



CHINA STEEL INTELLIGENCE REPORT

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CHINA'S STEEL OUTLOOK REMAINS POSITIVE, BUT BUMPY

BY TOMAS GUTIERREZ

China's return from the Spring Festival holiday has disappointed many in steel and raw materials markets. As previously noted, expectations for the return of demand had been overhyped, when there were so many factors which could delay any real rebound. A reassessment of the demand outlook for the year is underway in the market and prices are starting to come off a little.

There remains however significant potential for upside later in the year. Not only are aggressive measures in place to boost the economy by Q2, any sign of failure is likely to trigger more policy response as China has now committed itself to an economic rebound.

Signals over the last few weeks need to be picked apart in order to assess their impact on expectations, as the timing of the next rebound will be key to markets both inside and outside China.

Covid

China is sounding very bullish on Covid, despite its decision to stop releasing high frequency Covid data. Data in January showed a couple of important trends. Firstly, infection rates were very high. China's population went into this last wave with relatively little exposure to Covid, putting

TABLE 1. SUPPLY AND DEMAND

	2021	Jan-Dec2022	Y-o-y	2023 Outlook	Y-o-y
Official crude steel output	1,033	1,012	-2.0%	1,053	4.00%
Apparent consumption	943	911	-3.4%	980	3.00%
End user demand	946	916	-3.3%	980	3.00%

Source: Kallanish. Million Tonnes

FIGURE 1. STEEL PRODUCTION AND DEMAND 2019-2022



Source: Kallanish. Million Tonnes

FIGURE 2. TOP TEN PROVINCE HAVE HIGHER GDP TARGETS

Source: Asia Briefing, Kallanish

it at high risk of infection. That will not be the case going forward, with most of the population having had Covid at some point in the last two months.

Second, infection rates mirrored each other in cities and the countryside. This was against our expectations that cities would experience a first wave and rural areas a second wave linked to the Spring Festival migration. If rural areas are also coming

off the back of the last wave, the return from the Spring Festival holiday could be less affected than previously feared.

It is also important that hospital capacity is reportedly recovering. This will help boost confidence and consumption in cities especially. Consumption generally is starting to recover. Over the Spring Festival holiday, a key period for consumer industries, the total number of domestic trips increased 75.8% from last year's holiday. This was still 47% lower than in 2019, but at least some consumers are beginning to spend more money. There is certainly anecdotal evidence of younger

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