World Steel Dynamics (WSD) is a leading steel information service in Englewood Cliffs, N.J.

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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.

The views and opinions expressed in this article are solely those of World Steel Dynamics and not necessarily those of AIST.

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Bank Financing — Big Challenge, M&A Activity to Grow

Securing of bank financing on an attractive basis will remain a difficult challenge for many steel companies and those tied to the industry. Inventory financing, specifically, will be a problem because banks are apprehensive about a deterioration of the inventory value. The poor financial performance of many steel companies since 2008, and the continued high volatility of the prices for steel products and steelmakers' raw materials, have spooked lenders. As a consequence, steel companies in many cases can be expected to: (a) hold back their capital spending; (b) seek to sell off some of their assets; and (c) enter into discussions to merge with others.

Steel industry merger and acquisition activity will be substantial in the years ahead. However, there will not be a race to become the world's next steelmaker producing 100 million metric tons per year. In fact, the world may have witnessed the end to the 100-million-metric-ton steelmaker. ArcelorMittal in the second quarter of 2013 shipped only about 85.2 million metric tons annualized; and some observers conjecture the company may be seeking to sell some of its plants.

Multi-plant steelmakers, of course, tend to concentrate capital improvements at their best facilities. This strategy, which makes sense, nevertheless causes a number of the company's older units to fall even further behind. The longer the period in which capital outlays are delayed, the greater the vulnerability of older plants in a low-profit-margin steel industry environment.

Hedging Steel Price Risk: Universal Practice by 2016?

By 2016, hedging of the price risk for steel products and steelmakers' raw materials will become an almost universal activity, WSD predicts. Steel and steel raw material futures and cleared swaps have been around since 2008; they are traded on exchanges in the U.S., China (Shanghai, Beijing and Dalian), London, Hong Kong and Singapore. The volume growth in rebar futures on the Shanghai Futures Exchange (since 2009) and Metallurgical Coke Futures (since 2011), and iron ore futures (most recently) on the Dalian Commodity Exchange (DCE) are among the great success stories in futures trading.

China's DCE launched its iron ore contract on 18 October 2013 and traded 338,700 lots on its launch date. DCE's iron ore futures contracts are sold in lots of 100 metric tons, and priced in RMB per dry metric ton including 17% value-added tax (VAT), with a minimum delivery size of

Table 1

Ferrous Derivatives Product Volume Comparison

Commodity	Exchange	Launch date	June 2012 futures volume (mt)	June 2013 futures volume (mt)	Annualized futures volume (mt)	Consumption (2013 WSD est. in metric tons)	Futures volume as a multiple of consumption
Rebar futures	Shanghai Futures (SHFE)	March 2009	70 million	323 million	3.87 billion	185 million (China)	26
Metallurgical coke futures	Dalian Commodity Exchange	April 2011	11.7 million	1.32 billion	15.8 billion	350 million (China)	45
Iron ore cleared swaps	Singapore Exchange (SGX)	April 2009	4.9 million	20.4 million	245 million	729 million (China imports)	0.34
U.S. hot rolled coil index futures	CME (U.S.)	October 2008	57,000	74,000	888,000	60 million*	0.02
Billet futures	London Metal Exchange (LME)	April 2008	390,000	364,000	4.4 million	25 million (merchant trade)	0.18

* includes hot rolled, cold rolled, galvanized, welded pipe and exports. Source: Bloomberg, WSD estimates

10,000 metric tons. Ma'anshan Iron & Steel, a Chinese state-owned mill, announced recently that it will begin trading iron ore futures on the newly established DCE.

Although gains in steel futures volumes on the CME and London Metal Exchange (LME) have been modest, cleared swaps trading on the Singapore Exchange's (SGX) iron ore has had a significant volume growth in the past year. The SGX's success is noteworthy because it is clearing Chinese over-the-counter (OTC) swap contracts that are executed outside of China. The exponential rise in the SGX's iron ore swap trading volumes suggests that other Chinese outside-of-China products (like steel scrap, hot rolled band, metallurgical coal and metallurgical coke) may experience accelerated growth in the years ahead (Table 1).

Leaner margins are forcing the steel mills and their suppliers to find new ways to gain an edge over the competition. One solution, WSD believes, is for a company to develop disciplined and consistent hedging plans that include working closely with customers. Futures are universally accepted and employed in the non-ferrous world; they are viewed as indispensable by those who use them — especially aluminum producers. The steel industry has had five years to "warm up to the idea" that steel and steel raw materials futures have merit.

In 2009, WSD formed World Steel Exchange Marketing (WSEM) to promote and obtain revenues from exchange trading of steel futures. WSEM signed a strategic partnership agreement with the NASDAQ OMX Futures Exchange (NFX) on 1 May 2013, and plans to launch the first of several new futures products in the months ahead. ✦