

SAMPLE VERSION

**SHIFTING STEEL
FLOWS**

**STEEL IMPORTERS
REGION BY REGION**

**TRADE DATA
ANALYSED**

TURNING THE TIDE OF CHINESE STEEL EXPORTS

AS THE CHINESE STEEL MARKET ENTERS THE NEW YEAR HOLIDAY, STEEL AND STEELMAKING RAW MATERIAL PRICES REMAIN HIGH AND THE MARKET IS OPTIMISTIC THAT BUYING AFTER THE HOLIDAYS WILL BE STRONG. THERE REMAINS HOWEVER A FUNDAMENTAL ISSUE, WHICH IS THAT REAL STEEL DEMAND SHOULD BE DOWN IN 2017 AND RAW MATERIALS PRICES ALREADY LOOK UNSUPPORTED.



SAMPLE VERSION

Turning tide of Chinese steel exports

As the Chinese steel market enters the New Year holiday, steel and steelmaking raw material prices remain high and the market is optimistic that buying after the holidays will be strong. There remains however a fundamental issue, which is that real steel demand should be down in 2017 and raw materials prices already look unsupported.

As we wait for demand to reveal itself after the holidays it is worth taking time to break down the outlook for Chinese steel exports. We talked about Chinese supply and demand in the last issue but external demand for Chinese steel, and the various strategies countries are increasingly using to defend themselves also need to be considered. The expected decline in Chinese steel exports will not be distributed evenly, and some regions are likely to still see significant increases in flows of Chinese steel. In this issue we will look at basic issues in key regions which import Chinese steel and give a brief outlook on how steel flows may shift over the coming year.

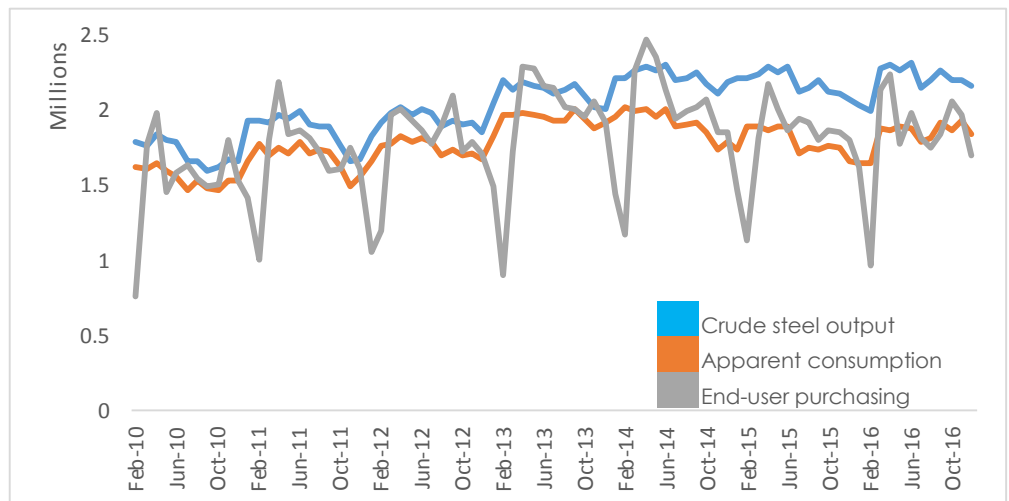
The question now is, which markets will turn back the tide of Chinese steel?

Table 1: Supply and Demand (million tonnes)

Source: NBS, Kallanish

	2015	YTD — Sep 2016	Y-o-y	2016 outlook	Y-o-y
Crude Steel Production	803.8	808.4	1.20%	783.5	-3.10%
Apparent Steel Demand	664	672.2	1.96%	656.8	-2.30%
Real Demand Est	668.4	668.6	0.61%	654.9	-2.00%

Fig. 1 Daily steel production and demand 2010-2016 (tonnes)



Source: NBS, Kallanish



SAMPLE VERSION

Chinese Exports in 2017

Looking back at exports over 2016, it is worth noting that there were both familiar trends and some surprises at play determining where volumes went. Overall however, total volumes barely moved from 2015's level despite some dramatic monthly variation and in spite of forecasts by some analysts at the end of 2015 that exports would slump to below 100mt.

Over 2017, total exports will likely be largely decided by two interlinked factors: Chinese prices and the relative competitiveness of Chinese blast furnace producers. At the start of 2017, both of these factors are very negative for Chinese steel exports. Chinese steel prices are high, and iron ore and coking coal costs are also high. Scrap-based producers meanwhile are enjoying a comeback. Cost curves seen by Kallanish show Southeast Asian EAFs now have steelmaking costs slightly lower than Chinese blast furnace based producers. The longer that continues, the harder it will be for China to sustain large export volumes.

Our base case scenario is that Chinese steel exports could drop to around 100m t in 2017. This is on the assumption however that lower coking coal prices will mean iron ore prices also drop in the second or third quarter, and this will bring down Chinese steel prices to a level where they are again more competitive. If steel prices are surprisingly strong this year, there is a risk that Chinese steel volumes will shrink well below 100m t. That decline will mean different things in different regions, as we will see below.

Fig. 2 Share of Chinese steel exports by region 2015-2016





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2													
3													
4													
5		Kallanish											
6		COMMODITIES											
7		Copyright material to Kallanish											
8													
9	Data Period	Jan-06	Apr-16										
10	Frequency	Monthly											
11	Region	China											
12													
13													
14	Data Series	Reported crude steel	Apparent steel consumption	Inventory-adjusted implied demand	Steel exports	Steel imports							
15	Unit	Million tonnes	Million tonnes	Million tonnes	Million tonnes	Million tonnes							
16	Source	NBS	Kallanish	Kallanish	Customs	Customs							
17	Dates												
18	Jan-06	XXX	XXX	XXX	XXX	XXX							
19	Feb-06	XXX	XXX	XXX	XXX	XXX							
20	Mar-06	XXX	XXX	XXX	XXX	XXX							
21	Apr-06	XXX	XXX	XXX	XXX	XXX							
22	May-06	XXX	XXX	XXX	XXX	XXX							
23	Jun-06	XXX	XXX	XXX	XXX	XXX							
24	Jul-06	XXX	XXX	XXX	XXX	XXX							
25	Aug-06	XXX	XXX	XXX	XXX	XXX							
26	Sep-06	XXX	XXX	XXX	XXX	XXX							
27	Oct-06	XXX	XXX	XXX	XXX	XXX							
28	Nov-06	XXX	XXX	XXX	XXX	XXX							
29	Dec-06	XXX	XXX	XXX	XXX	XXX							
30	Jan-07	XXX	XXX	XXX	XXX	XXX							

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6		COMMODITIES								
7		Copyright material to Kallanish								
8										
9	Data Period	Jan-13	Apr-16							
10	Frequency	Monthly								
11	Region	China								
12										
13										
14	Data Series	Real estate investment	New construction starts	Completed construction	Real estate sales	Railway investment	Air transport FAI	Automotive production	Passenger vehicle production	Comm
15	Unit	CNY billion	Million square metres Ytd	Million square metres Ytd	Million square metres Ytd	CNY billion Ytd	CNY billion Ytd	Million units	Million units	Million
16	Source	NBS	NBS	NBS	NBS	NBS	NBS	CAAM	CAAM	CAAM
17	Dates									
18	Jan-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
19	Feb-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
20	Mar-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
21	Apr-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
22	May-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
23	Jun-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
24	Jul-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
25	Aug-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
26	Sep-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
27	Oct-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
28	Nov-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
29	Dec-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
30	Jan-14	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

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3									
4									
5		Kallanish							
6		COMMODITIES							
7		Copyright material to Kallanish							
8									
9	Data Period	Nov-14	May-16						
10	Frequency	Monthly averages	(daily/weekly available for subscription)						
11									
12									
13	Price series	Iron Ore 62% Fe Australian fines	HRC / Shanghai	CRC / Shanghai	Cold Rolled Sheet / Shanghai	HDG / Shanghai	Rebar / Shanghai	Rebar in Coil / Shanghai	High Spe
14	Source	Kallanish	Kallanish	SteelHome	SteelHome	SteelHome	Kallanish	SteelHome	
15	Unit	\$/dmt cfr Qingdao	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY
16	Dates								
17	Nov-14		XX	XX				XXXX	
18	Dec-14		XX	XX				XXXX	
19	Jan-15		XX	XX				XXXX	
20	Feb-15		XX	XX				XXXX	
21	Mar-15		XX	XX				XXXX	
22	Apr-15		XX	XX	XXXX	XXXX		XXXX	XXXX
23	May-15		XX	XX	XXXX	XXXX		XXXX	XXXX
24	Jun-15		XX	XX	XXXX	XXXX		XXXX	XXXX
25	Jul-15		XX	XX	XXXX	XXXX		XXXX	XXXX
26	Aug-15		XX	XX	XXXX	XXXX		XXXX	XXXX
27	Sep-15		XX	XX	XXXX	XXXX		XXXX	XXXX
28	Oct-15		XX	XX	XXXX	XXXX		XXXX	XXXX
29	Nov-15		XX	XX	XXXX	XXXX	XXXX	XXXX	XXXX
30	Dec-15		XX	XX	XXXX	XXXX	XXXX	XXXX	XXXX



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