

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. What are WSD's views on the possibilities for steel prices and market developments in 2010?

A. WSD has worked out four possible outcomes for hot rolled band pricing on the world export market in 2010. As indicated below, we give the "boom and bust" scenario the highest odds of happening, at 55%.

1. The "boom and bust" scenario = 55% odds. The price surges in February–April to shortage levels of perhaps \$650–800 per tonne, FOB the port of export. However, this spike is followed by a collapse that extends through the fall of 2010. (Note: The extent of the price increase is in part a function of what happens to steel scrap prices.)

Driving forces on the upside include the following:

- A highly speculative environment,
- Apparent demand outside of China up far more sharply than steel production,
- Excess optimism about a global economic recovery,
- The still-surging Chinese economy,
- The U.S. dollar has not changed much in value,
- Higher steel scrap prices,
- Rising steel demand in China,
- Steel buyers want to add to their inventories, and
- A possible lag in non-Chinese steel production gains.

A driving force is rising steel scrap and steelmakers' raw material prices, which may lead to a speculative frenzy to purchase more steel in advance to beat the price increases. But then, starting perhaps about May 2010, prices start to collapse.

Driving forces on the downside include:

- A rising perception of risk on the part of buyers because the price is up so much,
- Falling steel scrap prices,
- An excessive rise in steel production,
- Perhaps less-than-expected gains in steel consumption and
- Perhaps an outside event, such as rising interest rates and/or lower stock markets, that causes buyers to be less optimistic about the economic outlook.

Key developments will be the expansion rate of various economies, the extent of recovery of global trade in manufactured goods and how much steel production may lag the rise in demand.

2. The "bust" scenario = 20% odds. Prices rise only moderately from the current \$560 per tonne in the next month or so, and then fall back through the summer of 2010, if not for the remainder of the year. The

driving force behind this scenario is disappointing global steel apparent demand. We learn, in retrospect, that the rise in apparent demand outside of China has been largely due to steel buyer inventory swings. The price falls back to the range of \$450–500 per tonne – still above the brief low of \$380 per tonne reached in the spring of 2009. One factor suppressing prices is the refusal of low-cost steelmakers in Russia, India and Brazil to cut back production. Also, Chinese mills, as usual, are willing to pare output only if they have no orders (as was the case in the second half of 2008). Evidence accumulates that the Chinese economy is in a low-growth mode for a while.

3. The "balanced steel supply/demand" scenario = 15% odds. The HRB price rises to about \$600–650 per tonne, FOB the port of export, by the spring of 2010, and then remains within \$50 per tonne of this price range for the remainder of the year. In this scenario, gains in steel demand are moderate because of continued de-leveraging by households, enterprises and financial institutions outside of China. However, steel production also rises only moderately. Steel buyers are hesitant to add to their inventories. (Note: In fact, this scenario is not a bad one for the global economy because a slower recovery, including no major spike in steel prices, would dampen inflationary fears.)

4. The "sustained steel shortage" scenario = 10% odds. A steel shortage condition is sustained for much of 2010. After surging in the months ahead, hot rolled band remains at lofty levels for the remainder of the year. One of the driving forces in this scenario might be inadequate pig iron production outside of China, which retards steel output. Another one would be surging steel demand all over the world. This scenario has low odds in part because the "invisible hand" – i.e., price allocates resource – tends to defeat most price spikes so quickly that they are not sustainable. ♦

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