



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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## 2014: Adverse Outlook for Most Steel Mills — Fixed Asset Investment Stagnating

Steel mills' prospects for 2014 have been deteriorating at an accelerating pace since the fourth quarter of 2013, in WSD's opinion. Steel demand has been flat on a year-to-year basis, and steelmaking oversupply is substantial. Hot rolled band prices have remained depressed on the world market. Iron ore and coking coal prices are down sharply, although the price for iron ore delivered to China has rallied moderately. More steel plants have been put up for sale.

The fixed asset investment (FAI) outlook is hard to track precisely. However, recent events in the Ukraine, along with slow growth rates for many economies, appear to be boosting the odds that financial malaise is spreading sufficiently to slow construction and capital spending in many countries. And, when economic growth rates are low, non-steel-intensive services account for a higher share

of the overall growth. Hence, WSD does not see much of a rise in steel demand this year, with demand probably down in the developing world ex-China. Table 1 depicts most likely scenarios for the global steel industry for 2014–2017.

New emerging global steel trade patterns are reflecting: (a) the strong U.S. dollar versus many developing world currencies; (b) political developments in the Middle East, Turkey and Russia/Ukraine; (c) regional steel demand shifts; and (d) steel trade suits against the Chinese.

Steel is a late-in-cycle industry. Even when there's a pickup in the global economy, steel demand may not increase much because it's tied to FAI. FAI typically rises sharply only in the second or third year of an economic recovery and then remains strong for a year or two when the economy is peaking.

Table 1

"Most Likely" Scenario for the Steel Industry in 2014–2017 (odds %)				
Scenario	2014	2015	2016	2017
Shake-out times	20	10	10	5
Bad times	55	25	15	10
Fair times	20	35	25	20
Good times	5	25	40	45
Boom times	0	5	10	20

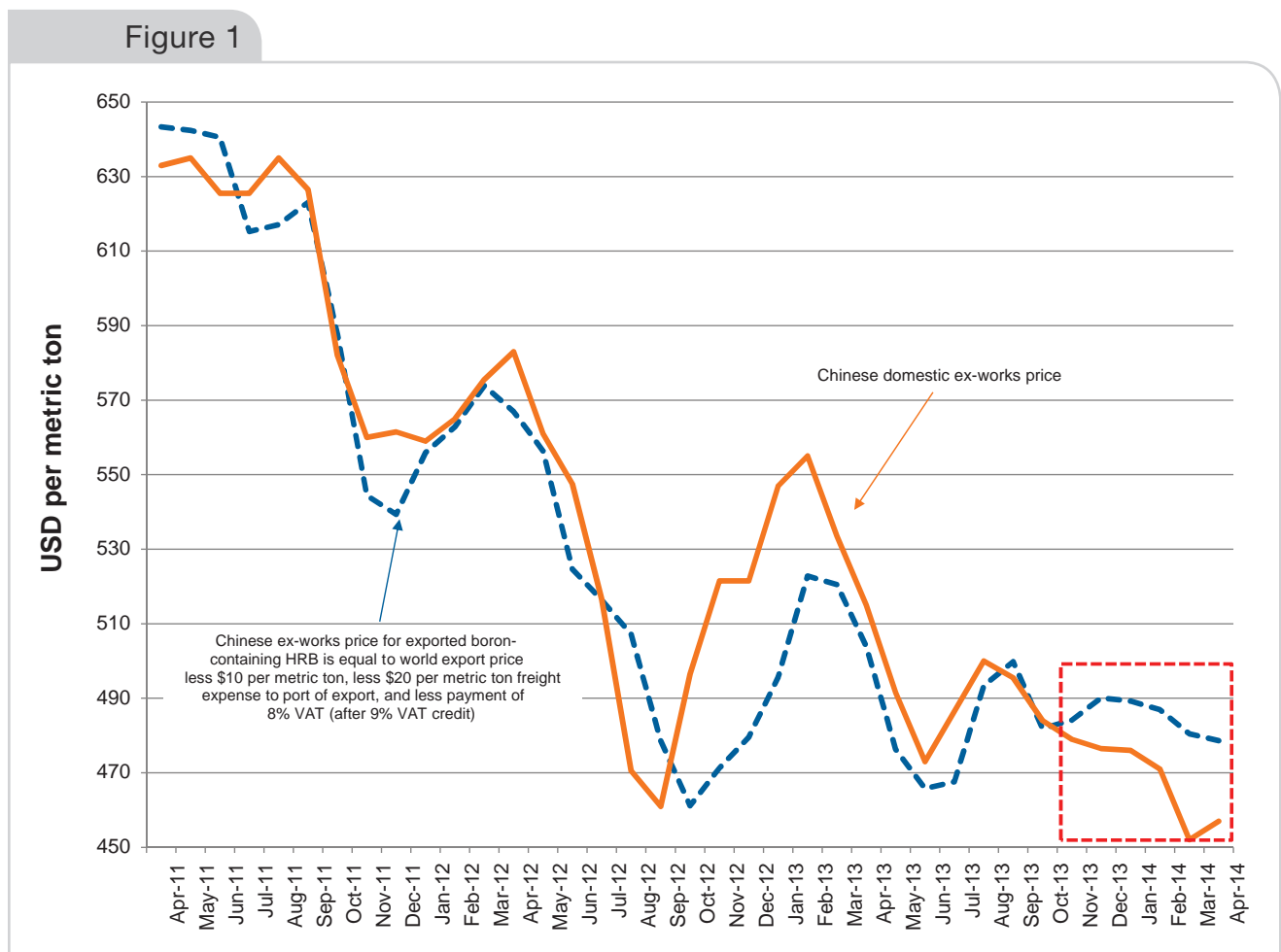
## Oversupply Equilibrium — Don't Wish for It

Based on its monthly World Cost Curve data since 2011, WSD has observed that the hot rolled band (HRB) export price, after taking into account the cost to deliver the steel to the port of export and, in China's case, adding an 8% value-added tax for boron-containing steel, matches up as follows:

- For the median-cost non-Chinese mill, with its operating cost.
- For the median-cost Chinese mill, with its marginal cost (when also assuming that its HRB export price realization is US\$10 per metric tons less than for non-Chinese steel mills).

WSD has also compared, as indicated in Figure 1, the Chinese mills' domestic ex-works price against the export price. It can be seen that, from January 2011 until late 2013, the home price was always not far from, and/or above, the export price. However, since late 2013, the gap in favor of the export price has widened to about US\$20–25 per metric ton.

The higher price when exporting since late 2013, along with sizable overcapacity, helps to explain the Chinese steel mills' determination to boost export bookings. For the first four months of 2014, the Chinese mills' exports of all steel products amount to 25.9 million metric tons versus 20 million metric tons in the first four months of 2013. ♦



Chinese HRB ex-works export price versus domestic ex-works price. Source: WSD's World Cost Curve for flat rolled sheet and SteelBenchmarker.