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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.



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Hot-rolled band export price: How high is high?

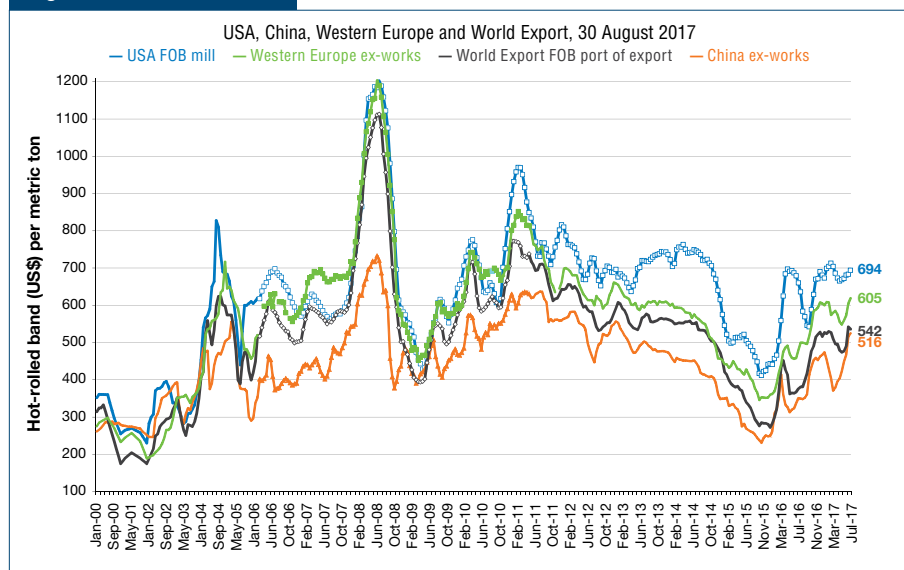
The average price of hot-rolled band (HRB) on the world market on 30 August 2017 was about US\$580/metric ton, FOB the port of export. Included in the average was the Chinese mills' price at about US\$560/metric ton, FOB the port of export. The Chinese mills' discount of about US\$20-30/metric ton versus the higher-priced mills is a relatively small one for them because the steel market is so strong in their country — with its 80+ wide hot strip mills operating at about 95% of capacity according to press reports.

Looking back to mid-April 2017, the HRB export price bottomed out at an average price of about US\$480/metric ton. However, the variations in export quotes at that time were perhaps the greatest in the history of the industry. Many of the leading non-Chinese international mills were quoting an HRB export price at US\$490-500/metric ton, and even US\$510/metric ton in some cases; the Russian mills' quote was about US\$460/metric ton

at Black Sea ports, say WSD's contacts; but the Chinese were offering at just US\$410/metric ton — a whopping US\$70-80/metric ton less than the offering price for a number of leading international mills (as above).

The mid-April 2017 Chinese HRB export quotation of US\$410/metric ton, FOB the port of export, was below the marginal cost of the country's median mill. When subtracting US\$20/metric ton for the cost to deliver the HRB to the port of export and China's 8% non-refundable value-added tax on HRB exports, the ex-works HRB export price was just US\$357/metric ton — or US\$39/metric ton below the estimated marginal cost of China's median-cost mill of US\$396/metric ton — based on WSD's monthly World Cost Curve data. The good news for the HRB export marketplace last April, from the viewpoint of the steel mills, is that the world's leading international mills did not lower their price quotes to match the Chinese price — unlike the situation in December 2015 when a number of

Figure 1



SteelBenchmarker™ HRB price. Source: World Steel Dynamics, American Metal Market, Metal Bulletin.

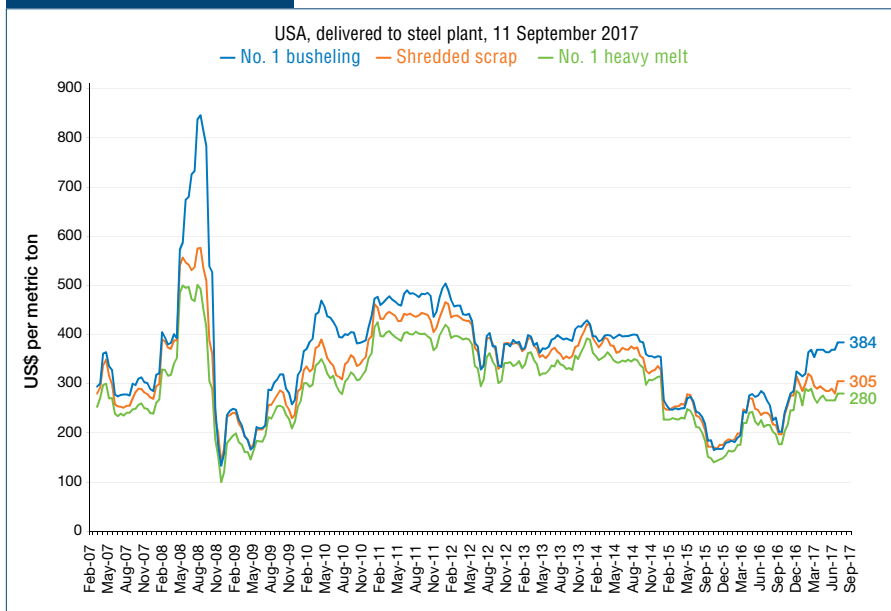
the mills matched the Chinese export price of US\$270/metric ton, FOB the port of export.

How high might the HRB export price rise? As WSD forecast in its last two “Early Warning System” reports, a rise to US\$600–650/metric ton would be no surprise, reflecting: (a) the strong demand for steel in China; (b) growing demand for steel outside of China; and (c) rising steelmakers’ raw materials prices that are prompting buyers to place orders farther ahead in order to avoid likely forthcoming steel price boosts.

Might hot-rolled band rise well above WSD’s targeted upside price of US\$650/metric ton, FOB the port of export? It’s not very likely in WSD’s view, but it’s still instructive to look back to July 2008 when a severe steel shortage — i.e., after huge price spikes — was in effect. Here are some examples for prices in mid-July 2008: hot-rolled band at US\$1,100/metric ton, FOB the port of export versus US\$580 at present; U.S. No. 1 heavy melting scrap at US\$515/metric ton versus US\$280 at present; U.S. prime steel scrap (busheling) at US\$880/metric ton versus US\$384/metric ton at present; pig iron delivered to New Orleans, La., USA, at about at US\$930/metric ton versus US\$370/metric ton at present.

The prices in July 2008 were up so substantially that many steel buyers, who were in shock, decided to “sit on their hands” and hold back from placing new orders — in other words, there was a “buyers’ strike.” Hence, by

Figure 2



SteelBenchmark™ scrap price. Source: World Steel Dynamics, American Metal Market, Metal Bulletin.

early August 2008, a significant “chill” had developed in the global marketplace.

Combined with other developments including declining global steel demand in the second half of 2008 because of the global financial crisis, the export price by November 2008 for hot-rolled band was down to US\$595/metric ton, FOB the port of export; for U.S. No. 1 heavy melting scrap to US\$120/metric ton; for U.S. prime scrap to US\$158/metric ton; and, for pig iron delivered to New Orleans to US\$330/metric ton. (Note: In WSD’s Inside Track #88, published on 11 July 2008, WSD boosted the odds to 90% from 85% that world steel export prices would collapse in the second half of 2008.)

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