

World Steel Dynamics (WSD) is a leading steel information service in Englewood Cliffs, N.J. WSD's steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the "pricing power" of steel companies the world over will be impacted by changes in the steel industry's structure. To submit your questions for WSD, e-mail [WSD@aist.org](mailto:WSD@aist.org).

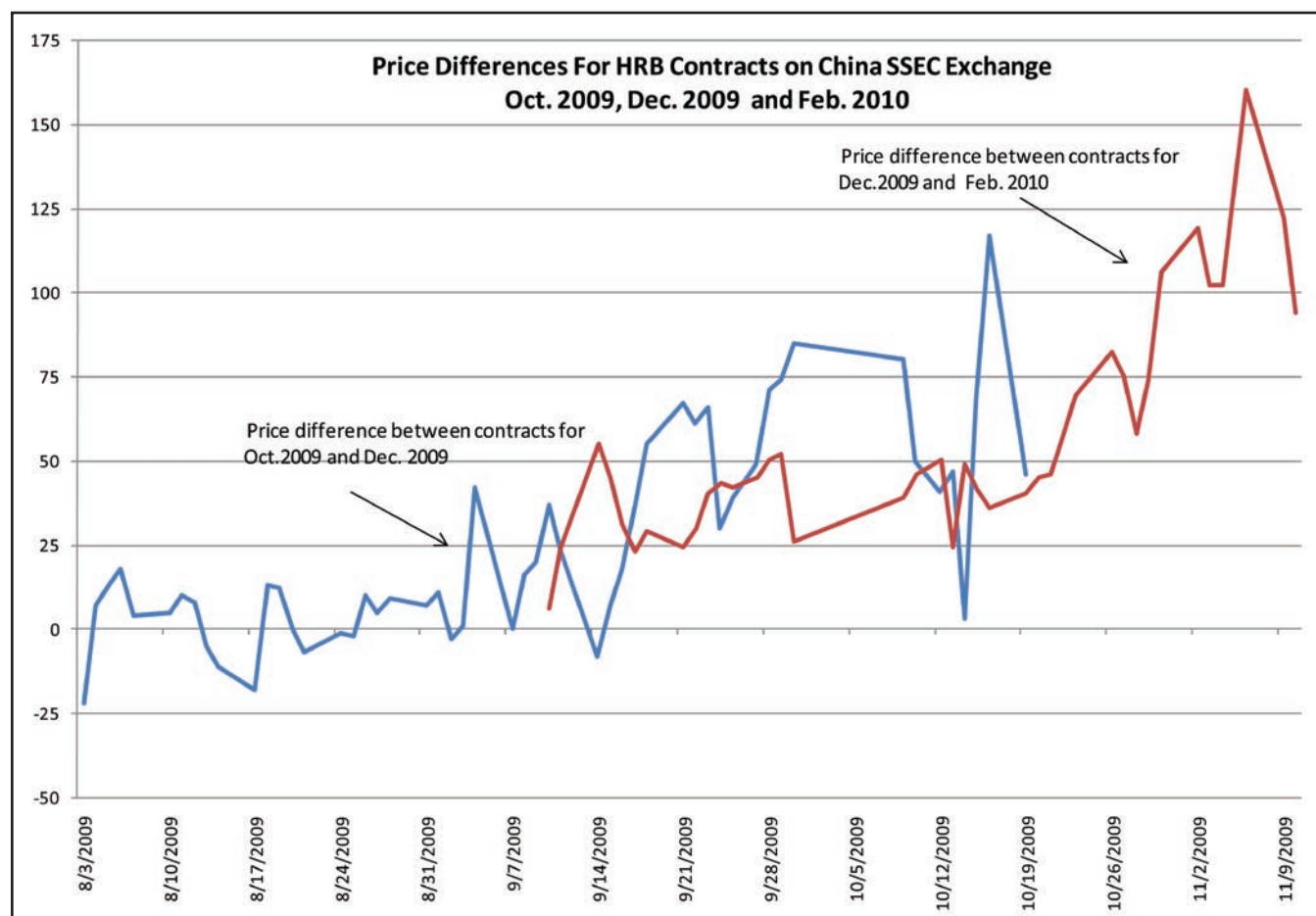


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**Q: It is quite clear that China has emerged as the global leader in steel production, and their continued growth of steel demand, despite the global economic downturn, has been astonishing. Given these facts, what are some of the unique developments in the Chinese steel industry that may not have yet occurred elsewhere in the world?**

**A:** Based on Peter Marcus' recent two-week trip to China, several noteworthy developments were observed:

- Steel futures trading in China has become an integral part of the domestic steel pricing environment. Steel traders in China – of which there may be 150,000 – and many other parties are now involved in trading steel futures. When Peter Marcus gave a presentation in Shanghai this past trip, the start of the conference was delayed until 2:30 p.m. because many of the attendees were engaged in trading on the exchanges and wanted to be on-line at the start of the afternoon session. (Note: The trading hours for the futures exchanges are 9–11:30 a.m. and 1:30–3 p.m.)
- » Trading of rebar on the Shanghai Futures Exchange, for which there is physical delivery, has been running at a rate of about 7.2 billion tonnes annually – or 60 times estimated rebar production this year of 120 million tonnes (up 24% from last year). (Note: Output of rebar in the United States may amount to only 5 million net tons in 2009.)
- » For hot rolled band, the recent annualized trading volume has been about 400 million tonnes based on activity on two on-line exchanges, or three times estimated hot rolled band deliveries in China this year of about 145 million tonnes (up 4% from last year).
- The major Chinese steel mills are determined not to cut production unless there's a lack of orders. In other words, production is not price-elastic, which is why the hot rolled band price in China is prone to frequent pricing "death spirals," i.e., periods when the price falls to or below marginal costs. In September 2009, for example, the ex-works price



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fell to only \$404 per tonne, excluding the 17% VAT. Yet, based on WSD's recently completed World Cost Curve, the median operating cost to produce hot rolled band in China for 30 steel mills is currently about \$508 per tonne. (Note: In contrast, hundreds of small-sized BF/BOF producers making products tied to the construction market tend to vary their production with the price. This group, whose variable costs may be 90-95% of operating costs, are driven by profits.)

One reason for the stickiness of production on the downside is that all the major Chinese steel mills, including Shagang, the leading private steelmaker, have "social stability responsibilities" including: (a) keeping their workers employed; (b) operating at as high a rate as possible, which is good for the revenues of the local municipalities and the province (which get 20-25% of the value-added tax); and (c) supporting the local government with a variety of payments for land use and other items. In fact, in the case of the country's major government-owned steel mills, WSD thinks that the social stabilization expenses may add about 300 RMB (\$44) per tonne to their finished product costs. ♦

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 Submit it today to [WSD@aist.org](mailto:WSD@aist.org).**