China Steel Mills Hawk Rebar on Alibaba to Export Surplus

Bloomberg News
September 25, 2014 — 8:28 AM EDT

Steel production takes place at facilities in Shanghai, China. The industry expanded over the past decade to provide metal for new buildings, cars and appliances as China's economy grew at a double-digit rate as recently as 2010. Photographer: Doug Kanter/Bloomberg

Tangshan Donghua Steel Enterprise Group Co. in China was so eager for new customers overseas that it turned to cold-calling manufacturers and tried hawking metal on the e-commerce website run by Alibaba Group Holdings Ltd.

A glut in the world's biggest steel-making country means that prices for basic products like rebar used in construction have collapsed, so Tangshan Donghua is targeting buyers outside China who pay more. The company now ships as much as 40 percent of its output everywhere from Southeast Asia to South America to the Middle East, and wants to expand exports even further.

"We don't make any profit selling here," Wei Guotong, assistant to Tangshan Donghua's general manager, said in an interview Sept. 22 at the company's mill about 170 kilometers (106 miles) east of Beijing. "If we sell overseas, we can at least make some money, although not much."

After the Chinese steel industry expanded by 50 percent since 2010 to keep up with surging demand, mills can produce 210 million metric tons more than the market needs and a quarter of capacity sits idle, according to data compiled by Bloomberg Intelligence. With economic growth slowing, producers are reluctant to close plants, forcing a record pace of sales overseas, where competitors accuse China of dumping.

China, which produces almost half the world's steel, shipped 52.4 million tons in the first eight months of this year, up 36 percent from a year earlier and more than the 42.5 million exported over the same period in 2007, when sales were at an all-time high, government data show. By year-end, the 2014 total may reach 85 million tons, according to Hu Yanping, an analyst at custeel.com, a researcher in Beijing. That's 44 percent more than the 2007 record of 59 million tons.

Domestic Slump

It's not hard to see why Chinese producers are looking abroad. The price of steel reinforcement bars, known as rebar, waiting to load in Tangshan fell 3.5 percent to 2,619 yuan ($426.50) a ton Sept. 22, triggering a trading halt on the Shanghai Futures Exchange. Rebar for January delivery fell today to the lowest close for most-active contract since trading began in 2009.

"Steel mills and traders have seen sales contract in September," Macquarie Securities Ltd. analysts including Graeme Train and Angela Bi in Shanghai wrote in a Sept. 23 report. "There are now expectations of production cuts. This does not bode well for near-term raw-material demand and prices."

Local governments resist attempts to close unprofitable mills to sustain employment levels and tax revenues, prolonging the glut, said Vanessa Lau, an analyst at Sanford C. Bernstein & Co. in Hong Kong. "Even after a few rather depressed years in terms of profitability, we still haven't seen large-scale steel curtailments," she said.

Selling Overseas

More of the surplus is heading to other countries. In the U.S., the sixth-largest buyer of Chinese steel, hot-rolled coil imports cost about $683 a ton on Sept. 19, the most since June 2012, according to data from Metal Bulletin. That compares with $487.50 for Chinese hot rolled coil exported on a free-on-board basis, the lowest since November 2009, the data show. The premium of about $196 is the biggest since December 2008.

Developing economies are buying a growing share of Chinese output, overtaking the U.S., which was the second-largest buyer in 2007. South Korea is the biggest so far this year, followed by Vietnam, the Philippines, Thailand and Singapore, according to customs data. Brazil, a former net exporter of steel, has climbed to 10th place from 24th seven years ago.

China "exports to everywhere," said Curtis Zhu, a London-based analyst of iron-ore and steel markets at consultant Wood Mackenzie Ltd. "They've been exporting to other emerging markets, especially Southeast Asian countries."

Anti-Dumping

Some of those shipments may spark trade disputes that could reduce purchases. The U.S. started a probe Sept. 17 into alleged dumping of steel shelving units at below-cost prices, and the government set preliminary duties on some wire rod imports from China in July. The European Union began investigations in June and August and is considering whether to renew tariffs for five more years on wire rod. Thailand imposed duties on cold-rolled products in January while Brazil started a probe on some steel pipe products last year.

The country won't be able to increase exports next year "without encountering resistance," said Shi Shengwu, a manager at the international trade unit of Wuhan Iron & Steel Co., a producer based in Wuhan. "It's a very touchy issue."

China's own demand has stalled. During the first eight months of the year, consumption fell 0.3 percent to 500 million tons, Wang Xiaoqi, vice president of the China Iron & Steel Association, said at a conference today in Dalian.

Expanded Capacity

China's crude steel capacity will rise to 1.14 billion tons this year, compared with 750 million at the end of 2010, according to custeel.com estimates. The country will produce 793 million tons this year, or 49 percent of global output, Morgan Stanley said in a July 8 report.

The industry expanded over the past decade to provide metal for new buildings, cars and appliances as China's economy grew at a double-digit rate as recently as 2010. With growth estimated to slow for a fourth straight year, mills are running at 75 percent of capacity, according to Bloomberg Intelligence.

Xiaoji Township, where Tangshan Donghua is based, was mostly corn fields only 10 years ago, Wei said. The company, which can produce 3.5 million tons a year, now employs 3,900 workers and covers 113 hectares (280 acres).

'No Profit'

"It's a Chinese syndrome," Wei said. "If making and selling something is profitable, we all flock to make that product and flood the market until there's no profit left for anyone, and we end up being the largest maker."

Sinosteel Corp., a Chinese state-owned mining company and steel trader, is facing financial difficulties as the economy slows and some customers are not paying on time, a company official, who asked not to be identified because of internal rules, said by phone from Beijing Sept. 23. Jia Baojun was removed as the company's president by the State-owned Assets Supervision and Administration Commission yesterday, according to two people who have seen an internal notification of his departure, which didn't include a reason for the move.

A steel trading unit of China's Anhui Wanjiang Logistics Group has defaulted on loans, according to an exchange filing Sept. 23. The company cited banks' unwillingness to extend loans to the steel industry as the reason for the nonpayment.

Teetering

"There will be more plants teetering on the brink," said Xu Xiangchun, a chief analyst with Mysteel.com, China's biggest industry consultant. "Some may even scale back production or shut down completely amid cash flow problems."

China's Finance Minister Lou Jiwei on Sept. 21 said growth in Asia's largest economy faces downward pressure, raising speculation it will miss its 7.5 percent target. A survey of 55 economists by Bloomberg showed a median forecast of 7.1 percent expansion in 2015, followed by 7 percent in 2016, the slowest growth in a quarter century.

New home prices fell in 68 of 70 cities monitored by the government in August, while home sales slumped 11 percent in the first eight months of the year. Construction accounts for about 55 percent of China's steel consumption, according to Li Xinchuang, deputy secretary general of the China Iron & Steel Association.

No Miracle

Lower costs for iron ore and coking coal used to make steel has helped ease the squeeze of low domestic prices, compounding the surplus. Ore with 62 percent content delivered to Qingdao, China, fell below $80 a dry ton for the first time in five years on Sept. 23, according to data from Metal Bulletin Ltd. It declined to $78.63 today. Coking coal exported from Queensland, Australia, on a free-on-board basis, is down 15 percent this year at $113.20 a ton.

“Don’t hold your breath and expect any miracle,” said Liang Ruian, vice president at Shanghai Jianfeng Asset Management Co., who is betting steel and iron-ore prices will fall until at least the first half of next year. “There’s no miracle. There’s only supply and demand, and you’ve got rising supply and slowing demand.”

• China • Steel Mills • Alibaba.com Ltd • Iron Ore • Beijing • Exports