

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. What is WSD's outlook for the supply/demand balance of steelmakers' raw materials going forward? What implications might this have on pricing?

A. WSD thinks the era of ultrahigh prices for steelmakers' raw materials has ended; however, the prices of these products remain just as volatile. In the future, extremely high spot prices for iron ore, coking coal and steel scrap may occur only briefly — probably only in shortages.

WSD has been steadfast in believing that the long-term outlook is for iron ore prices well below current levels. Factors working to drive down the price by about 2015 may include the following:

- The sizable rise in the capacity to produce iron ore. The pipeline of projects slated for completion in 2012 and 2013 combined amounts to more than 550 million tonnes, according to various sources (Tables 1 and 2). Granted, not all of these projects will be completed in that time frame, if ever; this figure dwarfs the estimated rise in global iron ore requirement of about 105 million tonnes in 2012 and 64 million tonnes in 2013. Hence, the likelihood of an eventual over-supply condition appears to be quite good.
- Steel mills are building their own iron ore mines and participating in iron ore joint ventures to a far greater extent. Based on published reports, Chinese steel companies' investments in overseas iron ore assets amount to more than 175 million tonnes per year of production. Note: the actual figure is likely much higher than the 175 million when accounting for those ownership stakes without a stated annual production estimate.
- Investment in Chinese domestic iron ore mining capacity is massive, at an average US\$12.4 billion/year over the past 5 years, resulting in an estimated increase of 165 million tonnes of concentrated production capacity during that time.
- In 2012, Australian coking coal deliveries may have the potential to rise to 110 million tonnes. Yet, global steel production may be lower. Also, the Chinese steel mills are likely to benefit from higher domestic coking coal capacity (because of high capital spending and far fewer small coking coal mines that need to be closed for safety

Table 1

2012 Upcoming Iron Ore Projects

Region	Project status	Gross capacity
Africa	Conceptual	15
	Feasibility	35
	Construction	9
	Total	59
Asia	Pre-feasibility	1
	Operating, exp./plans	3
	Total	4
CIS	Conceptual	35
	Feasibility	3
	Total	38
European Union	Feasibility	3
	Closed, reopen/constr.	2
	Total	5
North America	Operating, exp./plans	5
	Total	5
Oceania	Conceptual	6
	Feasibility	59
	Operating, exp./feasib.	20
	Total	85
South America	Pre-feasibility	20
	Construction	27
	Operating	30
	Operating, exp./constr.	14
	Total	90
Global total		285

constr. = construction
exp. = expected
feasib. = feasibility

Source: UNCTAD, WSD Estimates

Table 2

2013 Upcoming Iron Ore Projects		
Region	Project status	Gross capacity
CIS	Construction	34.7
	Total	34.7
European Union	Feasibility	3
	Closed, reopen/plans	5
	Total	8
North America	Feasibility	3
	Operating, exp./plans	10
	Total	13
Oceania	Pre-feasibility	60
	Feasibility	15
	Operating, exp./constr.	25
	Operating, exp./feasib.	25
	Total	125
South America	Conceptual	6
	Pre-feasibility	50
	Feasibility	19.5
	Operating, exp./feasib.	12
	Operating, exp./plans	10
	Total	97.5
Global total		278.2
constr. = construction		
exp. = expected		
feasib. = feasibility		
Source: UNCTAD, WSD Estimates		

reasons) and, perhaps, moderately higher deliveries from Mongolia. China is not expected to become a sizable buyer of seaborne coking coal in 2012 unless the price is far lower. (Note: WSD assumes that the monsoon season in this part of the world will not flood the mines once again.)

- The growth rate of Chinese steel demand, WSD believes, will slow sharply after about 2012 as fixed asset investment peaks out as a share of GDP.
- Freight rates are likely to remain fairly low, given the glut of capesize vessels.

If steelmakers' raw material prices in 2012–2015 are far lower than in 2011, and granted that the steel mills' hot rolled band "pricing power" on the world export market may only be "fair" because of the oversupply for this product in many regions, WSD expects that the price of hot rolled band and other steel products — both on the world market and in many home markets — will be far lower in the 2012–2015 time frame than in the first half of 2011. ♦

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Comments are welcome. To submit your questions for WSD, email WSD@aist.org. Please include your full name, company name, mailing address and email in all correspondence.