The Recent Development of Steel Industry in China

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- Steel Production in 2008 and Q1 2009
- Exports and Imports
- Market Performance
- Conclusion and Prospection

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Part Ⅰ Steel Production

Output in Q1 2009

Crude steel	127.44 million mt，	yoy -0.34%；
Pig iron	122.38 million mt，	yoy 1.19%；
Steel products	144.73 million mt，	yoy 2.8%；

Output in 2008

Crude steel	500.49 million mt，	yoy 1.13 %；
Pig iron	470.67 million mt，	yoy -0.16 %；
Steel products	581.77 million mt，	yoy 3.56 %；

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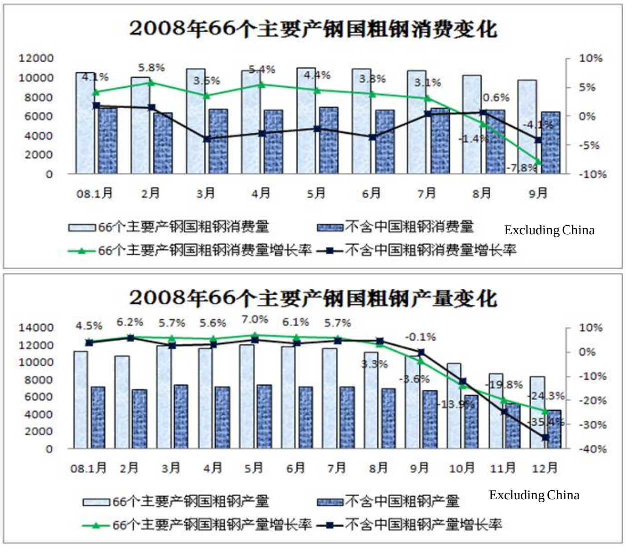
➢2008年国际市场出现萎缩

➢9月份开始，世界粗钢生产消费均出现下降。
➢其中粗钢产量，9月份不含中国，65个产钢国增长率为-0.1%，含中国为-3.6%。
➢粗钢消费量，9月份不含中国，65个产钢国增长率为-4.1%，含中国为-7.8%。
➢中国限产、消费下降幅度早于和大于国外市场。
➢11、12月国外限产幅度开始大于中国。
➢**说明危机影响在加深。**

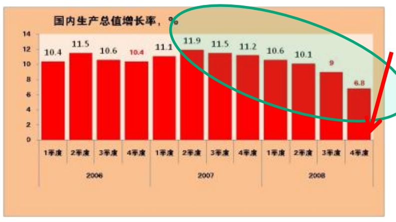
Consumption and output of crude steel of 66 economies in 2008



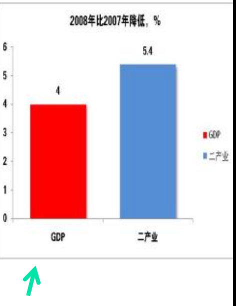
This round of domestic economic downturn has dramatically reduced real estate investment and resulted in negative growth of industries such as automotives, household appliances and machine-building in the 4th quarter, hence causing reduced steel consumption.

GDP: China's economic growth has slowed down. For the first time in 7 years, its growth rate is one digit.

GDP: China's GDP grew 9% in 2008 over 2007, the first one-digit growth rate and 4 percentage points lower than in 2007, when this number was 13%. This growth rate is the lowest since 2001.



GDP quarterly growth has been falling for 7 quarters. Because of financial crisis, GDP growth rate dropped dramatically to 6.8% in the 4th quarter of 2008.



Changes of the secondary industry (construction and manufacturing) are more important for the steel industry. The GDP growth of the secondary industry dropped by 5.4%, from 14.7% in 2007 to 9.3% in 2008.

The Situation of Macro Economy in Q1 2009

- GDP growth rate dropped dramatically from 13% for 2007 to 9% for 2008.
- GDP in Q1 2009: 6574.5 billion RMB, up 6.1% yoy
- Investment kept growing in Q1 2009

  Fixed assets investment: 2812.9 billion RMB up 28.8% yoy;

  Industry added value: up 5.1% yoy ;

  Imports and exports -24.9 % yoy (exports -19.7%; imports -30.9%)；

  CPI： - 0.6% (in March. -1.2%)

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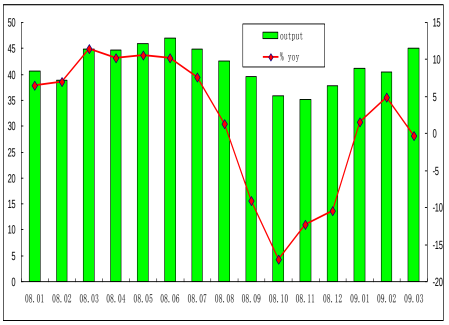
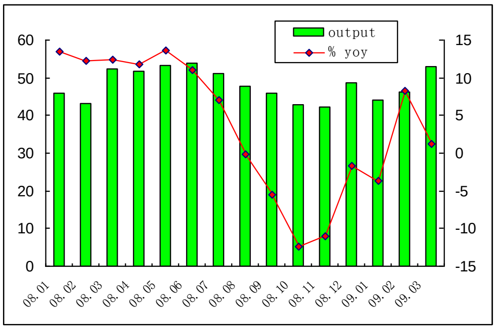
Output of crude steel from 2008.01 to 2009.03
unit： mmt



Output of steel products from 2008.01 to 2009.03
unit： mmt



The growth of steel output in China declined sharply in 2008. Crude steel output increased 1.13% compared with 2008， and it dropped to -0.34% yoy in Q1 2009. The trend is expected to extend into 2009.

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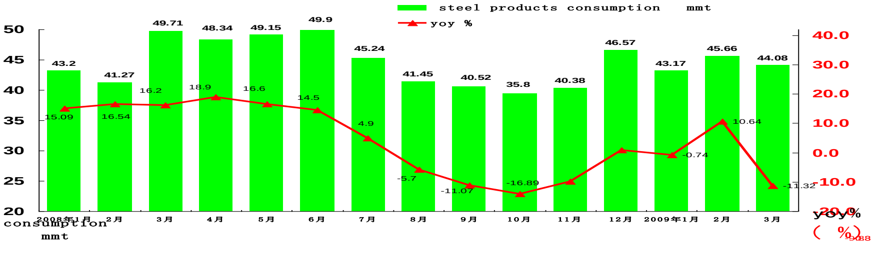
Breakdown of Steel Products Output in Q1 2009 and 2008

unit： million mt

	Q1 2009	Yoy%	2008	Yoy%
Steel products*	144.73	2.8	581.77	3.6
Plate	31.12	-9.05	133.33	15.19
Hot rolled sheet coil	6.78	4.62	25.94	3.97
Cold rolled sheet &coil	7.31	-9.98	34.03	3.66
Coated	0.89	-7.3	3.39	3.1
Seamless pipe	4.72	9.1	20.17	11
Rebar	26.98	21	97.08	-3.9
Wire rod	20.63	8.2	80.24	1.2

*: including double counting

Steel products consumption from 2008.01 to 2009.03



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Part Ⅱ Exports and Imports

- Q1 2009

  Steel products exports: 5.14 mmt , -54.85% yoy;
  Slab exports: 2100 mt , -97.67% yoy

  Steel products imports: 钢材进口3.23 mmt , -22.41% yoy;
  Slab imports : 钢坯进口0.91 mmt , up 1830% yoy

- 2008

  Steel products exports: 59.18 mmt , - 5.5% yoy ;
  Slab exports : 1.28 mmt , - 80% yoy;

  Steel products imports: 15.37 mmt , - 8.8% yoy;
  Slab imports : 0.24 mmt , up 1.4% yoy

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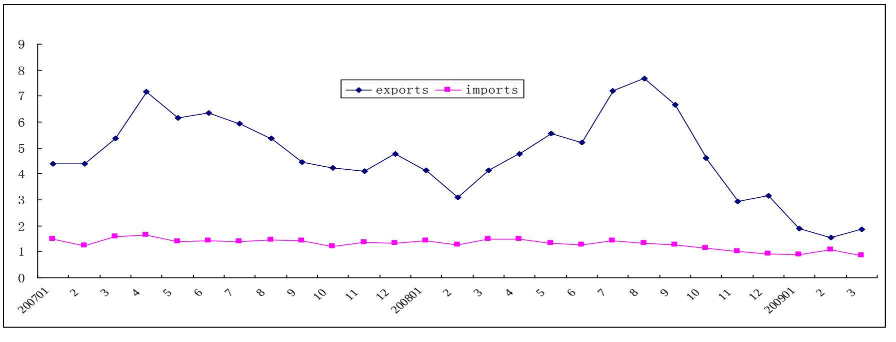
- Crude steel exports for Q1 were 5,466,700 mt, dropping 6,726,200 mt, or 55.16%. Imports for Q1 were 4,346,900 mt，dropping 133,700 mt，or 2.98%. It seems that future trend is turning toward net import as the gap between imports and exports has been narrowing very rapidly.
- Exports of crude steel in March were 1,774,600 mt. Imports were 1,820,600 mt，exceeding exports by 46,000 mt，which is the first month of net import since April 2006.

Steel products exports and imports from 2007 .01 to 2009.03 unit:mmt



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Breakdown of Steel Products exports in Q1 2009 unit：mmt

	Q1 2009	Q1 2008	yoy	yoy±%	share in total %
Total	5.13	11.37	−6.14	−54.85	100
Flat	2.15	5.72	−3.57	−62.36	41.94
Pipe and tube	1.74	1.96	−0.22	−11.32	33.91
Wire rod	0.46	2.18	−1.72	−78.88	8.97
Section	0.16	0.77	−0.61	−79.11	3.11
Railway	0.15	0.10	+0.04	+41.1	2.84
Others	0.47	0.63	−0.16	−24.83	9.23

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Breakdown of steel products exports by regions in Q1 2009 unit：mmt

	Q1 2009	Q1 2008	yoy	yoy±%	share in total %
Total	5.13	11.37	−6.24	−54.85	100
Korea	1.15	3.36	−2.21	−65.75	22.46
Asean	0.69	1.29	−0.60	−46.75	13.46
Middle east	0.63	0.60	+0.03	+4.46	12.4
EU27	0.46	1.27	−0.81	−63.6	9.02
USA	0.46	1.02	−0.56	−55.03	8.95
Ohers	1.73	3.8	−2.26	−59.62	33.71

The shrinking international demand and sliding international price of steel products will lead to further price cut of steel exports of China.

Breakdown of steel products imports in Q1 2009 unit：mmt

	Q1 2009	Q1 2008	yoy	yoy±%	share in total %
Total	3.23	4.16	－0.93	－22.41	100
Flat	2.75	3.47	－0.72	－20.83	85.23
Wire rod	0.13	0.24	－0.10	－44.19	4.3
Pipe and tube	0.18	0.27	－0.09	－34.2	5.59
Section	0.06	0.07	－0.01	－13.11	2.13
Railway	0.03	0.01	＋0.02	＋103.1	1.22
Others	0.04	0.06	－0.01	－23.26	1.53

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Breakdown of steel products imports in Q1 2009 unit：mmt

	Q1 2009	Q1 2008	yoy	yoy±%	share in total %
Total	323.16	416.5	－93.34	－22.41	100
Japan	108.04	176.34	－68.3	－38.73	33.43
Korea	88.86	99.48	－10.62	－10.68	27.5
Chinese Taiwan	56.74	74.9	－18.16	－24.25	17.56
Kazakhstan	19.09	5.86	＋13.23	＋2.26倍	5.91
EU 27	17.73	31.81	－14.08	－44.26	5.49
Russia	10.27	3.34	＋6.93	＋2.07倍	3.18
其 他others	22.33	24.77	－2.44	－9.85	6.91

Part Ⅲ Performance of Steel Market

- In Q1 2009， the profits of CISA members were -3.3 billion RMB.
- In 2008， combined profits of CISA’s 71 members was 84.6 billion RMB, down 43.32% 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 kept decreasing from July 2008 to April 2009

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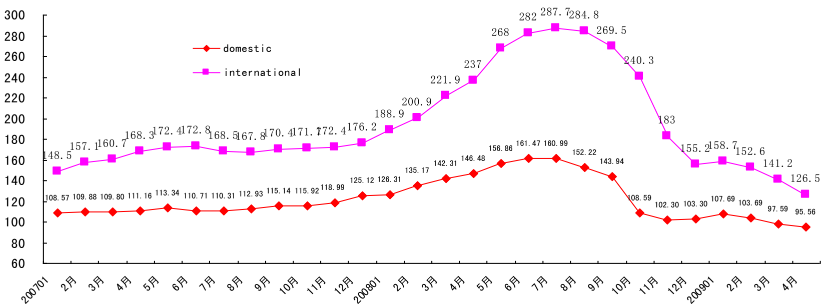
Composite Price Index in International and Domestic Markets



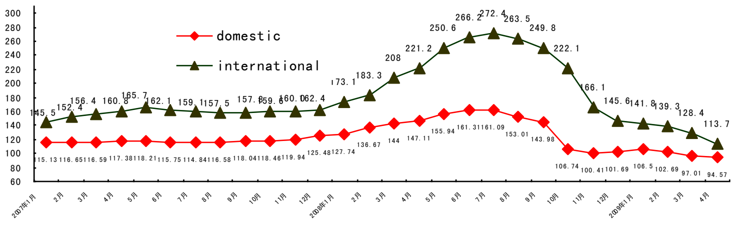
By the end of H1 2008, both international and domestic price indices kept increasing month by month and reached record highs in recent years. However, with the unfolding of the financial crisis, the price dropped sharply .

The 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.

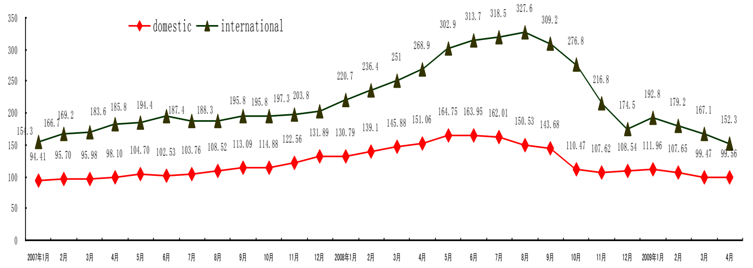
China’s was also hit severely, with decelerated economic growth and reduced demand for steel.

This round of domestic economic downturn has dramatically reduced real estate investment and resulted in negative growth of industries such as automotives, household appliances and machine-building in the 4th quarter, hence causing reduced steel consumption

Flat products Price Index in International and Domestic Markets



Long products Price Index in International and Domestic Markets



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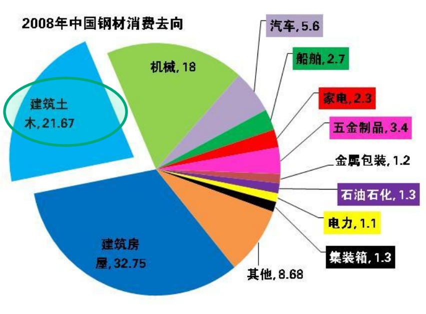
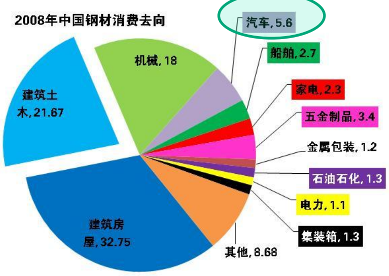
Growth of upstream industries has slowed down and domestic apparent steel consumption dropped significantly.

1. Housing Industry



Growth of upstream industries has slowed down and domestic apparent steel consumption dropped significantly.

2. Automotives



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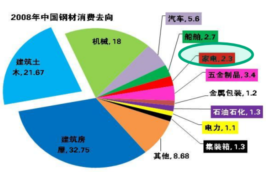

Growth of upstream industries has slowed down and domestic apparent steel consumption dropped significantly.

3. Household Appliances

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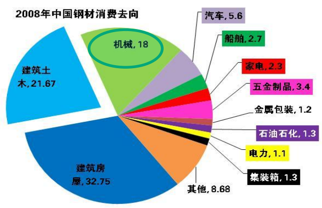

Growth of upstream industries has slowed down and domestic apparent steel consumption dropped significantly.

4. Machine-building

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Part Ⅳ Conclusions and Prospects

- The recession of the global economy may well last for years.
- China's economic growth will slowed down . The intensity and length of this round of adjustment will exceed the past.
- China will implement proactive fiscal and monetary policies to stimulate domestic consumption and growth. (4000 billion RMB investment package and plan for industrial adjustment and revitalization)
- Recovery of global economy will depend on the stimulus policies and measures introduced by many governments. The effects will be seen in the H2 2009 .

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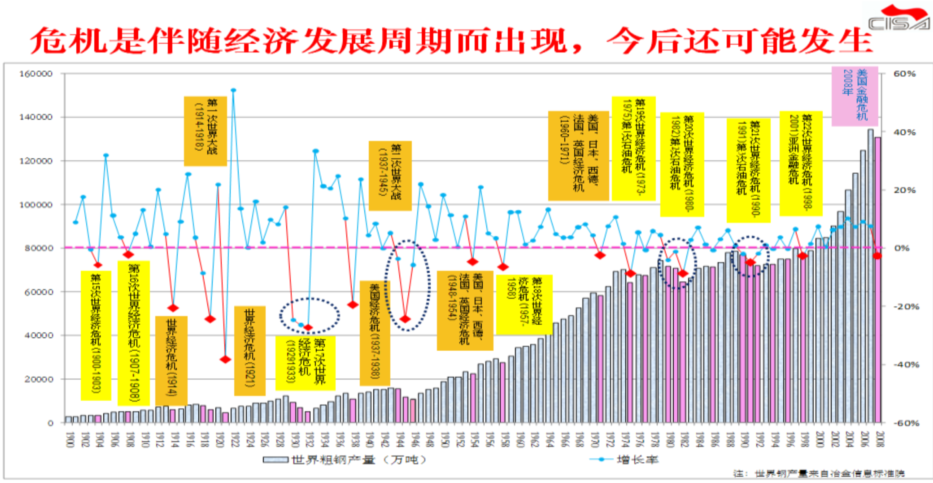
Crisis is the Nature of the Economy



23

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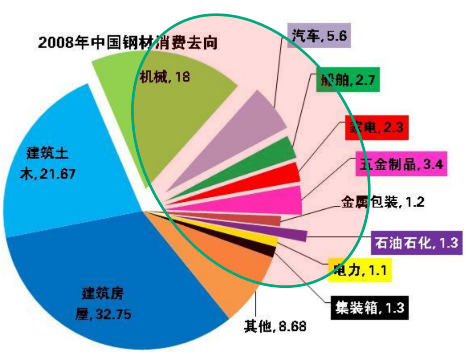

Five industries consume about 33% of steel.

The decision made by the 37th Executive Meeting of the State Council to formulate plans for industrial adjustment and revitalization

- Equipment manufacturing (2.1)
- Auto industry (2.2)
- Textile industry
- Shipbuilding industry (2.3)
- Petrochemical industry (2.5)
- Non-ferrous metal
- Light industry (2.4)
- Electronic information
- Logistics industry
- Steel industry

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Short-term prospects for China's steel industry

- In 2009, crude steel output: around 460 mmt （the forcast in Dec.2008 was 470-500 mmt）

  crude steel consumption： 430-470 mmt (depending on the growth of GDP and FAI)

- The steel exports of china will decrease significantly in 2009.

- Both domestic and international steel market will remain sluggish in the short term .

Demand needs several quarters to resume; stimulus measures need time to show effects; fuel and raw materials price continues to drop, providing little support for the price of steel products.

- The fundamental way to ensure growth is to expand domestic demand. The stimulus package will boost domestic steel demand in an obvious manner. China's steel industry will still be in a very tough situation in the first 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.

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Thanks