Chinese Steel Export Surges

Steel exports from China will surge to more than 100 million metric tons this year as local mills benefit from cheap iron ore to produce more than Asia's top economy needs, according to Cliffs Natural Resources.

"It's like a bad virus," Lourenco Goncalves, chief executive officer of the largest US iron-ore producer, said in Cleveland. "Australia continues to give iron ore to China almost for free, allowing them to produce more than they need."

Shipments from the biggest producer are headed for a record this year as slowing local demand prompts mills to seek overseas buyers, driving down prices and spurring trade tensions from the US to India. At the same time, the largest iron-ore miners including Australia's Rio Tinto Group are boosting output to expand sales. China's steel shipments were called extraordinary by Credit Suisse Group, which said they were now in line with total output from Japan, the no. 2 producer.

"What China is exporting alone is bigger than the second-biggest producer of steel in the world it is crazy," Goncalves said. "With the massive sales of iron ore to China enabling China to produce a lot more than China actually needs for consumption there's a glut of exports."

Shipments of steel from China surged 9.5 per cent to 9.73 million tons in July, according to customs data. In the first seven months, exports rose 27 per cent to 62.13 million tons, the highest ever for the period, data compiled.

Exports from China are forecast to expand 21 per cent to 111 million tons in 2015, according to a projection from Colin Hamilton, head of commodities research at Macquarie Group. That compares with 53 million tons in 2013.

"The difficult condition in the Chinese steel market is the main driver for the export gains," said Anurag Soin, an analyst at Australia & New Zealand Banking Group. Still, the iron-ore miners' focus on market share at the expense of price has given Chinese mills a cheap avenue to overproduce, he said.

Cliffs also owns iron-ore mines in Australia that Goncalves is seeking to sell. He took the helm in 2014 after an activist-investor revolt, promising to end Cliffs' vulnerability to the oversupplied seaborne market. Cliffs' stock fell 80 per cent in the past 12 months as iron and steel prices tumbled. Rio and BHP Billiton have defended their policy of expanding output into an oversupplied market. Rio's Sam Walsh said in February if it cut output, forfeited supply would be made up by rivals. Alan Chirgwin, iron-ore marketing vice president at BHP, said in May the miner's strategy was rational.

Iron ore with 62 per cent content delivered to Qingdao fell 1 per cent to $US55.84 a dry ton. While prices rose 25 per cent since bottoming at $US44.59 on July 8, a record in data going back to 2009, they're still down 22 per cent this year. In 2014, they lost 47 per cent.

"Everyone is complaining about Chinese steel exports," Wang Yingsheng, deputy secretary-general of the China Iron & Steel Association, said. While the volume of shipments shows the good appetite from foreign clients, it also indicates overcapacity and weakening demand in China, Wang said.

Chinese Steel may Flood Vietnamese Market

After the strong depreciation of the Chinese yuan, steel industry insiders have warned local steel producers that Chinese steel products could flood the Vietnamese market, causing difficulties for them. Vice-Chairman of the Vietnam Steel Association Nguyen Van Sua said although in recent years, the local steel industry has developed very fast, local importers still had to import a large volume of steel products and semi-finished products every year. Chinese steel products account for 60 per cent of the total steel imports.

Sua said China's yuan devaluation would have both negative and positive effects. Local importers will be able to import steel at reasonably competitive prices. On the other hand, the yuan devaluation will lead to a flood of imported steel products from China such as construction steel, cold-rolled steel and corrugated steel, thus affecting the local market.

Sua said the most effective measure to counter Chinese steel imports was to make Vietnamese steel firms enhance their competitiveness by changing their technology and building trademarks to secure the domestic market. They must know how to lower their production costs so as to increase their price competitiveness, while ensuring product quality and sales policies.

Sharing Sua's view, Pham Chi Cuong, chairman of the Vietnam Foundry and Metallurgy Association, said China was one of the largest steel exporters in the world. Every year, it exports about 60 million to 70 million tonnes of steel products of all kinds. Recently, the Chinese economy showed signs of instability, thus causing a redundant volume of steel. They have sought to take positive measures by enhancing exports and devaluating the Chinese yuan.