Chinese steel mills slashes output

China's steel mills, which supply half of global output, churned out less steel in the first two months of the year, extending a decline amid government efforts to reduce reliance on manufacturing for growth.

Crude¬steel production for the January¬to¬February period dropped 5.7% from a year earlier to 121.07 million metric tonnes, data published by the country's statistics bureau showed. Steel products output fell 2.1% to 162.28 million tonnes. Steel mills in China are battling losses and overcapacity as the nation transitions it's economy to one fueled by consumption and services, from growth driven by manufacturing, and have seen their output fall off record highs in 2014.

Steel output tends to drop before and during the weeklong Lunar New Year holiday, which began on February 8 this year, before climbing after the break when manufacturing activity picks up. January and February is a lull period for the steel industry, Huang Huiwen, an analyst at Shanghai Cifco Futures Co. in Shanghai, said before the figures were published. "We expect a recovery in March data as sentiment toward China's economy and demand has improved."

Shanghai steel futures jumps 3%

Shanghai steel futures jumped more than 3 percent to their highest since June, reflecting a pickup in Chinese demand that could strengthen gains in raw material iron ore.

Steel prices in China, the world's biggest steel consumer and producer, have been rising as growing domestic orders and drawdowns in inventories suggest demand is on the mend as warmer weather spurs construction activity.

A firmer steel market has been behind this year's 35-percent rally in spot iron ore, far outpacing gains in other commodities.

The most-traded rebar, a construction steel product, on the Shanghai Futures Exchange rose as far as 2,240 yuan ($345) a tonne, it's strongest since June 25 last year. The contract was up 2.8 percent at 2,222 yuan by 0231 GMT.

The number of Chinese mills seeing an increase in domestic orders reached the highest since July 2011, said analysts at Macquarie, citing the results of their latest China Steel Survey.

"That suggests underlying demand is quickly catching up with the previous expectations of a coming pickup in orders," they said.

Rising steel prices have boosted profitability among Chinese mills which should push them to produce more amid relatively low levels of steel inventory, indicating that the current pace of demand may be outstripping that of production, Macquarie said.

"It thus looks likely that steel prices could continue to rise from current levels, which are already 30-50 percent above the troughs in late-November," the bank said.

Inventory of steel products held by Chinese traders dropped to 11.71 million tonnes on March 18, from 12.09 million tonnes in the previous week, according to industry consultancy.

Richard Lu, analyst at CRU consultancy in Beijing, said the price gains could last through May as hotter weather from June slows construction activity.

Despite firmer steel pricing, iron ore on the Dalian Commodity Exchange slipped 1.1 percent to 415 yuan a tonne after a recent rally. Dalian iron ore has risen 44 percent for the year, while Shanghai rebar has gained 25 percent.Iron ore for immediate delivery to China's Tianjin port .IO62-CNI=SI dropped 0.2 percent to $57.90 a tonne.The spot benchmark has gained 18.4 percent so far in March, on course for its biggest monthly rise December 2012. It has risen 35 percent for the year.

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