

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.



**WORLD
STEEL
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Higher Stakes in the Poker Game: Minimum Bets Are \$100 Each

Q. WSD has been overwhelmingly negative on the steel price outlook since mid-April, while the rest of the industry has continued to predict ever-increasing prices for steel. What is fueling this outlook, and why has WSD been willing to assume this risky position of bucking the tide?

A. The stakes have been raised in this age of short metals. No longer can one make do in the steel marketplace with low-valued poker chips. One needs \$100 poker chips in order to sit side-by-side with other players at the roulette, blackjack and craps tables.

We are in a period of the \$100-per-tonne price variation. Consider this (as of June 12, 2008):

- \$1,300 = steel plate in some markets.
- \$1,200 = rebar in some markets.
- \$1,100 = HRB and billet.
- \$1,100 = slab.
- \$900 = pig iron.
- \$800 = #1 HM scrap to the Far East and prime industrial scrap in the United States.
- \$500 = #1 HM scrap in the United States.

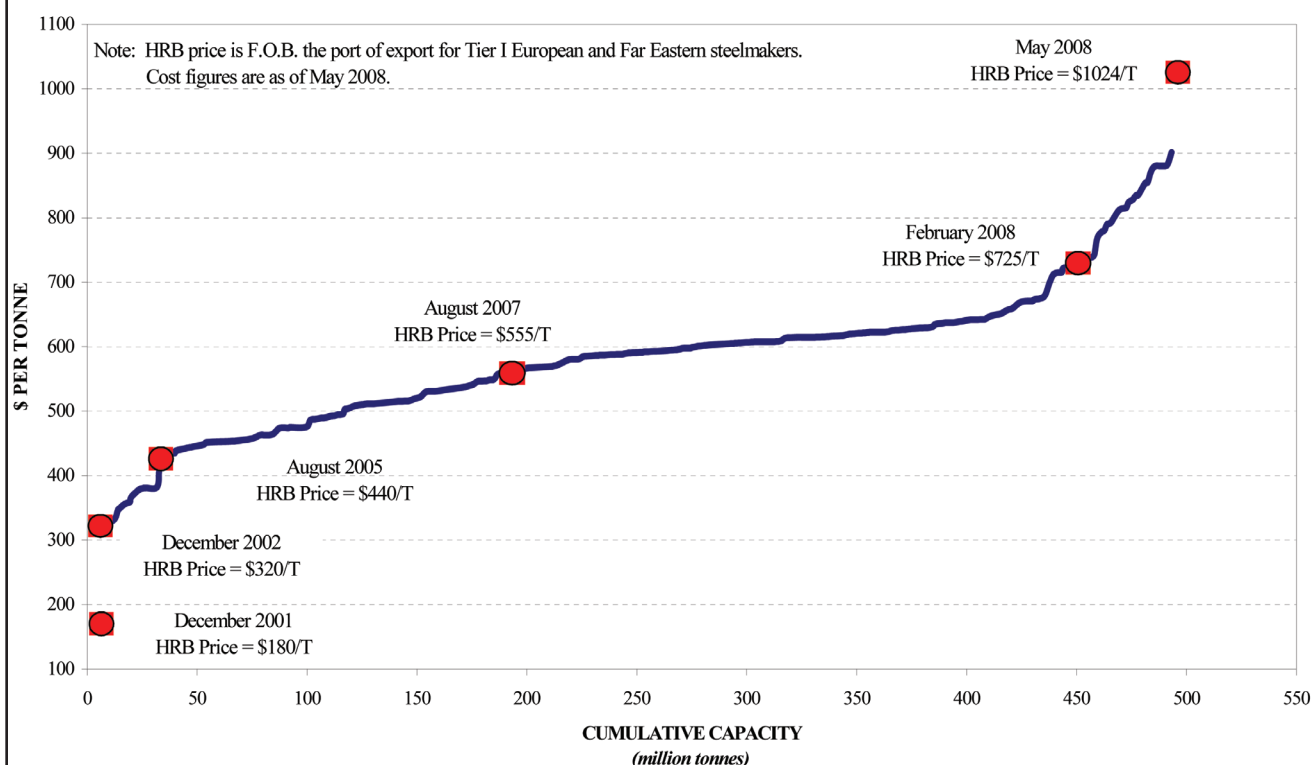
By early in the fourth quarter, the global steel industry may be on the verge of a supply/demand disaster due to rising steel output and stagnating demand. Just when steel export prices turn down is not known; however, we have two thoughts: First, it may be sooner rather than later; and second, the price decline, whenever it comes, will probably be tied to a decline in steel scrap prices. To make matters even worse for the steel mills, if oversupply develops as WSD expects in the second half of 2008, a robust price recovery in the first half of 2009 is far from assured.

The decline in world steel export prices may be sharp. Once hot rolled band prices on the world export market start to fall, WSD places the odds at 50% that they fall back temporarily to about \$655-750 per tonne, FOB the port of export. (Note: At about \$700 per tonne, the HRB price would not be far from the average operating cost to produce hot rolled band in many countries.)

Q: What, then, is WSD's outlook for 2009?

A. The steel industry outlook for 2009 has many moving parts. At this juncture, a tight steel market seems unlikely to WSD, especially in the first half of the year. A major hope for the steel industry is that a sufficient recovery of steel demand occurs to create "demand-pull" pricing conditions. Perhaps

**WSD World Cost Curve for Sheet Producers
Hot-Rolled Band Marginal Cost as of May 2008 versus Price**



obsolete steel scrap recovery will be less in 2009 than 2008. The ROW region will remain short of steel scrap and steelmaking capacity.

WSD does not expect a sharp world export price recovery in the first half of 2009, unless there is a major surge in steel scrap prices (not predicted, but always possible). The steel price recovery may be limited because the global steel demand outlook may not be improved. Governments in many countries may still be restraining their economies in the battle to overcome higher inflation. (Note: Of course, the amount of steel price recovery is also a function of how substantially the price declines in the second half of 2008.)

Here's how we place the odds:

2009 Steel Industry Conditions

Boom year (renewed steel shortage) = 20% odds.

Good year = 25% odds.

Average year = 25% odds.

Bad year = 20% odds.

Shake-out year = 10% odds.

Here are some scenarios for 2007-2010:

- World steel export prices plummet in the second half of 2008. Odds: 85%.
 - If so: Price decline is fairly moderate – i.e., HRB price falls from about \$1,100 per tonne at present, FOB the port of export, to about \$800-850 per tonne. Odds: 35%.

- If so: Price decline is severe – i.e., price falls to about \$650-750 per tonne. Odds: 50%.

- 2009 export price outlook: Perhaps a demand-pull environment in the second half. Reduced steel scrap recovery is a wild-card possibility.

- Slow recovery in the first half of 2009. Odds: 70%.

- Strong recovery in the second half of 2009. Odds: 50%.

- 2010 export price outlook:

- Prices depressed; hence, a bad year for the steel industry. Odds: 15%.

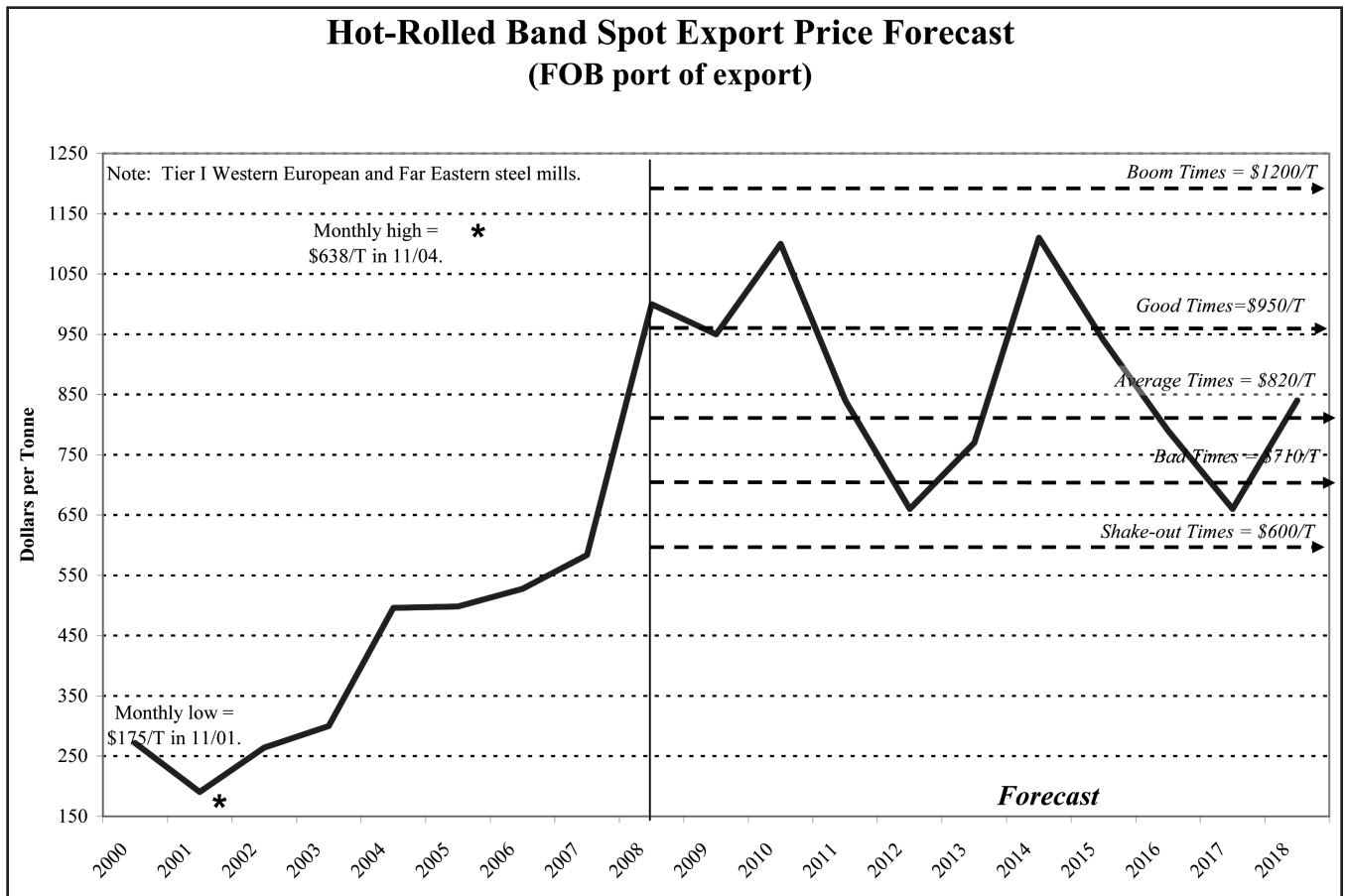
- Prices at “good times” levels; hence, a good profit year for the steel industry. Odds: 55%.

- Prices surge to shortage levels; hence, a boom year for the steel industry profits. Odds: 30%.

- Beyond 2010: WSD expects an often good supply/demand balance in these years, with many mills having “pricing power” due to solid steel demand growth, a tight supply of steelmakers’ metallics, restrained Chinese exports and more concentration in the sheet sector of the industry. ♦

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**Do you have a question for World Steel Dynamics?
Submit it today to WSD@aist.org.**