Q&A: Flack Metals on steel futures, changing industry

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US service center Flack Global Metals founder and chief executive Jeremy Flack has long been an advocate for the nascent steel futures market and for the industry to modernize how it approaches buying and selling steel. Flack spoke with Argus about the state of the US steel market amid a relentless rally in prices driven by post-pandemic demand and limited supply. Edited highlights follow.

More than halfway through the second quarter, how are things going with your business?

We have no steel. We have about one month of inventory on hand. There's nothing to sell, again, we have no flexibility, really. Our customers and we have been baffled. We are running into situations with our customers where their business isn't up 10pc, it's not up 20pc — it's up 100pc, in some cases 300pc. Demand is extraordinary against an obviously limited supply backdrop. The demand seems to be relentless.

We see this market as a step change market. For a variety of reasons we're not going back to \$600/short ton (st), we're probably not going back to \$700/st or \$800/st. We may touch it and bounce off of it every now and then.

Where do you think the futures market has gone during this period and what has its role been? How has Flack used futures?

We've used it to protect our customers. Our customers have saved $540/st off of what they would have paid before they went to market. So we fixed customers for this year … and we're now advocating them to do the same thing for next year.
Right now you're at $1,600/st going up. What we're saying is, is $1,100/st going to be cheaper than the spot price? I cannot tell you that. Nobody knows that. The forward curve does not predict. What it does is it lets you do something certain for your business. Certainly if you buy at $1,100/st for next year you know you will have $1,100/st. You can plan around it, sell product around it. This is what we're talking about.

Do something certain for your business. Stop trying to guess the price, stop gambling — you are gambling if you're not hedging.

We don't predict, we don't forecast. We try to get our customers in good positions vis a vis their business to protect their business. That's it. To be able to forecast to their management, to be able to have something their sales team can go to market with. To be better for their investors, to be more accurate in their earnings.

Do you think there has been enough of a shift in the market for you to see not just more engagement in the futures market, but also some mental shifts?

We're seeing it right in our customer base. We have people coming to us now wanting to lock in for next year, right now.

We've been talking about these things for 11 years. I was on the circuit in the early 2010s, saying, "Hey guys, futures, this is where it's at, this is what we have to do." I was a pariah. People didn't think I knew what I was talking about. People thought we were out there and kind of just some weird little company.

So 11 years later we're still here, we've done everything we said we were going to do with hedging. Our company has weathered through the ups and downs of all these markets, extreme volatility.

It's time to get serious. If we're going to predict anything, we predict that volatility will be extreme, and you've got to start to take some of that volatility out of your business. We do it for our own business.

What do you think the impacts are of the past few years' consolidation in US steelmaking ?

When I started in this business there were 24 different companies you could buy flat-rolled steel from. Twenty-four. Everybody's business was worth nothing, steel was worth nothing. I bought steel at the beginning of my career at 9¢/lb for prime coil — $180/st for a prime coil. Nobody could make any money, nobody could invest in anything, nobody could do anything.

You had too many service centers and too many mills. The things that (consolidation) does is it just tightens things down and it causes those service centers to get a meaningful return on their capital, because they're only going to get so many tons so you better get paid to do what you're doing.

There's an expectation that the mills are supposed to not make any money and slit their throats. But, why? Why not be a great (service center) that invests in new technology, invests in new ways to service the business? Because then the manufacturing base has a better product, they've got more consistency to go to the global market with.

At the beginning of the pandemic we had a lot of production taken offline, and a lot of it come back. What do you think of the rally being driven by supply side issues?

That is not true. It's demand. It's supply, sure, it's still catching up, but demand is off the chain.

I've got a guy who makes metal sheds you can buy at Home Depot for your backyard. Pre-Covid, he makes 3,000 sheds a month. Now, 11,000 sheds a month. His business has tripled. He bought 17,000 tons in 2019, and in 2020 he bought 40,000 tons, and he's going to buy 50,000 tons in 2021.
They're bombed with demand.

We have an appliance customer. Their contract for stainless I think was for 900 tons a month this year. You know what their consumption is going to be in the fourth quarter? 1,800 tons a month stainless. So are you going to call that a supply problem? No. It's both of them. Yes, you had a supply disruption, for sure. ArcelorMittal's running full out, US Steel, for whatever it's running, is running full out. And here's the other thing — if these guys don't want to run full out, it's their business. It's not ours in the marketplace to demand these mills to run more tons. They can run as many tons as they want, it's a private industry.

You want to start a steel mill? Make yourself a steel mill if you want steel. I think there needs to be some respect for the process of these steel mills. Nobody cared when they were hemorrhaging last year. Nobody cared that, last summer, if you wanted to buy steel, you could just put your number on it and they would have to sell it to you, they were so desperate. Nobody cared about that. Nobody cared that they were selling $50, $60 beneath their cost.