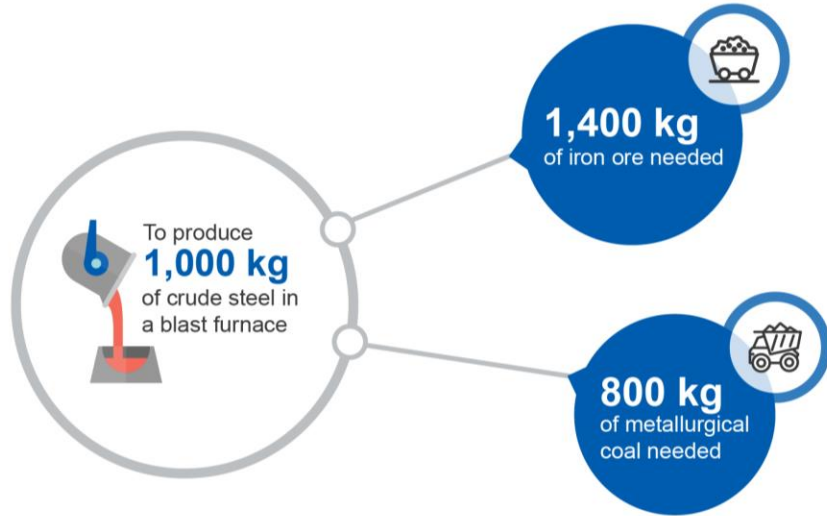
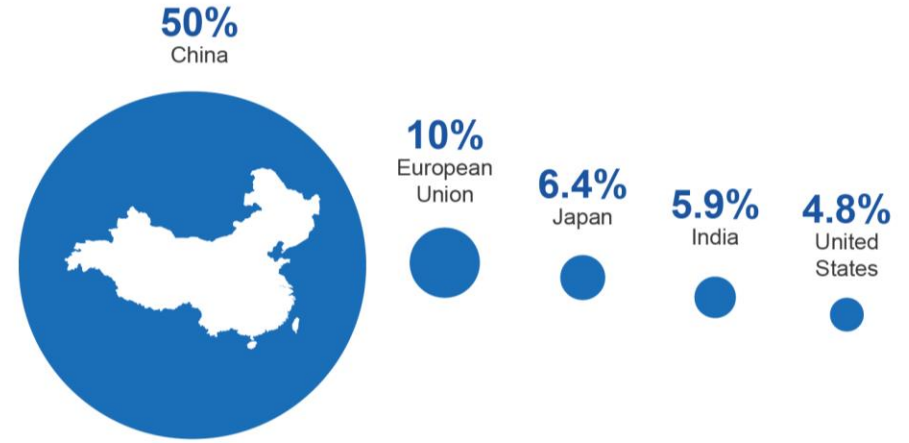


Steel

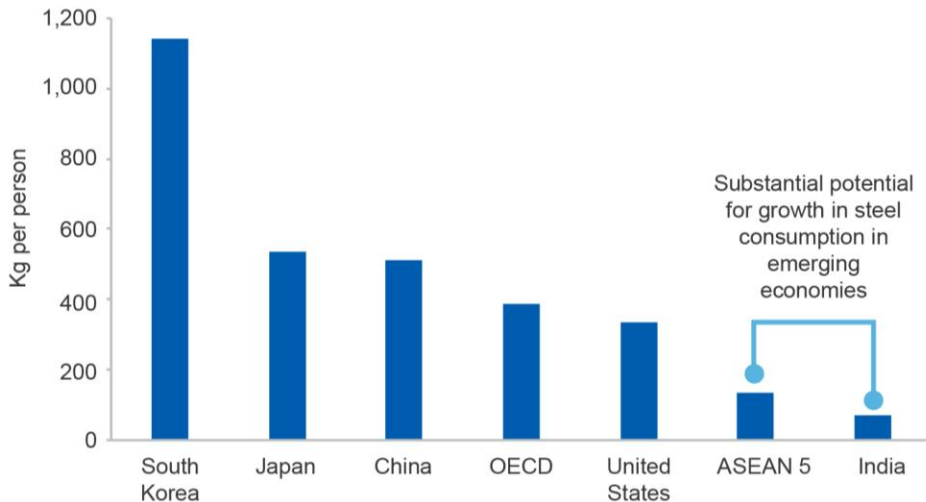
Resources and Energy Quarterly June 2017



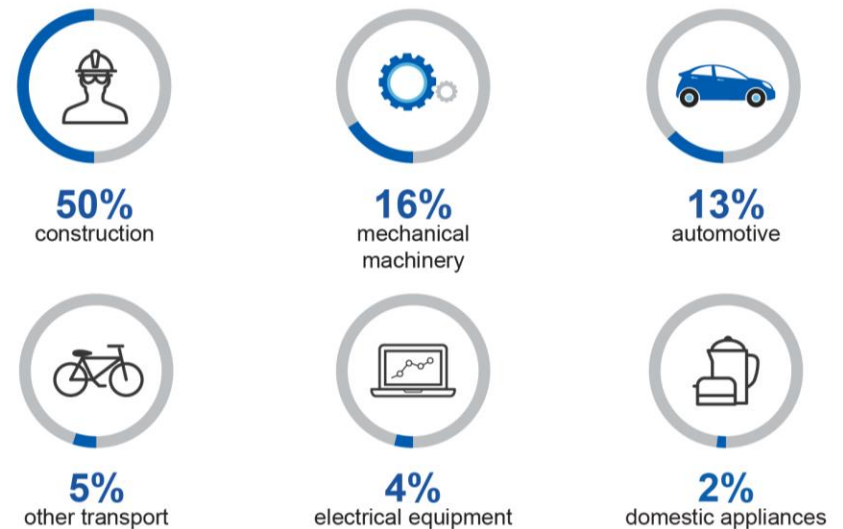
Key producers, 2016



Crude steel consumption per capita, 2015



Steel use by sector



Market summary

The momentum of global steel production growth has slowed in recent months, growing 3.6 per cent year-on-year in April and May compared to 5.2 per cent in the March quarter 2017. Nevertheless, global steel production growth has remained relatively strong; in contrast, production contracted by 1.5 per cent year-on-year in the five months to May 2016.

World steel production growth has continued to be supported by a broadening pick up in the global economy. There has been a steady improvement to global business confidence and manufacturing sector indicators.

Annual world steel production growth is forecast to moderate to average 1.3 per cent in 2017, 1.0 per cent in 2018 and 0.9 per cent in 2019. A marginal decline in Chinese steel production — as infrastructure and construction activity in that nation slows — is expected to be outweighed by strong steel production growth in the rest of the world, particularly in India.

Steel production and consumption

China's steel production reached a record high in April 2017

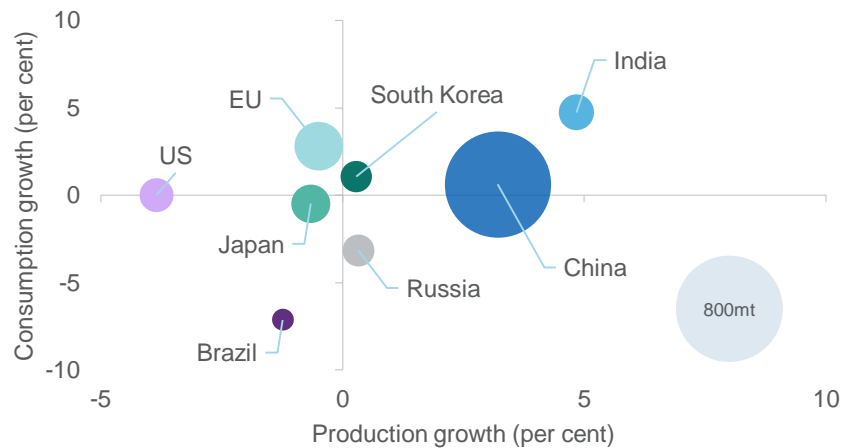
China's steel production increased by 4.1 per cent year-on-year in the first five months of 2017, and reached a monthly record of almost 73 million tonnes in April. Growth in China's steel production was driven by stronger domestic demand and higher prices, with exports declining.

Steel exports were down by 26 per cent in the first five months of the year. There has been an accumulating suite of trade barriers against Chinese steel products. Additionally, China's steel has become less competitive in export markets, as strong domestic demand allows producers to charge higher prices to offshore buyers.

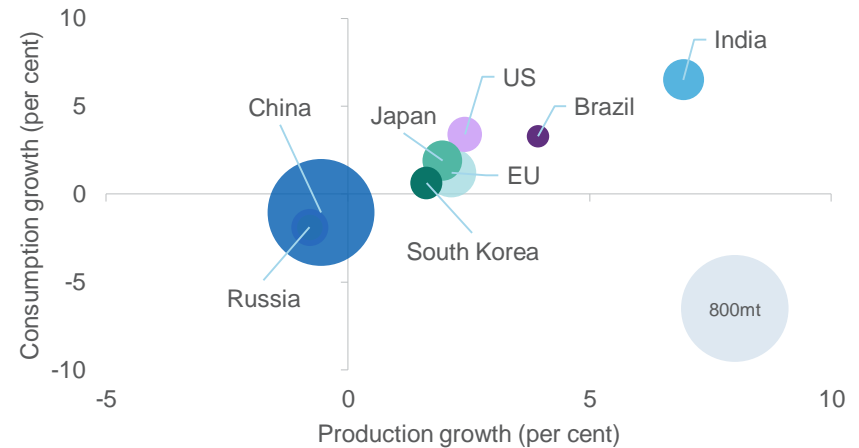
Apparent steel usage increased by 8.8 per cent year-on-year in the five months to May 2017. Steel consumption was supported by ongoing infrastructure investment, with infrastructure fixed asset investment (FAI) up by 21 per cent year-on-year in the five months to May.

Figure 3.1: World trends in steel production and consumption, compound annual growth rates

2012 to 2015



2016 to 2019 (forecast)



Note: Area of bubble represents absolute steel production in 2015 and 2019 (forecast), respectively.
Source: World Steel Association (2017); Department of Industry, Innovation and Science (2017)

China's steel production and consumption forecast to moderate

Steel consumption in 2017 is forecast to be little changed from 2016 levels. Although the Central Government has increasingly signalled the prioritisation of economic growth and stability over financial reform and debt control this year — providing some support to steel consumption through ongoing government investment — this is expected to be offset by the impact of declining demand from other sectors.

Construction activity has slowed since more stringent lending and buying policies in the real estate sector were implemented in 2016 and early 2017. Construction FAI was down 20 per cent year-to-date in May 2017. However, price growth in real estate outside of the big cities indicates the potential for further real estate development activity. If this occurs, steel production and consumption growth could be larger than what is currently forecast.

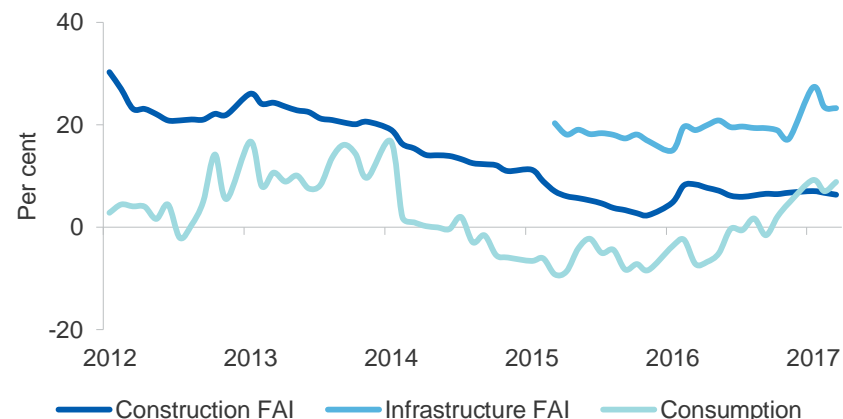
The steel sector PMI for May 2017 points to steel production remaining robust in the short term. The steel PMI typically leads steel production by a month. Capacity cuts — which tend to increase steel producers' margins — are also expected to provide incentives for increased production in the short-term.

Nevertheless, production growth is expected to moderate, and output is forecast to decline marginally (by 0.4 per cent) in 2017. Declining exports, industry consolidation, cuts to old/inefficient capacity (with a 50 million tonne target for 2017), and the enforcement of environmental restrictions, are all expected to contribute to the marginal decline in production.

Beyond 2017, steel production is forecast to decline by 0.6 per cent in both 2018 and 2019, weighed down by relatively subdued domestic demand. Government spending is expected to ease, and a renewed focus on financial stability and reigning in debt is expected to dampen private investment and, as a result, steel consumption.

China's recently announced 'One Belt One Road' plan has the potential to increase China's steel needs beyond what has been forecast. However, there is insufficient clarity at this time regarding how the initiative will be implemented and, in turn, how it will affect steel demand.

Figure 3.2: China's monthly FAI and steel consumption, YoY change



Notes: Infrastructure FAI (fixed asset investment) series begins in 2015; Consumption is apparent steel consumption.

Sources: Bloomberg (2017) National Bureau of Statistics of China

Figure 3.3: China's monthly steel production and exports, YoY change



Source: Bloomberg (2017) National Bureau of Statistics of China; Bloomberg (2017) China Customs General Administration

India forecast to become the second largest steel producer in 2018

India's steel production increased by 7.4 per cent year-on-year in the five months to May, as new capacity continued to be completed. Domestic consumption has not entirely absorbed the growing output exports of steel have surged — although from a low base — growing by 142 per cent year-on-year in April 2017. Steel imports decreased by 23 per cent over the same period, driven by both increased domestic production and restrictive trade policies.

India's steel consumption is expected to be bolstered by substantial government investment in infrastructure, affordable housing and urban development. Preferential treatment of Indian-made steel in government projects is also expected to benefit the domestic industry.

India remains on track to overtake Japan as the world's second largest steel producer in 2018, with production forecast to grow by 7.0 per cent to 110 million tonnes, and by a further 6.3 per cent in 2019 to 117 million tonnes. However, there remains several headwinds to India's official steel production targets, including constrained access to raw materials, land and finance. It is also unclear whether demand and export growth will be strong enough to absorb the forecast rapid additions to capacity.

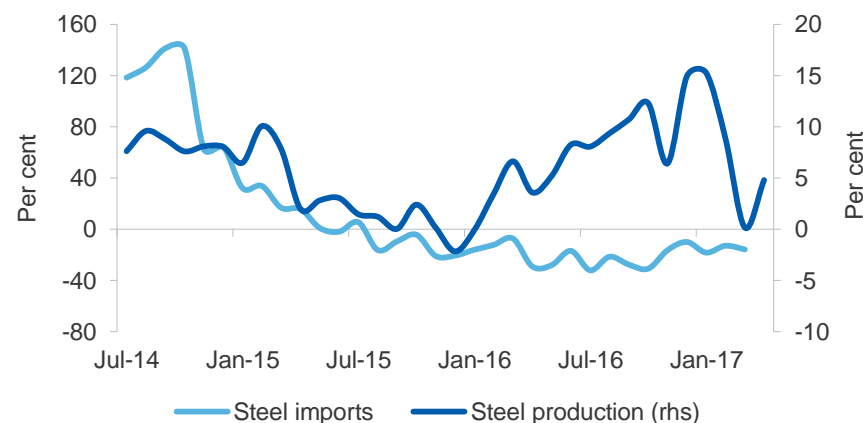
Production in the rest of world buoyed by a rebound in steel demand

Steel production in the rest of the world (excluding China and India) increased by 4.7 per cent year-on-year in the five months to May. Japan's steel production grew 1.5 per cent year-on-year in the five months to May. Japan's industrial production and manufacturing indices reached their highest levels in nine years in April 2017, supporting steel production growth.

Similarly, strong industrial production growth in both the EU and the US has supported growth in steel production, of 4.1 per cent and 2.3 per cent year-on-year in the five months to May, respectively. In the US, there remains substantial uncertainty surrounding President Donald Trump's infrastructure spending plans. Earlier expectations of a surge in steel demand may not eventuate, at least in the short-term.

Steel production in South Korea has declined by 2.8 per cent year-on-year in the two months to May, partly weighed down by declining vehicle production. The decline follows strong growth of 4.7 per cent in the March 2017 quarter.

Figure 3.4: India's monthly steel production and exports, YoY change



Source: Bloomberg (2017) World Steel Association; Bloomberg (2017) Reserve Bank of India

Steel production in the rest of the world is forecast to grow by 2.5 per cent in 2017, before slowing to 1.8 per cent and 1.7 per cent in 2018 and 2019, respectively.

Trade barriers continue to grow for steel products

There has been a growing suite of anti-dumping duties and other restrictive trade policies on steel products, largely in response to high volumes of cheap steel imports from China in 2015 and 2016.

In the EU, additional anti-dumping duties on steel products from China brought the coverage to almost 20 steel products. The US has imposed more than 190 duties on iron and steel product imports from China. In April 2017, the US Department of Commerce initiated an investigation into the impact of steel imports on national security. The investigation was due to be completed in June, and may result in additional restrictions on imports from many steel producing countries.

The growing number of trade barriers may act as a constraint on steel production growth in China and other Asian producers, which in turn has potential implications for Asian import demand for iron ore and metallurgical coal.

Table 3.1 World steel consumption and production (million tonnes)

Crude steel consumption	2016 s	2017 f	2018 f	2019 f	Annual percentage change		
					2017 f	2018 f	2019 f
European Union 28	171	171	174	177	0.5	1.4	1.8
United States	103	107	112	114	3.5	5.1	1.6
Brazil	19	20	21	21	3.9	3.0	3.0
Russia	43	41	40	40	-4.0	-1.5	-0.1
China	712	708	699	689	-0.5	-1.3	-1.3
Japan	67	69	70	71	3.0	1.1	1.6
South Korea	57	57	57	58	-0.4	1.0	1.3
India	95	102	108	115	6.7	6.7	6.2
World steel consumption	1,629	1,647	1,665	1,683	1.1	1.1	1.1
Crude steel production	2016	2017 f	2018 f	2019 f	2017 f	2018 f	2019 f
European Union 28	162	166	169	173	2.3	2.0	2.0
United States	78	80	84	84	2.5	4.0	0.8
Brazil	31	32	34	35	2.4	4.7	4.7
Russia	71	70	69	69	-1.6	-0.7	-0.1
China	808	805	800	795	-0.4	-0.6	-0.6
Japan	105	108	109	111	3.0	1.0	1.8
South Korea	69	69	71	72	0.9	1.9	2.1
India	96	103	110	117	7.5	7.0	6.3
World steel production	1,629	1,651	1,666	1,682	1.3	1.0	0.9

Notes: s estimate f forecast

Source: World Steel Association (2017); Department of Industry, Innovation and Science (2017)