Q. What is WSD's profit outlook for the global steel industry in 2013?

A. For most steel companies, 2013 may be a year of much-diminished profits. Outside of China, stagnant steel demand — the consequence of little, if any, growth in fixed asset investment (FAI) — seems likely to result in heightened price competition, as too many tonnes chase too few orders. *(Note: FAI accounts for 75–80% of non-Chinese steel demand.)* In China, the pricing structure for hot rolled band is "competitive" because more than 70 "wide" hot strip mills are vying for the market; hence, in an environment of oversupply, the mills will have little pricing power.

Q. What period of the cycle does WSD think the global steel industry will experience in 2013?

A. As of December 2012, WSD thinks the odds are greatest for the Bad Times and the Fair Times scenarios, and/or some combination of the two.

Global Steel Industry Scenarios for 2013: What Are the Odds?

- **Boom Times,** including the possibility of a steel (hot rolled band) shortage = 5% odds *(former odds 1%).*
- **Good Times,** including rising steel demand and pricing power returning to the hands of the steel mills to a substantial extent = 15% odds *(former odds 15%).*
- **Fair Times,** including not much change in steel demand and wide price swings for hot rolled band and steel scrap on the world market = 30% odds *(former odds 25%).*
- **Bad Times,** including slack steel demand, lower prices for steelmakers' raw materials, lower steel mill production costs and reduced pricing power in the hands of the steel mills = 40% odds *(former odds 50%).*
- **Shake-Out Times,** including weak apparent steel demand and the possibility of pricing "death spirals" (brief episodes in which the price for hot rolled band falls to the marginal cost of the median-cost mill) = 10% odds *(former odds 9%).*

Q. Why does the global steel industry experience price rallies only if it is in Fair Times and Bad Times?

A. There was a temporary price spike for hot rolled band on the world market in late 2012, and there may very well be short periods of a price rally during the year 2013. Factors that contribute to a price rally include: (a) the end of users' inventory liquidations; (b) sizable cutbacks in steel production; (c) an increase in raw material prices that steel buyers anticipate will require steel mills to raise their prices; and (d) the hot rolled band price on the world market declines to a much lower level, causing steel buyers to sense that they have bottomed.

World Steel Dynamics (WSD) is a leading steel information service in Englewood Cliffs, N.J.

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WSD's steel experience, steel database and availability of steel statistics are the principles for performing steel forecasts, studies and analysis for international clients. WSD seeks to understand how the "pricing power" of steel companies the world over will be impacted by changes in the steel industry's structure.

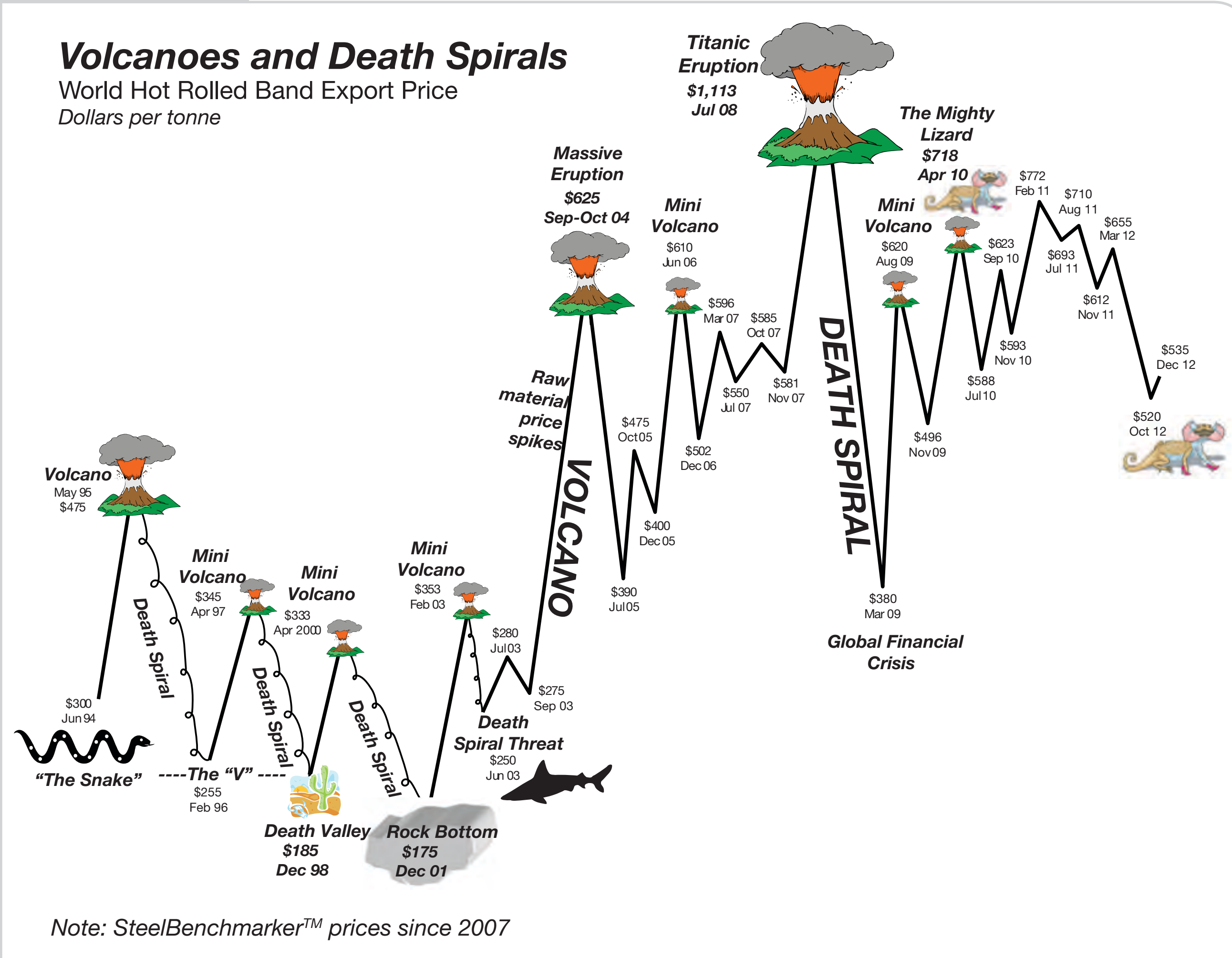
The views and opinions expressed in this article are solely those of World Steel Dynamics and not necessarily those of AIST.

Authors

Peter Marcus
managing partner, World Steel Dynamics
pmarcus@worldsteeldynamics.com
+1.201.503.0902

Becky Hites
managing partner, World Steel Dynamics
bhites@worldsteeldynamics.com
+1.201.503.0935

Figure 1



World hot rolled band export price.

Q. What is the outlook for China's steel sector going forward?

A. Chinese steel demand is forecast to rise 2–4% per year in 2013 and 2014; however, additions to steelmaking capacity seem likely to far outstrip the increase in demand. For example, in 2012, about 42 new blast furnaces with a gross capacity of about 50 million tonnes were to start up. And, in 2013, another 30 units are forecast to begin production. Capital outlays in the Chinese steel industry in 2012 were to rise 4% to about $63 billion; and, another $23 billion is being expended on iron ore mines. In addition, there is a substantial, but not separately reported, amount being invested in coking coal mines.

Additionally, WSD expects a huge gain in obsolete steel scrap recovery in China to occur in the next decade — perhaps an increase of 170 million tonnes per annum by 2025 and 357 million tonnes per annum by 2035. So far, this prospect is being ignored by those engaged in China's massive steel industry expansion program. The emphasis remains predominantly on the construction of steelmaking facilities employing the BF/BOF route rather than the steel-scrap-using EAF steelmaking route.

The combination of China's still massive capacity increases, the growing steel scrap supply and slowed steel demand growth means that China may be saddled with grossly excessive steelmaking and rolling capacity for the next decade. ✦