Steel Market Developments provide up-to-date information on global and regional steel markets. Reviewed and approved by the OECD Steel Committee, they are disseminated approximately twice a year to allow policymakers, industry, media and academia to keep abreast of the main trends and recent developments taking place in steel markets.

The reports provide an overview of recent supply and demand developments and, when available, forecasts from publicly available sources. Topics of special interest are occasionally covered, such as developments in steel-related raw material markets, steelmaking capacity trends or updates on specific regions that are important for the global steel market.
STEEL MARKET DEVELOPMENTS

2ND QUARTER 2015

by Naoki Sekiguchi

OECD, Paris

Note for Israel
The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

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# TABLE OF CONTENTS

STEEL MARKET DEVELOPMENTS ............................................................................................................. 3

Summary ...................................................................................................................................................... 3
The economic background ........................................................................................................................... 4
   Key economic indicators .......................................................................................................................... 4
Market sentiment ...................................................................................................................................... 5
Steel demand outlook ................................................................................................................................... 6
   Outlook for steel demand growth ............................................................................................................. 6
What does steel intensity tell us about the potential for steel consumption? ........................................... 8
   Special focus: Has the Chinese steel market already reached a turning point? ..................................... 9
Steel capacity and production .................................................................................................................... 11
Price developments: raw materials and steel ............................................................................................. 13
   Overview of raw material price developments ....................................................................................... 13
   Steel prices ............................................................................................................................................. 14
   Special focus: the impacts of falling oil prices ....................................................................................... 15
Profitability developments ......................................................................................................................... 17

ANNEX: Key macroeconomic/steel indicators (selected economies) .......................................................... 18

NOTE ............................................................................................................................................................ 19

REFERENCES .............................................................................................................................................. 21
STEEL MARKET DEVELOPMENTS

Summary

The outlook for the steel sector remains weak. Key factors surrounding the outlook include near stagnation in global steel demand, persistence of excess capacity as new investments continue to take place, and low profitability for steelmaking companies. This document provides a short overview of recent market developments in the global steel industry, and summarises existing short-run forecasts for steel demand.

While many uncertainties cloud the outlook for the global steel industry, including world economic growth, geopolitical tensions, the future evolution of oil and raw material markets, and the impacts of excess steelmaking capacity, this report identifies several likely trends.

The main conclusions of this report are as follows:

- Recent macroeconomic indicators suggest a positive change in growth momentum in some economies. Although the world economy continues to face uncertainty, lower oil prices could boost economic growth particularly in oil importing economies.
- Growth in global apparent steel use has nearly come to a halt. Following growth of only 0.6% in 2014, demand growth is expected to remain restrained at 0.5% in 2015, with only a limited recovery in 2016 of 1.4%, according to the World Steel Association.
- Major steel-consuming industries are expected to register modest output growth in 2015 and 2016.
- Global steel intensity (the amount of steel used to produce one unit of GDP) is likely to decline during 2015-2016. China’s steel intensity is expected to continue to decline as its economy undergoes structural change. After three decades of extraordinary economic development, China is now shifting to a lower but still rapid and likely more sustainable growth path. Chinese steel demand and production might have already reached their peaks and are likely to stabilise in the coming years.
- In response to weak market conditions, many steel producers are cutting production. At the same time, several crude steelmaking investment projects have been completed, and production has been started at these plants in recent months. Regions that are currently net importers of steel products are continuing to add new capacities.
- Prices of key raw materials have been declining and are likely to remain low amid weak steel demand.
- Steel prices have been decreasing together with excess steelmaking capacity and falling raw material prices. The recent drop in oil prices has affected steel prices, particularly in the segment of steel tubes and pipes. Weak earnings have led to a decline in the industry’s profitability over the last few years, with little recovery expected in the near future.
The economic background

Key economic indicators

The economies of major economies are expected to continue to grow at a moderate pace during 2015-2016 (Table 1), while inflation and interest rates remain low owing to greater financial stability. According to the OECD’s Interim Economic Assessment released in March 2015 (OECD, 2015a), lower oil prices and the effects of monetary policy easing will raise economic growth in the world’s major economies. The euro area economy is starting to emerge from a period of stagnation, with GDP expected to grow by 1.4% in 2015 and 2.0% in 2016, up from 0.9% in 2014. US GDP growth is forecast to grow by 3.1% in 2015 and by 3.0% in 2016, while Japan is projected to grow by 1.0% in 2015 and 1.4% in 2016.

Table 1. OECD Interim Economic Projections

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<td>↑ 0.3</td>
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<td>1.7</td>
<td>↑ 0.3</td>
<td>↑ 0.2</td>
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<td>1.7</td>
<td>2.2</td>
<td>↑ 0.6</td>
<td>↑ 0.4</td>
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<td>0.6</td>
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<td>↑ 0.4</td>
<td>↑ 0.3</td>
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<td>United Kingdom</td>
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<td>2.6</td>
<td>2.5</td>
<td>↓ -0.1</td>
<td>0.0</td>
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<td>2.2</td>
<td>2.1</td>
<td>↓ -0.4</td>
<td>↓ -0.3</td>
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<tr>
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<td>3.0</td>
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<td>Japan</td>
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<td>↑ 0.2</td>
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<td>↓ -2.0</td>
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<td>China</td>
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<td>7.0</td>
<td>6.9</td>
<td>↓ -0.1</td>
<td>0.0</td>
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<td>India</td>
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<td>8.0</td>
<td>↑ 1.3</td>
<td>↑ 1.4</td>
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<td>Aggregate 1/</td>
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<td>4.0</td>
<td>4.3</td>
<td>↑ 0.1</td>
<td>↑ 0.2</td>
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</tbody>
</table>

1/ Economies representing over 70% of global GDP measured at 2013 PPP exchange rates.
Source: OECD Interim projections, March 2015.

The relatively weak growth in global output is associated with a general slowdown in industrial activity. According to data from Netherlands Bureau for Economic Policy Analysis (CPB), world industrial production growth has slowed since May 2014, with industrial activity weakening in both advanced economies as well as emerging and developing economies (Figure 1).

Looking ahead, the latest OECD Composite Leading Indicators (CLIs) indicators, 2 released in March 2015, show growth momentum picking up slightly in the euro area but remaining stable in other major economies and the OECD area as a whole (Figure 1). More specifically, the CLIs point to an improved outlook for major European economies such as Germany, France and Italy, as well as stable growth for other major economies, including the United States and China.
Market sentiment

The global Purchasing Managers’ Index (PMI) for steel, compiled monthly by Markit Economics, has fallen over the past five months, indicating weakening sentiment in the global steel market (Figure 2). Following a brief period of improved sentiment from the spring to autumn of 2014, the global steel PMI has declined in recent months, falling to 49.4 points in March 2015, below the 50-point threshold between expansion and contraction in business activity. This development reflects weakening sentiment especially in Asia; the Asian steel PMI has been oriented downwards since November 2014 and fell to 48.2 points in March 2015. In Asia, the index that tracks stocks of finished goods is currently at relatively high levels, reflecting weak demand. In contrast, steel PMIs for some regions show signs of improvement. In March 2015, the steel PMI continued to increase in Europe, reaching 52.8 points. Steel PMI readings in the United States have generally been higher than other regions at approximately 55 points in the first quarter of 2015.

According to China’s National Bureau of Statistics, the Chinese manufacturing PMI rose slightly to 50.1 points in March 2015. The reading was thus marginally higher than the 50-point threshold between contraction and expansion in the manufacturing sector for the first time in three months. Market
conditions have changed markedly in some regions. For instance, Hebei province’s PMI for steel in March rebounded to an eleven-month high of 49.5 points from a reading of 34 points in February 2015 (supported by higher steel output and new orders), the improvement was an outcome of a seasonal recovery and restocking among steel traders (Platts, 2015c).  

Steel demand outlook

Outlook for steel demand growth

The three-year period from 2014 to 2016 is expected to be characterised by exceptionally slow global steel demand growth. According to the April 2015 forecasts of the World Steel Association, global apparent steel use is expected to grow by only 0.5% to 1,544.4 million metric tonnes (mmt) in 2015 and by 1.4% to 1,565.5 mmt in 2016, reflecting the slowdown of China’s steel demand and moderate demand developments in many emerging and advanced economies (Table 2).

Some regions will perform relatively better than others, such as the Middle East and Africa, although political instabilities and the sharp decline in oil prices present risks for demand in these regions. The pace of recovery in European Union in 2015 is also expected to be stronger than the world average, with apparent steel use in the region forecast to grow by 2.1% in 2015 and 2.8% in 2016. However, given the extent of demand weakness in recent years, these forecasts suggest that EU steel consumption in 2016 will still be around 30% below its 2007 level.

<table>
<thead>
<tr>
<th>Region</th>
<th>2007 Volume</th>
<th>2014 Volume</th>
<th>2015 (f) Volume</th>
<th>2016 (f) Volume</th>
<th>2015 (f) Growth rates, %</th>
<th>2016 (f) Growth rates, %</th>
<th>Contribution to growth, %</th>
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</thead>
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<td>146.8</td>
<td>149.9</td>
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<td>Central and South America</td>
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<td>48.1</td>
<td>-3.4</td>
<td>3.4</td>
<td>-0.1</td>
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<td>Africa</td>
<td>22.8</td>
<td>36.9</td>
<td>39.6</td>
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<td>43.8</td>
<td>51.9</td>
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<td>Asia and Oceania</td>
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<td>World (excl. China)</td>
<td>803.0</td>
<td>826.8</td>
<td>837.2</td>
<td>861.8</td>
<td>1.3</td>
<td>2.9</td>
<td>-</td>
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</table>

Notes: Explanation of colour: ■: Decrease year-on-year.  
Source: OECD based on data from the World Steel Association.

Chinese steel consumption is likely to decrease by 0.5% in 2015 and 2016, thus its contribution to global apparent steel use growth is expected to decrease from positive 3.6 percentage points in 2007 and 8.5 percentage points in 2009, to negative 0.2 percentage points in 2015 and 2016.
The output of major steel-consuming industries is expected to continue to grow moderately in 2015 and 2016. In China, most key steel using sectors slowed down in 2014 and forecast growth rates for 2015-2016 are expected to be lower than in the past few years. Figure 3 and Table 3 summarise the prospects for major steel-using sectors based on data from IHS Global Insight.

- **Construction.** The construction sector is the largest steel-consuming sector, accounting for 52.2% of global steel use in 2013 (worldsteel, 2014). At a global level, construction output is expected to slow down from 3.3% in 2014 to 2.6% in 2015 and then to bounce back to 3.6% in 2016. Construction output during 2015-2016 is forecast to surpass the growth rate observed in 2014 in the EU, NAFTA, Africa and India, while in the CIS region it is expected to stagnate. Chinese construction output growth is expected to slow down and is forecast to rise by 4.3% in 2015 and 6.0% in 2016, below the 8.8% achieved in 2014.

- **Automotive.** Automotive is also a key steel-consuming sector, absorbing 11.6% of global steel use (worldsteel, 2014). The growth of the automotive sector in the world as a whole is forecast at 3.5% in 2015 and 3.0% in 2016, slowing from a 5.1% in 2014. Automotive output in 2015 is expected to recover from negative growth rates in regions such as ASEAN and India. In the EU, output is expected to grow at a more moderate pace in 2015 and 2016. In NAFTA, automotive output is forecast to continue to increase in 2015 and 2016. Chinese automotive output showed robust growth (12.0%) in 2014, but is expected to slow down to 7.6% in 2015 and 6.6% in 2016.

- **Machinery.** Machinery accounted for 14.2% of global steel use in 2013 (worldsteel, 2014), and output growth in 2015 is expected to outperform 2014, though it is forecast to decelerate in 2016. In Europe, the pace of the recovery between 2015 and 2016 is expected to be stronger, and in Latin America the sector is expected to show a tendency to recover in the coming two years. In China, growth of the machinery sector is expected to slow down in 2015 and 2016.
Table 3. Growth of key steel-using sectors by region (y-o-y growth rates, %)

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<td>1.6</td>
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</table>

1) The aggregate of Norway, Switzerland and Turkey. 2) The aggregate of Russia and Ukraine. 3) The aggregate of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Honduras, Jamaica, Panama, Peru, Uruguay and Venezuela. 4) The aggregate of Cameroon, Kenya, Morocco, Nigeria, Senegal, South Africa, Tunisia and Zimbabwe. 5) The aggregate of Bahrain, Egypt, Iran, Israel, Jordan, Kuwait, Qatar, Saudi Arabia and United Arab Emirates. 6) The aggregate of Japan, Hong Kong, China, China, Korea and Chinese Taipei. 7) The aggregate of Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam. 8) The aggregate of Australia and New Zealand.

Notes: Explanation of colour: ■: Decrease year-on-year.

Source: OECD based on gross output data from IHS Global Insight.

What does steel intensity tell us about the potential for steel consumption?

The International Iron and Steel Institute (now the World Steel Association) introduced the concept of the intensity of use curve in 1972 in their “Projection 85” (Toda, 1984). This curve shows how the state of economic development affects the level of steel consumed per unit of GDP. In general, steel intensity (steel consumption per GDP) increases as GDP rises, but it starts declining at a certain point once the economy reaches a sufficiently high level of income (OECD, 1998).

Steel intensity curves can help shed light on possible scenarios for steel consumption in the future, as they have been shown to follow certain patterns determined by the economic development of countries. The relationship between steel intensity and GDP per capita typically indicates an inverse U-shaped curve, though there are significant differences in the peaks and shapes of the curve depending on the economy. Figure 4 displays steel intensities of selected economies over several decades. Steel intensity in some economies such as Turkey and the ASEAN region has been increasing as their economies grow, while it has been declining in more advanced economies such as the United States, Japan and some European countries. Countries and regions whose intensity curves are still increasing have the best prospects for steel consumption growth. This is the case in many developing and emerging economies, where steel-intensive infrastructure is being built, manufacturing sectors are becoming more important in their economies, and where much construction is still needed to meet the housing requirements of the local population.

OECD economies generally exhibit lower steel intensities as a result of their mature economies, where e.g. services play an important role in economic output. Conversely, China has one of the highest steel intensities in the world; Chinese steel intensity is eight times that of Japan and over 15 times that of the United States. Compared to other regions, ASEAN economies also have higher steel intensity levels thanks to growth in manufacturing industries and increased investment in fixed assets.
The panel on the lower right-hand side of Figure 4 shows a trajectory for steel intensity, in China and the world more broadly, based on existing forecasts for GDP and steel demand. Due to weak steel demand in 2015 and 2016, global steel intensity is expected to decrease from 23.2 tonnes per million of USD in 2014, to 22.6 tonnes per million of USD in 2015 and 22.2 tonnes per million of USD in 2016. An important question that arises is whether the decline in Chinese steel intensity is a secular trend, reflecting ongoing structural changes taking place in the economy, or whether it is cyclical, and to what extent it will be offset in the future by rising intensities elsewhere.

**Special focus: Has the Chinese steel market already reached a turning point?**

Given China’s important role in the global steel sector, how the country’s steel demand will evolve in the future is currently a highly debated issue. Although many analysts had previously predicted that steel demand/production in China would peak around 2020 or 2025, now that point could be reached much sooner. Major mining companies expect China’s steel production to continue to increase until the mid-2020s. However, China’s Ministry of Industry and Information Technology has noted that China’s steel consumption has already reached its peak and has stabilised, with this new phase referred to as the “New
The latest steel demand data from China are depicted in Figure 5 and seem to support this notion — China’s crude steel consumption dropped by 3.4% to 738.3 mmt in 2014 for the first time in more than a decade amid a property market slowdown.\textsuperscript{10} The China Iron and Steel Association (CISA) agrees that China’s steel production has peaked and is reaching a plateau, indicating a turning point where the focus is shifting from quantity to quality (CISA, 2015b).\textsuperscript{11}

Fixed asset investment (FAI) has been a key driver of economic growth as well as steel demand in China. According to WSD (2014a), FAI accounts for about 90% of Chinese steel demand and more than 80% in the rest of the world. The share of Gross Fixed Capital Formation (GFCF) within GDP has risen from 39.4% in 2003 to 47.3% in 2013, according to data from the World Bank. Lee, Syed and Xueyan (2012) provide a literature review of recent studies that examine the question of whether over-investment has occurred in China. The authors indicate that studies made at the macro level are inconclusive, but studies at the microeconomic level tend to find more evidence of over-investment in China.

Any long-term shift in Chinese FAI behaviour will have important impacts on steel demand. According to the OECD’s latest Economic Survey of China, China’s economic growth is projected to remain moderate during 2015-2016 in line with slower investment growth, although still high in international comparison. A key development is the ongoing correction taking place in real estate investment, which accounts for 19% of total fixed investment in China. Investment in upstream industries, including steel, cement and construction materials, has also slowed (OECD, 2015b).

In China, the ratio of apparent steel use to FAI is very high compared with other economies, though it has been declining in recent years (Figure 5) and might further decrease during 2014-2015. China’s output growth is likely to rely less on higher FAI in the future, as steps are taken to shift from an investment-driven economy to a consumption-driven economy (WSJ, 2015). In addition, with expected declines in aggregate investment (GFCF), steel consumption intensity is also likely to decrease.

In summary, after three decades of extraordinary economic development, it appears that China is now shifting to a lower but still rapid and likely more sustainable growth path, the so-called the “New Normal” (OECD, 2015b). The role of fixed asset investment as a driver of steel consumption should continue to moderate, while the service sector’s share in total output is expected to increase. Although the share of services in value added (excluding construction and utilities) has increased to 46.1%, and has recently overtaken the share of manufacturing, it still remains low compared to OECD and some emerging economies. If China follows a path similar to what developed economies experienced in the past, then a decline in steel intensity would be expected over time as the country becomes more dependent on services as a source of growth.
STEEL MARKET DEVELOPMENTS

Figure 5. Key indicators for China

Notes: The Secretariat assumes demand growth of -0.5% in 2015 and 2016. These are the most recent rates of growth forecast by the World Steel Association for China’s apparent steel use (April 2015 Short Range Outlook).

Source: The World Steel Association and China Iron and Steel Association for crude steel consumption, World Steel Dynamics for apparent steel use to FAI intensity, OECD for real GDP growth and share of services value added in GDP (OECD), World Bank for Chinese structures of output.

Steel capacity and production

According to the Secretariat’s calculations, regions that are currently net importers of steel products are expected to record the largest capacity increases, with Asia and the Middle East expected to lead the capacity expansions (OECD, 2015c). Several projects have begun to operate since the last meeting of the Steel Committee in December 2014. For example, Eastern Steel in Malaysia commissioned its new slab plant located at Kemaman Heavy Industrial Park in Terengganu in December 2014. This plant became the first steel slab plant that uses blast furnace technology in the country. Table 4 provides further information on projects that have started operations since December 2014.
Global crude steel production grew by only 1.0% to 1,665.2 mmt in 2014, driven by China’s slowdown and modest growth in developed economies, though still a record-high level of steel production worldwide. Steel production increased slightly in advanced economies: 1.8% in the European Union, 1.5% in the United States and 0.1% in Japan. In 2014, Chinese steel production increased by 0.1% to 822.7 mmt, a significant slowdown from 12.4% observed in 2013. As a result, the Chinese share of global production decreased from 49.8% in 2013 to 49.4% in 2014. Some industry analysts note that the slower growth rate in China was caused by its softer economic performance and the new environmental protection law that came into effect in January 2015 is likely to have a significant influence on the country’s future steel supply. In 2014, the Middle East was the fastest-growing steelmaking region with a 7.6% growth rate, while Ukrainian crude steel production in 2014 plunged by 17.1% below 30 mmt for the first time in five years, to a large extent due to the Ukrainian crisis.

Weaker steel demand, lower prices, and greater competition in the global steel market have caused major steel-producing countries to cut steel production in recent months. After reaching its second highest record in May 2014, global steel production has been on a downward trend since then (Figure 6). Chinese steel production has been oriented downwards since peaking at 70.4 mmt in May 2014, while crude steel production in the rest of the world (excluding China) has stagnated since December 2014.

Table 4. Iron and steel making investment projects that have started up since December 2014

<table>
<thead>
<tr>
<th>Region</th>
<th>Economy</th>
<th>Company</th>
<th>Location or Project</th>
<th>Type</th>
<th>Unit</th>
<th>Details</th>
<th>Capacity ('000 tpy)</th>
<th>Start Date</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Europe</td>
<td>Turkey</td>
<td>Kardemir</td>
<td>Karabuk</td>
<td>BF</td>
<td>x 1</td>
<td>1280 m³</td>
<td>1200</td>
<td>2015 January</td>
<td>1/</td>
</tr>
<tr>
<td>CIS</td>
<td>Kazakhstan</td>
<td>ArcelorMittal Temirtau</td>
<td>Temirtau</td>
<td>BF</td>
<td>x 1</td>
<td>3200 → 3800 m³</td>
<td>1300 → 2300</td>
<td>2014 December</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>Iraq</td>
<td>Mass Global Investment</td>
<td>Sulaimanyah</td>
<td>EAF</td>
<td>x 1</td>
<td>120 t</td>
<td>1000</td>
<td>2015 March</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>Iran</td>
<td>MDHC O</td>
<td>Bardar D R Rant (SISCO)</td>
<td>DR</td>
<td>x 1</td>
<td>n/a</td>
<td>500</td>
<td>2015 February</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>India</td>
<td>SAIL</td>
<td>Burpur West Bengal (ISCO)</td>
<td>BF</td>
<td>x 1</td>
<td>4160 m³</td>
<td>2500</td>
<td>2014 September</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>Malaysia</td>
<td>Eastern Steel</td>
<td>Kamann, Terengganu</td>
<td>BF-BOF</td>
<td>x 1</td>
<td>n/a</td>
<td>700</td>
<td>2014 September</td>
<td></td>
</tr>
<tr>
<td>Asia</td>
<td>Viet Nam</td>
<td>POSCO SS-Vina</td>
<td>Phu My, Ba Ra-Vung Tau</td>
<td>EAF</td>
<td>x 1</td>
<td>120 t</td>
<td>1000</td>
<td>2015 January</td>
<td></td>
</tr>
</tbody>
</table>

1/ Official start up.
Source: OECD based on various sources.
Although China has been the driving force in global steel supply, its contribution to global steel production growth has been declining since January 2014 (Figure 7). In the first quarter of 2015, global crude steel production decreased by 1.8%, year-on-year, to 1,622.4 mmt in annualised terms. Chinese crude steel production in the first quarter of 2015 fell by 1.7%, reaching 811.5 mmt in annualised terms. Lower domestic prices in China and mounting financial difficulties have caused several Chinese mills to stop production of their blast furnaces and to initiate maintenance in recent months. In the rest of the world, crude steel production was 810.8 mmt in the first quarter of 2015, in annualised terms, down 1.9% compared to the previous year. In contrast, Indian production has grown for 17 months in a row, and the country has overtaken the United States to become the third largest steelmaking country.

Price developments: raw materials and steel

Overview of raw material price developments

Figure 8 presents raw material price developments over the past several years, indicating that prices have generally trended downwards since 2010/11. With steel demand projected to remain very weak in 2015, and with only a modest recovery in 2016, raw material prices are likely to remain comparatively low over the next year or two. Some key developments include:

- **Iron ore.** The iron ore spot price (the reference price being Chinese imports of iron ore from Australia) has been below USD 100 per tonne since May 2014, and fell to USD 58 per tonne in March 2015, breaking below USD 60 per tonne for the first time since April 2009 as a result of continued oversupply and weak demand. The most recent data indicate a further decline in the iron ore price to USD 49 per tonne in April 2015. The persistent fall in iron ore prices during 2014 reflected the market balance shifting to oversupply in contrast with the typical volatile pricing cycles associated with seasonal changes in inventories in China (BREE, 2015). A further increase in iron ore supply combined with weak steel production in China is likely to drive prices lower in 2015 and 2016, according to BREE (2015).

According to data from the International Steel Statistics Bureau (ISSB), iron ore exports from major exporting countries such as Australia and Brazil reached a record-high in 2014. On the other hand, India, which had been the world’s third largest exporter until 2010, has seen its outward
shipments decline over the past several years. In 2014, India’s iron ore exports fell to 9.6 mmt, a
decline of 89% relative to its export peak reached in 2009. As a result, South Africa and Canada
have recently surpassed India to become the third and fourth largest iron ore exporters, respectively.
In fact, India has recently become a net importer of iron ore, given the country’s increased
requirements for iron ore as steel production expands.

**Metallurgical coal.** Hard coking coal spot prices from Australia declined from February 2011 until
early 2014, after which they have remained relatively stable. However, metallurgical coal prices fell to
USD 97 per tonne in March 2015, breaking below USD 100 per tonne for the first time since January 2007.
In April 2015, the price declined to as low as USD 95 per tonne, i.e. 76.3% lower than its peak in
July 2008. Unlike iron ore, the coal market balance is expected to tighten from 2016 onwards, as a period
of oversupply comes to an end through the closure of high cost mining operations and growing steel
production in China and India (BREE, 2015).

**Scrap.** The reference price of scrap (FOB Rotterdam) remained fairly stable, at around USD 350 per
tonne, from mid-2012 until September 2014. Although scrap prices have declined significantly since
October 2014, they rose slightly in March and then remained steady at USD 230 per tonne in April 2015.
Some divergence has, however, been observed across different markets. For example, US scrap prices
(FOB Chicago) in March 2015 fell by 0.9% to USD 229 per tonne compared to February 2015. US scrap
exports fell by 17.1% to 15.3 mmt in 2014, the lowest level since 2006, while scrap imports in the US
reached 4.2 mmt in 2014, the highest volume over the past few years. US scrap imports continued to
increase in January 2015, doing so by 44.6%, year on year, to 0.45 mmt, the largest monthly level observed
since April 2010. This development may have possibly been affected by the strong US dollar.

**Steel prices**

Although steel production growth has slowed, the combined effects of weak steel demand and falling
raw material prices have placed downward pressure on steel prices. The world steel price index 17 has been
trending downwards since the second quarter of 2011. It decreased to 158 points in April 2015, 44% lower
than its post-crisis peak in April 2011 (Figure 9). World hot-rolled coil (HRC) and rebar prices have been
below the USD 500 per tonne since December 2014, reaching USD 443 per tonne and USD 452 per tonne
in April 2015, respectively.

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**Figure 8. Key raw material price indicators**

![Iron Ore Prices](image1)

![Coking Coal and Scrap Prices](image2)

![Key Raw Materials Indices](image3)

*Source: Commodity Research Unit for raw material prices and OECD for key raw materials indices.*

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17. The world steel price index typically measures the price of steel products in the global market, reflecting the cost of production and international trade dynamics.
Figure 9. Steel prices

Lower oil prices are having important effects on demand and prices for specific steel products used in the oil and gas industry, with seamless and welded pipe prices having declined since the second half of 2014. For example, the North American imported welded pipe price (oil country tubular goods, or “OCTG”) decreased to USD 909.5 per tonne in April 2015, a level 29.8% lower than the post-crisis peak reached in August 2011. Aside from lower pipes and tubes prices, falling oil prices have had an important impact upon the economy, and more specifically the steel industry. A brief summary of these impacts is provided in Box 1 below.

Box 1. The impact of falling oil prices on the economy and the steel industry

From June 2014 through January 2015 oil prices experienced one of their largest falls in recent decades, affecting many tubemakers’ business, particularly in the OCTG market segment. In March 2015, oil prices (as measured by the IMF’s basket of three reference grades of oil) had fallen to USD 52.8/bbl, down 49.2% from their level a year earlier. There is much uncertainty about the precise causes of the recent oil price decline as well as the future evolution of oil prices. Demand for oil has softened significantly in key emerging market economies and in some advanced economies, while high U.S. oil supply as well as output increases in Libya have been noted to be possible supply side factors (Kirby and Meaning, 2015). The sensitivity of metal prices to global economic activity is usually greater than that of oil prices, but the recent oil price trend shows a faster decline than metal prices (Figure 10). Falling oil prices have caused some pipe destocking, decreases in pipe production, mill closures, layoffs and a deterioration of business earnings across several major steelmakers, as several large energy companies plan to delay or cancel projects and cut their capital spending (Platts, 2014).

- **Economic effects.** Lower oil prices will likely raise the real incomes of households and reduce costs for firms. Accordingly, the fall in oil prices could therefore be beneficial for global economic growth (OECD, 2015a). An analysis conducted by Arezki and Blanchard (2014) with model simulations suggests the current oil price slump may increase global output by 0.3 – 0.7 percentage points, compared to a baseline scenario without a drop in oil prices. This analysis also suggests GDP increases between 0.4 and 0.7 percent in 2015 in the case of China and between 0.2 and 0.5 percent in the United States. However, the effects of falling oil prices are felt differently across the world (IMF, 2015). While oil importers will benefit from higher real incomes and lower production costs for final goods, oil exporting economies will experience a deterioration of their current account and fiscal balance accompanied by a loss of real income that is shifted to oil importing economies.
Steel Market Developments

- **Steel-using sectors.** Oil prices and oil rig count numbers are closely correlated, as depicted in the Figure below. The recent drop in oil prices has had a significant impact on drilling activity. The worldwide rig count was down from 3,597 in March 2014 to 2,557 in March 2015, reaching a level below 3,000 for two months in a row. The US rig count in March 2015 fell to 1,110, down 693 year-on-year. Major energy companies have announced plans to cut their 2015 budgets, reduce their capital spending around 10-20% in 2015 and suspend or delay projects due to the recent fall in oil prices. For example, several large energy companies such as BP and Total announced that they will cut capital expenditure by about 10-20% in 2015. According to Platts, overall spending by six major companies (Shell, Total, BP, Statoil, Eni and BG Group) for 2015 is expected to amount to an estimated USD 115 billion, more than 10% down compared to 2014 (Platts, 2015e).

![Figure 10. Commodity price indices and world rig count](image)

**Source:** International Monetary Fund for commodity price indices and Baker Hughes for rig count.

- **Steel demand.** The demand for both pipes and tubes and plates used for marine structures and for line pipes are highly vulnerable to fluctuations in oil prices. However, the effects of falling oil prices on aggregate steel demand are not easy to determine (JMD, 2015a) and will likely be felt differently across the wide range of steel products. On the one hand, lower oil prices reduce the demand for pipes (notably large diameter pipes) due to the postponement or cancellation of energy projects. In fact, demand for energy-related steel products has dropped sharply recently (JMD, 2015b), though the energy sector will play an important role in the long run (OECD, 2012, MBR, 2012). Although the shale oil revolution in the US has contributed to a 10% annual growth rate for pipe construction, the fall in oil prices has led to widespread destocking of pipe inventories due to delays or cancellations of shale oil projects (BREE, 2015). Tenaris, a global seamless and welded tube supplier, forecasts OCTG demand may fall by 30% in 2015 compared to 2014, as oil and gas companies cut back on their investments and drilling in view of lower energy prices (Platts, 2015f). On the other hand, lower oil prices may have a positive effect through higher household income, and could boost steel demand in some sectors such as machinery, chemicals and automotive (Platts, 2014).

- **Steel trade.** China has become the largest seamless OCTG* exporter, accounting for around 30% of global seamless OCTG exports. However, according to data from ISSB, Chinese seamless OCTG exports fell by 6.1% to 1.83 mmt in 2014 in line with the slowdown in global drilling activity and an increase in trade cases. Chinese welded oil/gas line pipe** exports were also down by 14.2% in 2014.

- **Freight rates.** As fuel oil prices drop in line with falling oil, freight rates have fallen sharply since the end of 2014. Lower freight costs could boost trade in raw materials and steel.

* Definition: HS 730421 and 730429. ** Definition: HS 730511, 730512, 730519, 730611 and 730619.
Profitability developments

Excess capacity is one of the main challenges facing the global steel sector today, and the growing gap between global steelmaking capacity and demand has led to a deterioration of the financial situation of steelmakers (OECD, 2015d). Figure 11 presents operating margins, measured by the ratio of earnings before interest, taxes, depreciation and amortisation (EBITDA) divided by sales for major steelmakers. Although sales are much higher than they were in 2000, weak earnings have led to decline in the industry’s profitability over the last few years. Operating margins peaked in 2004 and have been on a downward trend since then. While profitability of major steelmakers appears to have improved slightly in 2014, it is yet too early to tell if the recovery in 2013 and 2014 is a sustained one. Indeed, World Steel Dynamics suggests a weak outlook for profitability in the global steel industry. Global steelmakers’ profitability, measured by EBITDA per tonne shipped, is estimated at USD 88 in 2014, up from USD 72 in 2013. However, these profitability levels are only slightly more than half of those during the peak in 2008. In 2015, EBITDA per tonne is forecast by World Steel Dynamics to decrease by 2.3% to USD 86 in line with lower steel export prices.

Figure 11. Outlook for steel prices and profitability

Notes: World HRB export price is used as a proxy for global steel price.
Source: OECD based on data from World Steel Dynamics.
ANNEX: Key macroeconomic/steel indicators (selected economies)

<table>
<thead>
<tr>
<th>Economy</th>
<th>GDP growth (%)</th>
<th>Industrial production index (%)</th>
<th>Crude steel production growth (y-o-y, %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>0.4</td>
<td>0.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Germany</td>
<td>0.1</td>
<td>1.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Italy</td>
<td>-1.7</td>
<td>-0.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Spain</td>
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<td>1.4</td>
<td>2.0</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1.7</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Turkey</td>
<td>4.1</td>
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<td>2/</td>
</tr>
<tr>
<td>Russia</td>
<td>1.3</td>
<td>0.7</td>
<td>2/</td>
</tr>
<tr>
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<td>2.5</td>
<td>3.2</td>
</tr>
<tr>
<td>Mexico</td>
<td>1.4</td>
<td>2.1</td>
<td>2.2</td>
</tr>
<tr>
<td>United States</td>
<td>2.2</td>
<td>2.4</td>
<td>5.0</td>
</tr>
<tr>
<td>Argentina</td>
<td>3.0</td>
<td>-0.8</td>
<td>2/</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.5</td>
<td>-0.2</td>
<td>2/</td>
</tr>
<tr>
<td>South Africa</td>
<td>2.2</td>
<td>1.4</td>
<td>3/</td>
</tr>
<tr>
<td>Saudi Arabia</td>
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<td>3.6</td>
<td>2.4</td>
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<tr>
<td>China</td>
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<td>7.4</td>
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<td>Chinese Taipei</td>
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<td>3.7</td>
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<td>India 4/</td>
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<td>8.2</td>
<td>7.5</td>
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<td>Japan</td>
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<td>9.0</td>
<td>-2.3</td>
</tr>
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<td>Korea</td>
<td>3.0</td>
<td>3.3</td>
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<td>Indonesia</td>
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<td>5.6</td>
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<td>7.2</td>
<td>6.1</td>
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<tr>
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<td>6.0</td>
<td>5.6</td>
</tr>
<tr>
<td>Australia</td>
<td>2.0</td>
<td>2.7</td>
<td>0.4</td>
</tr>
</tbody>
</table>

1/ Quarterly annualised growth. 2/ Year-on-year growth. 3/ Monthly / Quarterly growth. 4/ Fiscal year.
Source: OECD based on statistics by governments of respective economies and the World Steel Association.
NOTE

1. Detailed macroeconomic indicators are presented in the Annex of this document.

2. CLIs are designed to predict turning points in economic activity, and are considered to give a guide to coming economic performance, thus affecting steel demand, too (Platts, 2015a).

3. The depreciation of the euro against other major currencies may be having some positive effect on external demand for European steel.

4. In China, manufacturing — including, for example, the shipbuilding and automotive industries, but excluding construction and utilities — is one of China’s most steel-intensive economic sectors, accounting for around 40% of domestic steel consumption (Platts, 2015b).

5. China Iron and Steel Association (CISA) expects that the higher steel stocks are sufficient to meet increases in seasonal demand (CISA, 2015a).

6. It is a stylised fact that countries’ steel intensity curves exhibit an inverted U-shaped pattern over time. For more advanced economies, such as the U.S., Japan and European countries, a much longer history than that shown in Figure 4 would be necessary to depict their inverted U-shaped curves. For more information on the shape of intensity curves of advanced economies, please see, for example, Song and Liu (2012) for the U.S. and Evans (2014) for the United Kingdom.

7. For example, Morgan Stanley expects Chinese steel production and consumption will decline after 2015, while Goldman Sachs forecasts China will enter into the peak after 2018 (Bloomberg, 2015).

8. For example, BHP Billiton forecasts China’s crude steel production will peak at 1 to 1.1 billion tonnes in the mid-2020s and plateau through to 2030 (BHP, 2015).


10. In China, residential construction is a key driver of its steel demand, and the sharp fall in residential construction in 2014 was the result of excess stock, falling sales and falling prices.

11. This information is available at: http://www.chinaisa.org.cn/gxportal/DispatchAction.do?efFormEname=ECTM40&key=B2QAPwtgUTAD YgYxVzADYgVhBmYEYAA2V2cCNwVgVWAFfl0SDxQCMIBBBUJTRAZk

12. The new environmental protection law will introduce a penalty for non-compliance, in order to encourage older, higher polluting steel mills to exit the market (BREE, 2015).

13. Methodology used for annualising data: (YTD data) / (YTD days)*365.

14. Several Chinese mills located in North, South and East all initiated equipment maintenance over the first three months in 2015 (Platts, 2015d).

15. According to CRU (2015), only 38% of iron ore production is generating cash at the current price level.
16. According to the Chilean Copper Commission (Cochilco), at a global level, the surplus in iron ore production could reach 105 mmt in 2015 and 151 mmt in 2016, against 19 mmt in 2013 (Cochilco, 2015). Despite lower prices, the top three iron ore miners’ output (Vale, Rio Tinto and BHP Billiton) increased to a record 834.0 mmt in 2014, nearly double the output level recorded a decade ago, according to the Secretariat’s calculations based on company reports.

17. The world prices referred to here are publically available on the Platts Steel Business Briefing website: www.steelbb.com.

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