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How high can steel prices go?

Steel prices could rise even higher after soaring almost 50 percent this year, as raw material costs continue to climb and global demand shows little sign of abating.

Steelmakers have steadily been raising prices, partly to benefit from a strong market after years of decline in the industry, and also to pass on spiraling costs of iron ore and scrap metal, two major raw materials for 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 nations building up their economies.

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

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

"Prices will peak soon, and then drop some. Currently we are seeing \$1,100 to \$1,150 (per ton) for hot-rolled steel and it may drop to \$800 or \$900. But I don't see prices going back to the \$400 we had last year," he said.

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

With iron ore price rises of 65 percent agreed upon with Brazilian ore producers and a possible 85 percent rise this year for Australian iron ore, steelmakers are over a barrel.

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

UP AND UP

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

ArcelorMittal, the world's largest steelmaker, just raised its price in Europe by \$186 per tonne, or about 20 percent.

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

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

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

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

Though most analysts surveyed by Reuters saw prices rising for a while, Peter Marcus of World Steel Dynamics said they may have topped out.

He said prices might slip because some users are unable to pass through steel price rises. He also cited more banks refusing to lend to finance high-priced steel inventories and a drop in demand in Western countries "because consumer spending on steel-intensive goods is crowded out by rising outlays on fuels, food and other staples."

Locker said rising steel prices have made U.S. steelmakers more cost-competitive, while imports of cheaper foreign steel, which U.S. steelmakers have complained about for years, were no longer part of the equation since prices have risen globally.

Applebaum said although ArcelorMittal raised U.S. prices \$40 to \$60 per 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.'" (Editing by Braden Reddall)

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