



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.

Authors



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



Adam Green
director of research,
World Steel Dynamics
agreen@worldsteeldynamics.com
+1.201.503.0916



John Villa
research strategist,
World Steel Dynamics
jvilla@worldsteeldynamics.com
+1.201.503.0911

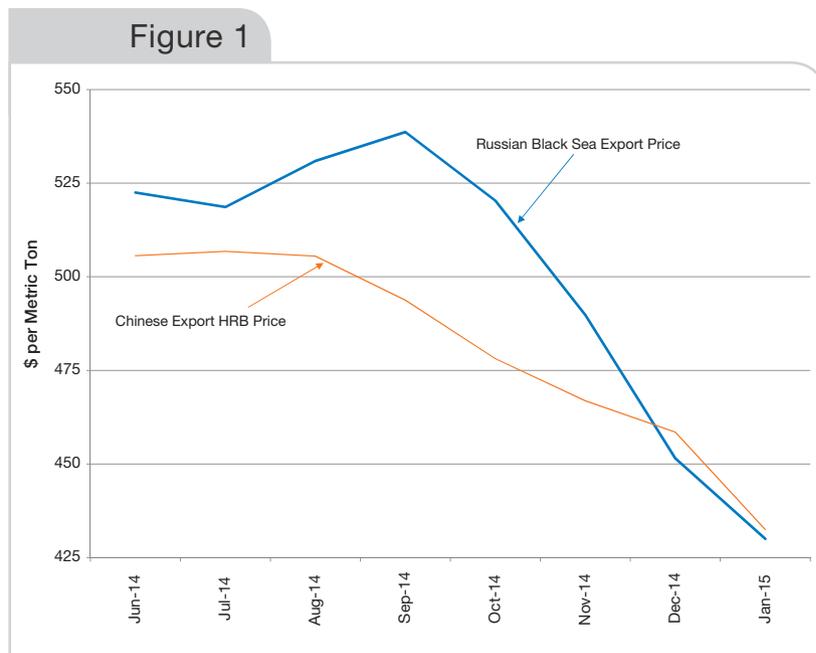
Chinese and Russian steel export price battle: chess without checkmate

In recent years — at least through November 2014 — Chinese steel mills' export price for hot rolled band (HRB) was consistently the lowest in the world — excluding, of course, the Ukrainian mills, whose product had to sell at a sizable discount given the small coil size and less precise tolerances. The Chinese price, FOB the port of export, was often US\$15–20/metric ton below the Russian price, FOB the Black Sea. In turn, the Russian price, FOB the port of export, was typically US\$10–40/metric ton below the price offered by steel mills elsewhere in the world.

In September 2014, for example, the Chinese export price was about US\$490/metric ton, FOB China, versus the Russian price of about US\$535/metric ton, FOB the Black Sea. A typical offering price

for the Japanese, South Korean, Indian and Middle Eastern mills was in the US\$550–600/metric ton range.

Since October 2014, we've witnessed: (a) the deterioration of HRB export prices; (b) the plummeting in value of the Russian ruble per U.S. dollar (to 65/\$ from 32/\$); and (c) far lower crude oil, fuel oil and gasoline prices. The cost to produce hot rolled band in Russia since June 2014 — given operating costs including plant overhead are about 75% denominated in Russian rubles — has fallen US\$75–100/metric ton to a range of US\$275–350/metric ton in January 2015 (with the marginal cost on average about US\$50/metric ton less), based on WSD's monthly World Cost Curve assessments.



Chinese export HRB prices vs. Russian Black Sea HRB export prices. Source: *Steel Business Briefing*.

The Chinese steel mills' operating costs over this period have benefitted greatly from lower prices for iron ore delivered to China. Also, coal prices are down. Hence, the medium- and larger-sized Chinese steel mills are now cost competitive globally for the first time since 2007, although not nearly as low cost as the Russian mills. Fortunately for the Chinese mills that export wide hot rolled band, the 9% value-added tax (VAT) credit for boron-containing steels (at least 0.0008% boron) was not rescinded as of January 2015 as it was for most other boron-containing steels.

Even though steel demand in Russia is declining at present, apparent demand may have risen the past few months because steel buyers in Russia: (a) see that the per metric ton price in rubles is extraordinarily depressed on a U.S. dollar basis; and (b) expect the HRB costs in Russia on a rubles basis will likely rise at least 20% per annum the next few year as the price paid for workers, steelmakers' raw materials and other purchased

goods rises to be more in line with the dollar price for these goods elsewhere in the world.

No doubt at least through mid-2015, given current exchange rates and the same U.S. dollar prices for iron ore and crude oil, the Russians and the Chinese mills will remain the world's lowest-priced HRB exporters.

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. ♦

CRANEFRIGOR™ - Industrial air conditioner for crane controls and crane cabs.

FRIGOR TEC
Cooling to the point

FrigorTecLP • Houston, TX 77007
www.frigortecamericas.com

Visit us at **AISTech2015** Booth #2737