

Global Risk Watch Newsletter

Central Banks are Faced with Deepening Agony as Monetary Policy Reaches its Limits, etc.

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3.Highlight of Indicator for this Month

Coping with China's overcapacity problem (Toshikazu Kumagai, Senior Staff, Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)

Despite As a measure to overcome China's overcapacity problem, full-scale measures were outlined to reduce steel and coal production by 45 million tons and 280 million tons respectively by the end of 2016.

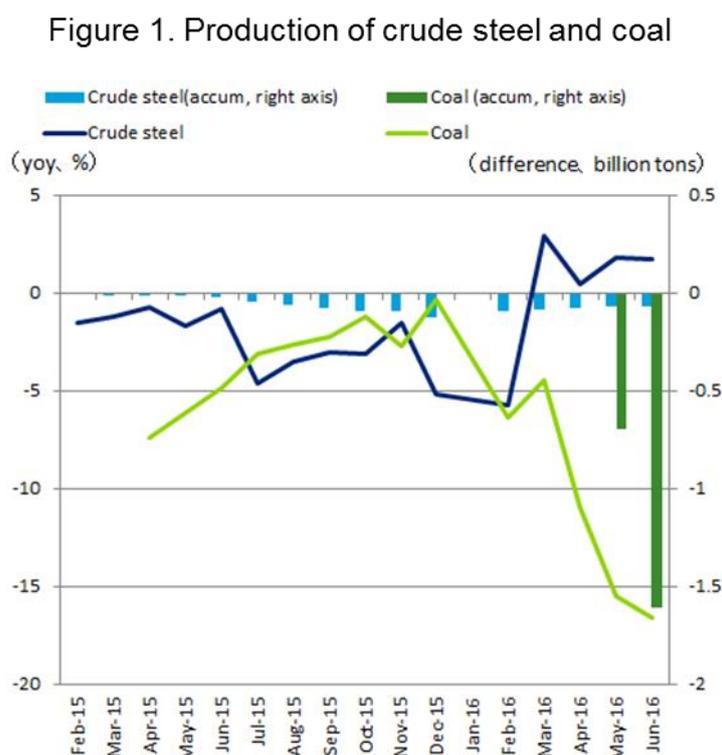
Figure 1 is a graph showing the change in the monthly production volume of crude steel and coal on a year-on-year basis. Based on the production trend, while production of coal has continued to decline year-on-year, crude steel production volume has increased from March 2016 compared to the previous year. On a cumulative January-June period basis, coal production has reduced by approximately 160 million tons during the first half of 2016 compared to the same time in the previous year. However, crude steel was only reduced by 10 million tons. Thus, the overcapacity reduction is speculated to fall behind the original plan. For instance, Chinese government officials has stated its plans to accelerate the reduction pace in the second half of the year.

Figure 2 is a graph showing the change in the monthly export volume of steel products (year-on-year). For steel products, the large amount of exports by China have been strongly criticized as the main factor in the international price decline. As shown in the graph, exports have increased year-on-year from February to July.

Based on these facts, reference to the steel overproduction problem has been made in a statement at the G20 trade ministers meeting in July and will be made during the G20 summit meeting scheduled to be held in China in September. During the meeting, efforts will be made to request a production volume reduction.

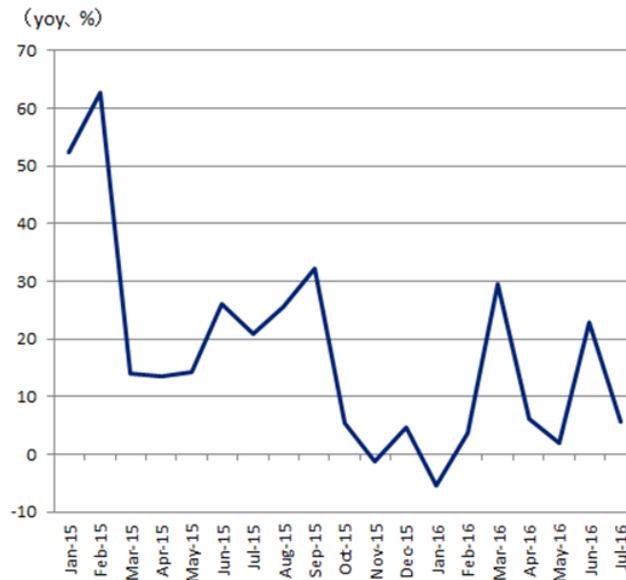
In early July, the government also announced implementation of harsh punishment for local governments and state-owned enterprises that are not able to achieve the assigned goals. Hence, increased production in some regions has been contained. On the other hand, for the Liaoning Province, the production reduction has plummeted the 1H 2016 GDP growth rate to the negative territory, as steel is the key industry in the province. Based on this fact, in the short term, it can be assumed that production reduction in other regions may have similar impact of the Liaoning Province.

The Chinese government will continue to face apprehension to steer its policy in order to achieve a sustainable economic growth while avoiding international criticism.



Source: National Bureau of Statistics of China

Figure 2. Export of steel product



Source: General Administration of Customs of the People's Republic of China, Bloomberg

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