

## Steel - China

## Expert call: Largely flattish S-D in '24, loss to narrow when material px normalizes

Industry Overview

## '24 forecast: +0.2% production/demand, export slight drop

We hosted Mr. Xiaowen Song from Mysteel to discuss the China steel market outlook in 2024. Mr. Song stated that the China steel sector has been in a downcycle for two years, and the key two changes in 2023 were 1) product mix change from construction steel (-40mnt demand in last 3 years) to flat steel (+20mnt) and 2) climbing low-priced steel export. Looking forward, Mr. Song estimates China steel production of +2mnt yoy (0.2%) in '24, with domestic consumption also +0.2% in 24E driven by infrastructure, shipbuilding and energy sectors (solar PV & wind), and export slightly dropping to 88mnt.

## Other demand to offset property demand decline

On the demand side, based on Mr. Song's forecast, steel consumption in **1) property** market will decrease 4.7% based on forecast of new start space -5%yoy and area under construction -6%yoy in '24e. **2) machinery** -3.6%yoy given sluggish demand from construction sector and manufacturing sector. In contrast, **3) new energy sector** has become the new growth engine with 7% growth rate, followed by **4) shipbuilding** +3.1%yoy and **5) infrastructure** to +2.8%yoy. In terms of downstream demand mix, Mr. Song expects the property market to consume 286mnt steel in 2024 (30% of total steel consumption), followed by 180mnt from infrastructure, 133mnt from machinery, 72mnt from auto market, 64mnt from energy sector and 55mnt from home appliance + shipbuilding. Export demand to slightly drop from 90mnt+ in 2023 to 88mnt in 2024 given overseas steel consumption growth slowing down and higher pressure from anti-dumping policies overseas, but Mr. Song doesn't see a huge decline as steel from China still has a cost advantage driven by lower coking coal price and lower steel scrap price.

## Cash cost loss of RMB200/t triggered production cut

Song estimates little chance for government to limit steel production in '24 considering unemployment rate and economic situation. However, voluntary production cut is in progress driven by profit deficit. Steel makers usually start voluntary production cuts when they face RMB150-200/t cash loss, and current avg deficit is >RMB200/t. Daily production has cut from 2.48mnt to 2.18mnt with limited opportunity to further cut.

## Loss to narrow when upstream material price decline

Prices of upstream materials have performed strongly recently due to the steel mill restocking prior to Chinese New Year. However, over time, Mysteel expects supply surplus in both iron ore and coking coal market. Song sees +62mnt iron ore supply in 2024, slightly pushing down iron ore price, especially in low grade. Coking coal supply will have 7mnt increment amount in 2024 with 10mnt export increase from Mongolia while domestic cooking coal supply is expected to decrease by 3mnt. Considering steel prices are likely to be stable in 2024, Mysteel believes the current loss making margin will slightly improve for steel makers when upstream material prices retreat.

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Mnt: million tonnes

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