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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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HRB export price: The bellwether flat-rolled steel price

As indicated in Fig. 1, the hot-rolled band (HRB) export price and the U.S. HRB spot price often move in sync with one another. From the viewpoint of the industrial structure economist, perhaps this linkage is somewhat surprising since the U.S. steel market is moderately concentrated (when it comes to the number of producers) while the export market has a huge number of players (and, in fact, is fully "competitive" in the academic sense of the word).

Just as the U.S. steel scrap price, or that delivered to Turkey, is the bellwether price for steel products produced via the electric arc furnace steelmaking route, the HRB export price is the bellwether price for the flat-rolled steel business. (Note: The HRB export price tends to be somewhat more predictable on a 3- to 4-month basis than the steel scrap price because it is impacted by many other factors that lead or lag the price — including the international prices of iron ore, coking coal, metallurgical coke and steel scrap).

The average "spread" between the U.S. price and the HRB export price, FOB the port of export, from 2011 to March 2018 (when President Trump's Section 232 25% duties were placed on most of the foreign hot-rolled band) often ranged from US\$100 to US\$150 per metric ton. This spread compared to the expense of roughly US\$100 per metric ton to deliver offshore steel to the U.S. inland steel buyer, excluding duties. The delivery time, from the time of the placement of an order by the U.S. steel buyer, for the offshore mill may have averaged about 10 weeks versus perhaps 3–4 weeks when supplied by a domestic mill.

The U.S. HRB price spiked in the summer of 2018 following the imposition of President Trump's Section 232 25% tariffs on HRB from many

countries. The HRB price peaked in the U.S. at about US\$1,000 per metric ton, with the premium versus the world price, FOB the port of export, amounting an unsustainable US\$400 per metric ton.

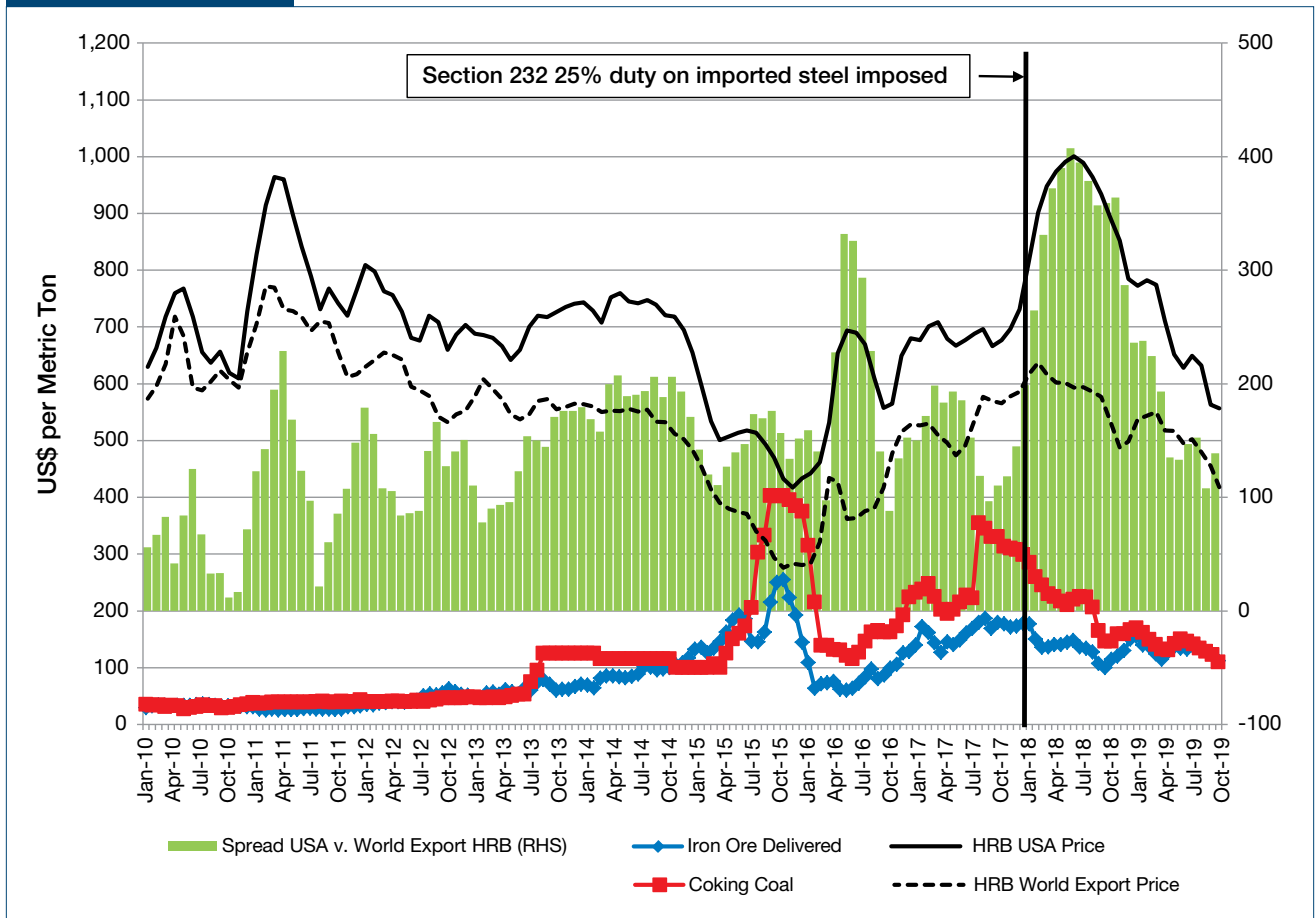
Since the summer of 2018, the U.S. HRB price premium versus the world price has lessened because: (a) the high U.S. price stimulated more U.S. steel production; (b) duties were eliminated in July 2019 on Canadian and Mexican steel; and (c) a 350,000-metric-ton-per-annum quota on Brazilian steel slab entering the U.S. was established.

The 25% duty for the Canadian and Mexican mills was waived in May 2019 when a new North American trade agreement — called USMCA — was agreed to on a handshake basis by the U.S., Mexican and Canadian negotiators. This trade agreement that replaced NAFTA, received U.S. Congressional approval in December 2019.

An unknown factor since the summer of 2018 is the extent to which the U.S.'s imports of steel in steel-containing goods have risen because of the high steel price in the United States. Also, some domestic manufacturers may have shifted some of their manufacturing to offshore locations because of the relatively high U.S. steel price. Furthermore, uncertainty regarding the U.S. trade policy could have contributed to recent declines in U.S. investment activity, which will directly impact steel demand.

What has been learned? Never underestimate the power of the "Invisible Hand" — i.e., price allocates resource.

Figure 1



U.S. HRB price vs. world export price and spread. Source: WSD estimates, SteelBenchmarker™, SBB.

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