

**SAMPLE VERSION**

**VOLATILE  
MARKETS**

**DEMAND  
INDICATORS**

**TRADE DATA  
ANALYSED**

# SECOND HALF HAS A LOT TO LIVE UP TO

IN THIS ISSUE WE REVISE OUR OUTPUT DATA TO ACCOUNT FOR INDUCTION FURNACE CAPACITY, AND LOOK AT THE KNOCK-ON IMPLICATIONS FOR APPARENT AND END USER DEMAND.

BECAUSE INCLUDING INDUCTION FURNACES MEANS OUR FORECASTS WON'T MATCH OFFICIAL DATA, THIS YEAR WE WILL PUBLISH TWO SETS OF FORECASTS: ONE SET COVERS OUTPUT AND DEMAND INCLUDING INDUCTION FURNACES; THE OTHER IS WHERE THIS SHOULD LEAVE OFFICIAL DATA.



SAMPLE VERSION

## Second half has a lot to live up to

After a stronger-than-expected first half it is time to review Kallanish's expectations for 2017. In this issue we revise our output data to account for induction furnace capacity, and look at the knock-on implications for apparent and end user demand. Because including induction furnaces means our forecasts won't match official data, this year we will publish two sets of forecasts: one set covers output and demand including induction furnaces; the other is where this should leave official data.

Our forecasts are not only based on upstream supply data however. We also look to our end user demand data and forecasts and update our expectations for the year. These end use data points have shown demand to be stronger than expected, and point to a firm H2. That in turn means our export volume forecasts have also been cut, as we explain below.

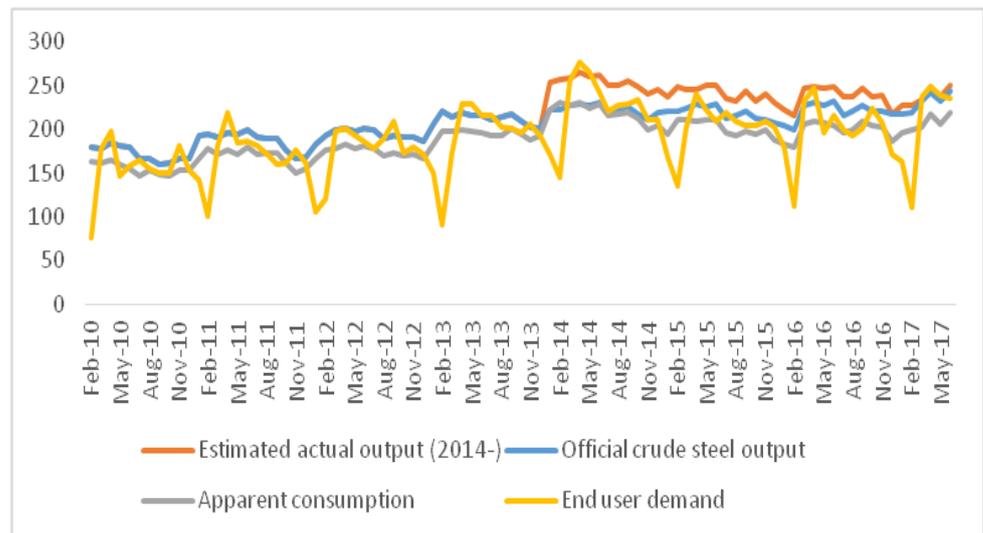
### The question now is, will H2 live up to the high expectations set in H1?

Table 1: Supply and Demand (million tonnes)

Source: NBS, Kallanish

	2016	2017 ytd	Y-o-y	2017 outlook	Y-o-y
Official crude steel output	808.4	419.8	4.60%	832.1	2.94%
Estimated real output	868.1	430.1	-0.95%	842.1	-3.00%
Apparent consumption	728.9	374.3	3.51%	728.9	0.00%
End user demand	725.3	374.7	4.30%	727.4	0.28%

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



Source: NBS, Kallanish



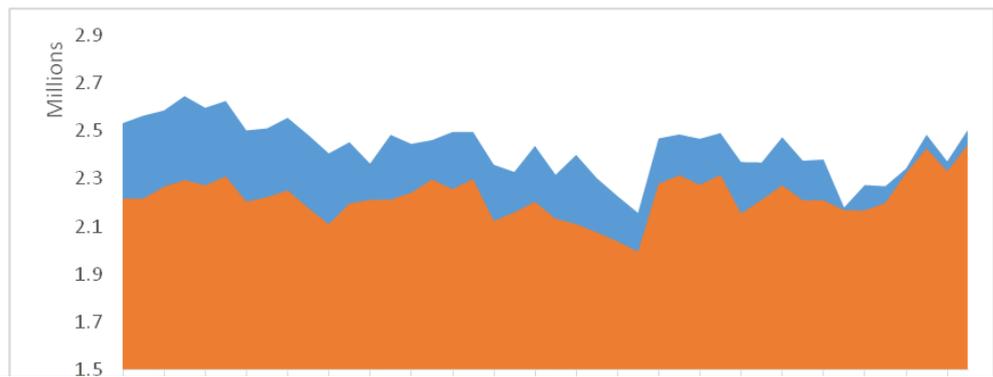
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## Chinese steel markets appear more volatile than they are

China's steel markets again confounded analysts in the first half of 2017, putting most forecasts out of whack, especially for prices. However, much of the apparent volatility is the result of statistical problems and the closure of induction furnaces. A closer look at how end use markets are performing shows deviations from our forecasts but nothing as dramatic as some of the official crude steel output figures suggest.

The key factor that needs to be compensated for is the closure of induction furnace capacity, which had not been accounted for in official crude steel output figures. There has been no authoritative estimate of production with guesses varying wildly as high as 200m tonnes/year. Kallanish believes some of the higher figures are due to a confusion between output and capacity. Based on a combination of the best-documented and researched reports we have seen, we assume induction furnace output never exceeded 105m t in a year, and output had already been falling steadily in 2015 and 2016. We also assume that output fluctuates with steelmaking margins and seasonal changes in demand. On that basis, even though crude steel output officially increased 4.6% to 419.75m t in H1, crude steel output might actually have fallen by around 1% y-o-y to roughly 430m t.

Fig. 2 Induction furnace output boosted real supply (Avg. t/d)



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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
<b>Dates</b>					
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
<b>Dates</b>									
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
Source	Kallanish	Kallanish	SteelHome	SteelHome	SteelHome	Kallanish	SteelHome	
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	CN
<b>Dates</b>								
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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