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.


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Steel's industrial structure in metamorphosis: It's favoring leading steelmakers

The industry's "industrial structure" has changed for the better, in WSD's opinion, from the viewpoint of well-positioned steel mills' profitability over the steel cycle. Here are the reasons:

- Steel's new "Age of Protectionism" has been in effect since the third quarter of 2016. This game-changing development enables many of the mills to garner higher prices in their home market. The Age of Protectionism is most fortuitous for the mills because the leading international steel companies are no longer able to consolidate sufficiently on the world market to boost their "pricing power" via merger and acquisition activity.
- The ongoing defeat of the Chinese steel mills' exporting armada. Trade suits, air pollution and a host of ineffective smaller companies are some of the factors at work.
- Lessened odds of a global financial crisis — in part the result of low interest rates (that, in WSD's opinion, are in part a function of the surplus funds circulating the globe seeking high returns). The Information and Technological Revolutions, as well, hold down inflationary pressure as they spur productivity gains sufficient to offset a good portion of wage increases.
- Likely lower prices over the steel cycle in the next decade for steelmakers' raw materials.
- Rising capital spending in many countries as a share of GDP. This outcome is due to:
  - China's economic model is a persuasive one to follow. It has succeeded in implementing the "Capital Fundamentalism" economic theory that places emphasis on fixed asset investment benefits.
  - Policymakers' fear that artificial intelligence will eliminate so many jobs that, unless there's a surge in fixed asset investment, there will be a net job reduction. It's difficult for a government to survive long when job opportunities in its country are diminishing.
- Growing opportunities to hedge the steel price risk on futures exchanges.

Fig. 1 on the next page shows capital expenditures per ton, revenue per ton, earnings before interest, tax, depreciation and amortization (EBITDA) per ton, as well as EBITDA for four leading steel producers.

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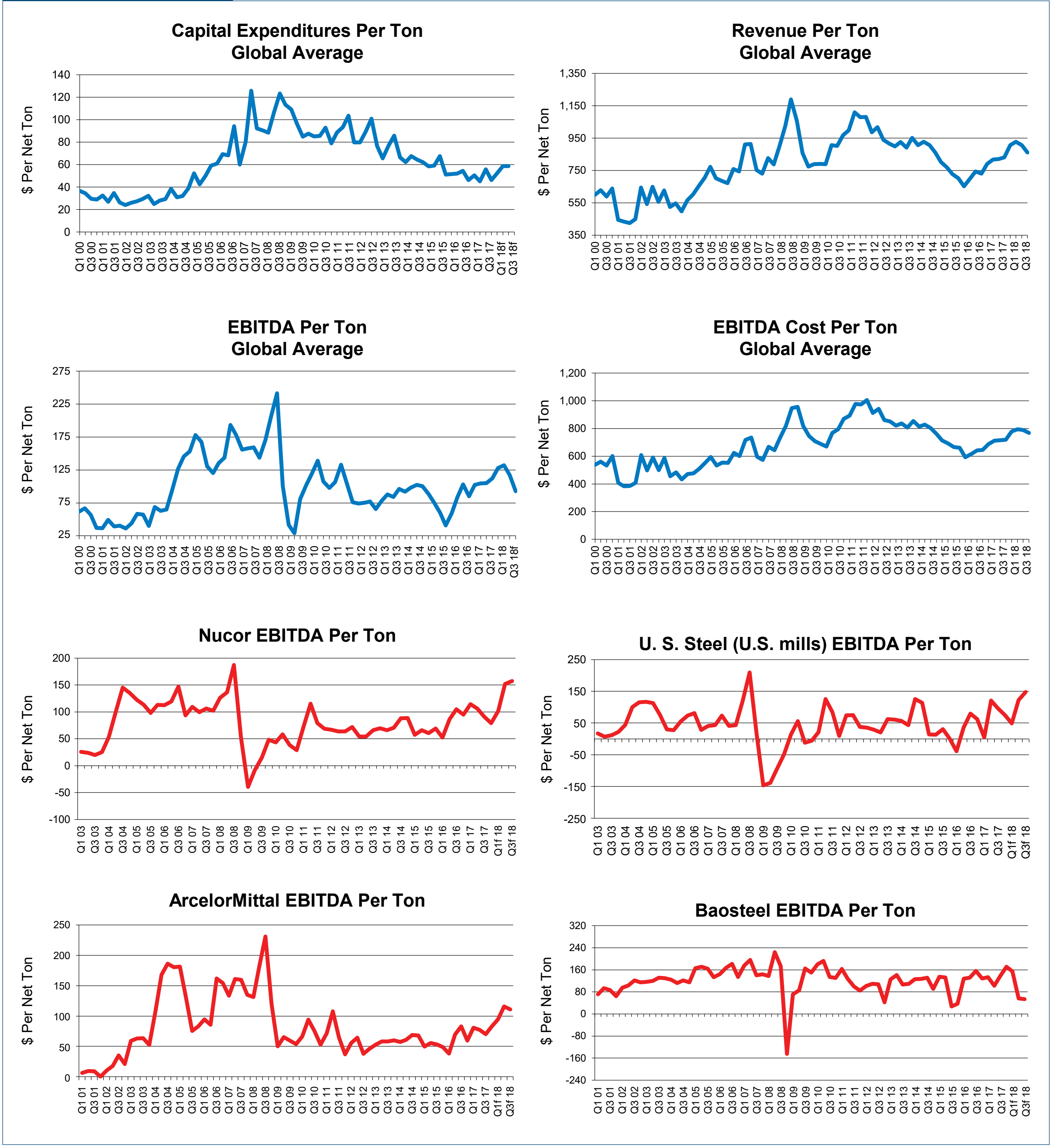
Figure 1



Capital expenditures per ton; revenue per ton; and earnings before interest, tax, depreciation and amortization for four leading steelmakers. Source: Company reports and WSD estimates.