

China's Energy Revolution and ODI

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China's Energy Revolution and ODI

What I will cover:

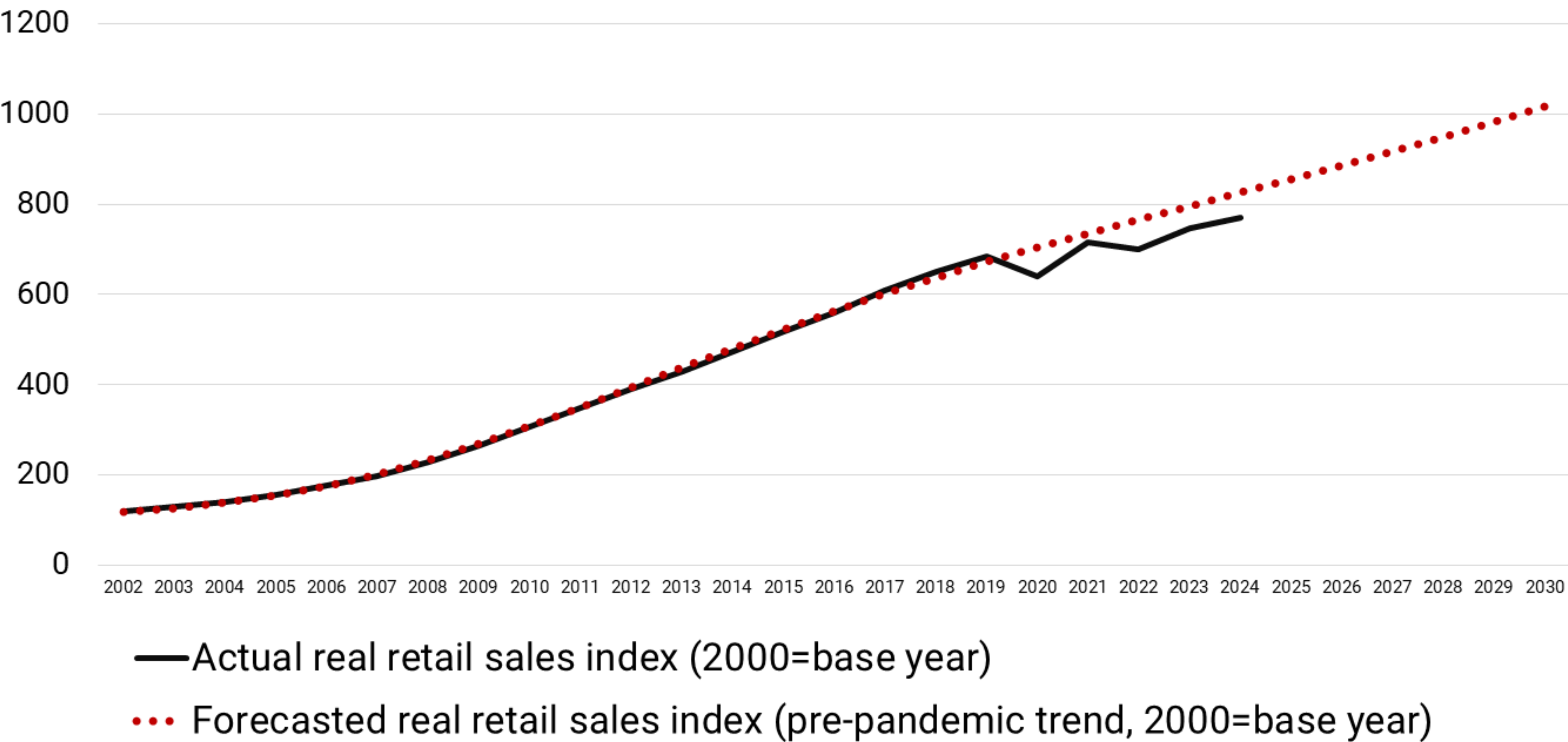
- China's supply side expansion and energy revolution
- New sources of export competitiveness
- Increasing external influence via outbound direct investment (ODI)
- Five-Year Plan (FYP) priorities and the steel sector

Macro Rewind: Covid Shocks and Consumption



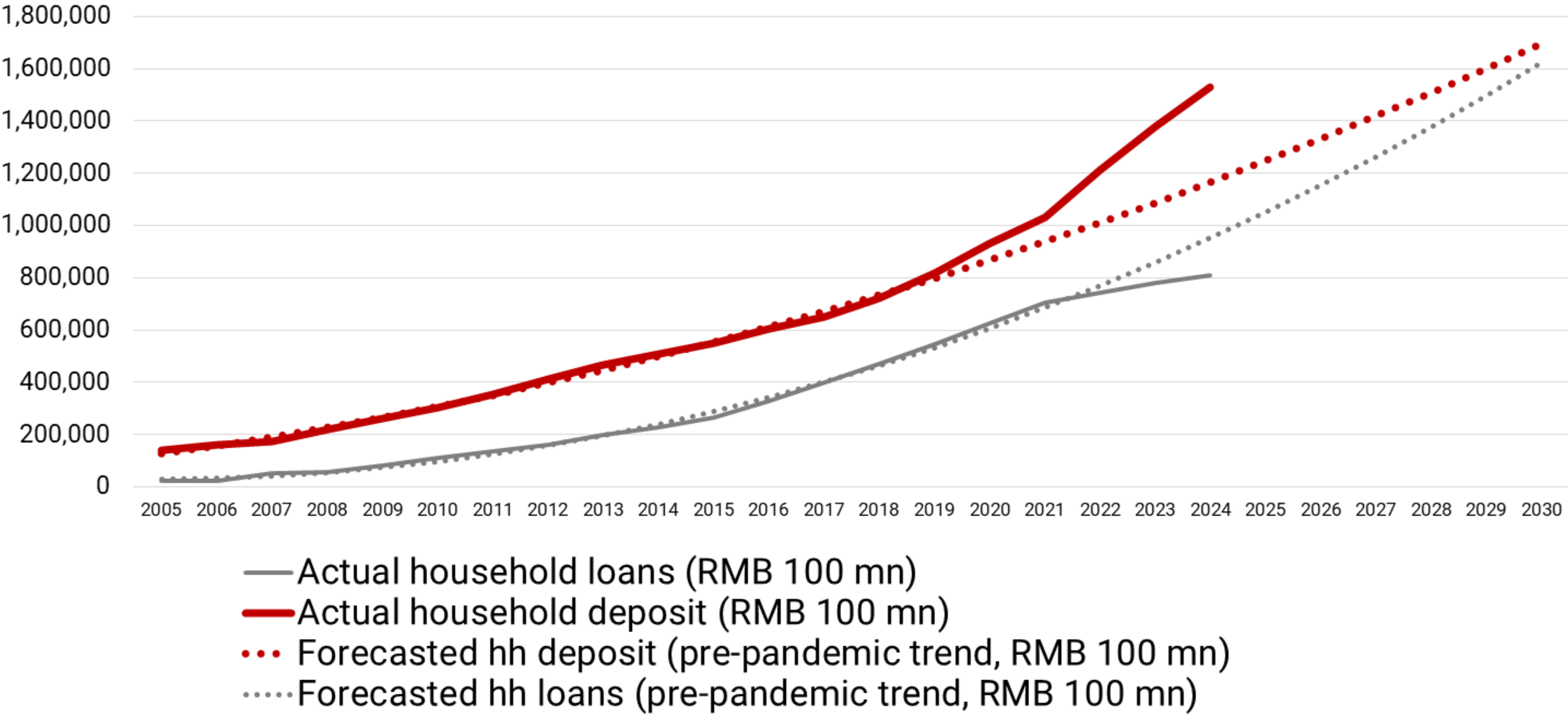
Structural Shift Down to Consumption from Covid

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China's Household Savings Glut A Drag on Rebalancing

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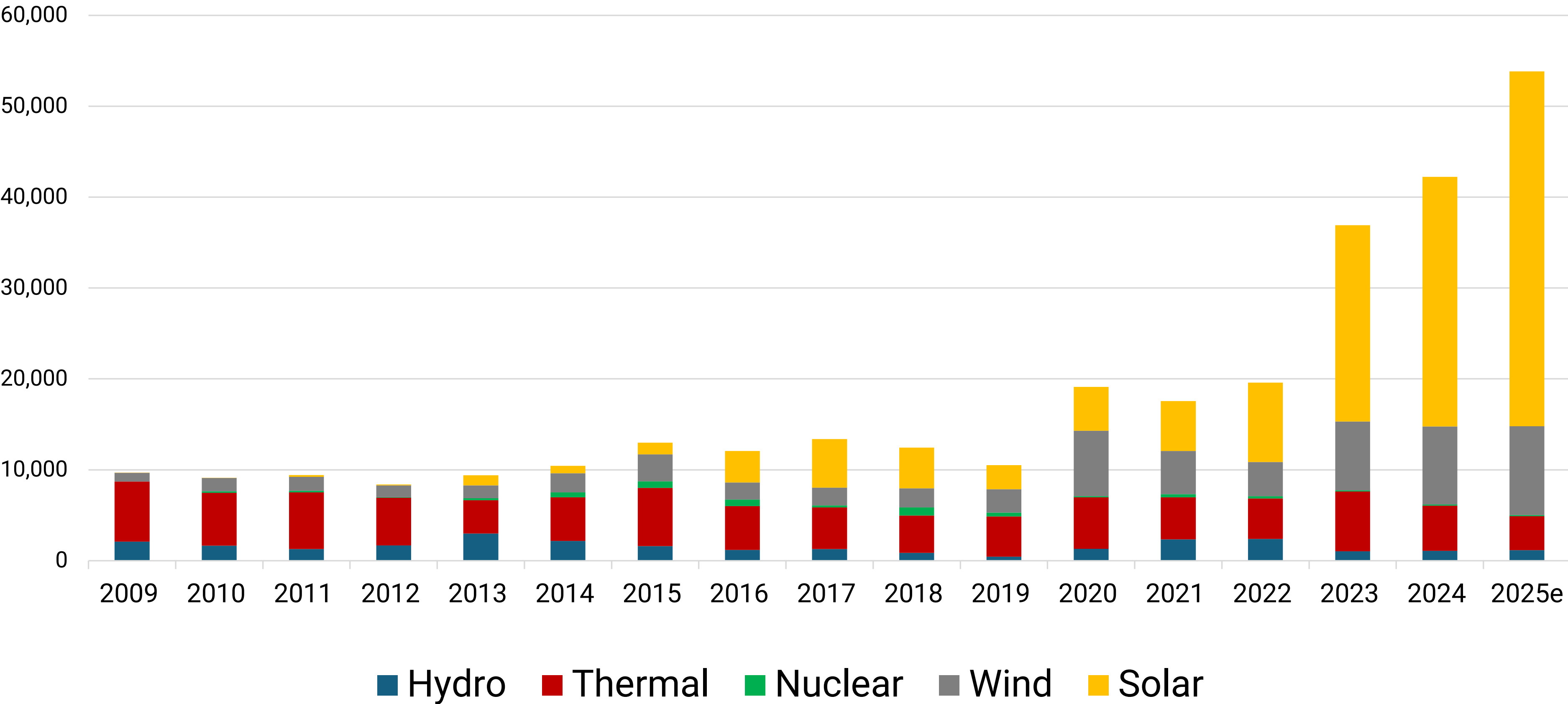


Excess Savings and an Energy Revolution



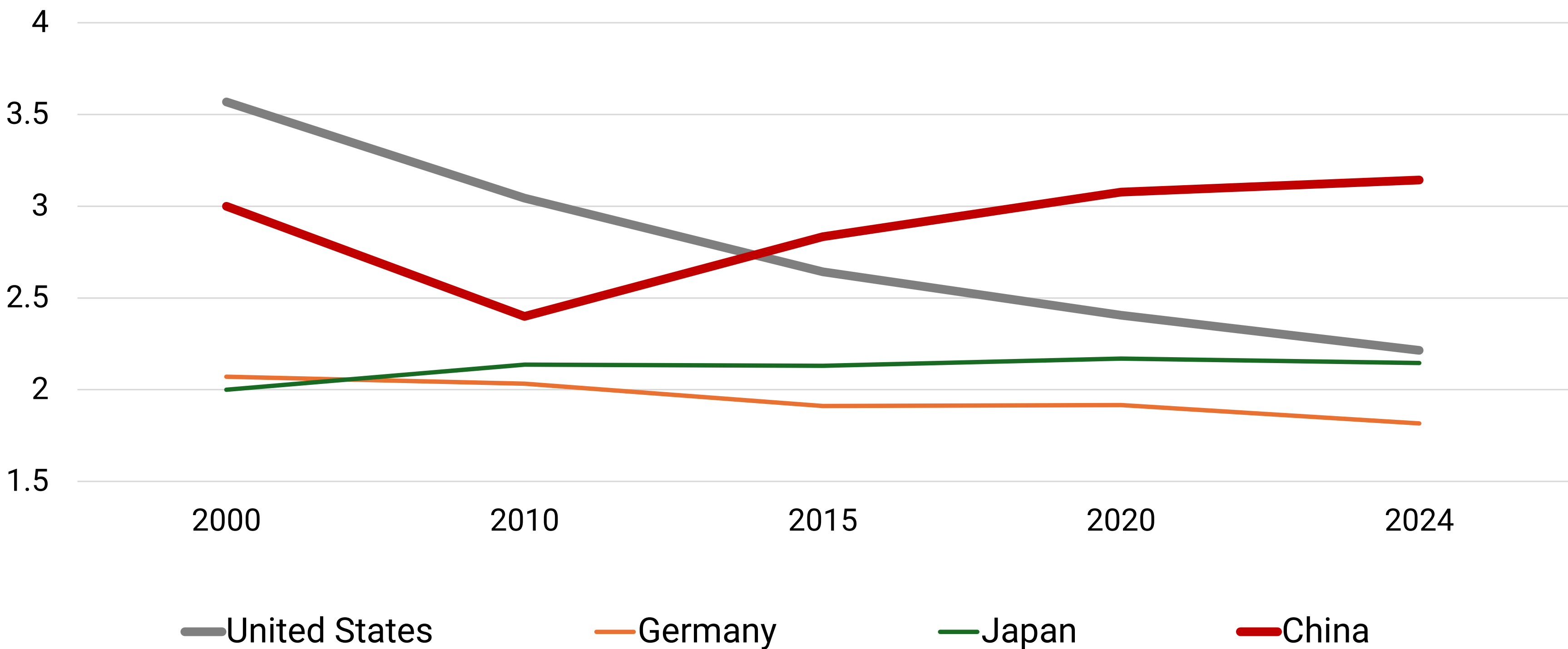
Excess Savings Became an Energy Revolution: New Added Power Gen Capacity

Wind / PRC Macro / 10K kw



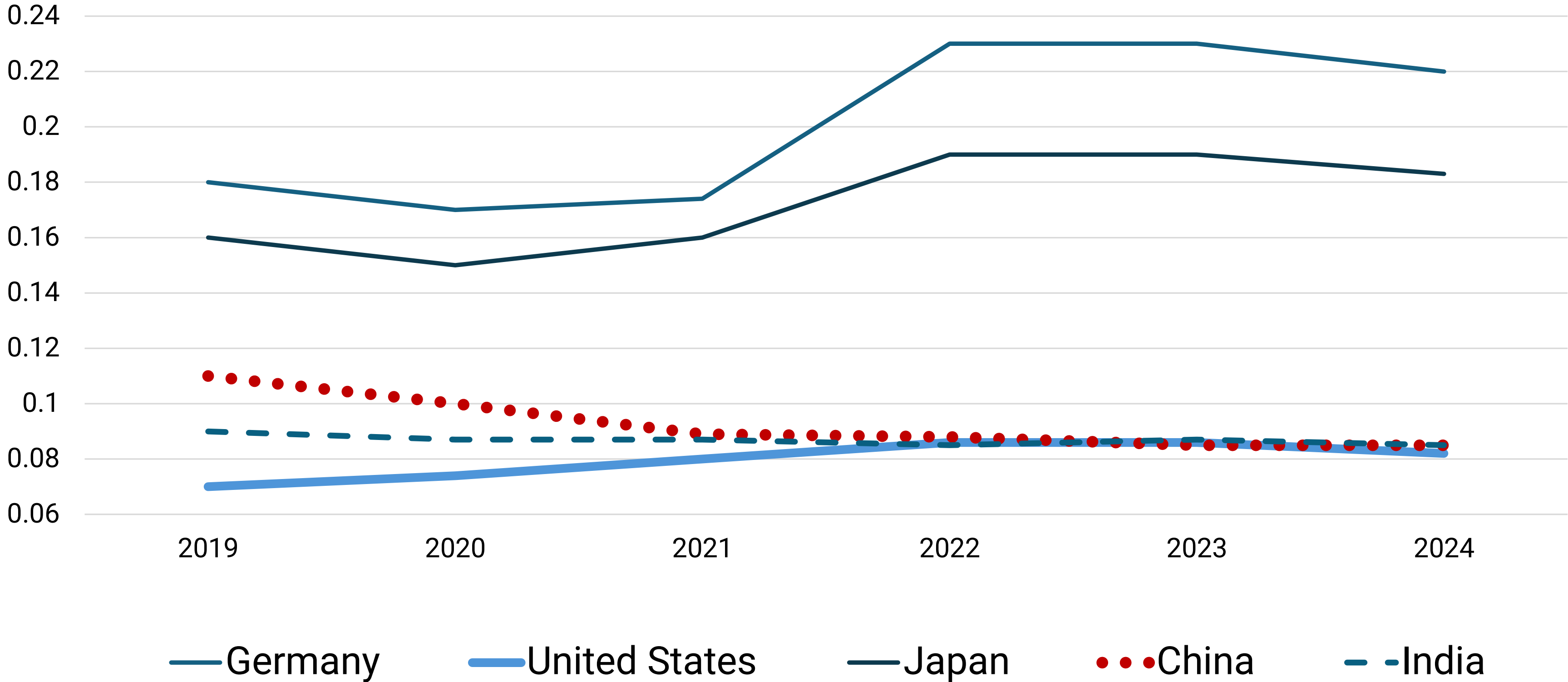
Comparative Wage Adjusted Productivity

Hourly Wages / Output
OECD / PRC Macro



Comparative Industrial Power Cost

\$/kwh - IEA, OECD

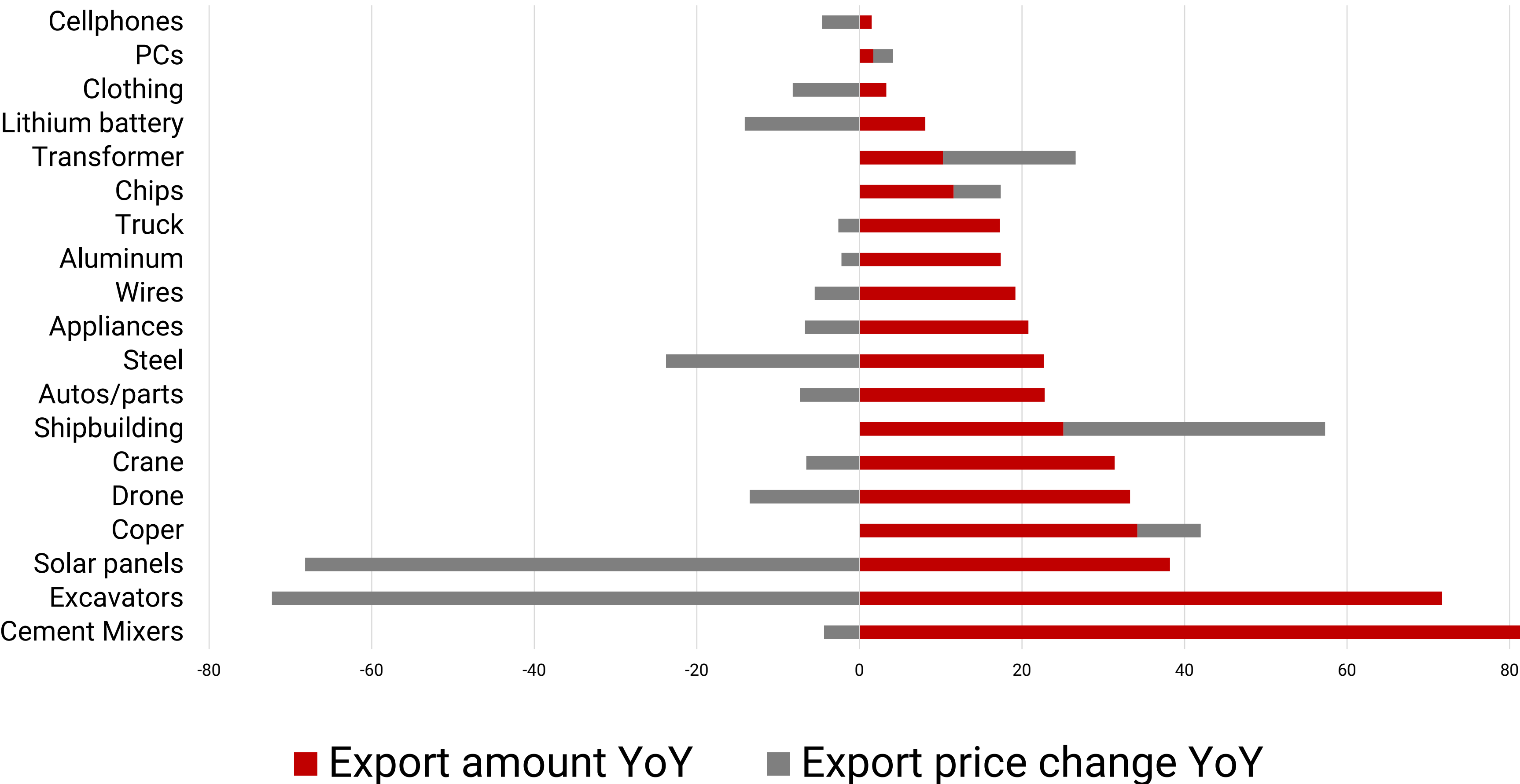


Cheap Power, Productivity and Export Competitiveness



China's Exports Have Become Energy Intensive

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(as of Dec. 2024, YTD, YoY, %)



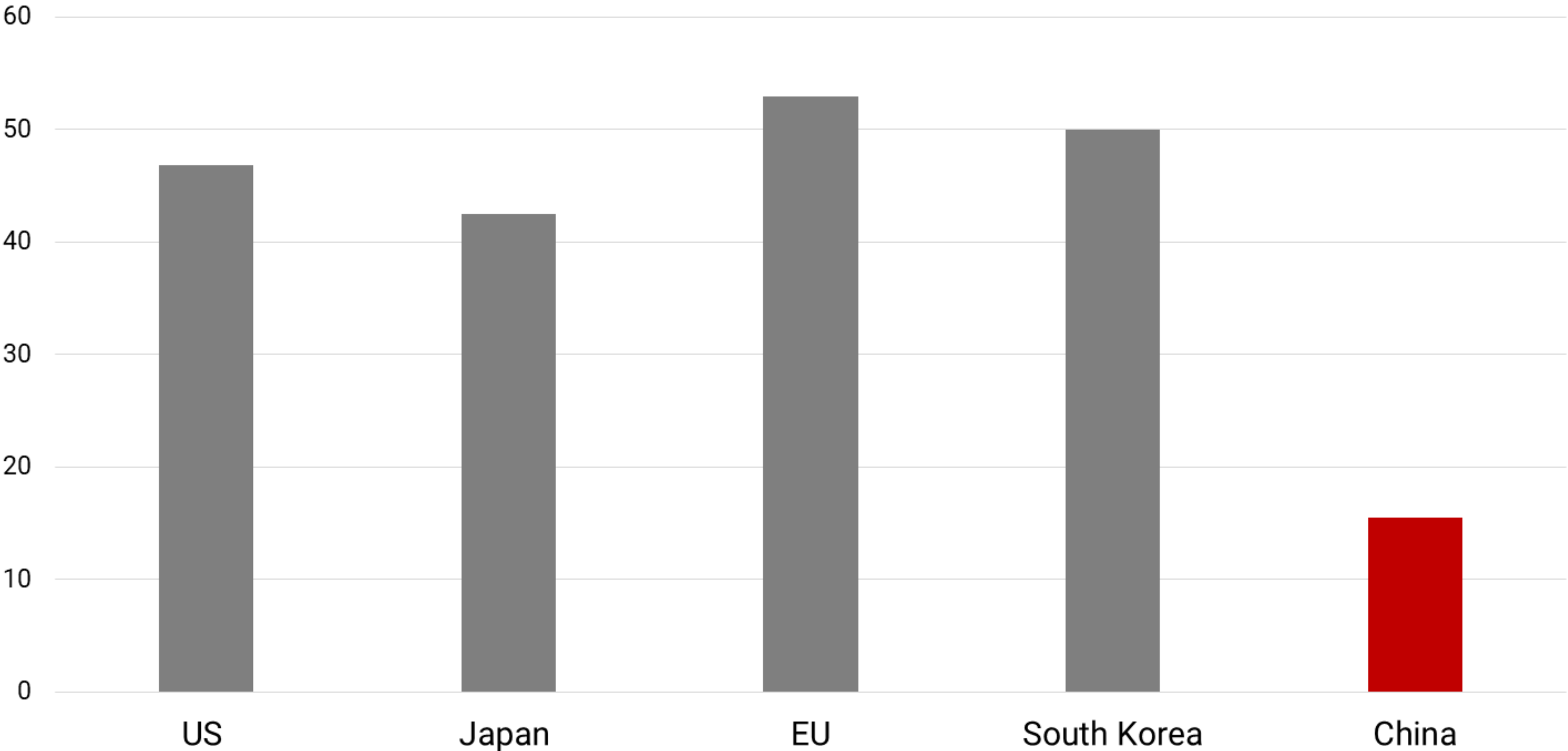
Chinese Outbound Investment (ODI) Just Getting Started

...cheap RMB loans + renewable energy (vs. \$/fossil fuels)



China's Outbound Direct Investment Lags Others

Outstanding ODI/nominal GDP - %
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An Initial Focus on “Neighboring Economies”

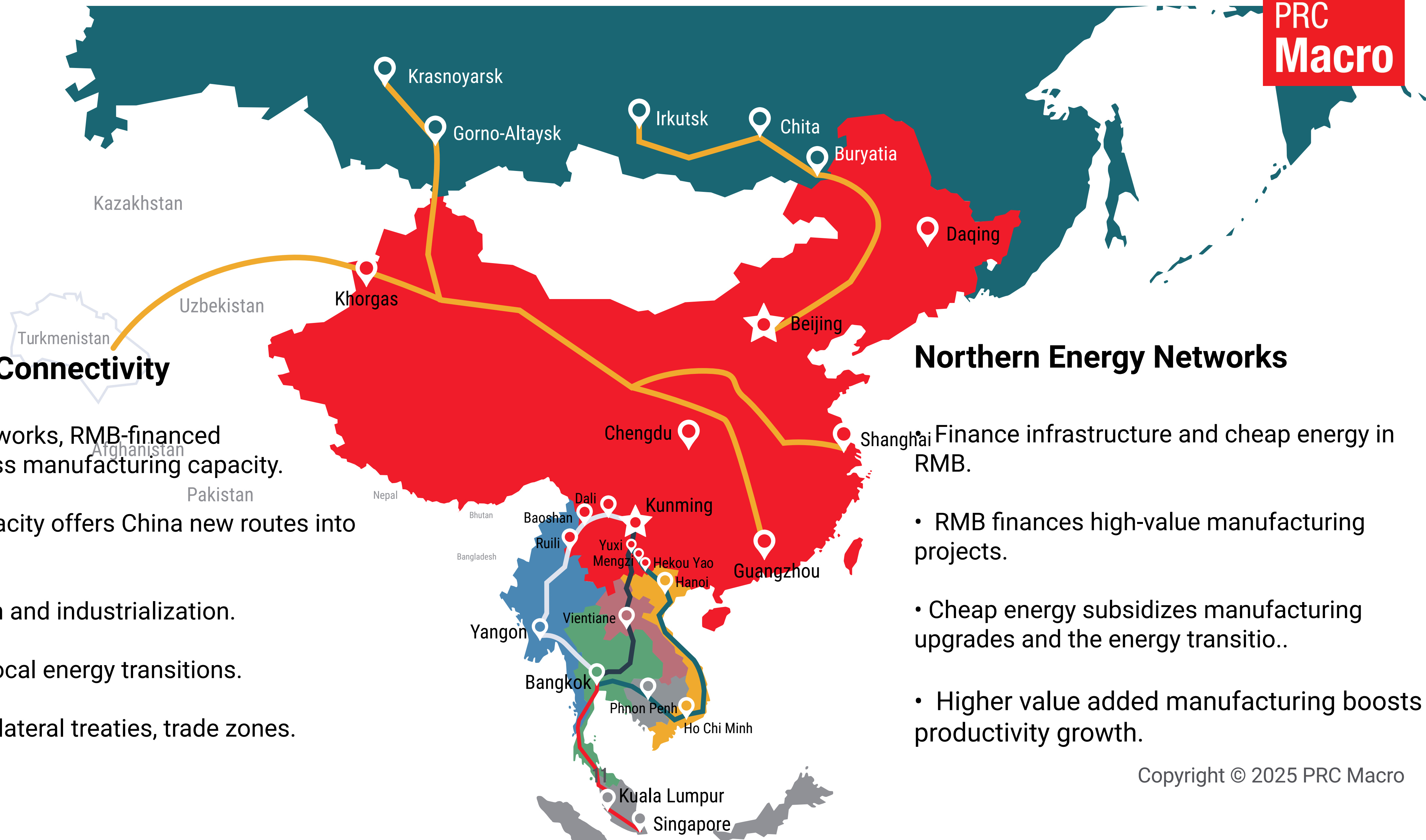
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Southern Infra Connectivity

- Pan-Asian rail networks, RMB-financed infrastructure, excess manufacturing capacity.
- Relocation of capacity offers China new routes into DM market.
- Local urbanization and industrialization.
- Lowered cost of local energy transitions.
- Multilateral and bilateral treaties, trade zones.

Northern Energy Networks

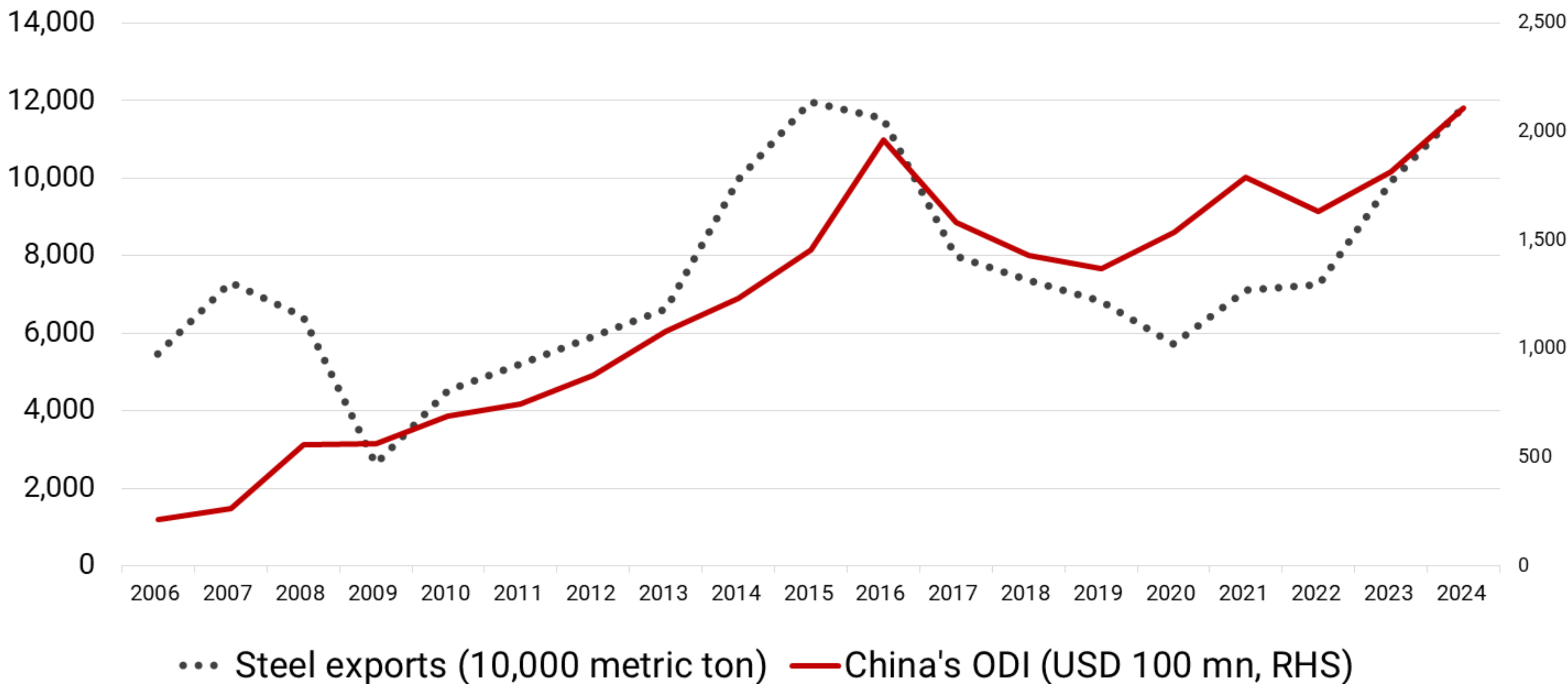
- Finance infrastructure and cheap energy in RMB.
- RMB finances high-value manufacturing projects.
- Cheap energy subsidizes manufacturing upgrades and the energy transitio..
- Higher value added manufacturing boosts productivity growth.



Chinese Outbound Investment Boost Exports

China's ODI Drives Energy Intensive (and Steel) Exports

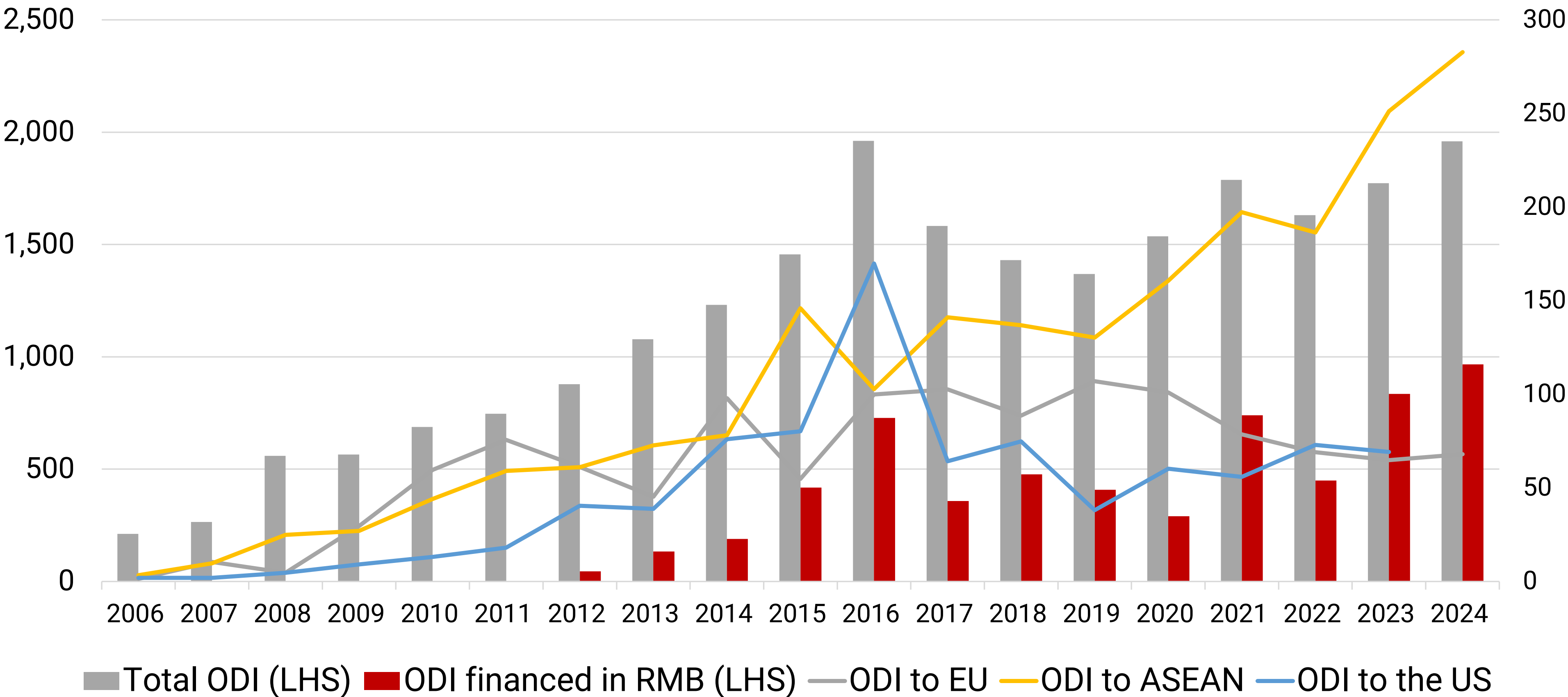
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Chinese ODI Promotes Exports

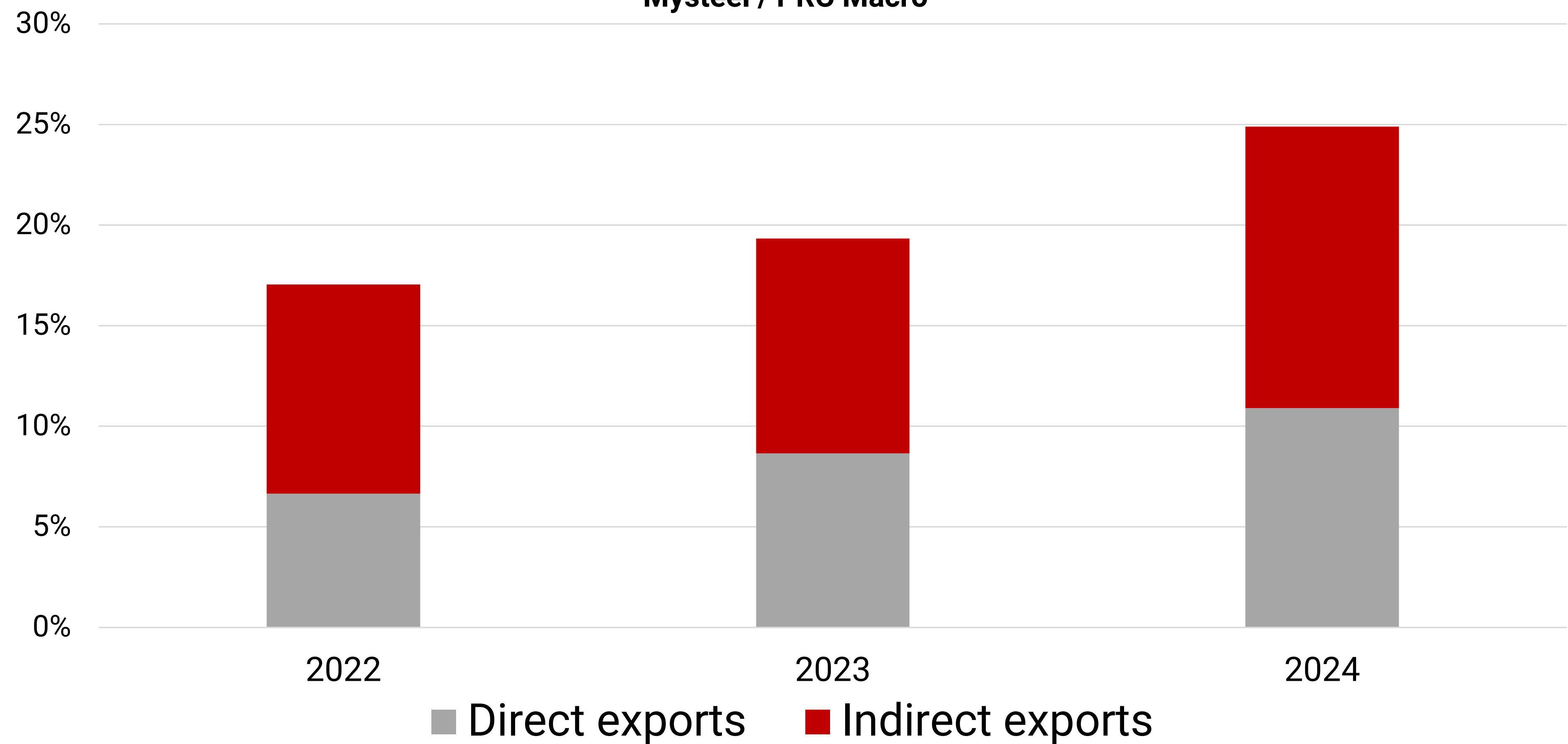


Chinese ODI to Region Will Continue to Boom (USD 100m) Wind / PRC Macro



Steel Exports as a Share of China's Steel Output

Mysteel / PRC Macro

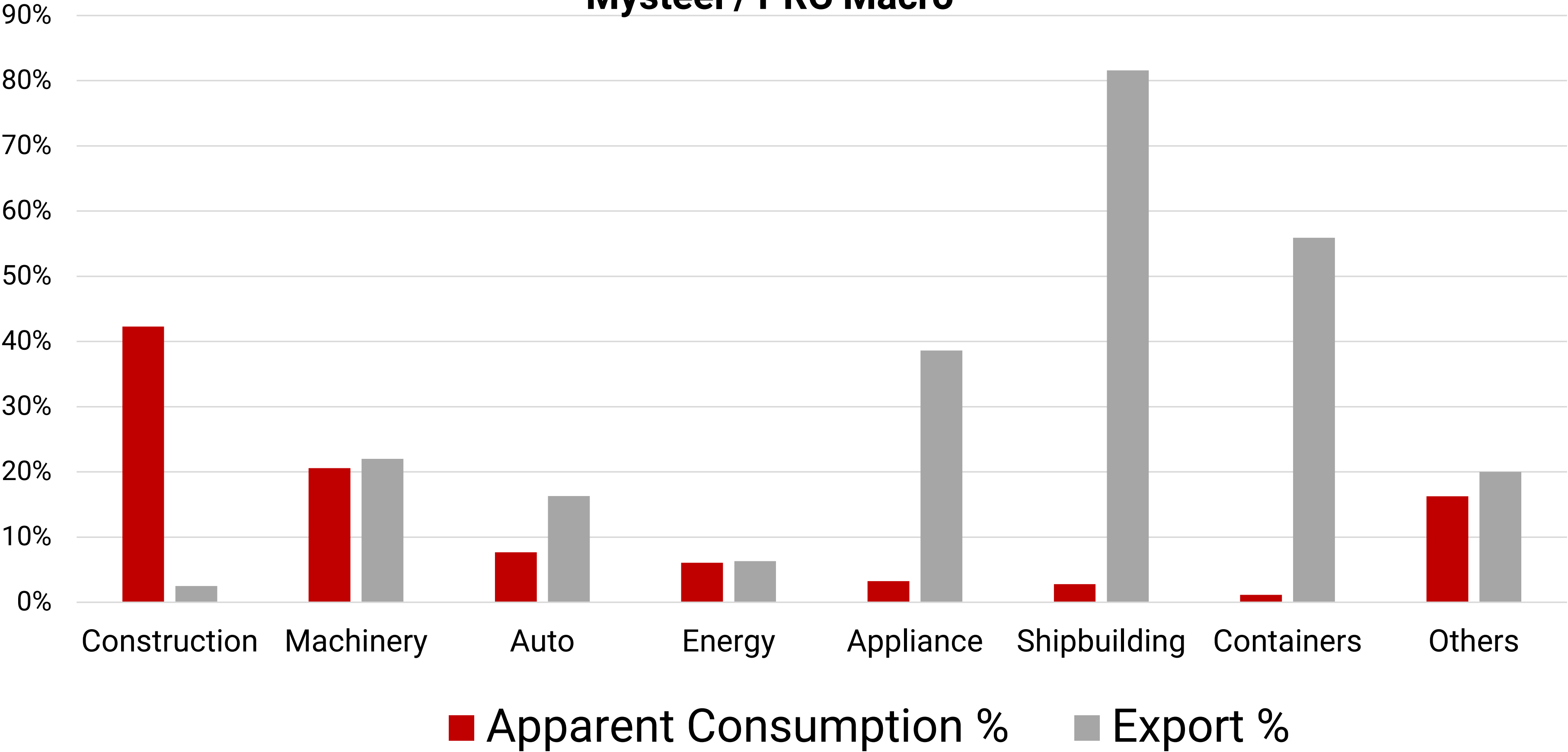


More Indirect Exports of Energy Intensive Goods



Exports as a Share of Production in Steel Consuming Sectors

Mysteel / PRC Macro



China's Five-Year Plan and Steel

Central Government Priorities: “adjusting and optimizing the economic layout, developing new quality productivity, and benefiting the people”.

China Iron and Steel Association (CISA) on July 15: China needs “a new mechanism for capacity management”, which means “in-depth reforms and accelerated industrial restructuring at the strategic level”.

CISA's Priorities:

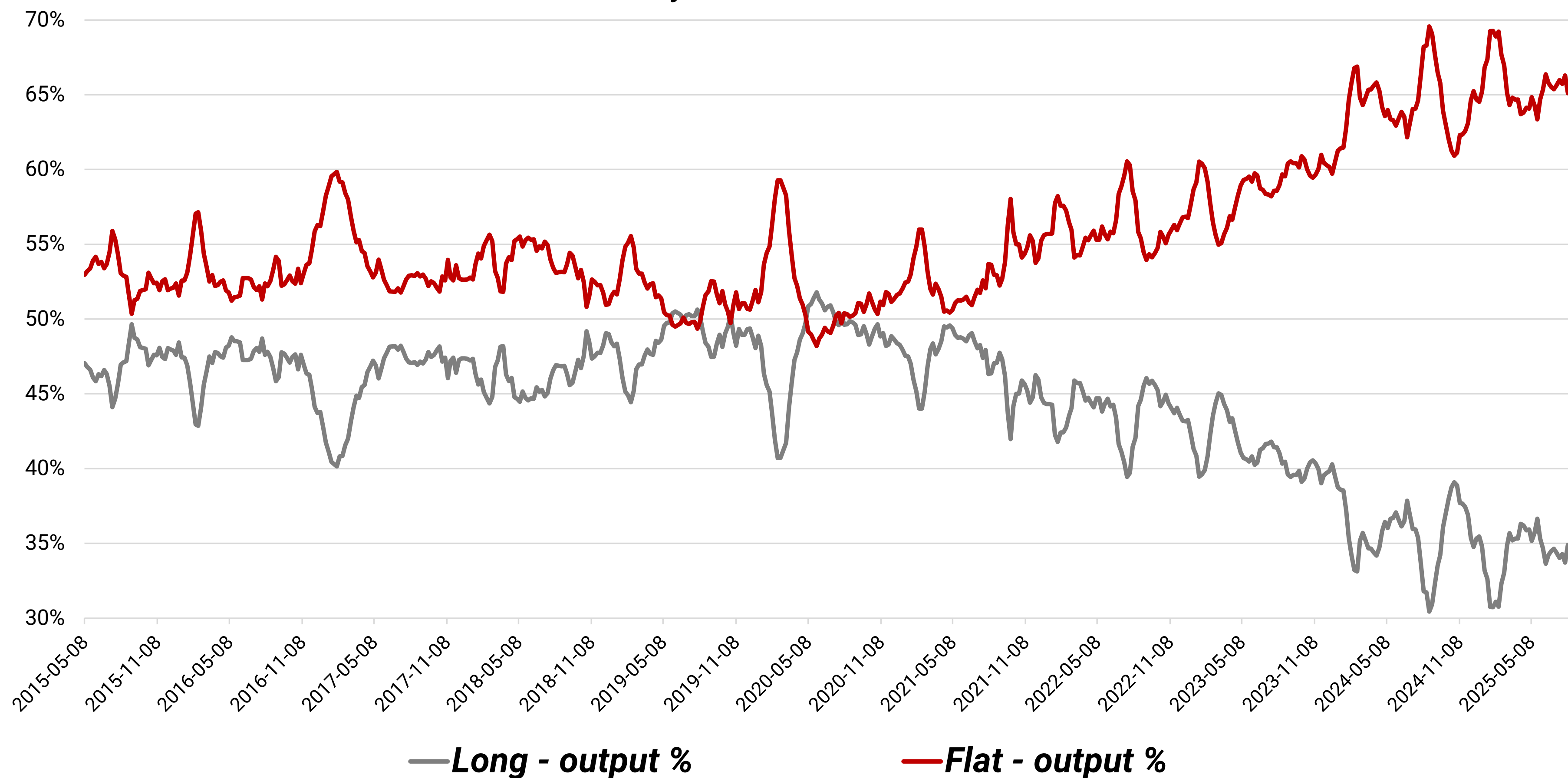
- “Strict control of incremental capacity, optimizing existing capacity, mergers and reorganization, and the unimpeded exit of obsolete capacity”.
- “The development of short-process EAC”
- “Steel structure construction industry chain”
- “Strengthening the international branding of Chinese steel” via ODI

Historic Shift in Steel Output Composition



Chinese Steel Producers Derisked from Property, Pivoting to Exports

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Conclusions



- There are new “China shocks” coming.
- China’s energy revolution delivers cheap and abundant power to subsidize the competitiveness of energy-intensive exports. This includes products that account for ~14% of total steel consumption.
- Chinese ODI will create significant demand for energy-intensive (and steel-intensive exports) for the next decade. This will be supported by the Five-Year Plan goal of boosting China’s external influence.
- The Five-Year Plan for steel should include “optimizing capacity”, meaning more green and EAC steel, but not material capacity cuts. Manufacturing output (as secondary output) to GDP will be stable.
- Beijing is increasingly resistant to accusations of subsidies and dumping.

Contact



Yigang Ha

MD of Global Sales

+1 (647) 887 8618

yigang.ha@prcmacro.com

