

U.S. and European Hot-Rolled-Coil Steel Markets – Diverging Fundamentals

By CME Group

Steel operates primarily as a regional commodity rather than a globally integrated market. Unlike global, highly fungible benchmarks such as crude oil or precious metals, hot-rolled coil is inherently heavy, bulky, and subject to substantial ocean freight expenditures. These significant logistical overheads and extended ocean transit times somewhat insulate domestic regional markets, creating geographic pricing moats that prevent immediate cross-border equalization. This underlying physical friction is further compounded by national trade policies, import tariffs, localized carbon mandates, and protective regulations specifically crafted to safeguard domestic steelmaking capacity. As a direct consequence of these structural barriers, hot-rolled coil pricing on either side of the Atlantic is influenced by localized supply and demand fundamentals, domestic mill strategies, and regional industrial health, rather than conforming to a global reference price.

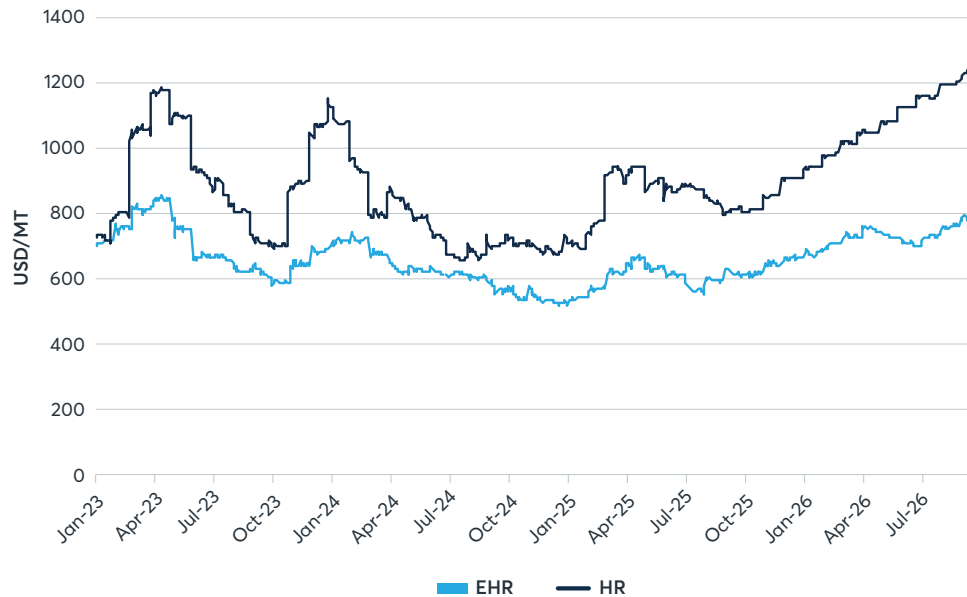
In the United States, tight spot availability, constrained mill lead times, and aggressive Section 232 tariff protections have consistently buttressed firm domestic price levels and supported producer margins. Conversely, the European market has contended with a more challenging macroeconomic climate marked by sluggish industrial output and subdued manufacturing, though stringent trade safeguard quotas alongside the emerging carbon border adjustment rules have increasingly seemed to establish firmer local price floors. For market participants, one of the clearest and most actionable ways to monitor these cross-regional forces interacting in real time is through the transatlantic price spread between CME US Midwest HRC futures and CME North European HRC futures, as well as carefully monitoring the CFTC Commitment of Traders (COT) positioning data, which illustrates how commercial hedgers and institutional investors are navigating risk across both basins.

Transatlantic Spread Dynamics

In the last few years, major expansions in the transatlantic HRC spread have been driven by rapid, aggressive upside moves in U.S. steel prices, with European pricing playing a secondary role. The sharp spread spikes seen in mid-2023 and early 2024 were driven by a sudden, violent surge in U.S. spot prices. Domestic steelmakers aggressively raised minimum base prices following the resolution of the UAW strike, taking advantage of critically low buyer inventories, mill maintenance outages, and extended lead times. As buyers scrambled to secure spot tonnage, U.S. prices shot up rapidly while European prices remained subdued under sluggish industrial demand. Because these historic spikes were driven by short-term supply disruptions rather than sustained fundamental consumption, they historically demonstrated strong mean-reverting behavior. The spread quickly attracted competitive foreign import arrivals into North America, expanding U.S. availability and forcing a sharp collapse back toward historical baseline levels within a few months.

In contrast, the recent widening of the transatlantic spread throughout 2025 and 2026 exhibits a distinctly different character. Unlike earlier supply-driven spikes, the current divergence appears to reflect a slower, more deliberate build-up in U.S. pricing since mid-2025 supported by structural domestic demand and tighter trade barriers. Because this move is underpinned by trade policy shifts (such as higher Section 232 tariffs), and tighter EU import quotas (TRQs) that restrict the flow of traditional arbitrage volumes, the spread could turn out to be far less prone to the rapid mean-reversion observed in earlier episodes.

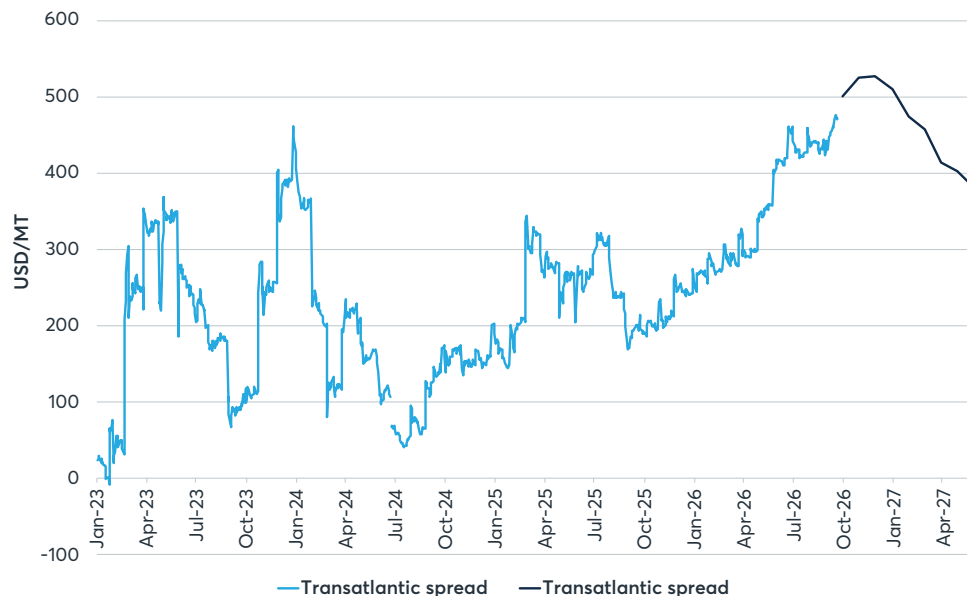
Chart 1 – Diverging Fortunes for U.S. and European HRC futures



Source CME Group, data as of 9/22/2026

While the forward curves imply a gradual softening of the spread heading into 2027, whether this compression materializes remains to be seen. Given the structural policy barriers currently insulating the U.S. market and limiting import arbitrage, the spread may well remain structurally higher for longer than forward paper markets currently price in.

Chart 2 – Historic and Forward Curve-implied Transatlantic Spread

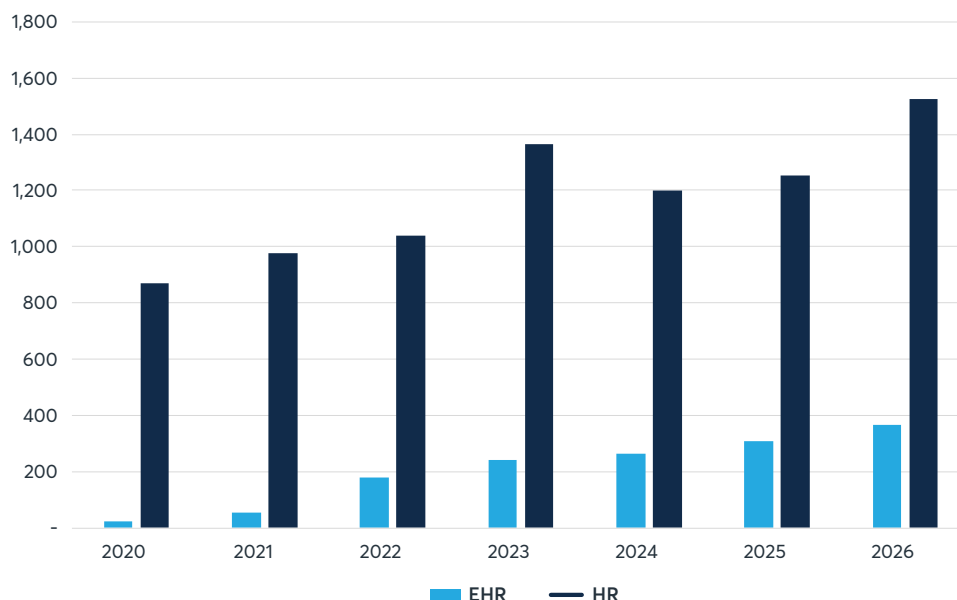


Source CME Group, data as of 9/22/2026

Futures Market Adoption

Half a decade since launching, the CME North European HRC futures contract is now a well-established price risk management tool for market participants. In 2026, over 7,000 tons of European steel are traded each day via the futures market. This compares to over 28,000 tons for U.S. HRC futures, also a record. Exchange-cleared options are also being used more widely, with over 5,000 option contracts traded year-to-date in European HRC (vs 1,625 contracts in 2025) and over 21,000 option contracts year-to-date in U.S. HRC (vs. 30,000 last year total).

Chart 3 – Growing Futures Activity Both in European and U.S HRC

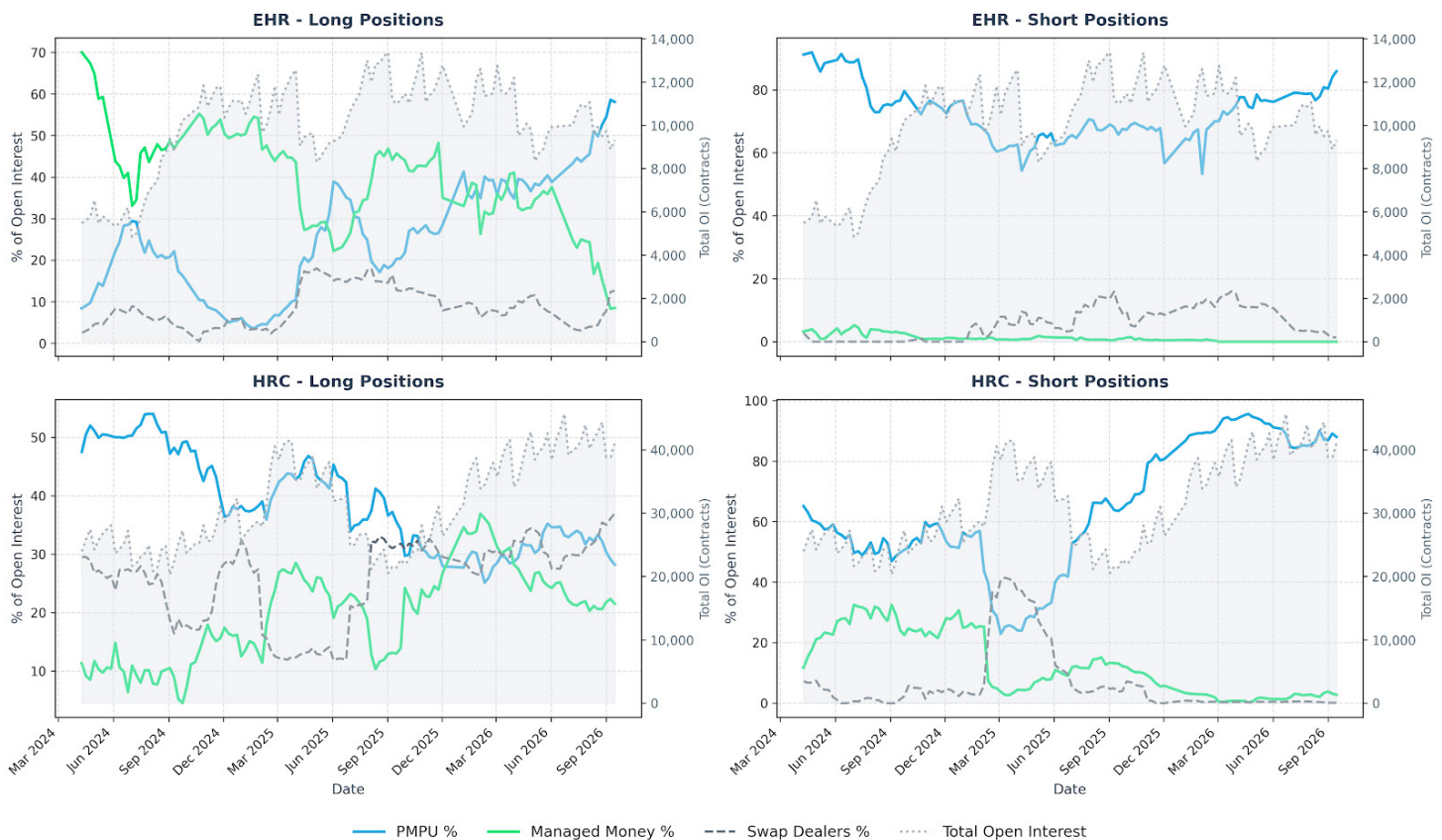


Source CME Group, data as of 9/21/2026

Market Structure & Positioning Dynamics (CFTC COT data)

While overall volume growth demonstrates expanding adoption, analyzing CFTC Commitment of Traders (COT) data reveals structural differences in who is trading each market and how risk is held across the Atlantic. Historically, the European Hot-Rolled Coil (EHR) and U.S. Hot-Rolled Coil (HRC) contracts have exhibited contrasting long-side ownership structures. In early 2024, EHR long open-interest holders were mostly financial speculators, with Managed Money holding up to 70% of total long open interest while Producers, Merchants, Processors, and Users (PMPU) accounted for under 10%. However, through late 2025 and into 2026, a major structural regime shift seems to have occurred. Commercial long hedging steadily climbed to approximately 60% of long open interest, surpassing Managed Money, which fell below 10%. This crossover could signal a maturing market where European industrial end-users and buyers are increasingly using paper markets for forward price protection. In contrast, the U.S. HRC market has maintained a consistently commercial-led long profile, with PMPU players holding 30% to 50% of long open interest. Long exposure in HRC is further supported by Swap Dealers, who account for roughly 30%, reflecting over-the-counter intermediation by financial institutions that is less prevalent in European steel (for now). The short side of both contracts underscores the primary hedging function of steel futures—locking in mill sales—though with varying degrees of speculative involvement. The short side of EHR is dominated by commercial hedgers, with PMPUs holding 70% to 80% of total short open interest, while Managed Money short interest remains near zero. This seems to indicate that EHR has functioned primarily as a downside risk management venue for European steel producers

and stocking distributors. While U.S. commercials also dominate the short side, regularly holding 60% to 90% of short open interest, HRC consistently attracts active short-side participation from Managed Money at historically 5-20%.



Source: CFTC COT DATA as of 9/15/2026. Percentages represent the share of Total Open Interest held by Producers/Merchants/Processors/Users (PMPU), Managed Money, and Swap Dealers. "Other Reportable" and "Non-Reportable" categories have been excluded from this visualization for clarity; therefore, the displayed shares do not sum to 100%.

Superimposing total Open Interest (OI) over positioning data highlights the relative scale of both contracts. While EHR experienced a major expansion from around 5,000 contracts open interest in early 2024 to peak above 13,000 contracts—coinciding with the wave of commercial long adoption—HRC operates at a significantly larger scale, growing from approximately 20,000 contracts to over 40,000 contracts open interest in that timeframe.

The decoupling of U.S. and European HRC markets highlights how regional policy and localized market conditions continue to outweigh global price signals. While historical transatlantic spread spikes were characterized by transient, supply-driven price surges in the U.S. that rapidly mean-reverted as imports entered North America, the divergence observed across 2025 and 2026 suggests a more enduring regime shift. Tighter import protections, carbon accounting frameworks, and localized demand trends continue to insulate both markets, hindering traditional arbitrage mechanisms from easily closing the price gap.

This structural evolution is reflected in market participation data. The European contract appears to be evolving into an institutionalized commercial hedging instrument where physical buyers and sellers now interact directly on the curve. Meanwhile, the U.S. market continues to benefit from deep institutional liquidity and Swap Dealer participation, providing the necessary depth to absorb large-scale commercial hedging flows.

Looking ahead, several key catalysts will determine whether the forward curve's implied spread compression into 2027 materializes or if the gap remains structurally elevated. The full enforcement and phasing-in of the EU Carbon Border Adjustment Mechanism (CBAM) financial adjustments will test whether European steelmakers can successfully lift domestic base prices to match import parity, while potential modifications to U.S. Section 232 trade policies or shifts in domestic mill capacity utilization could alter North American spot availability. As these policy timelines unfold and regional disparities persist, risk managers and market participants—from industrial commercials to financial funds—are increasingly relying on cleared futures and options contracts across both regions to navigate shifting forward curves and hedge their price exposure on either side of the Atlantic.



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