

China opening steel futures mart, US cool to idea

By **Steve James**

Date: March 26, 2009

NEW YORK (Reuters) - The opening of another steel futures market, this one in China, is not enough to convince U.S. manufacturers to embrace public trading in their products.

'Many of our members do not support it,' Nancy Gravett, spokeswoman of the American Iron and Steel Institute grouping major steel producers, said on Thursday. 'They see it as benefiting traders and not adding value to the producer/customers relationship,' she told Reuters in response to a question about the planned opening on Friday of a steel futures market in Shanghai.

China, the world's top steel producer and consumer, is joining four global exchanges offering steel derivatives to set a benchmark price for the 1.3 billion-tonne-a-year industry.

On Friday, the Shanghai Futures Exchange will start formal trade of two construction steel products -- reinforcing steel bar and wire rod. Already, steel futures are traded on the London Metal Exchange, the Dubai Gold and Commodities Exchange, the Chicago Mercantile Exchange and India's National Commodity & Derivatives Exchange.

But since the Chicago exchange started trading in hot-rolled coil steel futures last October, American markets have been cool to the idea.

Dan DiMicco, chief executive of Nucor Inc, said at an AISI conference last year: 'We do not see steel futures as a good thing. We're not big fans of an idea that puts anybody between ourselves and our customers and tries to make money off both of us, and does it in a way that isn't necessarily sound and ethical all the time.'

Keith Busse, CEO of Steel Dynamics, agreed. 'I think it has to add value, and I don't know that it has done so.' Busse said 'Steel is not quite as generic a commodity as some think. I don't think it's going to be supported physically -- and if it isn't, I doubt that it will be a success,' Busse told the same conference.

ArcelorMittal USA said in a statement on Thursday: 'We do not believe that financial institutions speculating on steel prices will bring any benefit to the long term sustainability of our industry.'

But many analysts and steel industry observers support the idea of futures trading. 'It makes sense, especially in view of the volatility of steel prices in the past year, where we have seen some products double in price and others halve,' said analyst Charles Bradford, of Bradford Research.

'Customers were left holding the bag with high-cost inventories,' he said. 'If there was trading, they could have hedged. If you are a company using steel, you need to know what the costs are, but steel companies won't give that visibility.' He said manufacturers tend to regard pricing as proprietary information. 'But the fallacy of their argument is that customers know what they are charging.

'We have seen the downside (of prices) without trading. But if there had been trading they would have blamed trading. Their argument is moot, they really should trade,' Bradford said.

Michael Locker, of Locker Associates, a steel industry consultant, said futures trading is inevitable. 'There is going to be a market in steel trading, the question is whether it will be supported by steel manufacturers.

'There will be a resistance level,' he said. 'If trading grows to 5-10 percent of all purchases, then it will have an impact on pricing. Theoretically, it should dampen volatility, but there has been volatility in other commodities where there was trading,' said Locker.

(Reporting by Steve James; Additional reporting by Alfred Cang in Shanghai; Editing by Gary Hill) (steve.james@thomsonreuters.com; 646-223-6013; Messaging: steve.james.reuters.com@reuters.net)

COPYRIGHT

Copyright Thomson Reuters 2009. All rights reserved.