

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.



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Q. As China continues to set new records for crude steel production, in WSD's opinion, what developments could trigger a change in this "pattern"?

A. The Chinese Iron and Steel Association (CISA) has recently revealed its estimate for Chinese steel demand in 2015, which is at the end of the country's 12th Five-Year Plan for 2011-2015. CISA offered two scenarios:

- Assuming a 9-10% growth of Chinese real GDP in this time period, steel demand by 2015 amounts to 760-800 million tonnes per year, for a growth rate of 2.9% per annum from 2010 to 2015.
- Assuming a 7-8% growth rate of real GDP, steel demand in 2015 amounts to 600-670 million tonnes – or virtually no growth compared to today's levels.

Both forecasts seem to include the expectation that the Chinese steel intensity will be declining in the years ahead. For example, it is believed that special stimulus programs during 2008-2010 added about 100 million tonnes per year to Chinese steel demand – and that these programs are in the process of winding down. Rising household consumption ("C") as a share of GDP dampens steel industry growth because "C" is far less steel-intensive than fixed asset investment (FAI). Also, a lower growth rate of GDP, which implies less rapid growth of FAI, lessens steel intensity.

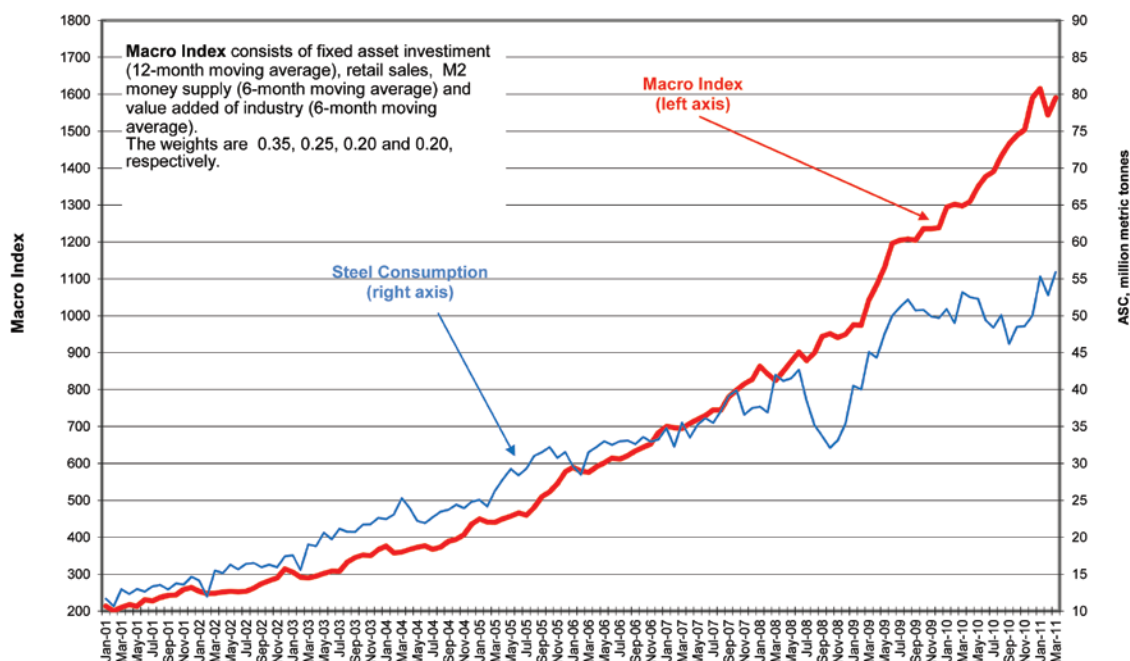
An interesting announcement was made on 30 March 2011 regarding the Chinese government's wishes to relocate steel plants from the cities to coastal locations. The implications are substantial:

- The government remains absolutely determined to combat air and water pollution and improve the quality of life for its citizens, as highlighted in the Five-Year Plan for 2011-2015.
- The government apparently believes the country's iron ore resources are limited, high in cost and/or subject to substantial depletion in the years ahead.
- The movement of entire steel plants would help to sustain spending in the steel sector at \$50 billion per year, but perhaps not iron ore mining, which is at about \$15 billion per annum at present.
- Inbound and outbound freight arrangements are optimized for steel plants at coastal locations. ♦

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Figure 1



WSD China macro-economic steel index vs. apparent steel consumption. Source: WSD estimates.

To submit your questions for WSD, email WSD@aist.org.

Please include your full name, company name, mailing address and email in all correspondence.