



# China Commodities Watch

Trade Tensions Add To Pain

**S&P Global**  
Ratings

May 2024

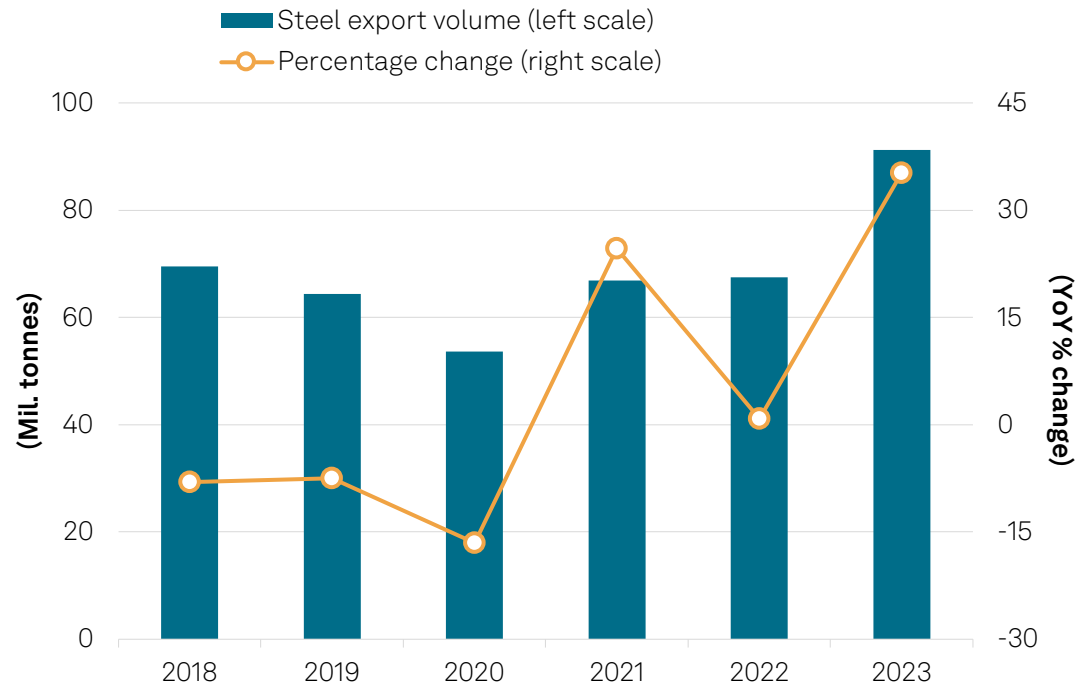
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# Key Takeaways

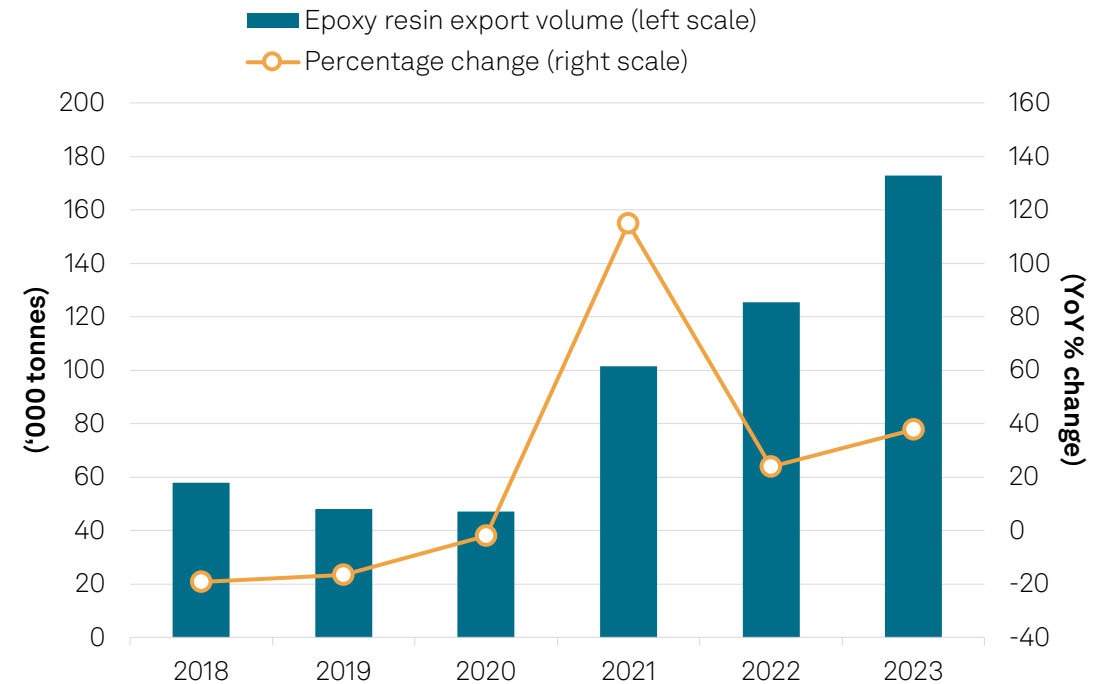
- We anticipate sustained trade conflicts for some China commodities players over the next two years due to abundant supply in the global market and tepid domestic demand.
- Most of the commodities China produces are consumed in the domestic market. This makes soft domestic demand the largest obstacles for the sector.
- Nonetheless, exports of key commodities have been rising from a low base. Export hurdles and trade retaliation will add to tough conditions for some of the Chinese commodities companies we rate.
- China's chemical companies are the most prone to changes in demand as new projects from the past three years increase capacity. The steel industry, in contrast, has been limiting capacity for several years.

# Rising Exports May Heighten Vulnerability To Trade Rifts

- Steel and chemical products recorded higher export growth amid soft domestic demand and a macroeconomic slowdown.
- Chemical companies have turned to export markets to handle the record increase in petrochemical and fertilizer production. We use epoxy resin as an example of the export growth.



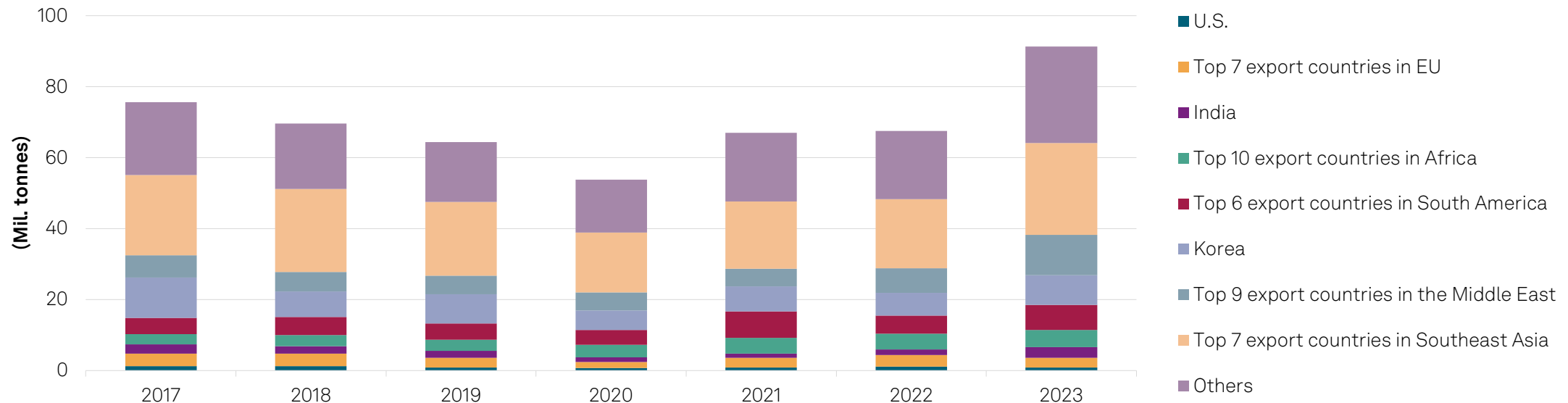
Sources: Wind, S&P Global Ratings.



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# Top China Steel Importers Likely Won't Raise Tariffs...

- Exporting is still limited compared with the industry's total capacity. Less than 10% of the industry's output, about 90 million tons, is sold globally out of an annual production of more than 1 billion tons in 2023.
- Steel is exported to various regions. Countries that have imposed or are investigating trade restrictions on China's steel are seldom the largest trading partners.
- Some of China's larger trading partners, such as Southeast Asia and the Middle East, have ambitious infrastructure plans, and local demand exceeds domestic capacity. They are less likely to impose anti-dumping tariffs, in our view.



Sources: Wind, S&P Global Ratings.

# ...Yet Trade Tensions Will Limit Options

Surging China steel exports have been met by increased sanctions

Region	Product	Policy
<b>Asia</b>		
Australia	Precision Steel Tube / Steel Pallet Rack / Grinding Ball / Welded Pipe / Alloy-steel Plate	Anti-dumping / Countervailing
Indonesia	Hot-rolled Coil / Hot-rolled Steel Plate / H-shape / I-shape Section Steel	Anti-dumping
Malaysia	Alloy-steel Plate / Cold-rolled Steel Coil	Anti-dumping
Thailand	Special Iron Steel Pipes and Tube / Alloy-steel Plates / Hot-rolled Steel	Anti-dumping
Vietnam	Billet / Iron Rod / Stranded Wire / Cold-rolled Steel / H-shape Section Steel	Anti-dumping
India	Hot-rolled / Cold-rolled Steel Plate / Grinding Ball / Welded Stainless Steel Pipe / Flat Base Steel Wheel	Anti-dumping
Pakistan	Galvanized coil	Anti-dumping
<b>Africa</b>		
South Africa	Alloy-steel Products / Threaded Fastener	Anti-dumping
Morocco	Hot-rolled Steel Plate / Welded Steel Pipe	Anti-dumping

Sources: Mysteel, PRC Ministry of Commerce.

Region	Product	Policy
<b>America</b>		
U.S.	Alloy-steel Plate / Compressed Steel Cylinder / SPTE / Stainless Steel Flange	Anti-dumping / Countervailing
Canada	Steel Pipe Pile / Cold Rolled Steel	Anti-dumping / Countervailing
Colombia	Stainless Steel Sink	Anti-dumping
Mexico	Steel Wire Rod / Grinding Ball / Alloy-steel Pipe / Steel Screw	Anti-dumping
Brazil	Hot-rolled / Cold-rolled Steel Sheet / High-carbon Steel Products / Steel Strand	Anti-dumping / Anti-circumvention
Chile	Steel Rod / Grinding Ball	Anti-dumping
<b>Europe</b>		
EU	Cast Iron Products / Corrosion Resistant Steel / Stainless Steel Products / Alloy-steel Products	Anti-dumping / Countervailing
U.K.	Steel Products	Quota Restriction
Turkiye	Steel Pipe Fittings / Hot-rolled Steel Products / Welded Pipe	Anti-dumping

SPTE--Steel-plated-tin electrolytic. Sources: Mysteel, PRC Ministry of Commerce.

# The Chemical Sector Has Endured Similar Conditions

- Given the wide variety of chemical products, we use epoxy resin (ER) as an example.
- In May 2024, the U.S. launched a probe in the China's export of epoxy resin to the U.S.
- The overall U.S. exposure is still manageable: only \$5.7 million of ER products are within scope.
- China became a net exporter of ER from 2023, but overall exports are still less than 5% of annual output.
- Exposure of rated companies:
  - Sinochem International (SIC): one of the largest ER producers in China with 19 thousand tonnes exported in 2023;
  - Shanghai Huayi (Huayi): Guangxi Huayi project with additional ER and bisphenol A (BPA) capacities. BPA is one of the key inputs for producing ER.

China epoxy resin export breakdown (in '000 tonnes)

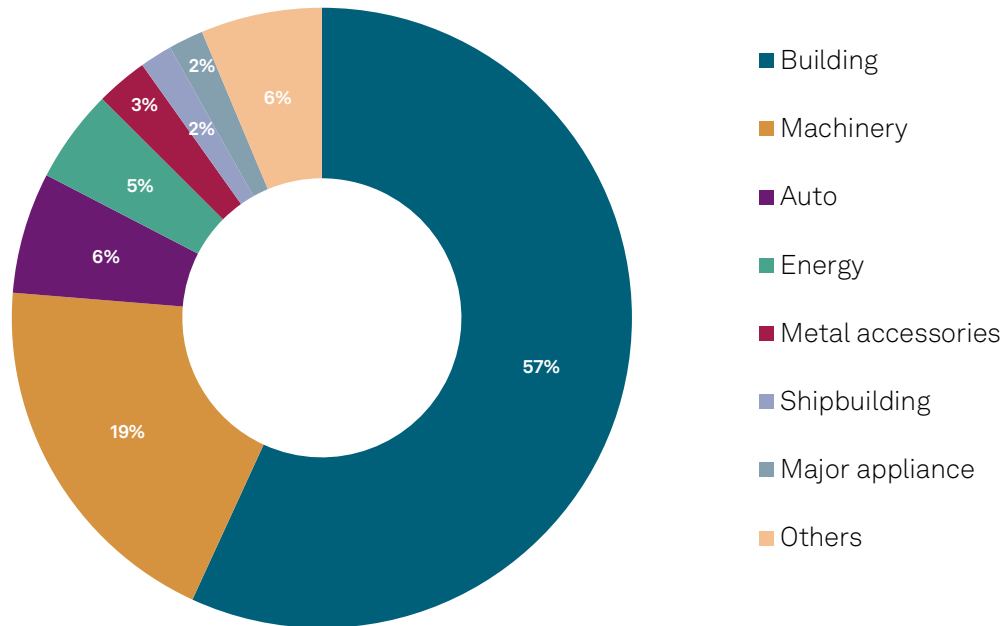


Sources: Wind, S&P Global Ratings.

# Indirect Exposures From Trade Conflict Can Add Up

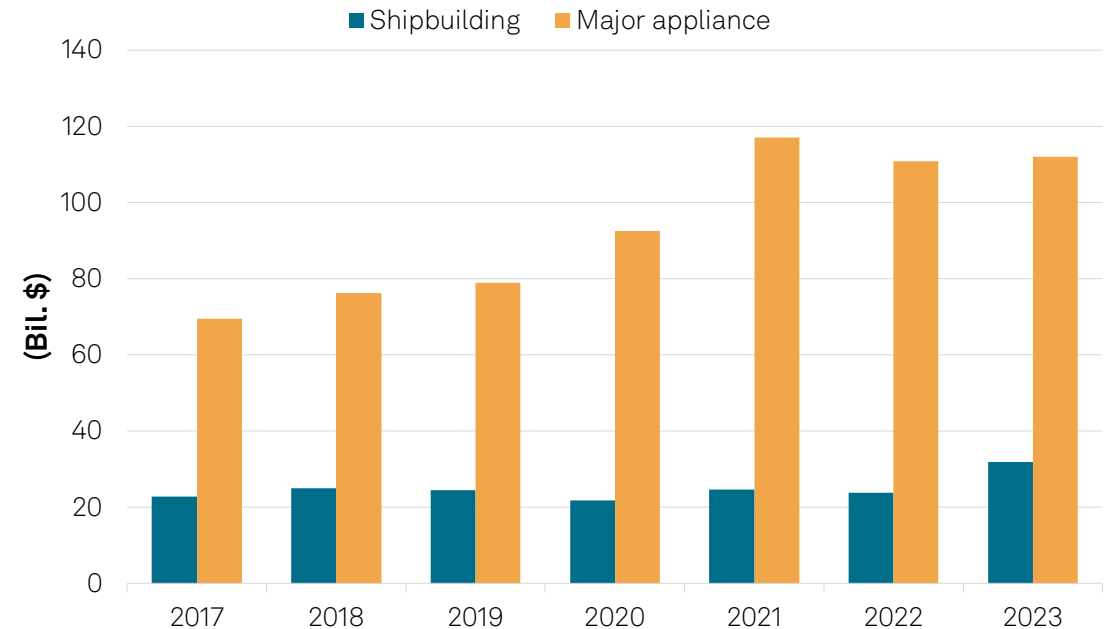
- Trade conflicts in end-use markets will also affect China’s commodities sector, beyond direct export issues.
- Investigations into tariffs and anti-dumping in the electric vehicle, solar panel, and wind turbine sectors will potentially erode the demand for steel and other key inputs, including silicone and chemical products.

## Breakdown: China downstream steel consumption



Sources: Wind, S&P Global Ratings.

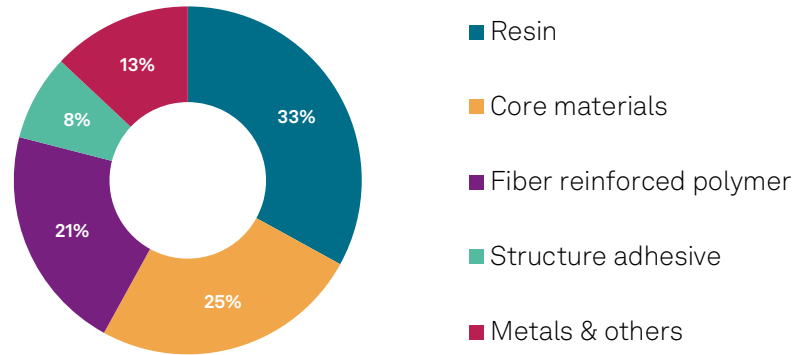
## Major appliance and shipbuilding exports



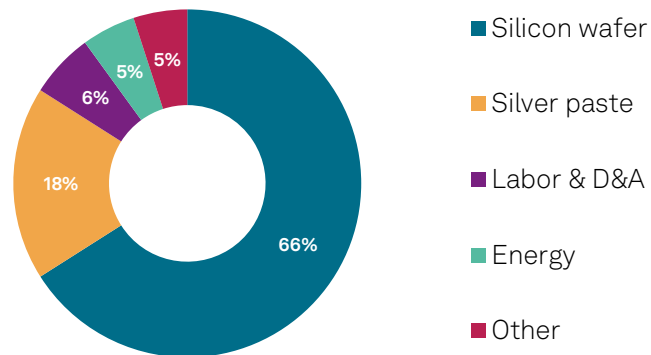
Sources: Wind, S&P Global Ratings.

# Knock-on Effect Of Tariffs On End-Use Sectors

## Wind turbine blade breakdown by material cost



## Photovoltaic cell cost breakdown



## Wind-related tariffs / investigations

Country	Product	Policy
Vietnam	Wind Tower / Wind Power Equipment	Anti-dumping investigation
Canada	Wind Tower	98%~194% anti-dumping & anti-subsidy tariff
EU	Wind Tower / Wind Turbine	7%~19% anti-dumping tariff on wind tower / anti-dumping investigation on wind turbine
Mexico	Wind Tower	21% anti-dumping tariff

## Solar-related tariffs / investigations

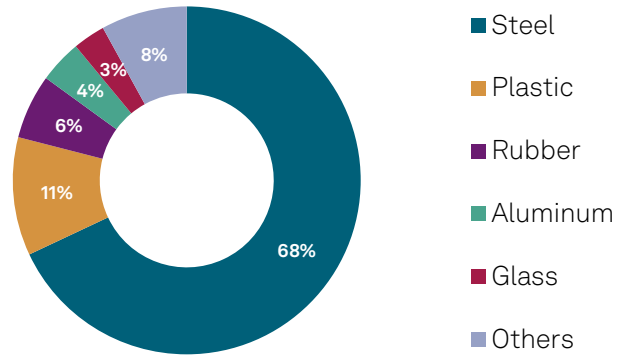
Country	Product	Policy
Turkey	PV Modules & Solar Panel	US\$25 / m <sup>2</sup> anti-dumping tariff
India	PV Modules / Upstream Equipment	22% ~ 147% anti-dumping tariff
U.S.	Silicon Metal / Solar Cell	Anti-dumping tariff: 3% ~ 140% on silicon / 50% on solar cell
EU	Solar Glass	17%~75% anti-dumping tariff

D&A--Depreciation and Amortization. PV--Photovoltaic. Sources: Acta Materiae Compositae Sinica, Drinda New Energy Tech Prospectus, PRC Ministry of Commerce.



# Knock-on Effect Of Tariffs On End-Use Sectors--Cont'd

Vehicle raw material breakdown by weight

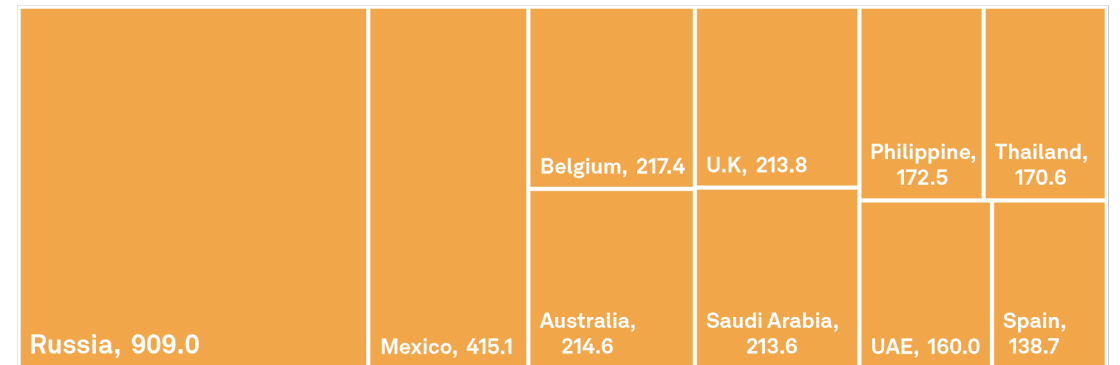


EV-related tariffs/investigations

Region	Policy
EU	Investigation on subsidized EV from China
U.S.	Lifting tariff from 25% to 100% on EV from China

China vehicle exports by major destination in 2017 vs 2023

(in '000)

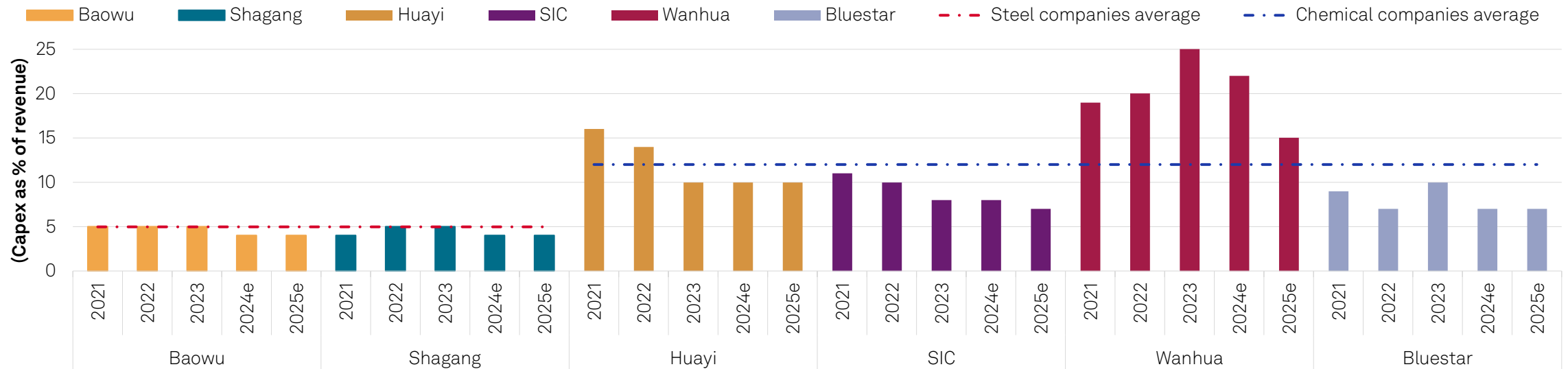


Sources: China Metallurgical News, PRC Ministry of Commerce, News.

# Credit Implications For Rated Companies

- China's steel and chemical industry faces a long period of weakness, in our view. Commodities chemical companies will be more vulnerable as operating conditions deteriorate.
- The glut in downstream commodities sectors, primarily steel and chemical, will continue in the next two years.
- This will shift trade flows between China and its trading partners and creates new uncertainty for our rated issuers.

## Chemical companies will invest more into new capacity than steel companies



e--Estimate. Source: S&P Global Ratings.

# Credit Implications For Rated Companies: Steel

- The direct impact of export tariffs on rated steel companies is limited.
- Rated steel companies dominate the industry and have minimal exports. They also have above-industry operating leverage, below-industry exposure to the domestic real estate market, and manageable investments.

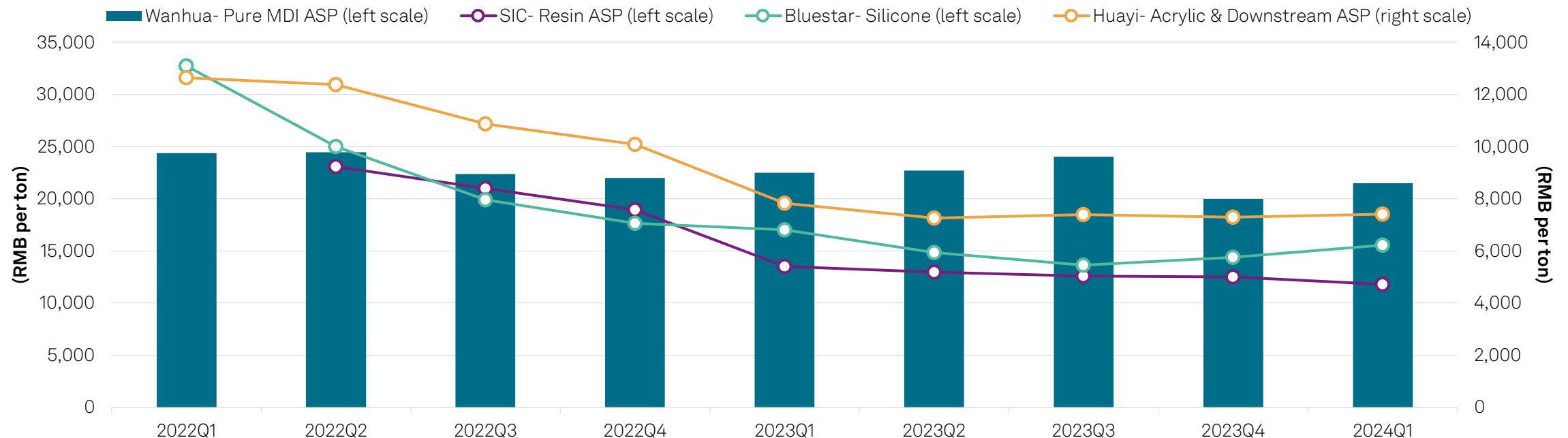
Companies	Steel exports in 2023
Baoshan Iron	5.8 million tonnes of export versus 53 million tonnes of annual output in 2023.
Shagang	Almost none.

Risk mitigants
Industrywide capacity optimization to clean out inefficient players.
Upgrades to higher value-added products and greener products, which are less exposed to trade retaliations.

Source: Company annual reports, S&P Global Ratings.

# Credit Implications For Rated Companies: Chemical

- Commodities chemical companies are enduring a tough downturn. The price volatility of their major products reflects the severity of oversupply and weak demand. Further escalation of trade conflict could exacerbate the already testing conditions.
- Wanhua has higher entry barriers and more dominant global market positions in the polyurethane market. Prices for its major products (MDI and TDI) have been less volatile than the commodities chemical products.



MDI--Methylene diphenyl diisocyanate. TDI--Toluene diisocyanate. RMB--Renminbi. Average selling prices for Wanhua, Huayi and SIC, China market average price for Bluestar. Sources: Company operating data reports, Wind, S&P Global Ratings.

# Credit Implications For Rated Companies: Chemical

The rating headroom of the commodities chemical companies we rate has been thinning since 2023. We expect them to take on more debt in 2024 because they have ongoing projects. Demand is unlikely to rebound until 2025.

FY2023	Overseas revenue as % of total revenue	Key downside risk	Risk mitigants
Shanghai Huayi Holdings Group Co. Ltd.	12%*	Enlarged supply surplus from a pipeline of projects with similar outputs, including PDH and MTO projects. Large capex on its Guangxi Huayi project	Product portfolio diversity and upgrade, although most of the revenue still come from commodities chemicals. Some new product capacities improves China's self-sufficiency and less reliance on imports.
Sinochem International Corp.	35%	Enlarged supply surplus from a pipeline of projects with similar outputs, including PDH and MTO projects. Capex stays relatively high on ongoing project constructions.	Overseas revenue also covers chemicals trading business not just direct product exporting. Product diversity and upgrades. New products to reduce China's import.
Wanhua Chemical Group Co. Ltd.	46%	Large capex on Penglai, Ningbo and Fujian projects.	Overseas production based in Hungary, about 10% of Wanhua's MDI capacity. Dominant global market position and limited new global capacity by its competitors.
China National Bluestar (Group) Co. Ltd.	>50%§	Enlarged supply surplus from a pipeline of additional capacity in silicon, silicone and methionine.	Geographically diversified production based covering over 10 countries under its key subsidiaries - Elkem and Adisseo.

\*Based on information disclosed from the 2023 annual report of the key listed subsidiary, Shanghai Huayi Group Co. Ltd. §Based on Bluestar's domestic bond prospectus in 2023. Sources: Wind, company annual reports, S&P Global Ratings.

## Related Research

- [Credit FAQ: Why The Recovery May Be Moderate For Asia-Pacific Agrochemicals](#), March 5, 2024
- [China Commodities Watch: Upstream Will Hold Up, Downstream Will Suffer](#), Jan. 15, 2024

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