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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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U.S. situation: Big profits for domestic steel mills

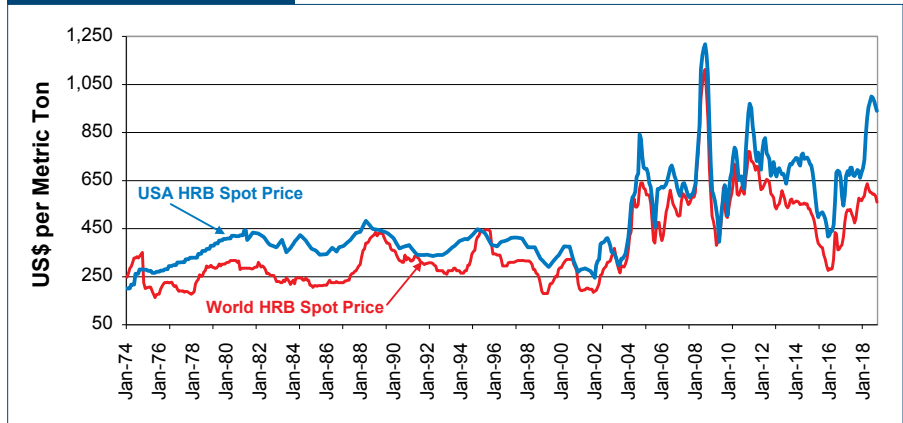
The U.S. steel mills' hot-rolled band (HRB) price realization remains remarkably high relative to their costs. In the early summer of 2018, the spot HRB price temporarily rose to US\$985-US\$1,006/metric ton, FOB the steel plant. At the time of this writing (the third week of November 2018), the price is down to about US\$880/metric ton. Buyers are willing to place 5,000- to 10,000-metric-ton orders and may be able to purchase the steel for less. Since the peak in the summer of 2018, the price is

down more than US\$100/metric ton, FOB the steel plant.

Although down, the current HRB price remains far above all of the U.S. mills' operating cost. For example, based on WSD's monthly World Cost Curve results, low-cost integrated steel plants had an average HRB operating cost in October 2018 of US\$492/metric ton. For well-positioned electric arc furnace-based mini-mills, it was US\$544/metric ton.

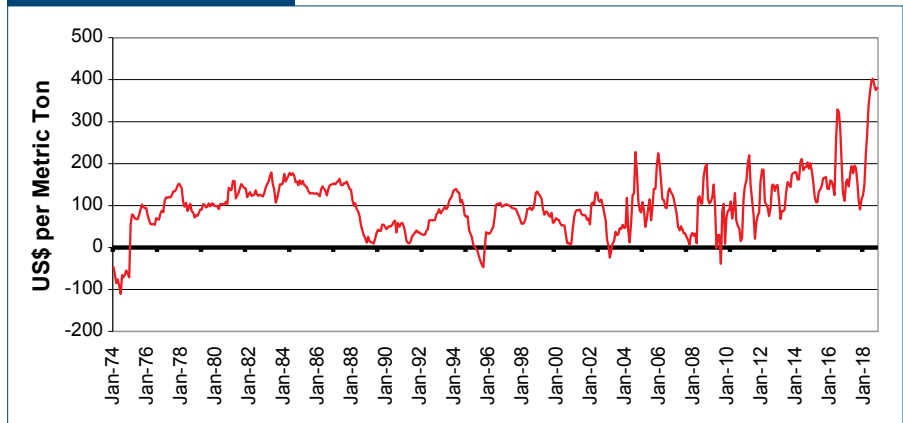
The HRB spot price in the U.S. has been under pressure, in part

Figure 1



World export and U.S. hot-rolled band spot prices. Source: WSD PriceTracker and SteelBenchmarker™.

Figure 2



Spread: U.S. hot-rolled band less world export spot price. Source: WSD PriceTracker and SteelBenchmarker™.

reflecting: (a) only a moderate rise in demand this year; (b) still relatively high imports of sheet products and slab; (c) U.S. steel production ramping up (increased utilization of already operating facilities and reopening of idled steel plants); and (d) steel buyers refrained from building inventory in anticipation of a strike on 1 September 2018 at either United States Steel Corporation or ArcelorMittal. In fact, the buyers were correct: both organizations agreed to new labor agreements. The new contract does not call for the workers to pay for a higher share of their medical costs; however, they received a signing bonus and a wage increase of 14% over the next four years.

The price spread between the U.S. HRB price and the HRB export price seems destined to come down over the next few years. A few months ago, when the U.S. price rose briefly to US\$1,006/metric ton, the world export price was about US\$593/metric ton, for an amazing spread of US\$413/metric ton. The current spread, with the domestic price at about US\$880/metric ton and the export price at US\$540/metric ton is a still lofty US\$340/metric ton. The historic spread has ranged from –US\$39 to US\$402/metric ton.

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