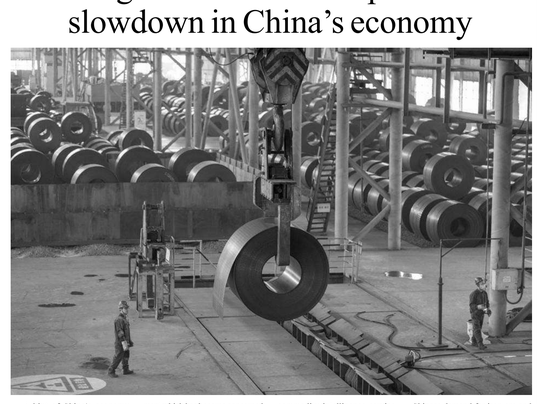
Sliding demand for steel points to a slowdown in China's economy



A hint of China's economy slowing after the spectacular growth spurt which followed last year's Covid-19 slowdown has been detected in demand for steel.

Orders placed with steel mills for long products such as girders and reinforcing bar, as well as flat products used in appliances and vehicles, have slowed according to a survey of mills and traders by an investment bank.

There's a lot of steel in China. Photo by Yan Xin/VCG via Getty Images. VCG via Getty Images

Macquarie, the Australian-based bank which conducted the survey, said mills and traders reported slower growth in orders, particularly from flat-steel consumers.

"Mill capacity utilization dipped slightly over the past month, but remains comparatively elevated despite thinner (profit) margins," the bank said.

Steel production is closely watched by the Chinese Government which has become concerned about high prices and their effect on manufacturers.

International mining companies also keep a close on steel demand because it ultimately determines demand for raw materials such as iron ore and coking coal.

"Early Signs Of Slowing Demand"

The bank said its survey had detected "early signs of slowing steel demand", though there also appeared to be a level of inconsistency in one aspect of the survey, a decrease of raw material inventories.

Macquarie said the declining stockpiles of iron ore and coking coal was consistent with other indications which pointed to low levels of raw material stocks in China.

Whether steel mills have deliberately allowed their stocks to run down because of a recent surge in prices is unknown but the bank said Mysteel, a specialist commodity intelligence service, estimated that steel mill raw material stocks were at an 18-month low.

Coking Coal Inventory "Dangerously" Low

Coking coal inventory was said by Mysteel to have reached "dangerously" low levels in certain parts of the country due to faltering domestic and Mongolian supply.

Not mentioned by Macquarie is a Chinese Government ban on importing Australian coal, a market distorting event which has played a role in driving the coking coal price to more than $300 a ton for the first time in four years.

Iron ore, which is not subject to any bans, has also risen to a near-record level of $220/t despite threats from the Chinese Government that hoarders and speculators risk punishment if found to be manipulating the price.

Australian mining companies have been major beneficiaries of Chinese demand for iron ore and coal and will be closely watching the latest developments in China's steel industry.

Macquarie said a measure of market sentiment which attempted to measure the level of optimism or pessimism in the steel industry had turned "less positive" over June, perhaps reflecting the traditionally weak summer season for steel demand.

"The number of mills seeing domestic orders rise has declined this month," the bank said.

"Export demand also appeared to be softening as the impact of value-added tax changes introduced earlier in the quarter start to be felt."

Macquarie said iron ore and coking coal inventory declined over the past month with steel mills showing a weaker appetite to buy more in the coming weeks, possibly as a consequence of lower profit margins and production expectations.

Singapore wants to be an e-commerce hub as Asia's digital economy grows

As the pandemic reshapes consumer behavior worldwide, more and more people in the region are shopping online and Southeast Asia's digital economy saw significant growth.

Singapore wants to become a leading e-commerce hub in Asia — but there may be challenges ahead.

As the pandemic reshapes consumer behavior worldwide, more and more people in the region are shopping online and Southeast Asia's digital economy saw significant growth.

"E-commerce in Southeast Asia — it's surging. But what sets Singapore apart (is) its policies and its initiatives that help cultivate an environment for the digital industry and the digital economy to thrive," said Ben King, country director at Google Singapore.

Still, the city-state faces a skills shortage for digital talent — and that's critical for its ambition to become a global e-commerce player, he told CNBC's Christine Tan.

To address the issue, the government partnered with Google under the Skills Ignition SG initiative, to provide jobs training for those looking for a digital career.

"The one challenge we see in realizing this vision of Singapore really becoming a much more meaningful and much more advanced regional e-commerce hub is talent development," said King. "The problem that we're seeing is not necessarily jobs — it's skills. There's an urgent need to help the workforce build digital skills to take on these jobs."

The U.S. tech giant has also been focused on helping to reskill people who have been impacted by the pandemic.

"What we've really designed that program to do is to meet the needs of Covid in real time. It's really geared towards taking people who have found themselves out of work, providing opportunities for them to train over a six- or a nine-month window," King said.

"What we're trying to do is develop skills that we think are going to be pivotal to the development and the evolution of e-commerce across the region."

Shifts in consumers trends

Despite the pandemic headwinds, internet usage across Southeast Asia continued to surge.

Some 40 million new users in the region joined the internet last year, according to an e-commerce report on Southeast Asia by Google, Temasek and global consultancy Bain & Company.

The pandemic has brought about a "permanent and massive digital adoption spurt," the report said.

About 36% — or more than 1 in 3 digital service consumers — were new to online services. Among them, 90% intend to continue using these services even after the pandemic, the report said.

In order for Singapore to capitalize on these trends, several factors need to come together to fuel that growth, said Selena Ling, chief economist at OCBC Bank in Singapore.

"You need to have a fairly internet savvy population, high mobile penetration (and) good internet connectivity which is affordable," she said. Plenty of offerings in terms of both goods and services are also essential, she added.

As part of Singapore's e-commerce strategy, the government plans to launch two 5G networks across the city-state by 2025. 5G networks are the next generation of mobile internet connectivity that promise faster speeds.

They will "form the backbone" of Singapore's digital economy and boost the infrastructure's capacity to manage large online sales orders internationally, according to the Ministry of Trade and Industry.

The Singapore government has taken the lead by putting in place a "smart nation" strategy, OCBC's Ling pointed out.

"The three key pillars of the smart nation (are) really to have a digital economy, a digital government — but also a digital society. So, it does cover all the requirements to have a successful e-commerce strategy," she explained.

cnbc

Indian economy takes a breather in May before gaining momentum

India's economy showed more signs of cooling in May, but the weakness is already beginning to dissipate of late as the nation exits lockdowns imposed to check the pandemic's spread.

A slew of data from services activity to automobile sales pointed to lack of demand last month, which in turn kept the needle on an overall activity indicator unchanged at 6. The relatively strong score is because the gauge uses the three-month weighted average rates to smooth out volatility in the single-month readings.

NOTE: Overall activity reading is generated aggregating the three-month weighted averages of eight indicators against the past 30 months of historical data.

The indicators are Markit India Composite PMI, Output Price Index, Order Books Index, Citi Financial Index, Government of India data on exports, industry and infrastructure sectors as well as RBI data on demand for loans.

With the second Covid-19 wave now receding, the economy is already beginning to stir back to life. A basket of high-frequency, alternative and market indicators such as retail activity and road congestion pointed to a pick up in the week to June 13, Abhishek Gupta, India economist at Bloomberg Economics, said in a report.

Goods and services tax data released by the Finance Ministry around the first week of every month is a key indicator of consumption

Activity in India's dominant services sector contracted for the first time in eight months in May. The IHS Markit India Services Purchasing Managers' Index slid to 46.4 last month from 54 in April, falling below the 50 level that divides contraction from expansion. Services sector accounts for more than half of the nation's gross domestic product.

A similar survey earlier showed activity in the manufacturing sector losing momentum all of which dragged the composite index to 48.1 in May from 55.4 the previous month.

Exports

Exports growth picked up at 69.4% year-on-year in May, aided by a favorable base and robust global demand.

The performance was strong even sequentially, helped by shipments of petroleum products, engineering goods and chemicals.

On the other hand, momentum for imports tapered, contracting from a month earlier, primarily on account of a sequential drop in demand for oil and gold.

Retail auto sales -- a bellwether of consumer demand -- fell by more than half in May from the previous month as local lockdowns kept dealerships shut. That together with falling consumer confidence and increasing job losses weighed on discretionary purchases.

Bank credit grew 6% in May from a year earlier, picking up from 5.7% expansion seen in end-April, central bank data showed. Liquidity conditions stayed comfortable, with the banking system in surplus.

Industrial production expanded, jumping 134.4% in April from a year earlier, mainly because of a favorable base effect -- with activity last year coming to a halt owing to a nationwide lockdown to control the pandemic's spread.

Similarly, output at infrastructure industries, which makes up 40% of the industrial production index, expanded 56.1% in April from a year ago. Both data are published with a one-month lag.

Vitamin 'D'evelopment cure for the global economy

Leading central banks, especially the U.S. Federal Reserve (Fed), emphasize that they are determined to monitor increases in both producer and consumer price indices for a while.

However, global markets and economic circles follow increases in the producer price index, an indicator of cost inflation, and the increase in producer inflation is present in a significant number of G-20 countries.

Development first

The "Vitamin D" cure, which stands for "Development," should be prioritized in order to save the world economy from the effects of the COVID-19 pandemic and to help national economies recover from the destruction caused by the global pandemic.

On the one hand, while some Fed officials made statements such as "we must be on the lookout for inflation," the Fed's inflation forecasts were revised upward, and the global markets negatively priced the interest rate hike forecasts of some members for 2022 and 2023 at the last Fed meeting.

On the other hand, we should not ignore the assertion of Fed Chairperson Jerome Powell that they see the rise in inflation as temporary related to the "normalization" process following the pandemic and therefore will not rush into policy changes.

This is because all of the central banks of leading countries are aware of the need for growth and development right now, rather than prioritizing inflation.

For this reason, if any country prioritizes the rise in consumer inflation, considered to be temporary, and misses the upward adjustment in the interest rate hike, then the financing of production and exports will have been overpriced.

Instead, all the leading economies now seriously need to motivate and encourage production, investment and export.

The economic damage caused by the global pandemic has surpassed the level that can be covered by the resources of companies themselves, especially for small and medium-sized enterprises (SMEs), all around the world.

Therefore, thanks to both domestic trade and the foreign demand, i.e. imports, of countries that have been relatively less affected by the global pandemic, countries need to recover using their export volume. This is especially important for developing countries.