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
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.

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