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The ducks are lining up for solid results in long products

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By Jim Leonard

PITTSBURGH -- Manufacturers of carbon steel long products enjoyed a record-setting 2004, a year marked by a rebounding U.S. economy, a weaker dollar and strong demand from China.

The strong demand and vibrant order books that were the order of the day throughout the year provided producers with record earnings. Can that success be duplicated in 2005? Maybe, say producers and analysts alike. While 2005 will likely be another strong year for long products-wire rod, merchant bars and rebar, among others-some say it's unlikely to be quite as strong as 2004.

"I believe long products are going to do relatively well in 2005. The markets they serve-construction, automotive and transportation-are good," said Michael D. Locker, steel analyst, consultant and president of Locker & Associates Inc., New York. "I believe profitability and margins will be as good in 2005 as in 2004. I don't see any new capacity coming on to threaten anyone in wire rod. The weak U.S. dollar and China are keeping imports at a reasonable level.

"There could be some panic buying where supply is not sufficient, but I believe that is less likely in 2005 than last year. But it could happen. This market is like a rubber band, and tightly wound. The slightest changes could have a pretty profound impact. A sudden shortage or surge in scrap prices could cause panic buying. But there's less chance of that happening this year. Pressures have come off."

While other analysts share Locker's optimism, they tempered their predictions with warnings of the potential for unforeseen developments.

"Our economist is pretty optimistic regarding commercial construction and that the federal highway bill the government is working on will be better than what they are currently working under," said steel industry analyst Charles A. Bradford, president of New York-based Bradford Research Inc. "Pricing will be scrap-plus. If scrap goes up, then the price will go up to match it-plus some. And I don't see panic buying by customers in 2005 like it occurred last year."

Bradford noted that there are a number of potential market factors that remain unclear which could ultimately have serious positive and negative implications for the long-products markets.

"I have a bit of a concern if the economy doesn't do well or the (federal) highway bill (which could mean significant money for road and bridge-building projects) is slashed. Those could be issues. And the Chinese are exporting a fair bit of flat rolled and rebar. In November, (China was) a net exporter of steel mill products. Is that just temporary? Could be," Bradford said. "Also, what happens with South Asia and the recent devastation there with the tsunami? That's a big market for China and it could become a larger market as people try to rebuild. We just don't know."

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Michelle Applebaum, managing director of Michelle Applebaum Research, Chicago, expects 2005 to be another solid year for long products.

"Pricing (which rose sharply across the board in 2004) has done this well without demand," she said. "We might see some impact when demand comes back. But overall, I expect a good year. I believe the market will be more stable, less volatile and you won't see panic buying. And having Gerdau Ameristeel (Corp.) at the helm is a positive thing. They are typically one of the best marketers."

Gerdau Ameristeel, based in Tampa, Fla., late last year purchased the assets of North Star Steel Co. from Cargill Inc., Minneapolis, making it one of the largest producers of steel long products in the world.

Opinions are split on the strength of the market for wire rod in 2005. Some market observers predict a year rivaling the strength of 2004 while others are less bullish and fear some price erosion is on the way.

"Public construction activities will pick up," a wire rod producer in the Southeast said. "The wild card will be how much imported wire rod is available and how market conditions will be in China. All that being said, we have adapted to different business environments. We believe pricing is strong for 2005 and we are headed for another good market."

A Northeast wire rod producer holds a somewhat different view. "I think you will see a little price suffering in wire rod," he said. "Volumes may be down and I believe customers are going to be hesitant in taking materials in the first quarter. Producers are maintaining a degree of discipline. But there won't be the slashing of prices. Consumers recognize that inventories need to get back down to reasonable levels."

Service centers currently are heavily stocked and aren't rushing to place orders, he explained, noting that things are a little calmer for the first quarter than he'd like. "Our order book is a little soft right now, but I believe orders will pick up later in the first quarter and 2005 will still be a solid year. If the business plan we've established comes to fruition, it will still be the second-best year our company has ever had (behind only 2004)."

He added that while imports are high, he anticipates they will drop off a bit. Other contributing factors will be the weakening dollar and continued consolidation in the industry.

Strength is expected to continue in the markets for merchant and rebar products based largely on what many in the industry believe will be a solid year by the U.S. construction sector. "We believe the market will be as strong in 2005 as it was in 2004," a source at a Southeast merchant products manufacturer said. "There is no panic buying by customers, as was the case in 2004. Fortunately, that is behind us."

The Southeast merchant source said there could be intermittent periods of market tightness as the market improves in late winter or early spring, but noted that his company is preparing for such times by trying to improve its overall stock availability.

While pricing is expected to be more stable, raw materials costs continue to move rapidly and would impact the market throughout the year, he said. "Pricing will be more stable in 2005, but could be influenced by raw materials costs. We are seeing raw materials and other outside costs go up dramatically. There are going to be very few outside costs that are going to be traveling sideways or down."

A rebar producer in the Southwest agreed with Bradford's assessment of the highway bill's impact on markets for rebar products.

"Now that the holidays are over, I believe (the rebar market is) going to take off due to pent-up demand. If the federal highway bill is signed, that's going to kick loose a lot of work worth billions of dollars

for rebar producers around the country. We hear imported rebar will drop during the first quarter, which is not a surprise. And even though the economy is still recovering, we believe rebar will be very good this year."

As for pricing, he said it's difficult to say if it will remain at historically high levels because of the volatile raw materials situation, adding that he believes margins will remain decent and prices won't change to any severe degree.

However, raw materials prices are at high levels right now and are expected to remain so at least through the first half of 2005. The panic buying that at times hurt the market in 2004 is unlikely to occur at similar levels in 2005, he said. "Unless the market severely tightens or something unknown occurs, the supply and demand situation are in better balance this year than last year, at least for the next few months. Right now, rebar inventories are pretty good. I know we aren't cutting back at the mill and we are building inventory. But there could be a crunch in the springtime, with tight supply and customers clamoring for materials. We'll just have to wait and see."

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