Aggressive production pruning sparkles Chinese steel prices

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With the Chinese government remaining adamant in its resolve to reduce emission and conserve energy truncating production capacities in steel sector, it is expected that the ensuing demand supply dis balance will catapult the steel prices by whopping 10% in H2.

The reflections of this mesmerizing tempo can be seen on the spot and future market prices which zoomed by an astonishing 3% on 6th September.

Class	3-Sep	6-Sep	Change	%
CLPPI	6768	6973	205	3.0%
CFPPI	6859	7054	195	2.8%
CHISPI	6820	7019	199	2.9%

CLPPI - Chinese Long Product Price Index
CFPPI - Chinese Flat Product Price Index
CHISPI - Chinese Steel Price Index

Category	3-Sep	6-Sep	Change	%
PI-WRC	5859	6011	152	2.6%
PI-Rebar	7869	8138	269	3.4%

PI-Product Index

Category	03-Sep	06-Sep	Change	%
PI-PLTS	6229	6386	157	2.5%
PI-HR	7092	7320	228	3.2%
PI-CR	7273	7378	105	1.4%
PI-GP	6819	6859	40	0.6%

PI-Product Index

The Chinese government failure to accomplish the 20% cut in emission during 11th Five Year Plan has propelled authorities to intensify efforts make up in the penultimate year. For a change the central and local authorities are working in tandem. Their concerted effort is reflecting in the recent rationing of electricity to steelworks. The urgency has been accentuated by the slated review meeting of Central Committee, CPC in November.

The steel industry will bear the brunt of such emission reduction measures. On one hand, the power rate is sure to go up in short term, on the other, the supply and demand is to change accordingly. The impact will be felt more by the steelmakers rather than downstream users. Hence the cuts will have immediate fallout on supply rather than demand pushing the prices.

Furthermore, autumn being the busy season for steel consumption destocking will be hastened thus providing the thrust to steel price.

Third, the emission reduction campaign will bear more fruits in the future. Since the local governments are arranging the activities to be executed phase wise improving the demand supply correlation thereby keeping the prices afloat.

Fourth, the prices of iron ore and coking coal will hold on at a high level, possibly supporting the steel price to obtain some 10% rise before reaching a new high in this year. The hike in steel prices will pull the iron ore prices in the short run thereby affecting the cost of production.

Fifth, long product prices are more likely to be affected vis à vis flats. It is expected 70% of the longs capacity will be affected against 30% of flats.

Reconstruction activities in flood stricken areas will bring momentum to longs demand moreover the automobile sector is recovering giving fillip to demand.

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