

RESEARCH
Metals & Mining

Expert call with Baosteel on China steel outlook

SUMMARY
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- Baosteel's CY22 steel outlook for China points to market stabilisation with modest 2% dip in consumption and lower net crude steel exports
- Outlook implies gradual steadying of steel margins as and when supply chain disruptions in the raw material market ease
- Transformation in China's steel industry anticipated over the medium term with a move away from investment and an end to capacity expansion

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Daily macro indicators

Indicator	28-Mar	29-Mar	Chg (%)
US 10Y yield (%)	2.46	2.39	(6)
India 10Y yield (%)	6.84	6.82	(2)
USD/INR	76.17	75.99	0.2
Brent Crude (US\$/bbl)	112.5	110.2	(2.0)
Dow	34,956	35,294	1.0
Hang Seng	21,685	21,928	1.1
Sensex	57,593	57,944	0.6
India FII (US\$ mn)	25-Mar	28-Mar	Chg (\$ mn)
FII-D	96.9	(81.9)	(178.7)
FII-E	(182.4)	(51.2)	131.2

Source: Bank of Baroda Economics Research

BOBCAPS Research
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We hosted a call with Ying Zhao, IR Manager of Baosteel (Not Rated), a listed arm of China Baowu Group, the world's largest steel producer. Key takeaways:

Near-term outlook for China points to market stabilisation...: Baosteel expects China's steel demand to decline by a modest 2% in CY22 cushioned by gradual stabilisation in the country's real estate sector through the year, albeit at a significantly slower growth rate than historical levels. Infrastructure investment is forecast to grow 5% (per CISA) to partially offset weakness in real estate, with the accelerated issuance of special bonds since Nov'21. China also aims to control net crude steel exports through CY22. Baosteel expects net exports to decline by 3mt YoY to 36mt. Near-term, the Chinese industry is attempting to capitalise on the surge in demand for hot rolled products from the EU post the Russia-Ukraine conflict.

... translating to gradual stabilisation of steel margins: Baosteel acknowledged pressure on margins from high raw material prices. However, with the steadying of demand in China and the absence of demand pull on raw material markets, steel margins should gradually stabilise as and when raw material supply chain constraints ease. Further, the control on steel exports will ensure no material disruption in market balance outside China.

Medium-term outlook points to industry transformation: China's steel industry is undergoing a transformation with a decarbonisation focus. Given government curbs on housing speculation, steel demand for construction is likely to decline whereas that for use in consumer sectors will rise. The demand driver in the domestic steel market will shift from investment to innovation. However, demand from new applications will take time to develop and the real estate slowdown will weigh on the medium-term outlook.

Dual control policy to limit production, raise consumer steel prices: The dual control policy in pursuit of decarbonisation will restrain both steel supply and demand in China. The policy will also raise unit energy cost as well as alloying cost and, in turn, steel production cost. This will feed through the chain and drive up consumer steel prices over the medium term.



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Note: Recommendation structure changed with effect from 21 June 2021

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