

## Figures

### Important Figures

million mt	Oct-16	Sep-16	MoM	Annualized
Iron Ore Production	119.29	118.93	0.3%	1,272.28
Iron Ore Import	80.80	92.99	-13.1%	1,012.54
Pig Iron Production	58.76	59.32	-0.9%	696.58
Crude Steel Production	68.51	68.17	0.5%	807.80
Finished Steel Production	97.68	98.09	-0.4%	1,137.59
Finished Steel Export	7.70	8.80	-12.5%	111.70
Finished Steel Import	1.08	1.13	-4.4%	13.09
Apparent Demand	58.46	57.09	2.4%	668.81
FAI in Steel (billion RMB), YTD	350.09	309.70	NA	420.10

### Rebar

Production (million mt)	17.99	17.17	4.8%	202.52
Export (million mt)	0.01	0.02	-39.5%	0.21
Import (million mt)	0.00	0.01	-72.0%	0.03
Profit Indicator <sup>2</sup> (RMB/mt)	40	132	-69.7%	2,755.62
Export Premium <sup>3</sup> (USD/mt)	-15	-5	-200.0%	-156.00

### Wire Rod

Production (million mt)	11.84	12.62	-6.2%	143.09
Export (million mt)	0.75	0.87	-13.4%	11.36
Import (million mt)	0.05	0.05	-0.3%	0.64
Profit Indicator (RMB/mt)	178	266	-33.1%	3,822.26
Export Premium (USD/mt)	-5	4	-225.0%	-114.00

### Hot-Rolled

Export (million mt)	1.05	1.45	-27.9%	15.42
Import (million mt)	0.22	0.22	-2.2%	2.32
Profit Indicator (RMB/mt)	345	382	-9.7%	4,268.04
Export Premium (USD/mt)	-33	-17	-94.1%	-326.40

### Cold-Rolled

Export (million mt)	0.44	0.52	-16.6%	4.43
Import (million mt)	0.26	0.23	10.4%	2.76
Profit Indicator (RMB/mt)	304	284	7.0%	2,225.07
Export Premium (USD/mt)	-59	-37	-59.5%	-309.60

### Medium and Heavy Plate

Export (million mt)	0.43	0.54	-21.2%	7.29
Import (million mt)	0.13	0.14	-12.5%	1.86

### Galvanized

Export (million mt)	0.97	1.04	-7.1%	12.38
Import (million mt)	0.24	0.27	-12.8%	3.16

### Section

Export (million mt)	0.38	0.38	-0.1%	5.18
Import (million mt)	0.03	0.03	7.2%	0.30

Data Source: SMM, China Customs, NBS

Note: 1 Including double counting;

2 Gross profit= Average Market Price - variable cost. Variable cost includes raw material, consumables, power.

3 Export premium (USD/mt)= Mid-month Average Export Price - (domestic average market price ± export refund/ tariff + port handling fee) × currency exchange rate

## Demand Remains Positive, and High Prices Restrict Raw Material Purchases in November

The Steel-PMI was 55.64 in November, down 4.03 MoM and up 9.35 YoY. On a seasonally adjusted basis, the Steel-PMI came in at 55.42, down 2.25 MoM and up 9.33 YoY. Demand from steel downstream sectors was good in November, a traditionally off-demand period, especially from automobile, home appliance and transportation. End-users in some sectors rushed to buy raw materials due to strong demand, but most end-users were wary of purchases after surging steel prices and held low inventories of raw materials. (Page 2)

### Highlights:

- China stepped up inspections on illegal steel capacities after exposure of illegal capacity expansion by Anfeng Iron & Steel. According to steel capacity elimination team of the State Council, Jiangsu, Hubei, Guangdong and Sichuan strictly inspect low-quality and illegal steel capacity. (Page 3)
- Coke prices surged from October. Coke claims about 41% of pig iron cost at present, while iron ore accounts for 49%. In order to reduce coke ratio, steel plants prefer medium and high-grade resources, driving up prices of such products. As of November 30, PB fines at the Port of Qingdao were quoted at RMB 640/wmt, up 45% from early October. (Page 4)
- US Commerce Department recently announced it will execute anti-circumvention investigation on certain cold-rolled steel flat products from China. Local steel association and some producers complained that Vietnamese producers use hot-rolled steel to produce or assemble cold-rolled steel plant and then exported such products to the US, so as to evade anti-dumping and ant-subsidy measures imposed by the US on China's cold-rolled steel plate. (Page 6)
- RB 1705 futures contract prices lurched higher this past week, but will drop slightly in the coming week. (Page 8)
- Home appliance production was stable with increasing promotions in December. Most home appliance producers said that their orders kept growing, especially white goods, including refrigerator, freezer and kitchen appliance. Moreover, exports of home appliance also increased, thanks to Merry Christmas. However, most producers purchased based on orders and slowed down stock building as steel prices surged. (Page 9)

## Spot Market Price Changes

Product	Dec 2		Nov 25	Change	%
	RMB/mt	USD/mt			
ReBar (HRB400 Φ18mm)	3218	468	3090	128	4.1%
Wire Rod (Q300 Φ6.5mm)	3270	475	3141	129	4.1%
HR (Q235/SS400 5.5mm*1500°C)	3618	526	3447	171	5.0%
CR (SPCC/ST12 1.0mm*1250*2500)	4523	658	4310	213	4.9%
Medium & Heavy Plate (Q235B 20mm)	3423	498	3200	223	7.0%
GI (ST02Z 1.0mm*1000°C)	4940	718	4760	180	3.8%
Billet (Q235 150*150mm)	2780	404	2630	150	5.7%

Data Source: SMM

Note: All prices include 17% VAT and are per tonne, unless otherwise stated.

Exchange rate, USD : RMB = 6.8794

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## Hot Topic

### Demand Remains Positive, and High Prices Restrict Raw Material Purchases in November

The Steel-PMI was 55.64 in November, down 4.03 MoM and up 9.35 YoY. On a seasonally adjusted basis, the Steel-PMI came in at 55.42, down 2.25 MoM and up 9.33 YoY.

In November, the Steel-PMI stayed above 50 despite a month-on-month decline both before and after the seasonal adjustment, a reflection that end-user demand, despite signs of weakening, remains positive. Production index was 60.76 in November, down 5.84 MoM and up 17.14 YoY. Production at end-user producers in some regions was negatively affected by cold weather, but overall production remained positive. New order index was 59.26 in November, down 8.78 MoM and up 13.92 YoY. Orders at most end-user sectors kept growing, supporting steel demand. Purchasing volume index fell 9.10 MoM to 55.97, while raw material inventories index grew 0.33 MoM to 50.95. Increasing production boosted raw material purchases, but surging steel prices cooled down downstream buying interest in raw materials.

In November, production at most construction sites in north China came to a halt due to colder weather and environmental protection inspections, while that in south China grew with commission of new projects and tighter production schedule before 2017 Chinese New Year holiday in late January. Orders at some steel structure companies reduced as soaring raw material prices raised strong caution in signing new orders. The machinery sector improved slightly on a monthly basis. The support on construction machine from infrastructure projects was continuing, and orders for mining machine also turned better after soaring coking coal and coke prices. Machinery producers generally build up inventories of finished goods in year-end, but now are wary of raw material purchases. Production and new orders in the automobile sector improved further with efforts to fulfill full-year targets and preferential policies. Output at some producers even refreshed new highs, but raw material purchases by them were restricted by limited supplies from steel mills. The shipbuilding sector remained sluggish, and surging steel prices depressed their enthusiasm in signing new orders, and only very few producers advanced raw material purchases for fear of further price gains. Home appliance sector kept improving in November. Both production and new orders at home appliance producers got a boost from year-end promotions and the upcoming Christmas holiday, especially for fridge, freezer and kitchen appliance. Home appliance producers rushed to buy raw materials due to limited supply. Construction activity and new orders in transportation sector continued growing in November thanks to acceleration of infrastructure investment and availability of funds earmarked for projects since Q4 2016, but soaring steel prices resulted in as-needed purchases in the sector.

To sum up, demand from steel downstream sectors was good in November, a traditionally off-demand period, especially from automobile, home appliance and transportation. End-users in some sectors rushed to buy raw materials due to strong demand, but most end-users were wary of purchases after surging steel prices and held low inventories of raw materials.

#### Composite Steel-PMI for Oct

	Nov	MoM	YoY
Composite Production Index	60.76%	-5.84%	17.14%
Composite New Order Index	59.26%	-8.78%	13.92%
Composite New Export Order Index	50.25%	0.37%	0.71%
Composite Outstanding Business Index	46.40%	-5.55%	-4.01%
Composite Index of Finished Products Inventory	53.76%	2.15%	4.15%
Composite Purchasing Volume Index	55.97%	-9.10%	13.17%
Composite Import Index	50.00%	0.00%	-0.04%
Composite Purchasing Price Index	88.15%	-1.05%	82.42%
Composite Index of Raw Material Inventory	50.95%	0.33%	1.87%
Composite Employment Index	50.00%	0.00%	3.33%
Composite Supplier Deliveries Index	49.57%	-0.43%	-0.58%
<b>Composite Steel PMI</b>	<b>55.64%</b>	<b>-4.03%</b>	<b>9.35%</b>
<b>Steel PMI by Seasonal Adjustment</b>	<b>55.42%</b>	<b>-2.25%</b>	<b>9.33%</b>

Data Source: SMM

## Steel Capacity Using Intermediate Frequency Furnace Greatly Restricted in China

China stepped up inspections on illegal steel capacities after exposure of illegal capacity expansion by Anfeng Iron & Steel. According to steel capacity elimination team of the State Council, Jiangsu, Hubei, Guangdong and Sichuan strictly inspect low-quality and illegal steel capacity.

This significantly restricted production by intermediate frequency furnace. Taking Jiangsu Province for example, the province has about 40 million mt of steel capacity using intermediate frequency furnace, which accounts for a large proportion in local steel capacity. SMM survey finds Jiangsu Huada and Xuzhou Jinhong Steel dismantled 12 and 6 intermediate frequency furnaces respectively. Nearly 25 local intermediate frequency furnaces will also be inspected. This round of inspection is stricter compared to August. In August, some steel plants produced at night. But recently, power supply for local steel plants using intermediate frequency furnace will be cut off for inspections. SMM reckons local steel plants using intermediate frequency furnace will unlikely restart production in the near term, and this will significantly affect steel supply.

News of shutdown at a large number of intermediate frequency furnaces sharply drove up domestic steel prices November 28, with the average rebar price up 4.23% from November 25. Ferrous metals futures surged by daily limit November 28. But in the medium-to-long term point of view, positive effect on the steel market will depend on actual capacity elimination.

With shutdowns at steel plants using intermediate frequency furnaces in Jiangsu, scrap steel supply will increase in the near term. This pushed down prices in some regions. With high cost for coke and iron ore and less significant price gains for scrap steel compared to coke and iron ore, some steel plants increased use of scrap steel to reduce cost. Higher use of scrap steel also helped ease coke tightens to some extent.

The inspections reflect China's determination on supply-side reform. As low-quality steel is mainly produced by intermediate frequency furnace, steel plants using intermediate frequency furnace will be targeted for capacity elimination in the next few years. In fact, some steel capacity using intermediate frequency furnace has been eliminated in 2016. Guangdong cut steelmaking capacity by 3.07 million mt/yr in 2016, with 2.52 million mt/yr of intermediate frequency furnace steel capacity, which accounted for 82% in the total targeted for elimination. Liaoning is expected to eliminate 6.02 million mt/yr of steel capacity in 2016, with 3.92 million mt/yr of intermediate frequency furnace capacity, accounting for 65% of the total capacity to be eliminated.

## Raw Materials

Spot Market Price Change of Domestic Raw Material

Product	Source	Dec 2	Nov 25	Change	%
		RMB/mt	RMB/mt	RMB/mt	RMB Basis
Iron Ore Concentrates (66% Fe Content, Dry Basis)	Qianan city, Hebei Province, China	705	675	30	4.44%
PB 61.5% Fines (Wet Basis, Qingdao Port)	Australia	630	635	-5	-0.79%
IOCJ 65% (Wet Basis, Qingdao Port)	Brazil	740	740	0	0.00%
Scrap Steel (>6mm)	Zhangjiagang, Jiangsu Province,	1,800	1,770	30	1.69%
Second Grade Metallurgical Coke (A<13%, S<0.7%)	Linfen, Shanxi Province, China	1,980	1,980	0	0.00%

Data Source: SMM

Note: Please find other chart for the raw material in appendix.

## Will Lump Consumption Increase as Prices for Medium and High-Grade Imported Fines Jump ?

Coke prices surged from October. Coke claims about 41% of pig iron cost at present, while iron ore accounts for 49%. In order to reduce coke ratio, steel plants prefer medium and high-grade resources, driving up prices of such products. As of November 30, PB fines at the Port of Qingdao were quoted at RMB 640/wmt, up 45% from early October. PB lump prices rose from RMB 540/mt in early October to RMB 660/wmt, up 22%. SMM survey finds steel plants are unwilling to use lump due to unfavorable prices. Economics of lump is lower than sintered ore and pellet. This pushed down lump premiums. SMM calculates benefits at steel plants increase RMB 40/mt if used ore grade rises 1% only by increasing use proportion of PB fines.

Lump is not cost-efficient for steel plants at present, but cost is near that using sintered ore. Should imported fines prices continue rising, steel plants may increase using proportion of lump. Details see the table below (the above figures are based on domestic weighted average prices)

### Assuming lump proportion increases 1% and sinter proportion down 1%

When using proportion of raw material lump increases 1%, coke cost increases about RMB 5/mt based on current prices of RMB 2,000/mt for second-grade metallurgical coke in Tangshan. Coke ratio decreases 1.5% when ore grade used increases 1%, so a 1% rise in lump use proportion helps reduce coke cost by about RMB 0.878/mt. Output increases 3% when ore grade rises 1%, so benefit from pig iron output growth is RMB 4.311/mt. But a 1% rise in lump use proportion adds cost by about RMB 0.5769/mt, leaving profit at RMB 4.311/mt + RMB 0.8784/mt - RMB 0.5769/mt - RMB 5/mt = RMB -0.3875/mt. As such, purchases for lump by steel plants decreased significantly after coke prices surged. But prices for imported medium and high-grade fines also jumped, and cost was close to that of lump when lump was quoted between RMB 620-630/mt. When combined with slower increase in coke prices at present, steel plants will increase purchases for lump should prices for medium and high-grade concentrates continue to rise sharply.

### Assuming lump proportion increase 1% and pellet proportion falls 1%

Similarly, if using proportion of lump increases 1%, coke cost rises about RMB 5/mt. Pellet grade is higher than lump, and when using proportion of pellet decreases 1%, ore grade decreases 0.09%, which will add coke cost by about RMB 1.32/mt. Pig iron output grows 3% if ore grade increases 1%, so profit decreases about RMB 6.47/mt due to lower grade, leaving profit at RMB 7.1/mt - RMB 6.47/mt - RMB 7.47/mt - RMB 1.32/mt - RMB 5/mt = - RMB 13.16/mt. As such, economics of pellet is stronger compared to lump, and will support domestic pellet feed prices. But with supply tightness of domestic concentrates, steel plants are expected to increase use of lump in the near term.

Ore proportion	Grade	Current proportion
Sinter	56%	75%
Pellet	65%	12%
Lump	62%	13%
Economic and technical norms	Unit	Current price
Coke ratio	Kg/mt	0.49
Average ore grade used	%	57.86%
Sinter cost	RMB/mt	648
Pellet cost	RMB/mt	705
Lump price to factory	RMB/mt	710
Coke price	RMB/mt	2,000
Average pig iron price	RMB/mt	2,395
1. Assuming lump proportion increases 1% and sinter proportion down 1%		
If lump use proportion increases 1%, coke ratio rises 2.5kg/mt	Coke cost rises	5.00%
If ore grade increases 1%, coke ratio decreases 1.5%	Coke cost falls	0.88
Lump using proportion increases 1%	Lump cost increases	7.47
Sinter using proportion decreases 1%	Sinter cost falls	6.48
Output grows 3% when used ore grade increases 1%	Profit added by higher pig iron output	4.31
<b>Benefit change</b>		<b>-0.81</b>
2. Assuming lump proportion increase 1% and pellet proportion falls 1%		
If lump use proportion increases 1%, coke ratio rises 2.5kg/mt	Coke cost rises	5.00%
If ore grade decreases 1%, coke ratio increases 1.5%	Coke cost rises	1.32
Lump using proportion increases 1%	Lump cost increases	7.47
Pellet using proportion decreases 1%	Pellet cost falls	7.10
Output grows 3% when used ore grade increases 1%	Profit reduced by lower pig iron output	6.47
<b>Benefit change</b>		<b>-13.16</b>

Source:SMM

## Steel Mills & Traders

### Prices & Profit

SMM Tracking of Steel Cost & Profit – Rebar & Hot-Rolled Coil				12/02 VS 11/25
Category	Price	Change	Note (RMB/mt)	
Iron ore	79.10	1.60	Platts (Fe 62%), USD/mt, excluding tax, the latest price	
Coke	2085	0	second grade metallurgical coke in Tangshan, including tax	
Scrap steel	1660	0	scrap steel (6mm) in Zhangjiagang, excluding tax	
Billet cost	2828	10	Q235, including tax	
<b>Rebar cost at BF-based mills</b>	<b>3096</b>	<b>10</b>	<b>calculated based on theoretical weight, including tax</b>	
Rebar profit at BF-based mills	4	150	based on prices in Shanghai, including tax	
<b>Hot-rolled coil cost at BF-based mills</b>	<b>3156</b>	<b>10</b>	<b>based on actual weight, including tax</b>	
Hot-rolled coil profit at BF-based mills	414	50	based on prices in Shanghai, including tax	
Billet prices in Tangshan	2780	150	Q235, charge another RMB 120/mt for alloy-added billet, including tax, ex-works price	
Rebar cost at mills in Hebei that source billet from market	3050	150	Calculated based on actual weight, including tax	
Billet prices in Jiangsu	2920	260	Q235, charge another RMB 80/mt for alloy-added billet, including tax, ex-works price	
Rebar cost at mills in east China that source billet from market	2993	247	calculated based on the oretical weight, including tax	
Rebar futures prices	3131	-10	settlement price of most active rebar futures contract, Based on actual weight, including tax	
Spread between rebar futures and spot price	65	175	based on prices in Shanghai, excluding bank interest rate, including tax	
Hot-rolled coil futures prices	3473	-7	settlement price of most active hot-rolled futures contract <sup>1</sup> , including tax, Calculated based on actual weight	
Spread between hot-rolled coil futures and spot price	97	67	based on prices in Shanghai, excluding bank interest rate, including tax	
<b>Iron Ore Data</b>				
Iron ore spot prices	630	-5	Qingdao port, Australian PB fines Fe 61.5%, free on rail or truck	
Spot prices converted into futures prices	719	-5	spot price (wet basis); futures price (dry basis)	
Iron ore futures prices	580.5	(15.5)	settlement price of most active iron ore futures contract, Fe 62%, including tax	
Spread between futures and spot prices	139	10	based on prices at Qingdao port, excluding bank interest rate, including tax	

Data Source: SMM

Note: 1.Costs in the table are calculated based on today's market prices and factor out management, sales, financial and depreciation fees.  
 2.The cost refers to average cost in the industry based on SMM's survey of small, medium and large mills in China.

Iron ore prices kept rising this past week. As of December 2, the Platts Iron Ore (Fe 62%) price surged to USD 79.1/mt. Both coke and scrap prices were unchanged from the previous week. Hence, production costs at steel mills increased slightly on a weekly basis. Costs for rebar and hot-rolled coil were up RMB 10/mt on a weekly basis. Steel prices in spot market inched up this past week with rising futures prices and production restriction at mills. Prices of rebar and hot-rolled coil in Shanghai spot market advanced RMB 160/mt and RMB 60/mt, respectively. Profit of finished steel products improved slightly based on SMM Cost-Profit Calculation Model. Profit of rebar and hot-rolled coil was up RMB 150/mt and RMB 50/mt, respectively, on a weekly basis.

### Cost for Traders and Demanders

#### Ex-Factory Prices from Main Mills

Products	Main Mills	Baosteel Group	Angang	Wuhan I/S
Hot-Rolled	Ex-Factory Month	DEC	DEC	DEC
(Q235 5.5*1500*C)	Ex-Factory Prices	3912	3650	3780
	Up/Down	300	450	400
Cold-Rolled	Ex-Factory Prices	4446	4705	4670
(DC01/SPCC 1.0mm*1250*C)	Up/Down	200	600	400
Medium and Heavy Plate	Ex-Factory Prices	NA	3900	3890
(Q235A 20mm)	Up/Down	NA	500	400
Galvanized	Ex-Factory Prices	5237	4900	6670
(ST01Z 1.0*1250mm*C)	Up/Down	200	500	350
Color-Coated	Ex-Factory Prices	6882	5950	NA
(TDC51D+Z 0.5mm)	Up/Down	0	0	NA

Data Sources:SMM



## Hot-Rolled Coil Traders' Settlement Prices (Q235B 5.5\*1500\*C)

Unit: RMB/mt

Month	Steel Mill	Pre-Tax Ex-Mill Price	After-Tax Ex-Mill Price	Change	Discount	City	Freight	Freight Subsidy	Traders' Settlement Price
Oct.	Anshan steel	3150	3685.5	0	737.1	Shanghai	140.0	105.3	<b>2983.1</b>
Oct.	Shougang Group	2970	3474.9	0	573.3	Shanghai	112.5	46.8	<b>2967.3</b>
Oct.	Benxi Steel	2790	3264.3	0	175.5	Shanghai	150.0	81.9	<b>3156.9</b>
Oct.	Shagang Group		2870.0	-180	60.0	Shanghai	30.0	100.0	<b>2740.0</b>
Oct.	Ningbo Iron & Steel		2920.0	-180	75.0	Shanghai	15.0	0.0	<b>2860.0</b>
Oct.	Anshan steel	3150	3685.5	0	737.1	Lecong	210.0	105.3	<b>3053.1</b>
Oct.	Shougang Group	2970	3474.9	0	549.9	Lecong	180.0	70.2	<b>3034.8</b>
Oct.	Benxi Steel	2840	3322.8	0	175.5	Lecong	210.0	81.9	<b>3275.4</b>

Data Source: SMM

Note: Traders' settlement price = after-tax ex-mill price - discount + freight - freight subsidy

Preferential rates for hot-rolled coil offered by steel mills:

- Ansteel: additional RMB 130/mt subsidy for traders in October .
- Shougang Group: additional RMB 210/mt subsidy for traders in October .
- Benxi Iron & Steel: no additional subsidy for traders that placed orders in October.
- Shagang Group: no additional subsidy for traders that placed orders in October.

Note: The parts in bold have been updated.

## Rebar Traders' Settlement Price

Unit: RMB/mt

Date	Steel Mill	Mill's Location	Destination	Ex-mill Price (including tax)	Discounted Rate	Refund	Loading Fee	Storage Fee	Freight	Traders' Settlement Price
Nov 11~11	Zenith Steel	Changzhou, Jiangsu	Shanghai	3200	100	0	0	0	20	3120
Nov 11~11	Zenith Steel	Changzhou, Jiangsu	Hangzhou	3200	100	0	0	18	17	3135
Nov 11~11	Shagang Group	Suzhou, Jiangsu	Hangzhou	3200	110	0	20	18	15	3123

Data Source: SMM

Note: Traders' settlement price = ex-mill price - discounted rate - refund + storage fee + freight

## Steel Export

## China Export Transaction Prices (USD/mt)

Product	Specification	Export Tax Rate (+) / VAT Rebate Rate (-)	Latest Transaction Prices		Change	Delivery	Steel Mill	Port (FOB)
			Low End	High End				
ReBar	BS4449 460B 12-25mm , chrome Added	-13%	405	405	15/15	Jan	Major mills in East China	East China
Wire Rod	SAE1008 6.5-10mm , chrome Added	-13%	435	445	20/20	Jan	Major mills in East China	East China
HR	SS400/Q235 4.0-10.0mm	-9%	475	475	5/5	Jan	Major mills in North & East China	East & North China
CR	SPCC 1.0mm	-13%	575	585	10/10	Jan	Major mills in North China	North China
M&H Plat	A-Level Ship Plate 12-25mm	0%	450	460	25/25	Jan	Major mills in East China	East China
GI	ST02Z/SGCC 1.0mm	-13%	595	605	25/25	Jan	Major mills in North & East China	East & North China

Data Source: SMM

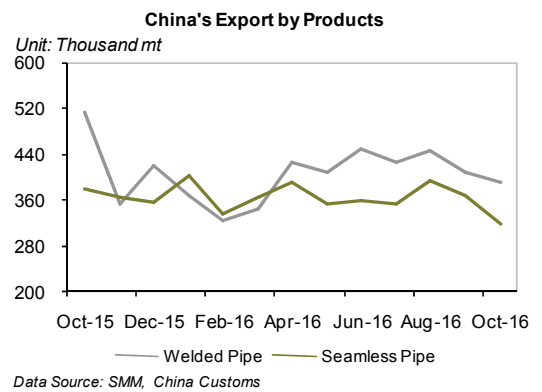
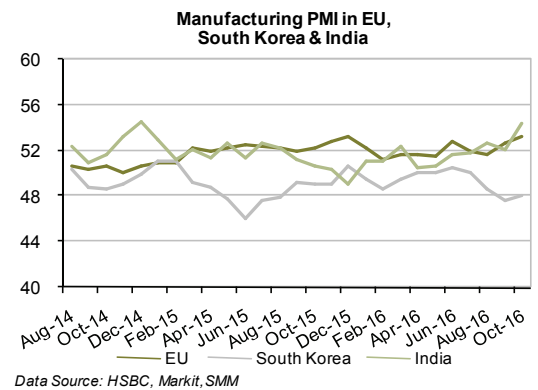
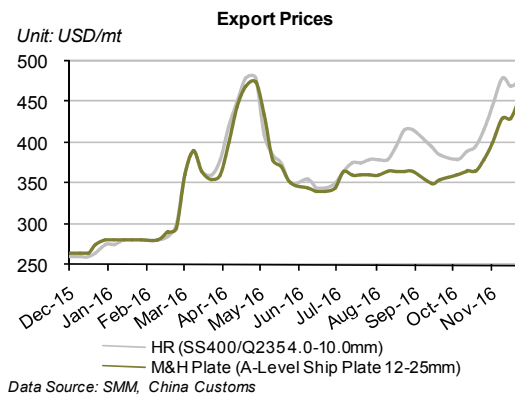
Note: Calculation formula for converting export prices of rebar, wire, cold-rolled steel and galvanizing into prices in China's spot market = FOB\* exchange rate\*1.17/ (1.17-0.13) ; Calculation formula for converting export prices of hot-rolled steel into prices in China's spot market = FOB\* exchange rate \*1.17/ (1.17-0.09) ; Calculation formula for converting export prices of medium-thick plate into prices in China's spot market = FOB\* exchange rate

US Commerce Department recently announced it will execute anti-circumvention investigation on certain cold-rolled steel flat products from China. Local steel association and some producers complained that Vietnamese producers use hot-rolled steel to produce or assemble cold-rolled steel plant and then exported such products to the US, so as to evade anti-dumping and ant-subsidy measures imposed by the US on China's cold-rolled steel plate.

Domestic steel prices continued to rise due to environmental protection factors, which also drove up export quotes. FOB price for rebar was USD 405/mt on December 2, up USD 15/mt on a weekly basis. FOB price for hot-rolled plate/coil was USD 475/mt, up USD 5/mt on a weekly basis.

In China's spot markets, the average price for rebar and hot-rolled plate/coil were RMB 3,218/mt and RMB 3,618/mt, respectively, with FOB price of USD 416/mt and USD 485/mt. Despite weakening effects from weather, environmental protection inspections affected steel plants in some regions. So domestic supply will fall slightly in the near term. As steel plants will be unwilling to export, export prices will hold firm in the near term.

**Demand Remains Positive, and High Prices Restrict Raw Material Purchases in November**



**Inventory for Major Steel Products**

**Steel Inventory in Trading Market (Unit: kt)**

	2016/11/25	2016/12/2	Week-on-Week
Rebar	4,029.2	4,209.7	180.5
Wire	892.0	957.0	65.0
Hot-rolled steel	1,851.5	1,814.3	-37.2
Cold-rolled steel	1,072.0	1,057.6	-14.4
Medium-thick plate	886.6	897.6	11.0
Total	8,731.3	8,936.2	204.9

Data Source: SMM

Note: SMM statistics cover inventories of major steel products in China's major markets: hot-rolled steel inventories in 33 major cities; rebar and wire inventories in 35 major cities; cold-rolled steel and medium-thick plate inventories in 31 major cities.

Steel inventories in China's trading market edged up on a weekly basis. Of them, rebar inventories were 4,209,700mt, up 180,500 mt week-on-week; wire inventories were 957,000 mt, up 65,000 mt week-on-week; hot-rolled steel inventories were 1,814,300 mt, down 37,200 mt week-on-week; cold-rolled steel inventories were 1,057,600 mt, down 14,400 mt week-on-week; medium-thick plate inventories were 897,600 mt, up 11,000 mt week-on-week.

Downstream buyers took a strong wait-and-see stance in the face of volatile prices. Plagued by tumbling futures prices on November 29, prices of some products in spot market plummeted by RMB 200/mt. Production at steel mills in Jiangsu, Shanxi and Shandong was negatively affected this past week due to inspections on environmental protections and capacity elimination. Arrivals of goods are expected to fall in the future, and market inventories will drop slightly as a result.

## Steel Futures

Changes of Weekly Dominant Contract Trading

Dominant Contract	Price (RMB/mt)			Trading Volume (million lots)					Positions (million lots)								
	Settlement Price	25-Nov	Change	Floor Price	Ceiling Price	Average Daily Trading	Daily Trading	2-Dec	25-Nov	Change	Lowest	Highest	2-Dec	25-Nov	Change	Lowest	Highest
RB1705	3131	3141	-10	2965	3378	3.85	1.73	2.12	2.14	5.32	1.65	1.22	0.43	1.34	1.65		

Data Source: SHFE, SMM

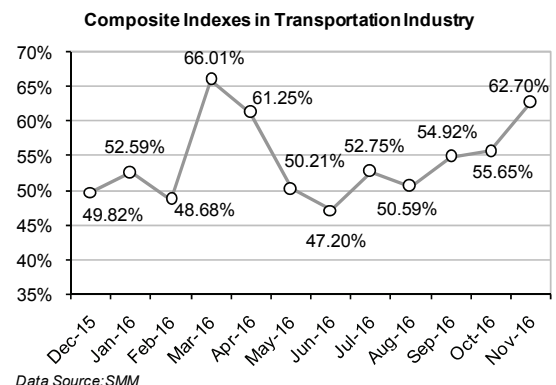
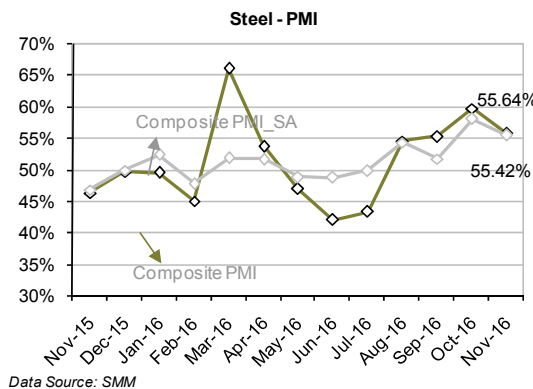


RB 1705 futures contract prices lurched higher this past week, but will drop slightly in the coming week.

On Monday, ferrous metals futures prices kept advancing with news of environmental protection inspections and production cuts at mills with intermediate frequency furnaces after checks. But, the market tumbled on Tuesday and Wednesday or even dropped to the daily downward limit. In the late week, the market returned to the rising track. The price decline this past week was a rational one after sharp rises in the previous time, SMM says. Market fundamentals will not inject continuous rising strength into raw material prices as supply shortages of coking coal and iron ore show signs of easing, and this will reduce cost support to steel products. Meanwhile, waning spot transactions will also presage a price fallback in the short term. Prices on Tuesday and Wednesday dropped with falling positions, and after prices rallied, positions also grew, a sign of stronger bulls. This past week, the daily average trading volumes of RB 1705 futures contract and positions on Friday both grew significantly on a weekly basis, as the most actively traded contract shifted from RB 1701 to RB 1705 contract.

Production at steel mills in the regions which are now facing will be still negatively affected. Inspections on environmental protections and capacity elimination will continue restricting production at steel mills in the targeted regions, but weakening support from raw material prices and downstream demand will cause prices to fall slightly in the coming week, SMM expects.

## Downstream Sectors Movement



### Construction Industry

Construction activity remained stable this past week. Construction activity almost came to a halt in north China due to cold weather. Only some construction sites in big cities of Henan can keep working while others were suspended by government because of air pollution, and so did construction sites in Shanxi. Construction activity maintained stable in east and south China. Some construction sites in those regions speeded up production to pay bank loans before the end of the year.

### Machinery Industry

Machinery sector improved slightly this past week. Sales of construction machines, such as excavator, were good due to support from infrastructure projects. Some machinery producers reported improvement in exports. New orders for mining machines increased as coking coal and coke kept advancing recently. Some producers are optimistic toward machine exports with promoting of One Belt & One Road Initiative. Some downstream prefer to build stocks of machine at the end of year, but are now wary of raw material purchases due to high prices.



### Automobile Industry

Automobile market remained strong this past week. High-strength car sheet demand was robust as vehicles are refitted into lighter ones after China's intensified inspections on overloading of trucks. Auto-makers rushed to purchase raw materials due to insufficient steel supply from steel mills. Sales and production of passenger vehicles both improved on a monthly basis. Large passenger vehicles thus increased steel purchases. Sales and production of passenger vehicles will remain strong in a short term due to efforts to fulfill full-year targets and preferential policies for passenger vehicles with engine at or below 1.6L, which will expire at the end of this year.

### Home appliance Industry

Home appliance production was stable with increasing promotions in December. Most home appliance producers said that their orders kept growing, especially white goods, including refrigerator, freezer and kitchen appliance. Moreover, exports of home appliance also increased, thanks to Merry Christmas. However, most producers purchased based on orders and slowed down stock building as steel prices surged.

### Transportation

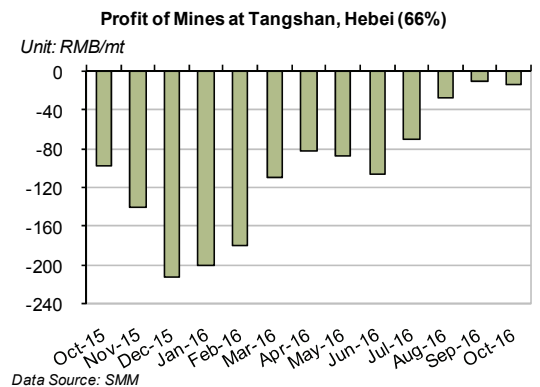
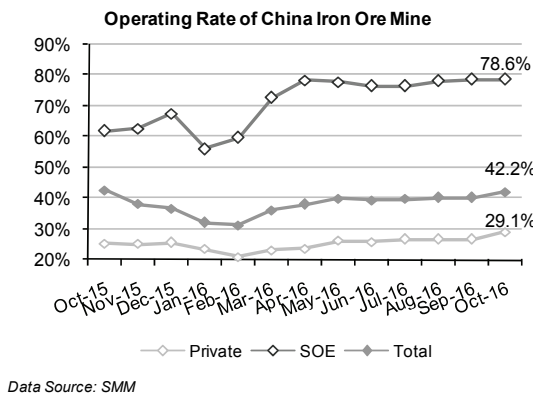
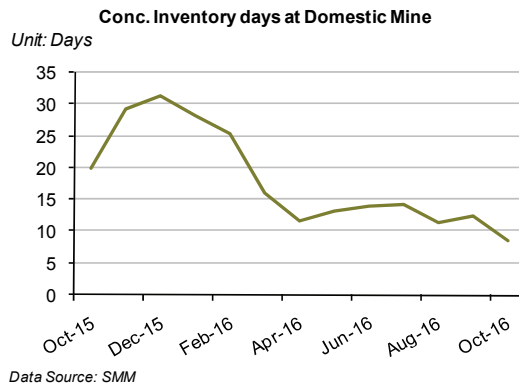
Transportation sector remains robust this past week. Chinese government planned to build Beijing-Handan inter-city railway according to Beijing-Tianjin-Hebei railway plan released on November 28. Upon its completion, railway lines along the Beijing-Guangzhou high-speed railway will run parallel. Chinese government has invested by a total of RMB 623.45 billion in railway construction during the first 10 months of 2016, up 9.8% from RMB 567.89 billion YoY. Railway construction will increase sharply at the end of year with starting of new projects.

## Macro and Steel Industry News This Week

- Investigation team of the State Council rectified illegal steel capacity in Hebei and Jiangsu. ★★
- The National Development & Reform Commission (NDRC) approved RMB 482.9 billion worth of railway projects in November. ★
- Global new shipbuilding orders hit a 20-year low in during January and October. ☆
- Real estate supply slowed in first and second-tier cities in China; floor space of buildings constructed fell in many regions in the first ten months of the year. ☆
- SHFE capped trading limit for rebar. ☆
- US executes anti-circumvention investigations on cold-rolled steel plate from China. ☆
- Jiangsu strictly inspects low-quality steel capacity. ★★
- China releases new policy on housing loans. Bankers expects China's housing loans to tighten next year. ☆
- The People's Bank of China (PBOC) executed net capital withdrawal for 4 days in a row, fueling market expectations that liquidity will be tightly balanced. ☆
- Morgan Stanley raises forecast for global economic growth next year. ★
- Profit at China's large industrials increased 9.8% YoY in October. ★

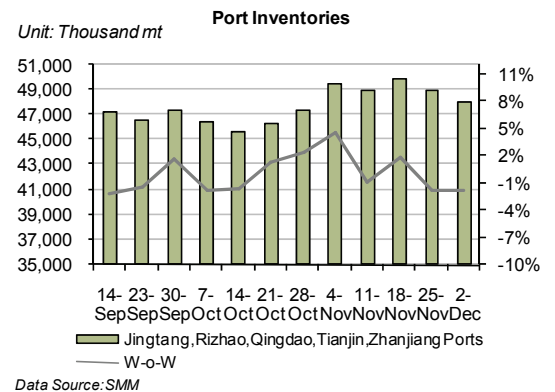
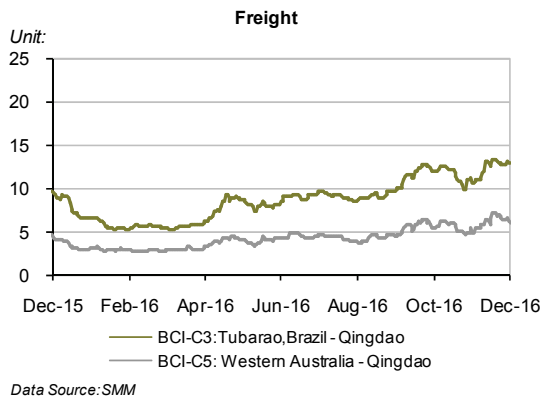
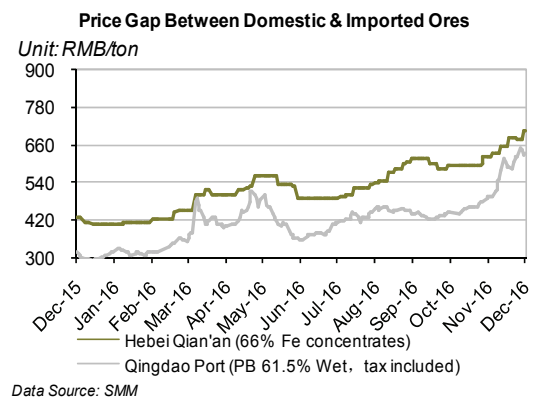
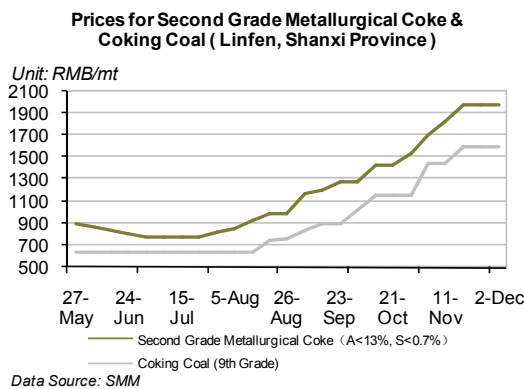
Note: SMM assesses impact of each news on steel industry. ★ stands for positive factor, and ☆ stands for negative factor

**Appendix I**

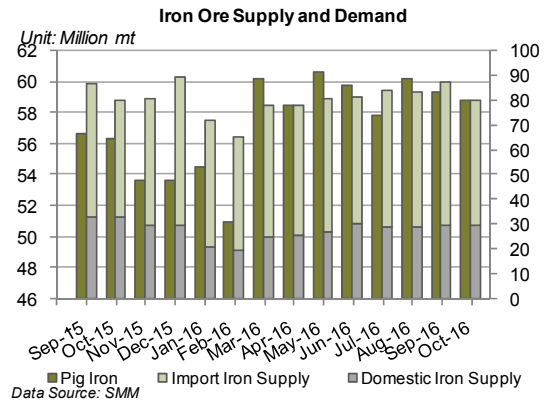
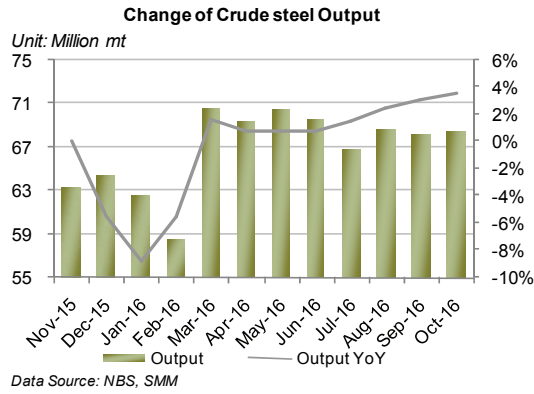


Note: Independent iron mines includes the private iron mines and non steel mills owned SOE mines.

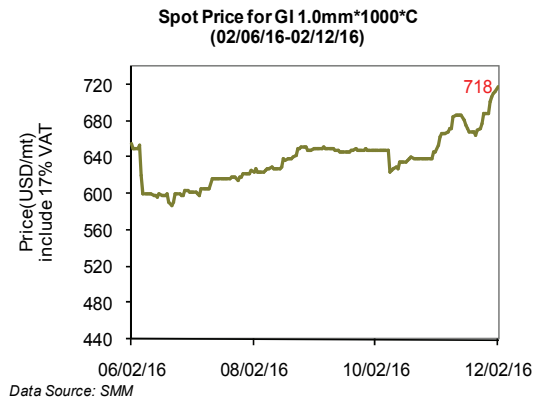
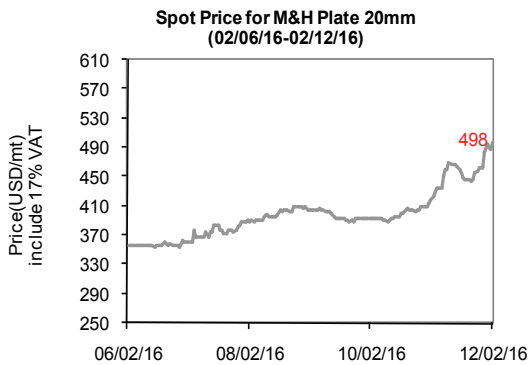
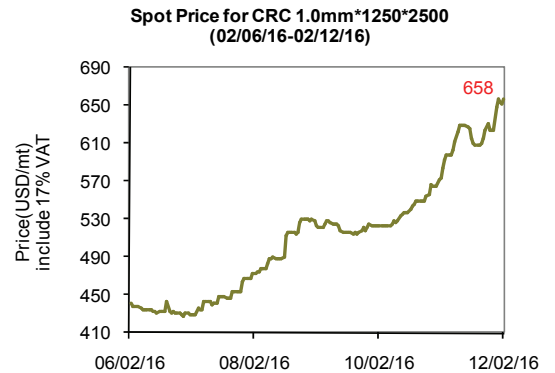
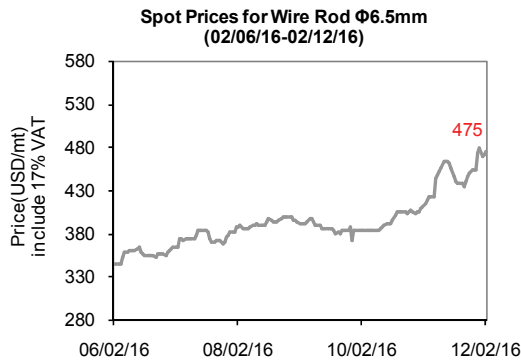
Note: Profit is recorded in wet basis, VAT excluded.



**Demand Remains Positive, and High Prices Restrict Raw Material Purchases in November**



Note: Domestic Iron Supply = Domestic Iron Ore Production \* 20%  
Import Iron Supply = Import Iron Ore Production \* 62%



## Appendix II

China Steel Production, Export and Import (million mt)

	Crude Steel			Slab & Billet			Finished Steel Quantity				Finished Steel Growth Rate (YoY)			
	Production	Import	Export	Production	Import	Export	Production	Import	Export	Net Imp/(Exp)	Production	Import	Export	Net Imp/(Exp)
2001	148.93	8.18	2.71	157.45	17.22	4.74	12.48	20%	8%	-24%	28%			
2002	181.55	4.60	1.33	192.18	24.49	5.45	19.03	22%	42%	15%	53%			
2003	220.12	5.88	1.47	235.82	37.17	6.96	30.21	23%	52%	28%	59%			
2004	272.46	3.86	6.06	297.39	29.30	14.23	15.07	26%	-21%	105%	-50%			
2005	349.36	1.31	7.07	371.17	25.82	20.52	5.29	25%	-12%	44%	-65%			
2006	418.78	0.37	9.04	466.85	18.51	43.01	(24.50)	26%	-28%	110%	n.a			
2007	487.83	0.24	6.40	560.09	16.88	62.61	(45.73)	20%	-9%	46%	-87%			
2008	497.88	0.26	1.29	579.05	15.43	59.26	(43.83)	3%	-9%	-5%	4%			
2009	566.40	4.60	0.04	689.40	17.40	24.19	(6.79)	19%	13%	-59%	85%			
2010	626.49	0.64	0.14	797.22	16.45	42.56	(26.11)	16%	-5%	76%	-285%			
2011	684.28	0.63	0.00	878.46	15.58	48.91	(33.33)	10%	-5%	15%	-28%			
2012	708.78	0.35	0.00	958.72	13.65	55.80	(42.15)	9%	-12%	14%	-26%			
2013	774.58	0.54	0.00	1067.30	14.07	62.34	(48.27)	11%	3%	12%	-15%			
2014	813.29	0.00	0.00	1121.98	14.43	93.80	(79.36)	5%	3%	50%	-64%			
2015	800.53	0.00	0.00	1123.94	12.78	112.42	(99.64)	0%	-11%	20%	-26%			
Jan 15	68.59	0.00	0.00	88.31	1.15	10.29	(9.14)	1%	-15%	52%	-69%			
Feb 15	61.95	0.00	0.00	79.76	0.87	7.80	(6.93)	-2%	-11%	63%	-81%			
Mar 15	69.48	0.00	0.00	97.56	1.21	7.70	(6.49)	3%	-3%	14%	-18%			
Apr 15	68.91	0.00	0.00	96.41	1.20	8.54	(7.34)	4%	-8%	13%	-18%			
May 15	69.95	0.00	0.00	98.48	1.05	9.20	(8.15)	2%	-14%	14%	-19%			
Jun 15	68.95	0.00	0.00	98.43	1.17	8.89	(7.72)	0%	4%	26%	-30%			
Jul 15	65.84	0.00	0.00	92.30	1.05	9.73	(8.68)	-3%	-14%	21%	-27%			
Aug 15	66.94	0.00	0.00	94.49	1.02	9.73	(8.71)	-1%	-14%	25%	-32%			
Sep 15	66.12	0.00	0.00	94.69	1.01	11.25	(10.24)	-1%	-26%	32%	-43%			
Oct 15	66.12	0.00	0.00	94.27	0.95	9.02	(8.07)	-1%	-13%	5%	-8%			
Nov 15	63.32	0.00	0.00	93.96	0.92	9.61	(8.69)	2%	-19%	-1%	-1%			
Dec 15	64.37	0.00	0.00	95.28	1.18	10.66	(9.48)	-3%	-2%	5%	-6%			
Jan 16	62.55	0.00	0.00	83.84	0.93	9.74	(8.81)	-5%	-19%	-5%	4%			
Feb 16	58.52	0.00	0.00	78.44	0.93	8.11	(7.18)	-2%	7%	4%	-4%			
Mar 16	70.65	0.00	0.00	99.23	1.27	9.98	(8.71)	2%	5%	30%	-34%			
Apr 16	69.42	0.00	0.00	96.68	1.10	9.08	(7.98)	0%	-8%	6%	-9%			
May 16	70.50	0.00	0.00	99.46	1.09	9.42	(8.33)	1%	4%	2%	-2%			
Jun 16	69.47	0.00	0.00	100.72	1.14	10.94	(9.80)	2%	-3%	23%	-27%			
Jul 16	66.81	0.00	0.00	95.94	1.13	10.30	(9.17)	4%	8%	6%	-6%			
Aug 16	68.57	0.00	0.00	97.91	1.11	9.01	(7.90)	4%	9%	-7%	9%			
Sep 16	68.17	0.00	0.00	98.09	1.13	8.80	(7.67)	4%	12%	-22%	25%			
Oct 16	68.51	0.00	0.00	97.68	1.08	7.70	(6.62)	4%	14%	-15%	18%			
<b>2016</b>	<b>807.80</b>	<b>0.00</b>	<b>0.00</b>	<b>1137.59</b>	<b>13.09</b>	<b>111.70</b>	<b>(98.60)</b>	<b>1%</b>	<b>2%</b>	<b>-1%</b>	<b>1%</b>			

Data Source: SMM

China Steel Production, Exports and Imports by Products (million mt)

		Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	2015 total	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Annualized
		<b>Rebar</b>	Production	16.143	14.580	17.100	17.256	17.647	17.424	16.515	17.521	17.824	17.766	17.272	17.555	204.603	14.431	13.500	17.719	17.396	17.683	17.950	17.474	17.458	17.170
	Export	0.009	0.010	0.023	0.023	0.017	0.019	0.019	0.022	0.015	0.017	0.016	0.012	0.203	0.016	0.025	0.014	0.016	0.020	0.018	0.021	0.015	0.019	0.011	0.209
	Import	0.005	0.002	0.005	0.009	0.004	0.005	0.001	0.002	0.001	0.003	0.002	0.003	0.042	0.003	0.001	0.003	0.001	0.002	0.003	0.001	0.006	0.002	0.030	0.030
<b>Wire Rod</b>	Production	11.259	10.169	13.103	13.347	13.335	12.911	12.230	12.687	12.388	11.904	11.689	12.105	147.127	9.865	9.229	12.419	12.692	13.210	13.147	11.956	12.270	12.618	11.838	143.093
	Export	1.295	0.896	0.745	0.795	1.071	1.010	1.050	0.952	1.234	0.928	1.052	1.246	12.276	0.852	0.757	1.192	0.851	0.979	1.168	1.082	0.976	0.865	0.749	11.365
	Import	0.045	0.036	0.050	0.053	0.049	0.045	0.049	0.043	0.060	0.045	0.046	0.055	0.575	0.050	0.040	0.062	0.061	0.054	0.053	0.054	0.051	0.053	0.053	0.638
<b>Hot-Rolled</b>	Export	1.784	1.023	1.216	1.243	1.112	1.018	1.045	1.348	1.702	1.139	1.433	1.402	15.466	1.236	1.274	1.445	1.137	1.073	1.300	1.570	1.323	1.449	1.045	15.424
	Import	0.164	0.163	0.202	0.229	0.212	0.232	0.156	0.210	0.160	0.180	0.166	0.195	2.269	0.143	0.176	0.204	0.192	0.213	0.180	0.211	0.181	0.220	0.215	2.323
<b>Cold-Rolled</b>	Export	0.645	0.438	0.489	0.545	0.457	0.494	0.477	0.607	0.550	0.419	0.421	0.430	5.972	0.430	0.289	0.274	0.237	0.249	0.364	0.416	0.473	0.524	0.437	4.431
	Import	0.302	0.187	0.294	0.287	0.211	0.256	0.223	0.216	0.248	0.202	0.176	0.256	2.857	0.190	0.224	0.253	0.223	0.215	0.238	0.235	0.238	0.232	0.256	2.763
<b>M&amp;H Plate</b>	Export	0.695	0.443	0.611	0.703	0.690	0.584	0.687	0.635	0.771	0.613	0.571	0.646	7.647	0.618	0.601	0.770	0.656	0.602	0.688	0.509	0.659	0.543	0.428	7.288
	Import	0.128	0.109	0.127	0.116	0.123	0.138	0.146	0.144	0.127	0.152	0.151	0.180	1.639	0.138	0.124	0.211	0.156	0.133	0.161	0.184	0.177	0.144	0.126	1.864
<b>Galvanized</b>	Export	1.025	0.813	0.941	0.952	0.881	0.915	0.919	0.920	1.100	0.967	0.863	1.103	11.398	0.969	0.908	1.046	1.047	1.088	1.047	1.082	1.126	1.039	0.966	12.381
	Import	0.273	0.218	0.297	0.269	0.238	0.275	0.268	0.241	0.241	0.198	0.202	0.284	3.002	0.237	0.223	0.313	0.271	0.260	0.302	0.252	0.264	0.272	0.237	3.159
<b>Section</b>	Export	0.450	0.391	0.370	0.445	0.502	0.531	0.531	0.358	0.429	0.618	0.367	0.387	5.379	0.420	0.349	0.428	0.475	0.463	0.641	0.401	0.385	0.376	0.376	5.175
	Import	0.038	0.020	0.040	0.036	0.031	0.033	0.022	0.018	0.020	0.015	0.018	0.023	0.313	0.015	0.015	0.031	0.028	0.032	0.024	0.022	0.028	0.027	0.029	0.302

Data Source: SMM

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China Iron Ore Monthly Monitor

China Steel PMI Monthly

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China Steel Industry Chain Annual Report, 2015-2019

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### Database

China Iron Ore Industry Database

China Steel Industry Database

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