



## CHINA STEEL INTELLIGENCE REPORT

Will China have to  
rip up its targets?

## IN THIS MONTH'S ISSUE

### Will China have to rip up its targets?



#### EDITORIAL

PAGE 1

Figure 1. Steel production and demand 2019-2021

Figure 2. Steelmaking emissions should fall faster than production

Figure 3. New loan issuance jumped in March

Figure 4. Inflation figures could grow further

Figure 5. Steel is a net import industry by value

Table 1. Supply and Demand



#### SUPPLY & DEMAND

PAGE 8

Figure 6. Jan-Feb steel output/demand disappoints

Figure 7. CISA data shows March output recovery

Figure 8. Satellite data confirms end-March output recovery



#### POLICY WATCH

PAGE



#### END USERS

PAGE 11

Figure 9. Real estate investment growth

Figure 10. Automotive steel demand

Figure 11. White goods demand

Figure 11. Shipbuilding completions



#### TRADE

PAGE 15

Figure 13. Chinese exports by region

Figure 14. Chinese exports by product

Figure 15. Chinese imports by region

Figure 16. Chinese imports by product



#### MARKETS

PAGE 18

Table 2 & Figure 17. Longs Prices

Table 3 & Figure 18. Flats Prices

Table 4 & Figure 19. Raw Materials Prices





# WILL CHINA HAVE TO RIP UP ITS TARGETS?

BY TOMAS GUTIERREZ

China had entered 2021 with a plan to deal with the slowing economy and ensure stability. Even as it announced its targets in early March however, the world was changing. Covid in China and the Russian invasion of Ukraine have made achieving those targets much more difficult. Nevertheless, the targets set the direction of travel for this year and are already having a material impact on the steel industry.

Further impacts could be coming, in particular in terms of stimulus and trade. There is no longer such a thing as a normal year, but without doubt this year will throw a number of new challenges at the industry.

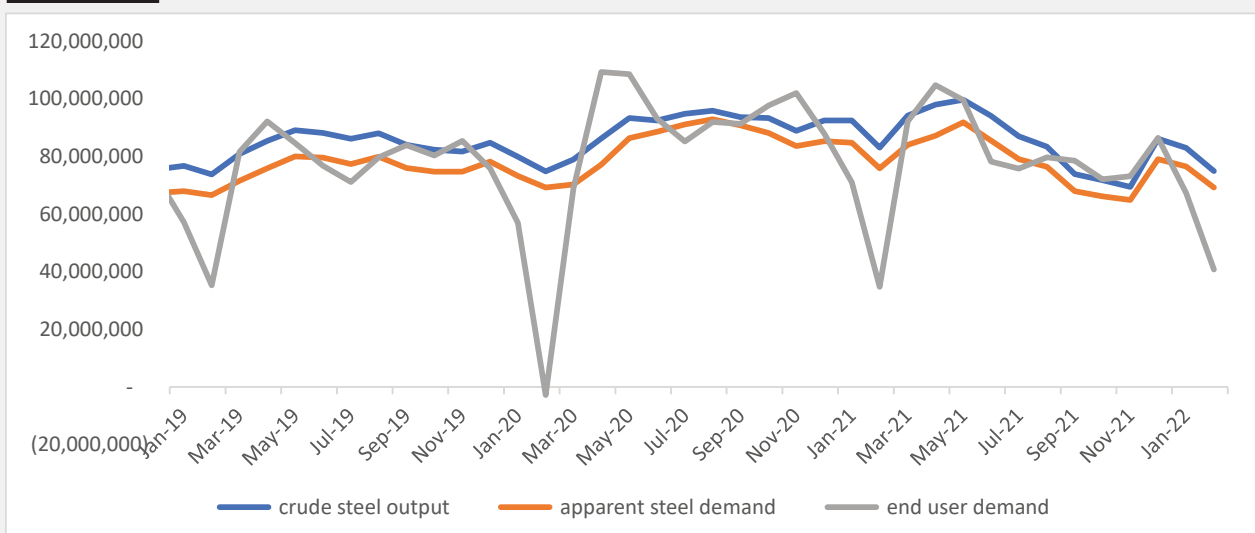
China's Two Sessions political meetings in March set the policy tone for a difficult year. China's government is facing an impossible balance between reforming the economy and ensuring stability, and is caught between reacting to Covid and the economic slowdown, and focussing on the political process of finalising the leaders for Xi Jinping's third term as Party Chairman. The balance set is already altering China's medium terms goals, though policies are likely to shift regularly over the coming years, which are likely to throw up numerous new challenges, as well as many familiar ones. The government work report, the last to be delivered by outgoing premier Li Keqiang, and renewed plans for the steel industry contain a number of shifts that will impact markets.

TABLE 1. SUPPLY AND DEMAND

	2021	Jan-Feb 2022	Y-o-y	2022 Outlook	Y-o-y
Official Crude Steel Output	1,033	158	-10.00%	1,016	-1.60%
Apparent consumption	943	146	-9.29%	913	-3.10%
End user demand	946	108	-2.24%	913	-3.50%

Source: Kallanish. Million Tonnes

FIGURE 1. STEEL PRODUCTION AND DEMAND 2019-2021



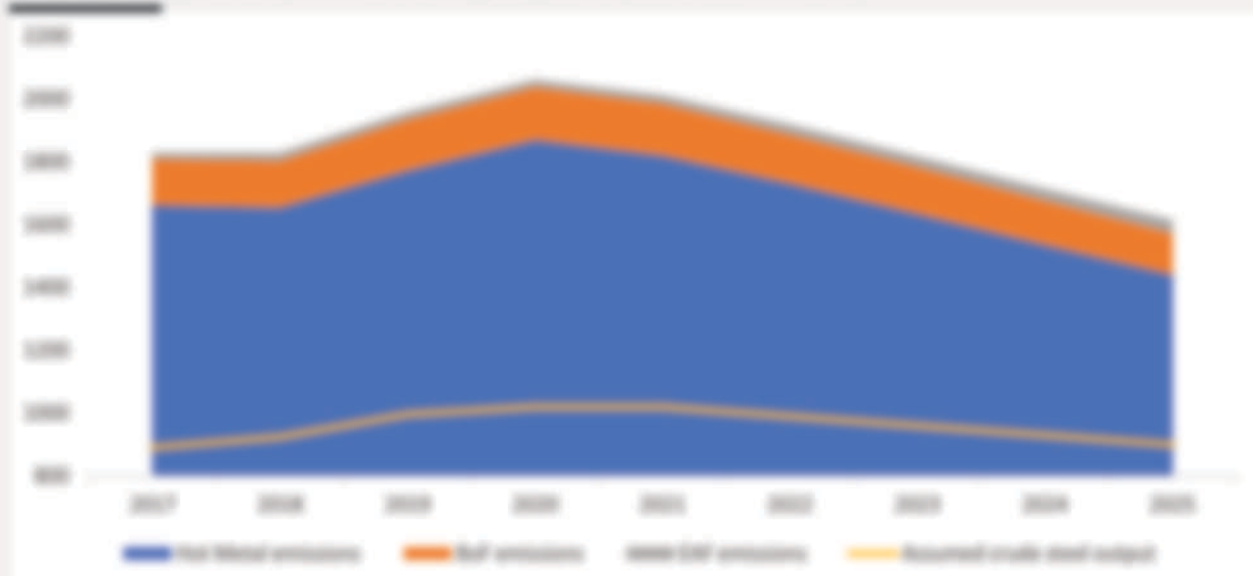
Source: Kallanish. Million Tonnes

One key target for the industry has shifted, after a final draft of the plan for the steel industry was released with easier carbon emissions reduction targets. According to guidance issued by the Ministry of Industry and Information Technology (MIT), the National Development and Reform Commission (NDRC), and the Ministry of Ecology and Environment (MEE) in February called for peak carbon emissions from the steel industry to be achieved by 2030, rather than 2025 as previously set out in 2021 in the steel industry guidance for the five year plan period ending 2025.

The change has sparked some puzzlement as it was not a hard target to reach. It is illustrative of a shift across policy more broadly however which will shape the environment in which the steel industry operates. The change appears to have been triggered by a pushback on short-term emissions reduction policies by local governments. In 2021, as China's economy saw-sawed between stimulus and real estate reform, short-term policies to control emissions added to volatility. Short-term restrictions on heavy industry and the energy sector had ripple effects on the wider economy, which was already facing a major slowdown and electricity supply problems. The centre appears to have concluded that the problem was local government officials, perhaps eyeing promotion in this current round of reassignments, acting aggressively to attract attention and meet targets to impress their seniors. The solution was to signal a focus on long-term targets, not short-term measures.

There is also another shift however, which has been triggered since this announcement and can be seen in policy statements in March. China's policy makers have long been drifting towards a focus on security over all other factors, and that includes resource and industrial security. The Russia-Ukraine war has now confirmed this as the supreme policy-making objective, and environmental policies have taken a back seat. This can also be seen in an increasing focus on the development of domestic coal resources, both mining and power generation.

FIGURE 1. STEELMAKING EMISSIONS SHOULD FALL FASTER THAN PRODUCTION



Source: Kallanish, Kallanish Scrap Market Report (2022)

So does this mean that China is not going to achieve emissions reduction in the next five years in the steel industry? While net zero is still decades away, primary emissions reductions seem not only easily reached but baked in to structural changes in the industry. Even if crude steel output remains steady, a growing share of scrap and DRI as an input and the growing share of EAFs and alternative furnaces in production would mean lower emissions. Consultancy firm Steel on the Net estimates of average carbon dioxide emissions by process suggests 2,451 tonnes of CO2 per tonne of crude steel for an integrated blast furnace steelmaker, and just 240kg per tonne of crude steel for an EAF. Even taking into account China's relatively high-carbon electricity supply, a shift to EAFs and scrap should have a visible impact on emissions. The



underlying basis for the change in target therefore seems to be that, if China meets its targets early it can claim that as a win, but there is no desire to be its industry to hard targets that are not related to security as China sees it. For the industry the change therefore confirms previous expectations that, although a number of pioneer projects to reduce emissions will be developed, a new generation of blast furnaces and EAFs will continue to be commissioned. The real transition to a carbon neutral industry will only be pushed forward once new technologies have confirmed their effectiveness and competitiveness.

### 2022 targets: growth

China's government work report set out a number of targets for the year. Economically these can be divided into three broad categories: growth, inflation and trade. In terms of growth, the key targets are 5.5% growth in GDP and 11 million new urban jobs (and surveyed urban unemployment of at most 5.5%). At the time of the report, and even more so at the time it was being drafted in late 2021, these policies must have seemed more clear than they do now. Easing pressure on real estate, which began in November/December, would stabilise economic growth. Directing further lending to small and medium enterprises and cutting their taxes would boost employment and GDP. Any increase in lending would be controlled, while local government borrowing would remain robust but not increase. China therefore set its local government special bond issuance quota for the year at CNY 3.65 trillion, level from 2021. In order to support the economy, bond issuance could be brought forward without being increased overall.

The picture now looks very different. Covid has wrecked the economy in March and Russia's war in Ukraine has triggered a number of inflationary and other economic risks, not to mention geopolitical risks. March has already seen lending jump higher as banks have been ordered to get money into the economy. New CNY loans jumped to CNY 3.13 trillion in March, compared to CNY 2.73 trillion a year earlier. The flow of total social financing in March reached CNY 4.85 trillion, a full CNY 1.5 trillion higher than some economist forecasts. The crises of the last several weeks have made the 5.5% GDP growth target increasingly unrealistic, and China is beginning to stimulate with less discipline in order to not fall too far behind that target.

Very little of this has yet been seen in real steel demand. Lockdowns have prevented much of that financing from going into steel-intensive work. Construction sites have been closed and factories shut down in many parts of the country. It has however fuelled expectations of a strong recovery in demand once the economy opens up. While China appears unwilling to constrain itself to environmental targets, it still seems willing to be itself to arbitrary GDP targets, despite the ongoing harm to the health of the economy.

FIGURE 1. NEW LOAN ISSUANCE JUMPED IN MARCH



(Source: PBoC)





### 2022 targets: Inflation

China is aiming for an increase in consumer inflation of around 2% this year. Like its growth targets, that looked easier a month ago than now. CPI in January-February was at 0.3%, down from 2.3% in November as China brought its coal and energy cost spike under control. March consumer inflation jumped to 1.3% however and the trajectory looks likely to be extended. March's spike was driven by fresh vegetables and transport costs, with petrol prices a key driver. Global prices for energy, food and other commodities are increasing sharply however, and China has already been forced into an unusual series of increases in petrol pump prices. Taming consumer inflation would require further controls of commodity prices. Producer price inflation in March slowed slightly to 8.3%. Coal and oil were driving this, but non-ferrous metal prices and other commodity prices were also pushing higher.

FIGURE 4. INFLATION FIGURES COULD GROW FURTHER



Source: NBS

Moves to control the cost of imports in particular will be important (including for economic growth as supply-side stimulus will need strong net exports). For the steel industry, that means further attempts to control the prices of iron ore and coking coal. For coking coal, domestic production is paramount and plans to increase this are already underway. For iron ore there are limited options to control prices. Anshan Iron and Steel Mining has already announced the development of West Anshan last month. The 30 million tonne/year mine could produce some 10.23m ty of concentrate, making it one of the largest domestic operations. China is also now pulling the trigger on the biggest gun it has pointed at iron ore prices. The new post-coup government in Guinea has forced miners at the Simandou deposit to the table and projects there now have a firm timetable. First commercial production from the 'Pillars killer' could now be seen in 2025, just three years away. The deposit could be generating 100-150m ty of high grade iron ore exports within a few years.

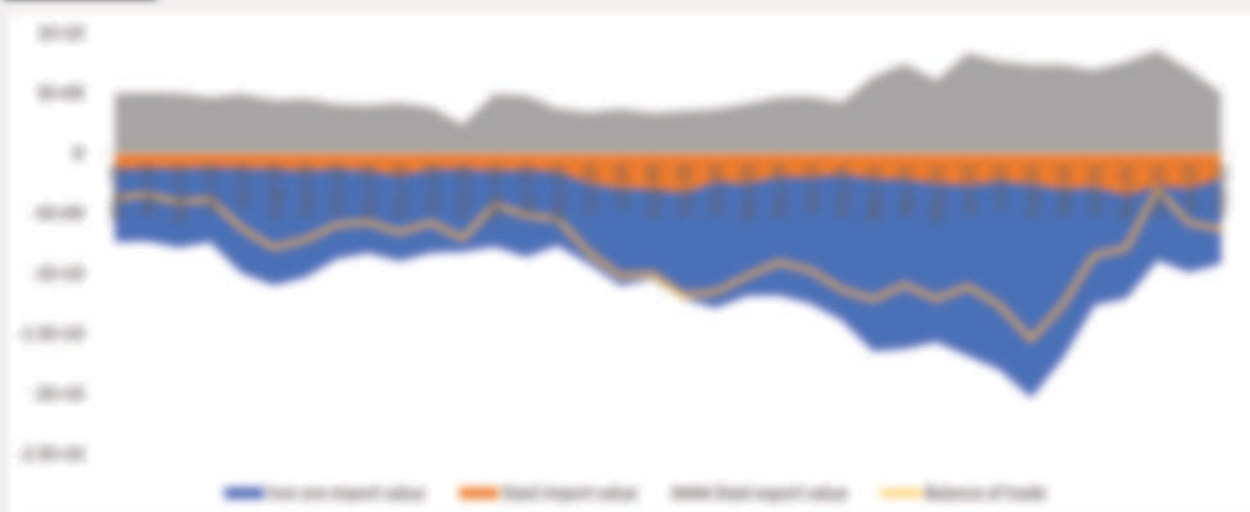
These factors may influence sentiment, but could have a limited impact on prices this year. In the meantime, China is likely to continue looking closely at domestic derivatives. So far this year China has already sat down with major iron ore futures traders to chat politely about the need to keep prices under control. Any periods of extreme volatility or price surges are likely to again see the imposition of measures such as increased deposit requirements and trading costs, as well as leaning on particular players seen to be driving the market higher. There is also likely to be continued pressure to reform the iron ore pricing mechanism, though what impact this would have on the price China actually pays for its ore has yet to be seen.



### 2022 targets: Trade

China aims to see 'steady increases in both the volume and quality of imports and exports' this year. For steel, this suggested a continued focus on supporting high end exports but discouraging low end exports. From late 2021 this took place mainly behind the scenes, with major mills being discouraged from pushing hot rolled steel exports but no official measures or taxes. The global imbalance of prices however has seen China re-emerging as an exporter of commodity grade steels, including not only hot rolled but semi-finished steels. This has triggered rumours of tax increases on steel exports. Some mills are even again asking for clauses in their export contracts that ensure the customer is liable for the cost of any tax change. There are reasons to doubt the imposition of export taxes however, and the decision would be a complex one. Traders were talking about a National Development and Reform Commission meeting in late March at which export controls had been mentioned. A source at a mill which was represented at the meeting however said that specific measures such as export taxes had not been mentioned.

FIGURE 5. STEEL IS A NET IMPORT INDUSTRY BY VALUE



Source: IHS

One important factor is to understand that restricting steel exports may not contradict the macro-goal of boosting total exports. This is particularly so in the context of commodity price inflation and a drive towards resource security. If steel exports are seen as boosting Chinese steel prices above a 'natural' domestic level, and are therefore also 'artificially' boosting output and demand for iron ore, then limiting steel exports could be seen as sensible. Breaking the link to high international steel prices could help China's goal of lowering iron ore prices, and because of the larger scale of iron ore imports, could mean China's overall net export position in USD terms is boosted.

Focusing policy on lower value products would further improve China's overall net export position. China has been actively exporting billet and slab. Much of this has been the re-export of earlier billet imports, but China-produced semis are also being shipped. If these volumes become large enough for regulators to become concerned, then China could return to its policy of staggered export costs. Semis would become more expensive to export than hot rolled steel, and potentially hot rolled steels could be more expensive than coated or further processed steels. Without a change in VAT rebates, this would likely be achieved through export taxes or administrative or political barriers. From a government viewpoint, a tax on semis would be in line with both reform goals and supporting the balance of trade this year. It is therefore something that markets should be watching out for. Overseas steelmakers should be monitoring this with some optimism. Chinese moves to cut raw material costs and to limit semi exports can leave room for steelmakers elsewhere to earn bigger margins.

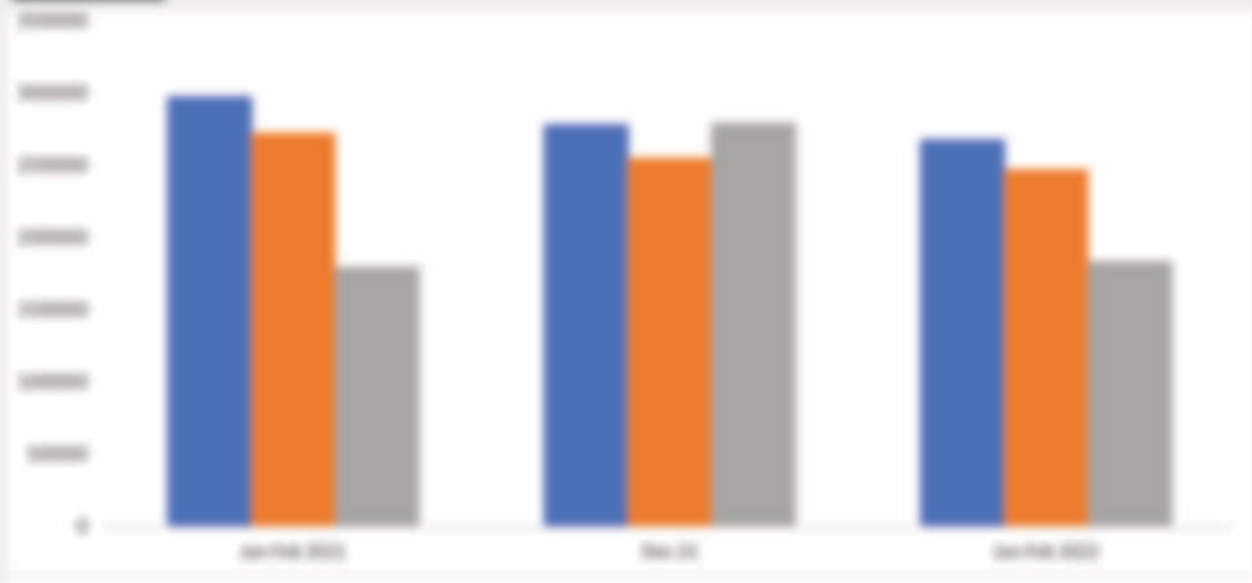




## SUPPLY & DEMAND OVERVIEW

Data for the first two months of the year, which China releases together, showed a weak start to 2022. China produced 157.96 million tonnes of crude steel over January-February, according to the National Bureau of Statistics (NBS), down 10% year-on-year. The decline is largely due to very strong output a year earlier as China's post-first-Covid-19-wave recovery boosted steel markets. The data also implies a slowdown in production from December, however, with average daily output of 2.68m t/day over January-February compared to 2.78m t/d in December. This was more of a surprise as the China Iron and Steel Association (CISA) reported fairly steady output over the same period. Blast furnaces were increasing production, but electric arc furnaces saw very weak output, especially in February, which may account for the discrepancy. Alternatively, as the y-o-y comparison is in line with expectations, it may be that December data will be revised.

FIGURE 4. JAN-FEB STEEL OUTPUT/DEMAND DISAPPOINT'S



Source: CISA, Kallanish

The official data implies apparent steel demand over January-February was down 14.07% y-o-y at 138mt, once net exports have been taken into account. The picture looks less bleak, however, once the change in inventories is added. Inventories have followed historical trends, and have been stubborn in coming down, but peaked at a much lower level than in the previous two years. As a result, end-user demand is estimated to be down just 3.73% y-o-y at 101.23mt. The decline on-year was small considering the trouble that has been seen in real estate and across the economy more broadly.





FIGURE 7. CISA DATA SHOWS MARCH OUTPUT RECOVERY

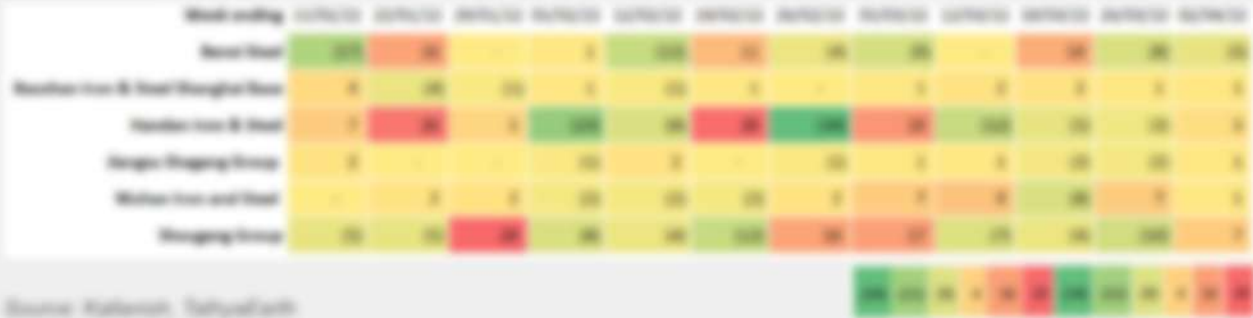


Source: CISA, Kallanish

In March, output at CISA member mills started the month with a dip but recovered by the end of the month to the highest level since summer 2021. The Russian invasion of Ukraine has given mills confidence to produce at higher rates as export markets have opened up, which within China mills do not expect restrictive policies as China is relying on supply-side stimulus to support the ailing economy. CISA mill output at the end of March still remained almost 11% lower than highs reached in early 2021 however, as Covid disruption continues to impact output in some areas.

Satellite analysis based on data supplied by TethysEarth meanwhile reveals some of the difference in performance across various mills. Overall, mills in Tangshan began to reduce output as Covid restrictions resulted in reduced supply of raw materials in the city. Handan also saw disrupted supplies from Tangshan ports impact production there. Shougang Jingtang saw output decline through most of the month, but appears to have gotten a head start on other mills restarting thanks to its captive port, with output picking higher at the end of March. Baosteel Steel in the northeast meanwhile saw a jump in output mid-month, as restrictions in the northeast began to ease. Other mills appear to be less affected, including Baosteel's plant in Shanghai, which has been able to keep some operations at its port despite the strict lockdown across the city. Overall, the CISA and satellite data suggest higher output in March than at the start of the year, despite severe disruptions to the economy from lockdowns.

FIGURE 8. SATELLITE DATA CONFIRMS END-MARCH OUTPUT RECOVERY



Source: Kallanish, TethysEarth



## END USERS

### REAL ESTATE

China's real estate sector saw another set of lumpy official data released for January-February. Expectations had been set so low however that markets were relieved the picture was not any worse. Completed investment in the sector over two months was up 3.7% year-on-year to CNY 1.45 trillion (\$226 billion). Although that is the lowest year-to-date growth rate since July 2020, on a month-by-month basis it marks an improvement from the second half of 2021 when investment was consistently down y-o-y. Real estate sales however were down 9.8% y-o-y to 157.03 million square metres, marking the eighth straight month of y-o-y declines in sales by area. New starts were also down 12.2%, the 11th straight month of decline. Completions were down 9.8% over January-February.

One brighter note was realised average prices, which were up slightly from December at CNY 8,845/sq.m. This was still down 10.7% y-o-y, however. A survey of 70 cities showed new

apartment prices falling in 40 cities in February, one more than in January. This indicator suggests the most widespread real estate downturn since 2015.

Economic data for the first two months of the year came in generally stronger than expected, but the economy now faces new challenges including the new outbreak of Covid-19. On the other hand, China is also increasingly committing itself to sustaining economic growth. That may require strong credit growth. Even if reformers want stimulus to go mainly to small and medium enterprises, the greater the need for stimulus, the more is likely to look to sectors with low returns.

FIGURE 5. REAL ESTATE INVESTMENT GROWTH



Source: NBS, National (%) y-o-y



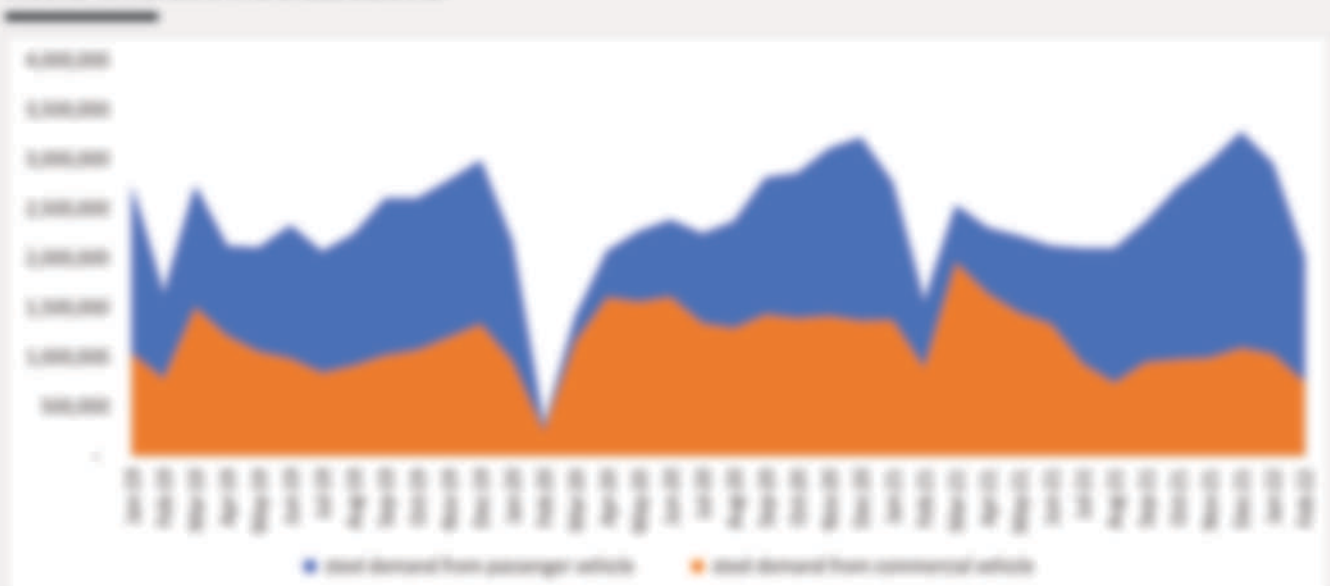
## AUTOMOTIVE

Despite a month-on-month drop due to the Chinese New Year holiday in early February, China's February automotive production still rose significantly compared to a year earlier, according to data from the China Association of Automobile Manufacturers (CAAM). February output reached 1.81 million units, down 25.2% from January but up 20.6% year-on-year. Year-to-date output thus rose to 4.24m units, up 8.8% y-o-y. Production of new energy vehicles (NEVs) fell 18.8% from December to January, but then registered a surge of 197.3% from January to February. Year-to-date output stood at 820,000 units, scoring 158.2% y-o-y. The continuous improvement of NEVs and exports is the main factor for the y-o-y growth, as well as demand driven by inventory replenishment.

was down 30.71% m-o-m at 2.76 million tonnes, leaving January-February demand at 6.75mt, up 2.2% y-o-y. At the end of last month, CAAM announced its annual auto sale prediction of 27.5m units over 2022, compared to 26.275m units sold in 2021. Sales and output are both being impacted by the extended outbreaks of Covid however. Initial outbreaks in Jilin province brought production in the automotive hub of Changchun to a halt. Ongoing outbreaks in and around Shanghai are slowing output from car factories across eastern China. Automotive production data is expected to weaken in the coming months, before a stimulus-fuelled recovery later in the year.

February implied finished steel demand calculated by Kallanish from the CAAM data

FIGURE 16. AUTOMOTIVE STEEL DEMAND



Source: CAAM, Kallanish (forecasted)



WHITE GOODS

China's white goods production in the first two months of the year saw a slight decline from December but was still up from a year earlier. Different products saw different performances however. Air conditioner output was down slightly y-o-y, after driving growth in output over the last two years. Refrigerator and freezer output was also sliding on-year as a result of weak consumer demand and house buying. Washing machine output however has made up for weakness elsewhere.

Katanaish estimates finished steel demand from the sector over two months was around 2.24mt, up 2.1% y-o-y. The impact of Covid has not appeared in this data. Considering the importance of eastern and southern Chinese manufacturers of white goods, March and April data are likely to be impacted.

Katanaish estimates finished steel demand from the sector over two months was around 2.24mt, up 2.1% y-o-y. The impact of Covid

FIGURE 11. WHITE GOODS DEMAND



Source: NBS, Katanaish (forecasting)





## SHIPBUILDING

China's shipbuilding completions fell year-on-year in the first two months of 2022, with new orders also slumping markedly. In the reporting period, shipbuilding completions declined by 9.8% on-year to 5.53 million deadweight tonnes, which suggests around 2.26 million tonnes of finished steel was consumed in the two months based on Kallanish estimates. According to the China Association of the National Shipbuilding Industry (CANSI), China's shipbuilding completions in 2022 should reach 40m dwt.

New orders meanwhile lost 17% on-year to 5.85m dwt. This is within CANSI's previous expectations that this year's new orders will decline as demand gradually becomes saturated. Orders in hand increased by 35.8% on-year to 97.8m dwt by the end of February 2022. From January to February,

China's shipbuilding completions, new orders and orders-in-hand accounted for 49.9%, 49.0% and 47.7% respectively of the world's total in deadweight tonnes.

FIGURE 11. SHIPBUILDING COMPLETIONS



Source: CANSI (January/February)





## TRADE

China's export situation has changed dramatically in the last month, driven by the global upheaval from Russia's invasion of Ukraine. The latest available data however still reflects deals from before the war, with Chinese output lower than expected, and Chinese prices uncompetitive. Net exports were therefore down despite weak demand impacting import volumes. China's net steel exports in February were 2,024kmt, a 14% m-o-m and 33% y-o-y decrease, China's customs data shows. Over January-February, net exports totalled 4,360kmt, a decrease of 29% y-o-y. Exports in February were down 21% m-o-m and 26% y-o-y at 3,623kmt. Over January-February, exports were down 19% y-o-y at 8,235kmt.

FIGURE 13. CHINESE EXPORTS BY REGION

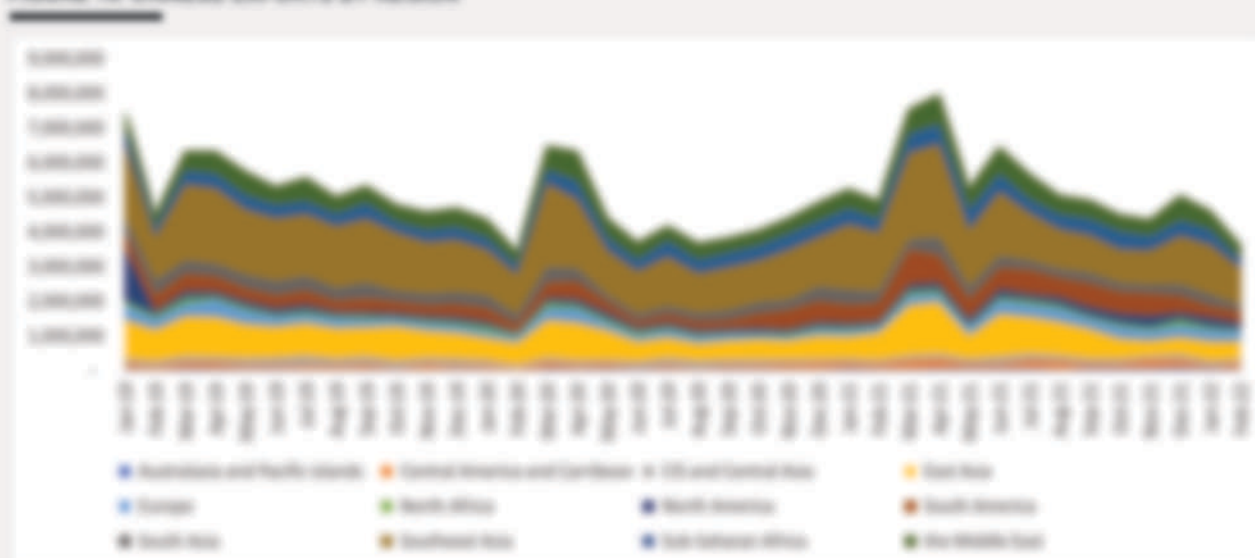
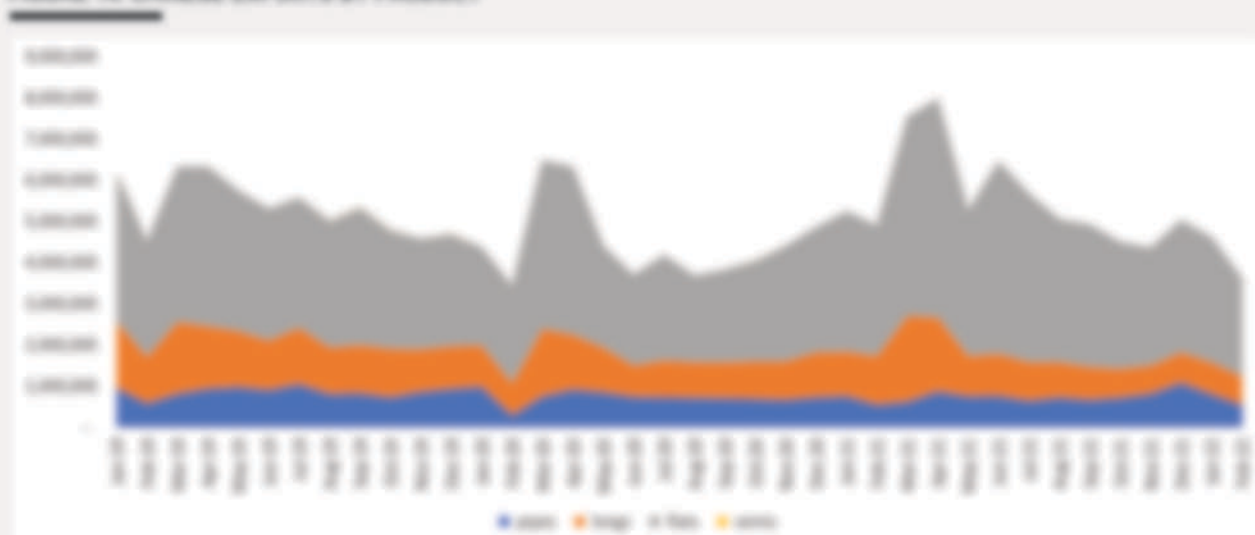


FIGURE 14. CHINESE EXPORTS BY PRODUCT



Source: ITC Kallanish

In February 2021, China exported 1.07bnt of steel to Southeast Asia, again the biggest recipient that month. This was down 26% m-o-m and 36% y-o-y. Over the opening two months of the year exports to this region fell 30% on-year to 2.51bnt.

Differing speeds of decline have again mixed up the remaining regions. China's second biggest importer was East Asia, regaining its position which it had lost in December, with shipments from China down 11% m-o-m and 36% y-o-y to 524,174t in February. During January-February this was down 25% y-o-y to 1.11bnt. The Middle East still remained above South America however. 400,890t went to the Middle East in February, a dip of 23% m-o-m and 21% from February 2020. Through January-February this fell 11% y-o-y to 821,795t. South America also saw a dip in volumes of 36% y-o-y and 2% m-o-m to 326,021t. Over January-February China's exports of steel to South America reduced 37% to 659,405t.

Flats still make up the bulk of Chinese exports, with February shipments of 2.38bnt, down 22% on-month and 25% on-year. Flats exports over two months decreased 18% to 5.42bnt. China continued to struggle to key spot markets. China's February exports of carbon and alloy steel HRC to Vietnam were 187,180t, slumping 32% m-o-m and 56% y-o-y. Over January-February this volume was 467,347t, down 46% y-o-y. China's competitiveness in Vietnam has now picked up, in part due to the diversion of Indian exporting interest to Europe.

Meanwhile, February carbon and alloy steel HRC exports to Korea were 123,252t, a m-o-m climb of 30%, but a y-o-y fall of 2%, and over two months China exported 467,347t of these products to Korea, down 46% y-o-y.

HCO exports continue to lose ground relative to CRC. Global exports of galvanized steel coils in February reached 651,027t, down 24% m-o-m and 26% y-o-y, bringing the two-month total down 20% y-o-y to 1.51bnt. In February global carbon and alloy CRC exports reached 290,969t, down 16% m-o-m but still up 3% y-o-y. Over two months, these shipments were 638,214t, up 9% on-year.

China also exported 691,262t of longs in February, down 10% on-month and 41% on-year. During the opening two months of 2021 longs exports hit 1.45bnt, down 35% y-o-y. China also exported 546,892t of pipes, down 32% m-o-m and 1% y-o-y. However, over January-February pipe exports reached 1.35bnt, up 2% y-o-y.

Semis exports remained negligible at 1,038t in February and zero in January. Semis exports are now beginning to go out however, partly as re-exported imports, and also as Chinese-made semis now that global semis markets are suffering a supply crunch.

FIGURE 14: CHINESE EXPORTS BY REGION



Source: ITC Kallanish

692,848t in February, a dip of 25% m-o-m and 12% y-o-y, while over January-February combined flat imports were down 6% to 1.622mt. Japan supplied 157,307t of China's February carbon and alloy steel HRC imports, down 16% m-o-m and 11% y-o-y. During January-February, these inched 1% higher to 344,301t.

China meanwhile reported February semi imports of 644,238t, down 37% m-o-m and 18% y-o-y. However, two-month combined semi imports were 1.66mt, up 2% y-o-y. Of this total, China imported just 19,523t of semi from Vietnam in February, a fall of 41% m-o-m and 52% y-o-y. Between January-February, imports from Vietnam reached 52,504t, a fall of 89% from last year. Its February imports of semi from Indonesia, driven by stainless steel shipments, meanwhile reached 221,198t, down 12% m-o-m but up 131% y-o-y. Through January-February, it sourced 471,216t of Indonesian semi, a climb of 52% on-year. In February, the Middle East supplied another 161,337t of semi to China, a reduction of 48% m-o-m and 48% y-o-y, meaning imports of Middle Eastern semi were down 8% over January-February at 472,951t.

China's long product imports saw a 16% decline from January but a 12% increase y-o-y to 240,979t in February. Over two months longs imports were 527,950t, down 12% y-o-y. China also saw pipe imports of 20,774t, dipping 42% m-o-m and 14% y-o-y. Over the opening two months of 2021 pipe imports totalled 56,343t, down 9% on-year.

FIGURE 16. CHINESE IMPORTS BY PRODUCT



Source: ITC Kallanish







## MARKETS

March has been a dramatic month for global steel prices, and yet Chinese prices have appeared strangely steady, ending the month only a couple of hundred CNY higher than the end of February. This has largely been due to significant domestic market disruption, in particular due to Covid. The disease had been a relatively distant threat for most of the time since China got on top of the first outbreak in 2020, but its new variants have shut down many of its key cities and regions, some of which are likely to remain under some form of restriction throughout April. Even before Covid however there was some disappointment in the recovery in end user demand, and the government is showing growing concern about the economy. Stimulus is now the great hope for anyone long in the market, as well as a respering post-Covid.

### LONGS

The first week of March saw a CNY 100t jump in spot rebar prices as post-New Year demand finally began to pick up. The recovery stalled however as Covid began to disrupt more and more regions, starting in the northeast and then spreading to the east of the country. Construction activity in the key urban hubs of Shanghai and the surrounding cities has now been stalled for weeks. 20mm HRB400 rebar was trading at CNY 4,760-4,780t at the end of March, CNY 140t higher than at the end of February. Steelmakers are trying to drive prices higher with new offers, supported by stronger export markets, but domestic markets remain quiet due to restrictions.

Chinese wire rod export offers fared much better, buoyed by global markets. Although export activity has remained relatively muted compared to HRC, wire rod orders

picked up as global markets have become extremely tight since the Russian invasion of Ukraine. Even export offers retreated a little at the end of the month however, due to domestic weakness and a slowdown in orders. 6.5mm diameter mesh-grade wire rod ended the month at \$840t/tn, up from \$770t at the end of February.

TABLE 2: LONGS PRICES

	2021	y-o-y	Feb-22	Mar-22	Mo-m	Y-o-y
Rebar (CNY/t)	4,878	29.5%	4,688	4,750	1.3%	4.4%
Wire rod tub (\$/t)	783	58.7%	760	835	9.9%	15.3%

Source: Kallanish

FIGURE 17. LONGER PRICES



Source: Kallanish

**2** UNTIL  
WEEKS



JOIN THE KALLANISH

## ASIA STEEL MARKETS

April 27- 28, 2022 | Online

2 Days | 6 Sessions | 18 Speakers



FULL PRICE: \$450

➤ EMAIL: [SALES@KALLANISH.COM](mailto:SALES@KALLANISH.COM)

> REGISTER NOW



## FLATS

Chinese flat steel prices have continued to fare better than rebar for a number of reasons. Firstly, manufacturers continued to buy HRC for longer than construction sites were able to continue operations, and secondly they have had more success on export markets. Domestic prices fluctuated through the month, but 5.5x1,500mm Q235 HRC in Shanghai ended March at CNY 5,230-5,250/t, up CNY 340/t from a month earlier. Although many key manufacturing and construction hubs are now shut down because of Covid, a combination of geographically shifting demand and production disruptions have kept HRC market inventories from rising, and China's focus on supply-side stimulus means expectations for later in the year remain high.

Chinese export HRC prices moved rapidly higher in the first half of March following Russia's war in Ukraine. Global HRC markets suddenly tightened as countries began to block Russian steel imports and seek replacements from elsewhere, as well

as replacing supply lost to the disruption of the war and rising production costs. As a result, China again became active in export markets, aggressively targeting a wide range of buyers. Chinese HRC has found lucrative markets in the GCC and in Europe, as well as in Southeast Asia where much Indian material has also been diverted to Europe. 2mm SAE 1006 HRC was assessed at \$895-905/t at the end of March, up \$85/t from a month earlier. Price increases are now slowing. Booking of Chinese material is now slowing as shipments from ports have been disrupted by Covid measures, and buyers cannot guarantee when they will receive their cargo.

TABLE 1. FLATS PRICES

	2021	y-o-y	Feb-22	Mar-22	Mo-m	Y-o-y
HRC (CNY/t)	5,320	40.9%	5,003	5,166	3.2%	3.1%
HRC ton (\$/t)	834	70.4%	808	878	8.7%	20.3%

FIGURE 16. FLATS PRICES



Source: Kallanish



## RAW MATERIALS

Seaborne iron ore prices were also driven higher by geopolitics at the start of March, before fluctuating through the following weeks. Internationally, the disruption to exports from Ukraine, in particular pellet, and from Russia due to sanctions tightened iron ore markets. The surge in steel prices and rush to produce in other regions then also drove prices higher. Domestically, hopes for stimulus and a recovery in domestic markets contributed to the spike. But markets soon became less certain. In China, Covid began to disrupt output, including in key cities such as Tangshan, while overseas mills struggled to cope with surging energy prices. The Kallanish KIORE 62% Fe index ended March at \$156.82/dry metric tonne cfr Qingdao, \$20.72/dmt higher than the end of February and just slight below the month's peak of \$157.80/dmt on 8 March. The KIORE 60% Fe index closed March at \$182.83/dmt cfr, up \$18.57t on-month, and the KIORE 58% Fe index increased \$17.48t over the month to \$134.82/dmt cfr.

Iron ore port stocks have fluctuated due to disruptions. At the end of March, stocks across 35 ports were 149.35dmt, according to SMM, down from 154.07dmt at the end of February. Disruption in unloading however have left long queues of ships outside ports

waiting to offload their cargo. As Chinese ports open up from Covid restrictions, there will be a race between mills restocking and higher unloading rates that will determine how much pressure inventories put on prices.

Chinese scrap prices meanwhile have increased in two phases over the past month. The start of March saw domestic scrap prices move higher following other raw materials and supported by the resumption of activity at EAFs, which had been struggling with profit margins through much of February. In the second half of the month, Covid brought collection and transportation to an end across many key scrap-generating regions, and tight supply pushed prices higher again. 6mm scrap delivered to mills in the Yangtze River Delta ended the month at CNY 3,828t, up from CNY 3,635t at the end of February.

International prices meanwhile have been driven up so far that imports to China have become even less competitive. HRS101 heavy melting scrap was assessed at \$840t cfr at the end of March, up \$45t over the month. Trading levels have dropped to almost nothing however.

TABLE 4. RAW MATERIALS PRICES

	2021	y-o-y	Feb-22	Mar-22	Mo-m	Y-o-y
KIORE 62% Fe iron ore (\$/dmt)	159	71.4%	142	150	5.4%	-11.0%
KIORE 60% Fe iron ore	185	76.9%	171	179	4.7%	-7.5%
KIORE 58% Fe iron ore	136	62.3%	120	130	8.1%	-17.1%
Yangtze delta heavy scrap	3,526	34.2%	3,651	3,721	1.9%	11.4%

Source: Kallanish



FIGURE 16. RAW MATERIALS PRICES



Source: Kallanish



READ THE  
STEEL NEWS  
AS IT  
HAPPENS

GO LIVE

[www.kallanish.com](http://www.kallanish.com)



View full dataset in attached details (subscribers only)

Steel Data:	Nov	Dec	Jan	Feb
Crude steel production	69.31	66.19	62.99	74.96
Steel exports	4.36	5.06	4.61	3.62
Steel imports	3.26	2.17	2.27	1.60
Apparent steel consumption	64.74	79.02	76.53	69.22
Calculated real demand	72.91	66.45	67.34	40.81

## INFLATION



Macro data:	Nov	Dec	Jan	Feb
Manufacturing PMI (NBS)	50.10	50.30	50.10	50.20
Manufacturing PMI (Caixin)	49.90	50.90	49.10	50.40
CPI	2.30%	1.50%	0.90%	0.90%
PPI	12.90%	10.30%	9.10%	8.80%
FAI (CNY trillion)	49.41	54.45		5.08
Industrial Value-added	3.80%	4.30%		7.50%

## MANUFACTURING PMI



Downstream data:	Nov	Dec	Jan	Feb
Real estate investment *	13,731	14,760	14,760	1,450
New Construction starts ytd**	1,828	1,989	1,989	150
Completed construction ytd**	688	1,014	1,014	122
Real estate sales ytd**	1,581	1,794	1,794	157

\*CNY billion \*\*million square metres

# SAMPLE



## Do you want to keep reading?

### SUBSCRIBE TO THE KALLANISH CHINA STEEL INTELLIGENCE REPORT

China Steel Intelligence is a monthly report put together by our expert team of analysts based in Shanghai. If you are already a subscriber to KallanishSteel you qualify for an additional discount. The pricing options for 12 month subscriptions are available below.

<b>Option 1:</b>	CSI	US\$ 4000
<b>Option 2:</b>	CSI, KallanishSteel Subscriber Rate	Email: <a href="mailto:sales@kallanish.com">sales@kallanish.com</a>
<b>Option 3:</b>	CSI + KallanishSteel Bundle	Email: <a href="mailto:sales@kallanish.com">sales@kallanish.com</a>

**Every month you will receive:** PDF Report, Excel statistical supplement, 15-20 pages, Supply and demand forecasts, End use sector data, Trade data, Macro economic overview.

## CONTACT KALLANISH

*If you found this China Steel Intelligence interesting please let us know, we would love to hear from you. Please send your feedback to the editorial team: [editorial@kallanish.com](mailto:editorial@kallanish.com) No distribution is permitted without the prior consent of Kallanish. To find out about multiple user accounts or corporate subscription packages please contact us on [info@kallanish.com](mailto:info@kallanish.com) or on +44 208 735 6520. Use of any information or material provided by Kallanish is entirely at your risk and in no circumstances is Kallanish responsible for any loss, damage or other negative consequence of use of information or material by you or anyone else.*