Chinese steel operating at 70% capacity

Chinese steel mills are operating at less than 70% capacity but are still churning out 820 million metric tons of steel annually.

China's apparent steel consumption, however, will fall towards the 500 mmt per year range by 2020, according to Terance Ko, Hong Kong-based Director of Consulting for Hatch Associates at the Steel Markets North America conference in Chicago.

Ko gave a lengthy talk describing market conditions in China and what role the central government has played in creating the overcapacity problem, which is lingering after an aggressive stimulus plan was created in response to the 2008-2009 global financial crisis.

His explanation of how overproduction started said it began with the 2008 Olympic bid. Ever since the bid was announced, and then won, Chinese steel production has increased about 15% every year. No other nation could have produced that much steel and Ko said that much, honestly, was needed for the rapid industrialization necessary to prepare for the Olympics.

Around quarter three of 2006, the Chinese Government finally figured out that things were growing too quickly. There was a deliberate decision to slow down the steel industry. If the global financial crisis hadn't happened, peak steel in China would have happened around 2009. Instead, in 2009 Beijing pushed 4 trillion RMB into the market and steel production continued.

From there, the subsidies continued. In the first three quarters of 2015, 34 listed companies received subsidies from the government, totaling more than 2.6 billion RMB. Some steelmakers turned losses to gains because of these subsidies.

China orders excess capacity cut

Central government has ordered the nation's steelmakers and coal miners to dramatically cut excess capacity, the thorny task of pink slipping employees and rebuilding economies is drawing blood.

The pain is spreading among workers, companies and local governments nationwide in communities such as Pingxiang, a city in the eastern province of Jiangxi, where more than 100 angry coal workers demonstrated in late February.

The miners rallied outside the offices of their employer, Pingxiang Mining Industry Group, to oppose wage and production cuts. Earlier, Pingxiang suspended production at three mines and slashed pay for some of its 16,200 workers to a meager 470 yuan a month.

That same week, about 2,000 steel workers marched in the streets of Guangzhou, in the southern province of Guangdong, to protest wage cuts imposed by their employer, Angang Lianzhong Stainless Steel Co.

The tension in Pingxiang and Guangzhou reflects the economic troubles that started rippling through the coal and steel sectors long before Beijing ordered cutbacks.

The China National Coal Association says 90 of the nation's biggest coal companies saw profits dropped 90 percent year-on-year to just 5 billion yuan combined in 2015. And the blood-letting was worse in the steel sector. The China Iron and Steel Industry Association said the country's 99 major steel firms lost a combined 64.5 billion last year.

Nationwide, domestic steel consumption declined 5.4 percent in 2015 from the previous year after slipping 4 percent in 2014 and 2013. Analysts expect the slump to continue at least until 2020, with demand falling by about 4 percent annually.

The government said domestic demand for unfinished steel was about 700 million tons last year, while exports reached about 100 million tons. But the nation's steel factories made 1.1 billion tons of unfinished products.

Meanwhile, government data show that the nation's coal mines last year boasted capacity of 5.7 billion tons, but only around 4 billion tons was used domestically, and the nation's exports totaled just 5.3 million tons.

Zhang Xizi, former chairman of the All-China Chamber of Commerce for Small and Medium-Sized Metallurgical Enterprises, said Beijing's targets for steel capacity cuts were based on the nation's economic status. And as the country's economy continues to decelerate a slowdown marked by a 2015 GDP growth rate that was the lowest for China in 25 years. Zhang said he expects coal and steel demand to continue sliding.

As a result, Zhang said, Beijing's latest orders for capacity cuts may prove too modest to achieve the desired results.