THE CHINESE STEEL INDUSTRY

A monthly update for worldsteel members

Issue 110, December 2015

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Government policies and measures

In late November, the Ministry of Industry and Information Technology (MIIT) announced that in 2014 capacity closures of ironmaking and steelmaking reached 28.23 Mt/a and 31.13 Mt/a, respectively. This surpasses the government's closure target for 2014 of 19.00 Mt/a of ironmaking and 28.70 Mt/a of steelmaking capacities.

In early December, the Ministry of Finance lowered the tariff on carbon steel billet export and pig iron export, a measure to take effect from 1 January 2016. Some industrial commentators believe the government is trying to stabilise steel product export by allowing the export of low value-added and energy-intensive products as a way to alleviate overcapacity in the Chinese steel industry.

Industry news digest

In late November, CISA released a statement calling for the safeguard of the international trade order for steel adding that protectionism and trade disputes should not hinder China's Market Economy Status (MES) accession, which is to be automatically granted in December 2016.

In late November, Hesteel Group established a partnership with the Serbian government on the Železara Smederevo d.o.o. (ŽSD) steel mill project, a wholly state-owned steel company in Serbia with a crude steel production capacity of 2.20 Mt/a.

In early December, China's largest steel engineering company MCC merged with China Minmetals, the largest metals and mineral trader in China, and became a wholly owned subsidiary of China Minmetals. The merger is regarded as part of the government's effort to reform state-owned enterprises, to improve operation efficiency and reduce overcapacity.

Steel market

In November, depression continued throughout the Chinese steel market. Crude steel production declined by 2.2% y-o-y to 738.38 Mt during the first eleven months of 2015 while China's finished steel exports surged by 21.7% y-o-y to 101.74 Mt, which suggests that China's apparent crude steel use shrank by 5.5% to 644.48 Mt during the same period. The composite steel price index in November 2015 dropped by 32.8% y-o-y.

Raw materials

Import prices of iron ore in November 2015 decreased to US$57.31/tonne from US$58.58/tonne CFR in October 2015.

Macroeconomic indicators

On 30 November, the IMF confirmed that the Chinese Yuan will be included in the special drawing rights (SDR) basket starting 1 October 2016. The inclusion in the SDR is regarded as an important milestone in China's financial sector reform and the internationalisation of the Chinese Yuan.

On 13 January, the NDRC forecast that China's GDP growth for 2015 would be 7.0%, which is in line with the government's target.

During the first eleven months of 2015, fixed assets investment in the urban areas grew by 10.2% y-o-y, compared to an annual growth of 15.7% in 2014.

Steel demand drivers

During the first eleven months of 2015, investment in real estate development in urban areas slowed down further to 1.3% y-o-y. In the meantime, automobile production increased by 1.4% y-o-y to 22.34 million units, compared to an annual growth of 7.1% in 2014.

In November 2015, China's national manufacturing Purchasing Managers' Index (PMI) decreased by 0.2 points to 49.6, compared to October 2015. The PMI for the steel industry in November published by the China Federation of Logistics and Purchasing (CFLP) slid to a seven-year low of 37.0, from 42.2 in October 2015.

MIIT reports on the progress of capacity closures in 2014

On 25 November, the MIIT released a progress report of capacity closures achieved in 2014 in 18 industrial sectors. Based on a number of on-site investigations and verifications region by region organised by the MIIT and local authorities, the Chinese government's target for capacity closures set by the MIIT in 2014 was overachieved.

The actual closure of ironmaking, steelmaking, coke and ferroalloy capacities in 2014 were 28.23 Mt/a, 31.13 Mt/a, 18.53 Mt/a and 2.62 Mt/a, respectively. This compares to the government's closure target of 19.00 Mt/a of ironmaking, 28.70 Mt/a of steelmaking, 12.00 Mt/a of coke and 2.34 Mt/a of ferroalloy capacities, respectively for 2014 (See Issue 92 of this report).

At provincial level, Anhui, Jiangxi and Shandong failed to implement their closure targets for steel, coal and rare earth, and coal, respectively, and are required to submit rectification measures to the MIIT and the State Energy Administration within one month and complete rectification work within a specific time period. All the other regions performed well or outperformed the closure targets. A detailed list of capacity closure achieved by province is provided in Appendix 1.

On 24 December, the MIIT announced that an estimated total of 13.00 Mt/a of ironmaking and 17.00 Mt/a of steelmaking capacities were eliminated in 2015 in the country.

Tariff on pig iron and billet export reduced

On 9 December, the Ministry of Finance published an updated list of tariff for import or export of commodities in 2016, which will take effect from 1 January 2016.

According to the latest list, the tariff on carbon steel billet export is lowered to 20% in 2016 from 25% in 2015. The rate of the tariff on pig iron export is reduced to 10% in 2016 from 25% in 2015, while the tariff on direct reduced iron export is reduced to 20% in 2016 compared to 25% in 2015.

In the first eleven months of 2015, China exported a total of 147,000 tonnes of pig iron and 5,937 tonnes of billet, which were small volumes compared to the production of 638.46 Mt of pig iron and 738.78 Mt of crude steel during the same period. However, some industrial commentators believe the government is trying to stabilise steel product export by allowing the export of low value-added and energy-intensive products as a way to alleviate the degree of overcapacity in the Chinese steel industry. Some industrial commentators believe the government may further lower tariffs on some other steel products, including rebar and wire rod, where a 15% tariff on export is imposed.

China Minmetals takes over MCC

In early December 2015, the SASAC announced that China Metallurgical Group Corporation (MCC), China's largest steel engineering service company, will merge with China Minmetals, the largest metals and mineral trader in China, and become a wholly owned subsidiary of China Minmetals.

Both China Minmetals and MCC are state-owned enterprises under the supervision of the central SASAC. China Minmetals ranked No.198 in the list of 2015 Fortune Global 500 with a turnover of US$ 52.30 billion in 2014, while MCC ranked No.326 in the list with a revenue of US$ 35.8 billion in 2014. The consolidation is expected to be mutually beneficial by fully complementing each other's advantages and integrating their resources. In early January 2016, the spokesman of China Minmetals commented that the acquisition is a part of the company's going global strategy.

As China's ferrous and non-ferrous industries are suffering from the more serious than expected slowdown of the Chinese economy and weak demand for raw materials, the consolidation is also a part of the government's effort to reform state-owned enterprises, to boost efficiency and reduce overcapacity.

CISA calls for safeguarding international trade order

On 25 November, CISA released a statement calling for the safeguard of the international trade order for steel in response to the joint statement issued earlier by nine steel associations from America and Europe. The statement claims that overcapacity in the mainly state-owned Chinese steel industry means it cannot be considered a market economy. CISA responded by insisting that the Chinese steel industry should not fall victim to trade protectionism and that other actors in the steel industry should not hinder its Market Economy Status (MES) accession, which is to be automatically granted in December 2016.

Some key points of CISA's statement are summarised as follows.

1. The global steel market has entered a fully competitive phase. The Chinese steel industry is a victim of trade protectionism. Using the excuse of steel trade disputes to prevent China from acquiring the market economy status is not appropriate.
2. Overcapacity is a problem common to all actors during the global steel industry restructuring period. To simply attribute the difficulties in one country or region to Chinese companies is not responsible, nor beneficial for solving the industry's difficulties in a given country or region.
3. In the past few years, the Chinese government has taken measures to eliminate obsolete capacities and reinforce energy savings and environmental protection. Since 2011, 77.80 Mt/a of crude steel capacities have been eliminated.
4. China does not encourage steel exports. Chinese steel mills produce and sell their products in a fully competitive market. Increased exports from China are mainly due to market forces and competitiveness.
5. CISA will actively strengthen industry self-regulation and further regulate the export order. Meanwhile, CISA is seeking proper solutions through communication, dialogue, negotiation and cooperation in order to jointly safeguard the international steel trade order and promote the smooth development of the world steel industry.

Hesteel partners with Serbia on steel mill project

China's largest steel producer Hesteel Group has recently entered into partnership with the government of the Republic of Serbia. On 26 November, a framework agreement on cooperation in the Železara Smederevo d.o.o. (ŽSD) steel mill project was signed between Hesteel Group, CIC Capital Corporation and the Serbian government in the presence of the Chinese and Serbian Prime Ministers.

According to the framework agreement, Hesteel Group and CIC Capital Corporation will establish a joint entity to cooperate with the Serbian government to develop ŽSD steel mill. The aim is to become one of the most competitive steel companies in Europe through asset restructuring, technology upgrading, market integration and product mix optimisation. ŽSD steel mill is a wholly state-owned steel company in Serbia with a crude steel production capacity of 2.20 Mt/a. Its product mix covers HRC, CRC and electrolytic tinplate.

The cooperation on ŽSD steel mill is regarded as one of Hesteel's strategic steps to optimise its global steel business. This is in line with the Chinese government's policy to transfer advanced steel capacities abroad.

CIC Capital Corporation is a subsidiary of China Investment Corporation (CIC), a wholly state-owned company established as a vehicle to diversify China's foreign exchange holdings and seek maximum returns on investment for the Chinese government. In March 2015, a cooperation memorandum was signed between Hesteel and CIC to cooperate on overseas investment in steel projects.

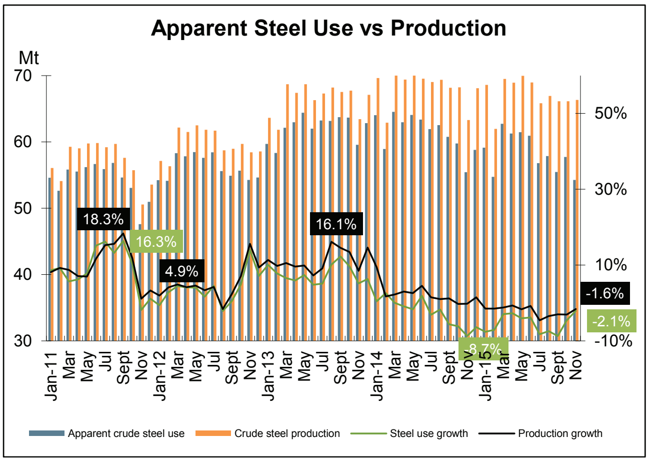
Prior to the announcement on ŽSD steel mill, Hesteel had in September 2014 disclosed a 5.00 Mt/a integrated steelmaking JV in South Africa, which is the largest steelmaking operation abroad to be invested by a Chinese steel company. In November 2014, Hesteel also took a controlling stake of 51% in the Switzerland-based steel trader Duferco SA, which enables Hesteel to take advantage of Duferco SA's global network and boost further its steel exports.

HKCTS announces its exit of steel business

On 9 December, China National Travel Service (HK) Group Corporation (HKCTS), a state-owned company headquartered in Hong Kong, announced that it plans to exit from its steel business and transfer its equity stakes in the steel and coke business to Hebei provincial SASAC free of charge. This is the first time a SASAC-owned company decides to withdraw from the steel industry.

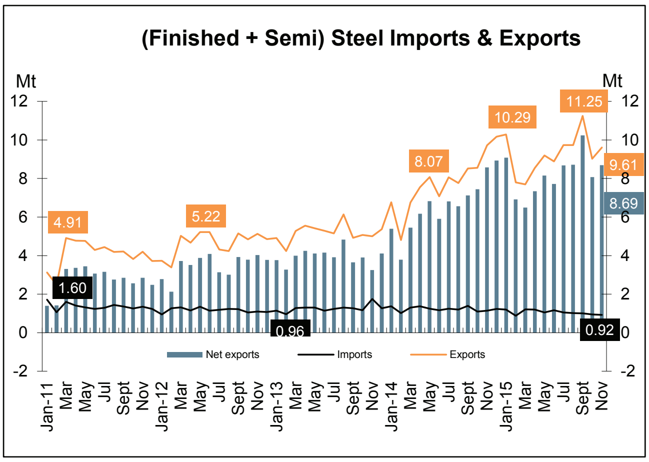
HKCTS has four main business segments, which are travel services, steel, real estate and logistics. It has 58.5% equity shares in Tangshan Guofeng Steel, an integrated state-owned steel company located in Tangshan, Hebei province with a crude steel production capacity of 8.50 Mt/a, and 35.1% stake in Dafeng Coking company.

Considering the gloomy market prospect in the Chinese steel industry, industrial commentators believe the decision to sell off its equity in Guofeng Steel demonstrates HKCTS's commitment to focusing on its core travel services business, an operation with a strong business profile and high growth potential, to further improve the company's profitability.

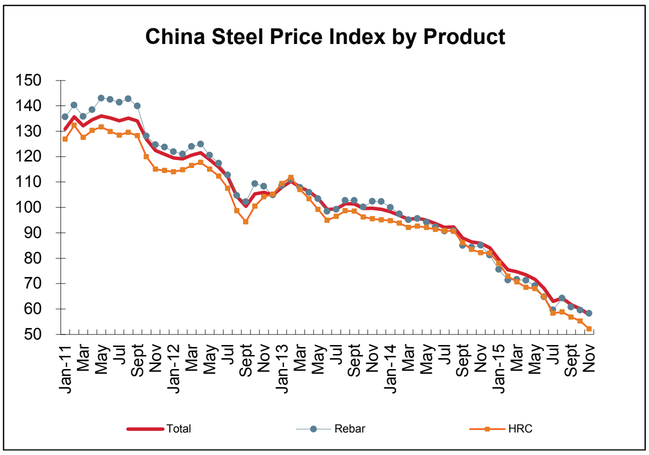


In November 2015, apparent crude steel use[1] shrank by 2.1% y-o-y to 54.26 Mt. Crude steel production in November was 63.32 Mt, down 1.6% y-o-y.

During the first eleven months of 2015, apparent crude steel use dropped by 5.5% y-o-y to 644.48 Mt. Crude steel production in the first eleven months of 2015 was 738.38 Mt, down 2.2% y-o-y. The annualised[2] value of apparent crude steel use in the first eleven months of 2015 was equivalent to 704.30 Mt, while crude steel production was annualised to 806.91 Mt.

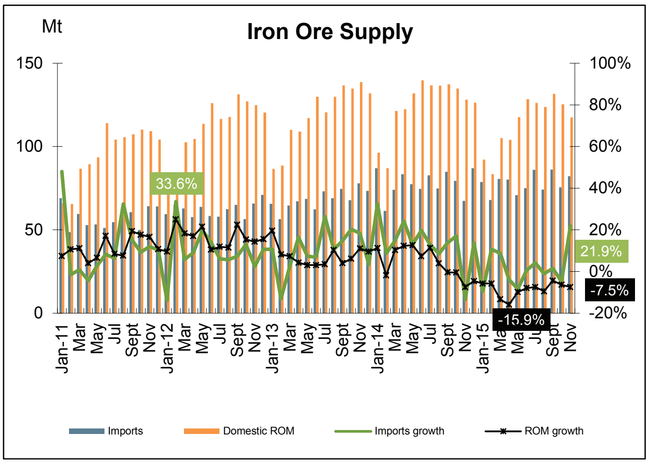


In the first eleven months of 2015, imports of semis and finished steel declined by 12.3% y-o-y to 11.60 Mt compared to 13.22 Mt in the same period of 2014. Exports of semis and finished steel in the first eleven months of 2015 jumped by 21.7% y-o-y to 101.74 Mt. This suggests a net export of 90.14 Mt, an increase of 28.1% compared to the same period of 2014. The net export is equivalent to 12.7% of crude steel production in the first eleven months of 2015.

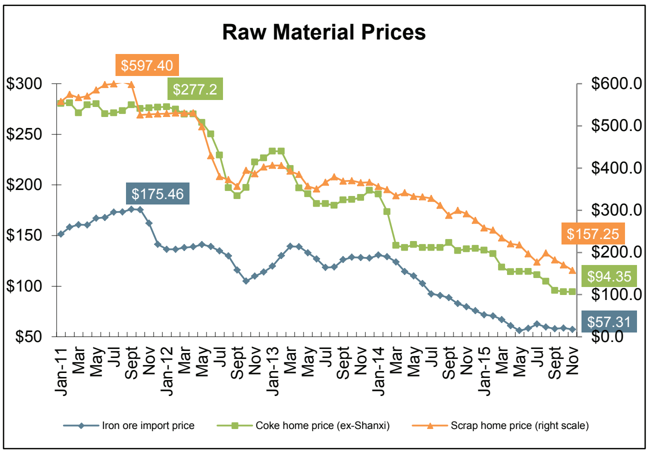


In November 2015, depression in the Chinese steel market continued with the composite steel price index[3] sliding by 2.38 points to 57.73 from 60.11 in October 2015. In particular, the indices of rebar and HRC in November decreased by 1.27 and 3.12 points respectively, compared to October 2015.

Overall, the index was 28.12 points or 32.8% lower in November 2015, compared to November 2014.

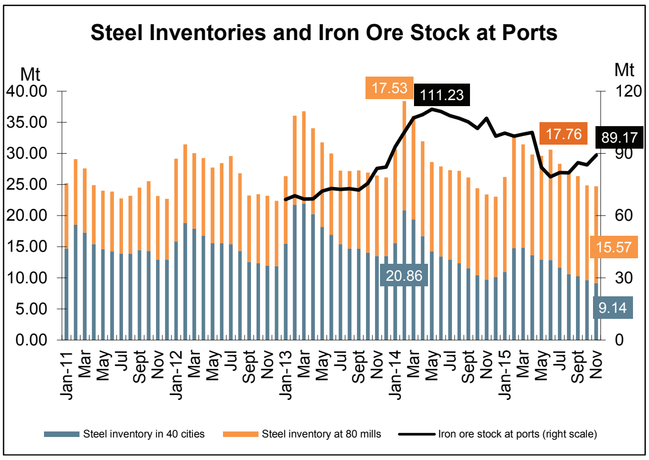


Iron ore imports in the first eleven months of 2015 reported 856.55 Mt, up by 1.3% compared to the same period of 2014. Production of domestic ROM (run of mine) shrank by 8.6% to 1252.27 Mt during the first eleven months of 2015.



Import prices[4] of iron ore in November 2015 decreased to US$57.31/tonne from US$58.58/tonne CFR in October 2015. China's domestic coke price in November 2015 remained at a record low level of US$94.35/tonne compared to US$136.74/tonne in November 2014.

The scrap market remained depressed with the price of scrap in late November 2015 in eastern China dropping to US$157.25/tonne. This compares to US$170.12/tonne in late October 2015 and US$291.38/tonne in late November 2014.



Steel inventories[5] in the warehouses of 40 major cities in late November 2015 reported an eighth consecutive monthly decrease to 9.14 Mt from 9.63 Mt in late October 2015, which compares to 9.70 Mt in late November 2014. In late November 2015, the steel inventories of 80 major mills increased to 15.57 Mt from 15.21 Mt in late October 2015. This compares to 13.69 Mt in late November 2014.

The stocks of iron ore at China's seaports in late November 2015 increased to 89.17 Mt from 84.45 Mt in late October 2015.

Table 1 : New facilities

Company	Product of the Commissioned Facility	Designed Capacity of the Commissioned Facility
Baosteel's Zhanjiang project	HRC	5.50 Mt/a
Wuhan Steel's Fangchenggang project	GI	0.45 Mt/a
Shandong Ruifeng Stainless Steel	CRC	1.20 Mt/a

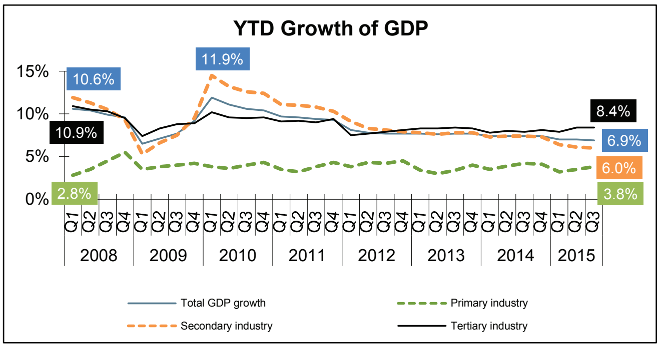
New facilities

In November 2015, a total of 7.15 Mt/a of rolling capacities were reported to have come on stream. The new facilities are listed in Table 1.

Capacity closures

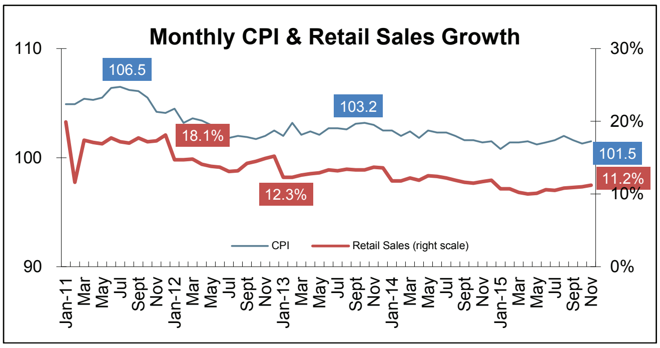
On 25 November, the MIIT released a progress report of capacity closures achieved in 2014 in 18 industrial sectors. The actual closure of ironmaking, steelmaking, coke and ferroalloy capacities in 2014 were 28.23 Mt/a, 31.13 Mt/a, 18.53 Mt/a and 2.62 Mt/a, respectively. This compares to the government's closure target of 19.00 Mt/a of ironmaking, 28.70 Mt/a of steelmaking, 12.00 Mt/a of coke and 2.34 Mt/a of ferroalloy capacities for 2014 (See Government Policies and Measures of this report for details).

On 24 December, the MIIT announced that it estimated that a total of 13.00 Mt/a of ironmaking and 17.00 Mt/a of steelmaking capacities were eliminated in 2015.

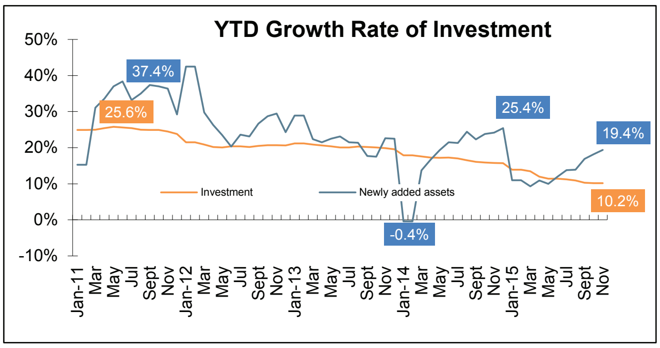


On 30 November, the IMF confirmed that the Chinese Yuan will be included in the special drawing rights (SDR) basket starting 1 October 2016. The weight of the Chinese Yuan in the basket will be 10.92%, higher than those of the Japanese Yen or British Pound. The inclusion in the SDR is regarded as an important milestone in China's financial sector reform and in the internationalisation of the Chinese Yuan.

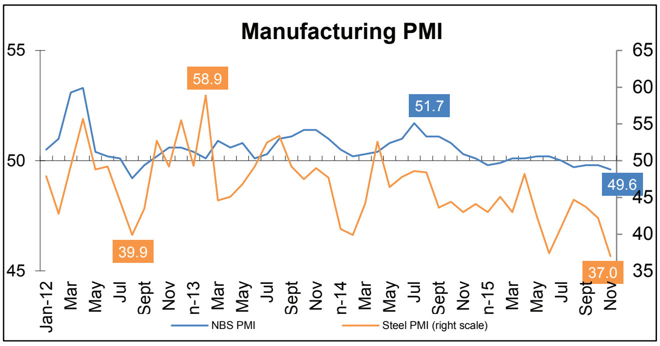
On 13 January, the NDRC forecast that China's GDP growth for 2015 would be 7.0%, which is in line with the government's target of 7.0% for 2015. Local economists believe China's economic growth will slow further in 2016 before bouncing back marginally in 2017.



China's CPI inflation was 1.5% y-o-y in November 2015 compared to the target of 3.0% set by the Chinese government for 2015. The total retail sales of consumer goods grew by 11.2% in November and 10.6% in the first eleven months of 2015, compared to an annual growth of 12.0% in 2014.

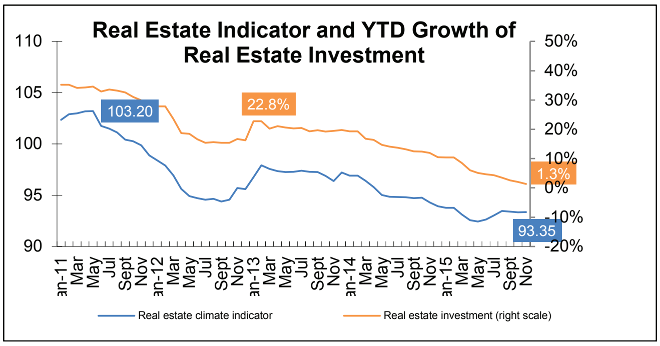


Fixed assets investment (FAI) in the urban areas grew by 10.2% y-o-y during the first eleven months of 2015 compared to the growth rate of 15.7% in the whole year of 2014. Investment in the secondary industry in the urban areas rose by 8.1% compared to 11.0% in the tertiary industry and 28.7% in the primary industry.



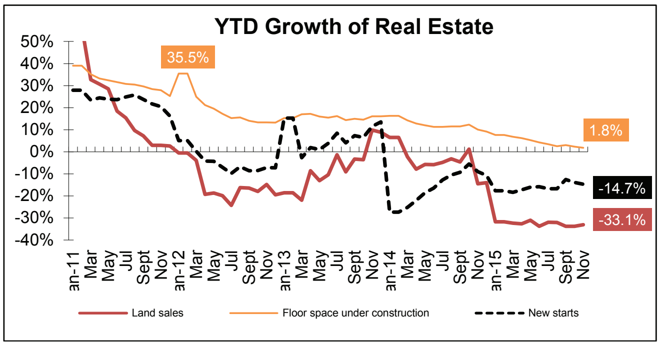
China's manufacturing Purchasing Managers' Index (PMI) in November 2015 decreased by 0.2 points to 49.6 from 49.8 in October 2015, hence remaining in the contraction zone. Index for new orders in November 2015 slid by 0.5 points to 49.8 compared to October 2015.

According to the China Federation of Logistics and Purchasing (CFLP), China's manufacturing PMI for the steel industry in November 2015 slid by 5.2 points to a seven-year low of 37.0 compared to 42.2 in October 2015, signalling a nineteenth successive monthly contraction in the Chinese steel industry.

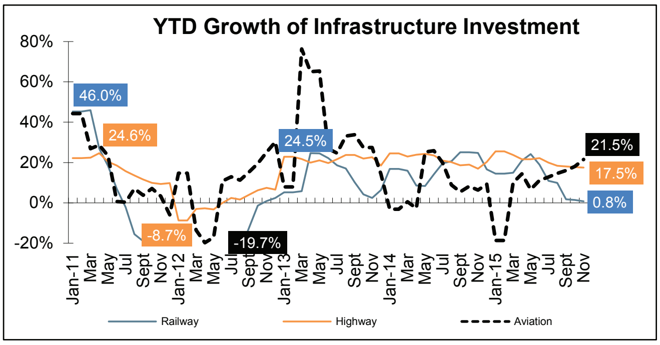


The National Real Estate Climate Indicator in November 2015 increased slightly by 0.01 points to 93.35 from 93.34 in October 2015.

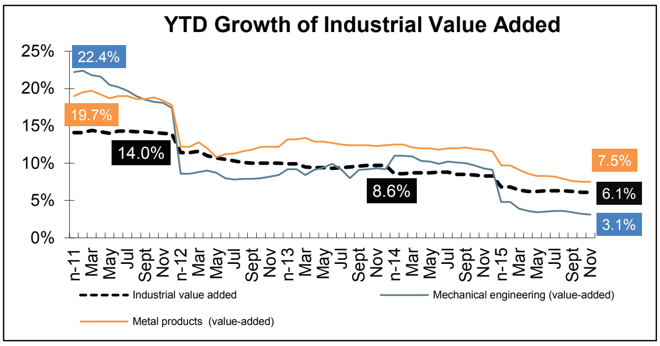
The growth of fixed assets investment in real estate development in urban areas slowed down further to 1.3% y-o-y in the first eleven months of 2015, compared to an annual growth of 10.5% in 2014.



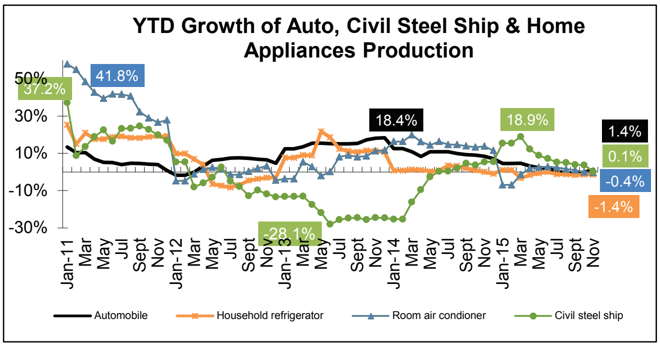
Floor space under construction maintained a positive growth of 1.8% during the first eleven months of 2015, but the growth pace has slowed down significantly compared to 10.1% in the first eleven months of 2014 and 9.2% in the whole year of 2014. In the meantime, new starts of real estate projects registered a decline of 14.7% and land sales dropped by 33.1% y-o-y.



During the first eleven months of 2015, the growth of fixed assets investment in railway was 0.8%, compared to 16.6% in the whole year of 2014. The growth of investment in highways maintained a high level of 17.5% during the same period. In the meantime, investment in civil aviation increased by 21.5% compared to an annual growth of 9.2% in 2014.



During the first eleven months of 2015, the value-added of industry grew by 6.1% y-o-y compared to an annual growth of 8.3% in the whole year of 2014. In particular, value-added of the mechanical engineering industry grew by 3.1% during the first eleven months of 2015, compared to a growth rate of 9.1% in the whole year of 2014. In the meantime, the growth rate of value-added of metal products sector was 7.5% compared to 11.6% in the whole year of 2014.



Automobile production increased by 1.4% y-o-y to 22.34 million units in the first eleven months of 2015, compared to an annual growth of 7.1% in 2014.

During the first eleven months of 2015, completion of civil steel ships reported a positive growth of 0.1% y-o-y, which compares to an annual growth of 5.5% in the whole year of 2014.

During the same period, production of household fridges decreased by 1.4% y-o-y. Air conditioner production declined by 0.4% y-o-y compared to an annual growth of 11.5% in 2014.

Capacity closures achieved in 2014

Unit: Mt

Province	Ironmaking	Steelmaking	Coke	Ferroalloy
Tianjin	0.50			
Hebei	13.79	10.77	1.90	0.049
Shanxi	1.05	3.20	10.58	0.081
Inner Mongolia	0.26		0.63	0.300
Liaoning	3.00		0.80	0.012
Jilin	2.50	1.35		0.002
Heilongjiang				
Jiangsu	0.50	3.27		
Zhejiang		0.38		
Shandong	1.10	0.60	0.40	0.008
Henan				
Anhui	0.44	0.20	0.30	
Jiangxi		0.71		0.040
Hubei		4.62		0.004
Hunan			0.10	0.158
Guangdong		2.50		
Fujian				0.046
Sichuan	1.35	1.60	1.22	0.170
Chongqing				0.02
Guangxi		0.58		0.849
Guizhou	0.60		1.65	0.409
Yunnan	1.32	0.65	0.10	0.134
Shaanxi	0.82	0.50		0.044
Gansu				0.024
Qinghai				0.070
Ningxia				0.198
Xinjiang	1.00	0.20	0.85	
Total	28.23	31.13	18.53	2.62

Note: There is no target of obsolete capacity closures for Beijing, Shanghai, Hainan and Tibet.

ABBREVIATIONS

BF	blast furnace
BOF	basic oxygen furnace
CBRC	China Banking Regulatory Committee
CCCMC	China Chamber of Commerce of Metal, Mineral and Chemical Importers and Exporters
CISA	China Iron and Steel Association
CDM	Clean Development Mechanism
CFR	cost and freight
COD	chemical oxygen demand
CPC	Communist Party of China
CPI	consumer price index
CRC	cold rolled coil
EAF	electric arc furnace
EBT	earnings before taxes
GDP	gross domestic product
FAI	fixed asset investment
FOB	free on board
GI	galvanised sheet
HRC	hot rolled coil
ISO	International Standards Organisation
JV	joint venture
km	kilometre
kwh	kilowatt hours
KVA	kilo volt ampere
m	metre
m^2	square metres
m^3	cubic metres
MLR	Ministry of Land and Resources
Mt	megatonne, million metric tons
Mt/a	megatonnes/annum
NBS	National Bureau of Statistics
NDRC	National Development and Reform Commission
RMB	renminbi (currency, also called yuan)
ROM	run of mine (raw ore before concentration or beneficiation)
SEPA	State Environment Protection Administration
SERC	State Electricity Regulatory Commission
WTO	World Trade Organisation
y-o-y	year-on-year
YTD	year to date

The following notes are referred to on the previous pages:

1. Apparent crude steel use = domestic crude steel production + net semi steel imports + (net finished steel imports ÷ yield (95.00% for 2005 and 95.54% for 2006)). Production and trade information source: National Bureau of Statistics (NBS), China Customs General. Yield information source: industry consensus.
2. Methodology of annualising: (YTD statistics) / (YTD days) x 365
3. China steel price index is a monthly average based on CISA's weekly update.
4. Import prices of iron ore and export prices of coke are calculated from the Customs General's monthly statistics. Other raw materials prices and iron ore stock at ports are from www.mysteel.com. Scrap price is for Shanghai market. All domestic prices are converted to US dollars/ton based on exchange rate (middle price, monthly average)
5. Steel inventories of 80 mills are from CISA's monthly update. Inventories in 40 cities are from www.mysteel.com, representing steel stocks at major warehouses in China. These statistics do not reflect the whole picture of China, however, they could be a reference for inventory change.

Reminder!