If China Produces too Much Steel, Why is it Buying Mines in Africa ?

Africa's second-largest iron-ore mine in Tonkolili, Sierra Leone, lies silent and still. The slump in the price of iron ore and the Ebola epidemic killed off profits, and it was closed by African Minerals, which owned it, last December. China's state-owned Shandong Iron and Steel Group saw the closure as an opportunity and snapped up the mine in April.

Chinese firms, it seems, are buying into the market while stocks are cheap. Hebei Iron and Steel Group is building a massive steelworks in South Africa, it received approval to take over the Swiss firm Duferco's African steel processing and sales network.

There may be reason to be suspicious of Chinese steelmakers's motives. To some, it

looks as if China simply wants to export its domestic pollution abroad. Officials are desperately trying to close dirty domestic steel plants. Persuading China's Iron and Steel Association to do their business in Africa neatly combines environmental concerns with the government's geopolitical motives to push investment into the continent.

But many question the economic rationale behind the move. The problem is that China already produces too much steel. The country already makes almost as much crude steel a year as the rest of the world combined 822 million tonnes in 2014 adding to the current global glut. Chinese steel is at its lowest price in over a decade and most firms producing the commodity in the country are loss-making. Rather than displacing the sector abroad, China needs to shrink it. There is a more favorable interpretation, however that Chinese firms are taking a longer view of Africa's potential.

China's Iron Ore Imports Largely Flat in June

China's iron ore imports were largely flat year-on-year in June, according to preliminary data from the country's customs authority. A total of 74.96 million tonnes of the steelmaking raw material were unloaded at Chinese ports, compared with 74.57 million tonnes a year earlier. The country imported 453 million tonnes of iron ore in the first half of the year, down slightly from 457 million tonnes imported during January-June 2014.

Record low iron ore prices have edged out non-mainstream suppliers, which sit at the top end of the cost curve. Shipments from non-mainstream supply fell by 40 million tonnes during the first six months of 2015, according to the data. In addition, ramp-up operations from major supplies have yet to fill the void, as supply from Australian and Brazilian producers only increased by 34.1 million tonnes during January-May.

Delayed shipments from Rio Tinto in May due to wet weather in May are also believed have dragged down the supply from mining majors. On the other hand, the increase in supply from Australia and Brazil drove up China's iron ore imports by more than 4 million tonnes in June alone. Investment bank Goldman Sachs pointed to the increased freight activity at major iron ore exports terminals in Brazil and Australia in its recent research report, showing a 10% increase in implied volumes over the first half of June compared with the average level over January-May.

Australia's Port Hedland, the world's largest bulk export terminal, shipped a record 32.61 million tonnes to China, an increase of 12% from year-earlier levels. Shipments from neighbouring export terminal Port Dampier reached 12.74 million tonnes in June, up 3% year-on-year and up 8% month-on-month. Brazil's export volumes to China rose by 2% over the same period, according to the country's foreign trade ministry, MDIC. "More arrivals are expected, as mainstream suppliers all increased shipments in June," said Ginger Ding, an analyst.

China's Finished Steel Exports Up 26% in June

China's finished exports surged on a yearly basis in June, as mills strove to maintain a competitive edge in the global market.

The country shipped 8.9 million tonnes of finished steel overseas, up by more than one quarter on the year, according to preliminary Chinese customs data. Volumes were down 3.4% from May's levels, however.

"Chinese exporters have been struggling to maintain their market share in the first half of the year amid the challenging environment. Mills have been sacrificing profits through price cuts to help secure business for the past few months," a Shanghai based trading source said. For example, Chinese HRC export prices were in the range of $340-345 per tonne fob on June 26, down 25% from the end of last year.

During the first six months of this year, China's finished steel exports totaled 52.4 million tonnes, up 27.8% on the year. Meanwhile, the country also imported a total of 6.65 million tonnes of finished steel in January-June period, down 8.2% on the year, according to customs data.