

**FIRST LIGHT** 20 December 2022

# **RESEARCH**

# **METALS & MINING**

China policies set stage for steel demand recovery - Valin Steel

# **SUMMARY**

# **METALS & MINING**

- Steel prices in China saw initial recovery in November and can rise further in Mar/Apr'23 as economic recovery takes hold
- CY23 to see only a slight YoY increase in demand and margins, capped by supply recovery and raw material cost increases
- We expect Indian steel margins to bottom out in the December quarter followed by gradual stabilisation over FY24

Click here for the full report.

# **Daily macro indicators**

Indicator	15-Dec	16-Dec	Chg (%)
US 10Y yield (%)	3.45	3.48	4bps
India 10Y yield (%)	7.27	7.28	1bps
USD/INR	82.75	82.87	(0.1)
Brent Crude (US\$/bbl)	81.2	79.0	(2.7)
Dow	33,202	32,920	(0.8)
Hang Seng	19,369	19,451	0.4
Sensex	61,799	61,338	(0.7)
India FII (US\$ mn)	14-Dec	15-Dec	Chg (\$ mn)
FII-D	(25.7)	(35.7)	(10.1)
FII-E	40.2	186.5	146.4

Source: Bank of Baroda Economics Research

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# China policies set stage for steel demand recovery: Valin Steel

 Steel prices in China saw initial recovery in November and can rise further in Mar/Apr'23 as economic recovery takes hold

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  CY23 to see only a slight YoY increase in demand and margins, capped
- We expect Indian steel margins to bottom out in the December quarter followed by gradual stabilisation over FY24

We hosted Liu Xiafoi, Director of Securities Department at Valin Steel (Not Rated). Key takeaways:

**Near-term outlook – Prices could increase from Mar/Apr'23:** Valin Steel expects policy changes in China, by way of softer quarantine restrictions and measures to prop up the real estate market, to encourage downstream demand over H1CY23 and thereby support recovery in the economy and in steel demand. Should the recovery be slow to take off, the company expects the Chinese government to step in with added policy measures. This could drive a further pickup in steel prices from Mar/Apr'23.

**Medium-term – Demand to inch up in CY23:** Valin Steel anticipates only a slight improvement in Chinese steel demand in CY23 as offtake from the infrastructure and manufacturing sectors only just offsets weakness in real estate (direct & indirect).

**Medium-term – Limited margin upside in CY23:** While margins for China's steel industry could stabilise in CY23, Valin Steel expects the upside to be limited as higher demand could drive up supply as well as raw material prices. Industry production is likely to remain disciplined given the annual production cap and should aim for modest YoY reduction. Chinese exports will remain constrained by EU/US trade barriers and could attempt to capture growth only in Southeast Asia. Coking coal availability for Chinese players could improve further from Mongolia in CY23, and the informal import ban on Australian coking coal may be relaxed as diplomatic relations are on the mend.

**Longer-term – Structural readjustment ahead:** Valin Steel expects Chinese steel demand to gradually stabilise to a level of 700mt and production to remain in a range of 900-1,000mt over the next 5-8 years following the current capacity swap policy. Given rising demand for steel in new applications and slowing demand for construction steel, the market balance will need structural readjustment.

**Implications for Indian players:** We expect India's steel industry margins to gradually settle at mid-cycle levels over FY24 as economy recovers and steel demand in China stabilises.





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BUY - Expected return >+15%

**HOLD** – Expected return from -6% to +15%

SELL - Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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