

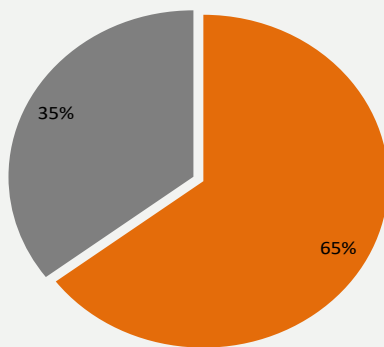
CHINA—SHRINKING STEEL & COAL CAPACITIES

March 8th, 2017

Sector Stance **+ve**

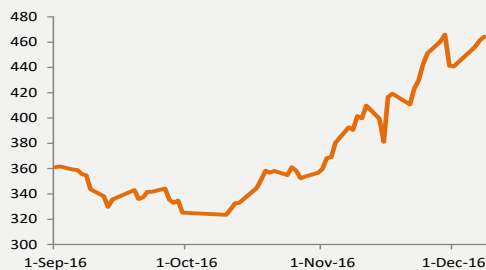
Capacity Share of China

■ China ■ Rest of the world



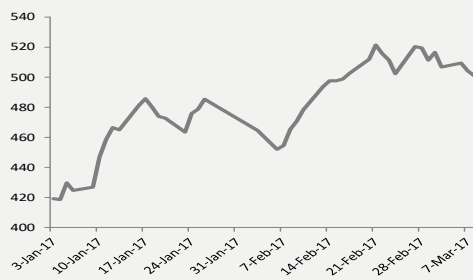
Source: Industry Sources, Nael Research

US\$ Rebar/ton (Pre Jan'2017)



Source: Bloomberg, Nael Research

US\$ Rebar/ton (Post Jan'2017)



Source: Bloomberg, Nael Research

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- **China sets specific targets to reduce its steel and coal capacities:** In the fifth session of the 12th National People's Congress (NPC) work report, the Chinese government proposed its stance of reducing steel and coal capacities.
- **USA steel imports in correlation to production cuts by China:** As mentioned in one of the articles at marketrealist.com USA imported 2.5mn metric tons of steel in November 2016 depicting a sound growth of 14%YoY. Major steel and iron ore industries such as Cliff Natural Resources kept struggling over the material dumping of Chinese steel in the market ...
- **Steel Outlook—Mixed sentiment:** As recently in the very first week of march the Chinese steel futures dropped to its lowest since February 24th, 2017 touching USD 498/ton in the Shanghai Futures Exchange. Keeping in view the rising trend of steel Rebar prices since November, 2016 ...

China sets specific targets to reduce its steel and coal capacities:

In the fifth session of the 12th National People's Congress (NPC) work report, the Chinese government proposed its stance of reducing steel and coal capacities. Unlike the previous year's work report that only stressed upon oversupply concerns and production cuts, this time the government mentioned specific targets aiming to reduce its steel production capacity by 50mn metric tons and coal production facilities by at least 150mn metric tons this year. The World Steel Association reports that the total steel capacity of the world stands around 1.7bn tons mainly led by China—the most significant in all with its huge capacity of 1.1bn tons.

USA steel imports in correlation to production cuts by China:

As mentioned in one of the articles at marketrealist.com USA imported 2.5mn metric tons of steel in November 2016 depicting a sound growth of 14%YoY. Major steel and iron ore industries such as Cliff Natural Resources (US based company) kept struggling over the material dumping of Chinese steel in the market. However, post Donald Trump's election as US President the scenario for the domestic steel industry seems to be switching. Many cases were filed for the protection of the domestic iron and steel industry against unfair trading of steel in the country, several duties and anti-dumping imposition now clarifies the positive outlook. Hence, some economists believe that going forward in 2017 the new president's protectionist policies will allow a safe ground for the domestic steel producers and restrict steel imports significantly.

Steel Outlook—Mixed sentiment:

As recently in the very first week of march the Chinese steel futures dropped to its lowest since February 24th, 2017 touching USD 498/ton in the Shanghai Futures Exchange. Keeping in view the rising trend of steel Rebar prices since November, 2016 some of the physical traders restocked the inventories seeking it as their best chance to buy on a dip. Various economists view steel prices to remain upbeat owing to capacity cuts by China. The targets to slash steel surplus for the decade to mitigate the issues of oversupply, alongside the seasonal impact could trigger prices too as spring is the season during which the demand surge is usually expected when the temperature is warm and the construction activities start to pick up.

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Stock Recommendation	Return
BUY	> 15%
HOLD	> -15% to < 15%
SELL	< -15%

