

**RESEARCH****METALS & MINING**

Key takeaways from call with Baosteel

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**SUMMARY****METALS & MINING**

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- China steel sector recovery to take time as China needs to implement structural solution to surplus domestic capacity
- Baosteel's comments tie in with our view of cap on steel margins for Indian ferrous players, we have a neutral stance on ferrous sector

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20 September 2024

**Key takeaways from call with Baosteel**

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- **China steel sector recovery to take time as China needs to implement structural solution to surplus domestic capacity**
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**Steel recovery in China to take time:** Unlike past, Baosteel expects steel downturn to last longer. Without support of demand, China needs to deliver on effective control and reduction of steel production. In the interim, there is a possibility of a seasonal margin recovery in Q4 if annual limits are imposed amid a modest seasonal rebound in demand and pullback in raw material prices. However, this will not pull the sector out of the current downturn.

**Structural solution needed:** We estimate surplus capacity in China above 100mt. China is currently using market-based mechanism to address this surplus, pulling down prices/ margin to make it uneconomical for marginal capacity to continue. A structured solution is needed to reduce overhang on the industry. Decarbonisation policy has a potential to become a tool to control production with use of carbon-tax.

**Steel demand in a downward trend:** Near-term, Baosteel expects demand to decline in real-estate and related machinery and commercial vehicles and slow-down in infrastructure segments. China is transforming from construction to manufacturing led demand, which will take time. Within manufacturing, auto is supported by electric vehicles, machinery and appliances supported by equipment upgrade and trade-in policies and shipping from global demand.

**Steel raw materials prices under check:** Steel weakness and consequent lower production in H2 in China are likely to impact demand for raw materials. Further iron ore face pressure from seasonally better supply in H2 and high China port inventory.

**Strategy to deal with downturn:** Preparing for a long downturn, Baosteel is focusing on cost reduction, value-added products, optimisation of product portfolio, expansion of overseas sales and even diversification into aluminium auto steel.

**Read-across for Indian ferrous players:** We have a neutral stance on Indian ferrous players with stocks largely pricing in future volume growth. Baosteel's comments ties in with our view of cap on steel margins until steel capacity surplus is addressed in China.



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