

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: Given the severe and synchronized collapse of apparent steel demand around the world, is it fair to say that the real level of demand is being "masked" as steel users liquidate their inventories to raise cash without replacing those inventories?**

**A:** Steel buyer inventory swings – i.e., those by steel users and steel middleman companies (service centers, traders and processors) – strongly impact global steel production. Swings are large because, in normal times, probably about three months of inventory is held, and/or is in transit, by steel middleman companies (traders, steel service centers and processors) or OEMs (including inventory in the work-in-process category).

- In 2009, because steel buyers' inventories may decline by about 100 million tonnes (reflecting the sharp fall in underlying steel consumption) and as buyers attempt to reduce inventory on a months' supply basis, the inventory liquidation, if the estimate is correct, may be equal to about 10% of global steel output this year.
- In 2010, in our mid-case scenario, global steel demand is about flat outside of China. However, apparent steel demand rises about 100 million tonnes because steel buyers are no longer liquidating inventory. Hence, global steel production rises to about 1.1 billion tonnes versus 1.0 billion tonnes in 2009.
- In 2011, in our mid-case scenario, global steel demand increases about 70 million tonnes and inventories

rise by about 40 million tonnes due to rising demand and buyers' perception that prices may be rising and/or that the mills' leadtimes are extending. Hence, global steel production rises to about 1.3 billion tonnes.

**Q: How steep, historically, is the 2008–09 drop in the steel prices?**

**A:** The fall in the world export price in the past nine months is the most severe in the history of the industry on a per-tonne basis. For hot rolled band, it has declined from a high of about \$1,125 per tonne to about \$400 per tonne for the Tier I mills.

In 1974, in comparison, the export price peaked at \$352 per tonne in December of that year and fell back to \$163 per tonne in September of 1975. This was a drop of 54% versus the one in 2008–09 of 64%.

The period of 1974–75 was one of surging global inflation, due in part to rising oil prices. In contrast, 2008–09 is a period when steelmakers' raw materials and energy prices have plummeted. ♦

– Peter F. Marcus, managing partner, World Steel Dynamics, [pmarcus@worldsteeldynamics.com](mailto:pmarcus@worldsteeldynamics.com), (201) 503-0902

– Philipp Englin, manager – special projects, World Steel Dynamics, [penglin@worldsteeldynamics.com](mailto:penglin@worldsteeldynamics.com), (201) 503-0908

## Global Crude Steel Production, Inventory Adjustment and Derived Consumption

	High scenario			High scenario indices	
	Crude steel production (million tonnes)	Inventory adjustment (million tonnes)	Derived consumption <sup>(2)</sup> (million tonnes)	Crude steel production (index Q2 2008 = 100)	Derived consumption <sup>(2)</sup> (index Q2 2008 = 100)
Q2 2008 peak	1,453	100	1,353	100	100
2008	1,327	0	1,327	91	98
2009e	1,050	-100	1,150	72	85
2010e	1,200	25	1,175	83	87
2011e	1,382	125	1,257	95	93
Mid scenario					
	Crude steel production (million tonnes)	Inventory adjustment (million tonnes)	Derived consumption <sup>(2)</sup> (million tonnes)	Mid scenario indices	
				Crude steel production (index Q2 2008 = 100)	
Q2 2008 peak	1,453	100	1,353	100	100
2008	1,327	0	1,327	91	98
2009e	1,005	-100	1,105	69	82
2010e	1,100	0	1,100	76	81
2011e	1,268	100	1,168	87	86
Low scenario <sup>(1)</sup>					
	Crude steel production (million tonnes)	Inventory adjustment (million tonnes)	Derived consumption <sup>(2)</sup> (million tonnes)	Low scenario indices <sup>(1)</sup>	
				Crude steel production (index Q2 2008 = 100)	
Q2 2008 peak	1,453	100	1,353	100	100
2008	1,327	0	1,327	91	98
2009e	950	-125	1,075	65	79
2010e	975	50	925	67	68
2011e	1,100	100	1,000	76	74

<sup>(1)</sup>China's economy in trouble. Developing World doesn't get on track. De-leveraging through 2010 a big factor.

<sup>(2)</sup>Derived consumption on a crude steel equivalent basis.

Source: WSD's GSA system. e = estimated.

**Do you have a question for World Steel Dynamics? Submit it today to [WSD@aist.org](mailto:WSD@aist.org).**