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

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STEEL
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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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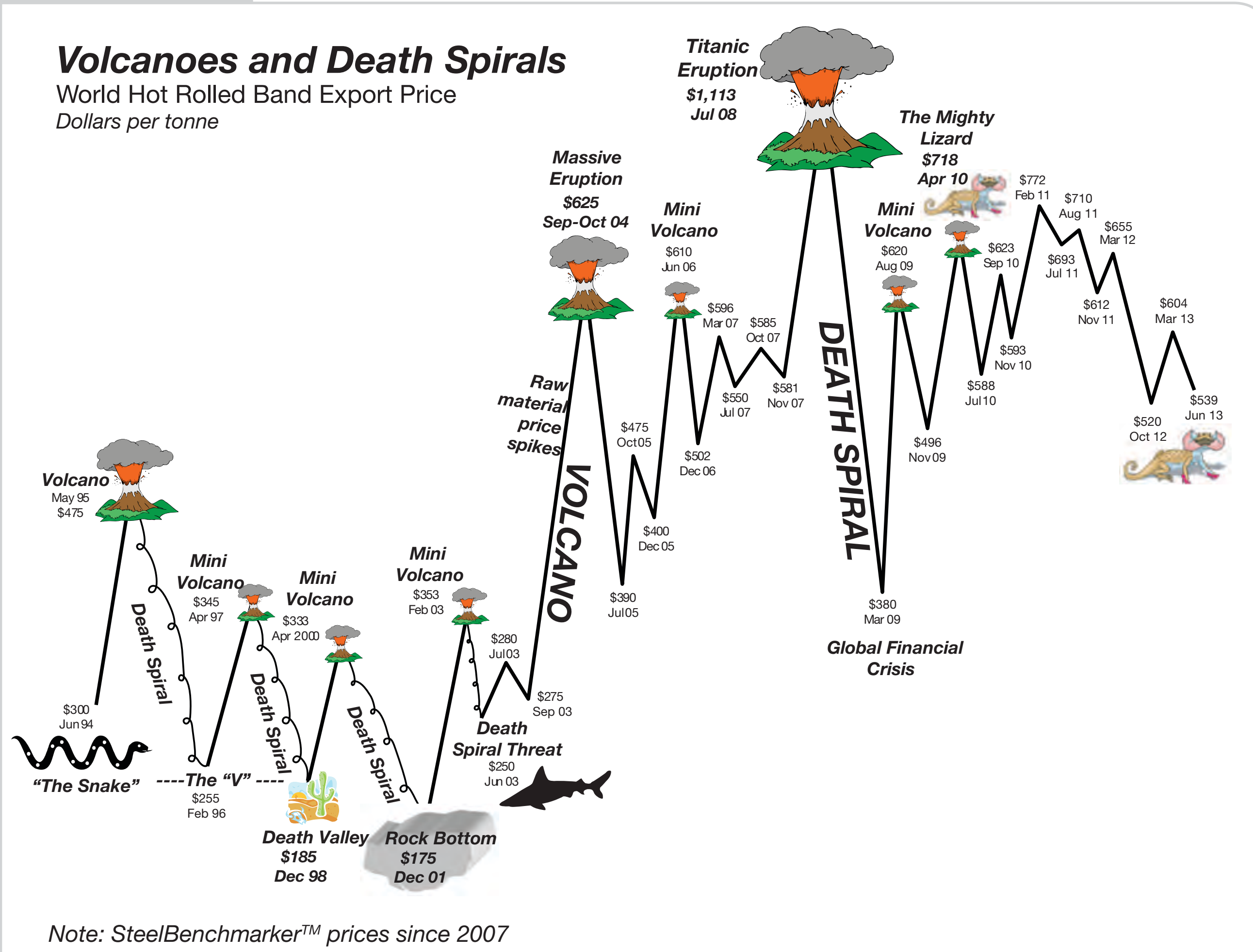
Will 2015 Be a Recovery Year?

In 2015, the steel industry is forecast to turn to the Open Road path to the future. WSD expects a number of circumstances to come together in 2015 and the years just following that will work strongly to boost steel mill profitability. Among these are:

- An improved growth rate for global steel demand, even though Chinese steel demand may be expanding at only an anemic pace. The key development will be rising fixed asset investment as a share of GDP outside of China.
- A reduction in global effective steelmaking and rolling mill capacity, as many marginal plants will have been closed and/or de-emphasized. WSD believes that about one in seven steel plants located outside of China can't "make it" in a low-profit-margin environment.
- No sustained major spurt in the prices of iron ore and coking coal because of a continuing oversupply of these products. However, steel scrap price volatility might be a never-ending prospect for this commodity.
- Widespread actions by steel mills and their customers to hedge the steel price risk. WSD knows of no top management at any steel company that believes in WSD's prognostication that liquid futures curves will be beneficial to steel mills' profitability.

Might the return to a "good times" environment for the steel industry be delayed beyond 2015? The answer, of course, is "Why not?" If so, a development that might dampen the expansion of the global economy could be another financial crisis. Examples of possible financial crises include: the bursting of the U.S. stock market bubble (which WSD thinks is not far-fetched); loss of confidence in the U.S. dollar, which means that it plummets in value (probably not likely, given the vitality of the U.S. economy and the growing supply of low-priced natural gas); and/or a collapse of the Chinese economy (while a sizable slowdown seems possible, a collapse seems unlikely).

Figure 1



World hot rolled band export price.

"Musical Chairs" for Price Leaders on the World Market

Unlike steelmakers' raw material prices that all reside in the same metallics bathtub — i.e., the price movements are typically in step with one another — steel product prices often do not move in sync with one another when considering the price (a) on the world market; (b) in the U.S.; (c) in the eurozone; and (d) in China. The pricing relationships for commodity-grade hot rolled band have often been "out of sync," especially the past few years.

As of 22 July 2013, SteelBenchmarker™ data indicates that the U.S. spot price for hot rolled band (HRB) was US$702 per metric ton ex-works (see page 24), or US$210 per metric ton above the Chinese price at US$492 per metric ton, ex-works. This spread since 2006 has varied from a low of US$4 per metric ton in June 2009 to a peak of US$523 per metric ton in August and October 2008. On 22 July 2013, the world export price was US$546 per metric ton and the Western European price was US$588 per metric ton.

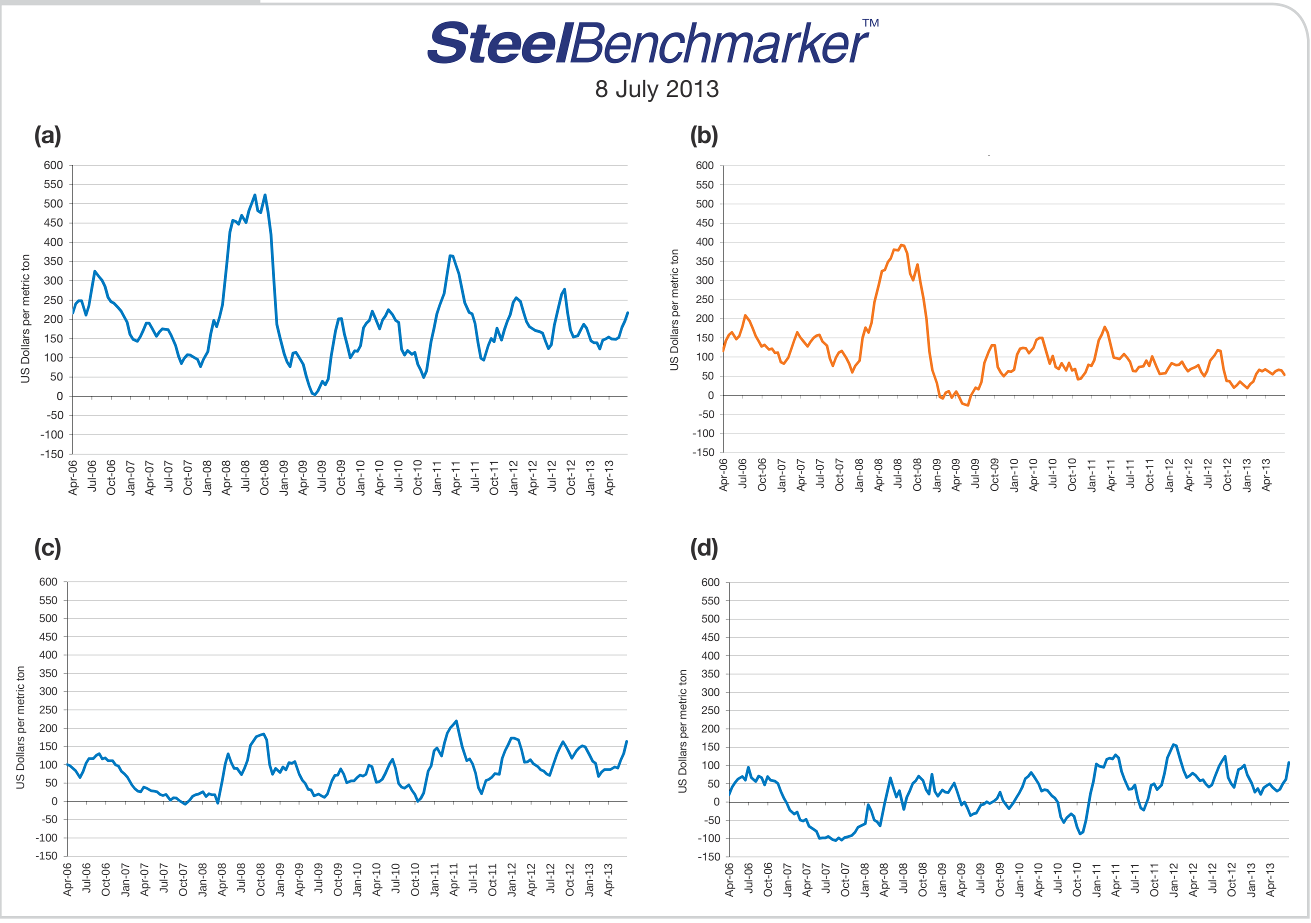
Until a few years ago, WSD was segmenting the groups that exported commodity-grade HRB into four tiers. The Tier IV mill category included the lower-product-quality Ukrainian producing mills and some Chinese mills, both of which often had poor delivery records. Tier III mills included average-product-quality producing mills. The Tier II mills included those producing high-quality products, but they tended to not make steady export offerings over the cycle. The Tier I mills included those making the highest quality products that regularly and reliably offered their product in key export markets. The Japanese steel mills were the best, but not the only, example of the Tier I mills.

In this pre-2008 world, the Tier IV mills' hot rolled band price might have been offered at a US$40–50 per metric ton discount, FOB the port of export versus the Tier I mills. The Tier III mills were selling at perhaps a US$20 per metric ton discount, and the Tier II mills at a US$10 per metric ton discount.

Since the collapse of the global steel market in the second half of 2008, much has changed. WSD now sees only three tiers of mills when it comes to commodity HRB offerings on the world market. The Tier III mills remain the Ukrainians, whose tolerances and coil sizes are less desirable than the others, although they now have a good record for on-time delivery, say WSD's contacts. These mills may sell their product on the world market at a US$25–30 per metric ton discount from the Tier I mills. The Tier II mill category, which currently includes some of the Russian steel mills, often sells at the next lowest price — perhaps because they are both low cost and highly export dependent, but not because of below-average product quality. They may sell at a US$10–20 per metric ton discount to the Tier I mills. The Tier I mill category now includes many of the steel mills in the world that make the highest quality product.

Since the fall of 2012, there's been an ongoing shift in which mills are offering hot rolled band at the lowest price on the world market, say WSD's contacts. Around September 2012, for example, WSD's feedback indicates that the Chinese mills had the lowest

Figure 2



HRB spread: U.S. less China (a); world less China (b); U.S. less world (c); and U.S. less Europe (d).

price (taking over from the Russian mills). Then, after the Chinese and Russian mills raised their price, the Japanese and South Korean mills in a number of cases apparently had the lowest price. Then, a few months ago, the Russian mills took over the low-price prize; but it now appears that the Chinese mills have the lowest price, even though they have boosted their export quote to US$515 from US$505 per tonne, FOB the port of export.

The relative price situation in China, regarding the home price versus the world price, has flip-flopped in the past decade as hot rolled band in China shifted from undersupply to oversupply. Given the vast number of steel mills in China that are now seeking to sell hot rolled band (about 77 of them), this market is "competitive" in the academic sense of the word. The Chinese home market ex-works price, notwithstanding the recent moderate rally, is now the lowest in the world. ✦