-o-y dip. Combined pipes product imports were up 4.4% during January-July, totalling 247,335t.

MARKETS

Chinese steel prices fell sharply in August. Although end user demand has been weak, the key driver was the collapse in iron ore prices through much of the month as expectations for steel production were not able to sustain previous high prices. Prices had stabilised a little by the end of August, but there remain significant doubts about the strength of demand over the coming two months.

LONGS

In Shanghai at the end of August, 20mm HRB400 rebar was trading at CNY 5,050-5,070/tonne ($779-782/t), up CNY 100/t from the week before but still CNY 150/t lower than the end of July. The rebar spot market had begun to recover at the end of the month as sentiment recovered after the collapse in iron ore prices. Actual end user demand however has seen little recovery. The biggest support to the market was the drop in steel output in August, which has prevented a further rise in steel inventories.

Wire rod export offers have barely moved over the month. Chinese mills are reducing export quotas and focussing on the domestic market. Destination markets meanwhile are grappling with covid and the coming monsoon season. Suppliers from other regions into Southeast Asia with more competitive offers are struggling to secure deals, let alone high-priced Chinese mills. Kallanish assessed 6.5mm diameter mesh-grade wire rod at $820/tonne fob China, unchanged from a week earlier and level from a month earlier.

TABLE 1: LONGS PRICES

	2020	y-o-y	Jul-21	Aug-21	M-o-m	Y-o-y
Rebar (CNY/t)	3,597	-4.5%	5026	5,060	0.7%	40.8%
Wire rod fob ($/t)	481	-2.4%	819	823	0.5%	69.0%

Source: Kallanish

FIGURE 16: LONGS PRICES

Source: Kallanish

FLATS

5.5x1,500mm Q235 HRC meanwhile was traded at around CNY 5,700-5,720/t a the end of August, up CNY 35/t from the previous Friday but down CNY 350/t from end-July. Chinese flat product demand is waiting for the autumn rebound in demand. So far however, flat consuming sectors such as white goods manufacturing have shown little sign of a rebound. End user demand remains low and traders are unwilling to restock until they are confident that iron ore has no further to fall.

On export markets HRC offers had finally begun to come down by late August, but they remain firmly higher than buyers' target prices and higher than offers for other origins. The most competitive SS400 HRC offers, which are due for September/ October shipment, were confirmed by sources in Chinese steel mills at $930/t fob China, while some mills are still offering at over $1,000/t fob. Traders are searching for buying interest with some lower offers but with no material at lower prices to back these up. Kallanish assessed 2mm SAE1006 HRC at $905-915/t fob China at the end of August, a drop of $20/t compared to the previous week and $25/t on-month.

TABLE 4: FLATS PRICES

	2020	y-o-y	Jul-21	Aug-21	M-o-m	Y-o-y
HRC (CNY/t)	3,830	1.1%	5,820	5,769	-0.9%	41.2%
HRC fob ($/t)	484	-1.2%	919	928	1.0%	86.3%

FIGURE 17: FLATS PRICES

Source: Kallanish

RAW MATERIALS

Seaborne iron ore prices slumped through August, only increasing again in the last week of the month. Iron ore prices fell in stages, in particular in the first and third weeks of the month. The correction has been accepted as a natural reaction to the weaker outlook for Chinese economic growth and the move to severely restrict steel production over the rest of the year. Although some fluctuation is likely, and prices could gain if steel prices increase in the autumn, iron ore is not expected to recover to its previous perch above $200/t.

The Kallanish 62% Fe index ended the month at $153.75/dry metric tonne, down $40.05/t from a month earlier. The Kallanish 65% Fe index slumped $53.70/t on-month to $176.86/dmt cfr, and the 58% Fe index fell $42.27/t to $123.72/dmt cfr. The slowdown in steel output and disruptions moving material in and out of ports have left port stocks fluctuating, ending the month slightly higher. Across 35 ports, iron ore stocks increased another 1.12 million tonnes in the last week of August to 121.46mt, according to a count by SMM. That was 760,000t higher than at the end of July.

Chinese domestic scrap prices declined far less dramatically than iron ore for most of the month, and then recovered as September approached. Kallanish assessed 6mm+ heavy scrap delivered to mills in the Yangtze River Delta at CNY 3,782/t on 31 August, down only CNY 28/t from the end of July and up CNY 51/t from a mid-month low. August's scrap import volumes amounted to 93,215 tonnes, an increase of 15% month-on-month and a surge of 3,404% year-on-year. This helped total scrap imports to reach 420,000t in the first seven months of this year. The import market in August however was nearly silent and raw materials prices were in turmoil and Chinese steel output was being restricted. Kallanish assessed Chinese HRB 101 imports at $960/t cfr China, unchanged on-week and up $10/t from the end of July.

TABLE 1: RAW MATERIALS PRICES

	2020	y-o-y	Jul-21	Aug-21	M-o-m	Y-o-y
KORE 62% Fe iron ore ($/dmt)	108	16.4%	211	161	-23.8%	32.1%
KORE 65% Fe iron ore	122	16.4%	244	189	-22.5%	44.8%
KORE 58% Fe iron ore	97	16.0%	178	133	-25.5%	23.1%
Heavy scrap delivered mill	2,643	0.6%	3,762	3746	-0.4%	38.5%

Source: Kallanish

Source: Kallanish

View full dataset in attached datafile (subscribers only)

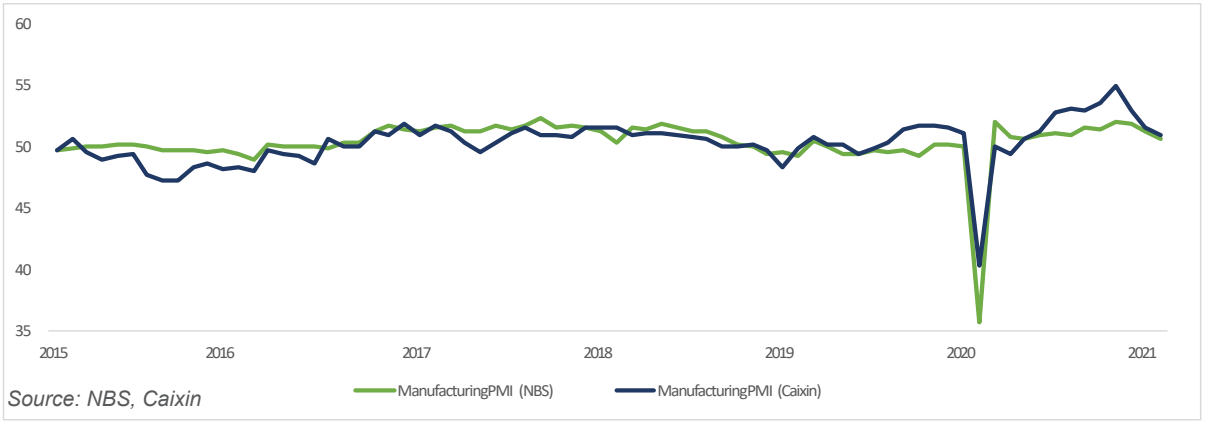
Steel Data	Mar	Apr	May	Jun	Jul
Crude steel production	94.02	97.85	99.45	93.88	86.79
Steel exports	7.54	7.97	5.27	6.46	5.67
Steel imports	2.06	2.05	2.44	2.56	2.10
Apparent steel consumption	84.48	87.70	92.33	85.30	78.90
Calculated real demand	92.57	105.16	100.05	77.94	75.55

INFLATION

Source: NBS

Macro Data	Mar	Apr	May	Jun	Jul
Manufacturing PMI (NBS)	51.90	51.10	51.00	50.90	50.40
Manufacturing PMI (Caixin)	50.60	51.90	52.00	51.30	50.30
CPI	0.40%	0.90%	1.30%	1.10%	1.00%
PPI	4.40%	6.80%	9.00%	8.80%	0.09
FAI (CNY trillion)	9.60	14.38	19.39	25.59	30.25
Industrial Value-added	14.10%	9.80%	8.80%	8.30%	6.40%

MANUFACTURING PMIS



Source: NBS, Caixin

Downstream data	Mar	Apr	May	Jun	Jul
Real estate investment *	2757.60	4,024	5,432	7218	8490
New Construction starts ytd**	361.63	539	743	1013	1189
Completed construction ytd**	191.22	227	276	365	418
Real estate sales ytd**	360.07	503	664	886	1016

SAMPLE

Kallanish

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In the next issue we will be looking out for signs of how strong the seasonal recovery in demand may be this autumn.

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