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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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Global economic and marketplace chills: Different, but interrelated

A global economic chill occurs when the sentiment about the outlook is worse than the underlying fundamentals. The current chill in effect, in WSD's opinion, reflects unrealistic fears that a global trade war will bring diminished economic activity. WSD doubts that this will be the case for two reasons: First, ever more ubiquitous globalization; and, second, when traditional buyer-seller trading patterns are "skewered" by contentious developments, new trading patterns emerge that largely make up for the disturbance. Global trade, one might say, is a game with a wooden hammer called "Global Trade Whack-a-Mole!"

- In China's case, there's been a sizable loss of confidence in the sustainability of economic growth reflecting: (a) the weaker currency versus the U.S. dollar; (b) the much lower stock market; (c) declining consumer sentiment; and (d) the feared impact on the economy of the escalating trade war with the United States (that's a net importer of about US$250 billion Chinese manufactured goods annually). About 30% of China's GDP ties into merchandise exports. (Note: WSD's viewpoint is that Chinese economic policymakers have panicked. Besides promoting infrastructure spending, they are encouraging loans to manufacturers and construction companies. The consequence is that these actions are overcoming sluggish consumer spending. By next spring, WSD thinks that the pundits forecasting a sizable slowing of the Chinese economy will be wrong.)
- Outside of China, there's growing apprehension about economic prospects for a wide variety of reasons, including: (a) the negative impact of rising interest rates; (b) a growing number of developing world countries with ultra-weak currencies and declining industrial production (Turkey, Iran, Venezuela, Argentina, Indonesia); (c) worries about the growth of the Korean economy as new President Moon is sharply boosting the minimum wage — by 30% over two years to US$9/hour — as a means to stimulate economic growth; (d) President Moon is also demanding that all mid-sized and larger Korean companies become unionized; (e) the adverse impact of the escalating USA-China trade war (with President Trump imposing 10–25% duties on a growing number of Chinese exported goods to the USA); (f) worries about stock market performance; and (g) a number of indicators, including lower metals prices, that are pointing to reduced global GDP growth in 2019 after above-normal 3%+ per annum growth in 2017 and early 2018.

Marketplace chills occur when buyers fear price declines and, consequently, delay their new orders to a substantial extent. Here are some marketplace chills relevant to the steel business:

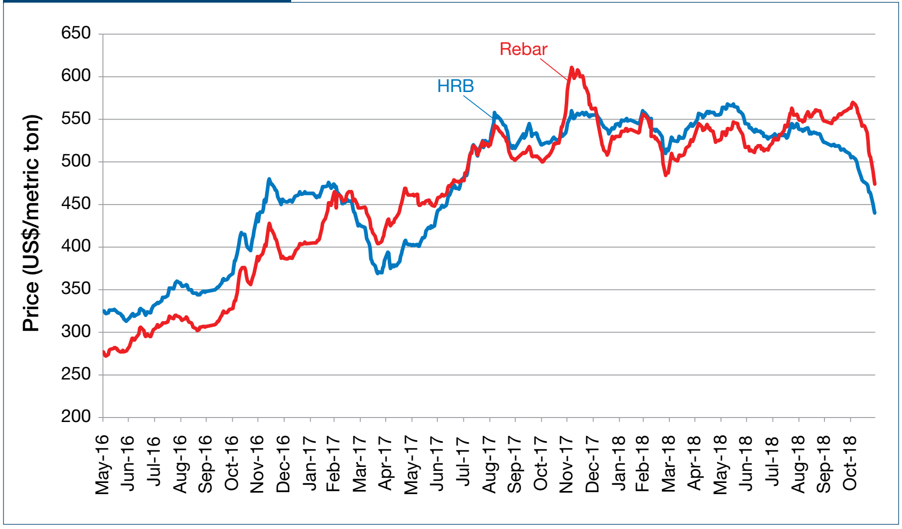
- Crude oil, aluminum, copper and nickel. The prices of these products are down sharply. One reason is that, a few months ago, the price of these commodities was so high that it became unattractive to buyers on a reward/risk basis. (Note: The reward is the possible price drop, while the risk in the possible rise in the price.)
- Rebar and hot-rolled band (HRB) on the world market and selected countries. This chill has been in effect since early July when the HRB export price was about US$600/metric ton, FOB the port of export, versus the current

figure of US$490/metric ton (Fig. 1). The rebar export price was about US$585/metric ton versus the current US$500/metric ton.

Interestingly, rebar in China, ex-works, for domestic delivery is priced at about a US$35/metric ton premium to the price of hot-rolled band; yet rebar is US$15–20/metric ton cheaper to produce. Why is this? The reason is twofold: First, the closure of rebar producing capacity — including induction furnace and small steelmakers — has been far more sizable than that for hot-rolled-band; and, second, the construction market this year, served by rebar, has been stronger than that for many manufactured goods (served by sheet products).

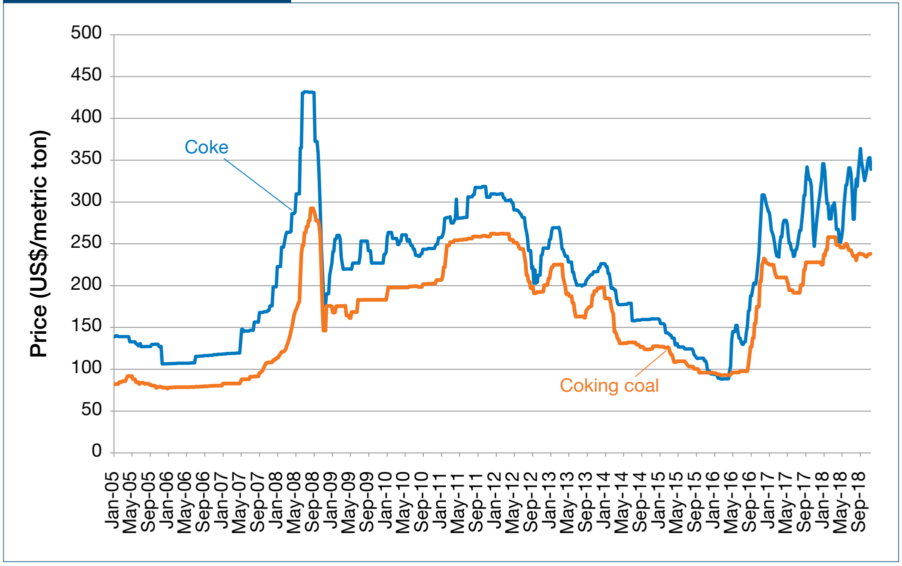
- Coking coal, metallurgical coke and iron ore. The price of 62% Fe iron ore delivered to China is down US$10/metric ton, since October 2018, to US$65/metric ton (Fig. 2). Coking coal FOB Australia is at US$190/metric ton, down from US$220/metric ton. In China, coking coal is down 5% to US$238/metric ton from US$250/metric ton in June 2018. Metallurgical coke for export is down 7% to US$350/metric ton from US$375/metric ton, FOB the port of export.

Figure 1



China daily benchmark prices of hot-rolled band and rebar (US$ per metric ton).

Figure 2



Chinese coke vs. coking coal prices in Shanxi Province (US$ per metric ton). Source: MySteel.

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