

China Steel Market

...trends in the Chinese ferrous industry

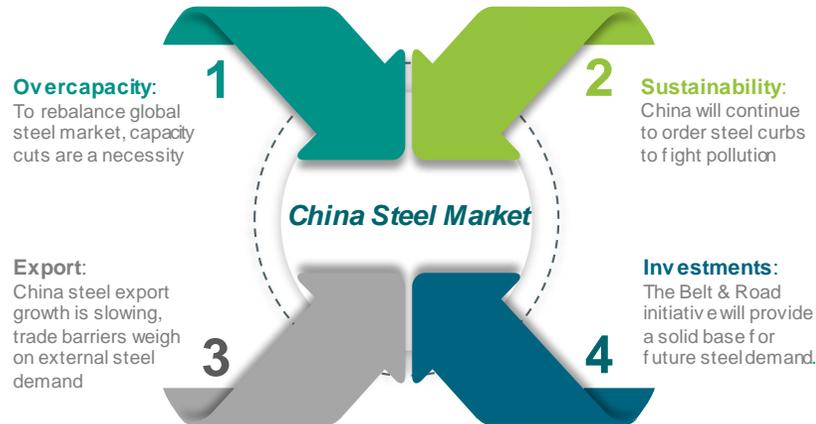
ABN AMRO Sector Advisory

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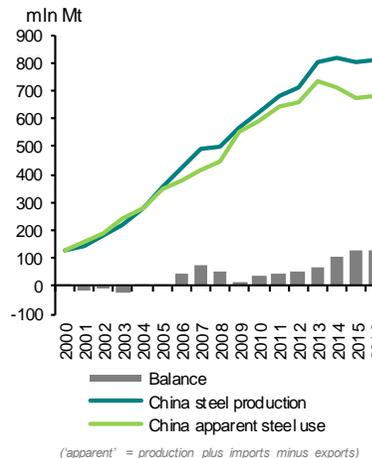


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Key drivers China Steel Market



1. Overcapacity



- Global steel output increased by ~1% in 2016, after a decrease in production of ~3% in 2015.
- In China, steel output increased by ~1% in 2016, following a decrease of steel production of ~2% in 2015. Despite the lower growth trend, overcapacity of steel remains a structural problem.
- Early 2017, steel output growth has recovered globally. Until May, global steel production increase by ~5% yoy, with strongest growth in Brazil, France, India and China.
- Although China has ambitious plans to curb steel capacity, steel production reached record levels early 2017. Until May 2017 steel output growth picked up pace and increased by ~4% on a yearly basis.
- We still wait for evidence of real capacity cutbacks. Until 2018 we think steel prices in China will remain relatively weak.

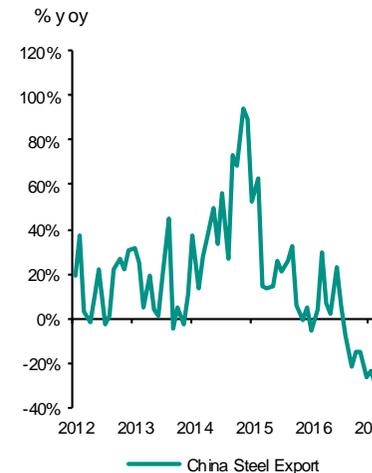
2. Sustainability ¹



- Concerns about the sustainability of the Chinese steel industry from an environmental, social and economic perspective have increasingly become a major part in how companies operate and develop resources.
- Main sustainability issues in the steel industry are: material and energy efficiency, steel recycling, waste water, air emissions, solid wastes, health and safety of employees.
- China is world's largest steel producer. Production is distributed around the eastern parts of the country. Emissions of nitrogen dioxide correspond to the location of the major steel producers and residential areas. Problems with urban pollution have occasionally led to relocations of sites.
- Many (outdated) Chinese steel mills lack standard pollution control devices. These basic oxygen furnaces facilities are mostly small (40 tonnes or less) and lack environmental control features, and constitutes major pollution problems. There are stringent laws regarding environment, but relative few companies comply with them and the enforcement has been mostly sporadic.
- In fighting pollution and reaching international goals, the main focus of government will be on the output of the heavy industry. China will continue to order steel curbs more frequently to fight pollution. Output cuts must ensure improving air quality over the long term.

¹) More on environmental protection in China via <http://english.mep.gov.cn/>

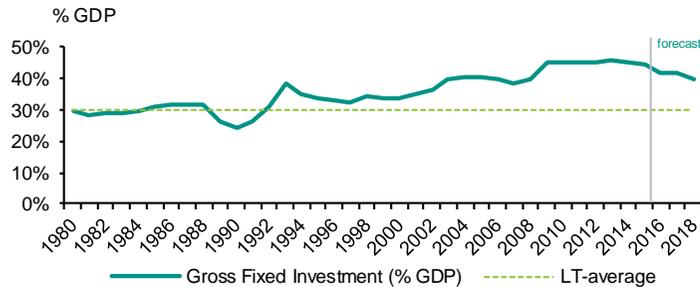
3. Export



- World Steel Association has projected global steel consumption to grow marginally by 1.3% in 2017. While the steel consumption in the developed economies would be growing at 0.7%, the emerging and developing economies are expected to increase demand by 1.6% annually. The Chinese consumption has been projected stable.
- China exports high volumes of steel. On average, China exports 6% of total steel output. Most important exporting regions are Asia (57%), Americas (11%), Middle East (10%), Africa (8%) and EU (8%).
- China's export growth decreased in 2016 by ~3%, despite the strong growth peaks during the period March-June.
- Until May 2017, China export decreased by ~26% yoy, especially due to trade barriers from US and EU, but also because of solid domestic steel demand. But given the current relative low Chinese steel prices, export could recover again, despite the US/EU trade barriers.

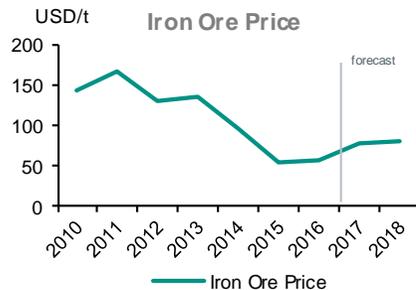
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4. Investments

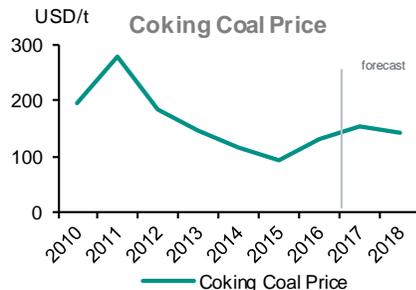


- Gross fixed investment as % of GDP is expected to decrease slightly over the next two years, due to the transition from investment model to a consumption driven economic model. Level of investments will remain, however, on relative high level.
- New stimulus programs were announced during the National Congress at the end of Q1. But the plans presented during the congress were not very specific where the ferrous sector was concerned. As a result, the outlook for the stability of the future demand for steel has become more uncertain.
- The Belt & Road initiative by China – which focuses on connectivity and cooperation between Eurasian countries – will provide a solid base for future steel demand.

Iron Ore & Coking Coal ^{1,2}

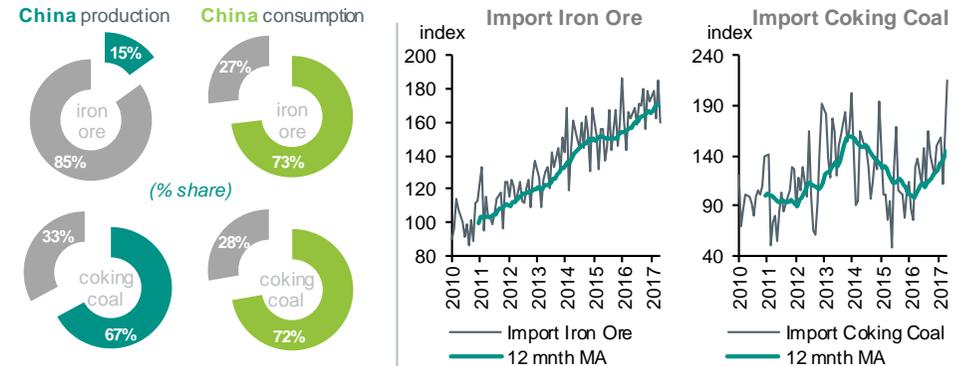


- High availability of iron ore and worries over future steel demand has kept prices relatively low.
- Given the fact that China will remain highly dependent on iron ore, we think prices will recover slightly until 2018. Structural oversupply will dampen any strong increase.



- Due to supply issues late 2016 from Australia, coking coal prices jumped. But as soon as supply disruptions have been restored, prices dropped again.
- Going forward, we think prices should weaken in a slow pace. Supply issues are resolved and availability remains high.

China remains key driver for steel raw materials markets



- China's share in global output iron ore is low, while in coking coal this share is high.
- Due to the fact that China produces ~50% of global steel, consumption levels of iron ore and coking coal are high.
- External deliveries remain key for China.
- Trends in both imports of iron ore and coking coal remain key indicators for the state of the sector. Import trends are currently up.
- Until May 2017, China imports of iron ore increased by 8% yoy, while import for coking coal increased by 42% yoy in the first five months of 2017.
- Iron ore imports are expected to remain high, because low domestic availability of good quality iron ore.

SWOT China Steel Sector



1) Iron ore is \$/dry tonne ofr China on a 62% Fe basis; 2) Coking coal is Premium Hard Coking Coal \$ per dry metric tonne FOB Australia

Disclaimer and other information

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