World's Biggest Steel Industry Shrinks for First Time Since 1991

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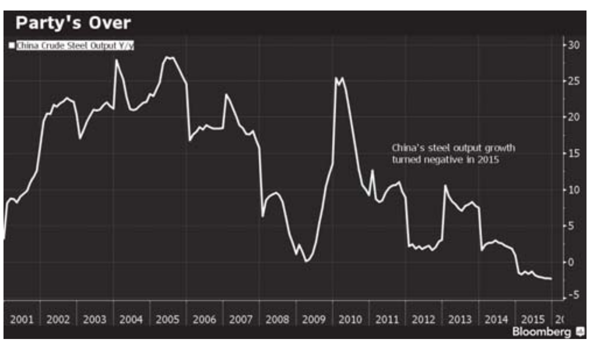
- Supply cuts `long-drawn process' as mills pursue market share
- Production seen sliding further this year as demand slows

Steel output in the world’s largest producer posted the first annual contraction in a quarter century.

Mills in China, which make half of global supply, churned out less last year for the first time since at least 1991 as local demand dropped, prices sank and producers struggled with overcapacity. Crude steel production shrank 2.3 percent to 803.83 million metric tons, the statistics bureau said Tuesday. December output fell 5.2 percent to 64.37 million tons from a year earlier.



Demand is weakening as policy makers seek to steer the economy away from investment toward consumption-led growth. The economy expanded 6.9 percent last year, the slowest full-year pace since 1990, data showed. Steel output will probably drop 2.6 percent this year, weakening the outlook for iron ore as global miners increase shipments, Citigroup Inc. has estimated.

“This marks the start of declining steel output in China as the economy slows,” Xu Huimin, an analyst at Huatai Great Wall Futures Co. in Shanghai, said by phone. “We’re likely to see more output cuts this year, though the magnitude of declines will be quite similar to 2015. Supply cuts in a glut are a long-drawn though the magnitude of declines will be quite similar to 2015. Supply cuts in a glut are a long-drawn process as mills seek to maintain market share."

Crude-steel output in China surged more than 12-fold between 1990 and 2014, and the increase is emblematic of the country's emergence as the world's second-largest economy. Demand soared as policy makers built out infrastructure, shifted millions of people into cities and promoted consumption of autos and appliances.

Weakest Quarter

China's economy slowed in December, capping the weakest quarter of growth since the 2009 global recession, as the Communist leadership struggles to manage a transition to consumer-led expansion. Industrial production, retail sales and fixed-asset investment all slowed at the end of the year, while gross domestic product climbed 6.8 percent in the fourth quarter from a year earlier.

Chinese steel demand is also dropping for the first time in a generation, prompting mills to export record amounts of the metal. Shipments jumped 20 percent last year to 112.4 million tons, an all-time high. Excess supply particularly from China has spurred governments across the globe to take steps to protect their home markets.

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More production cuts are needed as local consumption weakens further and steelmakers face stiffer opposition to exports, according to Li Xinchuang, deputy secretary-general of the China Iron & Steel Association. Output may drop to about 783 million tons this year, the association has said.

Steel extended gains on Tuesday amid signs that physical inventory is easing, according to Australia & New Zealand Banking Group Ltd. Futures for reinforcement-bar, a benchmark product used in construction, rose 0.7 percent to close at 1,839 yuan a ton in Shanghai, the highest in three months.

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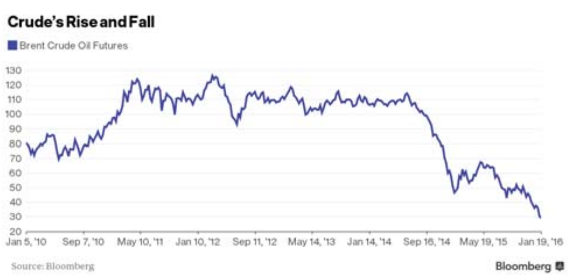
Global oil markets could "drown in oversupply," sending prices even lower as demand growth slows and Iran revives exports with the end of sanctions, according to the International Energy Agency.

The IEA trimmed 2016 estimates for global oil demand as China's economic expansion weakens and raised forecasts for supplies outside the Organization of Petroleum Exporting Countries. While non-OPEC supply is set to drop 600,000 barrels a day in 2016, Iran's comeback could fill that gap by the middle of the year. As a result, world markets may be left with a surplus of 1.5 million barrels a day in the first half.



"While the pace of stock-building eases in the second half of the year as supply from non-OPEC producers falls, unless something changes, the oil market could drown in oversupply," said the Paris-based adviser to industrialized economies. Prices "could go lower."

Oil sank to a 12-year low of less than $28 a barrel in London on Monday as the removal of international sanctions over the weekend freed Iran to revive crude exports, threatening to swell a glut created by fellow OPEC members and U.S. shale drillers. Saudi Arabia, the biggest oil exporter, signaled again on Sunday it won't relent in its strategy to preserve market share even as prices crash.

Iran Growth

Iran could be the only source of supply growth in OPEC this year as a surge in Iraq fizzles out, the IEA said. International sanctions, including those on its oil sector, were lifted on Jan. 16 as Iran met the terms of an agreement to curb its nuclear development program.

The Persian Gulf exporter could add 300,000 barrels a day by the end of the first quarter and 600,000 barrels a day by the middle of the year, the IEA said. While that's below official ministry plans to add 1 million a day by mid-year, it could still be enough to pressure prices further, the agency predicted. The country pumped at a 3 1/2-year high of 2.91 million barrels a day in December, according to the report.

Global oil demand growth slipped to a one-year low in the fourth quarter, from close to a five-year high in the third, amid mild winter temperatures and economic weakness in commodity producers. Consumption growth will slow this year to 1.2 million barrels a day, or 1.3 percent, from 1.7 million a day in 2015, according to the report, averaging 95.7 million barrels a day.

OPEC Supply

While supplies outside OPEC proved "resilient" for most of last year, they shrank on an annual basis in December for the first time in three years, according to the IEA. The projected drop of 600,000 barrels a day in non-OPEC production this year will be the steepest since 1992.

Production from OPEC, whose membership expanded last month with the return of Indonesia, slipped 90,000 barrels a day to 32.28 million a day in December amid slightly lower output from Saudi Arabia and Iraq, according to the report. That's still about 600,000 a day more than the average of 31.7 million required in 2016.

With OPEC supply potentially expanding and demand growth slowing, global inventories could accumulate by a further 285 million in 2016 after swelling by 1 billion barrels last year, the IEA said. As the availability of storage on-land becomes tighter, that could make it profitable to stockpile excess crude on tankers at sea, the agency said.

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