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## Chinese steel output in H1 up by 12.5% YoY

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According to National Bureau of Statistics report, due to consistently spiking cost and the nation's restrictive export policy and capacity limitation regulations, the steel industry has seen shrank export and slowed production growth since last Q4; but the market demand has supported constant advances in steel price and the industry kept a relatively high profit in H1. The industry is expected to maintain a moderate growth in production and profit in the next phase.

### 1. The industry slows down in production growth.

The steel production started to slow from September 2007 and tended to stabilize since 2008. The output at the enterprises with an above designated scale came to 263 million tonnes in H1 up by 9.6% YoY, 9.3 percentage points down from the comparable figure last year the total production was 300 million tonnes up by 12.5%, 11.4 percentage points down. By month, the crude steel output grew by a pace of between 7% to 11.5% from February to June and steel product output grew by a speed of 11.7 to 13.6% for this period. By product variety, sheet/plate/pipe/strip grew 17.4% while the long products grew 6.9% a gap of 10.5 percentage points.

### 2. The slowed growth in production is attributed to cost and the policy.

(I). Spiking cost forces small and medium-scaled steel enterprise to cut output. Iron ore, coal, coking coal, scrap and pig iron prices all surged since later 2007. According to CISA figures, during January to April large and medium scaled mills' purchase price for homemade ore fine was CNY 1254 per tonne up by 97.7% YoY; metallurgical coke was CNY 1760 per tonne up by 71.2%; coking coal was CNY 1026 per tonne up by 46.6%; scrap was CNY 3062 per tonne up by 56%. The smaller mills had to pay more. Coupled with intensified elimination campaign with the coming Olympics, the small and medium scaled mills have to cut output or suspend operation.

In H1, the medium and large scaled enterprises made crude steel of 242 million tonnes up by 9.7% YoY and steel products of 216 million tonnes up by 12.8%; the smaller enterprises produced 21.275 million tonnes and 84.136 million tonnes respectively, up 9% and 11.7%. Compared with last year, the growth rates for large-scaled enterprises slowed by 5.8 and 8.1 percentage points, and that for the small and medium-scaled enterprises lost 45.3 and 19.7 percentage points.

(II). The steel export slowed because of policy change. The nation has lowered steel export rebated or levied tax for four times since 2007. The export thus retreated from May 2007 and dropped Feb 2008. According to the Customs figures, from January to May, China exported totaled steel products of 21.72 million tonnes and steel billet of 110,000 tonnes down by 20.8% YoY and 96.9% YoY from the same period last year; in the meanwhile, it imported steel products of 7.02 million tonnes and steel billet of 80,000 tonnes down by 3.5% YoY and 29.3% YoY respectively. Net steel product export came to 14.7 million tonnes down by 27% YoY and export billet export was 30,000 tonnes down by 99.1%.

### 3. Steel demand remains strong.

When the steel supply growth slows, domestic demand yet did not shrink. In January to May, urban investment in fixed assets totaled CNY 4026.4 billion up by 25.6% YoY real estate investment was CNY 951.9 billion up by 31.9%. About CNY 1000 billion fixed asset investments is reported to consume some 30mt steel products.

Beside, other sectors like machinery, automobile, shipping, railway and household appliance also kept high growth. So, the apparent steel product consumption during January to May saw a growth of 16.7%, a new record in recent years. The steel industry's production/sales ratio reached 97.95% in H1 also on a high level. The social stock and inventory at the producers yet both stood at a normal level or below that.

### 4. Steel price stands lofty and continues climbing, thus earned high profit for the sector

Due to such factors as constantly spiking costs, tightened supply and demand as well as high price on the international market, steel price in China's domestic market has stepped up from early 2007 and grown faster from August. In 2008, it continues picking up with the long products by a faster pace than the sheet/plate/strip.

By end of June 2008, the domestic composite steel price index reached 161.5 points, hitting a new high and up 50.76 points YoY. In specific, prices for wire rod, rebar averaged CNY 5777 per tonne and CNY 5552 per tonne up by 62.4% YoY and

60.6% YoY; prices for HR sheet and CR sheet averaged CNY 6439 per tonne and CNY 7479 per tonne up by 35.1% YoY and 38.3% YoY. Steel price growth rates exceeded that of the raw materials, which contributed to sound profit of the industry despite slowed production growth. In Jan-May, the steel enterprises gained profit of CNY 97.09 billion up by 25.6% YoY accounting for 10.5% of the additional profits for the whole above-designated scaled industries. Steel industry ranked No.2 and No.4 in gross profit and additional profit among all the industries.

5. Steel industry will keep moderate growth in next phase.

The report says despite possible slowdown in China's national economic growth, the fundamentals won't change, and reconstruction of infrastructure and the housed after the snow storm and earthquake will increase steel demand and prevent the demand from weakening. Coupled with other factors supporting high steel prices, steel production and benefit for the next phase are predicted to grow moderately.

According to a survey by the communication dept of the National Bureau of Statistics and economic operation division of the National Development and Reform Commission, 20.9% of the enterprises forecast YoY growth in steel production will prove bigger for the third quarter than in the second quarter; 65.6% of the enterprises held it will be in line, and only 13.3% of the enterprises held slowdown; meanwhile, 11.9% of the enterprises forecast the profit growth rate to be bigger in Q3 than in Q2, 65.7% of the enterprises held flat and 22.45% held smaller.

(Sourced from MySteel.net)

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