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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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The "Game of Spreads" — Part I

Unusually wide gaps between various steel mill prices and their raw materials cost

When the steel industry is in an extreme condition — i.e., when steel export prices are particularly high and/or especially low, it's to be expected that the spreads between the prices of various steel and steel-related products are "out of whack."

In this Strategic Insight, and each of the next two, WSD examines the history of three spreads over the steel cycle. Currently, given the steel industry boom and widened spreads, we are witnessing immense profitability for the many steel mills and their suppliers. However, for steel middleman companies — a category that includes steel traders and steel service centers — it's a time of high stress for two reasons:

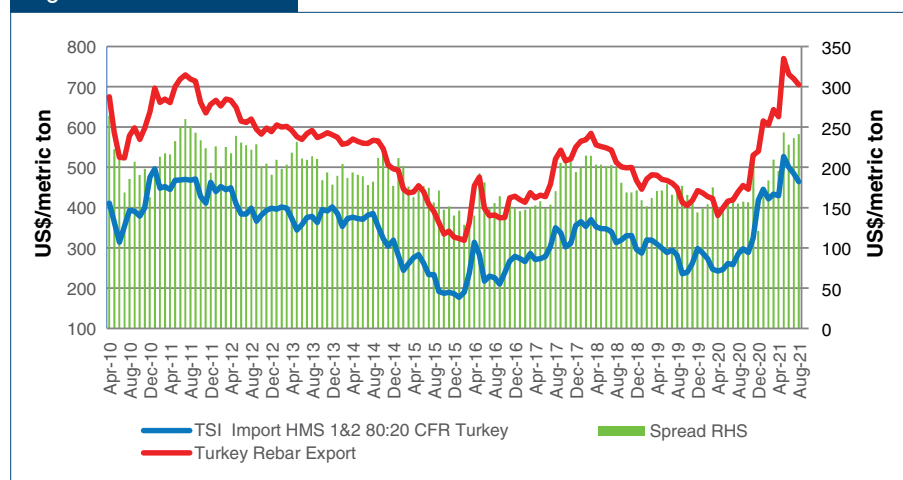
- Steel that's ordered at a fixed price, for delivery 8–10 weeks in the future, could be priced above the steel market price by the time it arrives.
- The current high prices in many cases are provoking a financial crisis because of the

huge extra financial expense to carry the steel in inventory. Given the extra cost to carry steel in inventory, and rising ocean freight costs when this development is applicable, most middleman companies have fully utilized their bank credit, which, in normal times, may be only 35–65% utilized. (Note: Steel mills seeking bank loans based on the value of their receivables as collateral are finding that these loans are more difficult to obtain. Banks, for good reasons, are far more risk averse at today's steel prices.)

Here are the following spreads:

1. Spread 1 (Fig. 1): Steel scrap delivered to Turkey versus the steel mills' export price. The price of 80:20 heavy melting steel scrap delivered to Turkey is currently about US\$464/metric ton, with the Turkish mills'

Figure 1



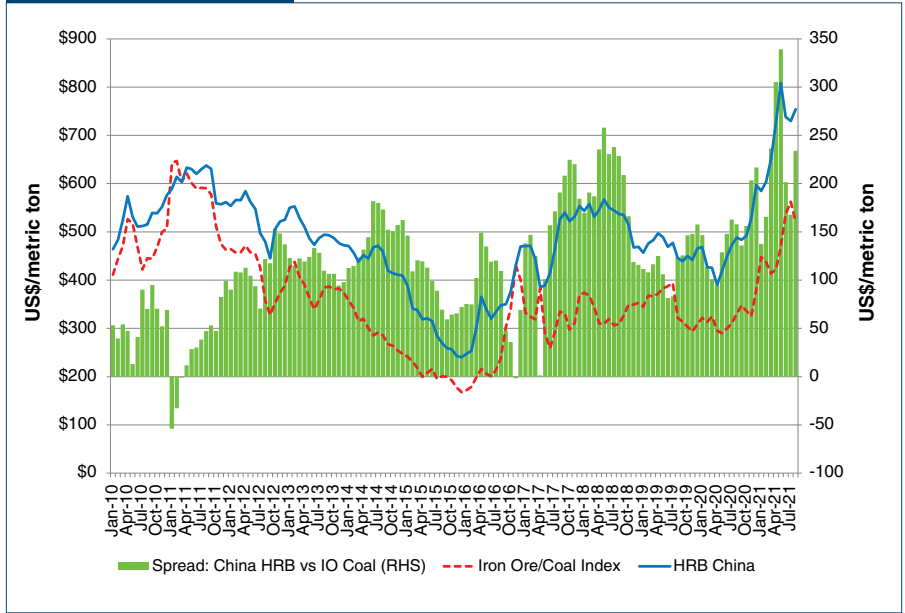
Turkey rebar export price vs. Turkey 80/20 scrap and spread. Sources: SBB and WSD estimates.

rebar export price at about US\$710/metric ton — or, an amazing US\$246/metric ton above the scrap cost. In general, an efficient Turkish electric arc furnace steelmaker can convert the steel scrap to rebar, including placing the rebar on the boat for export, for about US\$160/metric ton. Hence, Turkish rebar producers are enjoying huge profit margins.

- Spread 2 (Fig. 2): The Chinese hot-rolled band (HRB) domestic price and their iron ore and coking coal cost. Since 2010, the spread has often been about US\$100–US\$150/metric ton on average. It has since spiked to about US\$300+ per metric ton in recent months.
- Spread 3 (Fig. 3): The U.S. HRB price, FOB the steel mill, and the price of shredded steel scrap delivered to the steel mill. Over the years, the spread has been about US\$400/metric ton. It has surged to about US\$1,500/metric ton.

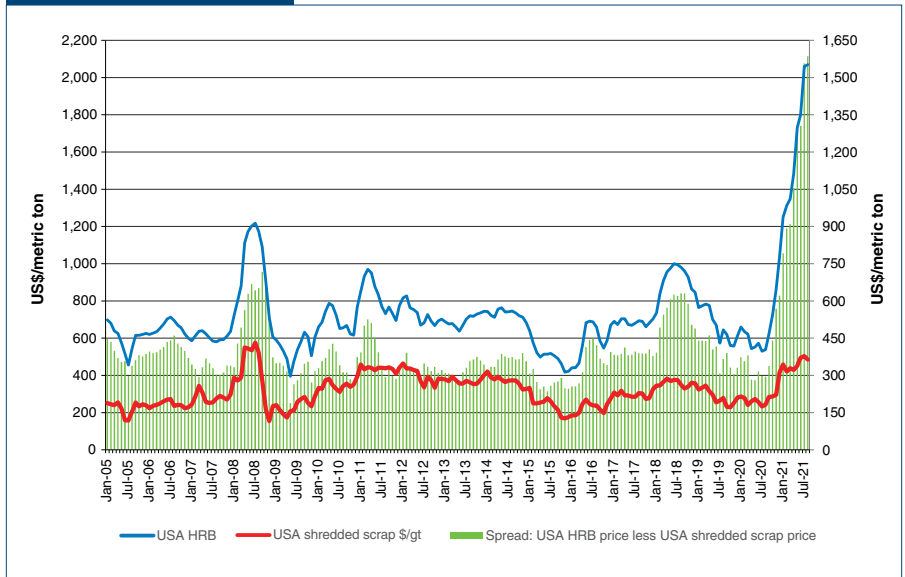
As of July 2021, The spread between the non-Chinese median-cost mills' HRB operating cost at US\$600/metric ton and the export price of HRB at US\$980/metric ton, FOB the port of export, is about US\$380/metric ton (prior to US\$15–25/metric ton to ship the product to the port of export). Looking back to 2010, the spread has often been about US\$50 to US\$100/metric ton.

Figure 2



China hot-rolled band (HRB) domestic price vs. iron coal/ore index and spread. Sources: WSD estimates, SteelBenchmarker™ and SBB.

Figure 3



U.S. HRB price vs. U.S. shredded scrap price. Sources: SteelBenchmarker, AMM and SBB.

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.