



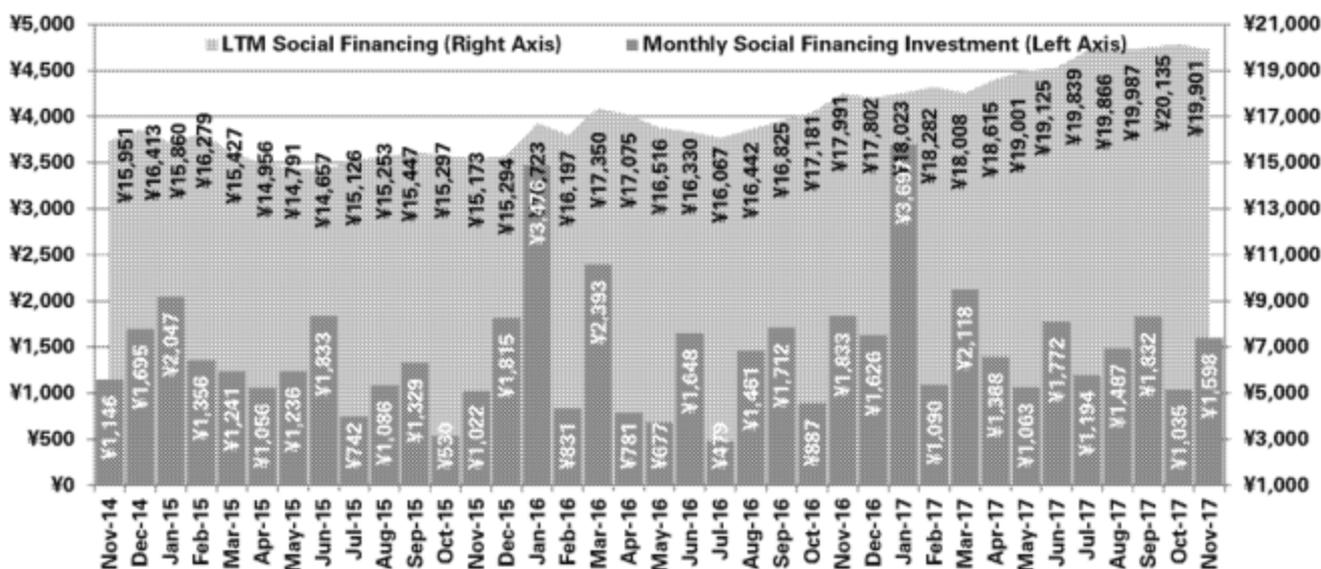
# Chinese Social Financing

## China, the 500lb Elephant in the Room

China manufactures ~50% of global steel production. Due to China's outsized presence in the global market, small changes in domestic supply and demand can have a considerable impact on worldwide steel markets. Asian steel production, close to three-quarters of which is China, is up 5.7% YTD through November 2017. However, China has elected to shutdown certain steelmaking facilities in three major cities during the winter months in an effort to reduce levels of pollution in the air. This should provide a respite for other markets such as the U.S. and allow organic demand to drive supply trends. We have already begun to see strengthening trends in the U.S. market including faster lead times, lower distributor inventory levels and selling price increases. While these solid trends are expected to continue during the winter months, demand for steel from China's property and infrastructure sectors will largely determine the path of the steel market once the winter cuts wind down. Ultimately China's appetite for its own manufactured steel subsequent to winter will be the single most significant determining factor for the global market in 2018.

*Ultimately China's appetite for its own manufactured steel subsequent to winter will be the most significant determining factor for the global steel market in 2018.*

Figure 37: China All-System Financing in Aggregate (Billions of Renminbi)



Source: Deutsche Bank, Bloomberg Finance LP, The People's Bank of China

The People's Bank of China releases a monthly report tracking the outstanding amount of credit extended to businesses and consumers in China at any given point in time. Considering that China encompasses roughly 1/2 of global crude steel production, we feel this metric is useful in determining the magnitude of Chinese stimulus spending and its correlated impact on demand for crude steel.

In Figure 37, the blue bars represent the non-seasonally adjusted (NSA) net monthly change in outstanding credit while the gray area charts the trailing twelve-month sum of the central government's investment in social financing (all figures are presented in Chinese Renminbi). According to the chart, China has focused on stimulating its economy heavily in January of each year. It is also worth noting that LTM social financing continues to increase YoY despite efforts to reduce China's financial leverage and de-risk its property market.