

The steel industry's "industrial structure" is becoming more competitive

World Steel Dynamics managing partner Peter Marcus' interview with *Steel Scenario Journal*

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What changes in the global steel scenario do you expect to happen post-pandemic?

Peter Marcus (PM): WSD expects a strong steel market probably into early 2022 because of a significant global economic rebound that should be fairly extended since it is coming after such a severe setback. Many economic observers next year, we expect, will become more optimistic about the prospect for the non-Chinese economy in 2022. Steel buyers may wish to add to inventory. The Chinese economy will remain strong in 2021, reflecting its policymakers' economic promotion efforts — even though its merchandise exporters are now suffering a decline in market share on sales to large markets including the U.S., the EU and Japan.

Overcapacity of steel is a global challenge from which most countries are suffering. What steps do you think should be taken immediately to handle this critical issue?

PM: There's no coordinated global policy that can be instituted to drive down additions to steelmaking capacity and/or eliminate existing capacity. In fact, high returns on investments in steel plants that implement new technologies are attracting investment to the industry like "the moth to the flame." Only highly adverse steel industry conditions, perhaps occurring again in 2022, will dampen capacity. One capacity depressant would be ultralow prices for steel products on the world market, including a "death spiral" for hot-rolled band with the price declining below

Beyond 2022, given that Chinese steel demand will be declining, global steel output will stagnate. In 2030, and also probably in 2050, steel production globally may not be far from 2019 levels. While sizable gains in steel production in India and developing Asian countries will more than offset the drop in China, steel demand will be down in the industrialized countries (in good part due to reduced steel intensity, which is defined as steel consumption per point of GDP).

WSD has reduced its estimate of Indian steel production in 2030 to 175 million metric tons from 190 million metric tons. And, for 2050, we have reduced the figure to 300 million metric tons from 350 million metric tons.

the mid-cost mills' marginal cost. Overcapacity at some point will be huge in China; hence, the Chinese mills will be both rationalizing excess capacity and boosting exports. Steel's new "Age of Protectionism," which came into effect in the fall of 2016 in large part in response to immense price collapse on the world market in late 2015, is not a favorable development for steel export prices over the cycle because so many markets are now restricted or closed to foreign steel deliveries — which boosts the battle for market share in non-import-restricted markets.



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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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Price volatility has been a serious concern for the steel sector worldwide. Do you think there can be a solution to this problem?

PM: The answer is “no.” Besides the swings in the supply/demand balance for steel products, price volatility in the steelmakers’ raw materials will promote steel product price volatility. The only solution for the steel mills outside of China — and, it is only a partial cure — will be the establishment of liquid steel futures curves (trading on futures exchanges). High futures volume will

permit the steel mills, their suppliers and their customers to efficiently hedge the steel price risk. Price hedging will somewhat ameliorate the swing in steel mills’ profitability over the cycle; permit more fixed-price contracts to be implemented with less risk for both the buyer and seller; and reduce borrowing costs when financing inventory.

China currently produces about 57% of global steel production and, in 2019, China exported also about 15% of all steel exported globally. Given the present global scenario, do you think China’s dominance will change?

PM: China’s steel production by 2030 is projected to be down at least 50–100 million metric tons versus 2020. And, by 2050, it may be down 150+ million metric tons versus 2020. Chinese steel exports will probably be higher than in 2020, when they are unusually low because of

the booming steel market in China. China’s exports in the “normal” future year are forecast at 80–100 million metric tons versus only about 50 million metric tons in the current year.

Where do you see the global steel sector heading by 2030?

PM: The global steel industry, as always, is in an “Age of Management.” Well-positioned companies with proactive managers will take an array of steps to enhance their profitability. They will: (a) often be engaged in mergers and acquisitions transactions; (b) implement new technologies; (c) continuously cut cost and upgrade their product mix; and (d) improve relationships with key customers. Successful companies, in many cases, will have cajoled their government to provide steel trade protection.

By 2030, Baowu will likely be a 200+ million-metric-tons-per-year company versus about 110 million metric tons at present. And, probably at least one other Chinese company will have a capacity of at least 100 million metric tons per year. Hence, steel price competition in China over the steel cycle is forecast to be moderately less severe because the industry is more concentrated.

A game-changing development in the next three decades will be the growing need for steel mills to curb their CO₂ emissions, which is a huge challenge from a capital requirement and operating cost viewpoint for integrated steel mills. Yet, in recent months, a rising

number of steel mills have promised that by 2050, if not much sooner, that they will become “carbon neutral.”

The problem for mills seeking to achieve a zero-carbon status will be steel mills in other countries that have less restrictive government relations to limit CO₂ emissions. In fact, the odds are poor that there will be a “level playing field” in which governments the world over impose similar penalties for steel mills that are emitting unacceptable levels of CO₂. Might China and India enforce the same “draconian” measures to diminish CO₂ emissions that are being implemented in the European Union? We doubt it.

(Note: The EU is ruled in part by a Central Commission that strongly influences developments in the individual EU member countries. When the European Union was formed in March of 1957, individual country policymakers permitted significant decision-making power to pass to a bureaucratic group — the European Commission. Individual countries can prevent the implementation of new policies they don’t favor, even if other countries favor them, only if the new policy is not approved by the 705-member European Parliament.)

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