This report includes forward-looking statements that are based on current expectations about future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict. Although WSD believes that the expectations reflected in its forward-looking statements are reasonable, they can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties, including, among other things, changes in prices, shifts in demand, variations in supply, movements in international currency, developments in technology, actions by governments and/or other factors.

Steel's "Ages of Discontinuity"

WSD believes that there is a potent and beneficial "Age of Discontinuity" — a new pattern of events that is not consistent with those of the past — on the horizon for the global steel industry. The steel industry's two most recent Ages of Discontinuity — the U.S. financial crisis in 2008 and the eurozone sovereign debt crisis in 2011–2012 — had a negative influence on shipments and profit margins for many steel mills. Looking ahead to 2015, however, the next Age of Discontinuity may have a substantially positive impact on the mills' shipments and "pricing power."

The steel industry's next Age of Discontinuity may occur in 2015 (Figure 1 on page 24), when two potent forces come together at the same time. These forces are: (a) an improved steel demand outlook, as the global industry returns to the higher-steel-demand-growth Open Road path from the Rutted Road path; and (b) a huge rise in steel futures trading activity that permits almost universal hedging against the steel price risk.

The use of liquid steel futures curves will be a progressive and mutually beneficial endeavor for both steel mills and buyers. In times of increasing margins, the forward curve will give the mill the opportunity to extend the price, and vice versa for steel buyers. Also, mills that offer this service will likely see an increase in demand and more repeat customers.

Spot Iron Ore is "King"

The spot iron ore price has apparently usurped the steel scrap price as the most critical indicator for forthcoming steel price changes. Fluctuations in the price of iron ore signals to those in the steel industry what may happen to the price of hot rolled band on the world market and in some regional markets (such as China). The past few years have seen major upheavals in the iron ore market, including: (a) in 2010, steel mills begrudgingly switched from annual contracts to quarterly prices for iron ore (typically derived on a lagged three-month basis), and (b) high iron ore price volatility. For example, the price for 62% Fe sinter feed delivered to China is US$150 per tonne in late February 2013, up from a brief low of US$87 per tonne in September 2012.

Steel mills have been acquiring and developing iron ore properties in an attempt to reduce their iron ore costs and mitigate spot price swings. Financial derivatives are increasingly being used to allow those affected by iron ore prices to somewhat hedge the risk. ✦

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

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.

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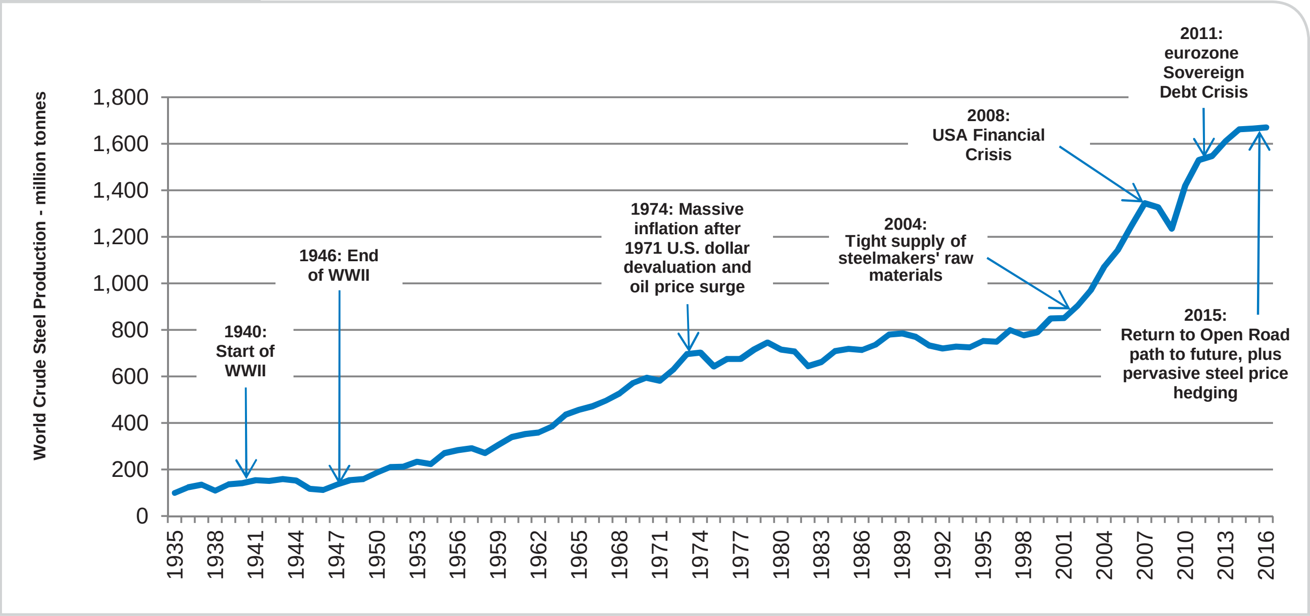
Figure 1



Steel's Ages of Discontinuity. Source: WSD.