



KALLANISH ASIA  
STEEL MARKETS

END USE  
SECTORS  
REVIEW

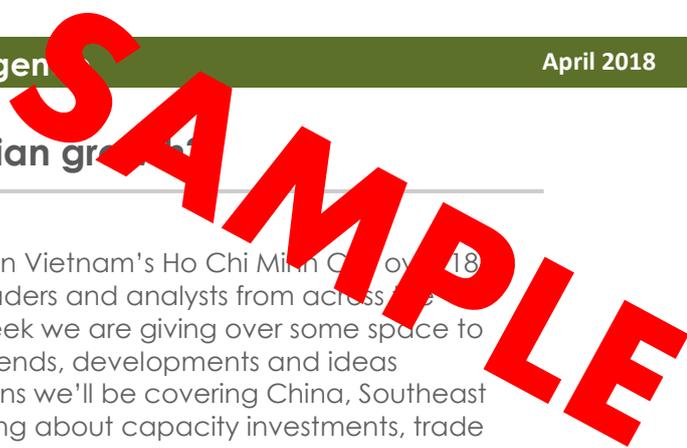
TRADE DATA  
ANALYSED

# THE NEXT PHASE OF ASIAN GROWTH

CHINA'S STEEL MARKET HAS BEEN STRONG IN THE LAST MONTH, RESTORING SOME CONFIDENCE IN PRICES THIS YEAR. THE APPALLING DEMAND DATA FOR Q1 CAN BE EXPLAINED BY DISTORTIONS WHICH HAVE PULLED DEMAND INTO Q2. NOW THAT THE SHORT TERM PANIC IS OVER, WE CAN TURN AGAIN TO THE BIGGER PICTURE. THE QUESTION NOW IS, HOW SHOULD THE INDUSTRY REACT TO THE GROWING IMPORTANCE OF SOUTHEAST ASIA?



# Is the world ready for the next phase of Asian growth?



Kallanish Asia Steel Markets 2018 in Vietnam's Ho Chi Minh City on 18-19 April brought together mills, traders and analysts from across the continent and beyond, so this week we are giving over some space to share with you some of the key trends, developments and ideas discussed at the event. That means we'll be covering China, Southeast Asia and India, and we'll be talking about capacity investments, trade and raw materials.

China's steel market meanwhile has been strong in the last month, restoring some confidence in prices this year. The appalling demand data for Q1 can be explained by distortions which have pulled demand into Q2. Now that the short term panic is over, we can turn again to the bigger picture.

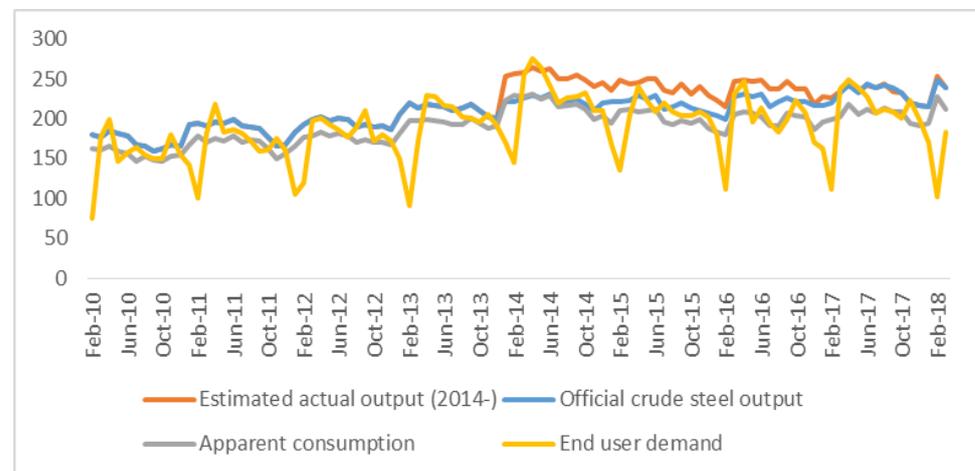
## The question now is, how should the industry react to the growing importance of Southeast Asia?

Table 1: Supply and Demand (million tonnes)

Source: NBS, Kallanish

	2017	2018 ytd	Y-o-y	2018 outlook	Y-o-y
<b>Crude Steel Production</b>	831.7	212.2	5.40%	845.0	1.60%
<b>Apparent Steel Demand</b>	737.4	189.8	5.85%	756.1	2.53%
<b>Real Demand Est</b>	745.5	138.7	-10.78%	755.1	1.29%

Fig. 1 Daily steel production and demand 2010-2017 (tonnes)



Source: NBS, Kallanish

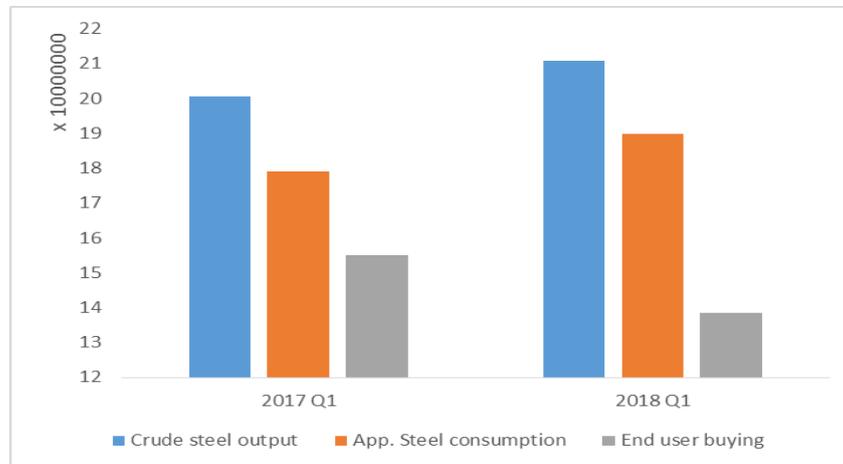
## Kallanish Asia Steel Markets 2018

### Chinese demand creates a panic

Chinese steel output was strong in March as mills which had been restricted over the winter began lifting production. The data also implies a very weak first quarter in terms of real demand, as the recovery after the Chinese New Year was delayed into April. China produced 73.98 million tonnes of crude steel in March, up 4.5% year-on-year, bringing the total over the first quarter up 1.7% y-o-y to 212.15mt, according to the National Bureau of Statistics (NBS). Adjusting for yield loss, net exports and estimated induction furnace output that leaves domestic apparent steel consumption up 5.85% y-o-y at 189.85mt, Kallanish calculates.

Once the different trend of steel inventories is taken into account however, end user buying was down around -10.8% y-o-y at just 138.66mt. Over the first three months of 2018, combined inventories at mills and stockists almost doubled. In the same period of 2017 total inventories increased by only 39%.

**Fig. 2 Q1 end user buying slumps**



Source: NBS, Kallanish

April however saw real demand pick up and inventory levels decline rapidly. Developers, which had reported difficulty in hiring migrant labourers in March, were now speeding up their activity. Traders reported a healthy turnover in stocks. Total rebar inventories monitored by SMM fell 27.07% through April to 9.66mt. By the end of the month, rebar inventories were down from the equivalent week in 2017 for the first time. Although this was mainly because of a drop in mill inventories, trader rebar inventories fell 23.8% over the month to 7.26m t. HRC inventories fell more slowly but were already lower to start with. Over April total HRC inventories dropped 12.17% to 3.3m t, while trade inventory dropped 15.3% to 2.33mt.

### China's reforms to continue

The dramatic changes in the Chinese steel industry have supported a recovery for the sector globally, Baosteel chief market analyst Jiang Li told delegates to Kallanish Asia Steel Markets 2018 conference in Ho Chi Minh City over 18-19 April. This positive effect should continue in the coming years as China still has ambitious plans for its steel sector over the thirteenth five-year plan (2016-2020).

China has so far exceeded its capacity reduction targets, Jiang noted. 700 induction furnace steelmakers were closed by the end of 2017, eliminating 140 million tonnes/year of steelmaking capacity. Targets for other capacity closures were also exceeded, with more than 145m t/y of steelmaking capacity expected to be closed over 2016-2018. In combination with stricter rules on capacity replacement, this has boosted utilisation rates globally, not just in China.



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