China to Flood Steel Market Hurting ArcelorMittal: Commodities

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By Bloomberg News

July 25 (Bloomberg) -- China, the world's biggest steel producer, is exporting at the highest level in two years, exacerbating a global glut that may hurt competitors from ArcelorMittal to U.S. Steel Corp.

Monthly shipments abroad rose to 8.7 percent of domestic output last month, the highest proportion since July 2010. Chinese steel mills, set for a record production in 2012, are ramping up overseas sales to avoid a softer domestic market, where prices for the commodity have dropped to a two-year low.

ArcelorMittal of Luxembourg, which posted a 28 percent slump in second-quarter profit today, and peers in developed markets are closing plants amid slower economies and lower prices. In contrast, Chinese Premier Wen Jiabao is overseeing a $23 billion investment in new mills to stimulate automaking and housing to reignite growth that fell in the second quarter to the slowest in three years. The strategy already is sparking unfair-trade charges by Western rivals.

"Increased Chinese exports take sales directly away from American producers," Alan Price of Wiley Rein LLP, which acts as the trade attorney for Nucor Corp., the largest U.S. steelmaker by market value, said in an e-mail response to questions. "It is highly likely that current Chinese exports across a range of products are being dumped.”

Three calls to Zhang Changfu, general secretary of the China Iron and Steel Association, went unanswered.

ArcelorMittal spokesman Giles Read declined to comment. The company said today that sales in the second quarter dropped 10.5 percent to $22.5 billion from a year ago as it sold less steel. It also took a $190 million charge in the quarter from the closure of plants in Liege, Belgium.

Share Performance

The 43-member Bloomberg Global Steel Producers index has lost 18 percent this year and is headed for a third annual decline. That’s a bigger loss than raw materials, the worst-performing sector of 10 in the MSCI World Index, which dropped 7.2 percent.

Daily steel production in China rebounded to 2 million metric tons in June, the second highest following a record of 2.02 million tons set in April. Output, already more than twice the combined daily production in Japan, the U.S., India and Russia, may climb 5.4 percent to 720 million tons this year, further outpacing domestic consumption, according to the median of three analysts surveyed by Bloomberg News.

“Chinese mills have to boost exports as they don’t have self-control on production,” said Xu Zhongbo, chief executive officer of Beijing Metal Consulting Ltd. and a professor at the University of Science & Technology in Beijing.

Market Share

Reducing output would require idling plants and laying off workers, Xu said. “All those things would incur losses while competitors will come in and take up market share.”

ArcelorMittal, the biggest producer, has shuttered or idled plants as demand waned and Pittsburgh-based U.S. Steel sold its unprofitable Serbian division this year. ThyssenKrupp AG, the largest in Germany, said May 15 that “intense competition” will crimp a recovery in steel unit earnings in the second half.

European hot rolled steel has fallen about 6 percent in the past 12 months to 517.50 euros a metric ton, according to Metal Bulletin prices on Bloomberg.

“European companies cannot prepare themselves” for the likely influx of Chinese imports, Tom Muller, a senior analyst at Amsterdam-based Theodoor Gilissen Bankiers NV, said in an e-mail response to questions. “Due to the economic situation they are already downsizing.”

BlueScope, OneSteel

BlueScope Steel Ltd., Australia’s largest mill, and rival OneSteel Ltd. have reduced capacity as they battle a rising Australian dollar and lower steel prices. India’s Tata Steel Ltd. reported a worse-than-expected 90 percent drop in fourth-quarter profit, in May.

Moody’s Investors Service today put Posco’s a3 foreign currency bond rating on review for a downgrade, citing sluggishness in the regional steel industry. The South Korean company yesterday reported a 44 percent slide in second-quarter profit.

Profitability at European blast furnace steel mills has plunged 23 percent in the past year, according to data compiled by Bloomberg Industries. The ratio of profit to sales at Japanese steel mills ended March 31 was -0.3, the lowest since 2009.

European demand in a so-called normal market is 160 million tons compared with local production capacity of 210 million tons, making shutdowns inevitable, industry lobby group Eurofer said last month.

China’s output capacity may have reached 900 million tons, including about 80 million tons that started operation last year, the China Iron and Steel Association said on its website April 28. Baosteel Group Corp., Wuhan Iron & Steel Group and Shougang Corp. won government approval for new projects in May.

China Demand

Steel demand in China may reach 750 million tons in 2015 and peak at about 820 million tons during 2015-2020, the Ministry of Industry and Information Technology said on its website.

“Exports have become an important market because of mounting pressure on domestic sales," said Zhang Fenghua, an export manager of Hebei Iron & Steel Group, China's biggest producer, by phone. Hebei Steel sells flat products mainly to South Korea, Southeast Asia and South America, he said.

Tianjin Metallurgical No. 1 Steel Group, a state-owned mill in the northern city of Tianjin, said it's tapping markets in Middle East, South America and Africa.

"We are increasing sales to these destinations to shun regions that have taken a lot anti-dumping actions against China," said Lin Yan, the company's export manager.

Chinese Slowdown

China is battling the slowest pace of growth since the depths of the global financial crisis in 2009, as the European debt crisis curbs exports and the nation's own efforts to prevent a property bubble. Premier Wen said July 8 the downward pressure on China's economy is still "relatively large" and the government will intensify fine-tuning of policies and continue property controls, according to the official Xinhua News Agency.

The nation's manufacturing expanded at the weakest pace in seven months as overseas orders dropped. The Purchasing Managers' Index fell to 50.2 in June from 50.4 in May, the National Bureau of Statistics and China Federation of Logistics and Purchasing said July 1.

Countries in South America and Asia have joined Europe and the U.S. in taking anti-dumping actions against Chinese exports. Russia has already begun protective measures and put up tax barriers to limit imports of steel products with polymer color coating from China, according to Anton Bazulev, a member of the managing committee of the Russian Steel consortium, an industry group that represents Russia’s largest steelmakers.

The aggregate profit of Chinese steel industry fell 49 percent for the first five months this year from a year ago, the National Development and Reform Commission said July 23. Thirty-four percent of the 80 Chinese steelmakers monitored by the China Iron and Steel Association incurred losses in the first four months of this year, the group said on its website.

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