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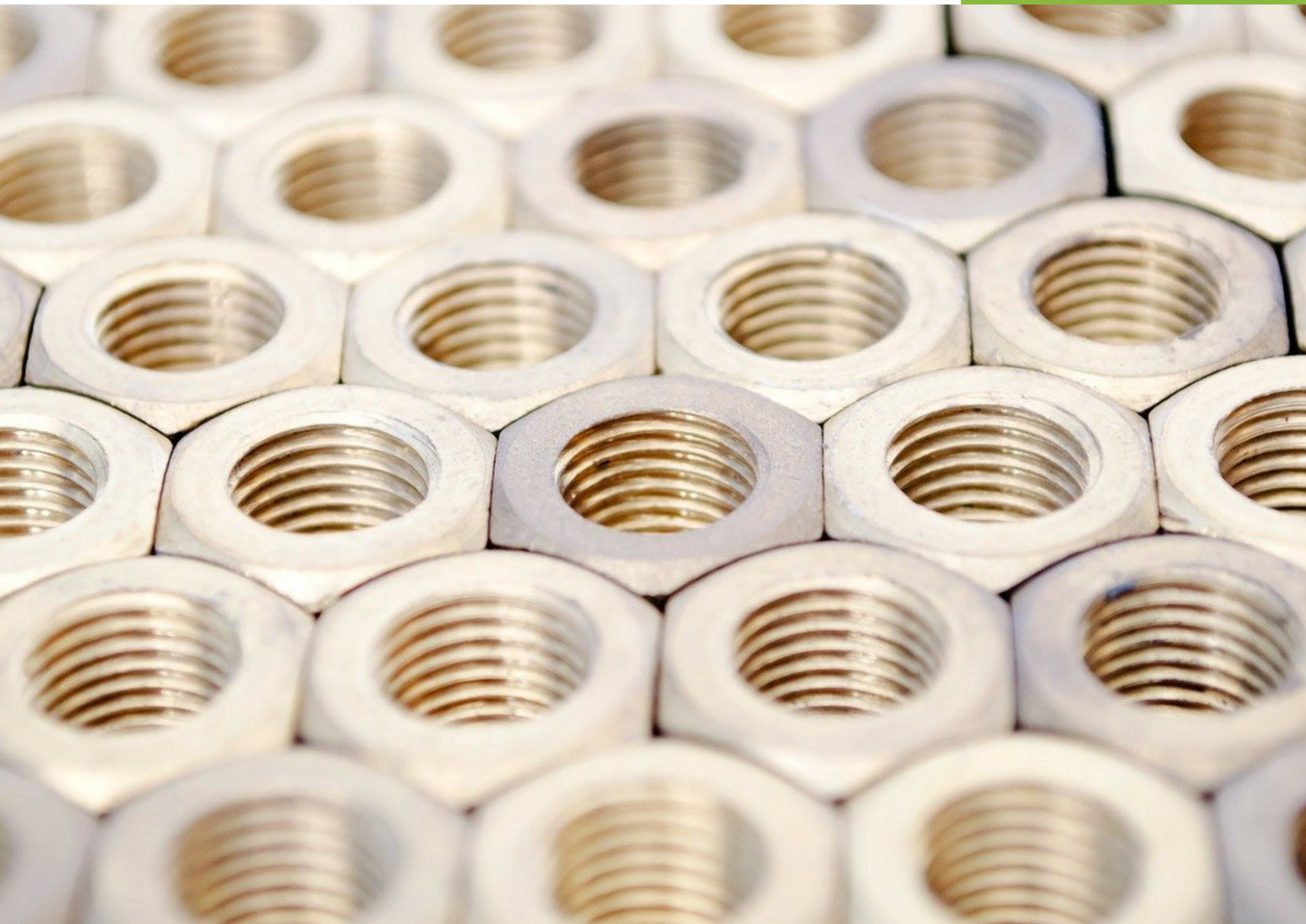


CHINA STEEL INTELLIGENCE REPORT

Slower H2 won't stop tight steel markets

IN THIS MONTH'S ISSUE

A game of two halves

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 basis 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.

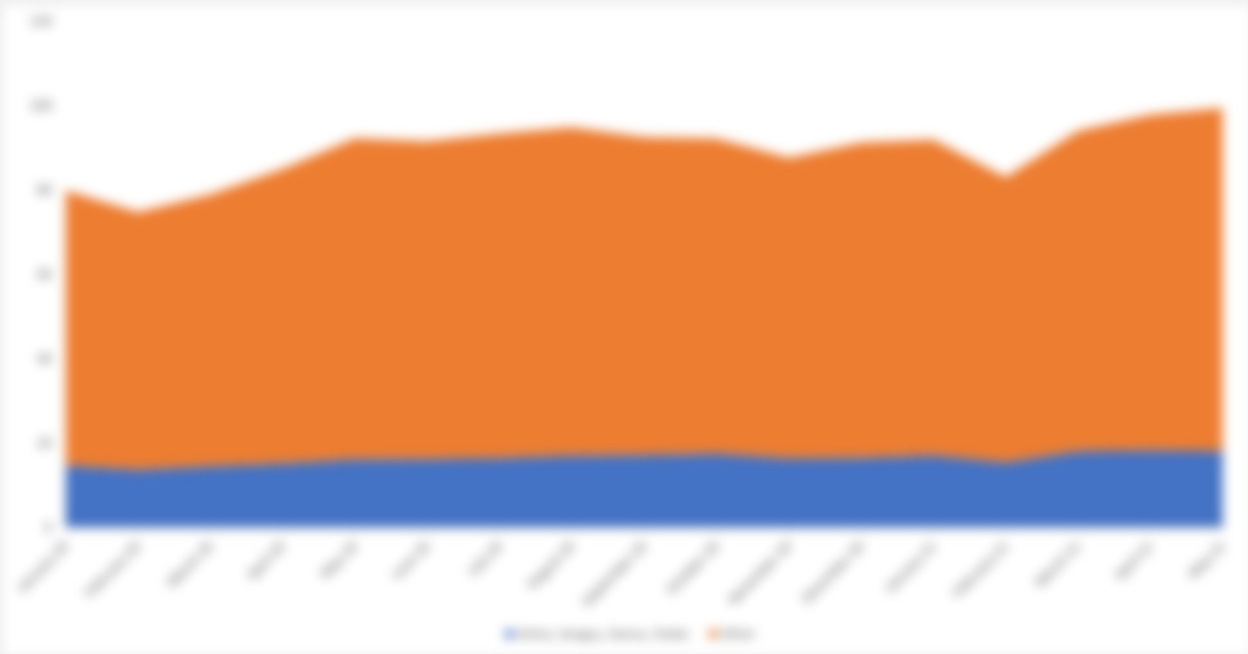
TABLE 1: SUPPLY AND DEMAND

	2020	Jan-Jun 2021	Y-o-y	2021 Outlook	Y-o-y
Official Crude Steel Output	1,115	563	11.80%	1081.4	0.80%
Apparent consumption	1,035	511	10.38%	973.3	-1.20%
End user demand	1,031	482	11.53%	975.2	-0.50%

Source: Kallanish. Million Tonnes

FIGURE 1: STEEL PRODUCTION AND DEMAND 2019-2021

Source: Kallanish. Million Tonnes



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% m-o-m but was still up 1.5% y-o-y at 93.875mt, according to NBS. Over the first half year, crude steel output is now 11.8% higher at 563.326mt. 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 5.98% 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 TathyaEarth 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. Handan Iron and Steel, Shougang Jingtang, and Wuhan Iron and Steel all appeared to be operating at above their July average in the week ended 30 July. In particular Handan 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 Handan Iron and Steel, their July average output levels were higher than readings for June. Shougang Jingtang however saw a significant drop in its readings.

FIGURE 3: DEMAND SLUMPS IN JUNE

Source: NBS, Kallanish (crude steel output in million t/m)

POLICY WATCH

END USERS

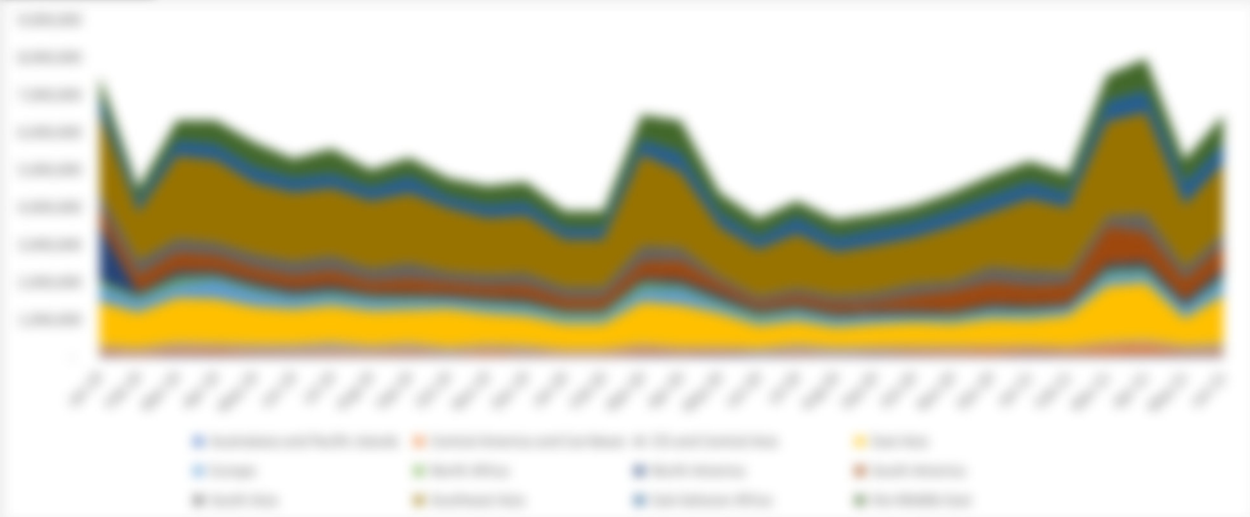
REAL ESTATE

AUTOMOTIVE

SHIPBUILDING

WHITE GOODS

TRADE

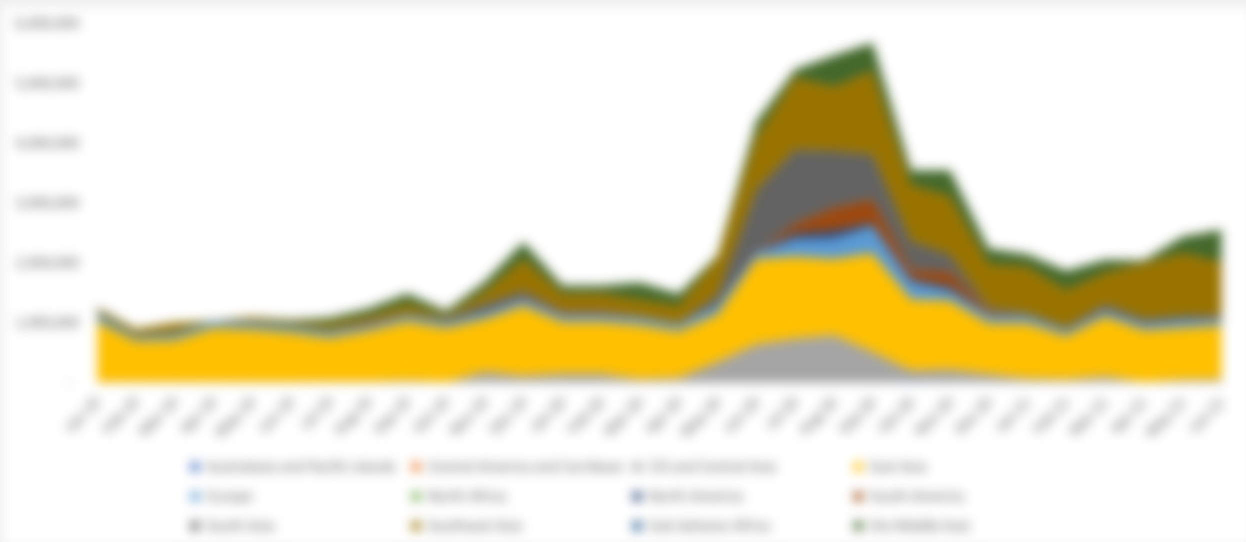


By product, flats compose the bulk of Chinese exports. China exported 4.672mt of flats in June, up 32.1% m-o-m and 112% y-o-y. Over six months flat product exports totalled 24.921mt, up 41.8% y-o-y. China also exported 1.015mt of long products in June, up 4.1% m-o-m and 34.8% y-o-y. January-June longs exports totalled 6.118mt, up 23.4% y-o-y. China also exported 770,181t of pipes in June, up 1.7% m-o-m and 3.5% y-o-y. These totalled 4.344mt over the first half year, down 4.8% y-o-y. Semis exports were negligible at 1,677t in June, up 542% m-o-m but down 24.3% y-o-y. Six-month semis exports were 3,501t, down 71% y-o-y.

FIGURE 13: CHINESE EXPORTS BY PRODUCT

Source: GTT, Kallanish

FIGURE 14: CHINESE IMPORTS BY REGION



Source: GTT, Kallanish

MARKETS

LONGS

FLATS

5.5x1,500mm Q235 HRC meanwhile was traded at around CNY 6,050-6,070/t in late July, up CNY 150/t on-week and CNY 615/t 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 lifting their offers into Southeast Asian markets. HRC offers were given by Chinese steelmakers at above $1,000/t fob, 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 2mm SAE1006 HRC at $930-940/t fob China on 30 July, unchanged on-week and up $40/t from the end of June.

TABLE 4: FLATS PRICES

	2020	y-o-y	Jun-21	Jul-21	M-o-m	Y-o-y
HRC (CNY/t)	3,830	1.1%	5,579	5,820	4.3%	48.7%
HRC fob ($/t)	484	-1.2%	930	919	-1.2%	103.3%

FIGURE 17: FLATS PRICES

Source: Kallanish

RAW MATERIALS

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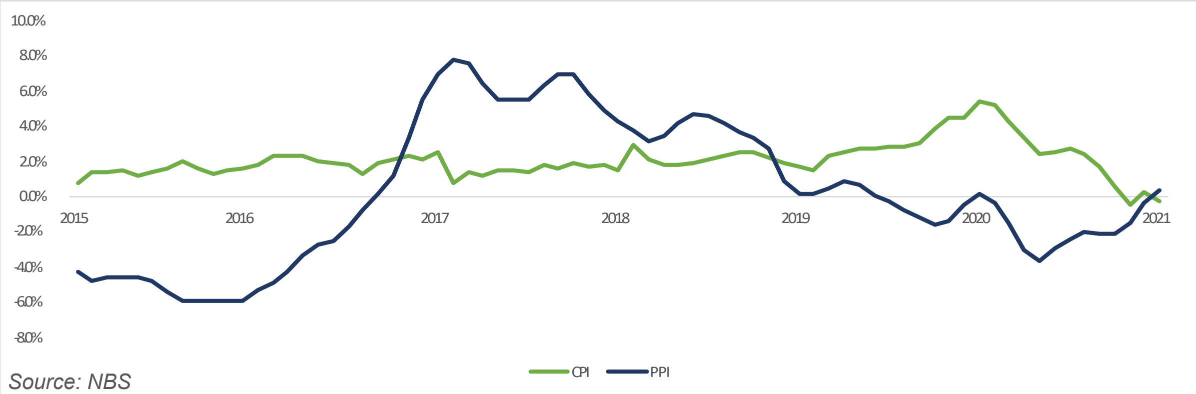
INFLATION



Source: NBS

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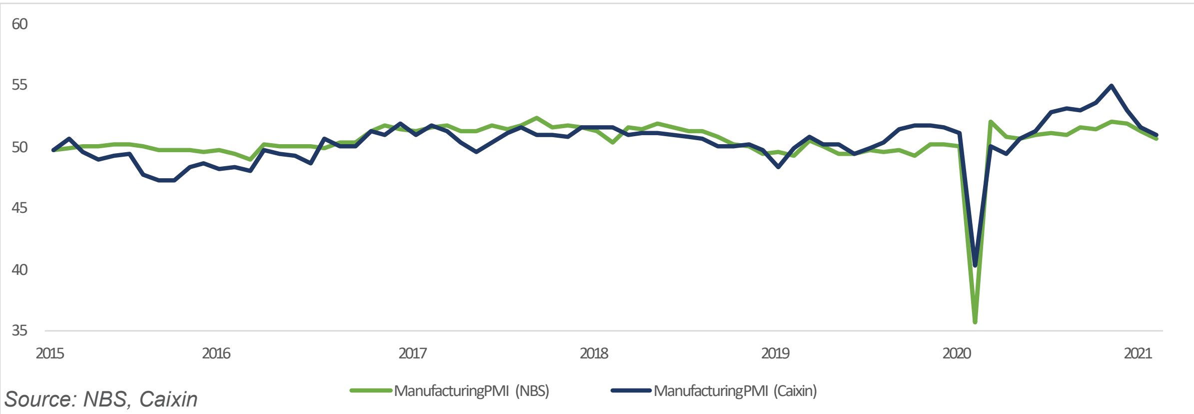

Source: NBS, Caixin

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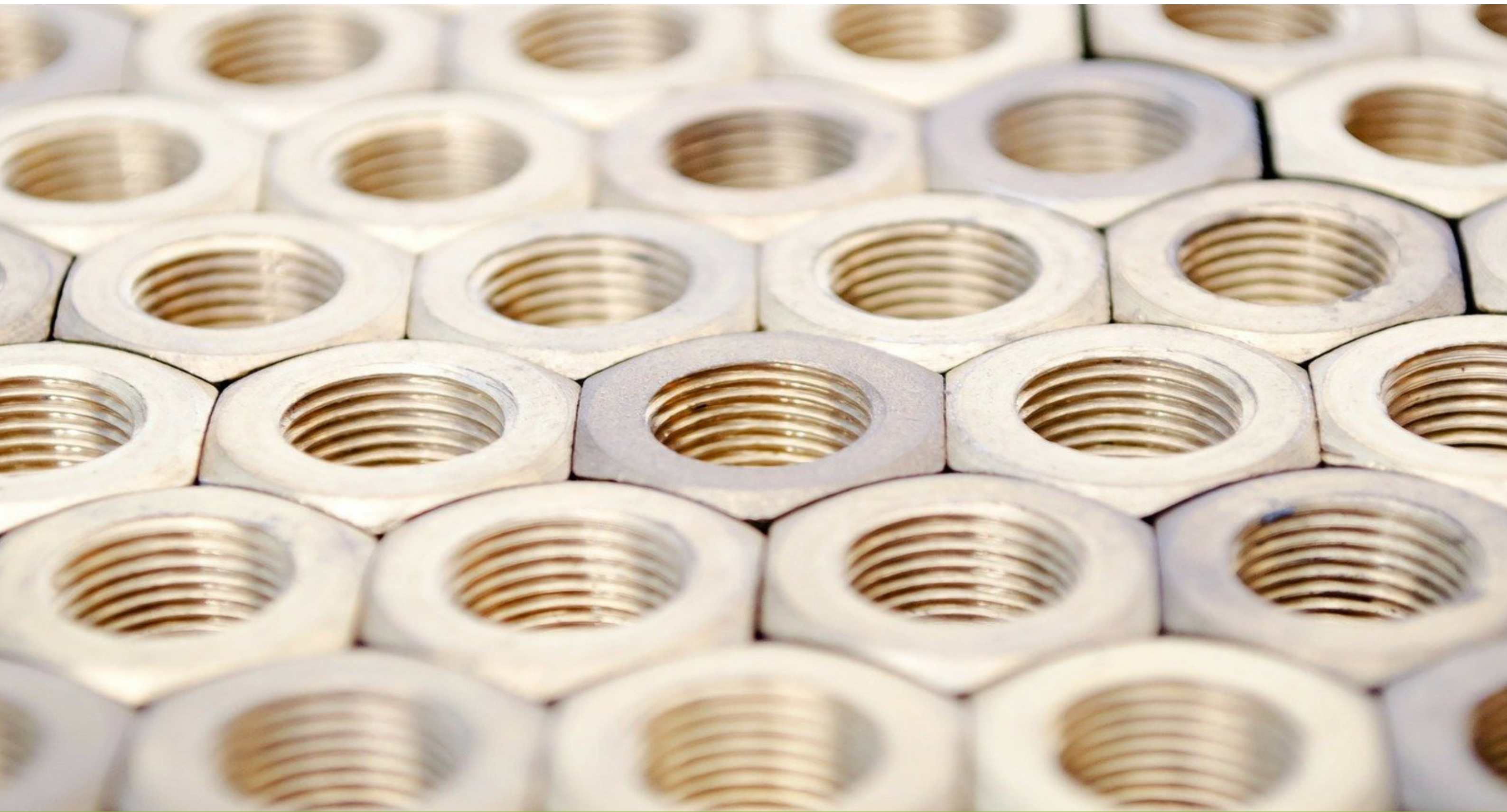
Kallanish



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IN NEXT MONTH'S ISSUE

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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