

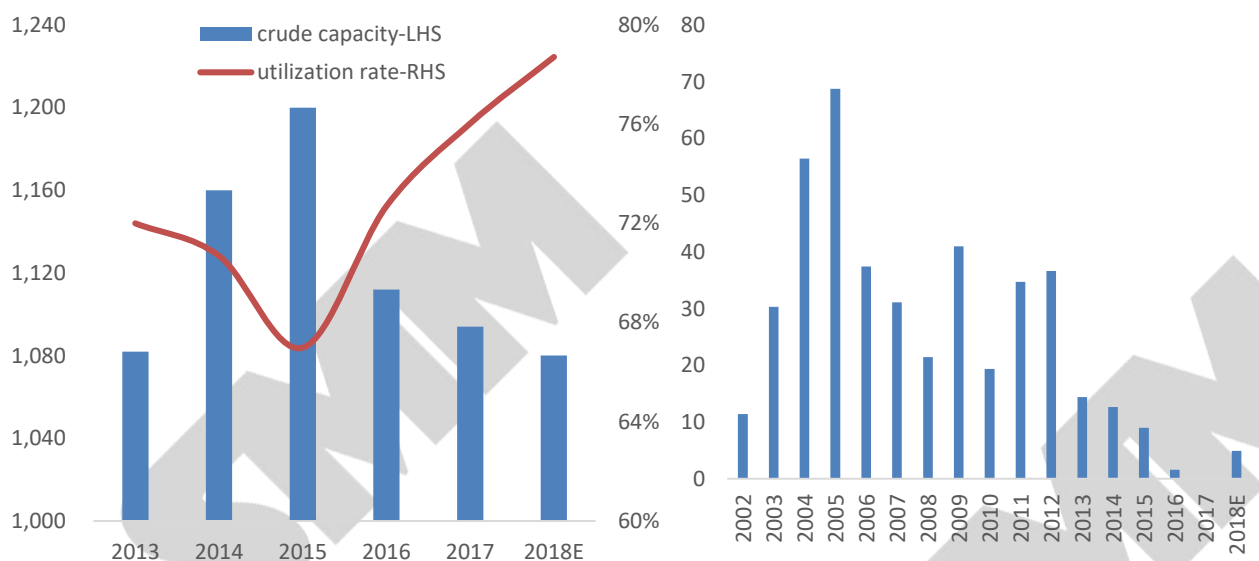
China's Elimination on Excess Capacity in Steel

Continue to Act Positively

During the 13th Five-Year plan, China's steel industry plans to totally cut 150 million capacity and completely eliminate Ditiao steel. More than 50 million tons of steel capacity was cut in 2017 with a total capacity reduction of 115 million tons in the past two years. SMM sees that the capacity cutting plan of 2018 is less than the initial stage, however it is also slightly more than the market expectation. In 2018, Chinese Government will consolidate the outcome of excess capacity elimination policy by environmental protection regularization, replacement reduction policy and new capacity deduction.

SMM reaffirms the early view in 2018 that: the domestic steel supply-and-demand elasticity will go weaker than 2017, maintaining the judgment of Rmb600-800/ton of steel gross profit.

Chart 1. Crude Steel Capacity and Utilization Rate (mn ton, %) **Chart 2. Pig Iron Capacity Additions (mn ton)**



Source: SMM

The Target of Coal Production Capacity Is Easy to Achieve, Focusing on Consolidation within Industry

China removed 210 million tons of coal capacity in 2017, v.s. target of 150-200 million tons. The 150 million tons target of this year is not hard to meet, SMM estimates. Industry consolidation is accelerating and the government is pushing on coal-power mergers.

Chart 3. 2013-2017 China Coal Industry CAPEX YoY (accumulative, %)

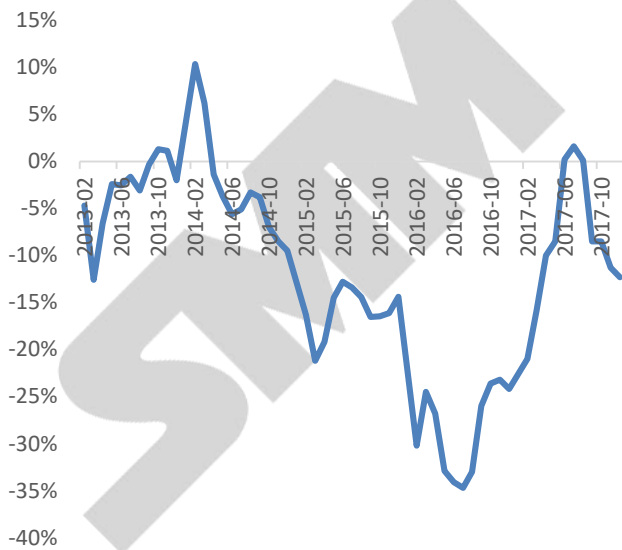
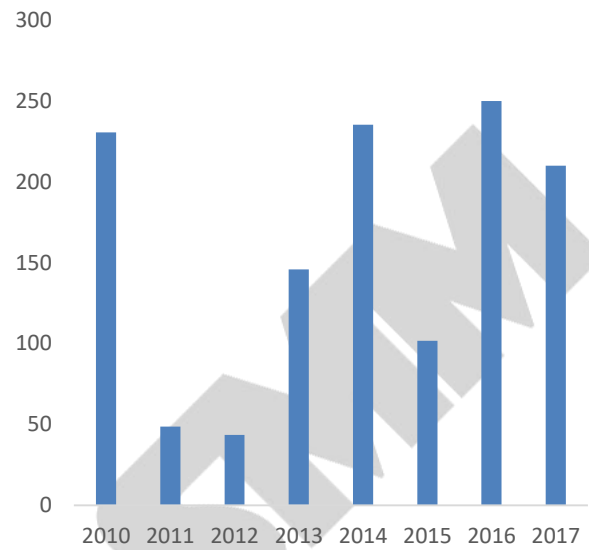


Chart 4. 2013-2017 Coal Capacity Elimination (mn ton)



Source: SMM

SMM has a comprehensive **China Cost Database** for nonferrous and ferrous metals, by conducting regular field trips and interviews with a majority of Chinese metal producers, from large-scaled to small-scaled, from SOEs to private-owned. We collect their detailed cost breakdown for individual plants/mines and for the whole production process, and update the database regularly as well as keep close track of any updates/changes.

We also have the **Cost Database** for Steel, Iron Ore, Aluminum, Copper, Copper Mine, Nickel, Nickel-Pig-Iron (NPI), Tin, Manganese, Lead and Lead Ore, etc.

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