

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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**Q. With the recent settlement of global iron ore benchmark prices and continued volatility of scrap prices, how do the various steelmakers' costs compare in this new raw material pricing environment?**

**A.** WSD recently completed a "FastTrack Update" of its September 2008 world cost curve for about 170 steel sheet producers with a combined capacity of 511 million tonnes. This update takes into account raw material prices as of June 2009 and adjusts for exchange rate changes. It does not incorporate changes in capacities, operating rate, labor productivity, financial expenses and other costs. For those mills that have been buying their raw materials on a contract basis, the new figures assume a 28% reduction in iron ore fines contract prices, a 48% decline in iron ore pellet prices and a 57% drop in coking coal contract prices.

The 2009 cost curve is amazingly flat, especially compared to the prior one. As shown in the table below, the range for hot rolled band costs between the highest- and lowest-cost producer is \$263 per tonne. In September 2008, the range was \$671 per tonne. The reduction in costs has been sharpest in the highest-cost quartile, which in September 2008 included slab re-rollers and EAF-based sheet mills.

Both the 2008 and 2009 cost curves are calculated at a standard operating rate of 90%. Given that the oper-

ating rate last September was about 95% versus perhaps 60% this June, fixed costs on average in June 2009 may be \$50-60 higher per tonne.

Hence the average cost to produce hot rolled coil, including overhead, at an actual operating rate may be about \$490 per tonne. Interestingly, as noted in the exhibit below, the average cost is now \$6 below the median cost; in September 2008, the average cost was \$39 above the median, demonstrating the steepness of the curve. Clearly, the high cost of the fourth quartile producers in the first half of 2008 was a major factor pushing up finished product prices.

Even though the cost curve is quite flat, the mills in the bottom 1/16th of the curve (about 35 million tonnes of capacity with HRB costs below \$350 per tonne) have a distinct cost advantage. This segment includes mills in Russia, Kazakhstan, India and Mexico. ♦

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**Comparison of 2008 and 2009 World Cost Curve Hot Rolled Band Operating Cost With Overhead (\$ per tonne)**

Quartile	Sept. 2008 midpoint cost	June 2009 midpoint cost	\$ change	% change
1st	558	381	-177	-31.7%
2nd	632	433	-199	-31.5%
Median	644	444	-200	-31.1%
3rd	668	457	-211	-31.6%
4th	776	486	-290	-37.4%
Average	683	438	-245	-35.9%

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