

World Steel Dynamics (WSD) 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. To submit your questions for WSD, e-mail [WSD@aist.org](mailto:WSD@aist.org).



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## STEEL'S NEW AGE

New Priorities. New Strategies. New Winners

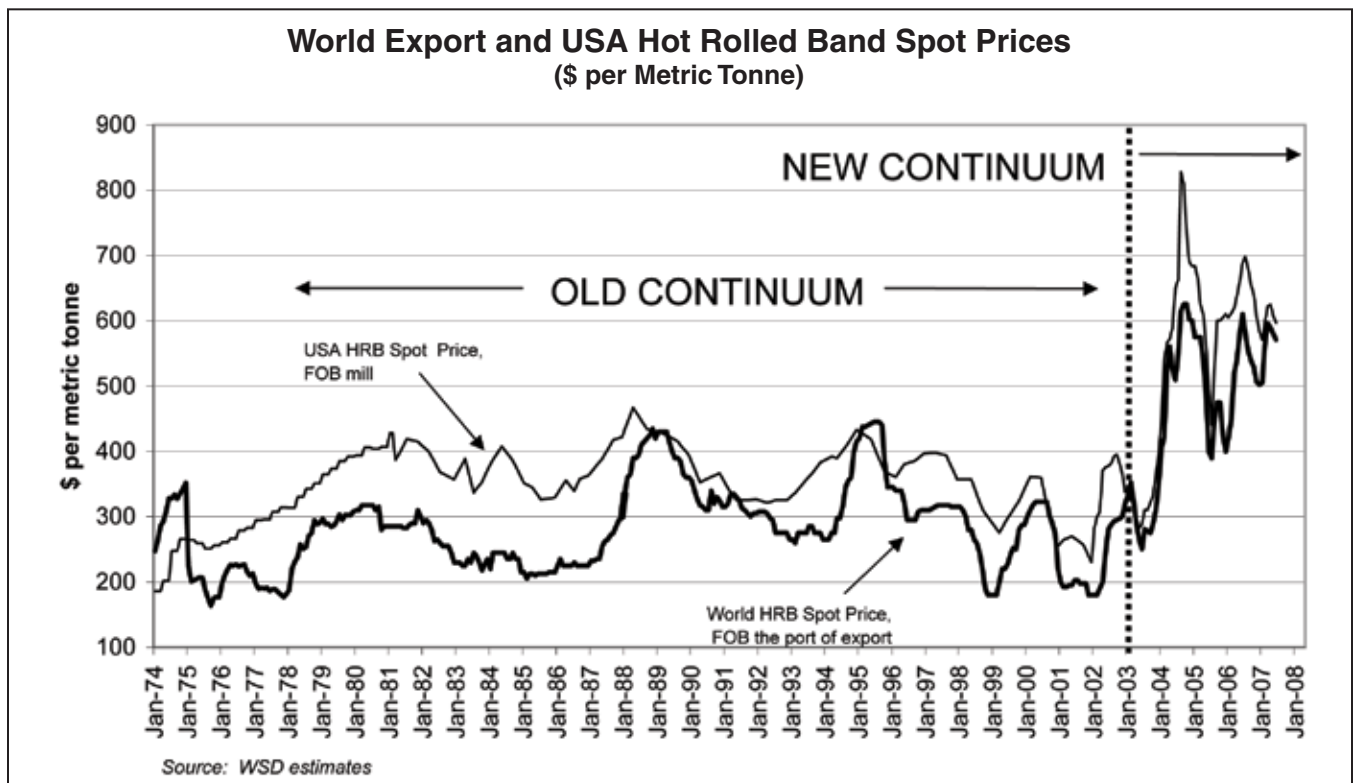
(Note: The following is an excerpt from WSD's presentation at its Steel Success Strategies XXII conference held in New York, N.Y., June 18–20, 2007.)

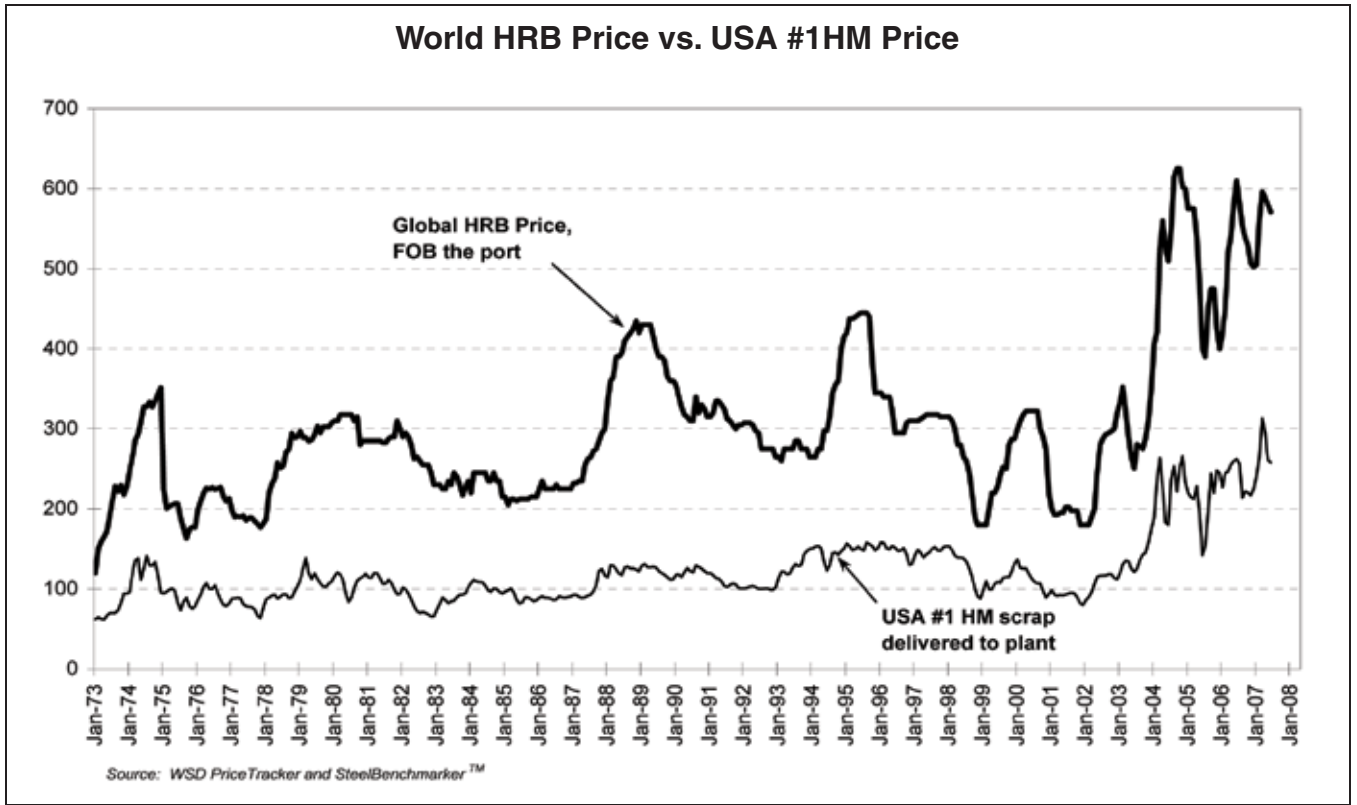
### "Age of Discontinuity" Is Over

Steel's "Age of Discontinuity" — the period of transition between the pattern of events in the Old and the New Continuums — lasted for less than one year in 2003.

- In the Old Continuum, which was entrenched from the late 1970s to 2002, the pattern of events often was unfavorable for steel mills. With their "pricing power" under unrelenting siege, the steel mills' profits were increasingly inadequate. The worst point occurred in late 2001, when the world export price for hot rolled band, FOB the port of export, fell briefly to only about \$175 per tonne for Tier I mills (and about \$20–40 per tonne less for Tier III–IV mills). In this "death spiral," prices fell far below the marginal cost of most steel mills, except for some CIS mills.

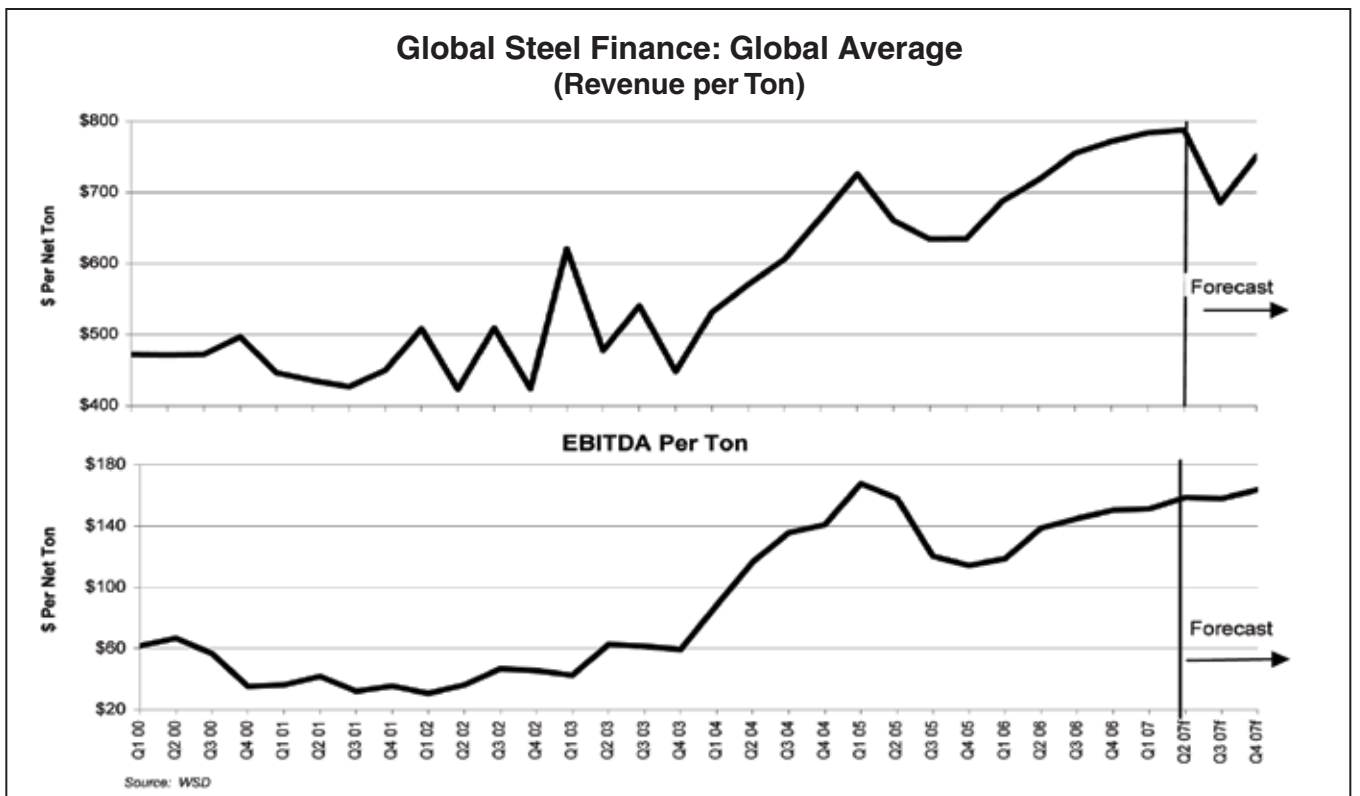
- Reflecting on this late-2001 pricing catastrophe, which came on top of pricing "death spirals" in 1995 and 1998, steel sheet-producing mills outside of China began to adopt new behavior patterns. In order to survive in some cases, and to win in others, the steelmakers: (a) implemented more rapid production cutbacks once steel prices started to fall; (b) closed marginal facilities; and (c) increased M&A activity.
- Steel's "Age of Discontinuity" became evident in 2003. The price of hot rolled band on the world export market in the spring of that year experienced a far briefer and shallower decline than in prior downturns. Moreover, the price of steelmakers' raw materials barely fell at all. By the end of the year, hot rolled band, steel scrap, pig iron and coke prices on the world market were rallying sharply. The shortage psychology was fueled by a steel buyers' panic; they worried — incorrectly, by the way — that raw materials shortages would limit global steel production. Steel export prices in early 2004 soared to a huge premium to home market prices for the first time since 1973–74.





In the New Continuum, which begun in 2004, industry conditions (except in China) have been generally positive for the steel mills' "pricing power." Profits have soared

despite (or because of) the surge in steelmakers' raw materials prices. The common stocks of many steel companies have risen sharply.



## The Competitive Environment in the New Continuum

The New Continuum for the steel industry might also be dubbed "Steel's Profit Age." The biggest threat to the continuation of the New Continuum would be a significant slowdown of the global economy, reflecting, most probably, a rise in global inflation.

WSD expects the New Continuum to last at least a decade for these four reasons:

1. Better-than-expected steel demand growth in the years ahead. If so, the surge in steelmaking and steel rolling capacity additions outside of China may prove to be less excessive than we expect.
2. More rapid steel production cutbacks both inside and outside of China when steel prices start to decline. This behavior will be stimulated by the increased concentration in the industry. (Note: Besides good demand growth, production

restraint is needed for the steel mills to offset excessive capacity additions.)


3. A tight supply of steelmakers' metallics when steel demand is strong. High steel scrap and pig iron prices during such periods will strike fear into the hearts of steel buyers.
4. No major threat from the Chinese steel sheet-producing industry. Threatened by overcapacity, the industry will restructure and learn to better sustain hot rolled band prices during periods of oversupply. As early as 2009, we expect some of the major Chinese steel companies to merge with their offshore competitors.

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