WORLD STEEL DYNAMICS is a leading steel information service in Englewood Cliffs, N.J., USA

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.


Authors

Peter Marcus (left)
managing partner, World Steel Dynamics
pmarcus@worldsteeldynamics.com
+1.201.503.0902

John Villa (right)
research strategist, World Steel Dynamics
jvilla@worldsteeldynamics.com
+1.201.503.0911

SteelBenchmarker™ HRB export price: Strong, but changing, correlations with home-market prices since 2000

As indicated in Fig. 1, the extreme run-up in the world price for hot rolled band (HRB) from 2007 through the summer of 2008 was mimicked by home-market prices in the USA and Western Europe. In China's case, at that time, with domestic deliveries being so massive and exports relatively low, the price run-up, although substantial, was far less than that in most other regions of the world.

From a peak export price in summer 2008 of about US$1,097/metric ton, FOB the port of export, the HRB export price had plummeted to about US$396/metric ton by summer 2009.

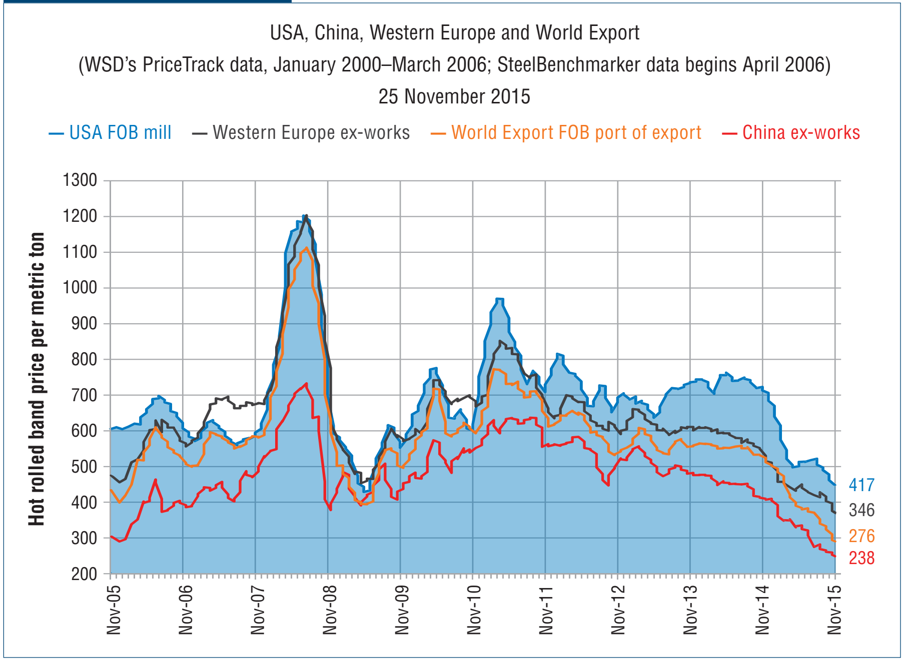
WSD also observes that since summer 2009:

- The Chinese HRB domestic ex-works price has consistently been lower than the HRB export price.
- The current export price, at about US$285/metric ton, is well below that in summer 2009.
- The USA home-market price in 2014 rose to a massive premium to the world export price — at times as much as US$200/metric ton.
- Unlike prior episodes of pricing "death spirals," the current experience has not been a brief pricing bottom followed by a sizable rally. One reason is that steel production has been sticky on the downside at least through October 2015.

Chinese home-market HRB price: Often highest through early 2003; now, the lowest

The Chinese steel industry was in a physical shortage condition from 2000 to 2011, which was a factor holding down the country's steel exports even as its home steel market grew more "competitive," reflecting the massive surge in the number of wide hot strip mills in the country — now

Figure 1



SteelBenchmarker™ HRB price. Source: World Steel Dynamics, American Metal Market, *Metal Bulletin.*

about 90 versus 10 in 2000. Hence, through 2010, the Chinese home-market price was less sensitive to swings in the HRB export price than the home-market price in many other countries.

Since 2010, the Chinese mills' ex-works export price has consistently been below the world price. Sizable oversupply for Chinese HRB started to become evident in 2011; and, then, in 2013, HRB demand in China started to stagnate and/or grow slowly. As the HRB oversupply in China has blossomed, we've been witness to an incredible boom in Chinese exports of a wide variety of steel products. The Chinese have been willing to export below their marginal cost in many cases, especially in 2015.

What's the difference between the Chinese mills' low export price and true love? Is the answer: "The low export price is forever"? WSD thinks not, because the current export price is wreaking incredible havoc on the Chinese mills' access to capital — as is the case elsewhere in the world. The solution for the Chinese mills, WSD is quite sure, will be the elimination of much excess capacity — perhaps at a slower pace than elsewhere, but inexorable nevertheless — and with an inevitable boost in their home-market and export prices.

This report includes forward-looking statements that are based on current expectations about future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict. Although WSD believes that the expectations reflected in its forward-looking statements are reasonable, they can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties, including, among other things, changes in prices, shifts in demand, variations in supply, movements in international currency, developments in technology, actions by governments and/or other factors. ✦