China will Cut Capacity Says Steel Executive

The steel industry has long complained Chinese steelmakers are wreaking havoc on the world market because China built too many steel mills during its economic boom and is now dumping excess steel abroad.

China is losing an estimated average of $75 a ton on steel sold in the United States, and analyst World Steel Dynamics said that's led an extended pricing death spiral for hot-rolled band.

At the World Steel Association conference in Chicago, a Chinese steel executive acknowledged overcapacity in Chinese mills.

Dongying Wu, president of economics and management research for Boasteel Group Corp., foresees a wave of consolidations in China's steel industry to take more capacity offline.

"The supply is much bigger than the demand," Wu said. "Economic committees

have slowed down the industries that consume steel, as well as the steel plants themselves. They face an issue of overcapacity, and we must adjust our structure."

China is cutting back on production and was likely to take capacity offline because of mergers and acquisitions, which would result in less dumping, Wu said through a translator.

But it could take a decade to fully fix the country's overcapacity, which has been estimated at more than 300 million tons.

"The government is carrying out reforms of state-owned enterprises," Wu said. "You will see a lot of mergers and acquisitions. But it will take a long time to reduce overcapacity. Korea and Japan took 20 years to get rid of overcapacity. It will take 10 years at least."

Mainland China currently makes and consumes 47 percent of the world's steel, according to the World Steel Association. State-supported Chinese steelmakers are disrupting the global market by dumping steel they can't sell at home in countries across the world, which often then unload their own unsold steel for less in the United States.

Exports from China are on pace to hit 100 million tons this year, up from just 53 million tons in 2013, according to Wyatt Investment Research.

China Delivers more Problems for Steel

Tata Steel has announced closures and job losses in the U.K. Tata Steel has provided 1,170 sad reasons to think the long-awaited revival of the European steel sector is as distant as ever. It confirmed that U.K. closures would mean the loss of that many jobs.

The immediate cause is Chinese producers shoveling metal into the global market. China's steel demand has gone into reverse with declines expected this year and next, says the World Steel Association. Chinese exports surged last year and are up again sharply.

Meanwhile, hopes that a recovering European construction sector would ease overcapacity have faded. End markets that had previously been resilient, such as automotive, now look weaker. Worryingly, though global prices have slumped this year, Chinese prices have fallen more, meaning continued incentive to export.

In a period of relatively stable iron-ore prices, this has heaped pressure on steelmakers' profitability. It is hard to see that lifting. Steel prices have merely caught up with iron ore's past descent, argues Citigroup. Even if iron-ore prices fall further, it can only help margins so much from these levels and savings are generally passed on to customers.

Pinning hopes on government help doesn't seem wise. A raft of protectionist policies is under consideration in the U.S. and Europe. But those tend to simply push imports between regions Jefferies notes that market segments being examined currently represent about 34% of U.S. imports this year, against just 15% in the European Union. Exporters can also retool some production to target unprotected areas. Absent economic recovery, this spells mounting financial pressure, and could mean more restructuring or even consolidation.

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