



## METALS AND MINING

# Steel demand ‘evaporating at unprecedented speed’

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The steel industry’s dire straits are in the spotlight this week, with both China and the U.K. warning about the hit from the dramatic slump in demand, particularly from the world’s second-biggest economy.

Steel prices have held at \$170 per ton since October 8, having fallen sharply over the last year from above \$400 per ton.



ChinaFotoPress | Getty Images News | Getty Images

The World Steel Association forecasts that global steel demand will decrease by 1.7 percent in 2015, before growing by 0.7 percent in 2016. However Chinese demand is seen falling both this year and next, by 3.5 percent and 2 percent respectively, following a demand peak in 2013.

On Wednesday, the deputy head of the China Iron and Steel Association warned that demand for the ferrous metal was waning fast.

“China’s steel demand evaporated at unprecedented speed as the nation’s economic growth slowed. As demand quickly contracted, steel mills are lowering prices in competition to get contracts,” Zhu Jimin, deputy head of the China Iron & Steel Association, said on Wednesday at a briefing in Beijing, according to Bloomberg.

His words came after U.K. parliament held a special committee on Tuesday to discuss how to support the British steel industry, which was



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## Steel yourself: The latest victim of the commodity rout

The (£1.7 billion) \$2.6 billion steel industry is of declining importance to the U.K. economy, but still employed 34,500 people in 2014. However, several steel plants — largely located in the comparatively poor regions of Yorkshire, the Humber and Wales — have announced job cuts in recent months. [Sahaviriya Steel Industries'](#) major steel plant in North East England is set to close, resulting in the loss of up to 1,700 jobs.

"The U.K.'s steel industry has been dealt a series of major blows in recent weeks and months. It is facing terminal decline, even though it is an essential foundation for other parts of our economy like aerospace, construction and automotives," Iain Wright, the politician chairing the business, innovation and skills committee for the U.K. Parliament, said on Tuesday.

The slump in steel prices can be attributed to the broader rout in [metals and other commodities](#) over the last 12 months, as well as the ramp up in world steel production this millennium.

Symbol	Price	Change	%Change	Volume
<a href="#">GOLD</a>	1095.50 ▼	-0.70	-0.06%	1042
<a href="#">SILVER</a>	13.87 ▲	0.004	0.03%	198
<a href="#">COPPER</a>	1.9775 ▲	0.005	0.25%	267
<a href="#">PLATINUM</a>	848.90 ▲	2.60	0.31%	267
<a href="#">PALLADIUM</a>	477.60 ▲	3.30	0.70%	79

Total world steel production almost doubled between 2000 and 2014, mostly driven by increases in Chinese output, according to a U.K. parliamentary briefing paper. Growth in production has slowed considerably since then, but this has proved insufficient to compensate for the slump in demand.

In the case of China, heavy investment in infrastructure in the last decade raised demand for industrial goods like cement and steel, encouraging manufacturers to expand production capacity. However, capacity now exceeds demand in several sectors, with steel, cement, aluminum, glass panels and shipping among those affected.

"Resolving overcapacity is not an easy task: It may be unfeasible to halt planned or in-progress projects and reducing capacity may mean job losses and risk social unrest," Alberto Gallo, head of macro credit research at Royal Bank of Scotland, said in a research note on Monday.

Stocks of major steel producers around the world have slumped this year. Frankfurt-listed shares of [ArcelorMittal](#) are down 69 percent

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## The Dumping of Fabricated Industrial Steel Components

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since the start of 2015, while [U.S. Steel Corporation](#) has plunged 60 percent. In addition, China's state-owned Sinosteel delayed an interest payment due on 2 billion yuan (\$0.3 billion) of 5.3 percent notes last week, highlighting the difficulties facing Chinese steel, coal mining and shipbuilding companies.

"While Sinosteel's potential default is reflective of the growing inefficiency of state-owned enterprises, it also points to slowing local demand as China continues its transformation into a consumption-based economy," Gallo said.

— By *CNBC's* [Katy Barnato](#). Follow her on Twitter [@KatyBarnato](#).



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