



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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## Russia, Japan, Brazil: Rapid Currency Devaluation = Lower HRB Cost

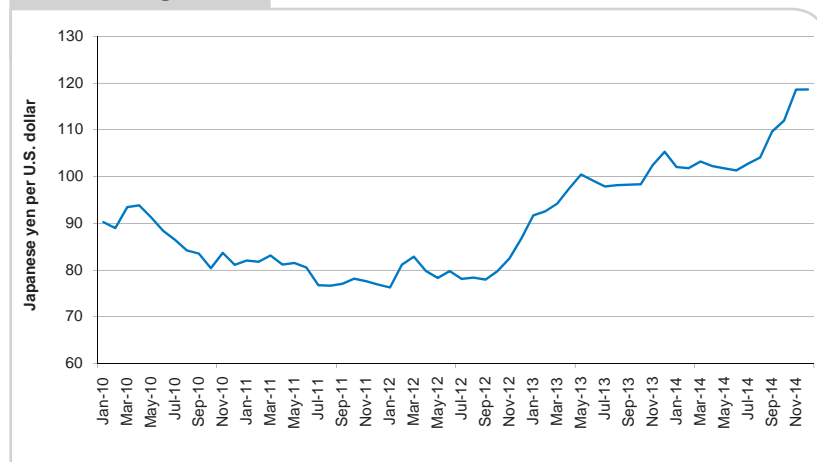
Figures 1–3 portray the significant currency devaluation versus the U.S. dollar for Japan, Brazil and, especially, Russia. These devaluations have improved the cost competitiveness of these groups. The Russian steel mills, by far, are now the lowest cost in the world.

In 2014, versus the U.S. dollar, the currencies of Japan, Brazil and Russia weakened about 16%, 10% and 107%, respectively. WSD estimates that about two-thirds

of Japan's and Brazil's costs, and 70–80% of Russia's costs, are denominated in the home currency.

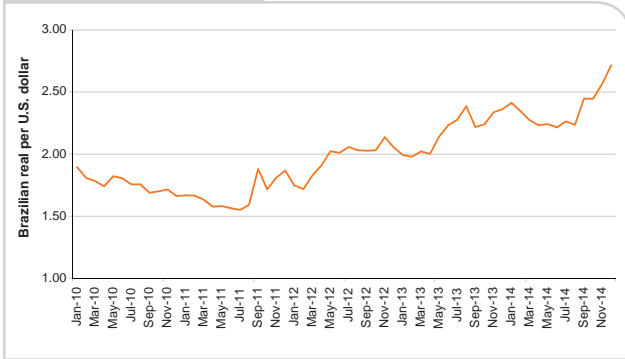
The stronger the dollar — all other things held the same — the lower the price of hot rolled band in the world market. With the Russian ruble at about 65 per U.S. dollar, the operating cost to produce hot rolled band in Russia may be only US\$270/metric ton.

Figure 1



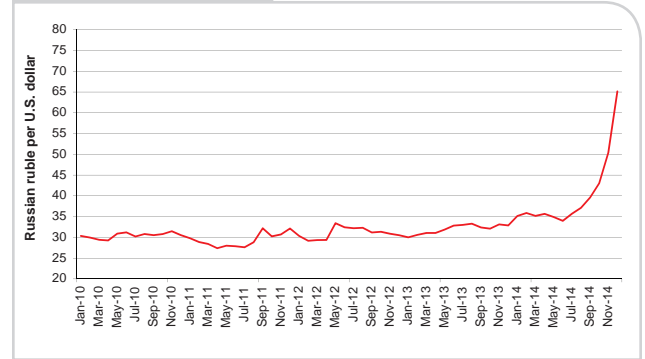
Japanese yen per U.S. dollar, 2010 to present. Source: Reuters.

Figure 2



Brazilian real per U.S. dollar, 2010 to present. Source: Reuters.

Figure 3



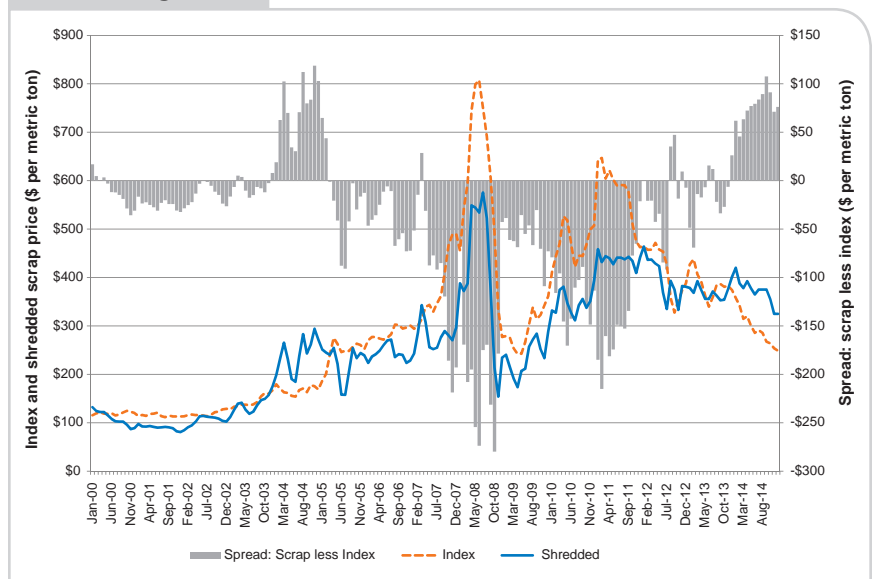
Russian ruble per U.S. dollar, 2010 to present. Source: Reuters.

## Steel Scrap Price Collapse

Based on WSD's Steel-Benchmarker™ pricing series, shredded steel scrap delivered to U.S. mills was US\$376/gross ton in August 2014 and US\$360/gross ton in August 2013. In early December 2014, it was US\$326/gross ton. The current price is about 30% below the post-2008 financial crisis high of US\$466/ton in January 2012. By way of comparison, the prices of iron ore and coking coal are down far more sharply:

- The current iron ore spot price, delivered to China, at about US\$68/metric ton, is off about 52% from US\$143/metric ton in early August 2013, and it is down about 64% versus its temporary peak of US\$191/metric ton in the winter of 2011.
- The price of coking coal, FOB Australia, at about US\$111/metric ton, is off about 22% from US\$142/metric ton in early August 2013 and about 69% versus the peak of US\$355/metric ton in 2011 (when heavy rains in northeastern Australia wreaked havoc on the region and created a global shortage).

Figure 4



U.S. shredded scrap versus weighted iron ore and coking coal price index. Source: WSD Estimates, Platts, SteelBenchmarker™.

As indicated in Figure 4, given mid-December prices for iron ore and coking coal, the price of steel scrap appears to be perhaps US\$50/metric ton overpriced on a value-in-use basis. This disparity would widen if the scrap price is unchanged and the iron ore price, as WSD expects, declines about US\$10/metric ton in 2015. ♦