

Lofty steel prices could keep climbing

By Steve James, Reuters

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Steel bars on a production line in Dusseldorf. (Ina Fassbender/Reuters)

NEW YORK: Steel prices have soared almost 50 percent this year and could rise even higher as the cost of raw materials keeps climbing and global demand shows little sign of abating.

Steel makers have been steadily raising prices to benefit from a strong market after years of decline in the industry and also to pass along to customers the spiraling costs of iron ore and scrap metal, two major components for making steel.

Others have regularly added a surcharge to shipments to cover the extra costs of making steel, which is in huge demand in China, India and other countries building up their economies.

"We have not peaked," Michelle Applebaum, an independent steel industry analyst in Chicago, said Friday. "Raw material prices will continue to rise and so will steel prices."

Michael Locker, who runs the steel industry consulting firm Locker Associates in New York, said that steel prices were unlikely to ease off much in the near term.

"Prices will peak soon, and then drop some," Locker said, but he added that even after the decline, prices would still be about double what they were last year.

Manufacturers who buy steel are feeling the pinch, but often have no recourse. Toyota Motor just agreed to pay Nippon Steel and other Japanese steel makers 30 percent more for sheet steel.

Steel makers have already agreed to pay 65 percent more for iron ore from Brazil and face a possible 85 percent increase this year for Australian iron ore.

Those that use scrap instead are also paying record prices. According to trade reports, auto factory scrap now sells for \$690 to \$710 a ton, about 70 percent higher than in March.

According to the industry newsletter World Steel Dynamics, the price of U.S. hot-rolled band steel rose 5.2 percent to \$1,154 a ton in the past two weeks, while the world export price rose 2.9 percent to \$1,024 a ton and the Western European price rose 2.1 percent to \$1,088 a ton.

ArcelorMittal, the world's largest maker of steel, just raised its price in Europe by \$186 a ton, or about 20 percent.

AK Steel Holding, which said its average first-quarter selling price was \$1,135 a ton, last month raised spot market prices for carbon steel products \$150 a ton.

The increase, it said, was in response to greater demand as well as "the need to recover unprecedented increases in steel making inputs." AK also advised customers of a \$640-a-ton surcharge to be added to invoices for electrical steel products shipped in June.

The U.S. Steel chairman and chief executive, John Surma, told Wall Street analysts last month that flat-rolled steel prices in the second quarter could be as much as \$300 a ton higher - almost 50 percent above the average \$646 first-quarter price. He did not rule out surcharges to cover raw material costs.

A company spokesman, John Armstrong, said that "U.S. Steel only discusses pricing with its customers, but we endeavor to get market prices for our products."

Although most analysts surveyed by Reuters said they anticipated prices rising for a while, Peter Marcus of World Steel Dynamics said they might have topped out. He said prices might slip because some users were unable to pass increases along to customers.

Marcus also mentioned that more banks were refusing to lend to finance high-priced steel inventories and that demand had dropped in Western countries "because consumer spending on steel-intensive goods is crowded out by rising outlays on fuels, food and other staples."

Locker, the industry consultant, said that rising steel prices have made U.S. steel makers more cost-competitive, while imports of less expensive foreign steel, which U.S. makers have complained about for years, were no longer part of the equation because prices have risen globally.

Applebaum, the industry analyst, said that although ArcelorMittal raised U.S. prices \$40 to \$60 a ton for June and July, it guaranteed the same price for August after discussions with customers.

"The message from the steel buyers was: 'We understand what's happening with raw material costs, but the volatility and the speed with which it's happening is killing us,'" she said.