Steel Industry's "Age of Protectionism": Not a Fleeting Phenomenon

Steel trade restraints — i.e., steel's "Age of Protectionism" — have become an important upside profit driver for a sizable number of non-Chinese steel mills. Also, the Chinese mills are benefitting currently from a tight supply/demand balance in their country for rebar and hot-rolled band (HRB). Steel company equity values have surged since early 2016.

Steel industry protectionism seems destined to remain in place well into the 2020s. Here's why:

1. Steel mills must push for trade protection because no other approach works. No longer can they concentrate sufficiently via merger and acquisition activity, following an episode of ultra-weak export prices, to restore their pricing power because, nowadays, there are simply too many mills offering steel for export.
   - At least 50 steel mills are positioned to sell HRB on the world market, including four in Russia, one in Ukraine, three in Eastern Europe, five in Western Europe, two in Turkey, five in the Middle East and North Africa, one in Iran, three in India, two in Indonesia, two in Thailand, eight in NAFTA (the U.S., Mexico and Canada) and 20+ in China.
   - Oversupply in China for HRB is forecast by WSD to recur in the second half of 2018. Although, as the winter months approach, mandated steel production cutbacks in Northern China, in order to combat the winter's more severe air pollution problems, will help to sustain the supply/demand balance. Probably not until 2019 will the HRB oversupply in China be sufficiently prolonged to drive the HRB ex-works price down to the median mill's marginal cost. China's HRB marketplace is highly competitive, as about 68 wide hot strip mills are battling for market share.
2. President Trump's "America First" policy, which plans duties on a variety of manufactured products entering the U.S., has provoked retaliatory duties by the U.S.'s trading partners on imports of U.S.-manufactured goods and agricultural products. Hence, protectionism is on the rise — although, perhaps, to a lesser extent than many fear as new trade deals are negotiated with the U.S.'s trading partners. (Note: President Trump's "America First" policy is seeking to shift the benefits of mercantilism from China to the United States.)
3. Government policymakers in many countries are now more receptive to their steel mills' pleas for protection than a decade ago. Policymakers worry that computers — i.e., artificial intelligence — will replace workers at an alarming pace. Hence, there's a need for rising fixed asset investment — i.e., construction and capital spending — to create new jobs.
4. China's expanding Global Financial Colonial Empire is "rocking the capitalist boat." As part of its effort to play a greater role in supporting Developing World infrastructure projects, China in 2016 created the Asian Infrastructure Investment Bank (AIIB). The AIIB now, as well, receives some

WSD 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

Table 1

Stock Performance of WSD's Global Steel Index of Steel Equities (Jan 1997 = 100)

	Steel									USA service centers	Iron ore producers	World-class steelmakers	S&P 500 Index
	Global	Far East	China	Japan	Brazil	Europe	Russia	Other Latin America	USA				
Jan-11	277	347	173	122	119	231	478	559	188	237	857	265	165
Jun-11	293	344	156	112	105	245	689	519	173	241	825	300	168
Dec-11	197	241	115	83	72	140	376	404	146	203	590	186	160
Jan-12	217	266	123	88	81	162	416	444	155	224	658	207	167
Jun-12	179	235	98	68	59	111	381	345	138	210	551	184	175
Dec-12	199	253	128	74	65	139	383	395	157	248	564	201	187
Jan-13	218	248	112	78	62	134	547	403	158	244	569	226	191
Jun-13	167	186	79	75	38	116	317	385	143	251	389	161	204
Dec-13	198	243	90	94	53	156	324	428	194	259	475	195	235
Jan-14	189	226	87	88	47	157	294	433	176	233	471	179	227
Jun-14	196	260	92	86	39	166	300	452	177	257	444	194	249
Dec-14	179	233	145	87	31	135	312	318	172	197	305	191	265
Jan-15	169	214	137	88	32	129	312	296	144	165	333	180	256
Jun-15	176	188	203	89	24	141	343	266	155	175	249	180	262
Dec-15	139	153	118	66	10	102	304	231	130	139	166	145	262
Jan-16	130	146	108	60	7	86	304	204	126	131	136	138	247
Jun-16	158	179	109	55	16	107	353	283	165	190	196	168	267
Dec-17	205	164	115	192	25	132	442	350	220	211	265	187	285
Jan-17	213	180	131	207	30	141	456	341	217	218	389	198	290
Jun-17	203	193	128	207	25	155	403	309	204	209	287	194	308
Dec-17	230	231	156	203	32	200	447	329	239	231	371	231	340
Jan-18	246	241	179	218	38	216	464	361	254	242	391	245	359
Jun-18	223	225	136	190	31	157	436	370	241	230	393	219	346

financial support from governments in a number of advanced countries. To date, the AIIB has made about US$5.5 billion of investments. The AIIB activities, and the consequent expansion of the Chinese Global Financial Colonial Empire, are stimulating China's exports of goods and services to Developing World countries.

5. The competitive nature of the global steel industry is a part of its DNA. Hence, this factor boosts the mills' wish for protectionism and other developments that enhance their "pricing power." Characteristics of steel companies often include high capital intensity (i.e., the investment needed to build a new plant relative to its revenues), high fixed costs, the delivery of commodity products, technological threats and a high assembly cost for raw materials. The mills, as well, are impacted by shifts in regional steel demand, changing steel trade patterns and new currency values.

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. ✦