WORLD STEEL DYNAMICS

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.

Authors

Peter Marcus (left)
managing partner,
World Steel Dynamics
pmarcus@worldsteeldynamics.com
+1.201.503.0902

John Villa (right)
research strategist,
World Steel Dynamics
jvilla@worldsteeldynamics.com
+1.201.503.0911

The power of the invisible hand

So far in 2016, there's been a significant rally of hot rolled band (HRB) prices on the world market and most home-country markets. From the low point in December 2015, hot rolled band is up about US$60 to US$100.

The price rebound occurred in part because steel buyers were ending their inventory liquidations. Also, steel buyers sensed that the price had little downside risk because it was so depressed. In December 2015, WSD's World Cost Curve analysis was showing that the median-cost Chinese mill's ex-works hot rolled band price was US$82/metric ton below the marginal cost while the median-cost non-Chinese mill was US$45/metric ton below.

The key factor, however, driving prices up was the "power of the invisible hand" — i.e., price allocates resource. The prices were so low in December 2015 that many steel companies the world over were in a "financial suicide" condition. Steel production cutbacks and announcements of plant closures began to accelerate. Subsequently, steel buyers began to recognize that steel prices had little further to fall.

Iranian steel: Steel industry's rising star!

Based on a recent one-week trip to Iran, WSD now believes that its steel industry will become one of the steel industry's few "rising stars."

Unless economic sanctions are reimposed on the country, it appears that steel demand in the country is likely to grow 6–8% per annum, compounded, from the current level of about 17 million metric tons on a crude steel equivalent basis.

The industry's leading company, Mobarakeh Steel, has a hot rolled band operating cost of only about US$290/metric ton, including US$30/metric ton for sales and administration costs. Mobarakeh accounts for about 60% of steel sheet deliveries in the country and is to be positioned to further strengthen its stature with customers. Its expansion projects are relatively low-cost because they are largely "brownfield" projects and the investment cost in Iran to build a steel plant and steel rolling mill equipment may be 20% per metric ton less than the figure in the West (but not in China) for comparable facilities.

Positives for Iranian steel include:

- Likely sizable steel demand growth the next decade — perhaps 8% per annum.
- Ultra-low prices for natural gas (about US$1.35 per million BTU) and electricity (less than 2 cents per kWh).
- Iron ore mines that are cost-competitive — with a per-metric-ton cost for concentrate delivered to steel plants with their own iron ore mines at only about US$20/metric ton, and the official list price at about US$45/metric ton.
- Trained workforce.
- Proactive management.
- Low operating costs — i.e., HRB at less than US$300/metric ton for Mobarakeh Steel.

Currently, steel demand is quite weak in Iran, reflecting the decline in oil prices and, therefore, reduced government revenues. Also, exports of iron ore to China have almost been eliminated versus the peak rate a few years ago of about 30 million metric tons per annum.

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. ✦