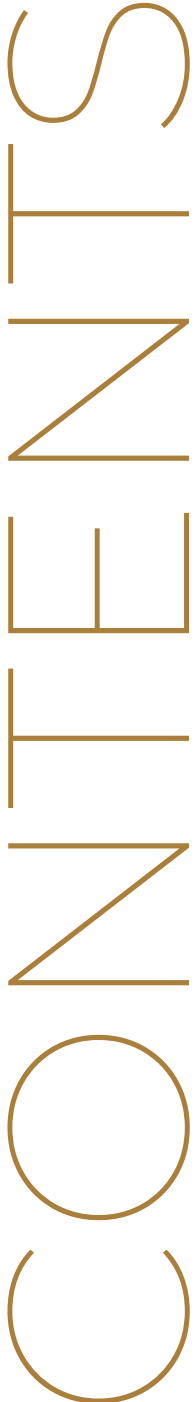




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Prospect of China's Steel Industry in 2023

Industry Report



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INDUSTRY

Steel, known as the food of industry, is the metal material most used by human beings. Since the reform and opening up, China's steel industry has developed vigorously. The output of crude steel has increased from 31.78 million tons in 1978 to 1,032.79 million tons in 2021, ranking first in the world for 25 consecutive years. The wide application of steel in construction, transportation, energy, national defense, and other fields ensures China's national security and stable social development, and also lays the cornerstone of China's rapid economic development. The modernization process has made outstanding contributions. In addition, China's iron and steel industry has made significant progress in technological innovation, energy conservation and emission reduction, and green development, which has played an important leading role in the high-quality development of China's industrial industry.

The iron and steel industry is an important pillar industry of China's national economy, and its development in recent decades has supported my country's modernization drive and rapid economic and social development. As China's economic development enters the "new normal", the deepening of supply-side structural reforms, the implementation of the dual-carbon plan and the impact of the epidemic, China's steel industry is also facing new challenges.

MESSAGE FROM OUR FOUNDER



Welcome to the Monisight Industry Report section of our publication.

As the world is constantly evolving, it is essential to stay up-to-date with the latest industry trends and insights. Our team of experts has worked tirelessly to bring you the most comprehensive and well-researched reports on various industries.

In this section, you will find an in-depth analysis of key industries. Our reports aim to provide you with a clear understanding of the current landscape, challenges, and opportunities in each industry.

We hope that our reports will serve as valuable resources for you and your business. Thank you for choosing to read Monisight and we look forward to bringing you more insightful content in the future.



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THE NEW SITUATION FACING THE DEVELOPMENT OF CHINA'S IRON AND STEEL INDUSTRY

Since entering the 21st century, China's iron and steel industry has faced new development situations and challenges, mainly manifested in: 1. The iron and steel industry is facing overcapacity, homogenization, and low-cost competition cannot meet the personalized and diversified needs of customers, and the development of high-value-added steel products urgently needs breakthroughs; 2. Low-grade ore and coal-based energy structures lead to huge pressure on environmental protection, and green and low-carbon development is facing important challenges; 3. Iron and steel enterprises are relatively scattered and the industry concentration is low; 4. Excessive dependence on foreign mineral resources, lack of voice; and so on.

01 Environmental protection requirements under the "Double Carbon" plan are becoming increasingly stringent

The Chinese government has put forward the development goal of "to achieve carbon peak in 2030 and strive to achieve carbon neutrality in 2060". In the future, steel production lines with high energy consumption and low productivity will be gradually eliminated.

02 The world has entered the post-epidemic era, and the economy continues to recover amid twists and turns

After the epidemic, China's 20th National Congress proposed that "it is necessary to basically realize new industrialization, informatization, urbanization, and agricultural modernization by 2035."

03 Optimization and upgrading of industrial structure

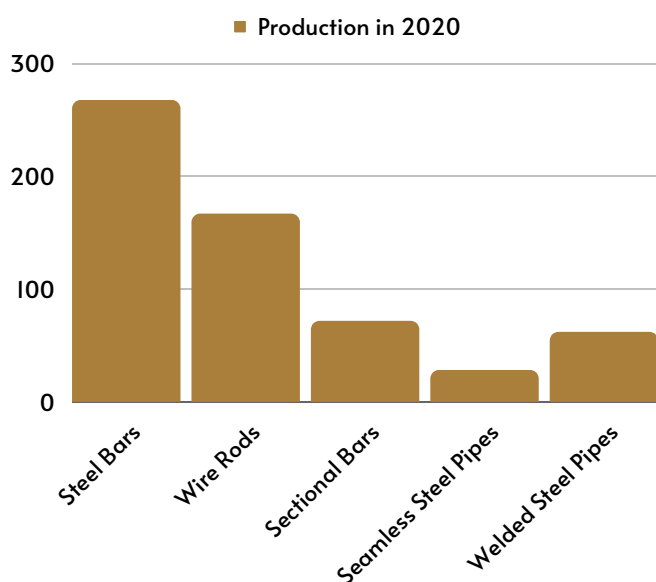
In the future, the demand for traditional steel products in the steel market will remain stable, and the demand for steel varieties with higher added value, such as high-performance automotive outer panels, precision bearing steel, and ultra-thin strips, will increase day by day.



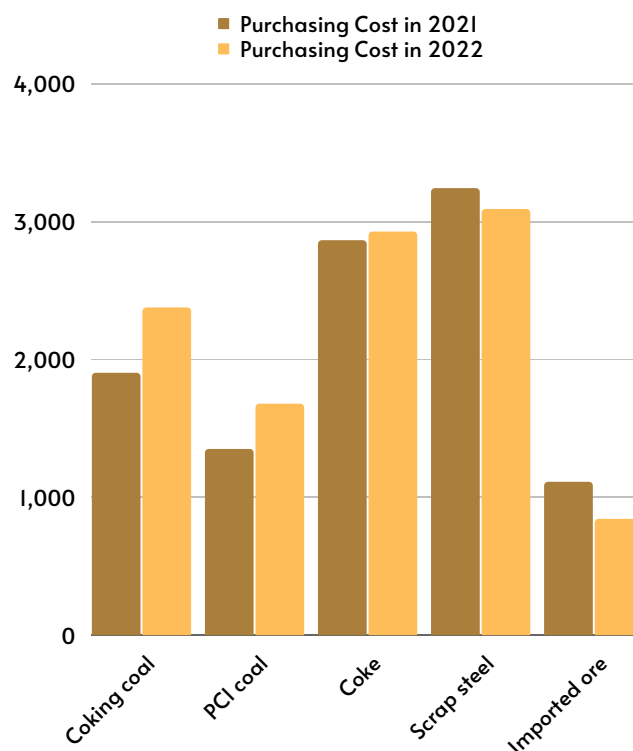
CHINA'S STEEL PRODUCTION

In 2020, China produced 267.33 million tons, 166.56 million tons, 71.45 million tons, 27.88 million tons, and 61.67 million tons of steel bars, wire rods, sectional bars, seamless steel pipes, and welded steel pipes, respectively.

In 2022, the procurement cost of imported iron ore (powdered ore) for benchmarking iron and steel enterprises decreased by 24.16% year-on-year, and steel scrap decreased by 4.67% year-on-year, but the procurement cost of coking coal and other fuels increased year-on-year. Among them, the average purchase cost of coking coal was 2374.19 yuan/ton, a year-on-year increase of 473.43 yuan/ton, an increase of 24.91%, and the cumulative average purchase cost of PCI coal was 1675.91 yuan/ton, a year-on-year increase of 327.72 yuan/ton, an increase of 24.31% . During the same period, the purchase cost of metallurgical coke increased by 2.19%.



Unit: million tons



Unit: yuan/ton

Source: Benchmarking Potential Tapping Office of China Iron and Steel Industry Association. A brief analysis of steel raw material procurement costs in December 2022. Beijing: Official website of the Metallurgical Industry Economic Development Research Center [EB/OL]. February 4, 2023.

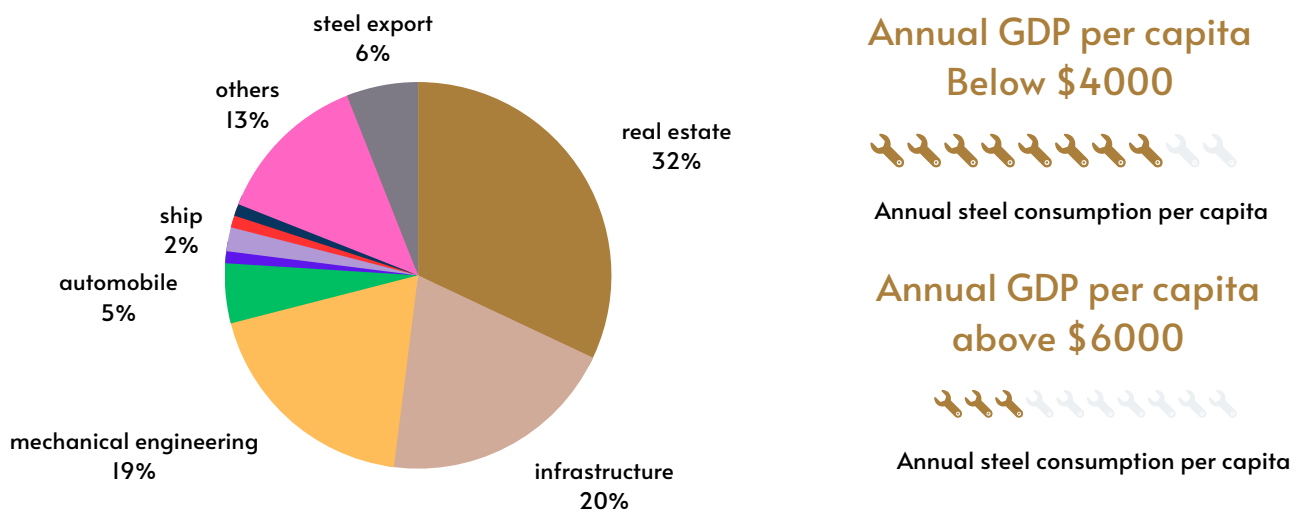
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China's Industrial Steel Consumption

The development of the steel industry is inseparable from the support of downstream industries and users. The primary users of steel products are construction, machinery, automobiles, home appliances, ships, energy, electricity, railways, etc.

The figure below shows the demand for steel products in various industries in my country in 2021. It can be seen that the demand for steel in various industries in my country is still huge. Among them, real estate is the leader in steel consumption, accounting for 32% of the total, followed by infrastructure. In construction, steel consumption accounts for 20%. Industries such as machinery, automobiles, ships, railways, and containers are essential components of the downstream industries of the iron and steel industry and are also significant growth points in the future.

Demand for crude steel in various industries in China in 2021



Generally speaking, when the annual GDP per capita of a country or region is below US\$4,000 (converted to 1980 prices at the average exchange rate in the mid-1960s, the same as below), The annual steel consumption per capita equivalent increases linearly and rapidly with the rise of per capita GDP; With the further development of the national economy, the growth rate of steel consumption per capita equivalent will slow down; When the national economy develops to a level where the annual GDP per capita is higher than 6,000 US dollars, the growth rate of annual steel consumption per capita equivalent is slower, and some countries even experience negative growth.

Steel

The consumption of steel reflects the degree of economic development and people's living standards of a country.

STEEL PRODUCTION AND IMPORTED IRON ORE PRICES WILL CONTINUE TO DECLINE IN 2023

Steel production will continue to decline. On the one hand, weakening China's domestic and foreign market demand in 2023 will cause enterprises to reduce production independently. On the other hand, the domestic steel industry's "capacity reduction" and "production limit" policies will most likely continue. Therefore, crude steel and steel production will continue to decline year-on-year in 2023, which is expected to decrease by about 2.5%.

Iron ore prices will return to a reasonable range. As China is the largest consumer of iron ore, under the general trend of declining crude steel output, the global iron ore supply will likely be loose. In addition, China has continuously developed iron ore resources overseas in recent years. Major breakthroughs have been made in areas such as pricing rights, and RMB settlement of iron ore has also brought China an active advantage in iron ore pricing, which will be of great significance for maintaining the stability of iron ore prices and stabilizing the operating risks of domestic iron and steel enterprises.





WEAK DEMAND IN 2023

From the perspective of the general environment, the steel industry has been and will continue to be in a downward development cycle.



Global economic growth slow down

- First, the global economic growth will further slow down in 2023, which will affect the external demand market of the steel industry.

China's Downstream Real Estate Market Tends To Be Saturated

- The real estate market, which accounts for about one-third of the steel consumption, has become saturated. It isn't easy to maintain construction steel consumption in recent years, and it is even more challenging to provide consumption growth unless there is a significant adjustment.



Low Carbon Transition Goals

- A series of policy systems for dual carbon targets have been preliminarily established, putting forward more advanced index requirements for the steel industry to accelerate low-carbon transformation

Under the current situation, the government is expected to further promote the joint reorganization of iron and steel enterprises, which will not only better resist the risk of demand shocks under the downward trend of the market, but also help increase the concentration of production capacity and enhance the competitiveness of the industry.



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"We would like to express our gratitude to all the individuals and organizations who have contributed to the Monisight Industry Reports section. We appreciate their valuable insights and expertise, which have helped us create in-depth and informative reports. Thank you for your support and collaboration."

CONTACT

Monica Yu

Wanshun Road, Fengxian
District, Shanghai, China,
201400

+86-021 3143 4886

www.monisight.biz
info@monisight.biz
[@monisight](https://www.monisight.biz)

