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Chinese steel amidst structural change  
Tomas Gutierrez – Asia Editor



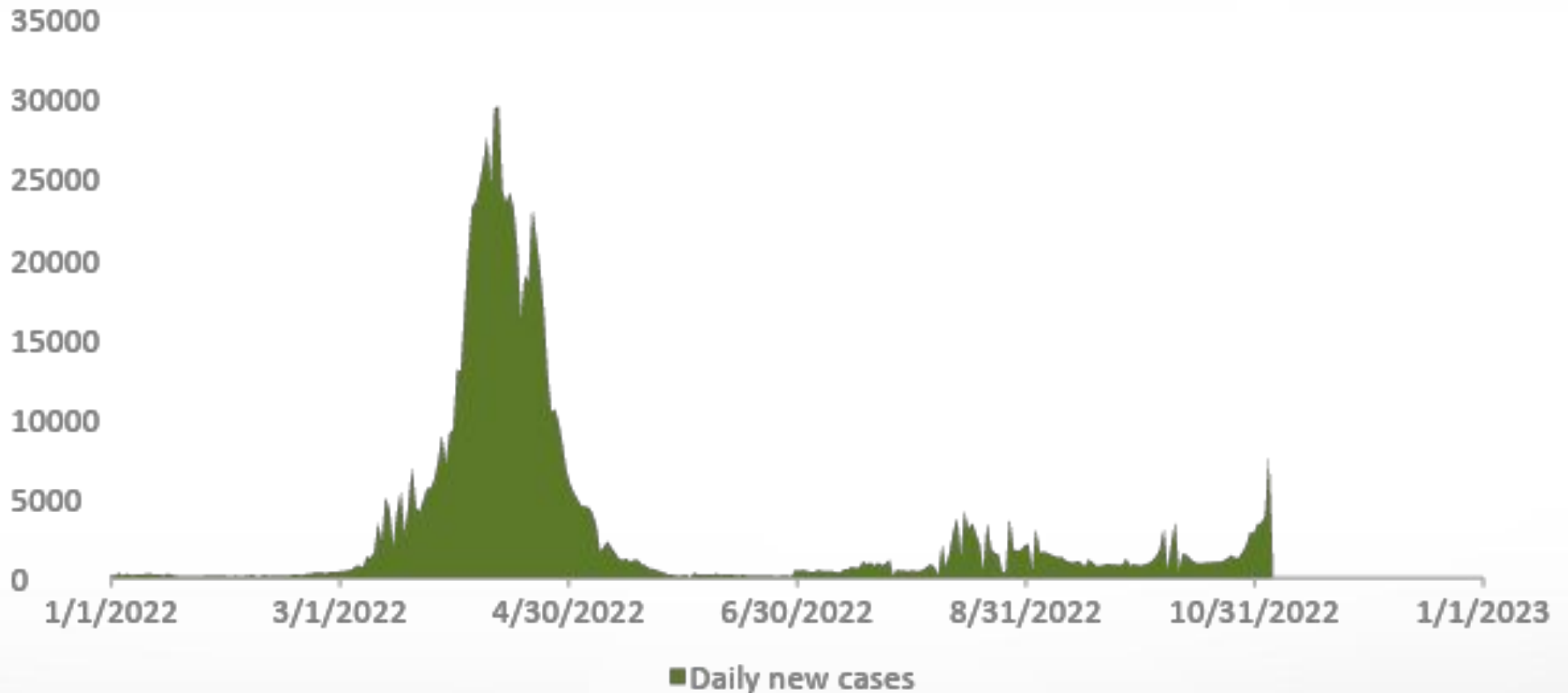
- Xi Jinping is in charge, all else is speculation

- Standing committee is all pro-Xi
- Li Qiang imposed lockdowns, disastrously, in Shanghai this year
- Cai Qi, a surprise promotion, has also been a vocal supporter

## BUT

- Zero Covid is not only driven by Xi being unwilling to back down
- China does not have the healthcare in place to let Covid loose
- At least, not without the risk of social unrest, which the party really does fear
  
- The policy is evolving slowly as China attempts to finesse its response

# Dynamic Zero Covid?



Source: World in Data

- With cases rising fast, restrictions will tighten over the winter
- Seasonal movement of steel from north to south is already being impacted

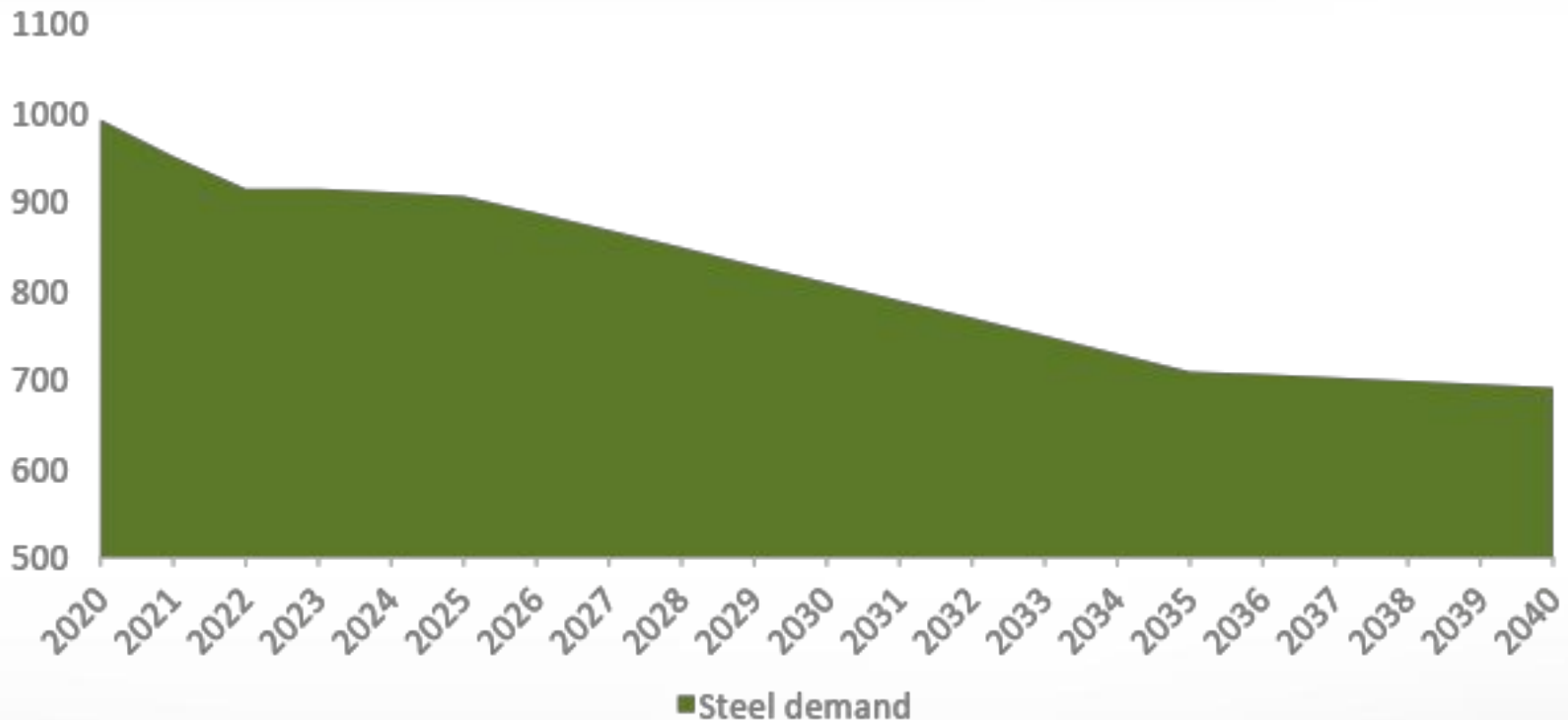
- In addition to the exit of Li Keqiang, Liu He, Guo Shuqing, Yi Gang, and Liu Kun are all retiring.
- Is He Lifeng (chairman of NDRC) now the most senior economy specialist?
- We expect more centralism, more planning, more policy enterprises
- By policy enterprises we are thinking of such ideas as consolidated iron ore purchasing

- The risk of poor decision-making is increasing
- Power is now very centralised, with no alternative voices
- Loyalty is more important than experience in securing promotion
- Although the economy will be key to Xi's legacy, it is clear there are other priorities. Security and stability trump the economy
- Promotion of technocrats suggests more planning, weaker markets

## What does this mean for steel?

- Our base case forecasts assume Xi is moderately successful economically and achieves the goal of largely restructuring the economy over 15-20 years
- This implies falling steel demand
- The 20<sup>th</sup> Congress increases the risk of volatile steel demand, especially to the downside

# Steel demand base case



- Population decline and a falling steel use per capita will bring down Chinese demand in three phases out to around 2040

Source: Kallanish

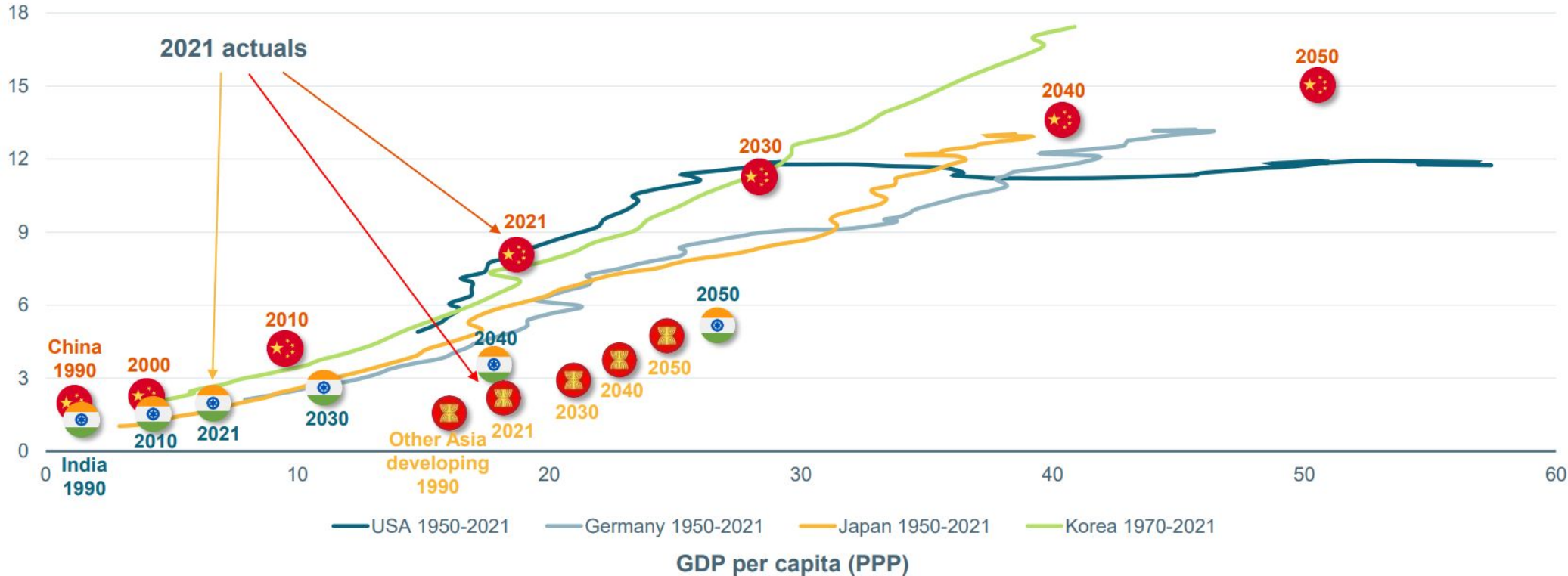


# Growth in steel stock will run out of steam



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**Accumulated stock of steel in use per capita**  
(tonnes finished steel /capita)



- Steel stock (t per capita) levels out at higher GDP/capita. China is no exception. Combined with a shrinking population, total stock growth will slow dramatically in the next 2-3 decades

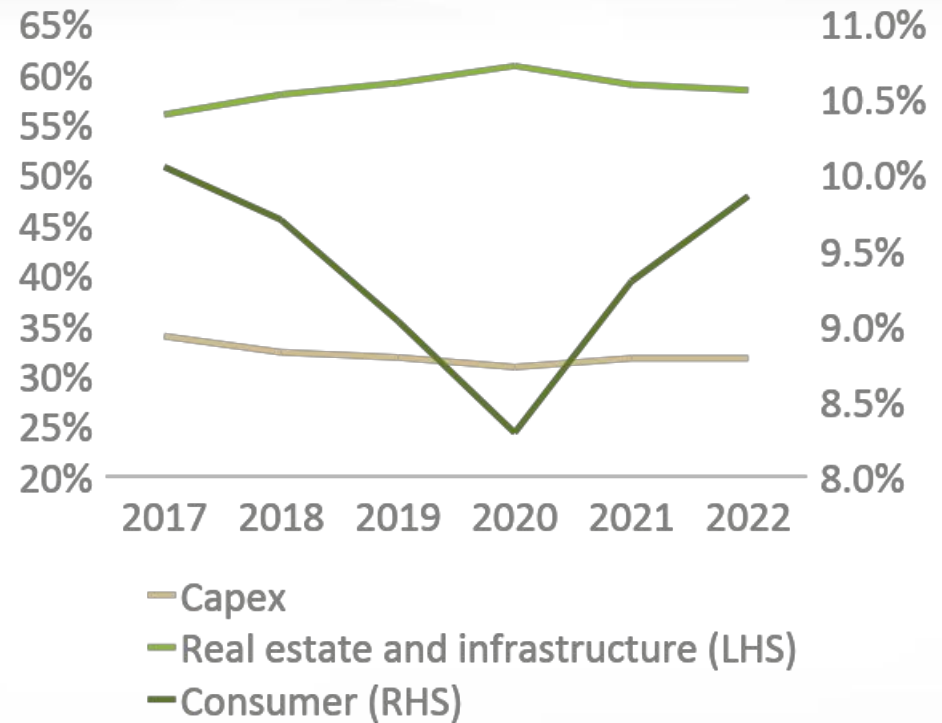
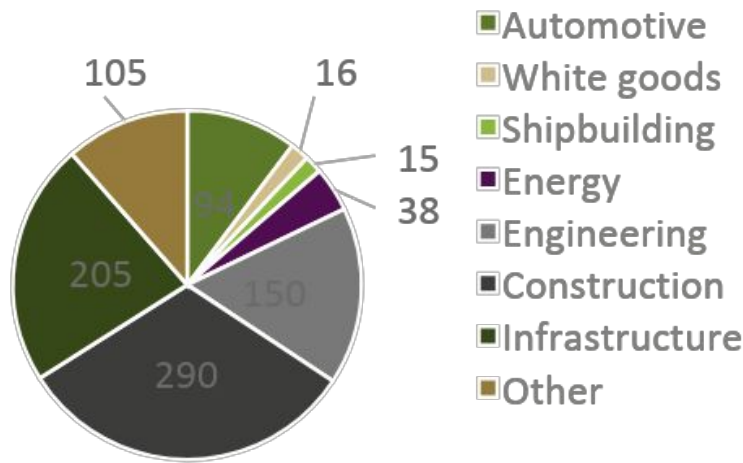
Source: BHP analysis; Global Insight; UN; worldsteel

# Shift in sectors drives slowdown



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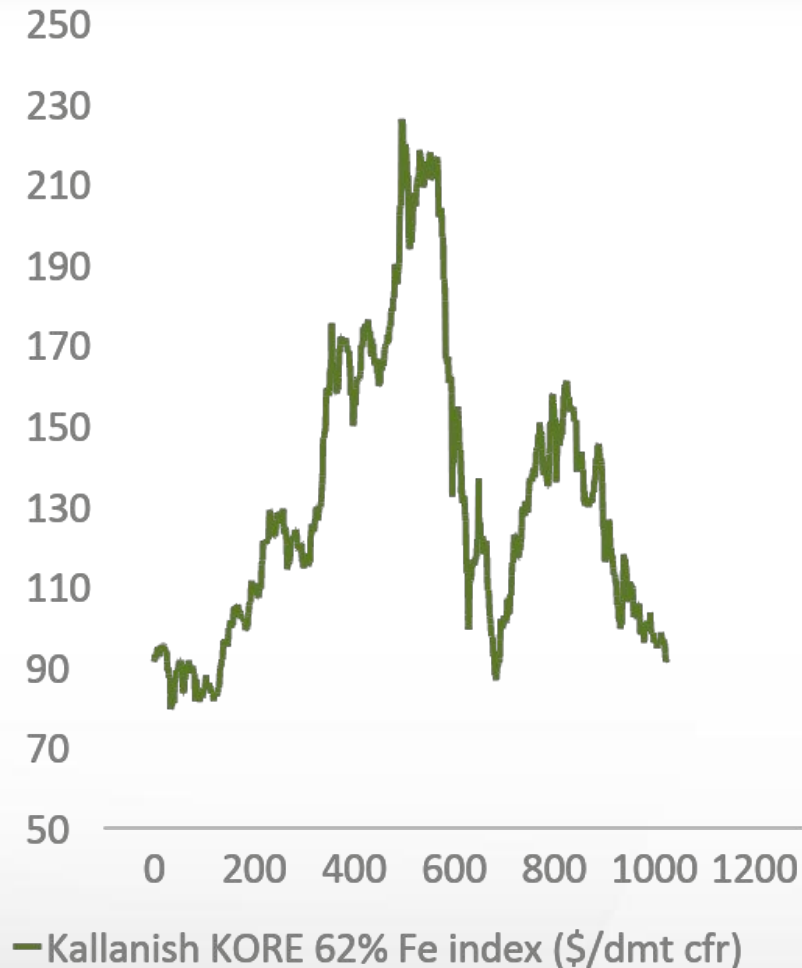
Chinese steel demand by sector  
(million t, 2022f)



- Consumer demand is too small to outweigh slowing construction and infrastructure investment
- Energy investment will also exceed short term expectations

Source: Kallanish

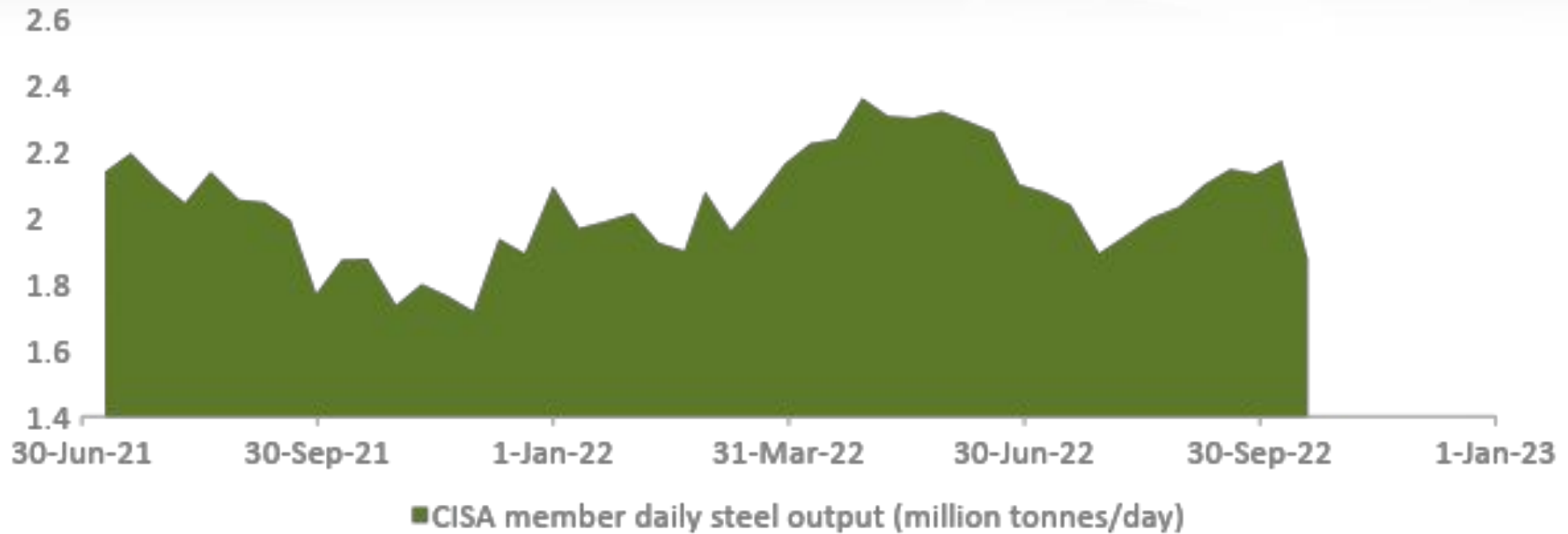
# Iron ore may not have another spike



- Iron ore volatility has been driven by both supply and demand factors
- It is hard to see either of these being repeated
- 2022 supply growth stalled but will resume
- China will no longer make up for weak global demand

Source: Kallanish

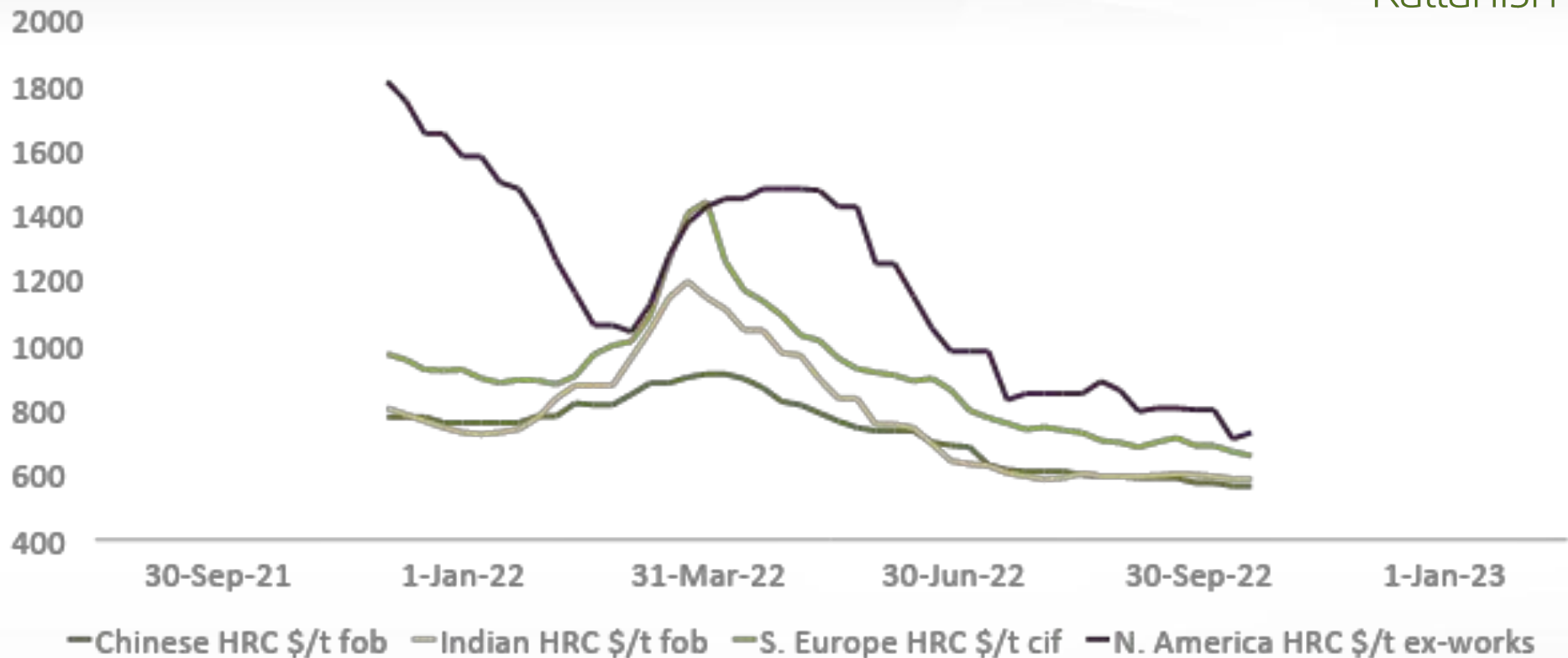
# Steel output falling fast from end-October



- Tight margins are forcing mills to cut output back to late 2021 levels
- This may control inventories but will push raw materials prices lower

Source: CISA

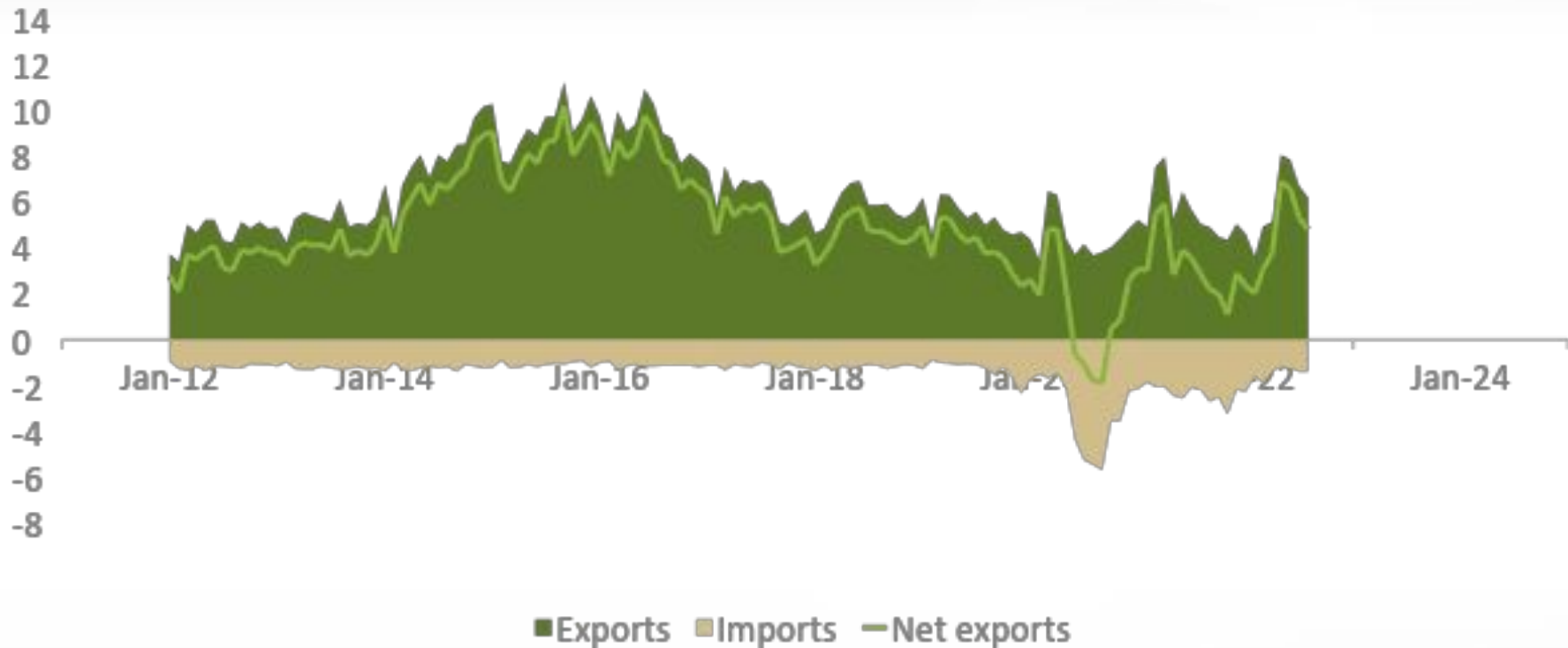
# Chinese prices are not competitive



- If China weakens on its own, more exports are a possibility
- But weak global demand means price differentials may not support exports

Source: Kallanish

# Exports are stuck, but net exports have grown

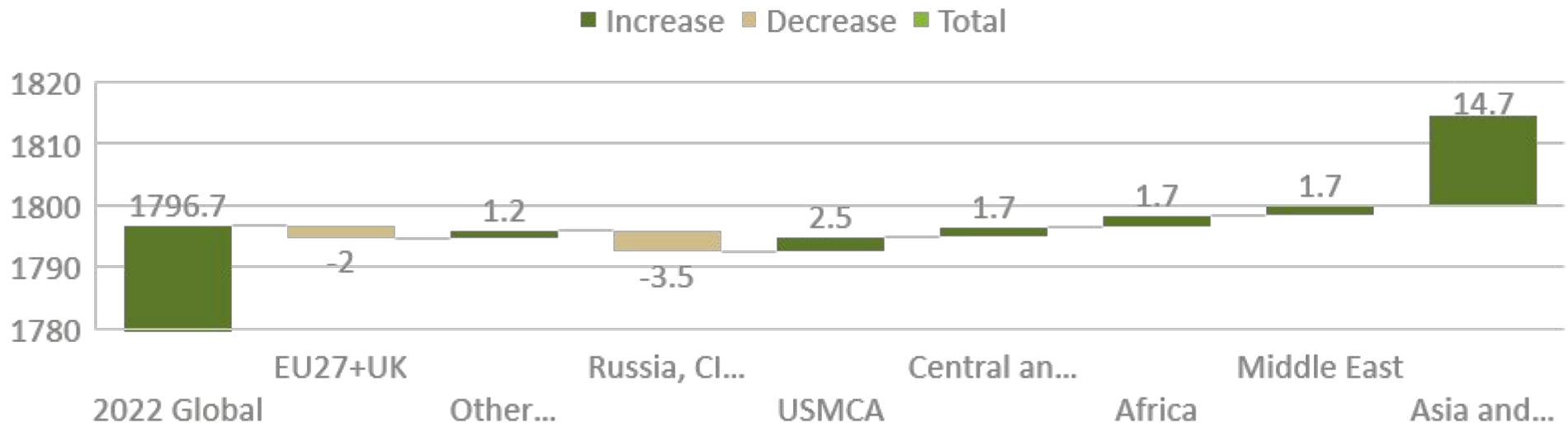


- China is too risky a market to sell to most of the time
- Export markets have been weak
- 2023 exports likely in line with 2022

Source: Kallanish

# Global steel demand continues to struggle

Contribution to 2023 steel demand growth (million tonnes)



- Worldsteel has India, Japan and Asean contributing growth
- 2023: 1% global demand growth to 1.814bn tonnes
- But, we think some regions could disappoint considering energy costs and global economic headwinds

Source: worldsteel



Thank you...