

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.



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Steel's Price Volcano Blowout Coming to an End in the Spring to Summer of 2008

Q: Why does WSD see the 2008 steel shortage coming to an end in the April to July time frame?

A: WSD doesn't see high odds of a long shortage because, when spot steel prices surge so explosively, at some unpredictable point in time steel buyers become so afraid that prices may fall back, they reduce their buying – i.e., they have “sticker shock.” Moreover, when considering that two of the reasons for the current surge in spot steel product prices – exploding steel scrap prices and soaring international spot coking coal prices – are themselves subject to unexpected price reversals, the peak point for hot rolled band prices on the world export market may be sooner than many think.

By the summer of 2008, a growing oversupply of hot rolled band in China may become even more evident. Hence, should the gap between the Chinese home price and the world export price still be in effect, the Chinese mills are expected to turn more to the export market despite the payment of sizable export taxes (which have remained flat at 5% for hot rolled band, have risen to 15% from 10% for most commodity-grade long products, and have been boosted to 25% from 15% for slab, billet and metallurgical coke). Since only about 30 corporate entities in China produce hot rolled band versus hundreds of producers of rebar and wire rod, the export tax may have remained at 5% because the Chinese governmental authorities control exports by direct contact with the steel mills (of which almost all are government owned).

The February 2008 price spike for hot rolled band, which may be matched in severity only by those in 1973-74 and 2004, appears to have been the result of:

- Chinese government-induced steel export restraints.
- Surging ocean freight rates (which limit long-distance steel deliveries).
- Sharply higher steel scrap prices (which impact about one-half of the steel products shipped in the world).
- Well-sustained steel demand outside of China.
- Rising Chinese steel demand.
- Not many pockets of excessive steel buyers' inventories.
- Seasonal factors (stronger orders in the first quarter).
- Buyers' perception that the steel sheet mills will be successful in boosting prices due to higher costs because they have more “pricing power” than in the past (due to the hot-rolled-band-producing industry's greater concentration outside of China since 2001).
- The recent surge in spot coking coal prices on the world market.

Winners in the steel marketplace must be skilled at psychological warfare (i.e., have nerves of steel). In periods such as now, buyers run the risk of being caught with high inventories when prices peak. Sellers run the risk of alienating their good customers.

Pricing volcanoes often last less than a year due to production increases in excess of underlying demand and a shift

in market psychology from a buyers' to a sellers' panic. In a buyers' panic, steel buyers are afraid not to place more orders in advance because of the mills' extending backlogs and less reliable delivery. The shift to a sellers' panic occurs when the mills' orders lessen and some of them take actions to sustain volume – such as price cuts, delivery to more distant locations, increased exports, etc.

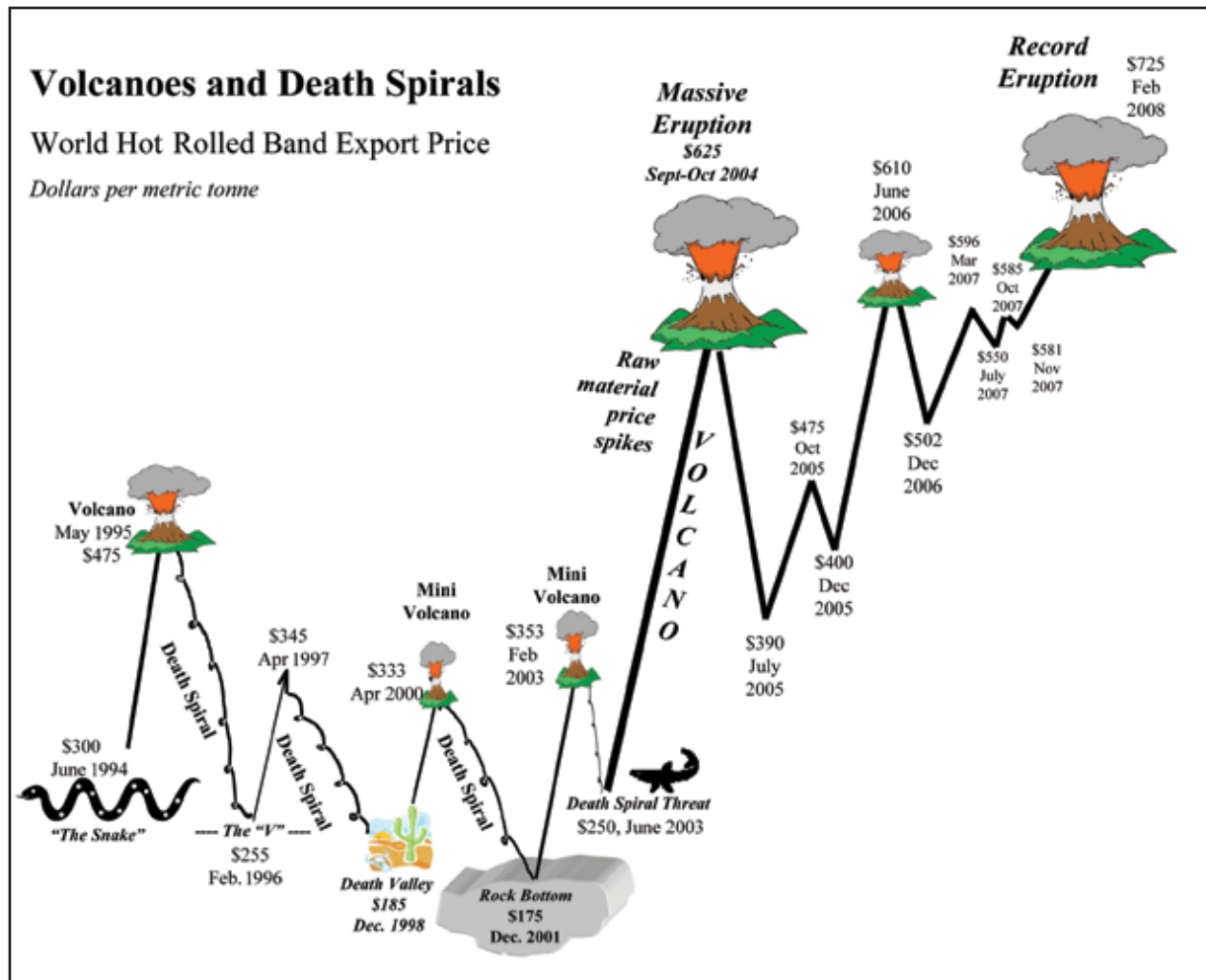
Hot Rolled Band Pricing Bottoms on the World Market

Date	FOB the port of export (\$)	
Jan. 1974	266	
July 1975	176	
Oct. 1977	180	
Apr. 1979	288	← Third consecutive increase
Oct. 1980	284	
May 1981	282	
Apr. 1983	215	
Jan. 1984	215	
Apr. 1985	213	← Fourth consecutive decrease
Apr. 1986	215	
Dec. 1986	228	
Nov. 1992	235	
Nov. 1993	255	
Feb. 1996	255	
Sept. 1996	265	← Fifth consecutive increase
Dec. 1998	185	
Dec. 2000	180	
Dec. 2001	175	← Third consecutive decrease
June 2003	250	
Sept. 2003	275	
(May 2004)	(525)	← Price stayed too high to be a “bottom”
July 2005	390	
Dec. 2005	400	
Dec. 2006	502	
July 2007	550	← Sixth consecutive increase
Sept. 2008 (e)	580-640	

Source: Steel PriceTrack from 1974 to January 2006.

SteelBenchmarker™ from April 2006.

e = estimate.



Q: How low might hot rolled band prices fall?

A: When prices decline, the amount of the drop will be a function of the following:

- The strength of steel demand outside of China.
- Chinese steel demand.
- Steel scrap prices (which move with the price of pig iron and hot briquetted iron on the world market).
- Coking coal and coke spot prices.
- The value of the U.S. dollar versus the Euro and the RMB.
- The extent of the gains in global steel production in the next six months.
- How fast the mills cut back output when apparent steel demand weakens.
- Marketplace psychology.

In the current shortage, WSD continues to think that hot rolled band prices may peak at \$750-800 per tonne (a figure already achieved for thin-gauge product), FOB the port of export, versus the early February price of about \$720 per tonne (with lots of variation).

In the next downturn, we place the low price at about \$600 per tonne, which is well above the July 2007 price bottom – of course, the mills' raw material costs will be up \$80 per tonne or more in many cases. ♦

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**Do you have a question for World Steel Dynamics?
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