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CHINA STEEL INTELLIGENCE REPORT

China enters the calm before the storm

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CHINA ENTERS THE CALM BEFORE THE STORM

BY TOMAS GUTIERREZ

China has had a difficult year. Although the end of the year is being marked by new supportive government measures, steel demand has picked up only slightly in the traditionally strong autumn. Steel output meanwhile has declined, but not enough to balance the market. 2023 is now likely to end with more of the same.

2024 in all probability will also be a difficult year. We expect however that there will be a modest recovery in demand if the government can stabilize economic sentiment. Next year is likely to confirm China's entry into its steel demand plateau, before it faces a longer-term decline.

2023 ends with noise but weak demand

The last month has finally seen more concrete fiscal action to stabilize the economy. China will raise its fiscal deficit target for 2023 from 3% to 3.8% and issue CNY 1 trillion ($136.7 billion) in new central government bonds before the next budget in March. These funds are meant to be used mainly in disaster-response and resilience capacity, as well as in agricultural development and supporting the struggling northeastern provinces. China also brought forward CNY 1 trillion of local government bond issuance from next year's quota. This, however, was widely expected as China has brought forward quota every year in order to bridge a gap in financing from Q4 to Q1 and keep projects running.

TABLE 1. SUPPLY AND DEMAND

	2022	Jan-Sep 2023	Y-o-y	2023 Outlook	Y-o-y
Official crude steel output	1,014	795	1.70%	1,027	1.30%
Apparent consumption	913	694	-1.59%	927	1.70%
End user demand	917	678	-2.68%	924	0.90%

Source: Kallanish. Million Tonnes

FIGURE 1. STEEL PRODUCTION AND DEMAND 2019-2023
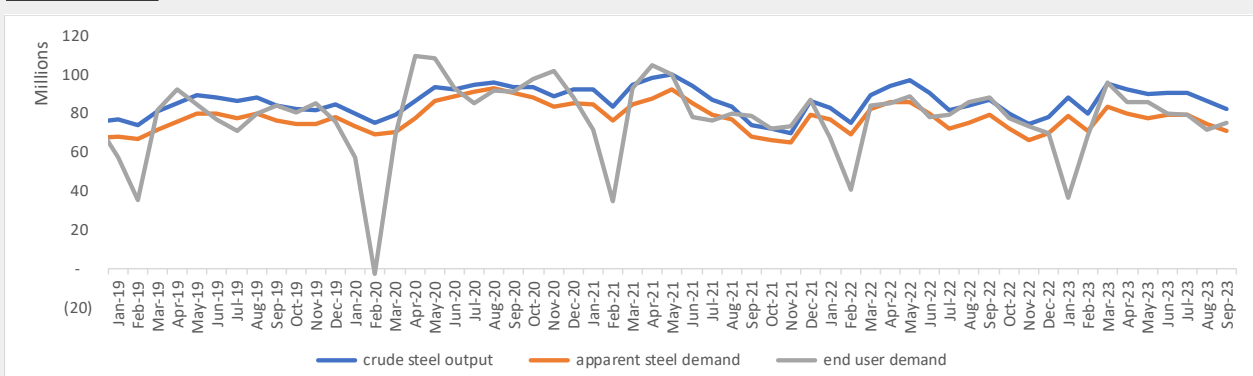
Source: Kallanish. Million Tonnes

These measures have supported expectations for the winter, as projects will continue, and for the first half of 2024, when the new central bond financing will begin to filter into steel purchasing. Some sectors, such as construction machinery, are likely to feel the effect before others. None of this however is going to counteract the seasonal slowdown in winter demand, which is arriving earlier than expected due to cold weather.

The disappointing autumn peak season and early winter mean that 2023 full year demand will come in below previous expectations. Full year finished steel demand is now expected to be down 1.38% year-on-year at just under 905 million tonnes. It has been a strong year for shipbuilding and white goods, and a decent year for automotive. This could not outweigh the slumping real estate market however. As a result of weak demand and firm output, net exports have soared, and are remaining stubbornly high. While exports may slow, they are no longer expected to decline rapidly before the end of the year.

TABLE 2. UPDATED 2023 OUTLOOK

Sector	Previous forecast	Current forecast
Crude steel	1.30%	1.80%
End user demand	0.90%	-1.38%

Underlying trends

As the end of year approaches and focus switches to 2024 demand, it is worth isolating the underlying trends in the sector that will shape the next few years. China's epoch of

Source: Kallanish   ——— Consumer (LHS)   ——— Real estate and infrastructure (RHS)

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