

Recent Steel Market Development in China

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- Recent steel market development

 - Steel Production from Jan. to Oct. in 2008

 - Exports and Imports

 - Market Performance

- Conclusion and Prospection

Part I Recent steel market development

Steel Production

World Crude Steel Output from Jan. to Oct. in 2008

unit: million MT

	2008. 01-10	2007. 01-10	yoy%
EU27	176. 65	176. 07	0. 3
Other EU	27. 21	25. 29	7. 6
CIS	102. 42	103. 18	-0. 7
North America	113. 61	110. 14	3. 1
South America	41. 89	39. 81	5. 2
Afric	15. 17	15. 34	-1. 1
Middle East	13. 46	12. 97	3. 8
Asia	638. 56	614. 49	3. 9
World(66)	1136. 24	1104. 62	2. 9
World except China	708. 95	693. 35	2. 2

In 2008.01-10, world crude steel output is 1.136 billion MT, up by 2.9% over the previous year. Crude steel output in major regions still increased , with the acceleration rate slowdown.

The situation of macro economy in China

- Slowdown of GDP growth

GDP Jan.to Sep.in 2008: 20163 billion RMB up 9.9% yoy

- Investment kept growing

Jan.to Oct.in 2008

Fixed assets investment :11318 billion RMB up >27.2% yoy;

real estate : 2391billion RMB up >24.6% yoy ;

imports and exports up 24.4 % yoy (in Oct. 17.6%) ;

CPI up 6.7% (in Oct. 4%)

Output in 2008.01-10:

Crude steel 427.29 million mt, yoy 3.9%;

Pig iron 399.48 million mt, yoy 2.49%;

Steel products 487.91 million mt, yoy 5.8%;

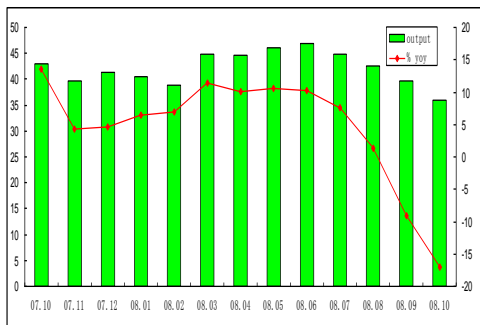
Output in 2007 :

Crude steel 489.24 million mt, yoy 15.66 %;

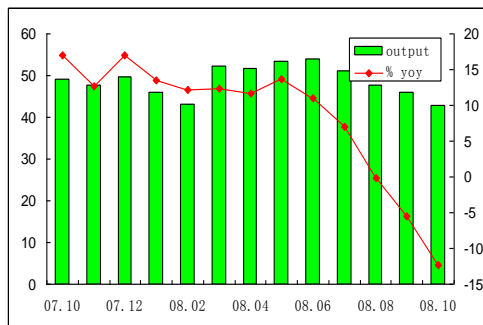
Pig iron 469.45 million mt, yoy 15.19 %;

Steel products 564.61 million mt, yoy 22.7 %;

Output of Crude steel from 2007.10 to 2008.10
unit: mmt



Output of steel products from 2007.10 to 2008.10
unit: mmt



The growth of steel output of China declined sharply with each month in 2008. Crude steel output increased 3.9% yoy from Jan. to Oct. 2008, in Sep. 2008 it dropped to -9.08% yoy. The trend is expected to extend into Q1 2009

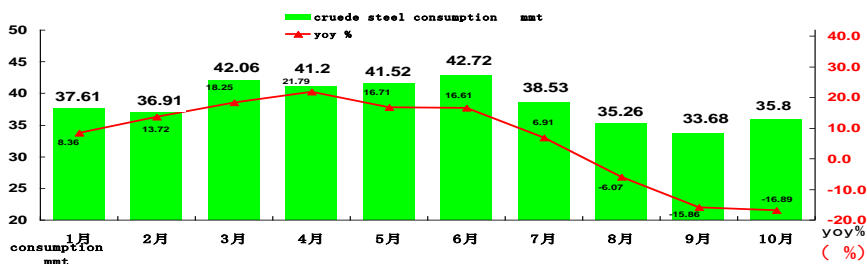
Steel Products Output in 2008

unit: million mt

	2008.01-10	2007.01-10	Yoy%	structure%
Steel products*	487.91	460.78	5.9	100
Plate	114.27	94.74	20.61	23.43
Hot rolled sheet&coil	22.46	19.85	13.14	4.61
Cold rolled sheet &coil	29.46	27.44	7.36	6.04
Coated	2.91	2.68	8.7	0.6
Tube and pipe	35.72	33.86	5.5	7.32
Rebar	78.39	82.89	-5.4	16.07
Wire rod	66.54	66.04	0.8	13.64

*: including double accounting

Crude steel consumption in 2008.01-10



- Demand for steel declined sharply
The major down stream industries such as machine-building, construction, automobiles, ship building, petro-chemical, power generation, showed significant decrease in Q3 2008, which will make the demand for steel weak.
- Fixed assets investment growth decreased :FAI down 10.9% in Oct. compared with Sep.
- Imports and exports growth slowed down

Part I Recent steel market development

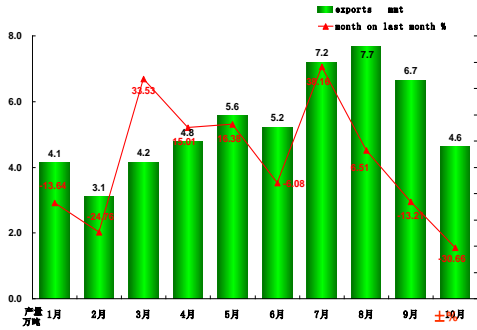
exports and imports

- In 2008.01-10
steel products exports: 53.07 mmt , down 1.3% ;
slab exports : 1.24 mmt , down 79.8% yoy

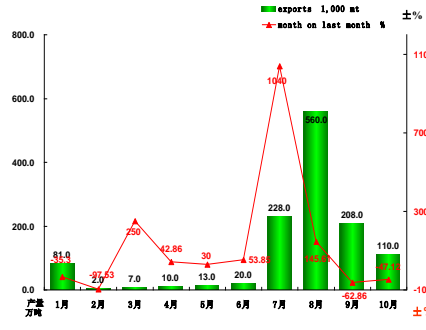
steel products imports: 13.47 mmt , down 5% yoy;
slab imports : 0.15 mmt , down 24% yoy
- In Nov. 2008
steel products exports: 2.95 mmt , down 36.15% compare with Sep. ;
slab exports : 3 mmt , down 79.8% yoy;

steel products imports: 1.03 mmt , down 6.7% yoy;
slab imports : 1 mt , down 24% yoy

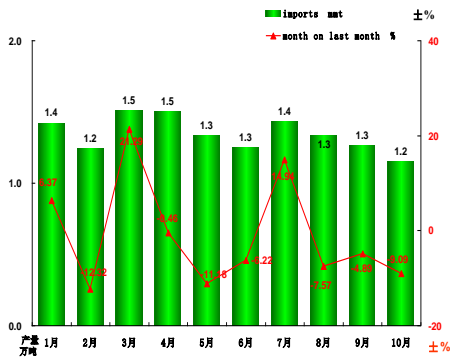
Steel products exports in 2008 .01-10 mmt



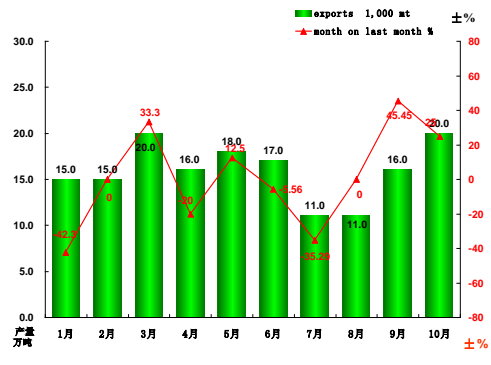
Slab exports in 2008 .01-10 mmt



Steel products imports in 2008 .01-10 mmt

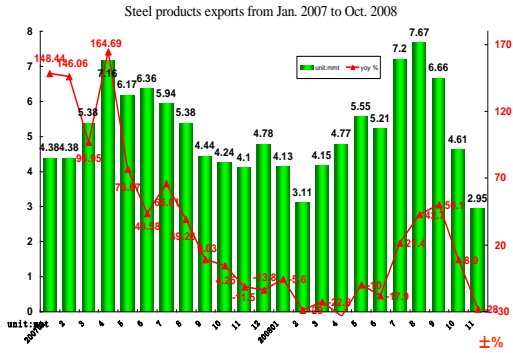


Slab imports in 2008 .01-10 mmt



Breakdown of steel products exports by country

unit: million mt



	2008.01-10	yoy%	Share in 2008 %
total	53.07	-1.3	100.00
Korea	12.84	35.03	24
ASEAN	8.56	-0.96	16
Mid East	7.55	-11.31	14
EU27	7.09	-28.95	13
U.S.A	4.04	7.93	8
Other Asia	2.78	-22.38	5
South America	2.08	65.28	4
Africa	1.73	36.45	3

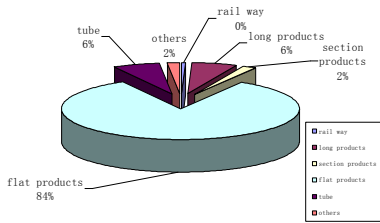
- In Nov. 2008, steel products exports decreased significantly compared with last month (down 36.15% on Oct.).
- With weakening demand in the international market, export contracts will decline in Nov., Dec. 2008 and Q1 2009.
- In Q1-Q3 2008, net crude steel exports: 39.469 mmt, down 5.1842 mmt, down by 11.61% yoy.

Breakdown of Imports and Exports by Products 2008.01-10

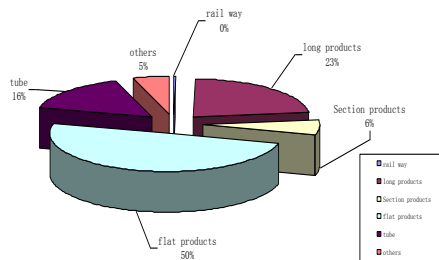
unit: million mt

2008.01-10	Steel products	Railway	Long products	Section products	Flat products	Tube	Others
Imports	13.43	0.06	0.84	0.26	11.19	0.86	0.22
Exports	53.07	0.1	12.02	3.41	26.15	8.44	2.6

Imports



Exports



Part I Recent steel market development

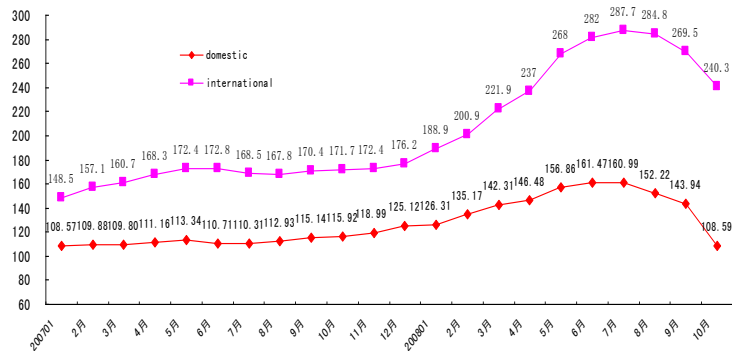
Performance of Steel Market

- In 2008.01-10, combined profits of CISA's 71 members was 126 billion RMB, down 0.93% yoy.

In Oct. 2008, CISA's 71 members incurred a net loss of 5.8 billion RMB, the first monthly loss in six years.

- The price in both international and domestic markets started to plunge in July 2008.

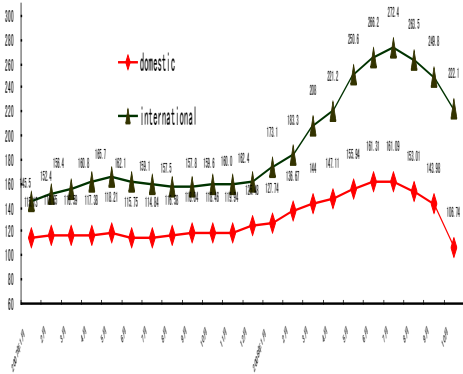
Composite Price Index in International and Domestic Markets



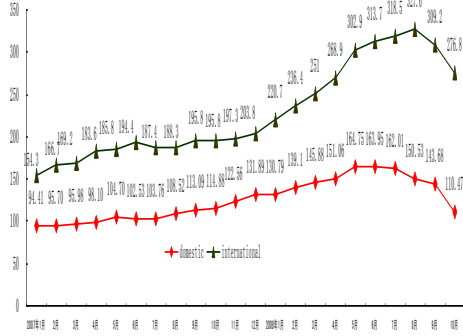
By the end of H1 2008, both international and domestic price index kept increasing month by month and reached record highs in recent years.

However, with the unfolding of the financial crisis, the price dropped sharply. The domestic price index of Oct. was down 30-40% compared with June.

Flat products Price Index in International and Domestic Markets

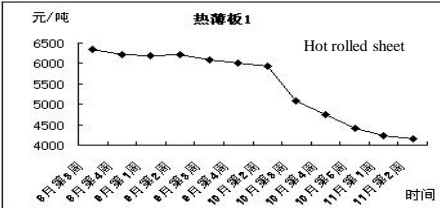
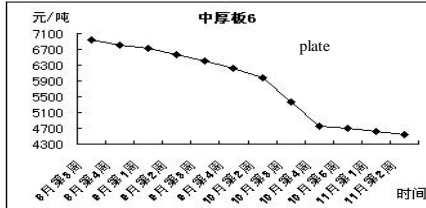
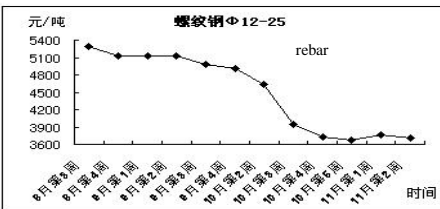
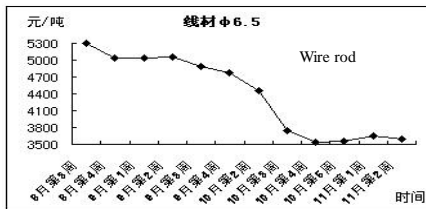


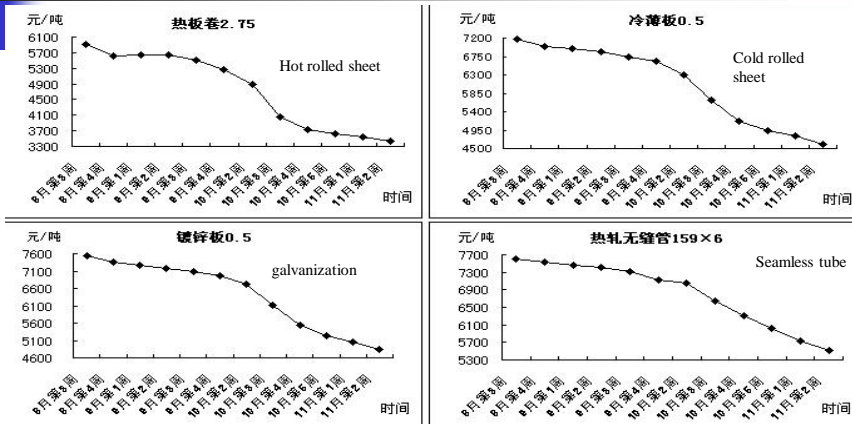
Long products Price Index in International and Domestic Markets



In international and domestic markets, both flat and long products price indices decreased significantly.

2008年线材、螺纹钢等八个品种价格曲线图





The global financial crisis triggered by the sub-prime mortgage crisis in the US has started to affect the real economy. Consumption in the international market became sluggish and demand shrank significantly. China's was also hit severely, with decelerated economic growth and reduced demand for steel. Price cut of raw materials weakens costs effects on steel price. Market in panic and distribution section in mass competition.

The Main Causes for the Loss

- In 2008, production costs of companies rose sharply on surges in the price of iron ore, coal, coke, crude oil and freight.

Starting from Q3 2008, sub-prime mortgage crisis-->financial crisis-->economic slowdown-> demand decline ->weaker economic growth in China--> demand decline for steel--> sharp decline in production, imports and exports & price

- Underdeveloped domestic market, redundant links in the dealers' chain and panic of the distribution section aggravate the fluctuation of the price.
- Over stock of raw material such as iron ore, coal and coke; over stock of steel products and slabs; tight cash flow will make the situation of Q4 this year and Q1 next year even tougher.

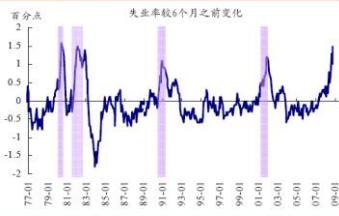
Part II Conclusion and Projections

• Recession in developed economies, U or L?

G3 (US, EU and Japan) are in recession with many issues waiting to be resolved. Real estate price in US continues to drop, which may lead to further instability in the financial market and new credit crisis over CDO and CDS. Financial institutions, esp. small and medium ones are still unstable. National bail-out programs are full of uncertainties regarding their implementation and financing sources. The “deleveraging paradox” may deepen and prolong the crisis. Confidence remains weak as the global financial system undergoes the process of being rebuilt. The recession may well last for years.

Unemployment rate in USA

图 1: 美国就业市场加速恶化



资料来源: Bloomberg, 中金公司研究部

Credit card default rate

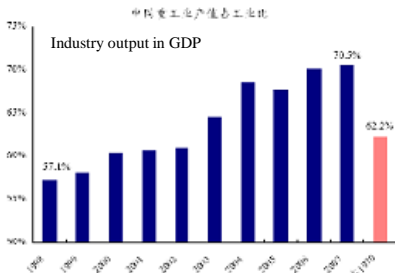
图 3: 信用卡拖欠率显著上升



资料来源: Bloomberg, 中金公司研究部

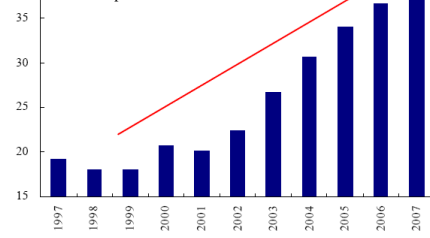
- China's economic growth will slow down and face even greater challenges than during the 1998 Asian financial crisis.
- The current round of economic readjustment is a result of aggregated effects of various elements such as declining external demand, overlapping of the real estate market cycle with the financial crisis, increase in export reliance, and decrease of the “multiplier effect” of fiscal policies. Consequently the intensity and length of this round of adjustment will exceed the past.
- China has a large heavy industry with the problem of supply rigidity, i.e. a great sum of capital investment and maintenance costs can not be adjusted flexibly according to demand. Thus over-capacity poses a more serious issue.
- China will run the risk of deflation in 2009.

中国重工业化程度高于日本巅峰时期



中国 出口依存度

Exports reliance



- Many governments have introduced policies and measures to stabilize the financial market and the economy, with initial effects.
- China adopts "proactive" fiscal policy and "moderately relaxed" monetary policies to boost the economy.
- The solid fundamentals of China's economy (high savings rate, low government indebtedness and huge foreign exchange reserve) will help the country to weather the financial crisis.
- Currently the steel industry is facing great difficulties, with many companies registering loss and cutting or stopping production. However, the silver lining is that we are at a good time to push merger and acquisition, eliminate outdated capacity, accelerate innovation, optimize structure and change the way of growth

Short-term prospects for China's steel industry

- In 2008, crude steel output: 498 mmt, up 1.8% yoy
crude steel apparent consumption: 452 mmt, up 4% yoy
steel products imports: 150 mmt, down 11.1% yoy; exports: 60 mmt, down 4.2% yoy

In 2009, crude steel output: 470-500 mmt

- Steel market will remain sluggish in the short term.

Macro economic situation is not going to recover soon; demand needs several quarters to resume; stimulation measures need time to show effects; fuel and raw materials price continues to drop, providing little support for the price of steel products.

The optimistic estimation is that the market will recover in the latter half of 2009.

- In the long run, China is still in the process of industrialization, urbanization and structural upgrade. A steady growth in the domestic demand for steel will remain unchanged. We are confident in the long-term stability of China's steel market.

A decorative graphic in the top-left corner consisting of overlapping yellow, red, and blue squares with a black crosshair.

Thanks