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Steel | North America

Views From the Trenches #24: Pre-Buy Underpinned Price Hikes, but Outlook Cloudy on De-Stock & Uncertainty

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STEEL

North America

Industry View **In-Line**

The view of the steel executive at our lunch: Steel prices have peaked and should decrease as customers work through excess inventory accumulated ahead of the tariff announcements. End-demand remains soft and buyers are looking for clarity on the policy front before making large-scale commitments.

Morgan Stanley's Americas Metals & Mining team hosted a lunch with a steel industry service center executive to discuss trends in the US steel industry. Below are highlights from the discussion.

Expectations of higher tariffs led to a large-scale pre-buy & boosted price hikes… The executive said that steel buyers took advantage of cheap product in December 2024 and January 2025 by purchasing large spot orders of metal in advance of any potential policy change. Many buyers — especially those that work for service centers — look to opportunistically buy in "batches" throughout the year at advantageous steel prices. The speaker added that this pre-buy activity, which is in-line with commentary we've heard from steel mills directly, pulled forward much of the 1H25 demand into the early months of the year, yielding rapidly rising benchmark prices and extended lead times (here). For the speaker, the result was a warehouse full of cheap product, with inventory levels as high as 5 months in December 2025, and now down to 3 months on average.

…but a soft demand outlook… The speaker noted that end markets across the board are rattled by the recent policy volatility, with some customers believing recent executive orders on trade may cause supply chains to implode. The result, from his experience, is very little consumer confidence and an outsized amount of consumer anxiety, as witnessed by Americans' rushing off to buy cars ahead of the auto-specific tariff. He highlighted that while 1Q25 steel shipments were very strong, with help from a 4Q24 hangover, he expects that trend will decline throughout the year as sentiment worsens. Further, all the pre-buying late last year/early this year resulted in needs for April and May being already covered and left a demand void to support existing price levels. The expert noted that he has seen very large buys in OCTG as the oil industry looks for lower regulation.

… and a potential surge in steel imports… The service center executive also offered insight into recent import trends, saying that he has "never had as many foreign offers as he does now in 40 years." He added that the heightened interest from foreign sellers stems from the new tariffs penalizing countries previously exempt or on a quota system, while leaving others untouched. Historically, the expert would look for ~$100/st savings from foreign material to incentivize him away from domestically sourced steel, but today would look for a little more buffer — ~$130/st — given the policy uncertainty. HRC import spreads widened to $164/st in March (here). The buyer mentioned that he presently could not buy any domestically produced material for delivery during the summer months in the mid-$700s, but could certainly get it offshore, for example, from Vietnam. He thinks that tariff exemptions will be made in the coming months and believes the quota system, which was also unwound, was effective in balancing steel imports.

...underpin a near-term price reduction. The steel expert believes that, with the exception of a "serious event" such as a strike or major weather disruption, steel prices will recede as the industry de-stocks. Specifically, domestic steel mills will need to bring their prices down to compete with foreign material in the near future, especially given the weak demand outlook. He believes that prices will recede to levels around $800/st sometime later this year, but stay higher than the low of ~$700/st we saw in 4Q24. He also added some color on scrap costs and margins stating that ~$220/st was a standard conversion costs for mini-mills, meaning that if you take scrap costs add the conversion cost, you get a good sense of the break-even price for an EAF.

An update on BR2. Lastly, the speaker provided an update on his experience purchasing metal from X's BR2. He noted the new mill is operating well, and while the products currently being offered are still narrow in scope (i.e., standard pattern widths), they are expanding on schedule. He believes the plant is focusing on enhancing its electrical capabilities first as those products offer a more attractive margin at present. Further, while not having the capability yet, he fully expects the plant eventually to be able to produce auto-grade steel.

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Stock Rating Category	Count	% of Total	Count	% of Total IBC	% of Rating Category	Count	% of Total Other MISC
Overweight/Buy	1516	40%	387	46%	26%	694	40%
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Not-Rated/Hold	3	0%	0	0%	0%	0	0%
Underweight/Sell	598	16%	81	10%	14%	227	13%
Total	3,799		848			1726	

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Cleveland-Cliffs Inc (CLF.N)	E (02/15/2024)	US$7.95
Commercial Metals Company (CMC.N)	E (12/19/2024)	US$43.80
Nucor Corp (NUE.N)	O (08/14/2024)	US$115.50
Steel Dynamics Inc (STLD.O)	O (03/07/2025)	US$122.65
US Steel (X.N)	E (02/03/2025)	US$45.14

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INDUSTRY COVERAGE: Latin America Steel

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CSN (CSNA3.SA)		R$8.41
Gerdau S.A. (GGBR4.SA)	O (03/13/2024)	R$15.00
Ternium S.A. (TX.N)	O (03/05/2023)	US$26.42
Usiminas (USIM5.SA)	O (10/09/2024)	R$5.47

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