



## CHINA STEEL INTELLIGENCE REPORT

# Chinese confidence wanes

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### Chinese confidence wanes



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# CHINESE CONFIDENCE WANES

BY TOMAS GUTIERREZ

China's steel markets, and markets globally, lost confidence in April. Data shows steel demand continuing to recover, but not at the speed some had hoped. Positive Q1 data meanwhile has been followed by a slowdown in real estate and manufacturing in April. A resetting of expectations for the second half of the year is now underway.

China could still see an increase in demand over the year, but policy intervention will be needed to boost steel margins and to keep exports from pressuring global steel prices.

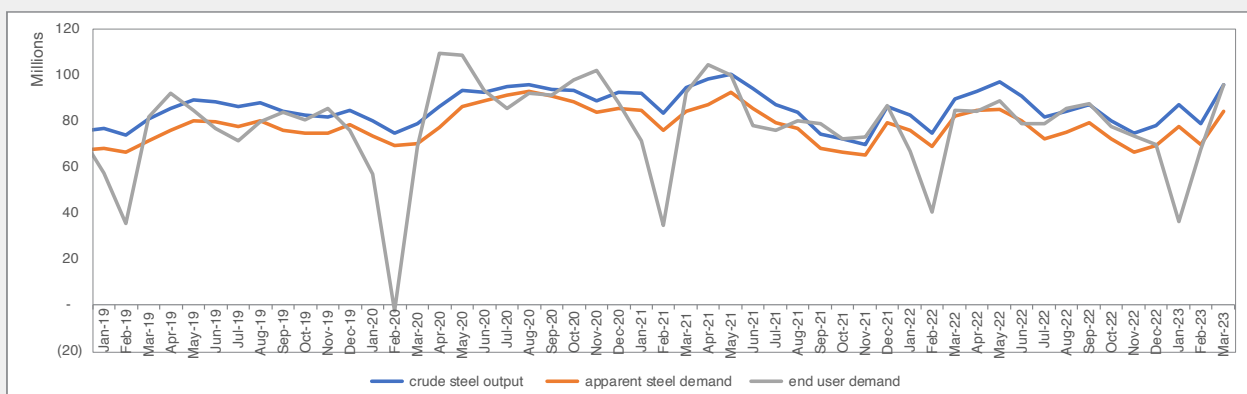
The loss of confidence in China has come as China's recovery has not matched the scale of stimulus announced in December, and it has not benefitted from as much of a post-Covid bounce as expected. However, in absolute terms demand has not been weak. Q1 end user steel demand was not only significantly higher on-year, it was also higher than the same quarter in pre-Covid 2019 and mid-stimulus 2021. The problem so far has been that production has overstepped demand, leading to a slower-than-expected drawdown in inventories. This would not normally be a problem early in the year, as the peak Q2 demand season typically makes up for overproduction in Q1. This year's demand trends however appear set to mean a less exaggerated concentration of demand in the second quarter. That means that the market expects China's steel sector to go into the summer in a weaker position than previously hoped for.

TABLE 1. SUPPLY AND DEMAND

	2022	Jan-Mar2023	Y-o-y	2023 Outlook	Y-o-y
Official crude steel output	1,012	262	6.10%	1053	4.00%
Apparent consumption	911	231	1.89%	960	5.50%
End user demand	916	200	4.29%	960	5.00%

Source: Kallanish. Million Tonnes

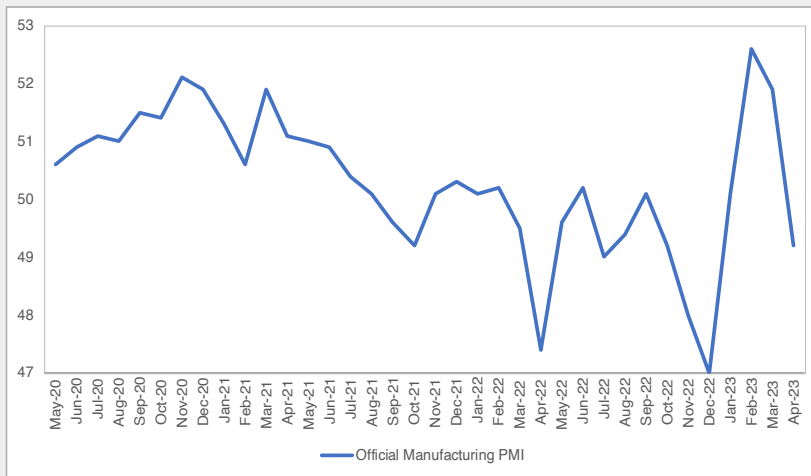
FIGURE 1. STEEL PRODUCTION AND DEMAND 2019-2022



Source: Kallanish. Million Tonnes



FIGURE 2. MANUFACTURING FAILS TO SUSTAIN RECOVERY



The underlying issue is the China's supply-focussed stimulus has not been matched by a recovery in underlying demand. Because steel is upstream of most of China's major industries, the imbalance between overall supply in demand was masked in Q1, but is beginning to become apparent. This is true in the two core steel-consuming sectors of construction and manufacturing.

Manufacturing generally recovered in Q1 thanks to both optimism for the post-Covid recovery and state support to ramp up production. After a February surge, the Caixin China manufacturing purchasing managers' index (PMI) fell to 50 in March, but this still indicated a steady market. In April however the figure fell to 49.5, indicating a contraction. The official manufacturing PMI released by the National Bureau of Statistics (NBS) meanwhile slumped from 51.9 in March to 49.2 in April. The sector began to lose steam as, despite government support for production, it could not justify such elevated activity in light of weak end user demand and contracting export markets. A number of domestic-focussed industries have become

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