CISA calls for further steel capacity cuts

A senior figure in the Chinese steel industry has called for further cuts to steel capacity saying the sector remains saturated, despite increased profits and production of steel mills in the first quarter.

"The whole industry needs to press ahead with cutting capacity and de-leveraging," said GuJianguo, Executive Vice Chairman of the China Iron and Steel Association (CISA).

In a news report, he warned against steel price volatility and falling exports in an article published on the CISA website.

Gu's remarks came after unexpectedly strong performance in the steel sector this year. Thanks to recovery in the broader economy, CISA's members posted combined profits of 23.3 billion yuan (USD3.4 billion) during the January-March period, in contrast with a 8.75 billion yuan of losses a year ago.

China's total crude steel output in the same time rose 4.6 percent year-on-year, with daily production in March hitting a record high.

Encouraged by the unexpected good news, unfounded optimism is blooming in the oversupplied sector, which Gu describes as "near-sighted."

Highlighting lingering problems, Gu said "more observation is necessary" to forecast the full-year economic outlook, and steel demand and consumption.

Plant managers should be clear-headed, Gu said, asking them not to "blindly increase production."

Officials in a high-level meeting last month agreed steel capacity has not changed fundamentally and the recent price rally could result in vulnerabilities. Capacity cuts are still necessary this year. Steel production capacity should be cut by around 50 mln metric tons and coal by at least 150 mln tons this year, a key part of supply-side structural reform.

Gu called on steel plants to cooperate with government to eliminate inferior steel products, shut down "zombie enterprises" and curb new capacity.

Devki Group Inks deal with Sinoma Energy

Family-owned construction materials manufacturer Devki Group has inked a Sh25.5 billion deal with Chinese firm Sinoma Energy to power its Mombasa-based raw steel processor and the new Athi River cement clinker plant. Sinoma said in regulatory filings last week the kiln waste-heat project at Devki's new cement plant in Athi River and the another to power Devki's new Sh45.5 billion steel plant in Kilifi will be built over a period of 20 months to produce 53.5 megawatts.

Devki earlier said it plans to inject billions in the region's first raw steel production plant seeking to exploit locally sourced iron ore. Its National Cement Company has also invested in a Sh28 billion clinker and 15MW power plant located between Merrueshi and Mbirikani in Kajiado County.

Sinoma in the regulatory statement said that "Sinoma Energy Saving Company Ltd and Kenya's Devki have signed a cement kiln waste-heat power generation project general contract and a Spong iron self-supplied power plant project general contract. The total installed capacity of the two projects is 53.5MW, and the total contract amount of the project is RMB 170 million (about Sh25.5 billion)."

It added that "The project (over a period of 20 months) is to provide residual heat for these two production lines."

Devki Chairman Narendra Raval had last July said all design drawings as well as environmental impact assessment audits for the Kilifi-based steel plant with an annual capacity of 300,000 metric tonnes had already been approved.