

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.** Please include your full name, company name, mailing address and e-mail in all correspondence.



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Q. Is there a substantial excess in steelmaking and hot strip mill capacity in China?

A: WSD thinks probably not in the first half of 2010, as the Chinese steel industry will be operating close to full capacity on the bases of steelmaking and hot rolled band production for the following reasons:

- Chinese steel demand may be up 10% year-on-year, given the continued sharp rise in gross fixed capital formation (GFCF) in the first half.
- With prices rising, the steel traders will be comfortable adding inventory.
- High world export prices will give the Chinese mills a good export opportunity if they have the extra tonnes to export. (*Note:* The sizable export taxes on slab, billet and rebar may hold down the exports of these products.)

WSD is told by several of the major mills that they are producing close to capacity.

If hot strip mill production in 2010 amounts to 178 million tonnes as expected (up 15% year-on-year), that would be equal to 102% of year-end 2009 capacity of 175 million tonnes and 92% of year-end 2010 capacity of 194 million tonnes.

Beyond mid-2010, the rise in capacity will likely be well in excess of the rise in steel demand. Also, during this period, the Chinese RMB is expected to be much stronger, which will drive up costs in China on a U.S. dollar basis.

Once overcapacity appears in hot rolled band, WSD expects the price to dip once again to levels far below the world export price over much of the steel cycle because of the large number of steel mills and the huge number of traders. In other words, the market is "competitive" in the academic sense of the word. It will be almost impossible for sufficient concentration of hot rolled band production to occur for the leading mills to control pricing except when demand is booming. ♦

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China HRB Capacity (million tonnes, number of mills)

	2006	2007	2008	2009	2010E	2011E	2012E
Year-end HRB capacity	94	132	152	175	194	210	225
Y-o-y change		38	20	23	19	16	15
No. of companies producing HRB		36	39	39	41	42	44
Total no. of HRB mills (year-end)	29	41	51	57	64	69	74
No. of HRB mills added	5	12	10	6	7	5	5
HRB production	90	119	135	155	178	195	205
Y-o-y change		29	16	20	23	17	10

Source: WSD estimates