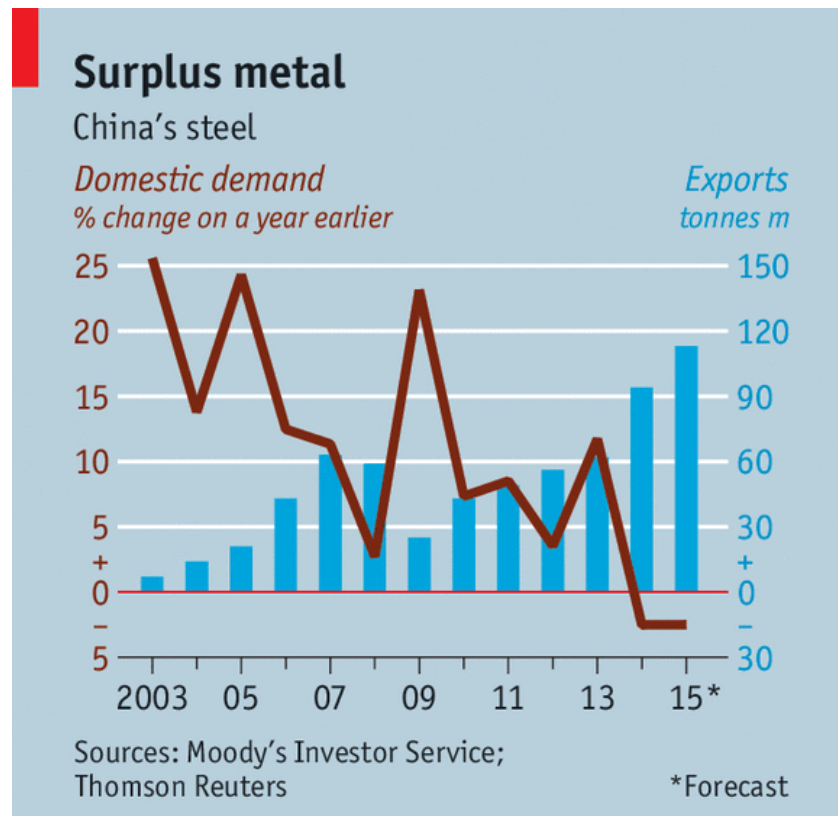


Nervousness of steel

A wave of cheap Chinese metal exports hits the region

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IN THE minutes from the Australian central bank's latest meeting, one third of the text was devoted to analysing China's economy and markets. Little wonder. China's seemingly bottomless appetite for steel has sustained Australian growth over the past decade. With Chinese investment now slowing, those fat years are over. This helped to undermine the economic credentials of Tony Abbott, who lost his job as Australia's prime minister on September 14th.

China's steel consumption is roughly half the global total. It peaked in 2013, and ebbed as the country's frenzied building slowed. Daniel Kang of J.P. Morgan, a bank, forecasts that China's annual demand for steel will continue falling until 2017 and will settle at about 10% below its high-water mark.

That may not sound like a big drop but it has left Australia with a major hangover. It is the world's biggest exporter of iron ore, the main ingredient in steel, and its miners had assumed that China

would sustain its ultra-fast growth. Instead, iron ore prices are nearly two-thirds lower than two years ago.

Demand for steel in India and South-East Asia has started to improve, but is far from enough to replace the Chinese shortfall. The declining value of Australia's exports has become a drag on growth. As mining companies cut costs and cancel projects, the eventual impact on the economy could be even worse. Adding to the pain, Australia's coal exports to China have also plummeted, hit by China's industrial slowdown and its shift to cleaner energy.

But compared to other Asian states, Australia is still the lucky country or, better said, the less unlucky one. It has a wide mix of commodities. While Indonesia, for instance, relies on fossil-fuel exports, Australia can turn to milk and meat. The weaker Australian dollar is luring even more Chinese tourists. Moreover, Australian miners have less to fret about than do steelmakers in Japan, India and South Korea.

The latter not only have little hope of selling steel to China, but must now compete against shiploads of cheap Chinese metal (see chart). With so much excess capacity, China is likely to ship more of the metal abroad this year than Japan, the world's second-biggest producer, could make if its steel mills were running at full capacity. India and South Korea, the world's fourth- and fifth-biggest producers, have imposed anti-dumping duties to repel Chinese imports.

As steel prices fall, Australia's biggest miners are using their high-quality, low-cost iron ore to take a bigger slice of the global market. For them, it does not matter much who is making the metal, so long as it is still being made.