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

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 (left)
managing partner,
World Steel Dynamics
pmarcus@worldsteeldynamics.com
+1.201.503.0902

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

2016: Down Year

WSD places the odds at 60:40 that, for steelmakers in most countries, 2016 will be an even more threatening year (Table 1). All data in this article is as of Q1 2016.

Differences To Be Expected Compared to 2015

The Good News for the Mills:

- The year ends with an improving outlook due to rising steel prices, rather than a calamitous one with prices collapsing.
- Chinese steel mill exports drop about 23% to 85 million metric tons.
- International prices for iron ore and coking coal are fairly stable at depressed levels — which helps the majority of the steelmaking community lacking its own iron ore supply.
- Steelmaking capacity reductions become sizable in China and the advanced countries. China's top government policymaking group, the State Council, says it will provide assistance to closing down 100–150 million metric tons of excess capacity, including financial support for laid-off steelworkers.
- Steel sheet pricing is looking up early in the year:
  - On the world market, the hot rolled band (HRB) export price is up about US$25/metric ton in part because the price had fallen so low it was perceived to not be sustainable — i.e., well below the marginal cost of most producers.
  - In the U.S., HRB and, especially, cold rolled and galvanized coil prices are up about US$35/metric ton, reflecting reduced foreign deliveries, particularly from China after the preliminary results in the U.S. mills' trade suits seem to pre-ordain the imposition of huge penalties against them.
  - In China, as its citizens go on the one-week New Year's holiday vacation, the steel industry circumstance seems to be improving as actions are being taken to replenish ultralow inventories and buyers and sellers expect a normal strong seasonal steel demand recovery from mid-February to June.

The Bad News for the Mills:

- The Chinese RMB is surprisingly weak versus the U.S. dollar (a WSD forecast), which boosts international trade tensions and worries of a true stagnation of the Chinese economy.
- Steel mill bankruptcies and plant abandonments are far more common.
- It's difficult to sell pig iron at US$175/metric ton, FOB the port of export, when the price for slab on the same basis is

Table 1

Shifting Odds for Non-Chinese Steel Industry: 2016–2018 (source: WSD estimates)

	2016		2017		2018	
Scenario	New	Old	New	Old	New	Old
Shake-out times	60%	30%	15%	15%	10%	10%
Bad times	25%	50%	20%	20%	15%	15%
Fair times	15%	20%	30%	35%	25%	20%
Good times	0%	0%	25%	20%	30%	35%
Boom times	0%	0%	10%	10%	20%	20%

US$210–220/metric ton. In general, the cost to convert molten pig iron to slab is about US$90–100/metric ton without plant/corporate overhead expense; and more than US$110/metric ton with the plant/corporate overhead expense.

- Suppliers of funds to the steel industry, i.e., banking institutions and investment funds, become even more reluctant to provide capital to steel companies (and, as well, many steel traders and steel scrap processors). ArcelorMittal's success in raising US$3 billion of new equity capital to help reduce debt and cut costs, which was announced on 5 February 2016, will impact other mills' access to equity.
- Sizable foreign investment starts to flow into the Iranian steel industry now that the economic sanctions have been lifted. Might Iranian steel become the steel industry's next "rising star"?
- Ocean bulk freight rates remain remarkably low, which boosts inter-regional competition.
- Steel scrap processors in the U.S. remain in a severe shake-out condition because of far too much shredder capacity and lessened export opportunities (in part because of the strong U.S. dollar and the rising steel scrap supply in China).

Similarities to 2015 To Be Expected

The Good News for the Steel Mills:

- Trade suits filed by steel mills in many countries, including the U.S., are successful in sharply reducing Chinese steel product deliveries. This development so discourages the Chinese mills that, with demand also withering at home, they consider more draconian actions to permanently reduce capacity.
- Merger and acquisition activity rises significantly because so many steel plants are for sale at bargain prices. More steel mills seek to combine with others despite lack of funds.
- There is a rising importance of downstream steel mill–affiliated steel fabricating, processing and distribution capacity now that long-term steel oversupply becomes the most likely scenario. For sure, with substantial related downstream deliveries, a steel mill's operating rate tends to be more stable and deliveries of higher-profit-margined products enhanced.

The Bad News for the Steel Mills:

- Steel demand declines further in much of the world due to lagging fixed asset investment (FAI) activity. The importance of the Capital Fundamentalism economic theory, whereby FAI growth is the key to economic growth, is demonstrated to be valid not only in China.
- The current rally of HRB prices on the world market is not sufficient to significantly relieve the adverse financial pressures on many steel mills.
- Global steel production probably falls another 3%, after a 2.5% drop in 2015.
- Notwithstanding their trade suits filed in 2015, the U.S. steel mills still face significant import competition from many countries, although not from China, against which they've succeeded in creating a "Fortress America" situation via the impositions of sizable anti-dumping and countervailing suit tariffs and duties.
- The U.S. dollar remains strong versus many currencies which, all other things held the same, drives down world steel export prices. Also, currency factors and reduced prices for steelmakers' raw materials have flattened the World Cost Curve, which enhances price competition.
- Demand for steel remains slack in most energy-reduced markets. There's "double trouble" for the mills: lower oil country tubular good deliveries and steel consumption in oil exporting countries that are cutting back capital outlays due to revenue shortfalls.
- The market value for older steel plants is severely diminished if they are facing major catch-up capital expenditure programs to reinstate or sustain their competitiveness (as we saw when the Sparrows Point plant in the U.S. was closed and then the assets liquidated in 2012).

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. ✦