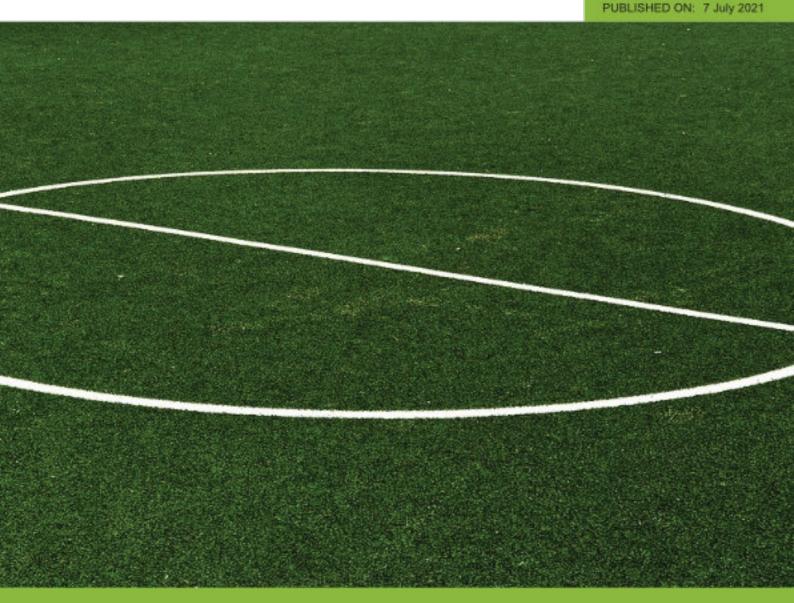


ISSUE NUMBER: 7-21



CHINA STEEL INTELLIGENCE REPORT

A game of two halves

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IN THIS MONTH'S ISSUE A game of two halves



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BY TOMAS GUTIERREZ

1 July was both the first day of H2 and the 100th anniversary of the Communist Party of China. The political anniversary also marks an inflection point in chairman Xi Jinping's economic policy, while H2 is bringing in more short term market changes.

In this issue we will look at what the big picture changes mean for policy in the second half, and how this could impact steel supply and demand.

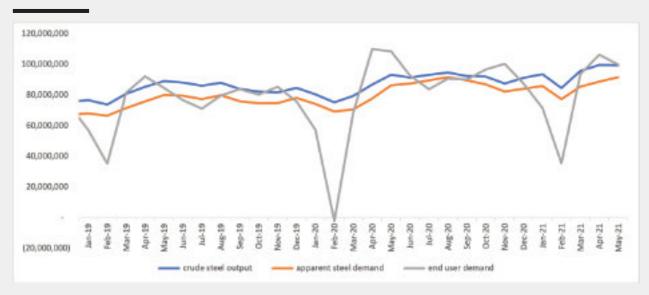
China has achieved the goal of becoming a moderately prosperous society, according to chairman Xi Jinping's speech to celebrate the 100th anniversary of the Communist Party of China. He also said China has realised a "historic solution to the problem of absolute poverty." The commemoration is being promoted as a long-term marker in Chinese history, with the Party leading China out of its period of humiliation to return to its rightful place as a world power. In reality, the commemoration also serves as a marker of the end of a first phase in the era of Xi Jinping. But what does that mean for the steel industry?

TABLE 1. SUPPLY AND DEMAND

	2020	Ү-о-у	Jan-May 2021	Ү-о-у	2021 Outlook	Ү-о-у
Official Crude Steel Output	1,058	5.72%	473.1	13.90%	1080.0	2.60%
Apparent consumption	990	9.75%	429.3	13.50%	976	-0.90%
End user demand	985	8.93%	407.0	18.90%	978	-0.20%

Source: Kallanish. Million Tonnes

FIGURE 1. STEEL PRODUCTION AND DEMAND 2016-2021



Source: Kallanish. Million Tonnes

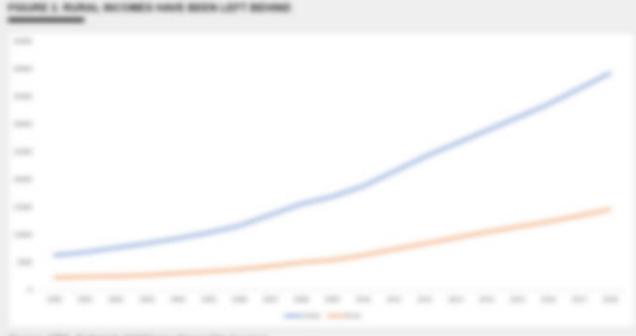


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At the report level the and of 'extreme powerly' in China reprise an important shift in policy. China has high treats of powerly and its cut-off for extreme powerly is well below standard international definitions of powerly fluid fine focus is no longer going to be on proposeding and elementing extremely poor communities. The focus now is noted excitation. The regist economic growth of recent decades has caused inequality to grow and for noted and other economics to expendity to grow and for noted and other economics to expendits into different worlds. Funding will be flowing into note communities. Growth in Chinese consumption will not come from Stangillar intended to tack to the fourty flow to the Good handless it will come from the hundreds of relitions of left-betted noted Chinese buying their find or accord our or expelling machine, or spending their proxing disposable income or entertainments and consists. Those are the 600 relition who earn less than Chin I, (Millimonth STSCirc) which premier is Keeping pointed to less year. Over the medium term, this implies a perite streetween in about demand. Growth will become less obscitationism as the focus shifts to education, lessificane, extentionment and other services, but China old has a low market premind for the second white goods, and as hoofitoods in another clies increase residents will also be monthly into higher quality and latter new residential buildings. This is the first crossition of the "build circulation" framework for the economy. China's newfound wealth circulating amound the nation alternation distributions.

All of this is vary much a work in progress however. In the folium, China words to about industry to be amaller, observer, profitable, but matrix suggesting other higher value-widted downstream industries. The first alogs are making it amaller without returning to the citi profitens of low profits and unsustainable debts due to corrupantly. Reducing capacity before companies are equacord out through lower margins is the preferred multi-forcept this process. Hence the larget set by the Ministry of Industry and Information Technology at the other of the year that crude alone codes in 2001 about the less than in 2005.

Sure enough talk of this target has recurred in recent week. Some provinces have been conditioning with tool destinations to ensure that provincial ideal output this year will not occosed 2020. These meetings have not produced written policies and no written directions have been bound. Somewhere however there is pressure being placed on local officials to achieve this target. The informal nature of the coordination may suggest no official words to be held accountable when the goal is not not, but it is worth considering what anoth have to happen to hit the larget.

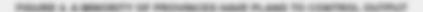


Scotte MES Automat (CRESions discountly record



Over the first five months China officially produced 473.103 million tonnes of crude steel, up 13.9% y-o-y (see below). In June meanwhile, output appears to have been fairly steady from May. That would leave output up y-o-y again, though perhaps by only 2-3%. Kallanish currently estimates H1 output could be up around 13.8% y-o-y at 568.1mt. In order to officially claim crude steel production level with 2020, China would have to produce 496.9mt of crude steel in the second half, which would be down 12.2% y-o-y. On a daily average basis, crude steel output would have to be 2.7m t/d, down 14% from H1 and the lowest level since March 2020. With measures to limit production still spreading from province to province, any reduction in output could not happen immediately nationwide, and so would have to be deeper later in the year. Suffice to say Kallanish does not think China will achieve production equal to 2020 this year.

Some constraints will be placed on output however, and this will have a significant impact on the market. Anhui, Jiangsu, Gansu and Hunan provinces have so far told local steelmakers that they should not be producing more steel in 2021 than in 2020. The provinces have asked steelmakers to formulate production plans for H2 that meet this requirement. These provinces alone would not be able to move China close to the target, but if similar moves are made in Hebei and Shandong then supply will be noticeably curtailed. Some market participants have signalled they expect a decline in H2 output of perhaps 20mt, which would leave H2 output down 3.5% at around 555mt. This would leave the market open to two effects. Firstly, when demand recovers coming out of summer, prices are likely to increase again. Secondly, if output cannot match demand, imports of semis may also pick up again.





burns WES Automat youth dark supports relice the

This records that there should be suggest for prices in the second half of the year. There is still a consensus that into one and other rase material prices should ease back by the end of the year as suggity constraints are eased and demand levels off. If China is about of material and requires increase imports however, then another major buyer will enter already light ploted markets. The extent to which China is willing to follow through on its aim of reducing output could determine how long the ploted rafly in steel prices can be extended.



May demand began to natural from April's peak, as we noted in our previous book. Way crude steel production remained at alreaded levels, falling just 5.2% from April and up 6.6% your at 90.458ms. according to the National Bureau of Dialetics (MEC). That brought coule also output over five roombs to 473 103mt up 13 Ph year

Non-day crude about output data from the China from and Stant Association (CSSA) suggests, output in June. may come in just under Way levels. Over the first 25 days of each month, sulput from CISA members was roughly flat. At the end of May however CISA members age culput increase, while the end of June age production restrictions across many plants due to the 1000 aproximancy of the Communitie Party of Clima.

Data derived from satellite head readings provided by "fathyalCarth shows that extput at lary destinations samplesed firm through the end of June also. In the last week of the month, subject at Handam inon and Steel and Wuham from and Steel increased, white Strongery Jinglang and Borne Steel upon slight declines in subject 1, collecting of the data coar the receilt frequency there is a clear transf of recovering subject of finder rolls. Both Handan han and Steel and Shougang Jinglang saw strong growth in activity over the month, while Barnel alto Increased. Dulput all Bacolinel and Dragang was sleady.

Apparent demand provides a misleading view of real Chinese demand in May Because export volumes fell and imports seen firm, apparent demand shows an increase of 3.7% m o m and 4.7% y o y to 91.66(int in



TABLES I MAN DEBOOD NAMES OF STREET PARTY.

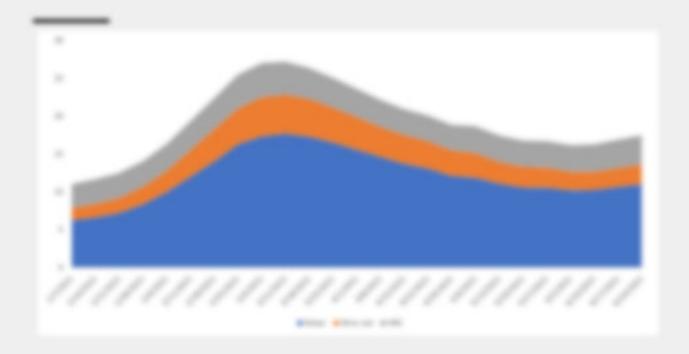


COTTON A STREET

TRUME 1, BLAST FURBACIE ACTIVITY BECORDED BY HORSE MILLS



Scotter Safety State



May Apparent demand over January May is now up 13.5% to 429.286mt. This does not take into account however the change in inventories. Total inventories were down 9.7% over the month of May, but this was compared to a 17.2% drop in April.

That slower drawdown in inventories was due to weather and user demand, Implied real and user demand in May was down 6.1% in one and 6% youry at 96.907nst. Over the year-to-date, and user demand was up 16.9% to 406.096nst. With the continuing allowdown into the summer. June is expected to see prother decline in real demand, algorithm by slightly lower output and the bollowing out of inventories.





POLICY MINTON

O POLICY WATCH

The Ministry of Ecology and Environment has commissioned the China from & Steel Association to formulate a carbon quote allocation plan for the steel industry. The industry will enter the national carbon market later than the pioneer. China's power industry. Zhang Killang, a climate change expert at Toinghue University, predicts that cement and aluminium will be added to the carbon trading system in 2023. The move to begin designing a system to allocate carbon credits means that the steel sector is properting for entry into the system. Clima has committed to adding steel and other sectors to the system by 2025, but steel is likely to be included santer.

China's Minostry of Finance is imposing attribe rules on the isocarce of Special Purpose Bonds by local government. Authorities will have to conduct a performance evaluation of the project being funded and set a performance target before being allowed to apply for a bond isocarce. The more is designed to push local governments to focus on higher return projects and to control growing levels of local government date. The more comes after the central government conducted an audit of local governments and found they were linguity lengthy beautiful tooms. Dominately according to the property secretary property managing SPB tescence. China is also placeting how to before receive and regulate local government localizeds and spending.

Related to the allocal is a record to take control of local government land sales. Local governments rated CNV 8.4 tribion through land sales in 2020. The power to self-land will transfer to central las authorities. Funds will still go fully to local governments, but the more almost to prevent imagularities in the process and the relocate of rated funds. A pilot is being carried out from 1 July and the more is planned to go nationarities from 1 January 2022. Land sales and local government bonds are the last key financing options for obtainments. New methods of infrastructure funding, such as recently lated infrastructure focused real estate investment tools. (RE/Ts) are all developing.

Zhajang province will be a pilot core for China's alin to achieve "connton prosperity" it aline to increase per capite GDP by 35% by 2505, while carnowing the gap between rural and urban incoress. This would bring its per capita GDP to CNY 130.000.



END USERS

REAL ESTATE

Real estate data shows strong with the Way, up 15 75, your and 36 75, higher many. these of the summer directions which dragged on demand in John Tale transferred in the The policy in which comes alread of the sector over the first has morelly of 2001 was up automore alreadown. Although some mad establish 16.7% program CNF L402 without (SNF tables), respects have some activity program for your fin-Afficially greatly was done from 21.0% over polyton across for country is more resident. for mode, resident in the sax CNY LASE. Average region price in the artists Mr. Million, up from CNY 1,366 Million in April.

Further this is increased were also seen it logconductor indicators. New starts core for China Various has become the latest developer months ware up 4.0% to 740.60m repairs to call an end to the property replications. It matrix. Crowth was again stower from the vago I will productly object for excepting of the U.F. are to for for code, but to an business treats out also represent and party due to the ramping up of disliqued starts or survivor. Tight inspiritions on developer \$2.700. No new dark was \$50.000 apr. burnading maps for the business make of down 6.7% years but up from 177 Allin signs in . borrowing featurity and you suffrig agartments in April .

mortisches para 16.4% y c y to 276.00 maps, codd ratings out in recent auchs, it has been down tips 1775, greath our four mortin, allow-rates sufficient body to accordingly. May completions however seen 46.47% ago.

1,2% in a mile DEF 15,527 legin, but remained T. ETA. Togetour years

to larger sustainable. Everywhite recentrities has been digging in ear and of its date often Completion are a similar trent. Over the fitnings are also, Affroign I has also fit



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AUTOMOTIVE

Ching's automotive sector continued to size. January-Miss frosted stars demand was up down in Way, in part because of continued. If IPS you to 16 hos, Kallande calculation. dilig shortages, and it part because of the Bull-passenger and commercial vehicles are tion recovery in consumer demand.

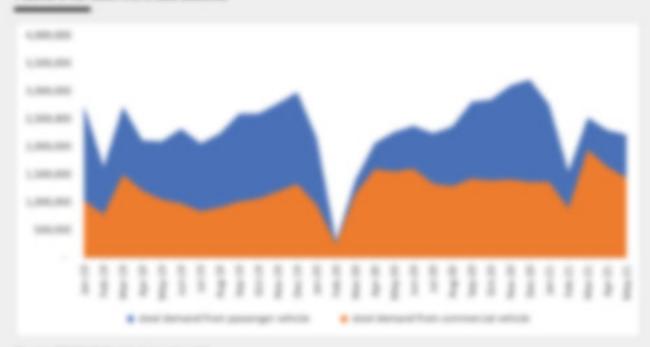
According to the China Association of passenger-solicities. Automotive Manufacturers (CARR), total saffects production in May was 2.54 relicor units, down from 2.23m for previous month and 2 flow a year sanfar. New to date production is now up 35 7% years to 6,28m. -

The strong year growth rates seen in Cr. an burning trib successive declines now that the back of comparison has switched to the strong summer moreths of altimutus in 2020.

Morthly replied fronted deal consumption totalled 3.67nd in May, down from 3.85nd in Aget and 183mt a year same. Over

seeing similar transfe, but the youry decline in commercial softicits sales is larger than for

FRANKE I AUTOMOTIVE STEEL SEMENTE







SHIPBUILDING

China's alligibuilding completions reached a New orders over the Not Non-rounds copied new Yard in Wall, and new orders are off to YES FS, stronger to 12 Feb. date, Yard rang rigidly due to strong demand. China orders in hand by the and of May reached Association of the National Stightshifting Eliminate, an increases of E.P.S. on your and up belowly (CRRS) data shows that China's 19.7% companed with the end of 2020. physiolog coupleton nached 11.86 million deadlessight tomas in January-May, The strong performance of Chinark principals of 25 ft, page on year

In May and, allegholding completions completions, new orders and orders in facel increased by 34,36% month-on-month to accounted for 40.9%, 50.9% and 40.9% of A 254th dat. This implies that about 1 ASHO of the global market respectively in Januarythat sees comprised by the physiological May sector during the first fine reporting of 2021. including 1-less companied in May only. Rafformi solmatos

The international physicing market continued to reduced in the first half of this year, and new prilate have been streetly placed.

alighability industry has also increased in share of the global readure. Displaysting

NAME OF BOTTOM OFFICE PARKS.







WHITE GOODS

China's white goods sector saw activity April. This was up 8.8% you yield growth has decline in May after containing high brook aloused from 1937s, in Majorit and around Brough March and April. Golpol of all BDS-to-February. products has seen a sharp increase year to date. And largely to restricted activity in G1. Over the first has roundle of the year, implied 200

Refrigerator sulput however saw a year decline it colput it May You growth is becoming banks one that the bank for comparison has record and beyond the Could real/rotors and 165 the partial of post-County although as

The sector consumed an implied 1.48ml of brothed stant in May, down from 1.03ml in

steel damped in the white goods sector was up 36.6% pays to 7.18ms.

FOLIAGE IN MANUFACTURE STREET, STREET,



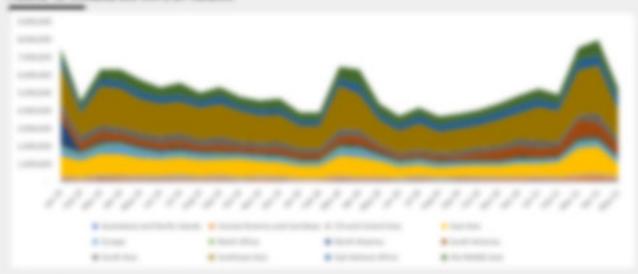
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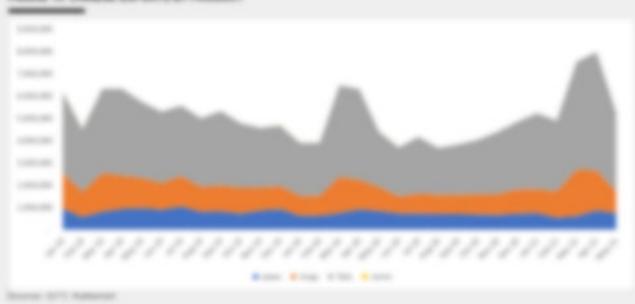


Obtack not alone apports alumped rounth-or-month had some all up almosphy on-year in May. This some caused by a always drop in exports after Otima adjusted its VRT robate policy, removing robates for most alone products. This is forebring the competitiveness of Otimese alone exports and is expected to continue to damper columns going forward. Not alone exports in May came to 2.60ms, down 52.2% movemed but up 24.6% your, according to Otimese Coatoms date. This left not alone experts over the first fine months of the year up 25.6% at 25.36ms, A numoused change in ten rates affective 1.60y date not materialise. This would have removed the VRT robate for CRC and improved an additional expert to on 1660. Opinion in the market is now missel. Some tradem before too change is coming in the immediate future, others believe the change could be introduced as early as most July.

THE R. LANSING CONTRACTS AN ADDRESS.



TRAME IS COMMENT OFFICE AT PRODUCT

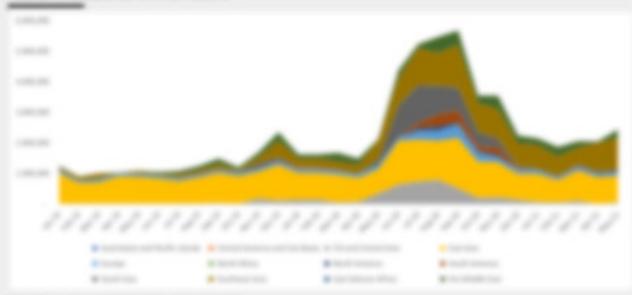


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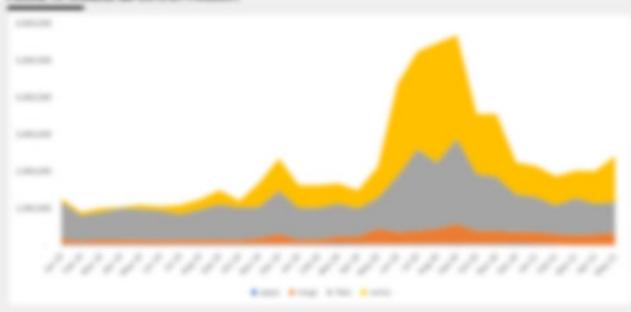
China's not alone apports allumped rounds-on-rounds but some official opinionally on-year in May. This was counsed by a always drop in exports after China adjusted its VRT robate policy, removing rebates for most alone products. This is foreboding the competitiveness of Chinase obsert exports and is expected to continue to damper volumes going forward. Net alone exports in May came to 2 KToni, down 52 2% moves but up 24.4% your, according to Chinase Customs date. This left not alone exports over the first fine moreths of the year up 25.6% at 25 Millers. A numoused change in ten rates affective 1 July datinot materialise. This would have removed the VRT robate for CRC and improved an additional export to on HRC. Opinion in the market is now mixed. Some traders believe to change is coming in the introduced blace, others believe the change could be introduced as early as mit-July.

Chinese export estumes in May work down 33 PFs, in-o-in but offing 19 PFs y-o-y at 5,27nst. Over the first flow months estumes work up 25 EFs, to 30 SQRest. Southwest Asia followed the same trend, with exports in May down 36 EFs, in-o-in but up 26°s, y-o-y at 1 EErst, and estumes over flow months up 27°s, to 10 4°stest. Singments to the Middle East work also on trend, down 27 EFs, on-month in May but up 8 EFs, y-o-y-over flow months at 3 NQrest. Exports to the second languard destination region. East Asia, responsible underperformed in May volumes sent there were down 53 EFs, in-o-in and 16 EFs, y-o-y at 7°2, 3246, while over flow they were up 17 PFs, y-o-y at 5.225est. Sub-Sathanan Africa and South America have remained the most

PROJECT IN CHEMICAL SEPTIMENTS AT RECURS



TRAME IS CHIEFED METATOR OF PRODUCT





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Chinglis not alous opports allumped receits-on-receits but work all up although on-year in May. This was counsed by a altery drop in expects after China adjusted its VAT reballs policy, removing reballos for most alout products. This is fordering the competitiveness of Chinase alout expects and is expected to continue to damper estumes going forward. Not alout expects in May came to 2 KTest, down 52 2% mount but up 24.4% your, according to Chinase Customs date. This left not alout expects over the first five months of the year up 25.6% at 25.36ms. A number of objects in the nation expects on 1.60y did not materialise. This would have removed the VAT reballs for CRC and improved an additional expect for on MRC. Opinion in the market is now mixed. Some traders believe to change is coming in the introduced as early as early as mix but.

China alto imported 2.64 foot of stead in May, Coaltonia Rigoria show, up 19.1% in-o-in and 14.7% y-o-y-Char flow months, total imports work up 23.7% y-o-y-to 10.962nst, imports from East Asia have tratorizedly town dominant, in May flows work down just 0.5% in-o-in and up 0.6% y-o-y at 865,520s, and over flow months they work up 4.2% to 4.35nst. Ecolihosest Asia is rapidly catching up traverser. In May Southwest Asian alignments into China work up 11.8% in-o-in and 66.3% y-o-y-to 1.56nst. Over flow months they are now up 122% to 3.54/test. The Middle East is the first algorificant source of Chinase imports. So alignments work up 454% in-o-in and 710% y-o-y at 266,60% in May, and up 35.6% over flow months to 1.546est.





Chinese domestic steal prices started June firstly bull test ground in the second half of the month as demand east reduced by the summer weather. Inventories have begun to the as a result of weather and user buying. Export prices were stalled as markets were assest with numbers of a fee change at the start of July, which never materialised. Have materials prices also save a stronger first half to the month, but continue to be supported by supply finishtoms, exposuring steelinating margins.

LONGS

In Stranghal at the and of June, 20mm HRSHSS rober was trading at CNY 4,725-4,740/forms (SPIG-765H), down by CNY 1901 from the week before and just CNY SI tigher than the end of May. The week summer demand season is expected to lest buying in the coming weeks. The amountaments by region seet China longs protocors that they would not ex-works priors through the month also undernised construction steel worldness.

When not export reprisels also remained in a objected. Demand has assaltened during the off-coasen and the spread of Cools 19 in Southwast Asian countries has led to regative expectations. Kallanish assessed 6.5mm diameter most-grade site not at \$8150smm for China, down \$300 on assalt and \$400 from the and of Way. Most Chinese sheet rolls have regentarised their export prices at \$8500 his China and are accepting discounts. The rolls that had previously raised offers to \$610-6501 his also fowered their prices due to escalaring demand. Small batches of also not seen sold in late June to South America and South Roma, partly for tigh-carters with not. Charall however, who not expert not. Charall however, who not expert markets remain very quiet, expecially to Southwest hale.

TABLE 1 LONGS PRODUCTS

		4.0%	5.154	4.863		
Wite ted his (\$1)	481	-2.8%	908	833	6.3%	85.7%

Scotter Radional





ORDER DETAILS



mar. --

www.kallanish.com 🔀 sales@kallanish.com 📞 +44 (0) 208 735 6520



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FLATS

E.Sci. Stillner, GCSS HRC reservable anded June & anused CNY 1,400-1,460 borne (\$868-8651), down CNY 1501 hore the previous week and CNY 257 down from the end of May. Trader's faced higher pressure than note due to stocks in hand. as end-user demand at the end of the north was worse han hey had espected. MRC sulput had been running at high booth at the start of June due to wide margins. As prices adjusted through the morth feature, margins seen squareced. and by the end of the month, margins were starting to posit output tower again. The NOTIC stated in late June Bull Inespeciation for demand is all positive. sparting a short-head spanulative recovery. Diagnot upor trading featurer continued to drap on HFC markets.

Export markets have also seen ro Improvement. Exporters had operated brough Jone on the assumption a new august has would be implemented on 1 Adu. policing hopers to accept clauses that mean they bear the risk of any cost increase. Several for J. Chinese rolls offered 55400 SAE TORNAC & SETS MISS & Vancues. than for August arrapropert in late June. Offers of SAE 1006 HRC touched \$1,000. 1,0500 bit Oliva but these seen for it atheron of any buying interest. The raphet remains in a diabetrally until there is some clarify over export loses, as the losdid not replaced to see from it selfspeculation over whether I will be imposed or not. Kallanish assessed John SAE 1006 HRC of \$500-8007 has China in late June. \$150 higher than the end of May but \$500. been from a red-month toph.

TABLE 1 PLATE PROCES

			4.9%	
HEET NAME (SEE)	494	858		114.2%

PROJECT PLANS PROCES



Source Radional



RAW MATERIALS

Southerns for one prices started the recells strongly, but there also began to slide in line with steady prices. The Kallancet KCME 62% for index ended June at \$21500th realist tome of Gingelee, \$15.621 higher ontouch but \$6.321 below the notinepolity posts. The Kallancet KCME 60% for index patter \$14.321 connects to \$200.75 for index patter \$14.321 connects to \$200.75 for index patter \$14.321 connects to \$200.75 for index of, and the KCME 50% for index of, and the KCME 50% for index increased \$12.321 to \$100.000 collects.

Chinese port stocks furtuated last morthbut ended the rough with a contensel decline Across 35 ports into one disolar Mr. TTE, SEE turnes in the last week of June to THE JOHN SHIP WHICH, ACCORDING TO A COUNT by DMM. That was down from 119-46ted at the end of May Disposetts in and out of parts fuctuated. Mills at some points increased restoring from part stories arrist concerns that domestic supply of tree on will fighten. This follows the accident at a titre is eastern China which resulted in the deaths of 13 man, in the seads leading up to the 100th protosmany of the bounding of the Communist Party of China, authorities seen been to avoid any further bad neen and increased nine safety impections and pressure to reduce sulput.

The protocology also record no recomment sees allowed to and out of some northern ports to the last days of the month.

The and of power restrictions in some regions of China has led to the recovery of demand for some from about an furnacion, and scrap prices have fear amid short suggly. Framer restrictions had impacted demand at the dark of the month. it scultured Oliva and some parts of sesten Chrs. Katlansh assessed Chinese Street heavy scrap delivered to rells in seatern China's Yangton Roser Data at CNY 1,750horea (\$550h) including VMT on 30 April, CNY 1639. higher than the end of May but CNY 631 below the red-month tigh. Due to the recovery of global scrap prices, China's song input nather rengined policy to labs June. Crement suppliers were holding offers firm. Heavy scrap is all offered at pround \$5755 of China, which is slightly higher than the purchase target price of demonstration or roth, Earliersch assessed Chinasa 1855 171 Inputs at \$5501 of China at the end of May, up \$17.55 on-

TABLE I NAME MATERIAL PROCESS

	16.4%				
100	56.4%	238			108.8%
			184	14%	
2,643					40.0%

Same Salamin



STREET, SATIS

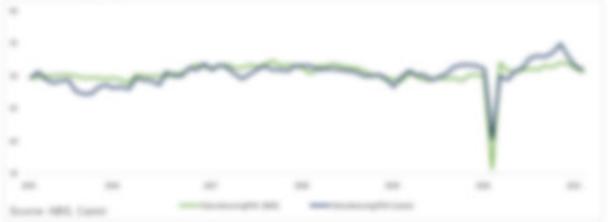
The M securit adjusted battle before only

Steel Date				
	4.90	7.54	7:67	5.27
		60.66	67.07	91.68
Calculated red demand			105.44	



Macro Adle				
		5.47%		
		4.40%	6.80%	8.00%
	4.52		14.38	
		14.10%	0.00%	8.80%

BERTING THE PER



Sourcement data			
		4.524	5.432
		539	743
Most extists rather pM*			964

COTTON THAT THE PARTY NAMED IN





CHINA STEEL INTELLIGENCE

IN NEXT MONTH'S ISSUE

With the strong recovery in steel prices both in China and globally, and soaring production levels there are several factors to look at. But some of these will be balanced out by weaker demand and controls on production in H2.

CONTACT KALLANISH

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