

China's steel exports may hurt rivals

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CHINA, the world's biggest steel producer, is exporting at the highest level in two years, exacerbating a global glut that may hurt competitors from ArcelorMittal to US Steel.

Monthly shipments abroad rose to 8.7% of domestic output last month, the highest proportion since July 2010. Chinese steel mills, set for a record production in 2012, are ramping up overseas sales to avoid a softer domestic market, where prices for the commodity have dropped to a two-year low.

ArcelorMittal of Luxembourg, which posted a 28% slump in second-quarter profit today, and peers in developed markets, are closing plants amid slower economies and lower prices.

In contrast, Chinese Premier Wen Jiabao is overseeing a \$23bn (R194bn)

investment in new mills to stimulate automaking and housing to reignite growth that fell in the second quarter to the slowest in three years.

The strategy already is sparking unfair-trade charges by Western rivals.

"Increased Chinese exports take sales directly away from American producers," Alan Price of Wiley Rein LLP, which acts as the trade attorney for Nucor, the largest US steelmaker by market value, said.

"It is highly likely that current Chinese exports across a range of products are being dumped."

ArcelorMittal is not currently concerned about Chinese exports to Europe and it sees Chinese production volumes matched by domestic demand, according to Aditya Mittal, the company's CFO. "At this point in time we are not concerned," he said yesterday. The company said that sales in the second

quarter dropped 10.5% to \$22.5bn from a year ago as it sold less steel. It also took a \$190m charge in the quarter from the closure of plants in Liege, Belgium.

The 43-member Bloomberg Global Steel Producers index has lost 18% this year, headed for a third annual drop.

That's a bigger loss than raw materials, the worst-performing sector of 10 in the MSCI World Index, which fell 7.2%. The top gainer on the steel index is China's Guangzhou Iron and Steel, up 18%. The biggest decliner is Usinas Siderurgicas de Minas Gerais SA of Brazil, down 45%.

"Chinese mills have to boost exports as they don't have self-control on production," said Xu Zhongbo, CEO of Beijing Metal Consulting and a professor at the University of Science & Technology in Beijing. Reducing output would require idling plants and laying off workers, Xu said. - Bloomberg