

Flat-rolled steel buyers brace for further hikes

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PITTSBURGH -- The fundamentals of rising input costs and improving steel demand have sent North American carbon flat-rolled steel prices up more than \$120 per ton, or 20 percent, since the start of the year, and buyer sources say they're preparing for more of the same.

Hot-rolled sheet is currently selling for close to \$700 per ton on the spot market. Cold-rolled sheet and hot-dip galvanized sheet have moved up in kind with hot-rolled tags, and cold-rolled product is now selling in the neighborhood of \$810 to \$820 per ton on the spot market and hot-dip galvanized is around \$890 per ton, that price comprising a base price plus a G-90 coating weight on 1-millimeter-thick material.

"We're hearing that scrap is going to be up another \$50 (per ton) in April," one service center source in the South said. "You know what that means: you're looking at steel prices going up again. It's not a matter of if, but when and by how much."

Analyst Tony Rizzuto, managing director of New York investment bank Dahlman Rose & Co., said in a research note Tuesday that the fundamentals point to the need for service centers to restock lean inventories at a time when input costs are continuing to rise.

Improved demand is seen in rising steel mill utilization rates, which averaged 71.7 percent in the week ended March 27 compared with 71.1 percent the previous week, according to the latest data from the American Iron and Steel Institute, Washington, with quarter-to-date utilization averaging 67.6 percent vs. 62.8 percent in the previous quarter. Most of that improvement springs from improving flat-rolled demand as non-residential construction markets remain weak, tempering demand for long products.

"We anticipate that utilization will continue to trend higher over the near term as U.S. Steel (Corp.)'s Gary, Ind., blast furnace continues to ramp up production and (OAO) Severstal has a blast furnace in Warren, Ohio, which is also ramping up," Rizzuto said.

At the same time, he noted that input costs are rising, citing an announcement Tuesday by BHP Billiton that it had reached an agreement with a significant number of Asian steel mills to move toward shorter-term iron ore contract pricing. BHP also indicated that the majority of its iron ore sales volumes will be priced under this shorter-term contract pricing.

"BHP has not announced how much the company will charge for each ton of iron ore, but we would view the transition toward more frequent price resets as being a major victory for the diversified miners," Rizzuto wrote.

Likewise, Japanese steelmakers Nippon Steel Corp. and Sumitomo Metal Industries Ltd. have settled quarterly iron ore prices with Brazil's Vale SA at around \$100 to \$110 per tonne, up about 90 percent. South Korea's Posco Ltd. reportedly has agreed to the same price increase, according to Bloomberg.

"We believe that higher iron ore prices are bullish for domestic steelmakers and ArcelorMittal due to the fact that these lower-cost players are either more integrated than their global peers-or have access to local ore bodies or scrap at a lower cost-so that the higher global iron ore prices go, the more competitive advantage the domestic players have," Michelle Applebaum, analyst at Steel Market Intelligence, Chicago, said. "It is unsurprising to us that we are seeing Japanese and Korean steel companies settle ahead of China, as this has been the pattern the past few years. We also anticipate that Chinese iron ore prices will settle at least as high, if not higher than, other Asian players."

Applebaum believes China's main assertion-that as the largest buyer of iron ore it should be paying a lower price-is flawed. "In our view, China should be looking at their market position in the opposite way-that as the largest buyer, they have to pay a premium to get 'size' tonnage," she said in a research note. "We also believe that due to the increased risk of doing business in China-clearly displayed in both the Rio (Tinto) and Google situations-should be reflected in a premium price."

Cost-push steel price increases continued to drive steel stocks higher in the past week, Mark Liinamaa, analyst at Morgan Stanley, New York, said in a research note. "Various reports that U.S. scrap prices could rise in April and headlines that Vale could raise iron ore prices by 114 percent (vs. the 90-percent hike) are fueling bullish sentiment," he said. "With service center inventories still low, conditions are aligning for a spring steel price spike."

Buyer sources are preparing for such a spike in the near term. "You can only guess where it will end," one Midwest service center source said. **"My guess is that (hot-rolled steel) will get up over \$800 (in May). I don't see anything stopping it from getting at least that high, and that's probably conservative."**