"Game Changers": Heighten Beneficial Advantage to the Steel Industry?

Game changers are currently benefiting the steel mills' profits

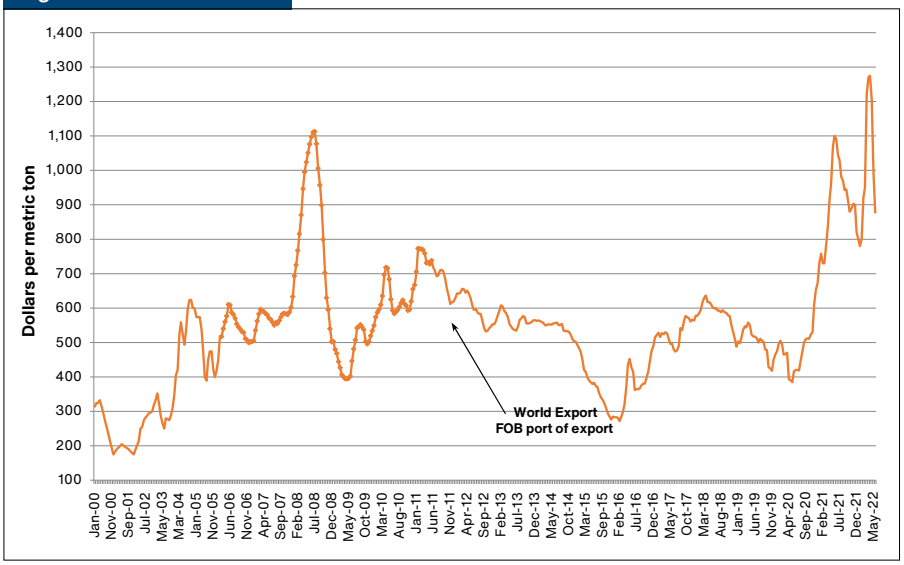
Steel mills' profit outlook for the next half-decade is now looking much better since the beginning of the century. Consider these items:

a. **Steel's "Age of Protectionism."** This age came into effect in the fall of 2016 in response to a massive surge in trade suits against the Chinese steel mills, and mills in other countries, following the immense and unprecedented decline of the hot-rolled band (HRB) export price on the world market in late 2015 and early 2016 (Fig. 1).

b. **Steel's "Age of Steel Production Constraints."** Now that policymakers in many countries are committed to sharply reducing CO_2 emissions — sharply reducing emissions by 2030 and almost eliminating them by 2050 — there's been a profound change for the better, from the steel mills' point of view, in policymakers' attitudes toward the steel industry. In China, steel production is limited in order to hold down CO_2 emissions. Outside of China, the owners of older integrated "legacy" plants, which may have an aggregated steelmaking capacity of about 300 million metric tons per year (roughly one-half of the total for non-Chinese integrated steel plants), are painfully aware that these units are poorly positioned to sharply eliminate CO_2 emissions — either via new process routes and/or the capturing, processing, and sequestering of the carbon they emit.

c. **Steel company merger and acquisition benefits.** In general, when companies merge, besides cost savings and some

Figure 1



World export hot-rolled band prices for 25 May 2022. WSD's PriceTrack data, January 2000–March 2006; SteelBenchmarker data begins April 2006.

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is a leading steel information service in Englewood Cliffs, N.J., USA.

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.

For more information, email wsd@worldsteeldynamics.com.

Authors

Philipp Englin (top row, left)
Chief Executive Officer, World Steel Dynamics, Englewood Cliffs, N.J., USA

Adam Green (top row, right)
Managing Director, World Steel Dynamics, Englewood Cliffs, N.J., USA

John Villa (bottom)
Senior Research and Operations Director, World Steel Dynamics, Englewood Cliffs, N.J., USA

marketing synergies, typically this development enhances their "pricing power."

- In Japan, the four major steelmakers are now reduced to two after M&A activity — i.e., Nippon Steel is the combination of Nippon Steel and Sumitomo Metal, and JFE is the combination of NKK and Kawasaki Steel. Hence, these mills have greater control of the downstream marketplace than before. Nippon Steel in 2020 also acquired Nisshin Steel, a leading stainless producer. Nippon Steel, which is a 40-million-metric-tons-per-year (mmtpy) producer, announced last January its intention, principally via M&A activity, to become a 100-mmtpy producer in acquiring G Steel and G J Steel in Thailand.
- In the United States, Cleveland-Cliffs acquired AK Steel in 2020, which enjoyed a high-end and automotive-oriented product mix. Then it purchased the U.S. plants of ArcelorMittal. Hence, the U.S. now has only two integrated steelmakers — United States Steel Corporation and Cleveland-Cliffs — which have a combined steelmaking capacity of about 50 million metric tons. These companies are the dominant, but not exclusive, suppliers of the highest grades of automotive sheet. Each has continued sizable research efforts underway to produce even higher-strength automotive steel for non-exposed applications. Although, notwithstanding their cost advantage, they may continue to suffer some further loss of market share in automotive sheet to the highly aggressive mini-mills — i.e., Nucor and Steel Dynamics — that have made major strides in producing higher-volume automotive sheet products.
- In China, Baowu is now a 150-mmtpy steel producer given its just-announced acquisition of 35-mmtpy Shandong Steel. Two years ago, it was only producing 60 million metric tons per year. Its goal is to become a 200-mmtpy producer. If two other Chinese steel companies increase in size via acquisitions to about 100 mmtpy, the concentration of HRB production in China will have risen sharply. Thus, even though China has about 75 wide hot strip mills that are vying for market share, the leading Chinese steel mills will enjoy more pricing power in their home market because these hot strip mills will be owned by fewer corporate entities.

d. The profound improvement in the steel mills' "pricing power." Steel buyers in the past 12 months have, temporarily, lost the neverending psychological war with the steel mills. Buyers at present can only play defense given the steel production constraints and increased steel industry concentration in a number of countries. In some regions, including U.S./Canada and the EU/Eastern Europe, the integrated steel mills seem reluctant to add significantly to steel production despite the high price — no doubt because it increases the possibility of steel product oversupply.

Some steel mills, it appears, are seeking to set their price as if they were oligopolists. In today's Age of Protectionism, the steel mills no longer fear a surge of foreign deliveries if they hold back production.

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