



The impact of US tariffs on Chinese steel

Rise of protectionism is good for no one

mjunction Indian Steel
Markets Conference



Thursday 7 June, 2018

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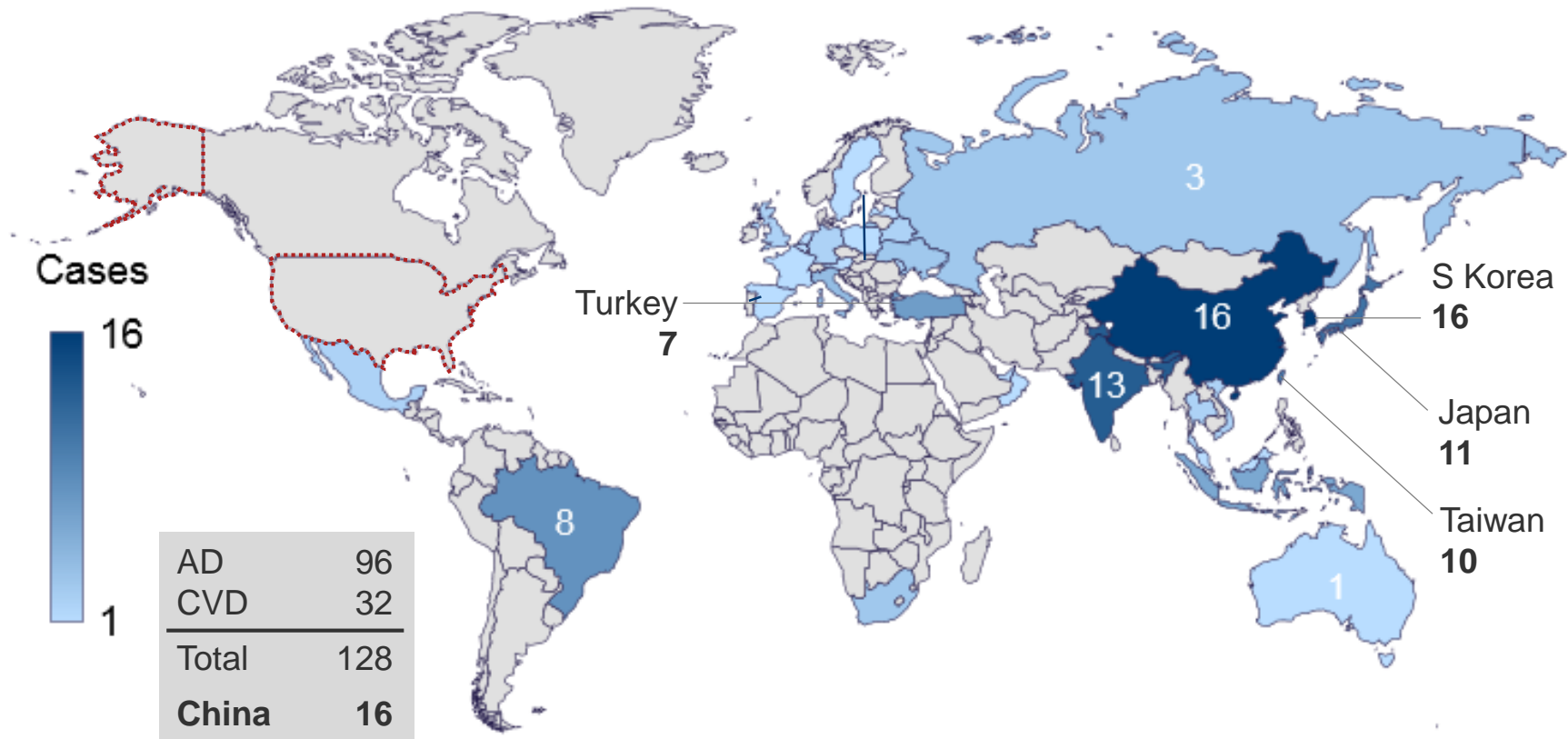
CRU's office locations

Agenda

1. Have China/USA trade patterns changed?
2. Is it a result of trade actions?
3. Does it matter to China?
4. Does rising protectionism matter to China?
5. Conclusions

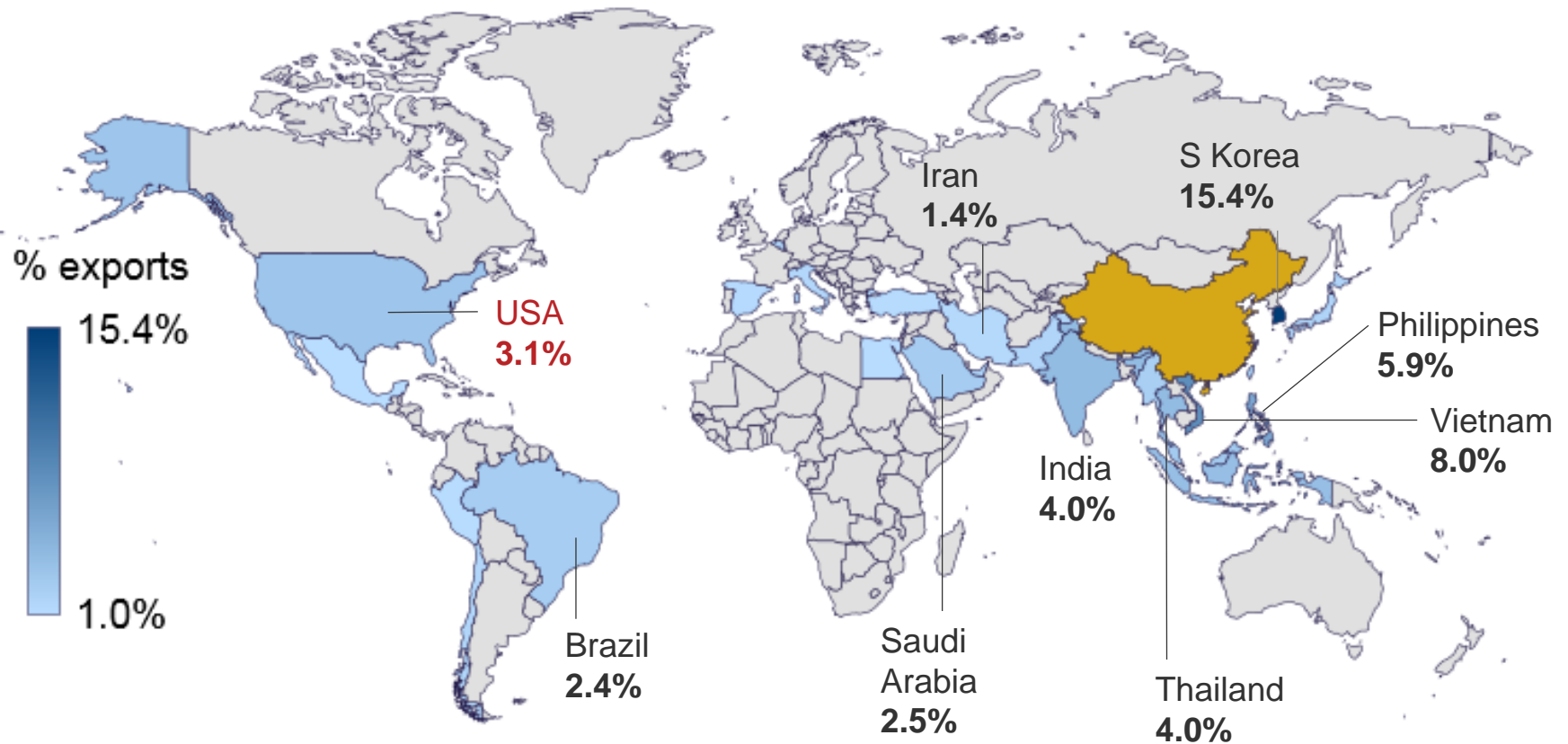
Even before S232 the US was a well-protected market, with many AD and CVD orders against China

US anti-dumping and countervailing orders in place

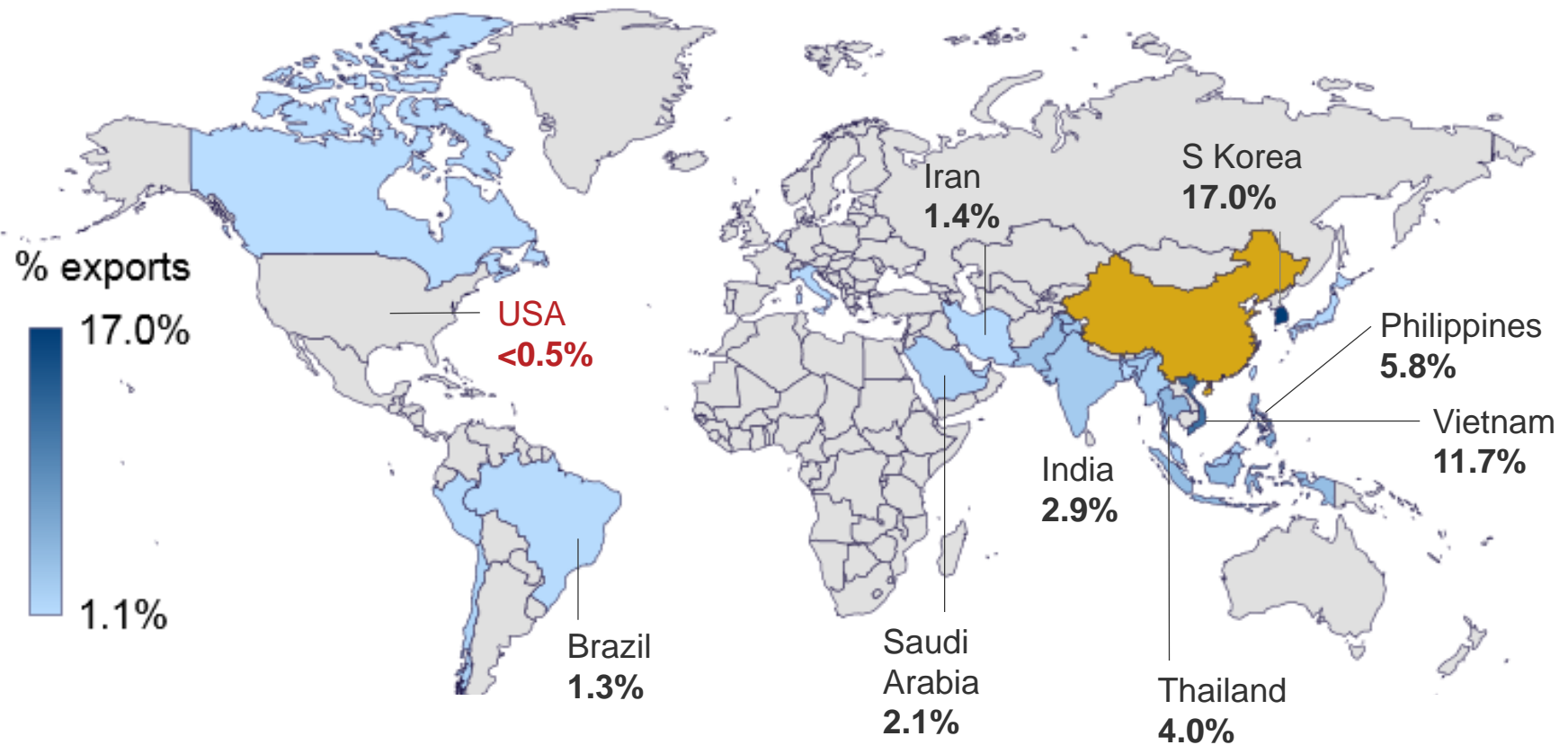


Back in 2014, the USA accounted for 3.1% of all Chinese steel exports...

Share of total Chinese steel exports by destination



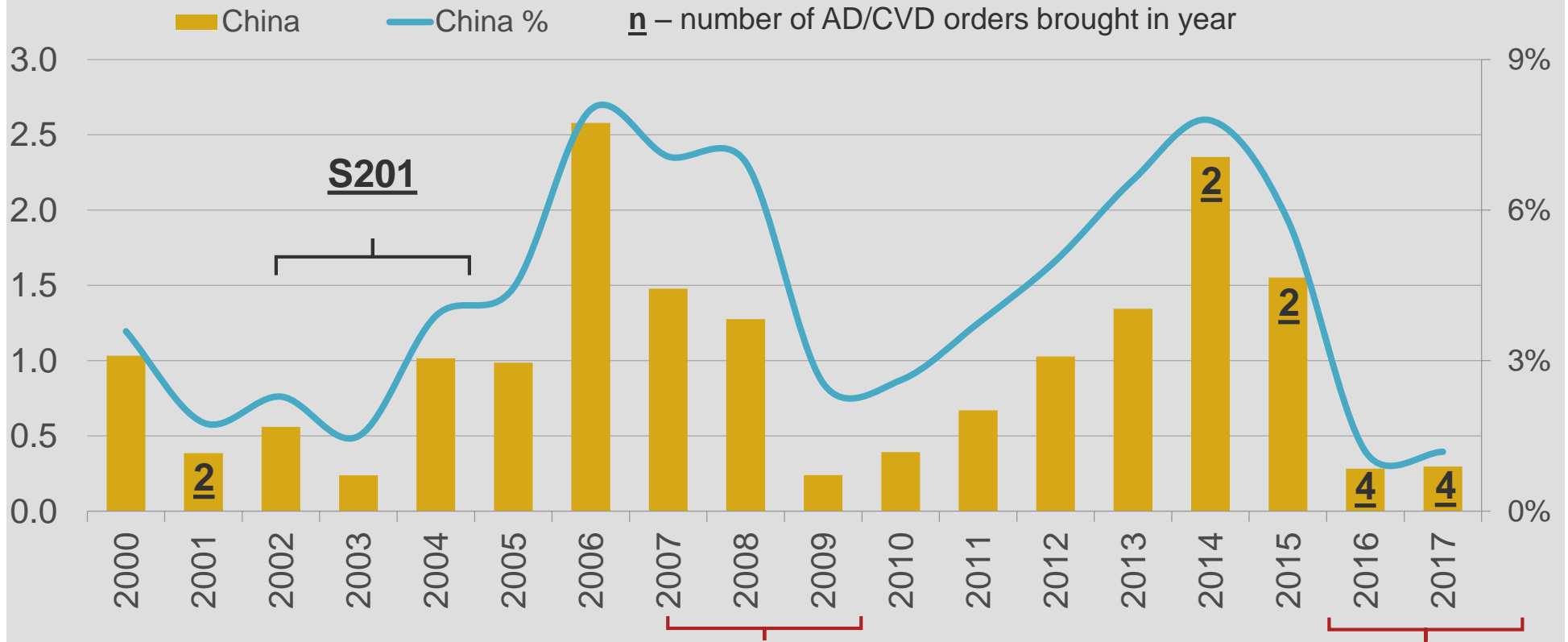
...but this had dropped below 0.5% by 2017 – why?



Tariffs have played a part, but so have market conditions

LHS: US imports of carbon finished steel from China, Mt

RHS: US imports from China, % of total

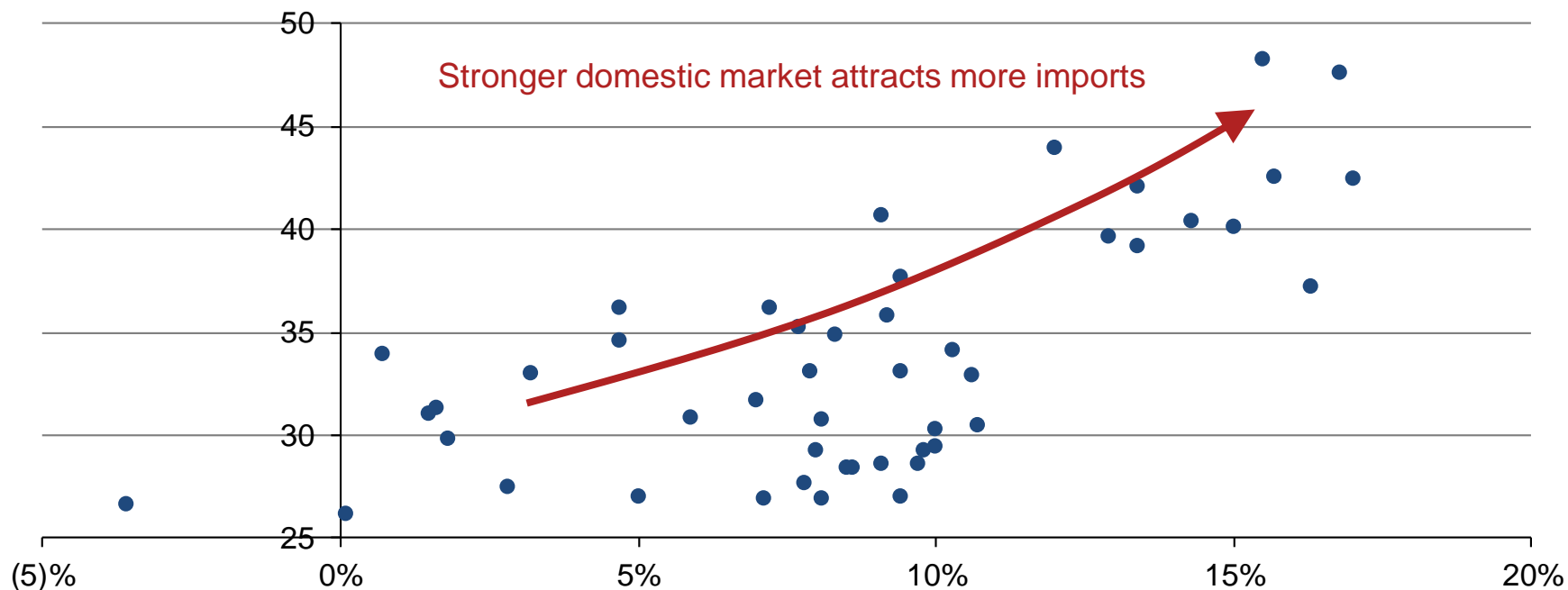


GFC – USA market weak, China relatively stronger

Chinese supply-side reforms

Imports into the USA correlate with market strength

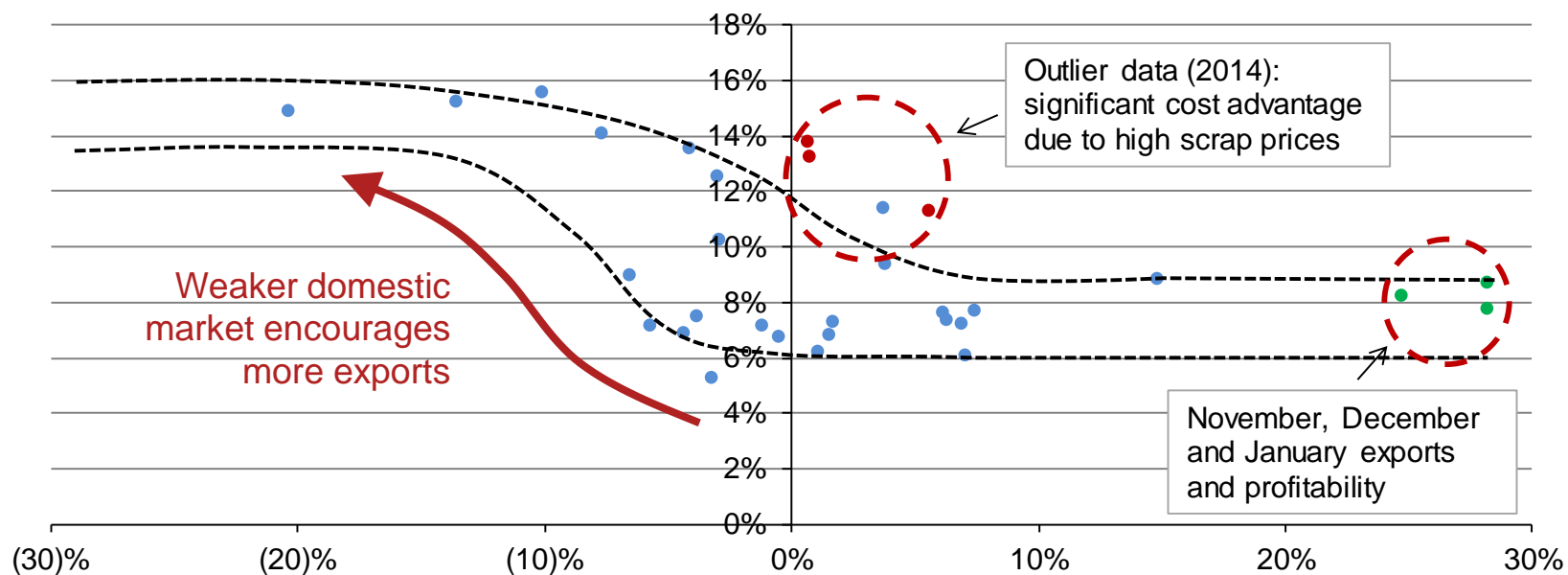
Monthly imports into the USA (Mt; annualised) versus notional profitability of the steel sector (% EBITDA), 2012-2016



Data: CRU Steel Cost Review, IHS Global Trade Atlas.

Exports fall/rise with performance of the domestic market

x-axis: profitability of the Chinese steel sector, 2010-2017, notional EBITDA margin, %
y-axis: steel exports as a percentage of steel demand, 2010-2017, quarterly, %

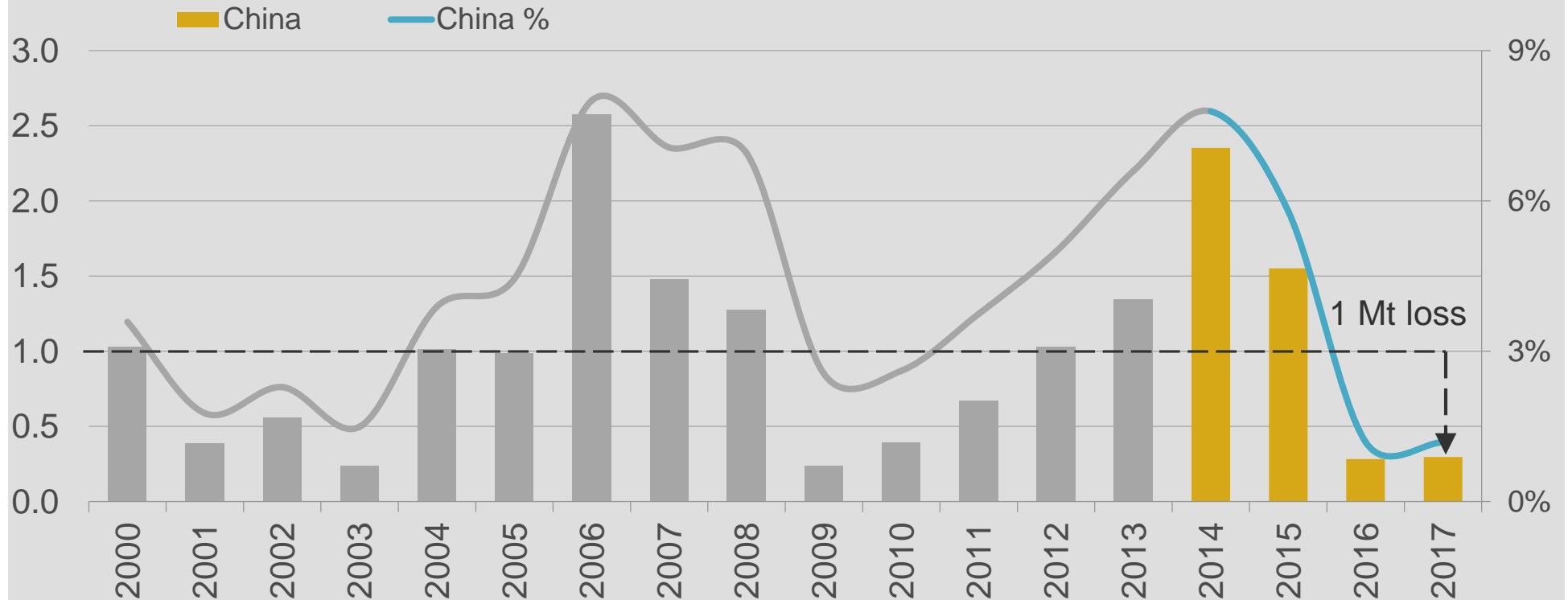


Data: CRU Steel Cost Model, CRU Crude Steel Market Outlook, IHS Global Trade Atlas.

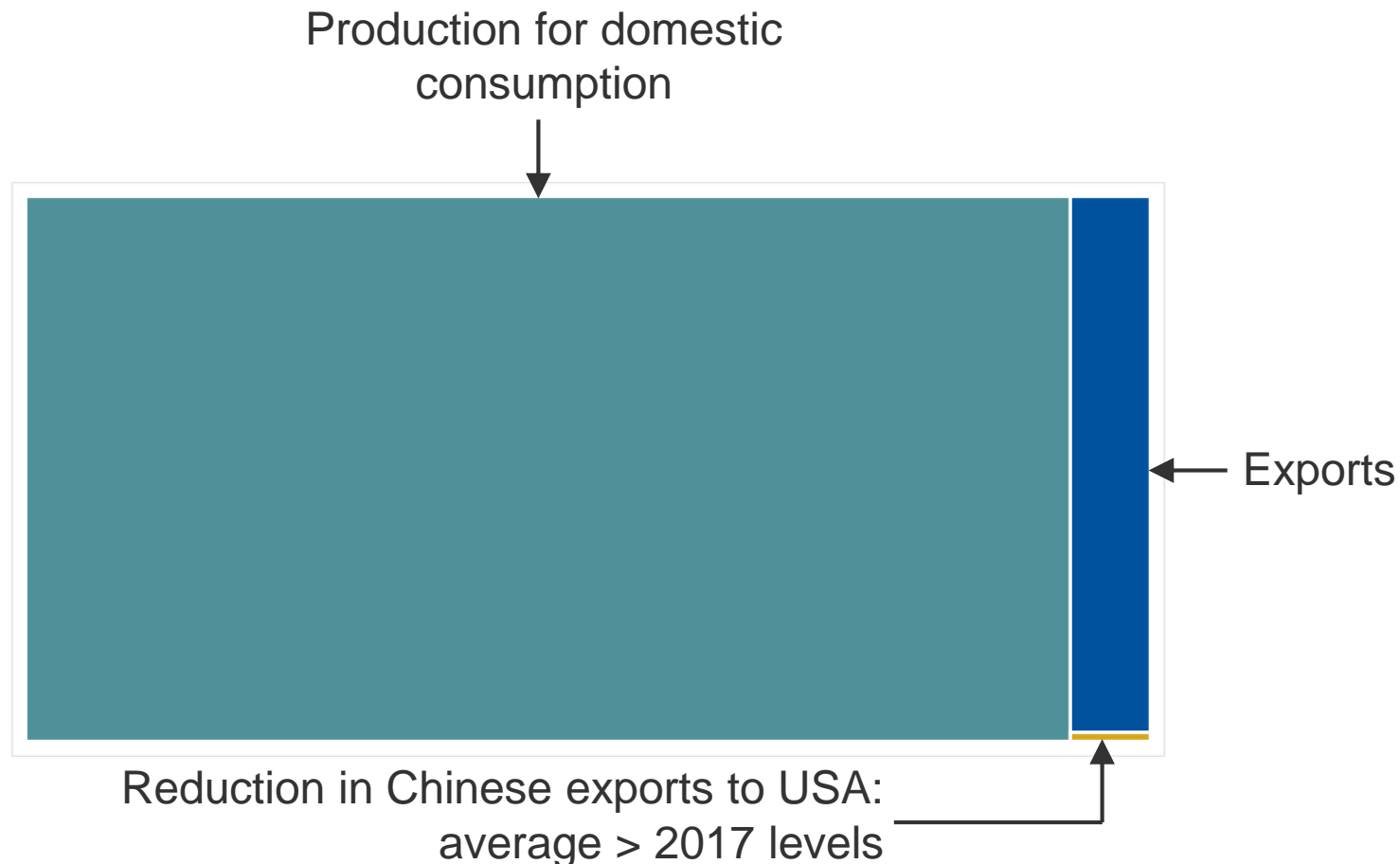
Is the fall in China's US steel exports market-moving...?

LHS: US imports of carbon finished steel from China, Mt

RHS: US imports from China, % of total

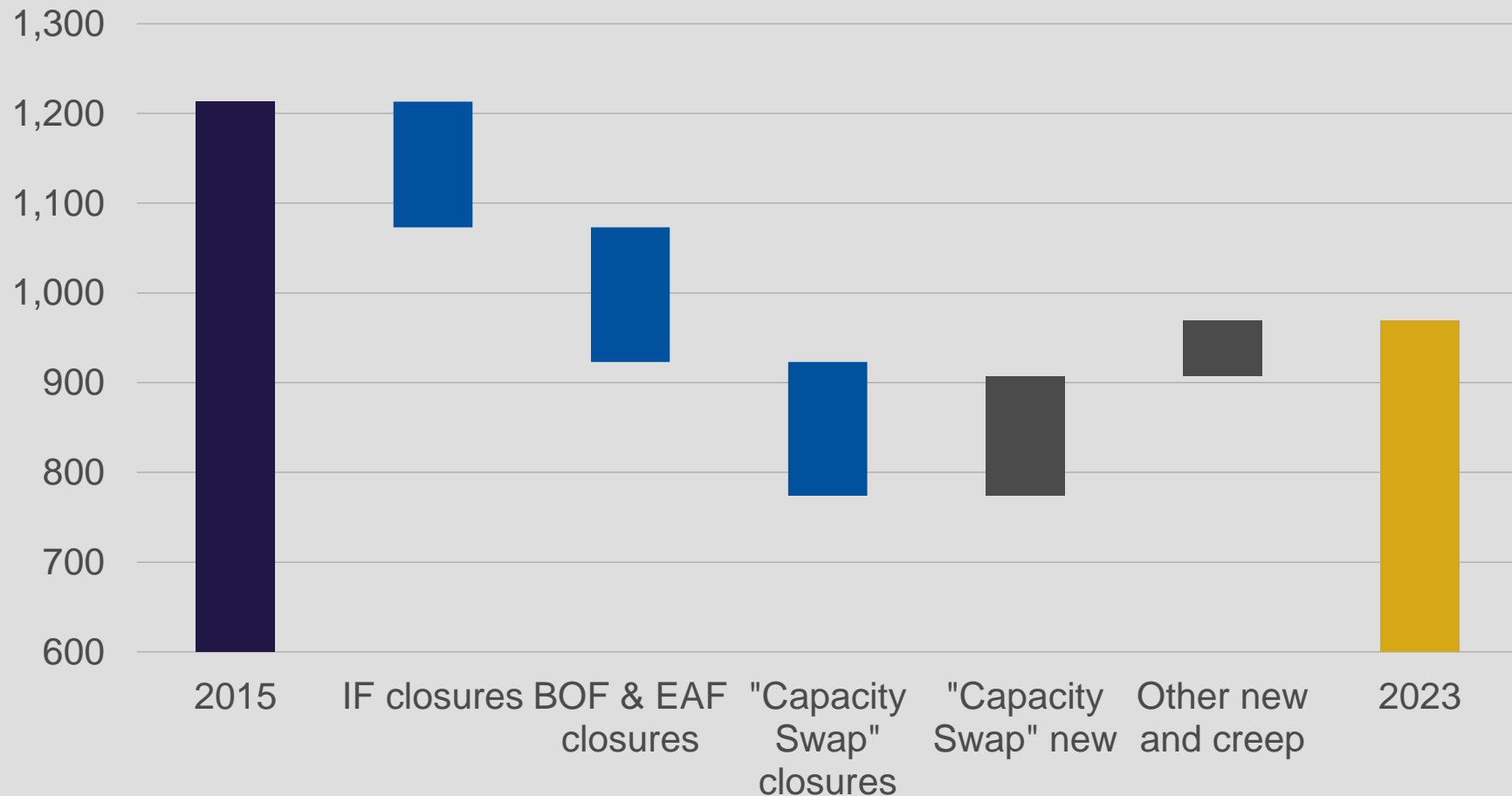


Not by itself. It's a tiny proportion of exports and won't impact the domestic or regional supply/demand balance



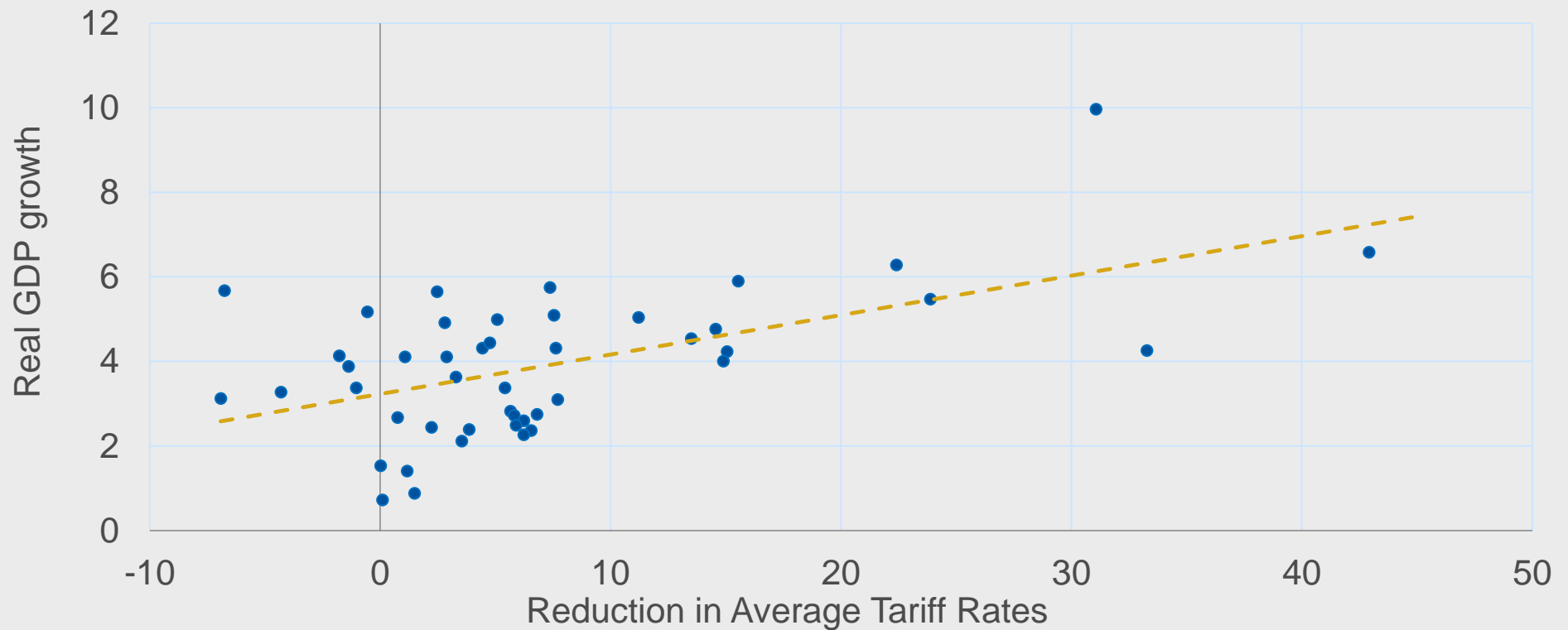
US market loss is tiny compared with capacity closures

Chinese domestic capacity changes 2015 - 2023, Mt

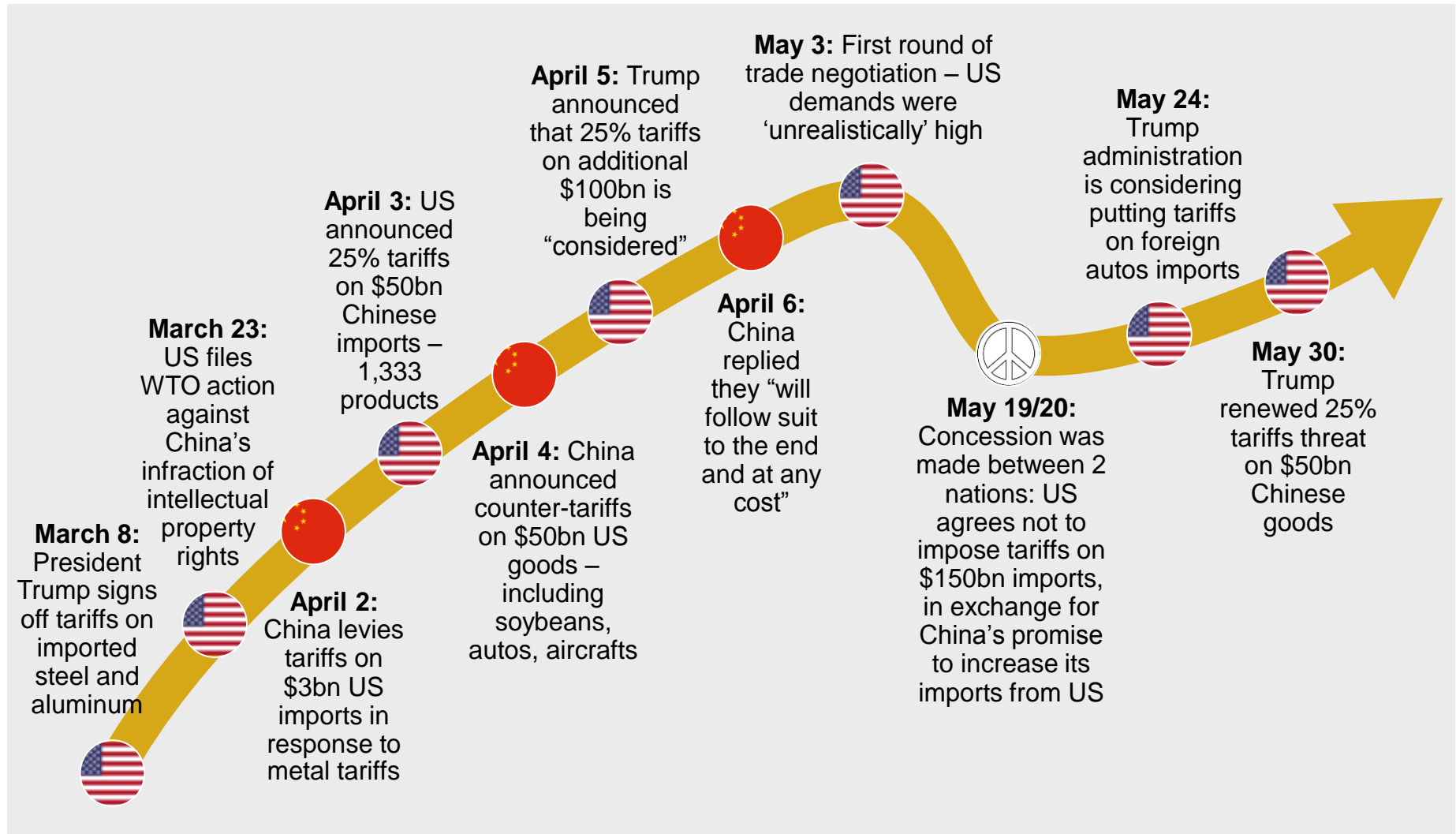


A bigger threat to the Chinese market is protectionism

Changes in average tariff and annual GDP growth, 1990 – 2015, percentage points

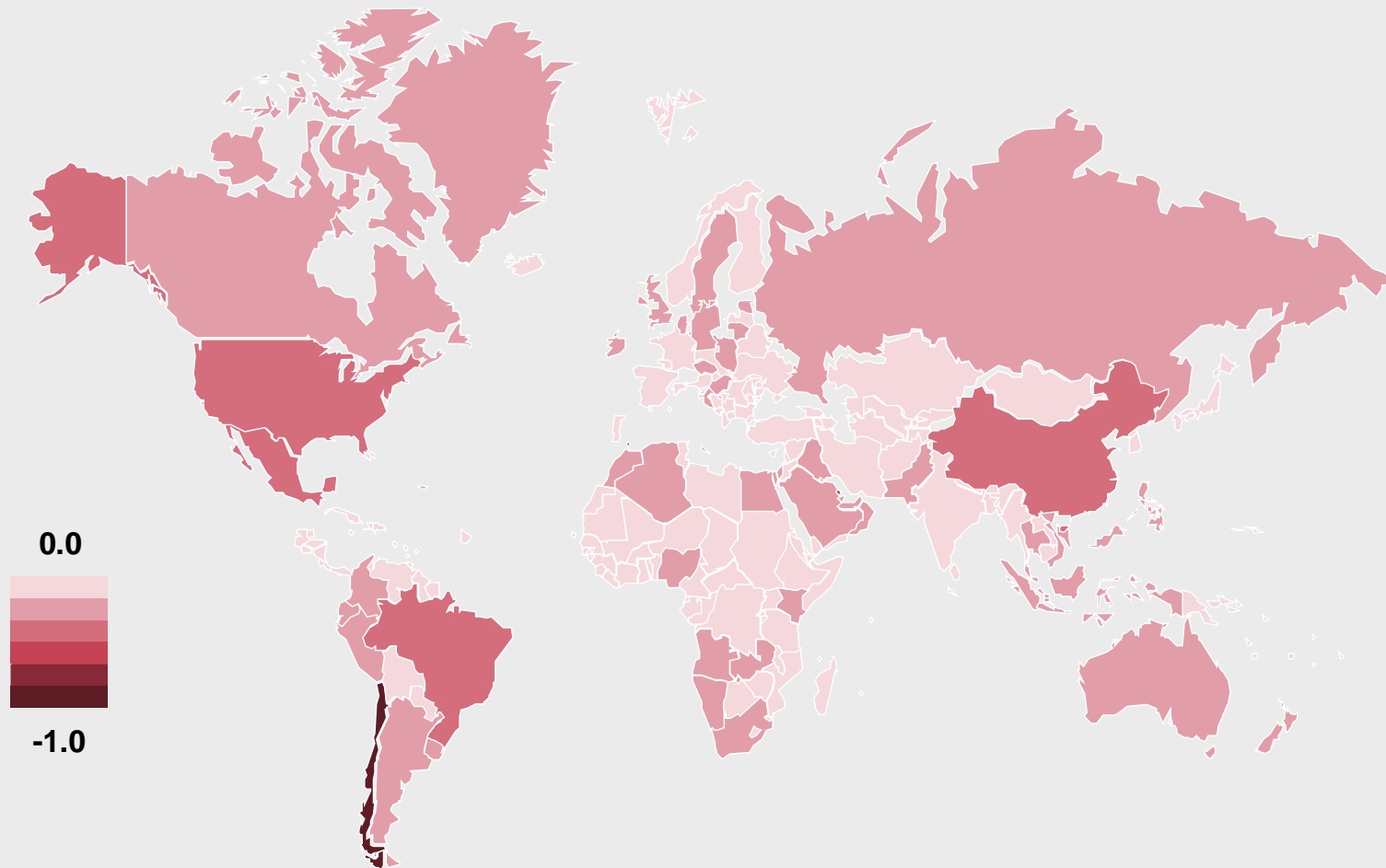


“Trumponomics” is promoting protectionism...



...and risks a trade war where steel demand is destroyed

5-year cumulative impact of 'US - China trade feud' scenario on GDP growth
Percentage points difference: relative to the base case

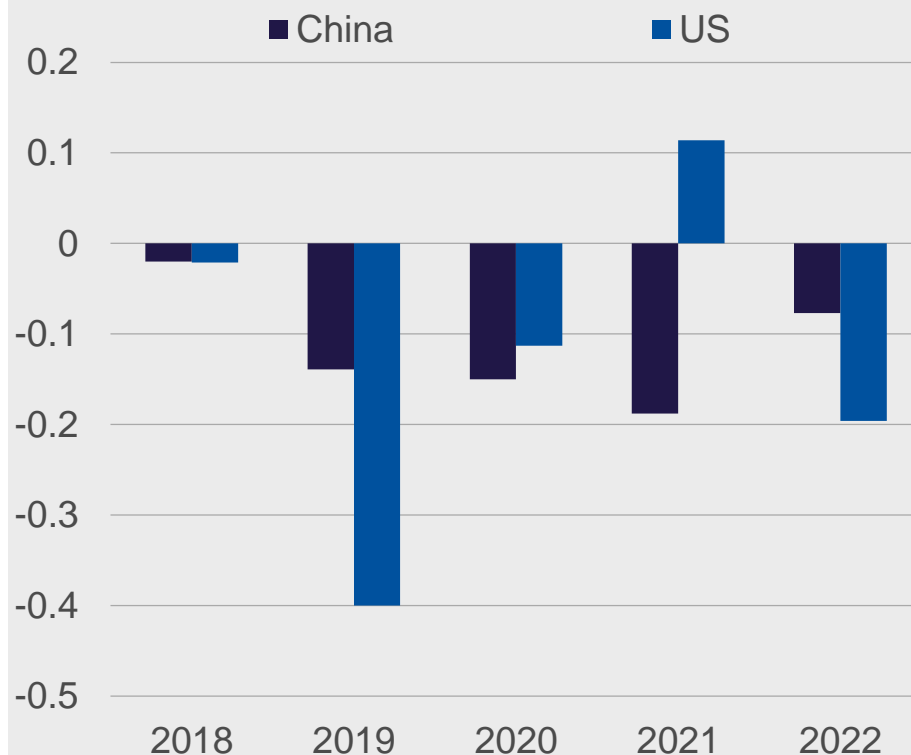


...and risks a trade war where steel demand is destroyed

China is more vulnerable to protectionism
As a % of each country's total exports



Impact on IP growth relative to base case
percentage points difference



Conclusions

1. Have China/USA trade patterns changes?
Yes – the US is now a very minor market for Chinese steel exporters, which was not the case a few years ago
2. Is it a result of trade actions?
Yes and no – market forces have also played a part, specifically improvements in Chinese domestic market health in the last couple of years
3. Does this matter to China?
Not directly – lost export volumes in isolation have little impact on the domestic supply/demand balance. Supply-side reform and other market developments have had a greater impact
4. Does rising protectionism matter to China?
Yes – the trade war scenario reduces Chinese GDP and IP growth. That will result domestic steel demand destruction and a likely increase in export volumes at lower prices.

CRU's Global Steel Trade Service

Global Steel Trade Service

17 MAY 2018

► INTERNATIONAL STEEL & SCRAP TRADE DEVELOPMENTS

Map: The impact of US withdrawal from the Iran Nuclear Deal



Steel
Global Steel Trade Service

17 MAY 2018

► KEY INTERNATIONAL PRICES

Chinese export prices decoupled for now

Daily prices⁽¹⁾

USD/t	52 WK HIGH ⁽²⁾	52 WK LOW ⁽²⁾	2018							Last chg.
			10 May	11 May	14 May	15 May	16 May	17 May		
Export prices										
China: HR coil, FOB Tianjin	621	572	586	586	586	586	586	586	586	0.0%
China: Rebar, FOB E China port	571	515	534	535	535	534	534	533	-0.2%	

Notes: (1) - Updated daily on [CRU Online](#). (2) - From 02/02/2018.

DATA: CRU

Weekly prices⁽¹⁾

USD/t	52 WK HIGH	52 WK LOW	2018							Last chg.
			12 Apr	19 Apr	26 Apr	03 May	10 May	17 May		
Export prices										
CR coil, FOB Tianjin	636	455	619	610	618	621	620	620	0.0%	
HDG coil, FOB Tianjin	709	520	687	687	689	689	689	689	0.0%	
Medium Plate, FOB Tianjin	615	422	594	598	606	615	613	612	-0.2%	
Square Bar, FOB Tianjin	555	383	513	515	524	537	534	530	-0.8%	
Structurals, FOB E China port	623	409	598	593	606	608	607	612	0.8%	
LC wire rod, FOB N China port	600	413	547	549	558	565	561	563	0.4%	

Notes: (1) - Updated weekly on [CRU Online](#). (2) - From 04/01/2018 (Turkey); 17/08/2017 (Far East). (3) - Non CIS-origin.

DATA: CRU

Monthly prices⁽¹⁾

USD/t	52 WK HIGH	52 WK LOW	2018							Last chg.
			Dec 17	Jan 18	Feb 18	Mar 18	Apr 18	May 18		
Export prices										
Japan: HR coil, FOB port	650	642	605	610	610	650	645	642	-0.5%	

	Initiating market	Impacted markets
Apr	Turkey	All, with possit exemption for EU
	USA	Canada, Mexi and EU
Mar	EU	All
	USA	All, with some



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