

CHINA STEEL INTELLIGENCE REPORT

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SLOWER H2 WON'T STOP TIGHT STEEL MARKETS

BY TOMAS GUTIERREZ

China's policy environment continues to fluctuate dramatically, while sentiment swings have begun to boost steel price volatility, and have finally knocked iron ore off its \$200 perch. Expectations for the full year remain broadly on track, with the strong growth rates in output and demand in H1 turning negative in H2.

In this issue we look at the balance of the market for the full year, and how it will tighten Chinese steel markets in the coming months.

The first half of the year has seen strong year-on-year growth in Chinese steel output and demand, but this is as much due to the weak base for comparison as to the speed of its economic recovery. China's leaders seem to be increasingly concerned about the economy in the second half of the year. The country is struggling to boost consumer demand, facing imported inflation from higher commodity prices, and now is facing further disruptions due to a new outbreak of Covid. Amidst all of this, China is aiming to push through headline policies such as managing debt levels, reducing carbon emissions and economic restructuring. As ever it is a difficult balance that China is trying to maintain.

TABLE 1. SUPPLY AND DEMAND

	2020	Jan-Jun 2021	Y-o-Y	2021 Outlook	Y-o-Y
Official Crude Steel Output	1,115	963	+11.80%	1,061.4	-0.80%
Apparent consumption	1,086	919	+10.38%	979.3	-1.20%
End-user demand	1,031	892	+11.33%	979.2	-0.90%

Source: National Office, Thomas

FIGURE 1. STEEL PRODUCTION AND DEMAND 2016-2021



Source: National Office, Thomas

The balance was called into question by the quarterly meeting of the Politburo at the end of July. It resulted from the meeting noted a series of risks to economic growth, and emphasised that local government bond issuance should continue, and priority should be given to projects that were ready to spend the money quickly. This triggered a loss of confidence in steel markets as expectations for H2 GDP were adjusted downwards and steel and raw materials prices slumped as a result. It is worth bearing in mind however that steel often enjoys a crisis. Demand is often supported when China feels the need to support growth, rather than when it feels confident it can focus on restructuring.

This, and the kind of support given to the economy, shape our expectations for steel demand and production in the rest of the year. One key factor is that Chinese leaders have reinforced the message that slower economic growth does not mean the restrictions on production will be loosened. As discussed last issue, China wants 2021 crude steel output to be level with 2020. This would imply a sharp drop in steel output, especially in the last quarter of the year. So far, there has been some decline in output, but it has not been even and is far from deep enough to achieve the central government target.

FIGURE 1: FORECASTED CRUDE STEEL OUTPUT



Source: Kallanish, National Steel Association (domestic supply)

Kallanish expects steel output to just miss the target over the year. That is, production will increase slightly year-on-year. Our revised forecasts are for crude steel output to total slightly over 1.260 billion tonnes this year, up 1.8%. In our previous forecast, issued before the target for output cuts was spoken of, we had expected output to increase 2.8% to around 1.280 billion tonnes.

This decline in domestic supply will be balanced by two factors. Firstly, imports should be higher than we previously expected in H2. Secondly, demand should be a little lower. Imports had been expected to almost halve to around 20m from 38m in 2020. Now however imports are likely to decline only around 10.8% to 33m. Imports have been supported so far this year by the covid outbreaks in Southeast Asia. Whether demand there and from Chinese prices have left open the trade in semi-finished steel from Southeast Asia. Tight markets inside China, due to production cuts, and struggling markets outside China mean that this dynamic could be continued through the second half. H2 imports would still be down compared with the surge in late 2020, but would not return to historical levels.



Demand in the first half has grown strongly year-on-year, but has still disappointed. The strong y-o-y growth was to be expected because of the impact of Covid. A y-o-y decline in demand over the summer was also expected, as China's 'catch-up' demand made for a record summer in 2020. The first half of 2021 also saw a slowdown in issuance of new Special Purpose Bonds and weaker construction and infrastructure building than previously expected. This has been driven by China's attempts at credit control. Local governments have been urged to balance their books and local government financing is increasingly coming under central government monitoring. Considering the key role that debt fund raising had in local government infrastructure projects, this has had a knock-on impact on steel demand. Large private developers meanwhile are largely unable to raise new debt because of new rules effective 1 January 2021. They have slowed down land purchases and moved to focus on sales of property to boost revenues. Although China is now worried about economic growth, and could boost bond issuance in the coming months, the slowdown has already taken hold, and a broader recovery in construction steel demand is not likely until at least Q3.

FIGURE 1: NET EXPORTS FORECAST



Source: IHS, Kallanish (author's ed)

Other sectors however have been stronger than expected, in particular for consumer goods and ships. The recovery in both white goods and automotive output has been sustained. Output had been expected to be limited by struggling overall consumer spending, and the global chip shortage which has impacted automotive and other sectors elsewhere. Government incentives however appear to have kept the sectors active and so forecasts have been revised slightly higher. Shipbuilding meanwhile has seen a strong build-up in order books. The combination of a very tight shipping market, soaring freight rates and new industry emissions requirements have led to a surge in activity that has also forced an upwards revision in our demand forecasts for this sector.



TABLE 2. DEMAND FORECASTS BY SECTOR

	NEW 2021 FORECAST	Y-o-Y change
Crude steel output	1,281.40	0.80%
Exports	70	28.80%
Imports	35	-10.3%
Apparent demand	975.3	-1.20%
End use demand	975.3	-0.50%
Automotive production	68.66	3.80%
Auto parts and repair	42	7.70%
White goods	18.6	7.30%
Shipbuilding	14	12.30%
Energy	35	9.40%
Engineering	165	3.10%
Construction	335	-3%
Infrastructure	350	-2.30%
Others	108	-6.10%

Source: National Steel Union

FIGURE 1. A SENSIBILITY OF INVESTORS HAVE PLANNED TO CONTROL OUTPUT



Source: NBS, National crude steel output in million tons

The fact that support so far has leaned towards consumer goods and away from investment means that 2021 is still on track, as predicted in our previous forecast, to be the first time in several years that consumer spending has generated a larger proportion of demand than a year earlier. Corporate capital investment is also due to see an increase in the proportion of demand it generates, while real estate and infrastructure investment will see their share decline for the first time since the 2015 real estate crisis. Real estate and infrastructure will still be by far the largest contributor to demand, with almost 60%, but any move that reduces reliance on these sectors should be positive for the industry in the medium term.





SUPPLY & DEMAND OVERVIEW

June data shows Chinese demand slumped at the start of the summer, while steel output saw a more modest decline. This set the tone for July, when output fell more rapidly while demand remained weak. June crude steel output dropped 6.2% month-on-month but was still up 1.2% y-o-y at 93.87bmt, according to NBS. Over the first half year, crude steel output is now 11.8% higher at 563.32bmt. According to ten-day output by member mills released by the China Iron and Steel Association (CISA), output in July was noticeably lower. At the start of July crude steel output slipped 5.58% from end-June, and only recovered slightly in mid-July. If that trend holds, national output could be down several percentage points month-on-month, leading to the first official monthly y-o-y decline in crude steel output this year.

Data derived from satellite imagery in conjunction with TallyEarth can give an even more up-to-date picture. For six key steelworks monitored by the data series, there appeared to be a rebound in production in the last week of July. Handed Iron and Steel, Shougang Jinglang, and Wuhan Iron and Steel all appeared to be operating at above their July average in the week ended 31 July. In particular Handed Iron and Steel saw a rebound in its output after a sharp drop in mid-July. This suggests that the decline in July output from June may be modest. For several plants, including Handed Iron and Steel, their July average output levels were higher than readings for June. Shougang Jinglang however saw a significant drop in its readings.

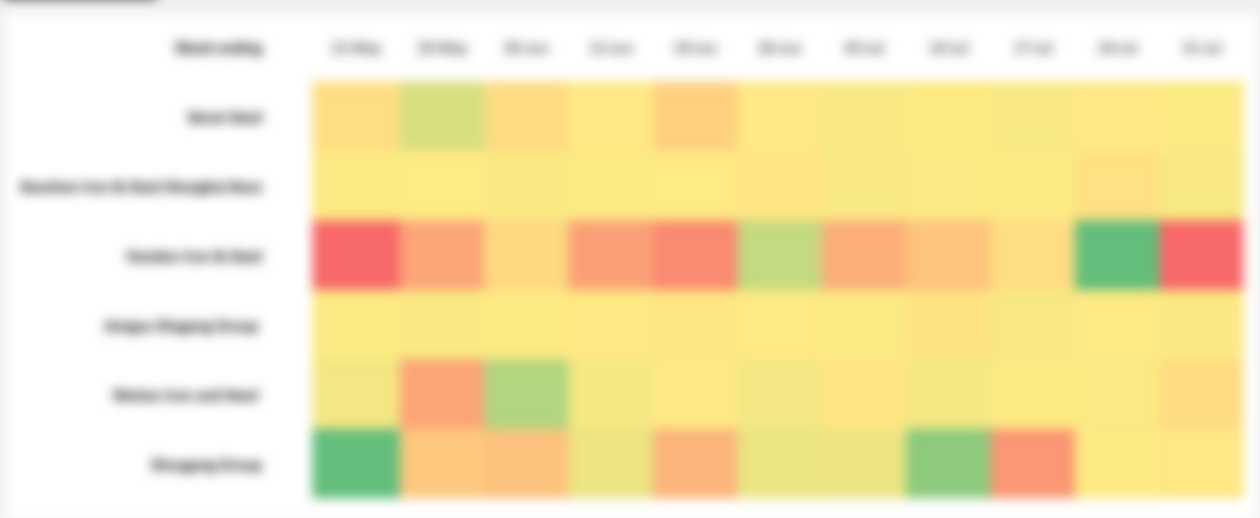
FIGURE 1. CHINESE CRUDE STEEL IN JUNE



Source: NBS, National crude steel output in million tons



FIGURE 6 CHINESE STEEL OUTPUT RECOVERING 2016-2021



Source: Kallanish Steel

Apparent steel demand continues to hide the full extent of the decline in end user buying, but this too was down noticeably in July. Apparent demand was down 7.8% month and 3.8% year at 85.30kmt in June. Over the first half year apparent demand is now up only 10.4% at 511.20kmt. Inventories however tell of a deeper problem with demand as they started to increase in June at a faster rate than is usual. This left end user steel demand down 22.1% month and 15.8% year at 77.94kmt. Over the first half year, end user demand is now up only 11.3% year at 481.51kmt. This also left the inventory rate (inventories/demand) at 107.3%, the highest level since March and higher than is typically seen outside of the Spring Festival inventory build-up. The slowing of the Chinese economy into H2, and the slower pace of investment in infrastructure and of construction, is starting a key part of the weak market sentiment which brought ferrous prices lower at the end of July.

FIGURE 7 SUBSIDIZED RATE JUMPS IN JUNE



Source: Kallanish Steel



POLICY WATCH

The China Iron and Steel Association (CISA) has completed the first draft of the "Imitation Plan for Peak Carbon in the Iron and Steel Industry," but the document is not yet available for wider circulation. In terms of ultra-low emission, CISA stated that 61% of China's crude steel capacity has completed or is undergoing transformation, exceeding the 50% target set for 2025. The goal of 80% of capacity meeting ultra-low emissions standards in 2025 remains unchanged. Steelmakers that are inefficient, energy intensive or have poor equipment should be eliminated entirely in favour of larger more efficient companies.

China's national carbon emission trading market was officially launched by the Shanghai Environmental Energy Exchange on 16 July after the opening ceremony held at the same time in Beijing, Shanghai and Wuhan. Over 400 of emissions allowances traded on the first day. The carbon emissions of the first batch of more than 2,000 power companies exceed around 4 billion tonnes annually. Carbon trading in China's steel industry is expected to begin as early as next year, market participants said. A proposal for allocation of free allowances to steelmakers is being drawn up by CISA.

Chinese think tank National Institution for Finance and Development has noted that China's total non-financial debt as a percentage of GDP has now declined for three quarters in a row for the first time since the 2008 financial crisis. The anomaly of rapid GDP growth inflated by the weak start to 2020 may be partly slowing these figures however. Economist Michael Pells warns that the ratio could reverse direction over the coming several quarters.

The standing committee of the National People's Congress has been preparing a document to strengthen oversight of local government debt. Local legislatures would be given oversight of government borrowing via investment funds, public-private partnership and SOEs, and be responsible for developing debt repayment plans. The move would further restrict local governments' ability to raise funding off-book to invest in construction and infrastructure.

The China Banking and Insurance Regulatory Commission (CBIRC) has reportedly been issuing "Document No. 10" to banks and insurers. The document orders them not to help local governments to raise debt through local government financial vehicles. These have been used to raise off-book unregulated debt. Henan is expected to see increased government financial support to rebuild after the catastrophic floods in the province. Heavy rains from 16th July have killed at least 300 people and flooded large parts of the city of Zhengzhou. Anyang was also hit, with Yixin Steel halting production after becoming completely flooded. A leading demographer from the Chinese Academy of Social Sciences has noted that only economists, not demographers can face the challenges of China's demographic crisis. Population ageing and decline is a "structurally irreversible long-term trend," he said in an interview with Caixin. Boosting labour productivity and consumption are the key measures to respond to the problem, not attempts to boost fertility rates, he argues.

Zhejiang province will form a pilot zone for achieving "common prosperity." This is the next core economic goal of the Communist Party after achieving a "moderately prosperous society." Residents in the zone are expected to increase disposable income per capita to CNY 75,000, while labour payments should account for 50% of GDP, urbanisation should reach 70% and the gap between urban and rural incomes should narrow by 2025. The zone will be used to test policies before nationwide application.





END USERS

REAL ESTATE

China's real estate data for June shows an industry struggling to adapt to tighter financing, and explains part of the sharp decline in and over demand last month. Focus is turning to sustaining revenue and falling average prices. Investment data remained firm over the first half-year, up 10% at CN¥ 7.218 trillion (\$1.11 trillion), but June investment was up only 1.0% from 4.8% growth the previous month, according to the National Bureau of Statistics (NBS). Real estate sales in the first half were also up 27.7% at \$86.32 trillion square metres, but June growth of 7.0% y-o-y was down from 8.2% in May. Developers appear to again be striving to push up sales volumes through discounts. Average national prices in June were CN¥ 11,000/sqm, down 4.4% month-on-month.

Activity was also weighted towards securing higher sales volumes. New starts were up just 1.8% over H1 to 1.212 trillion sqm. In June new starts were down y-o-y for the first consecutive

month. Completions however are soaring. Over H1 they were up 25.7% y-o-y to 384.87 sqm, and in June they jumped 58.32 to 58.58m sqm. Developers only declare projects complete when they need to as they seek to avoid liabilities and obligations to repay debt. But with financing restrictions in place, they are moving to offload projects in a wave of consolidation.

The upshot in the short term may be less money spent on concrete and steel. China hopes however that this period of restructuring will be the least painful path to a more sustainable real estate market.

Real estate construction levels in H2 are expected to remain under some pressure despite moves to support economic growth. Developers remain confined by new debt rules and this is likely to suppress construction activity. Kallanish now expects a decline of around 2.7% in construction and infrastructure start demand in 2021 to around 100m. We had previously forecast a 1.8% decline to around 100m.

FIGURE 2: REAL ESTATE INVESTMENT GROWTH



Source: NBS, Kallanish (Y-o-Y)

AUTOMOTIVE

Due to chip shortages and high raw material prices, Chinese automobile production continued to slump for the first consecutive month in June. Volumes came to 1.34 million units with a decrease of 4.75% month-on-month and 15.5% year-on-year, according to data from the China Association of Automobile Manufacturers (CAAM). Semi-annual production was therefore pushed up to 12.57m units, up 24.2% y-o-y. New energy vehicles and export markets performed strongly in June, boosting the Chinese auto industry to a certain extent. New energy vehicle sales of 208,000 units touched a record high. The export market was also a new bright spot. Because of the recovery of the international market and increasing competitiveness of Chinese brands, a monthly record of 108,000 units were exported, with an increase of 100% y-o-y.

Monthly implied finished steel demand calculated by Kallanish from the CAAM data was down 5.72% month-on-month at 3.48 million tonnes, boosting year-to-date demand to 41.1 to 22.16m, up 24.75% y-o-y. Although unstable factors remain in the global economic recovery and epidemic control in H2, CAAM recommends the industry to be cautiously optimistic due to China's recovery and the expected resolution of chip supply issues in the fourth quarter.

Combined with continued government support for consumers to purchase new and replacement vehicles, this should keep the outlook for automotive steel demand fairly strong. Kallanish now expects finished steel demand from automotive production to increase around 3.5% this year to almost 46m, the last previously forecast a 3.2% increase to 45m.

FIGURE 5. AUTOMOTIVE STEEL DEMAND



Source: CAAM, Kallanish International

SHIPBUILDING

China's shipbuilding industry performed strongly in the first half of this year, and maintained a monthly level of more than 4 million tonnes of shipbuilding completions in June. According to China Association of the National Shipbuilding Industry (CANSI) data, China's shipbuilding completions reached 20.92 million deadweight tonnes in the first half of 2021, up by 10% year-on-year. In June only, the completions were 4.08m dwt, the same as in May.

With the strong global market recovery in H1, China's shipbuilding sector saw new orders soar 208.8% on-year to 38.24m dwt. Total orders in hand by the end of June reached 88.6m dwt, an increase of 15.1% on-year. This implies that about 7.22m of steel was consumed by the shipbuilding sector during the first six months

of 2021, including 1.6m consumed in June only, Kallanish estimates. From January to June this year, the global market share of China's shipbuilding industry has remained above 40%. Shipbuilding completions, new orders and orders-in-hand accounted for 40.8%, 51.2% and 45.8% of the world's total in deadweight tonnage.

The sharp increase in freight rates and the need to roll shipping fleets to comply with new emissions rules has had a more positive impact on new orders than previously expected. Kallanish now expects a 12.2% increase in steel demand from shipbuilding to around 1.6m tlb, up from previously forecast 4% growth.

FIGURE 16: SHIPBUILDING COMPLETIONS



Source: CANSI announcements

WHITE GOODS

China's white goods sector continued to see a summer slowdown in June. Due to the increasing base for comparison, the sector also saw its first y-o-y decline in finished steel demand since May 2020. Output of refrigerators and air conditioners were both down y-o-y in June, while freezers and washing machines were steady or up slightly. 2021 was unusual in that white goods production continued to increase steadily through the summer due to supportive policies. 2021 has returned to a more usual seasonality, with weaker summer output and peaks in spring and autumn. Implied finished steel demand in June was down 5.8% y-o-y and 2.55% month at 1.45Bmt. Over the first

half year, demand was still up 25.8% y-o-y at 6.8Bmt, but this was slower than the 32.55% y-o-y growth over January-May and the 15.8% growth over the first two months of the year.

Kallanish now expects 7.2% demand growth from the white goods sector, compared with 6.5% in the previous forecast, to around 15.6mt.

FIGURE 11: WHITE GOODS DEMAND



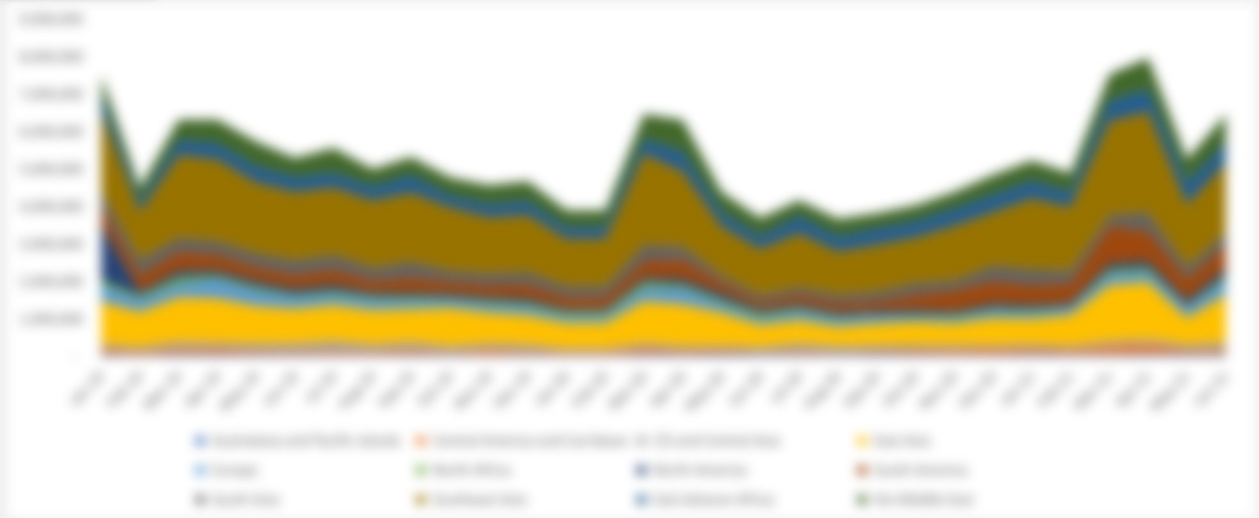
Source: IHS, Kallanish (forecasting)



TRADE

China's net steel exports in June were 3.8Mtn, up 38% m-o-m and up from net imports of 853,000 in June 2020. Chinese customs data shows. The month jump in June followed a sharp drop the previous month when export rebates were removed from most products. Further rebate removals and export taxes failed to materialise in June (with the end of export rebates on CRMs) and other products only coming on 1 August). Over the first six months of the year, net exports totalled 24.27mtn, up 55.4% y-o-y. Exports in June were up 22.4% m-o-m and 74.4% y-o-y at 8.4Mtn, while over the first half year exports were up 30.2% to 37.387mtn. Imports meanwhile gained 4.7% m-o-m but slumped 47.3% y-o-y to 2.55Mtn. Imports over January-June were up 1.7% to 13.117mtn.

FIGURE 12: CHINESE EXPORTS BY REGION



In June, China exported 1.8Mtn of steel to Southeast Asia, the largest destination region that month. This was up 12.7% m-o-m and 52% y-o-y. Over the first half year exports to this region increased 30.2% y-o-y to 12.27Mtn. The second largest export destination was East Asia, where volumes jumped 77.4% m-o-m and 108.2% y-o-y to 1.287mtn in June. Over January-June volumes were up 28.1% y-o-y to 6.4Mtn. Another 742,000 of steel exports in June went to the Middle East, up 22.3% m-o-m and 98% y-o-y. Over six months this was up 16.4% to 3.8Mtn. South America saw its share of Chinese steel exports surge 226.4% y-o-y and increase 7.2% on-month in June to 608,000. Over January-June Chinese exports of steel to South America were up 98.2% to 4.02Mtn.

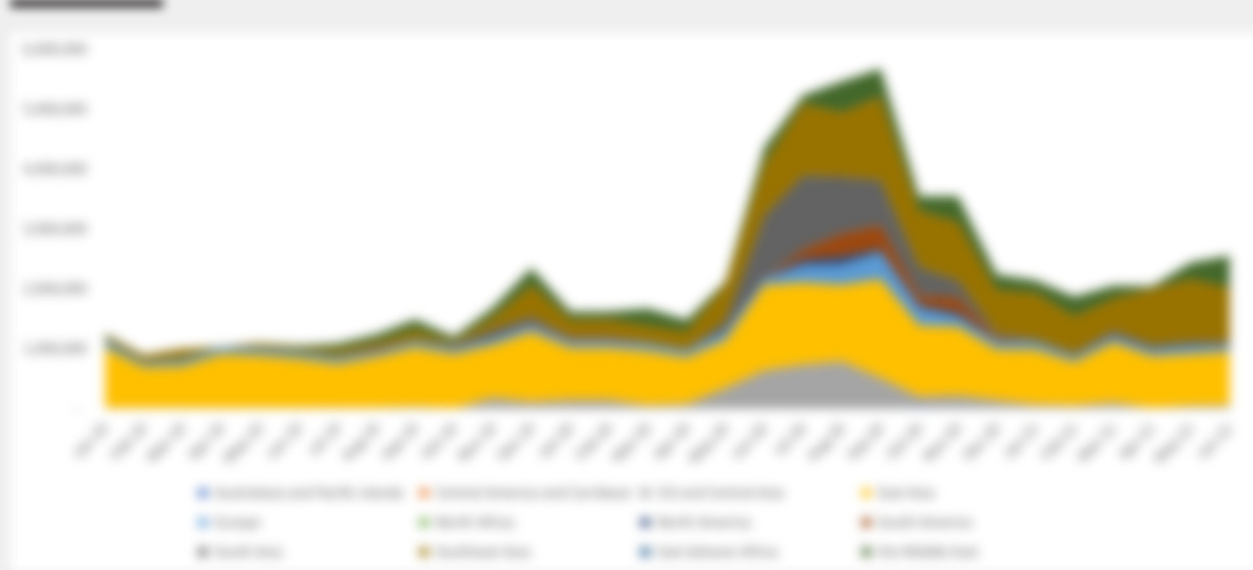
By product, bats comprise the bulk of Chinese exports. China exported 4.872bn of bats in June, up 32.1% month and 112% y-o-y. Over six months bat product exports totalled 28.821bn, up 41.8% y-o-y. China also exported 1.215bn of long products in June, up 4.1% month and 34.8% y-o-y. January-June long exports totalled 6.118bn, up 23.8% y-o-y. China also exported 775.181t of paper in June, up 1.7% month and 3.3% y-o-y. These totalled 4.344bn over the first half year, down 4.8% y-o-y. Semi exports were negligible at 1.877t in June, up 342% month but down 24.3% y-o-y. Six-month semi exports were 3.551t, down 71% y-o-y.

FIGURE 14. CHINESE EXPORTS BY PRODUCT



Source: ITC, Kallanish

FIGURE 15. CHINESE EXPORTS BY REGION



Source: ITC, Kallanish

China meanwhile imported 862,216t of steel from Southeast Asia in June, down 10% month but up 1.8% y-o-y. It imported 4.83bnt of steel from Southeast Asia over the first half year. Imports from East Asia were up 2.8% month but down 37.3% y-o-y in June at 885,733t. Over six months these were down 6.3% y-o-y to 5.2bnt. China also imported 538,932t of Middle Eastern steel, surging 88.7% month and 108.3% y-o-y. Over January-June it imported 1.5bnt from the Middle East, up 53.8% y-o-y. The fourth largest source of imports was Europe, which supplied 84,303t of steel to China, down 17.3% month and 3.8% y-o-y. Over six months this volume was down 14.3% to 503,528t.

FIGURE 16. CHINA'S IMPORTS BY PRODUCT



Source: ITC, Kallanish

The main imported product group into China is seeds. China imported 1.3bnt of seeds in June, up 5.8% month but down 47.8% y-o-y. Over the first half of the year, seeds imports reached 5.7bnt, up 3.8%. China's fat product imports in June were 861,786t, up 2.3% month but down 43.3% y-o-y. Over six months fats imports were 5.27bnt, down 8% y-o-y. China imported 385,238t of lungs in June, up 7.8% month and 8.2% y-o-y, while imports over six months were up 32.4% y-o-y to 1.8bnt. China also imported 34,488t of paper, up 3.7% month and 10% y-o-y, while six month imports were up 5.7% to 211,181t.



MARKETS

Chinese steel prices increased rapidly over July despite weak demand. Falling output and expectations of additional output cuts later in the year were key to stronger sentiment. The very end of the month however witnessed a sharp drop in sentiment and economic fears for H2 (see above). Export prices followed domestic trends but trading activity was curtailed by continued confusion over export tax changes. Raw materials followed an opposite trend however, falling in the second half of the month and picking up speed in the last days of July.

LONGS

In Shanghai on 30 July, 20mm HPB400 rebar was trading at CN¥ 5,200-5,220/tonne (505-508%), unchanged from the week before but CN¥ 480/t higher than the end of June. The production restriction policy and the government's renewed announcements to control commodity prices had previously boosted confidence and led to a gradual increase in futures prices. The spot market however had lower margins than expected due to weak end user demand and trading has been quiet. Lower steel output in July was key to sustaining prices over the month, and helped rebar inventories to draw a little lower.

The wire rod export market was meanwhile stagnant. Kallanish assessed 6.5mm diameter mesh-grade wire rod at \$620/tonne for China at the end of July, down

\$10/t from a week earlier but still \$10/t higher than the end of June. Major mills are reducing the volume available for export, but offers are steady. In view of the fluctuations in the domestic steel market, steel mills are focusing more on local sales while reducing output. Chinese prices remain uncompetitive in key export markets, while Southeast Asian demand has been hit hard by a wave of Covid-induced lockdowns.

TABLE 1: LONGS PRICES

	2020	Y-o-Y	May-21	June-21	Week	Y-o-Y
Rebar (CN¥/t)	5,207	-4.3%	4,902	5,026	2.3%	42.3%
Wire rod (US\$/t)	481	-2.4%	582	519	-1.7%	79.2%

Source: Kallanish

FIGURE 16. LONDON PRICES



Source: Kallanish

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FLATS

5.5m tonnes (2018 HRC) meanwhile was traded at around CN¥ 6,200-6,270 in late July up CN¥ 100 on-week and CN¥ 610 on-month. The Ministry of Ecology and Environment has stated it will cooperate with other parties to formulate a staggered production plan for steel enterprises in the autumn and winter. This was the first central measure to support attempts to cap 2021 crude steel output at 2020 levels and had bolstered market sentiment until the last days of July. HRC received an additional boost as it became clear that any new export tax would not be imposed until September. This allowed an additional outlet for HRC volumes in the coming weeks.

Chinese HRC export offers meanwhile were stalled in late July despite Indian and Russian exporters filing their offers into Southeast Asian markets. HRC offers were

given by Chinese destinations at about \$1,000/tb, attracting little interest, as has been the case for several weeks. "We are still trying to give offers to all regions, but no-one can accept, obviously," an insider at a steel producer says. Kallanish assessed (Iron 542100 HRC) at \$930-940/tb China on 30 July unchanged on-week and up \$40/tb from the end of June.

TABLE 4: FLATS PRICES

	2020	Y-o-Y	Jul-21	Jul-21	W-o-W	Y-o-Y
HRC (CN¥/t)	5,830	1.1%	5,579	5,820	4.3%	46.7%
HRC Feb (t)	484	-1.2%	930	919	-1.2%	103.3%

FIGURE 11: FLATS PRICES



Source: Kallanish

RAW MATERIALS

Seaborne iron ore prices fluctuated in a tight range of around \$215-\$217/t in the first half of the month, and then in a slightly wider and lower range to US \$216-\$218/metric tonnes of Qinghai by 31 July. It was after that that markets steadily lost confidence, in particular at the end of the month when the Proliburn signalled its fears for the economy in H2. The Kallanish KIORE 60% Fe index ended July at \$198.8/metric tonnes of Qinghai, down \$17.2/t on-month, and at the lowest level since late May. The Kallanish KIORE 60% Fe index dropped \$15.1/t on-month to \$230.6/metric t, and the KIORE 50% Fe index slipped \$16.1/t to \$160.6/metric t. China's iron ore port stocks were building up steadily throughout the month. By the end of July they had reached 125.7mt, up from 114.2mt in late June, according to a count by SMM. Some of the build up was due to short-term disruptions at ports, such as those due to poor weather or pollution controls. Fundamentally however, the iron ore market was less tight. Shipments into ports have been firm, while Chinese steel output was lower in July, iron ore markets are expected to remain fairly loose in August, with prices firmly under \$200/t.

Chinese domestic scrap prices moved far less dramatically over the month than iron ore. Periodic electricity restrictions across parts of China slowed consumption. Tighter margins at the start of the month also meant less C&F steelmaking or lower demand. Nevertheless, by the end of July Kallanish assessed Chinese domestic heavy scrap delivered to mills in eastern China's Yangtze River Delta at CNF 3,761/t including VAT, CNF \$111 higher than at the end of June. Prices have in part been supported by tight supply. Due to the decline in domestic steel prices in May, China's scrap imports fell in June. According to Chinese customs data, scrap imports in June fell by 32.8% from May to 68,000 tonnes, and imports reached 268,000 tonnes from January to June. There is a large price gap between domestic scrap and imported scrap. Added to the impact of crude steel output reduction in H2, imports are expected to decline slightly in the next few months. On 31 July, Kallanish assessed Chinese HRS 101 imports at \$200/t of China, stable on-week and up \$20/t from the end of June.

TABLE 1. RAW MATERIALS PRICES

	2020	2019	Jul-21	Jul-20	Mo-o-m	Yo-y
KIORE 60% Fe iron ore (Qinghai)	108	16.4%	211	211	0.0%	96.31%
KIORE 60% Fe iron ore	122	16.4%	242	244	0.8%	108.1%
KIORE 50% Fe iron ore	97	16.0%	164	176	-6.3%	89.8%
Yangtze delta heavy scrap	2,643	0.6%	3,699	3,762	1.7%	42.7%

Source: Kallanish

FIGURE 16. BASE MATERIALS PRICES



Source: Kallanish



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VIRTUAL CONFERENCE

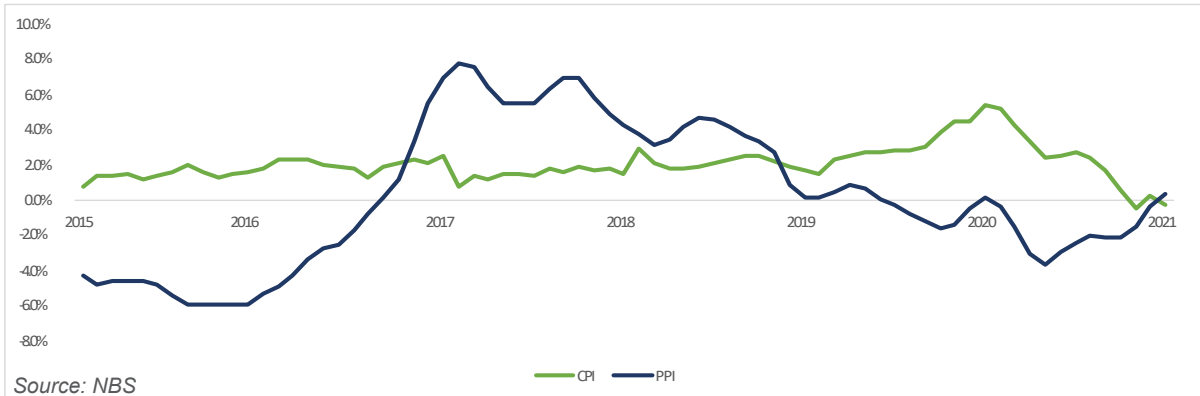
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How far ahead is effective steel production output

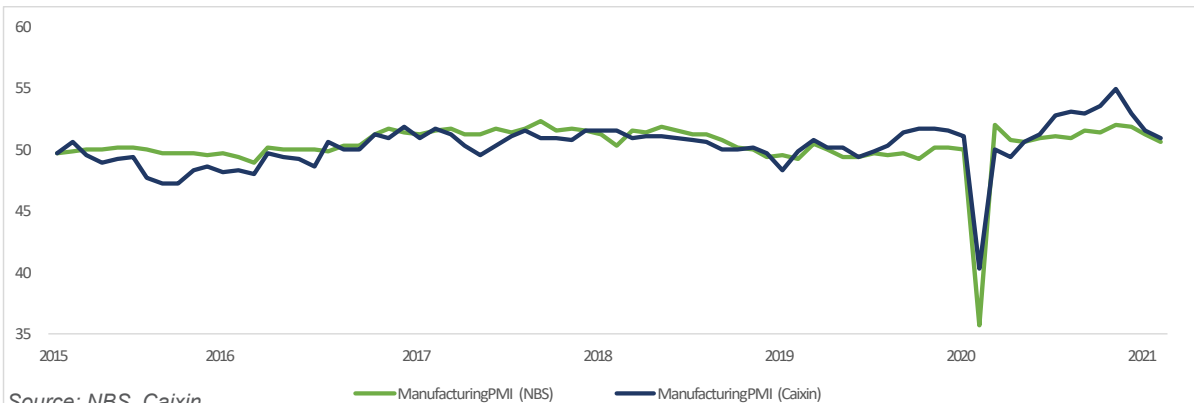
Month Date	Feb	Mar	Apr	May	Jun
Crude steel production	83.05	84.02	87.85	86.45	83.88
Steel exports	4.90	7.54	7.87	6.27	6.46
Steel imports	1.87	2.06	2.05	2.44	2.56
Apparent steel consumption	76.42	84.48	87.75	82.33	85.30
Calculated steel demand	34.81	62.57	105.16	100.05	77.94

INFLATION

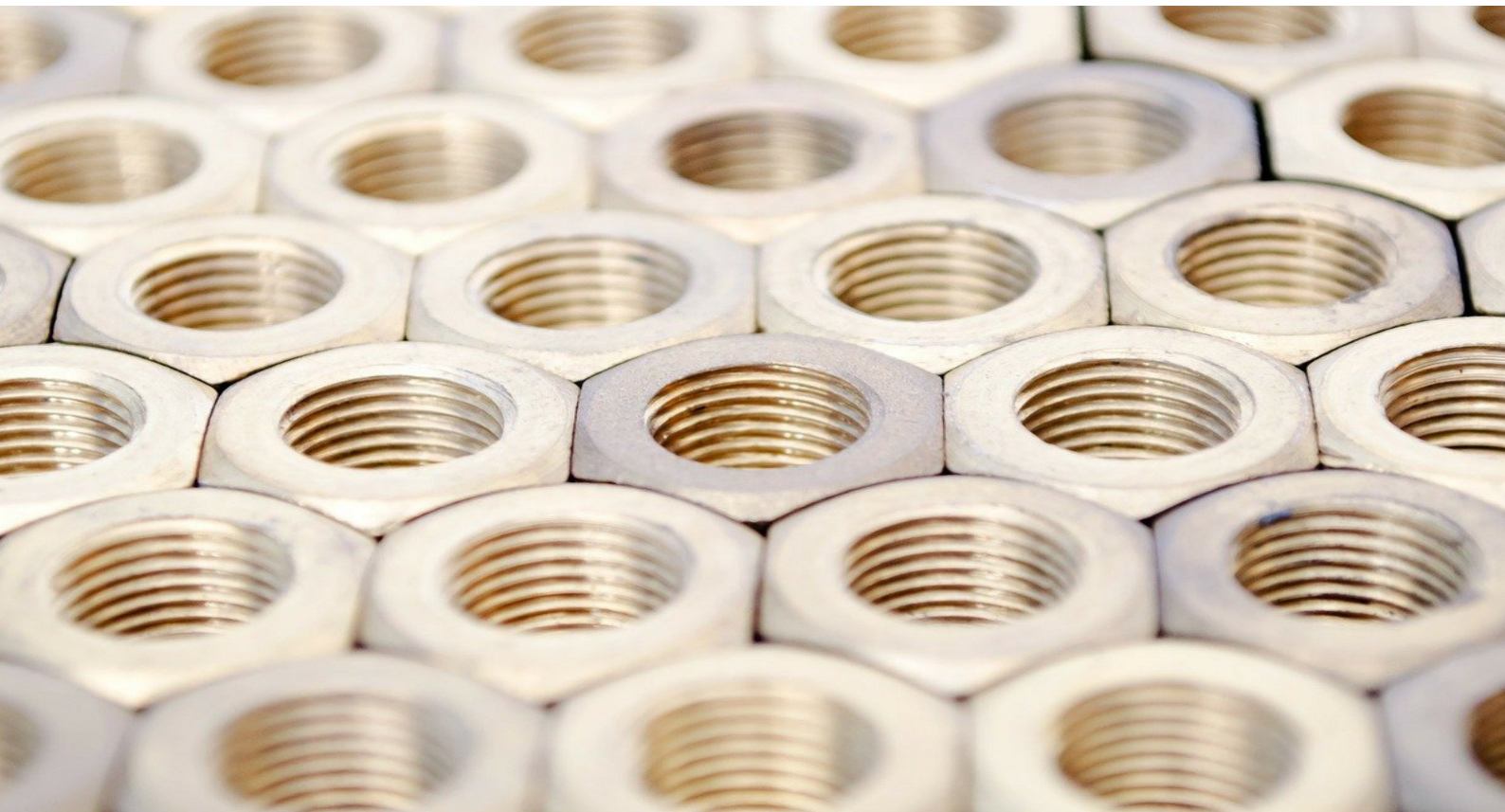


Month Date	Feb	Mar	Apr	May	Jun
Manufacturing PMI (NBS)	50.80	51.80	51.10	51.30	50.80
Manufacturing PMI (Caixin)	50.80	50.80	51.80	52.00	51.30
CPI	-0.20%	0.40%	0.80%	1.30%	1.10%
PPI	1.70%	4.40%	6.80%	9.30%	8.80%
Feb CNY index	4.52	9.80	14.38	19.38	25.58
Industrial value added	35.10%	14.10%	9.80%	8.80%	8.30%

MANUFACTURING PMIS



Construction Data	Feb	Mar	Apr	May	Jun
New estate investment 1	1368.80	2757.80	4.024	5.432	7218
New Construction starts yd2	176.37	381.83	538	743	1013
Completed construction yd2	136.25	191.22	227	276	365
New estate sales yd2	173.83	380.07	503	664	886



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Next month, we will be looking at China's plans to reduce carbon emissions from the industry, and the impact of markets.

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