

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.



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Q. Does WSD believe that a sudden surge in price, such as the spike of 2008, is possible in 2011 or sooner? If so, what would it take for such a situation to occur?

A: If a shortage were to occur in 2011, it most likely would be a mild one – as were the ones in mid-2009 and early 2010. History tells us that mild shortages are far more common than ones with huge price spikes (as was the case in 1974, 2003 and 2008). Mild shortages occurred in 1995, 2000, 2003, 2006, 2008, 2009 and early 2010. If a severe steel shortage were to occur by the spring of 2011, which seems highly unlikely, the hot rolled band price could rise to \$900–1,000 per tonne, FOB the port of export. In a mild shortage, the price might rise to \$750–800 per tonne.

A precondition for a "short" steel shortage is not necessarily a high steel mill operating rate.

In mid-2009, a "short" shortage occurred because non-Chinese steel production was down sharply from the highs in the second quarter of 2008, and steel buyers decided to purchase more steel in advance as they ended their inventory liquidations. In early 2010, the "short" shortage was caused

by a surge in the price of steelmakers' raw materials, causing steel buyers to bid up the hot rolled band price in advance because they knew it had to rise due to steelmakers' rising costs.

In the spring to summer of 2008, a severe steel shortage occurred because of an extreme rise in the price of steel scrap. For example, from March 2008 through the high point in July 2008, #1 heavy melting scrap in the United States rose from \$334 to \$550 per gross ton, shredded scrap rose from \$367 to \$700 per ton and #1 busheling rose from \$472 to \$970 per tonne. (Note: These prices plummeted to brief lows during October 2008 to \$95 per ton, \$100 per ton and \$125 per tonne, respectively.) ♦

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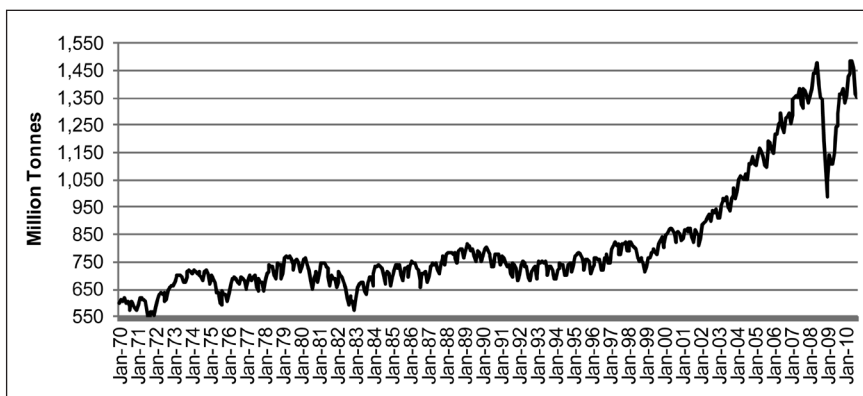


Figure 1 — Global monthly crude steel production annualized.
Source: WSD's Global Steel Alert System.

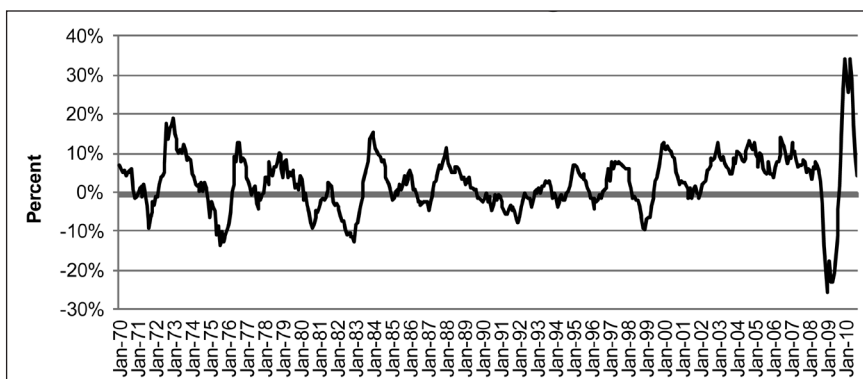


Figure 2 — Global monthly crude steel production annualized, year-to-year change.
Source: WSD's Global Steel Alert System.

To submit your questions for WSD, e-mail WSD@aist.org.

Please include your full name, company name, mailing address and e-mail in all correspondence.