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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. Steel Market Situation: War-Induced Rally Fizzles Out – Reversion to Pre-Covid Prices?

Buyer/seller "psychological warfare" has been attributed to rapid shifts in steel prices by WSD many times in the past. The most recent situation, whereby the U.S. price of hot-rolled band surged to ~US\$1,630/metric ton in April from a low of about US\$1,000/metric ton in February, and now a shift back toward US\$1,000/metric ton (or possibly lower) in the months ahead, is yet another example of the impact of psychology.

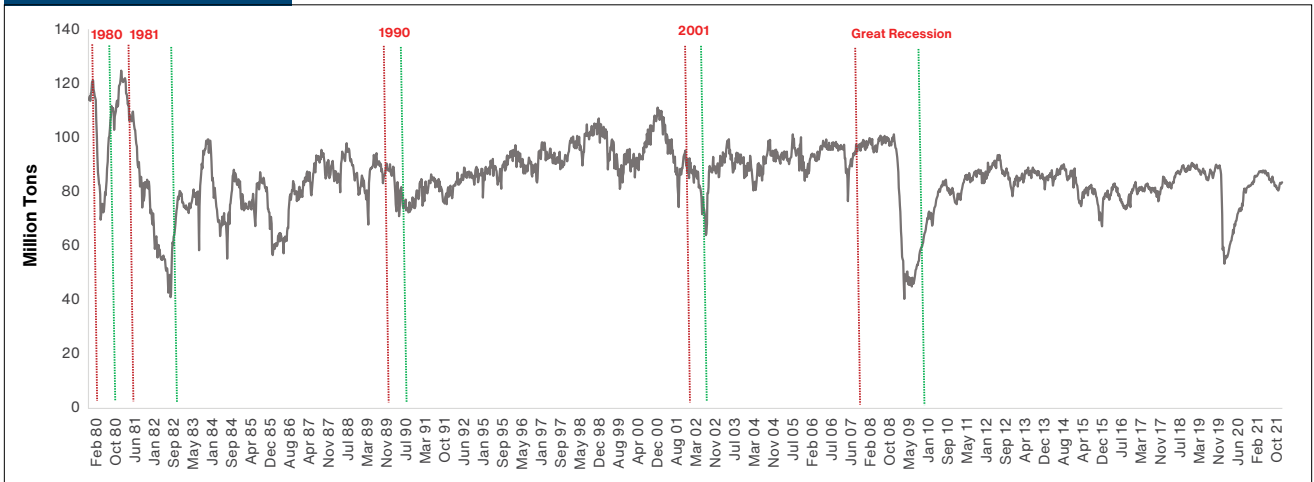
A key reason for this most recent shift from "upside" pricing momentum to the downside unfolding at present, among others, appears to be tied to the broad perception of inevitable economic "calamity" likely to beset the U.S. The conditions in the U.S. economy are no doubt complex at the moment, with countervailing forces at play:

- Economic positives include:
 - The U.S. job market remains remarkably strong with the reported unemployment rate at 3.6%. Despite some recent uptick in jobless claims, statistics indicate that individuals accepting jobless benefits are at a decade-long low.
 - Despite a decline in Q1 GDP (1.5% contraction on an annualized basis), growth is expected to turn positive again in the second quarter. Economists have been hesitant to classify the economy as having officially entered a "recession." A large part of the decline in the economic growth during the first quarter was a function of increased imports (a negative factor in the GDP calculation).
 - Accumulated savings in the U.S. remains strong; therefore, despite growing inflation, U.S. consumer spending remains high, although some

recent indicators suggest that consumers may be drawing down some of their savings as inflationary pressure mounts. Sales of durable goods, such as automobiles and appliances, have remained at high levels. Durable goods orders were up 0.4% in April and 0.6% in March.

- At least for the time being, an argument could be made that U.S. consumers should be in a strong position given growing wages, improved home values, and strong debt positions by historical standards.
- However, headwinds are rapidly emerging that could put the U.S. economy in peril:
 - Despite all the factors benefiting U.S. consumers and businesses, including the current strong health of the U.S. economy, inflation and supply chain disruptions are having a real impact on economic growth.
 - As supply chain issues continue to plague global automakers, automotive sales continue to lag 2021 levels. January to April 2022 cumulative auto sales were 4.6 million units versus 5.46 million units in 2021. By comparison, monthly auto sales averaged 1.42 million units in 2019 — roughly 23% higher than the monthly average year-to-date 2022.
 - Signs are emerging that concern of an overall cooling in the U.S. housing market is increasingly valid — this is on the heels of seemingly "exponential" rates of price appreciation seen during the last two years. As mortgage rates have ratcheted up over the last 6 months (from as low as ~2.5% in late-2021 to a current figure

Figure 1



U.S. weekly steel production through U.S. recessions. Sources: AISI, WSD estimates.

- of about 5.5% for a 30-year loan), there has been a reported decline in home sales.
- Amazon has recently announced it is reducing the rate of warehouse construction, signaling a potential slowdown in overall activity in this steadily booming construction segment.
- If history is any guide in the current environment, even minor recessions over the last 40 years have had a significant impact on U.S. steel production and demand (Fig. 1). Consider the following (peak/trough figures annualized):
 - 1980: 121 million tons in Mar 1980 to 69 million tons in July 1980.
 - 1981: 122 million tons in May 1981 to 41 million tons in January 1983.
 - 1990: 90 million tons in August 1990 to 71 million tons in February 1991.
 - 2001: 109 million tons in May 2000 to 68 million tons in December 2001.
 - 2007: 100 million tons in May 2008 to 46 million tons in May 2009.

This report includes forward-looking statements that are based on current expectations about future events and are subject to uncertainties and factors relating to operations and the business environment, all of which are difficult to predict. Although WSD believes that the expectations reflected in its forward-looking statements are reasonable, they can be affected by inaccurate assumptions made or by known or unknown risks and uncertainties, including, among other things, changes in prices, shifts in demand, variations in supply, movements in international currency, developments in technology, actions by governments and/or other factors. ◆

Did You Know?

ArcelorMittal Signs Collaboration Agreement for Wind Farms, Electrolysis Plants

ArcelorMittal and German energy company RWE will work together on building and operating offshore wind farms and hydrogen electrolysis plants, the companies have announced. In a statement, the two said they've signed a memorandum of understanding, agreeing to work together to advance carbon-neutral steel production at ArcelorMittal's German mills.

To that end, RWE and ArcelorMittal said they are assessing options for joint participation in tenders for offshore wind farms in the North Sea. They also are looking together for areas where electrolysis plants can be built, starting with a 70-MW pilot plant that would come on-line in 2026.

"With the combination of RWE's expertise in offshore wind farms and electrolyzers, and ArcelorMittal as a guaranteed buyer of the green electricity and hydrogen, the two companies believe they have excellent opportunities for a viable partnership arrangement. RWE and ArcelorMittal intend to conclude long-term purchase agreements for both wind power and green hydrogen," the companies said.

Reiner Blaschek, ArcelorMittal Germany's chief executive, said the announcement is significant for several reasons.

"It will provide us with the renewable, affordable electricity and green hydrogen that we need to produce low-emissions steel while remaining competitive in a global market. It also offers vital security in the supply chain, by integrating the supply of energy and hydrogen into our business. We are looking forward to working with RWE on this highly important project and benefiting from their experience and know-how, as we continue to lead the industry in the decarbonization of steelmaking in Germany and beyond," he said.