WSD

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is a leading steel information service in Englewood Cliffs, N.J., USA

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. The views and opinions expressed in this article are solely those of World Steel Dynamics and not necessarily those of AIST.

Authors

Peter Marcus (left)
managing partner,
World Steel Dynamics
pmarcus@worldsteeldynamics.com
+1.201.503.0902

John Villa (right)
research strategist,
World Steel Dynamics
jvilla@worldsteeldynamics.com
+1.201.503.0911

WSD micro-economic steel index for Chinese steel-consuming industries

This 11-component weighted index has been flat since 2013. In 2017, the figure at 346.4 compares to 349.8 in 2013 (Fig. 1). The components of the index (and their weighting) are electricity production (10%), cement (10%), industrial boilers (10%), internal combustion engines (5%), metal cutting tools (5%), large and mid-sized tractors (5%), locomotives (5%), automobiles (10%), ships (5%), power generators (5%), air conditioners (5%), and square meters under construction (25%).

With regard to the non-moving average results through April 2018, the index: (a) had a lower peak in late 2017 than in late 2016; and (b) dipped far more deeply in early 2018 than early 2017. On a year-to-year basis, through April, the key declines include tractor production down 13%, locomotive production down 15%, shipbuilding down 30%, cement construction down 2% and industrial boilers down 4.2%.

Of course, mandated cutbacks in steel production and construction activity in Northern China in the period from 15 November 2017 to 15 March 2018 are a factor in the unfavorable year-to-year comparisons. Apparent steel consumption in the first four months of 2018 was up 7.9% year to year. Despite the major industrial indicators in China pointing downward, World Steel Dynamics believes that the reporting of previously unreported steel production is an explanation for this disconnect.

Note:

• If there's no major rebound in the micro-index, given the rapid ramp-up of Chinese steel production so far this year, the Chinese mills will be facing sizable oversupply in the second half (Fig. 2).
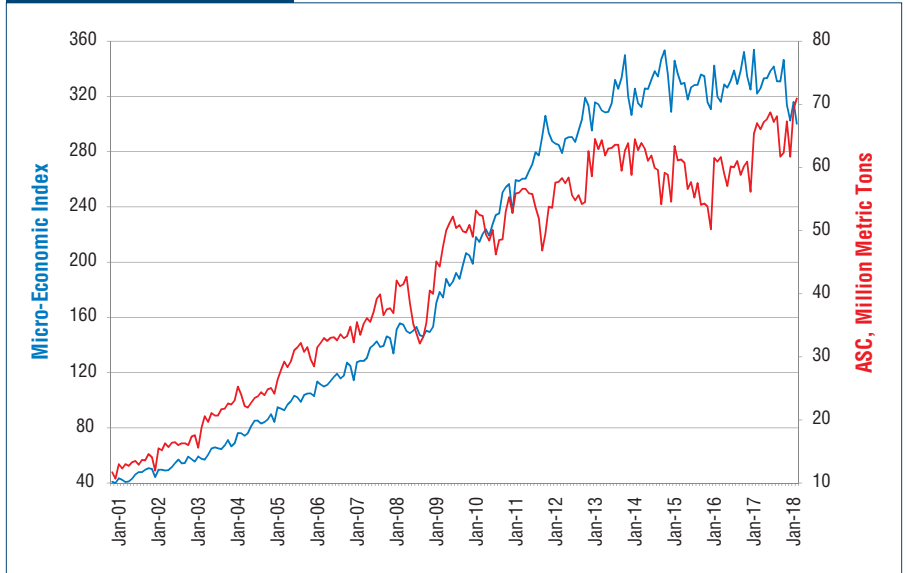
Figure 1
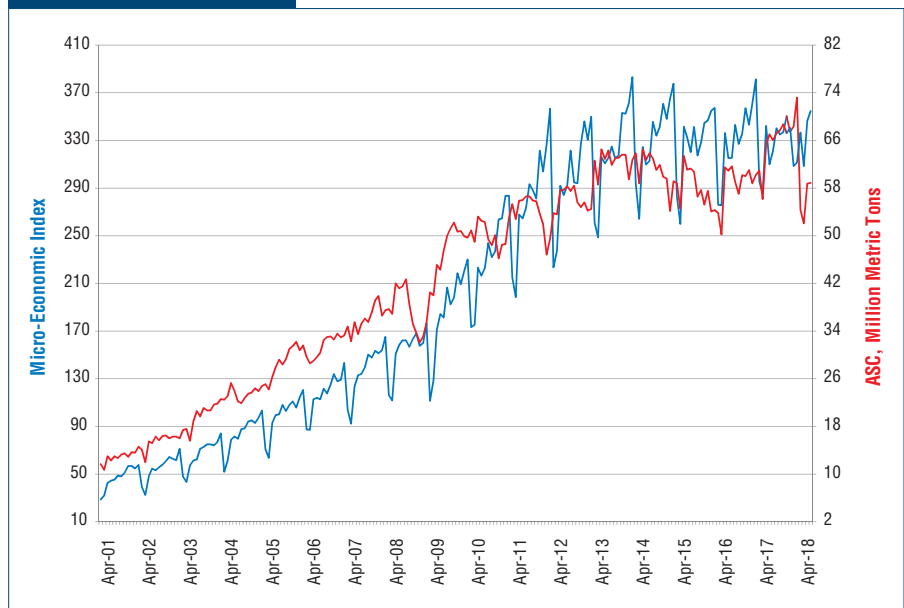
WSD China micro-economic steel index (non-moving average) vs. apparent steel consumption (ASC). Micro-index consists of electricity production, cement, industrial boilers, internal combustion engines, metal cutting tools, large and mid-sized tractors, locomotives, auto, ships, power generators, air conditioners, and building square meters under construction. The weights are 0.1, 0.1, 0.1, 0.05, 0.05, 0.05, 0.05, 0.1, 0.05, 0.1 and 0.25, respectively. Source: WSD estimates.

- Fixed asset investment, which has a 35% weighting in the macro steel-consuming index, was up 7% year-to-year for the first four months 2018 versus a gain of 9% in 2017 on the same basis.

This report includes forward-looking statements that are based on current expectations about future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict. Although WSD believes that the expectations reflected in its forward-looking statements are reasonable, they can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties, including, among other things, changes in prices, shifts in demand, variations in supply, movements in international currency, developments in technology, actions by governments and/or other factors. ✦
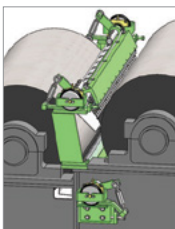
Figure 2

WSD China micro-economic steel index (moving average) vs. apparent steel consumption. Micro-index 2 consists of electricity production, cement (6-month moving average), industrial boilers (6-month moving average), internal combustion engines (6-month moving average), metal cutting tools (6-month moving average), large and mid-sized tractors, locomotives, auto, ships (3-month moving average), power generators (3-month moving average), air conditioners (3-month moving average) and building square meters under construction (12-month moving average). The weights are 0.1, 0.1, 0.1, 0.05, 0.05, 0.05, 0.1, 0.05, 0.05, 0.05 and 0.25, respectively. Source: WSD estimates.