مجلس الغرف السعودية
Council of Saudi Chambers

اللجنة الوطنية لصناعة الحديد
NATIONAL COMMITTEE FOR STEEL INDUSTRY

# China Sudden Shifting to Net Importer Disrupts Global Iron & Steel Markets

**Riyadh – September 2, 2020:** Since May 2020 onwards, a variety of long steel products, such as rebar rods, steel sections as well as oil and gas pipelines, along with flat steel products such as hot-rolled flat steel known as black steel rolls as well as galvanized and pre-painted Steel have witnessed a sudden price rise. Equally important, the price increase has come into play while the volume of real global demand for steel products has not yet made recovery and is still below average levels.

The price increase has impacted the entire global production and supply chain, including iron ore, the price of which rose from $87 to $129 per ton which is the most influential factor contributory to the cost of steel production, followed by the price increase of scrap from $ 250 to $ 290 per ton, and billet increased from $ 380 to $ 400 per ton, while the price of zinc used to coat galvanized steel coils increased from $1,950 to $2,450 per ton, which in turn has brought about a price increase of finished steel products globally.

In the same vein, observers and analysts unanimously agree that the reason for the global price increase of iron and steel products is the sudden shift of China from being a major net exporter of steel products to a major net importer of raw, semi-finished and finished materials from May 2020 until now. Given the fact that China is the largest producer of iron and steel globally, making up a share of 970 million tons, which accounts for more than 50% of the total global production of 1.900 billion tons in 2019, it has achieved annual export rates exceeding 100 million tons annually as of 2014 onward. However, the sudden shift of China into a major importer over the recent four months was unexpectedly marked and has pushed the prices of iron ore and associated finished products to climb across all global markets, including that of the Kingdom of Saudi Arabia. Of great note, China maintained its global ranking as a net exporter of iron and steel products for eleven years in a row from mid-2009 to mid-2020.

While China has imported huge quantities of iron ore over the recent four months, with more than 100 million tons imported last July, it has remarkably imported millions of tons of semi-finished products such as steel billets and slabs, and also finished products such as rebar and hot rolled coils (HRC) from several countries, spearheaded by India, Japan, Brazil and some GCC countries; China imported 4.4 million tons in June and 5.06 million tons in July 2020 of semi-finished and finished products of steel. While some believe that China will probably stop importing iron and steel as of next October 2020, others expect China to continue importing iron and steel at least until end 2020.

The disruption of the supply chain across the global iron and steel markets as China has snowballed into a net importer echoed a backdrop of scarcity of iron and steel products that are usually exported and shipped to other global markets, bringing about an increasingly growing price rise globally. Some specialists attribute the imbalance to a set of factors, most of which are related to the Chinese interior situation. China's rapid return to business and the strengthening of infrastructure spending after the closure period due to the Corona pandemic contributed to the return of economic movement and demand rates, unlike most other global markets that are still affected by the pandemic, in addition to the Chinese government providing a set of economic incentives to stimulate the economic movement, including reducing the percentage Interest and credit facilitation, which provided high cash liquidity that pushed the wheel of real estate investment, so the demand for steel products increased dramatically, which also encouraged steel traders to practice purchasing speculation to raise inventory levels to meet the expected increasing demand during the second half of 2020. All these factors created a state of imbalance that boosted both domestic Chinese production and imports from abroad.

In addition to the reasons for the imbalance, a major factor is also the scarcity of iron ore production during some months of the first half of 2020 in the most famous countries in terms of its production, such as Brazil, whose production decreased in May 2020 by 28.2% compared to May 2019 due to its sharp exposure to a pandemic Corona made it second in the world in the number of infections, after USA. It is noteworthy that Brazil exported 145.100 million tons of iron ore in the first half of this year 2020, which accounts for 10.7% less than the same period last year. China's share of Brazil's exports during the first half of 2020 was 66%.

While China is expected to quickly return to its previous state as a net exporter at any time during the fourth quarter of this year 2020 AD, anticipation of what will happen during the coming period continues in light of the fact that global iron and steel prices have witnessed unexpected increases in light of the continuation of the Corona pandemic crisis, and that it is more likely to continue increasing in the short term, and that its decline is also possible, especially in light of the Chinese government sensing the misuse of its economic incentives that led to the chaos and escalation of real estate prices; China has announcement narrowing economic incentives and tightening controls in order to curb real estate prices. This means it is expected to witness a slowdown in credit facilities, reducing demand and ending speculative purchases on iron and steel products.

On the local level, specialists have emphasized that steel industry in the Kingdom of Saudi Arabia is impacted by changes in global events and prices, as they affect the prices of raw materials and finished products. Of great note, they highly praised the development of steel industry in the Kingdom, which ranked twenty globally according to the classification of the World Steel Organization in 2020. Equally important, the Kingdom of Saudi Arabia has productive capacities capable of meeting the full needs of the local market, whether in long or flat steel products.

------------------------------------------------------------------ E N D ----------------------------------------------------------------