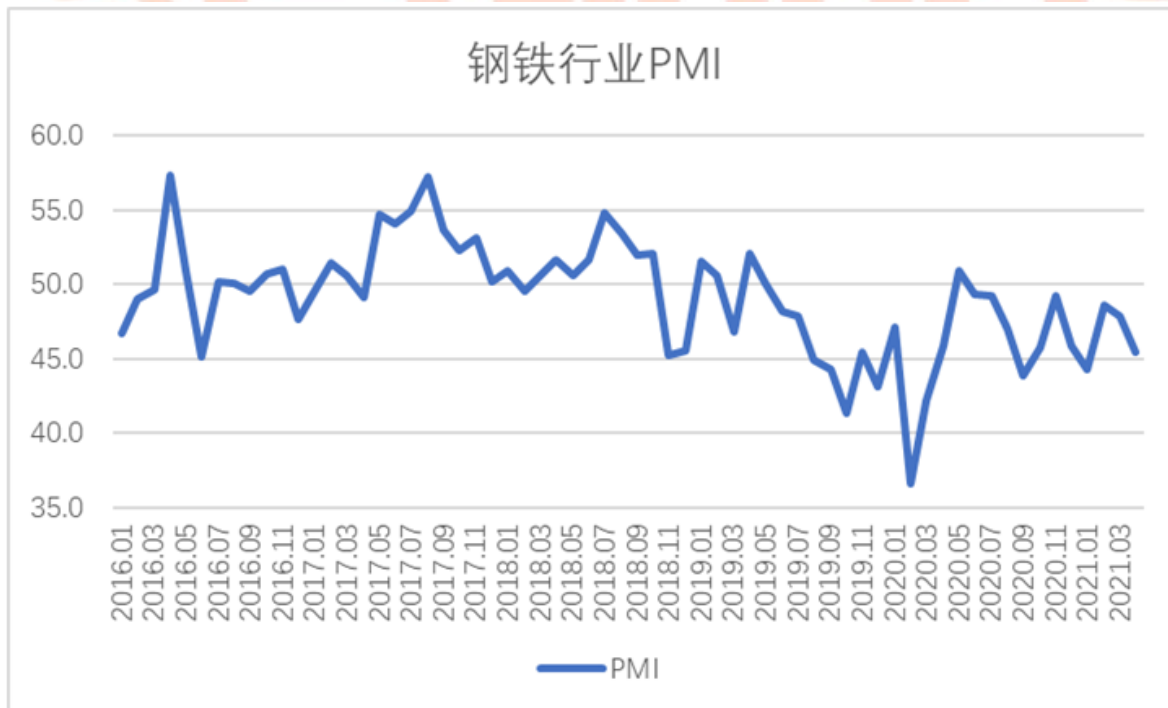


The steel PMI in April 2021 shows that: market supply and demand growth slows down and production costs rise rapidly

Abstract: Judging from the steel industry PMI surveyed and released by the China IOT Iron and Steel Logistics Professional Committee, it was 45.4% in April, a decrease of 2.5 percentage points from the previous month. The sub-indices show that the growth rate of orders received by steel mills has slowed down, steel output has fallen, the overall inventory has continued to decline, and the prices of raw materials have rebounded quickly in the short term. It is expected that in May, market demand will continue to slow down, production will tend to decline, import and export patterns will change, and iron ore prices may fall from high levels.

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Figure 1 PMI changes in the steel industry since 2016



1. Market analysis of the steel industry in April

(1) The growth rate of steel mills receiving orders slowed down

In April, due to the high steel price during the month, the fear of high sentiment in the downstream industries rose, which had a certain impact on the demand of steel traders. The growth rate of steel orders slowed down, and the new order index was 44.4%, a decrease of 2.7 percentage points from the previous month. In terms of foreign demand, despite the outbreak of the foreign epidemic again, the momentum of economic recovery continues, and the demand for steel is also rising. The new export order index is 51.7%, an increase of 8.0 percentage points from the previous month.

According to a survey conducted by Shanghai Zhuo Steel Chain, the current domestic terminal demand has recovered well, and the northern market has performed well. Judging from the monitored Shanghai stock market terminal helical procurement data, the average daily terminal procurement volume in April increased by 37.45% from the previous month, and the transaction continued to rebound.

Figure 2 Changes in new order index and new export order index since 2016

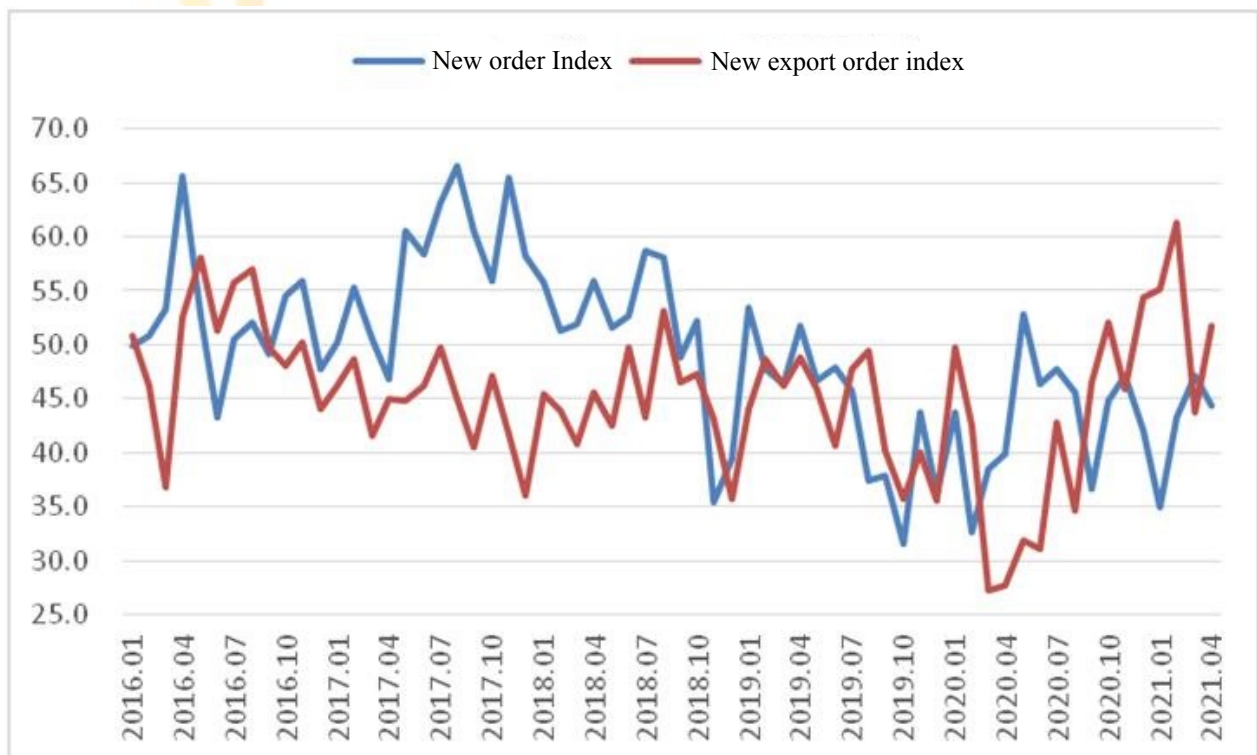
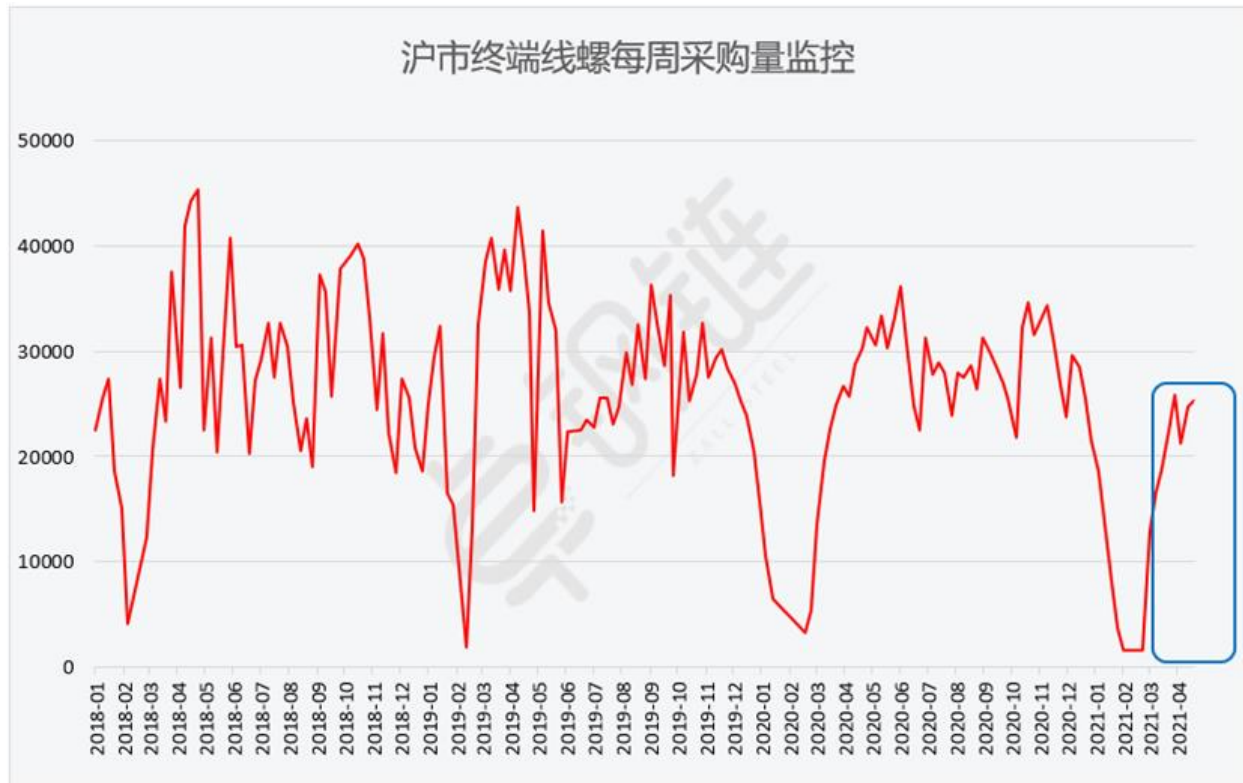


Figure 3 Monitoring changes in weekly purchases of terminal coils on the Shanghai Stock Exchange since January 2018

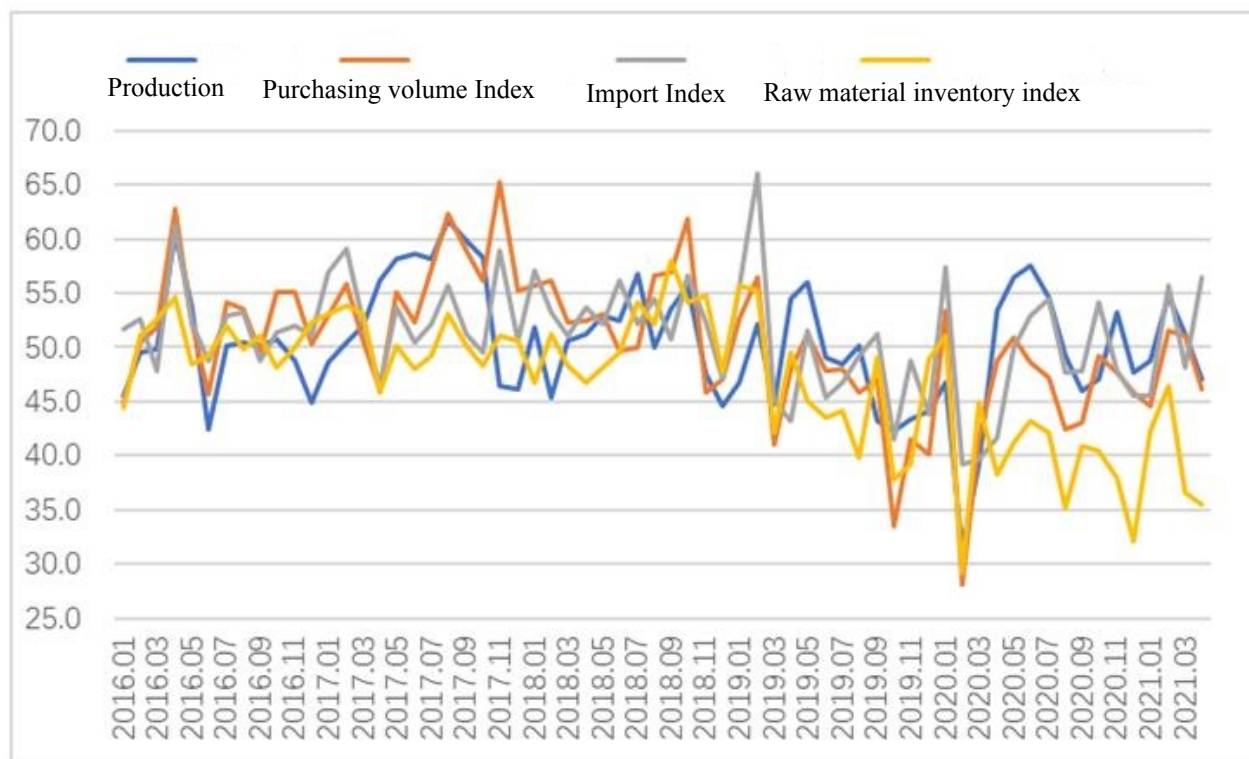


(2) Steel output has fallen

In April, steel production dropped somewhat. On the one hand, market demand has slowed down, and on the other hand, it was affected by the policy of restricting production. The production index was 47.0%, a drop of 4.3 percentage points from the previous month, and fell into a contraction zone after operating above 50% for two consecutive months. According to estimates from the China Iron and Steel Association, the country's cumulative average daily crude steel production decreased by 0.31% month-on-month, and Nissan steel production decreased by 1.45% month-on-month.

Due to the decline in steel production and the increase in raw material prices, the raw material procurement activities of steel mills have contracted. The procurement volume index in April was 46.1%, a decrease of 5.0 percentage points from the previous month. The number of employed persons has also declined, with the employment index dropping by 4.1 percentage points from the previous month to 44.9%. The sentiment of enterprises regarding the market outlook has declined, with the expected index of production and operation activities of 50.9%, a decrease of 10.5 percentage points from the previous month.

Figure 4 Changes in production index, purchase volume index, import index and raw material inventory index since 2016



(3) Steel inventories continue to decline

In April, due to the tight production of steel mills and the slowdown in steel market demand, the speed of destocking of steel mills was relatively stable. The finished product inventory index was 34.4%, an increase of 1.2 percentage points from the previous month, and was below 40% for three consecutive months. The overall inventory of steel mills was in a continuous downward trend, but fluctuated within the month. According to CISA statistics, in mid-April emphasis [statistics iron and steel enterprises steel library stock of](#) 15,904,500 tons, an increase of 413,800 tons over the previous ten days, an increase of 2.67%, an increase in the short term, an important reason is that steel stocks to speed social transfers Slow down.

The social inventory has declined for 40 consecutive days, and the inventory of the five major varieties has all declined month-on-month. According to statistics from the China Iron and Steel Association, in mid-April, the social stocks of five major types of steel in 20 cities were 14.2 million tons, a decrease of 1.02 million tons from the previous ten-day period and an increase of 6.9 million tons from the beginning of the year. In terms of varieties, rebar stocks were 7.74 million tons, a month-on-month decrease of 700,000 tons; wire stocks were 2.79 million tons, a month-on-month decrease of 180,000 tons; hot-rolled coil stocks were 1.53 million tons, a month-on-month decrease of 80,000 tons; cold-rolled

coil stocks 1.14 million tons, a month-on-month decrease of 30,000 tons; medium and heavy plate stocks of 1 million tons, a month-on-month decrease of 30,000 tons. 4 Social inventory consumption has increased more than steel mill inventory, and overall steel inventory continues to decline.

Figure 5 Changes in finished product inventory index since 2016



(4) Steel prices continue to rise

In April, due to the increase in raw material costs, the production restriction policy had an impact on output expectations and had a strong boost to steel prices. Steel prices continued to rise during the month. According to Zhuo Steel Chain's data, the Shanghai Rebar Index was 4,912 yuan/ton on April 1, which was the lowest value of the month. After that, the price fluctuated and increased. On the 29th, the Shanghai Rebar Index was 5234 yuan/ton, an increase of 323 yuan/ton that month. The price has hit a new high in the past four years.

Figure 6 Changes in the Shanghai rebar price index since 2018



(5) The price of raw materials has risen rapidly

In April, the raw material side as a whole strengthened again, the prices of all raw materials have risen to varying degrees, and the production costs of enterprises have risen rapidly. The purchase price index was 69.4%, an increase of 13.1 percentage points from the previous month. The price of iron ore has risen sharply this month. The 62% iron ore index has risen from RMB 167/ton at the beginning of the month to RMB 193.85/ton, an increase of RMB 26.86/ton during the month, a record high. In terms of other raw materials, the price of plain carbon billet in Hebei was 4980 yuan/ton, an increase of 290 yuan/ton from the end of the previous month; the scrap price in Shandong was 3100 yuan/ton, an increase of 260 yuan/ton from the end of the previous month; Henan 65-66 The price of taste alkaline dry-based iron concentrate was 1390 yuan/ton, an increase of 130 yuan/ton from the end of the previous month; the price of secondary coke in Shanxi was 2,190 yuan/ton, an increase of 100 yuan/ton from the end of the previous month.

Figure 7 Changes in the purchase price index since 2016



(6) Funds are still relatively loose as a whole

According to central bank data, in March, RMB loans increased by 2.73 trillion yuan, a year-on-year increase of 103.9 billion yuan; the increase in social financing was 3.34 trillion yuan, 1.84 trillion yuan less than the same period last year; M2 increased by 9.4% year-on-year, an increase The speed was 0.7 percentage points lower than the end of last month and the same period of last year; M1 increased by 7.1% year-on-year, the growth rate was 0.3 percentage points lower than the end of last month, and 2.1 percentage points higher than the same period last year; M0 increased by 4.2% year-on-year. In the first quarter, the net cash injection was 222.9 billion yuan. From the perspective of credit data, although the performance of March data has slightly tightened, the overall liquidity is still biased towards loose, which has played a better role in the steady upward trend of the overall commodity market. Of course, with the expansion of the global currency base, the domestic economy has shown resilience and upward momentum. On the one hand, it is in line with the general trend of the world economy. On the other hand, it reflects the indispensable role of the domestic market in the current global economic environment. At the same time, from the perspective of the overall commodity market performance, the collective rise in prices has put a certain cost pressure on downstream terminal demand. If it can be effectively balanced, the overall commodity market will usher in a new round of rise.

2. Outlook

(1) Market demand continues to slow down

At present, the steel market as a whole is still supported. On the one hand, the large number and large scale of infrastructure projects have a good supporting effect on the steel market. On the other hand, the steady growth of the real estate market has played a relatively good leading role in the steel market. From January to March, real estate development investment increased by 25.6% year-on-year, and 15.9% from January-March 2019, with an average growth rate of 7.6% in two years; the area of newly started houses increased by 30.1% from January to March; the area of land purchased by real estate development companies increased year-on-year An increase of 16.9%; the transaction price of land was 80.9 billion yuan, a decrease of 17.3%. Although the current real estate control policies tend to be tightened, due to the impact of the epidemic in the same period last year, this year's performance has been good year-on-year, and the real estate market this year has also maintained a growth trend compared with 2019. However, after entering May, as the rainy season approaches and the temperature rises, it may affect the operation of the construction, foundry and other industries. The demand for terminal steel may slow down. In addition, the high steel price operation may continue for a period of time. inhibition of the market demand continues to exist, the pre-market steel demand following the continued slowdown in the industry could enter seasonal sales season.

(2) Steel production may continue to decline

In the short term, the steel industry may enter the off-season for sales, and downstream demand may gradually weaken. In addition, rising raw material prices increase production costs, which will inhibit steel mills' production. In the long term, according to the latest steel product tariff policy, from May 1, to pig iron, crude steel, recycled steel material, chromium and iron products at zero provisional import tax rate, an appropriate increase in ferrosilicon, ferrochrome, high-purity pig iron and other products Export tariffs. The implementation of this policy will help reduce the cost of steel imports, expand the import of steel resources, and help support the reduction of domestic crude steel production in the long term.

(3) The price of iron ore may fall from a high level

The price of iron ore hit a record high in April, and the profit margin of steel mills was compressed. At present, companies have become cautious about purchasing raw materials. As the market enters the off-season, steel production is expected to decline, and the demand for iron ore will also decrease, and steel mills' willingness to import may further decline. The new tariffs encourage steel imports and curb steel exports, and have certain expected effects on restraining iron ore prices. The price of iron ore may fall from a high level, and the pressure on the cost of steelmaking enterprises tends to ease