

Ask WORLD STEEL DYNAMICS

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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Q: Now that the steel market appears to be recovering from the recent lows, what is WSD's outlook for the global steel industry over the medium term?

A: Once again, due to the underestimation of the resiliency of economic growth in China, the overall prospect for the global steel industry appears to be better than previously expected. Chinese steel production, which rose to an annual rate of 598–600 million tonnes in June and July 2009, could be fairly well sustained in the second half as steel demand continues to rise (stimulus fueled), steel traders add more to inventory (not likely), and the mills start to export more product after a sharp decline (likely). Chinese steel apparent demand in 2009 may rise by 20%, or 92 million tonnes, to 547 million tonnes on a crude steel equivalent basis.

In 2010, if Chinese steel demand grows only moderately, a more prosperous global steel industry environment could develop due to shortages of steelmakers' raw materials or, possibly, inadequate pig iron production. WSD places 20% odds on this scenario. Steel demand in China is now so gargantuan that even small changes greatly impact the global steel industry.

Three possible steel industry scenarios for 2009–2012:

- Shake-out conditions persist. Poor pricing and profit problems persist for many steelmakers through 2012. The global economy fails to show a good recovery. De-leveraging — debt reduction and adding to equity — remains a major factor in the actions of households, enterprises and financial institutions in much of the world. The Chinese economy stagnates

with steel demand declining from present levels. Odds = 5%.

- Gradual recovery in 2010 and 2011, then a boom in 2012. Steel demand grows only incrementally the next two years, given the poor outlook for capital spending and construction activity. The mills struggle to create upward pricing momentum. Steel profits rise only moderately. In 2012, however, the industry condition improves sharply due to better steel demand, and a sufficient rise in operating rates for the mills to have "pricing power" to return to the steel mills. The industry's metal balance grows tight due to insufficient pig iron production outside of China. Profits surge in 2012. Odds = 75%. (Note: The details supporting this scenario are presented below.)
- Steel industry boom conditions return in 2010. Steel demand outside of China has a strong rebound (not expected, but not unlikely). In China, demand expands another 5–10% in part due to continued major gains in infrastructure spending in rural areas (not expected). Steel mill profits are up to good levels by the fourth quarter. Odds = 20%. ♦

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WSD World Seasonally Adjusted Crude Steel Production Trends (million tonnes)

	Effective capacity				Actual production				Annualized production				Year-to-year change			
	Adv. World	China	ROW	Total World	Adv. World	China	ROW	Total World	Adv. World	China	ROW	Total World	Adv. World	China	ROW	Total World
2007	515.8	514.5	401.5	1,431.8	493.9	494.9	362.4	1,351.1	494.1	494.9	362.5	1,351.5	2.0%	17.0%	5.5%	8.0%
Q1-08	129.8	139.6	103.5	372.8	127.7	125.0	93.6	346.3	501.6	502.7	376.5	1,380.7	3.3%	6.6%	3.8%	4.6%
Q2-08	129.8	139.6	103.5	372.8	130.3	138.3	93.8	362.4	506.8	556.4	377.1	1,440.3	4.0%	10.4%	4.7%	6.5%
Q3-08	131.2	141.1	104.6	376.9	123.8	127.7	91.6	343.1	514.3	507.8	364.4	1,386.5	2.8%	0.3%	1.0%	1.4%
Q4-08	131.2	141.1	104.6	376.9	96.0	109.4	68.5	273.9	385.8	435.3	272.4	1,093.5	-23.4%	-12.6%	-25.6%	-19.9%
2008	521.9	561.3	416.2	1,499.5	477.8	500.5	347.5	1,325.8	477.1	500.6	347.6	1,325.3	-3.4%	1.1%	-4.1%	-1.9%
Q1-09				379.6	73.9	126.7	67.6	268.1	292.9	514.3	274.5	1,081.7	-41.6%	2.3%	-27.1%	-21.8%
Q2-09				383.8	77.2	139.3	71.8	288.3	299.3	558.9	288.2	1,146.4	-40.9%	0.4%	-23.6%	-20.7%
Q3-09				388.0	96.7	150.8	71.8	319.2	400.7	598.2	284.7	1,283.6	-22.1%	17.8%	-21.9%	-7.2%
Q4-09				388.0	110.7	144.4	75.5	330.7	445.4	573.2	299.7	1,318.4	15.4%	31.7%	10.0%	20.4%
2009				1,539.5	358.4	561.2	286.7	1,206.3	359.6	561.1	286.8	1,207.5	-24.6%	12.1%	-17.5%	-9.1%
Q1-10					99.6	138.6	91.5	329.7	394.9	562.7	371.8	1,329.4	34.8%	9.4%	35.5%	23.0%
Q2-10					100.3	142.6	93.3	336.2	389.1	572.3	374.3	1,335.7	30.0%	2.4%	29.9%	16.6%
Q3-10					117.1	146.8	87.9	351.8	485.4	582.6	348.5	1,416.5	21.1%	-2.6%	22.4%	10.2%
Q4-10					118.1	148.6	88.6	355.3	475.1	589.8	351.6	1,416.5	6.7%	2.9%	17.3%	7.4%
2010					435.1	576.7	361.2	1,373.0	436.1	576.8	361.6	1,374.5	21.3%	2.8%	26.1%	13.9%
Q1-11					104.6	146.8	101.1	352.5	414.6	595.9	410.9	1,421.4	5.0%	5.9%	10.5%	6.9%
Q2-11					104.8	151.1	103.1	359.0	406.6	606.0	413.6	1,426.2	4.5%	5.9%	10.5%	6.8%
Q3-11					119.4	155.5	97.1	372.0	495.1	617.0	385.1	1,497.2	2.0%	5.9%	10.5%	5.7%
Q4-11					119.2	155.0	97.9	372.2	479.9	615.2	388.5	1,483.6	1.0%	4.3%	10.5%	4.7%
2011					448.1	608.4	399.2	1,455.6	449.1	608.5	399.5	1,457.1	3.0%	5.5%	10.5%	6.0%
Q1-12					107.2	154.1	108.2	369.5	425.9	613.2	430.3	1,487.1	2.7%	2.9%	4.7%	3.5%
Q2-12					107.4	158.6	110.3	376.3	414.0	623.4	433.1	1,470.5	1.8%	2.9%	4.7%	3.2%
Q3-12					122.4	163.3	103.9	389.6	476.8	659.0	429.9	1,565.7	-3.7%	6.8%	11.6%	4.8%
Q4-11					122.2	162.8	104.8	389.7	506.2	652.8	410.4	1,569.4	5.5%	6.1%	5.6%	6.6%
2012					459.3	638.8	427.1	1,525.2	455.7	637.1	425.9	1,523.2	1.5%	4.7%	6.6%	4.5%

Source: WSD's Global Steel Alert system. Adv. = Advanced. ROW = Rest of World.