

SAMPLE VERSION

**EXPECTATIONS
FOR 2018**

**END USE
SECTORS
REVIEW**

**TRADE DATA
ANALYSED**

STRAP YOURSELVES IN FOR A BUMPY 2018

AS THE NEW YEAR BEGINS THE OUTLOOK FOR CHINESE STEEL IS FAR MORE POSITIVE THAN IT WAS A YEAR AGO, BUT IT IS UNLIKELY TO REPEAT THE SUCCESS IT HAD OVER THE LAST TWELVE MONTHS. IN THIS ISSUE WE BREAK DOWN OUR FORECASTS FOR THE YEAR BY SECTOR, AS WELL AS THE KEY OVERARCHING TRENDS, ESPECIALLY IN POLICY, WHICH INFORM OUR NUMBERS.



SAMPLE VERSION

Strap year in for a bumpy 2018

As the new year begins the outlook for Chinese steel is far more positive than it was a year ago, but it is unlikely to repeat the success it had over the last twelve months.

In this issue we break down our forecasts for the year by sector, as well as the key overarching trends, especially in policy, which inform our numbers.

Our conclusions are that, while overall demand is unlikely to grow further and should trend slowdown down over the coming years, short term volatility will remain high, or even increase.

The political environment is priming prices for sudden and unexpected movements, and market participants will have to react quickly to make the most of short term opportunities.

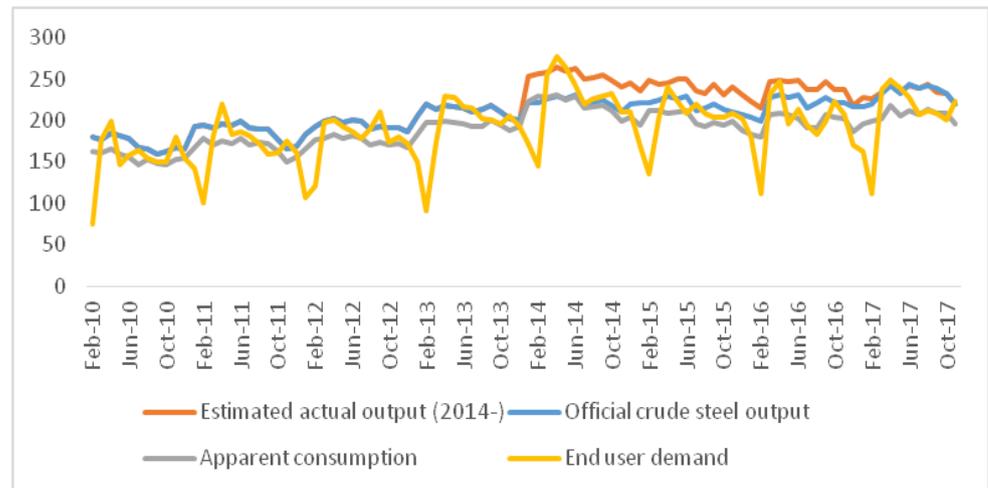
The question now is, how wrong will the analysts be this year? And why?

Table 1: Supply and Demand (million tonnes)

	2016	2017 ytd	Y-o-y	2017 outlook	Y-o-y
Official crude steel output	808.4	764.8	5.70%	832.1	2.94%
Estimated real output	868.1	785.7	0.60%	842.1	-3.00%
Apparent consumption	728.9	688.6	5.40%	728.9	0.00%
End user demand	725.3	694.7	6.20%	727.4	0.28%

Source: NBS, Kallanish

Fig. 1 Daily steel production and demand 2010-2017 (tonnes)



Source: NBS, Kallanish

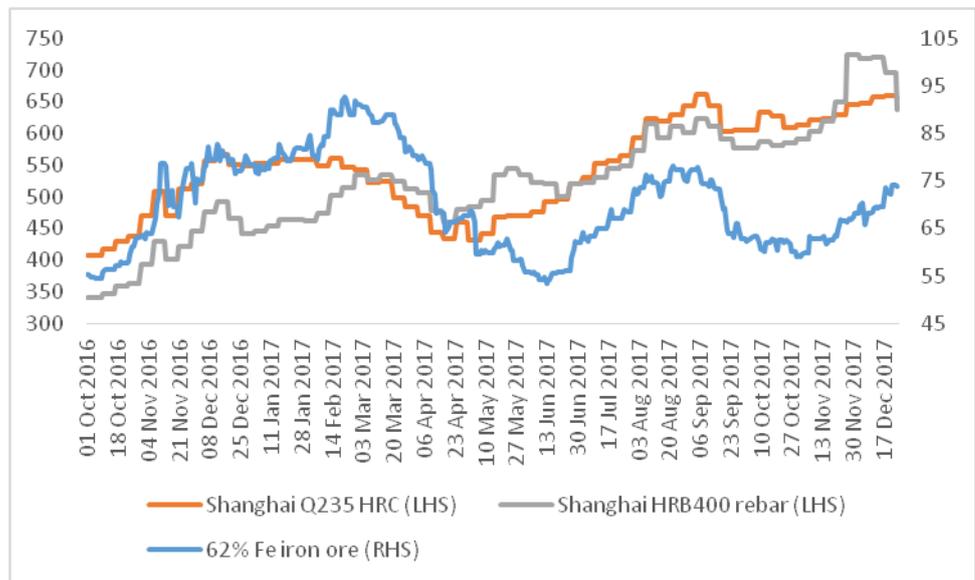


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Strap in for a bumpy 2018

China's economic policy, and how it reacts to any instability or slowdown in the economy remains the key feature of the steel market that analysts have to make their best guess at and see where the chips land. In the last two years analysts have been fairly unsuccessful, or slow, to see changes in the level of enforcement of government policy and their secondary impacts on markets. There were three failures in particular that impacted the steel industry. First, analysts were too slow to see that a tight coking coal market could trigger a surge in steel and iron ore prices over autumn-winter 2016. Second, analysts missed that increased centralisation would push forward the closure of induction furnaces and implementation of environmental policies since winter 2016. Finally, analysts were slow to cotton on to the support to real estate and infrastructure investment from the growth of wealth management products and other financing routes.

Fig 2. Prices consistently defied expectations since autumn 2016 (\$/t)



Source: Kallanish, Anyang government

It is impossible to say we will spot everything in time this year but at least we can make note of some continuing trends in policy revealed in recent official political gatherings. We will leave aside poverty alleviation, which is a key goal for Xi Jinping but will have a far more gradual impact on steel demand (mainly supporting automotive and white goods demand in the coming years). The first key factor is growing centralisation. China's fragmented and disperse political structures have protected local enterprises from Beijing's policies in the past. This is the country where even major state-owned companies were able to operate steelworks without a licence for years before anyone called them out. Xi Jinping however is all about central control. In 2015 he personally surprised a meeting of top Hebei officials to criticise them on their lacklustre efforts on supply-side reform for example. Not long after that Hebei Iron and Steel underwent a change in leadership and in strategy. That trend is set to continue. "Ensure that when the center gives an order, it is followed, and when the center forbids something, it is stopped," said the official readout from the Central Economic Work Conference in late December.

What does this mean for the steel market?

It is safe to say that political pressure will remain on local cadres to implement key policies such as the elimination of induction furnaces and production restrictions during severe pollution. But it can also lead to greater instability. Last month a central order to increase the proportion of natural gas used in

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Series	Reported crude steel	Apparent steel consumption	Inventory-adjusted implied demand	Steel exports	Steel imports
Unit	Million tonnes	Million tonnes	Million tonnes	Million tonnes	Million tonnes
Source	NBS	Kallanish	Kallanish	Customs	Customs
Jan-06	XXX	XXX	XXX	XXX	XXX
Feb-06	XXX	XXX	XXX	XXX	XXX
Mar-06	XXX	XXX	XXX	XXX	XXX
Apr-06	XXX	XXX	XXX	XXX	XXX
May-06	XXX	XXX	XXX	XXX	XXX
Jun-06	XXX	XXX	XXX	XXX	XXX
Jul-06	XXX	XXX	XXX	XXX	XXX
Aug-06	XXX	XXX	XXX	XXX	XXX
Sep-06	XXX	XXX	XXX	XXX	XXX
Oct-06	XXX	XXX	XXX	XXX	XXX
Nov-06	XXX	XXX	XXX	XXX	XXX
Dec-06	XXX	XXX	XXX	XXX	XXX
Jan-07	XXX	XXX	XXX	XXX	XXX

Data Series	Real estate investment	New construction starts	Completed construction	Real estate sales	Railway investment	Air transport FAI	Automotive production	Passenger vehicle production	Comm
Unit	CNY billion	Million square metres	Million square metres	Million square metres	CNY billion Ytd	CNY billion Ytd	Million units	Million units	Million
Source	NBS	NBS	NBS	NBS	NBS	NBS	CAAM	CAAM	CAAM
Jan-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Feb-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Mar-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Apr-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
May-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Jun-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Jul-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Aug-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Sep-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Oct-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Nov-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Dec-13	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX
Jan-14	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX

Price series	Iron Ore 62% Fe Australian fines	HRC / Shanghai	CRC / Shanghai	Cold Rolled Sheet / Shanghai	HDG / Shanghai	Rebar / Shanghai	Rebar in Coil / Shanghai	High Spe
Unit	\$/dmt cfr Qingdao	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY/t FOT warehouse	CNY
Nov-14		XX	XX				XXXX	
Dec-14		XX	XX				XXXX	
Jan-15		XX	XX				XXXX	
Feb-15		XX	XX				XXXX	
Mar-15		XX	XX				XXXX	
Apr-15		XX	XX	XXXX	XXXX		XXXX	XXXX
May-15		XX	XX	XXXX	XXXX		XXXX	XXXX
Jun-15		XX	XX	XXXX	XXXX		XXXX	XXXX
Jul-15		XX	XX	XXXX	XXXX		XXXX	XXXX
Aug-15		XX	XX	XXXX	XXXX		XXXX	XXXX
Sep-15		XX	XX	XXXX	XXXX		XXXX	XXXX
Oct-15		XX	XX	XXXX	XXXX		XXXX	XXXX
Nov-15		XX	XX	XXXX	XXXX	XXXX	XXXX	XXXX
Dec-15		XX	XX	XXXX	XXXX	XXXX	XXXX	XXXX



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