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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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Steel buyers' perception: HRB export price more attractive on risk/reward basis

Because the current hot-rolled band (HRB) export price was well down as of January 2019, steel buyers perceived it was more attractive on a

risk/reward basis. (Note: For the steel buyer, the risk is a rise in the price, and the reward is a decline in the price.) At US\$610/metric ton last July,

Table 1

WSD Hot-Rolled Band Risk/Reward Calculator (Source: WSD estimates based on the viewpoint of the steel buyer)

Market	World export	Chinese domestic	USA	S. Europe
December 2015				
Current price	US\$270	US\$230	US\$405	US\$325
Risk price	US\$440	US\$380	US\$550	US\$440
Reward price	US\$250	US\$215	US\$380	US\$310
R/R amounts	+170/-20	+150/-15	+145/-25	+115/-15
R/R (Risk/Reward)	8.5x	10.0x	5.8x	7.7x
Price 3 months later	US\$321	US\$320	US\$466	US\$390
June 2016				
Current price	US\$360	US\$300	US\$600	US\$400
Risk price	US\$450	US\$400	US\$730	US\$550
Reward price	US\$320	US\$290	US\$550	US\$370
R/R amounts	+90/-40	+105/-10	+130/-50	+150/-30
R/R	2.2x	10.5x	2.6x	5.0x
Price 3 months later	US\$381	US\$348	US\$584	US\$500
March 2017				
Current price	US\$530	US\$430	US\$700	US\$608
Risk price	US\$600	US\$550	US\$750	US\$725
Reward price	US\$380	US\$290	US\$570	US\$520
R/R amounts	+70/-150	+120/-140	+50/-130	+117/-88
R/R	0.5x	0.9x	0.4x	1.3x
Price 3 months later	US\$474	US\$423	US\$669	US\$548
September 2018				
Current price	US\$586	US\$534	US\$961	US\$644
Risk price	US\$650	US\$500	US\$725	US\$675
Reward price	US\$400	US\$290	US\$570	US\$500
R/R amounts	+64/-186	+93/-117	+39/-116	+115/-60
R/R	0.3x	0.8x	0.3x	1.9x
Price 3 months later	US\$488	US\$461	US\$846	US\$575
January 2019				
Current price	US\$480	US\$461	US\$770	US\$573
Risk price	US\$650	US\$600	US\$940	US\$800
Reward price	US\$400	US\$390	US\$550	US\$520
R/R amounts	+170/-80	+139/-71	+170/-120	+227/-53
R/R	2.1x	1.9x	1.4x	4.3x

Note: Risk price is how much the price of steel may rise (to the detriment of the steel buyer). Reward price is how much it may drop (to the benefit of the steel buyer).

buyers may have perceived the risk to be a US\$90/metric ton rise to US\$700/metric ton, while the reward was perhaps a US\$150/metric ton decline in the price to US\$460/metric ton. Hence, the risk/reward (R/R) ratio was $US\$90/US\$150 = 0.6X$. At the January 2019 price of US\$500/metric ton, if the perceived risk price was US\$650/metric ton and the reward price was US\$450/metric ton, the risk/reward was $US\$150/US\$50 = 3.0X$.

(Note: The USA spot HRB price in January 2019 was about US\$680/net ton versus the brief peak in 2018 of US\$950/ton. If the reward price is US\$600/ton and the risk price is US\$900/ton, the risk/reward is $US\$220/US\$80 = 2.75X$.)

As indicated in Table 1, when the R/R ratio is particularly high or low, there's a strong tendency for the price to reverse direction not long thereafter — as demonstrated when comparing the R/R in December 2015, June 2016, March 2017 and September 2018; and, as well, the HRB price three months later.

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