

## World Steel Dynamics (WSD)

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



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STEEL  
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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 Shipments Down by 5.4% in the First Six Months of 2013

U.S. steel shipments in the first six months of 2013 were down 5.4% versus the corresponding period in 2012. For the year, however, when taking into account the prospect for somewhat reduced imports, a decline in exports and no major steel user inventory change, WSD estimates that domestic shipments may be flat at about 96 million metric tons. Currently, the weighted index of activity for 15 steel-consuming industries is up only about 2% year-on-year — versus a year-on-year gain in the spring of 2012 of about 13%.

The situation for the U.S. economy and its steel industry appears to be better than is the case for many other countries. In fact, this relatively improved prospect may be reflected in the soaring U.S. stock market. The Dow Jones Industrial

Index began 2013 at 13,412 and was priced 12.1% higher, at 15,030, at the time of this writing.

A rising number of new manufacturing factories are under construction. Overall, non-residential construction activity has been steady at about 10% of gross domestic product.

The domestic oil country tubular goods (OCTG) sector appears to have quite favorable volume prospects, although prices are down from the 2008 peak, especially given that oil and gas well drilling — via the use of hydraulic fracturing to extract oil and gas from shale — is forecast to continue to rise in the years ahead. Foreign deliveries will likely be somewhat restrained by anti-dumping and countervailing duty suits.

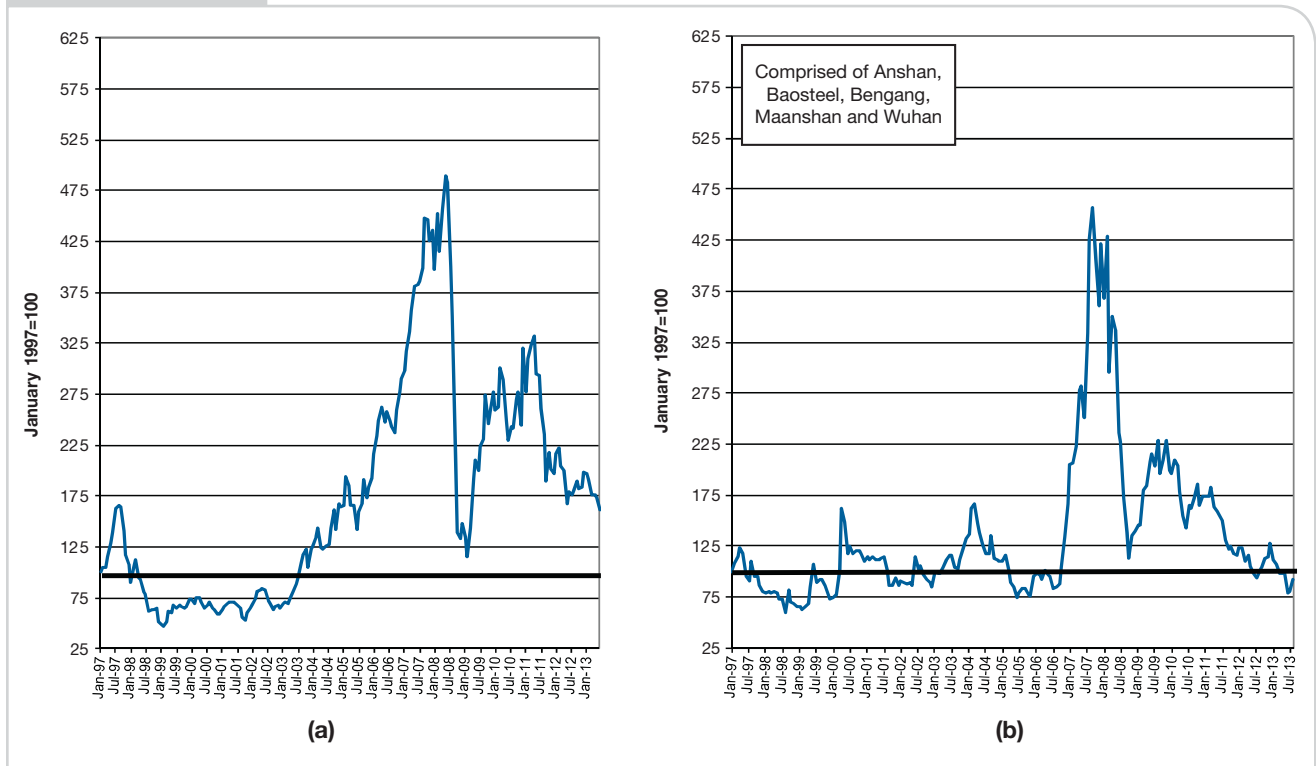
## Steel Companies and Suppliers Underperform the Stock Market

The common stocks of steel companies and their raw material suppliers have underperformed the stock market this year (Figure 1). For the first 26 weeks of the year (Table 1 on page 24), the composite index was down 18% while the S&P 500 common stock index rose 7%.

The owners of steel and steel-makers' raw material common equities have been faced with a handful of problems:

- Most of the companies' earnings have come down.
- Some of the steel companies' assets have been put up for sale at bargain-basement prices (which raises questions about the true value of those assets not for sale).
- Banks and other sources of lending have often not been willing to make funds available

Figure 1



Global Steel Finance Group Index (a) and WSD's China Steel Stock Index (b). Sources: Bloomberg and WSD analysis.

at attractive price levels to steel companies and steel middleman companies.

- It has been clear that fixed asset investment spending outside of China has been lagging, which is bad for steel demand on a one- to two-year basis.
- Oversupply for steel in China has probably become the normal condition; if so, the Chinese steel mills will be taking more aggressive actions to boost export sales over the cycle.

The Global Steel Finance Stock Index has been declining since mid-2011, falling 39% from a peak index figure of 293 to 178 at the time of this writing. During this period, the S&P 500 Index has risen 23% from 168 to 208. Virtually all of the steel-related sub-sectors have performed poorly, including those for steel companies

in the Far East, Brazil, Europe, Russia, Japan (although recovered somewhat recently) and the U.S.

The Steel Middleman Index has performed less poorly than those for the iron ore companies and coking coal companies. Its current price is 224, which is down from July 2011.

The Iron Ore Stock Index is down from a 2011 high of 885 to 462 at present; although it is still above the index figure of about 100 from 1997 to 2003.

The Coking Coal Producer Index is down from 900 to 101, or about where it was in the period from 1997 to 2004.

The Chinese Steel Mill Index is low from a peak of 457 in September 2007, to 92 currently. ♦

Table 1

Components of WSD Index of Steel Activity (2004 = 100) as of July 2013 and July 2012

Indicator	Index figure		Weighted index		y-o-y % chg	% share of index		y-o-y first 7 months % chg
	July 2013	July 2012	July 2013	July 2012		July 2012	July 2013	
<b>CES: Short-Lead-Time Capital Goods</b>								
Oil and Gas Well Drilling	127.4	139.2	3.82	4.18	(8.5)	3.0	4.2	
Railroad Rail and Miscellaneous	120.5	114.8	3.62	3.45	4.9	3.0	3.9	
Business Equipment	154.9	152.7	7.75	7.63	1.5	5.0	8.4	
Trucks (Not Seas. Adj.)	77.1	62.2	5.39	4.35	23.9	7.0	5.9	
Fabricated Metals	115.1	112.5	13.81	13.50	2.3	12.0	15.0	
Non-Electrical Machinery	109.4	108.0	13.13	12.96	1.3	12.0	14.3	
<b>Total</b>			<b>47.52</b>	<b>46.07</b>	<b>3.1</b>	<b>42.0</b>	<b>51.7</b>	<b>(0.4)</b>
<b>CEL: Long-Lead-Time Capital Goods</b>								
Ships and Boats Construction	91.2	78.7	0.91	0.79	15.9	1.0	1.0	
Electrical Equipment	119.4	119.1	5.97	5.96	0.2	5.0	6.5	
Non-Residential Construction (Not Seas. Adj.)	68.8	66.6	15.81	15.32	3.2	23.0	17.2	
<b>Total</b>			<b>22.69</b>	<b>22.07</b>	<b>2.8</b>	<b>29.0</b>	<b>24.7</b>	<b>3.0</b>
<b>CDIDX: Consumer Goods</b>								
Residential Housing (Not Seas. Adj.)	53.9	45.2	1.62	1.36	19.2	3.0	1.8	
Household Appliance	85.3	78.8	3.41	3.15	8.2	4.0	3.7	
Automobiles (Not Seas. Adj.)	71.1	67.6	11.38	10.82	5.2	16.0	12.4	
<b>Total</b>			<b>16.40</b>	<b>15.33</b>	<b>7.0</b>	<b>23.0</b>	<b>17.8</b>	<b>6.8</b>
<b>MIDX: Miscellaneous Industries</b>								
Defense and Space Equipment	127.3	128.0	1.27	1.28	(0.5)	1.0	1.4	
Farm Equipment	92.1	81.2	1.84	1.62	13.5	2.0	2.0	
Metal Cans	75.4	86.0	2.26	2.58	(12.3)	3.0	2.5	
<b>Total</b>			<b>5.38</b>	<b>5.48</b>	<b>(1.9)</b>	<b>6.0</b>	<b>5.8</b>	<b>(0.1)</b>
<b>Grand Total</b>			<b>91.99</b>	<b>88.95</b>	<b>3.4</b>	<b>100.0</b>	<b>100.0</b>	<b>1.8</b>