

FLATS AND LONGS  
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# CAN CHINA'S MARKETS REBALANCE

CHINA'S WET SUMMER HAS HELPED TO EASE THE IMBALANCE BETWEEN REBAR AND HOT ROLLED COIL WHICH HAS SENT REBAR PRICES SOARING OVER HRC. THE SURGE IN REBAR PRICES HAD BEEN DRIVEN BY CAPACITY CLOSURES BUT THE REMOVAL OF THAT CAPACITY DOES NOT NECESSARILY MEAN THAT THE REBAR HAS NOW BECOME PERMANENTLY TIGHT.



SAMPLE VERSION

# Can China's steel markets rebalance?

China's wet summer has helped to ease the imbalance between rebar and hot rolled coil which has sent rebar prices soaring over HRC. The surge in rebar prices had been driven by capacity closures but the removal of that capacity does not necessarily mean that the rebar has now become permanently tight.

In this issue, in addition to our usual review of downstream sectors and their sequential impact on demand, we look a little more closely at what has driven the divergence in prices, and what it really means for the markets in the second half of the year.

Developments in induction furnace and EAF capacity, in end use sectors and in policy will have a key impact in the coming six months, while China's domestic markets still determine export markets, and therefore have enormous influence on markets globally.

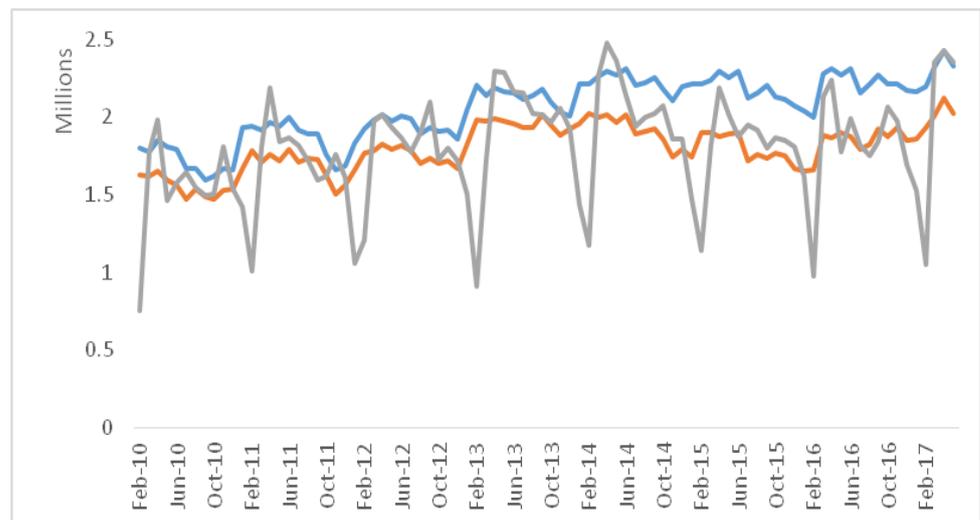
**The question now is, can HRC sustain a lead over rebar, and what does that imply for exports?**

Table 1: Supply and Demand (million tonnes)

Source: NBS, Kallanish

	2016	2017 ytd	Y-o-y	2017 outlook	2016
<b>Crude Steel Production</b>	808.4	346.8	4.40%	783.5	-3.10%
<b>Apparent Steel Demand</b>	672.2	301.0	10.50%	656.8	-2.30%
<b>Real Demand Est</b>	668.6	296.4	11.10%	654.9	-2.00%

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



Source: NBS, Kallanish



SAMPLE VERSION

# Will China's flats and longs prices re-balance?

Friday 30 June marked the deadline China set itself to completely eliminate mislabelled steelmakers, almost all induction furnace steelmakers, from the market. The move has resulted in rebar prices surging over hot rolled coil in China's domestic spot markets in the first half of the year, creating an imbalance in China's exports. Figure 2. shows how strong rebar prices in China have influenced China's long product exports.

Fig. 2 Chinese longs prices have hit export volumes



Source: Kallanish, Chinese customs

In 2016, China is estimated to have had around 130 million tonnes/year of induction furnace capacity installed, all of which is supposed to have been closed down by the end of June. This being China, there is no guarantee that there are not some induction furnaces which may manage to produce periodically under the radar or with the collaboration of local authorities. The central government is increasingly taking a hard stance against violations of its

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**SAMPLE VERSION**

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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