
Monday Market Monitor - China (WEEK 42) - Momentary pause

Monday, 19 Oct, 2009

Although Chinese domestic steel prices continued on down path most of the last week, slight upturn was reported on the last two days of the week.

The Chinese Long Product Price Index CLPPI declined by 102 point whereas the Chinese Flat Products Index CFPPI continued declining by posting loss of 98 points. The overall price index CHISPI reduced by 100 points.

?Class	09-Oct	16-Oct	Change	%
CLPPI	5729	5627	-102	-1.8%
CFPPI	5685	5587	-98	-1.7%
CHISPI	5704	5604	-100	-1.8%

CLPPI - Chinese Long Product Price Index

CFPPI - Chinese Flat Product Price Index

CHISPI - Chinese Steel Price Index

Long Products

?Category	09-Oct	16-Oct	Change	%
PI-WRC	4974	4893	-81	-1.6%
PI-Rebar	6642	6515	-127	-1.9%

PI - Product Index

Flat Products

?Category	09-Oct	16-Oct	Change	%
PI-PLTS	4978	4884	-94	-1.9%
PI-HR	5561	5472	-89	-1.6%
PI-CR	6460	6326	-134	-2.1%
PI-GP	6190	6094	-95	-1.5%

PI - Product Index

To know more about these indices please visit
http://steelprices-china.com/spi_services/spi.html

The imbalance between supply and demand will restrict the rebound of Chinese steel market in October and the only way to solve the contradiction between supply and demand is to take measure to cut the inventories by cutting production and stimulating domestic demand.

It is easier said than done, especially in Chinese environment where obsolete capacities, social pressures and incoming capacities are dominating steel consumption, which in reality is at peak.

Before the holidays, the demand seemed to be increasing as the end users and traders prepared the holidays. But in fact, the high inventories are still a big problem up to now and Chinese steel market is in serious threat.

The price reduction in last 8 weeks can be divided in two stages - the first one is the rapid fall in August and the second one is shock in downward trend in September. Indeed, the end user's demand once increased, for example, Shanghai construction

steel market increased by 50% in second week in September. However, the steel prices were not stable and dropped again when the demand became weak. The main reason for the phenomena is the high inventories.

Saddled by high inventory pressure, Chinese steel majors have become quite proactive during last 4-5 days and have reduced their listed EXW prices by CNY 50 per tonne to CNY 700 per tonne (USD 7 per tonne to USD 102 per tonne). As per report, more than 40 steel makers have slashed their EXW prices during this period. Although their move is in line with falling domestic prices, the market sentiment has been hit hard eliminating remote chances of recovery in short term.

Chinese steel manufactories and traders hold a rational attitude to look at the price trend after the holidays. Many think the market price will be in the trend of adjustment. Although it is a traditional busy season now, some disadvantages will affect the transactions one of which is the desire of capacity releasing.

The steel market will remain in shock towards bottom. The construction steel market in East China shows a sign of rebound which is determined by the consumption of inventories. Medium plate market is in stable operation, and the cold and hot rolled coil markets may continue to reduce. Generally speaking, the rage of reduction may be narrow.

The biggest problem in Chinese steel market is the contradiction between the rapid capacity releasing and the slow increasing demand. Take the crude steel as example, the total supply is above 600 million tonnes during June to August, but in contrast, the downstream industry and major economic indicators are stable. The steel resource supply may have huger pressure. The crude steel production in 2008 reaches 660 million tonnes as compared with 500 million tonnes in demand. The problem may be worse in 2009, which may be over 700 million tonnes, if the capacity is releasing on present speed.

The most important step to solve the present overcapacity is to take measures to cut to the inventories by producing less than demand.

Chinese steel products export declined significantly this year as international market witnessed weak demand. Chinese steel export is just 13 million tonnes during first 8 months down by 68.4% YoY. At the same time, because of the severe drop of international steel price levels large volumes of steel import came in to China. The total volume of imported steel during this period was 11 million tonnes up by 3.7% YoY.

Therefore, the increasing imbalance between supply and demand intensified the competition in Chinese steel market.

The European Union on October 6th decided to slap 5 year duties on steel pipe imported from China on alleged dumping charges. The long term tariffs were up to 39.2% as a punishment to Chinese exporters for allegedly selling seamless pipe and tubes below cost in the EU. On October 7th, US took anti dumping and anti subsidy investigation into imported Chinese steel pipes. Chinese steel factories faced a difficult situation on the back drop of these cases.

But off late Chinese steel mills, due to production pressures and supported by costing, have become very aggressive on export front lowering their offers substantially to capture minimal demand overseas. If history repeats it self, as said, Ukrainian and Russian steel mills, which have restarted many BFs on anticipation of grand recovery, are not likely to lag behind this time and come on an aggressive note to retain their volumes in a short while, making things much more difficult for Chinese steel mills.

On the optimistic note, despite these disadvantages, the future of Chinese domestic steel market may regain lost luster due to following reasons

1. Firstly, as most market risk has already been released, the trend of steel price may become upward.
2. Secondly, the global economy is recovering, which may increase consumption confidence to Chinese market.
3. Last but not least, the steel demand may become strong due to the recovery of automobile and real estate industry.

1. Long products - Horizon remains gloomy

Billets
150*150
Q235

?Location	CNY	USD
Jiangsu Province	-50	-7

Shandong Province	0	0
Hebei Province	-80	-12
Shanxi Province	0	0
Tianjin	-50	-7
Fujian Province	-50	-7

Change is on October 16th as compared to October 9th 2009

Change is per tonne

WRC

6.5mm

Common

?Location	CNY	USD
Shanghai	-30	-4
Hangzhou	-20	-3
Nanjing	-50	-7
Changsha	-30	-4
Zhengzhou	-70	-10
Chengdu	-40	-6
Guiyang	-240	-35
Kunming	-130	-19
Urumchi	0	0

Change is on October 16th as compared to October 9th 2009

Change is per tonne

Rebars

20mm

HRB 400

?Location	CNY	USD
Shanghai	-20	-3
Hangzhou	10	1
Nanjing	-50	-7
Jinan	-50	-7
Hefei	-50	-7
Fuzhou	-60	-9
Nanchang	-30	-4
Guangzhou	-20	-3

Changsha	-30	-4
Wuhan	-140	-20
Zhengzhou	-40	-6
Beijing	-160	-23
Tianjin	-110	-16
Shijiazhuang	-160	-23
Taiyuan	-50	-7
Shenyang	-70	-10
Harbin	-50	-7
Chongqing	-70	-10
Chengdu	-10	-1
Guiyang	-180	-26
Kunming	-140	-20
Xian	-80	-12
Lanzhou	-100	-15
Urumchi	-50	-7

Change is on October 16th as compared to October 9th 2009

Change is per tonne

2. Flats - High inventory keep market depressed

HRC

4.75mm

Common

?Location	CNY	USD
Shanghai	-30	-4
Hangzhou	10	1
Nanjing	20	3
Jinan	0	0
Hefei	-80	-12
Fuzhou	-100	-15
Nanchang	-100	-15
Guangzhou	-20	-3
Changsha	-50	-7

Wuhan	0	0
Zhengzhou	-30	-4
Beijing	-70	-10
Tianjin	20	3
Shijiazhuang	-70	-10
Taiyuan	0	0
Shenyang	-120	-18
Harbin	-120	-18
Chongqing	-50	-7
Chengdu	-60	-9
Kunming	-70	-10
Xian	-70	-10
Lanzhou	-200	-29
Urumchi	-100	-15

Change is on October 16th as compared to October 9th 2009

Change is per tonne

Plates

20mm

Common

?Location	CNY	USD
Shanghai	-50	-7
Hangzhou	-20	-3
Nanjing	0	0
Jinan	-140	-21
Hefei	-20	-3
Fuzhou	0	0
Nanchang	-50	-7
Guangzhou	-40	-6
Changsha	-20	-3
Wuhan	-50	-7
Zhengzhou	-50	-7
Beijing	-120	-18

Tianjin	-110	-16
Taiyuan	-70	-10
Shenyang	-80	-12
Harbin	-30	-4
Chongqing	-20	-3
Chengdu	-50	-7
Kunming	-200	-29
Xian	-130	-19
Lanzhou	-150	-22
Urumchi	-50	-7

Change is on October 16th as compared to October 9th 2009

Change is per tonne

CR

1.0mm

Common

?Location	CNY	USD
Shanghai	-100	-15
Hangzhou	-100	-15
Nanjing	-80	-12
Jinan	0	0
Qingdao	0	0
Hefei	-200	-29
Fuzhou	-50	-7
Nanchang	-50	-7
Guangzhou	0	0
Changsha	-200	-29
Wuhan	-100	-15
Zhengzhou	-150	-22
Beijing	-100	-15
Tianjin	-100	-15
Shijiazhuang	-50	-7
Taiyuan	-150	-22

Shenyang	-200	-29
Harbin	-100	-15
Chongqing	0	0
Chengdu	-100	-15
Kunming	-20	-3
Xian	-300	-44
Lanzhou	-100	-15
Urumchi	-150	-22

Change is on October 16th as compared to October 9th 2009

Change is per tonne

HDG

0.5mm

Common

?Location	CNY	USD
Shanghai	-40	-6
Hangzhou	0	0
Beijing	-280	-41
Tianjin	-50	-7
Boxing	-270	-40
Guangzhou	-20	-3
Zhengzhou	-100	-15
Xian	0	0
Shenyang	-50	-7
Harbin	0	0
Nanchang	-100	-15
Fuzhou	-300	-44
Chongqing	-160	-23
Wuhan	-100	-15

Change is on October 16th as compared to October 9th 2009

Change is per tonne

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