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## Experts warn possible risk in future market

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It is reported that though Chinese iron & steel industry realized profits in May after 8 straight months of loss, 8 steel makers among 71 domestic large and medium scale steel makers still suffered from losses.

The apparent consumption for long steel products and sheet & plates products went up by 18.19% and 4.57% YoY respectively. Spurred by demand, long steel product outputs rose by 12.39% during the H1 while sheet/plate product outputs slid by 2.66% showing that the fixed asset investment mainly drive up demand for long steel products.

Mr Qi Xiangdong deputy secretary general of CISA said some steel products, especially HRC were badly oversupplied. The huge capacity releasing would trigger off a new round of price fluctuation. Price for long steel products, whose capacity had almost been released, was likely to remain strong. Though price fluctuation was inevitable during the H2 price would not touch the bottom during the H1 again.

It is reported that small steel makers with annual capacity of some 3 million tonnes gained higher profits during the first five months. Spurred by fast growing fixed asset investment, some out of date capacity that should be eliminated run at full capacity again. Chinese government's stimulus packages directly drive up consumption of long products. And 60% construction steel products are made by these small-scale steel makers.

However, large scale steel makers, who possess advanced capacity, post overcapacity owing to the weak demand from downstream consumers. 71 large and medium scale steel makers realized main business revenue of CNY 355.03 billion from January to June down by 28.07% YoY and profits of CNY 1.725 billion down by 98.32% YoY.

By now, steel product price has kept the upward trend for 2 straight months. Steel price rises by CNY 800 per tonne to CNY 1000 per tonne on average during the period. On August 3rd Jiangsu Shagang and Jinan Steel published to raise their EXW prices again pushing up market prices for construction steel products.

Mr Qi stated that the future market prices would climb up with fluctuations and the price would not slump as it did in 2008. Another expert warns the possible risk as price rise is still underway and also expects price decline in Q4.

The positive effect of Chinese government's stimulus package on construction steel products will not last very long. If steel makers blindly expand capacity of construction steel product regardless of real demand, construction steel products are also oversupplied.

(Sourced from MySteel.net)

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