

Steel Market Report: May 2011

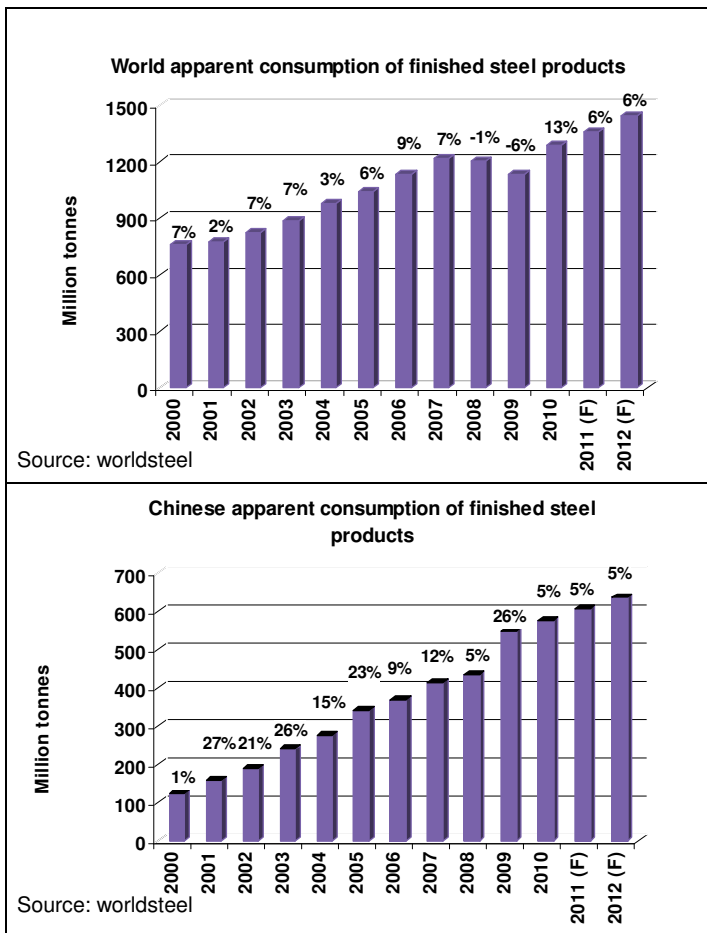
Summary

The latest World Steel Association demand forecasts predict continued growth in world apparent consumption.

In Europe, manufacturing output has continued to grow, whereas construction activity remains poor.

Raw material prices continue to rise, putting upward pressure on steelmakers' costs.

Steel demand outlook



World steel demand

Global apparent steel demand recovered strongly in 2010, and exceeded pre-recession levels.

The World Steel Association's latest forecasts predict continued growth over the next two years at a robust, but more sustainable, rate of 6% per annum.

Chinese demand

Chinese demand for steel boomed during the recession, and is the main driver for the ongoing surge in raw material prices.

In 2010, demand growth slowed to 5% year-on-year, and is forecast to remain at this rate for the next two years.

China currently consumes 43% and produces 44% of the world's steel.

The strongest growth in 2010 was in the developed world, the CIS countries and Latin America, as these regions recovered from the collapse in demand caused by the economic crisis. The EU, USA and Japan have all yet to return to pre-recession demand levels however.

Looking forward to 2011 and 2012, demand growth is predicted to remain solid in the developed world, apart from Japan, with the USA looking particularly strong. But it is the developing world (excluding China) that is expected to drive the improvement in demand, with double-digit growth forecast for Turkey, Kazakhstan, Ukraine, Chile, Peru, South Africa, India, Indonesia (where growth has been running at +20% per annum), Malaysia, Philippines, Thailand and Vietnam.

Apparent steel demand by region

	Consumption: million tonnes				Growth rates		
	2009	2010	2011 (F)	2012 (F)	2010	2011 (F)	2012 (F)
EU 27	119	145	152	157	21.8%	4.8%	3.3%
Other Europe	24	30	33	35	25.0%	10.0%	6.1%
CIS	36	48	52	57	33.3%	8.3%	9.6%
NAFTA	83	110	122	130	32.5%	10.9%	6.6%
Central & South America	34	46	49	53	35.3%	6.5%	8.2%
Africa	27	26	25	27	-3.7%	-3.8%	8.0%
Middle East	42	45	46	50	7.1%	2.2%	8.7%
Asia & Oceania	769	834	880	931	8.5%	5.5%	5.8%
<i>of which China</i>	<i>548</i>	<i>576</i>	<i>605</i>	<i>635</i>	<i>5.1%</i>	<i>5.0%</i>	<i>5.0%</i>
TOTAL WORLD	1,134	1,284	1,359	1,440	13.2%	5.8%	6.0%

Source: worldsteel

European market

Eurofer (our European steel federation) is predicting growth in excess of 5% for all the major steel consuming sectors in the EU with the exception of construction (+1.7%) and shipbuilding (-2.1%).

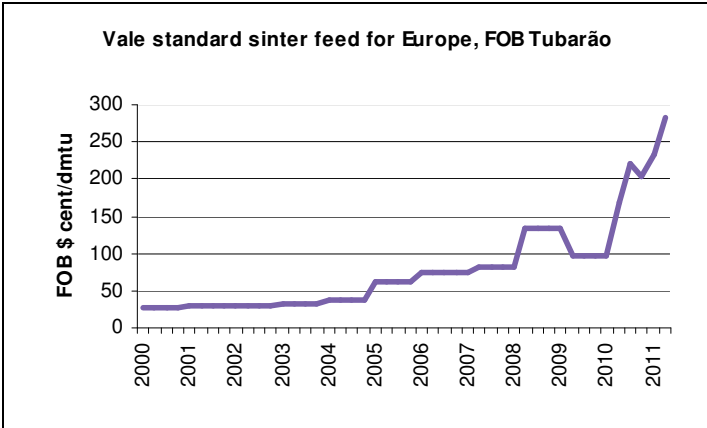
This has resulted in an upgraded forecast for 2011. The quarterly progress in steel demand is forecast to be:

	Year-on-year % change	
	Real demand	Apparent demand
Year 2010	+4.0%	+22.2%
Q1 2011	+8.7%	+9.9%
Q2 2011	+5.0%	+3.5%
Q3 2011	+3.9%	+6.0%
Q4 2011	+3.6%	+4.7%
Year 2011	+5.2%	+6.0%
Q1 2012	+3.8%	+1.5%
Q2 2012	+3.6%	+4.9%
Q3 2012	+4.0%	+4.4%
Q4 2012	+4.2%	+4.4%
Year 2012	+3.9%	+3.8%

Source: Eurofer

Raw material prices

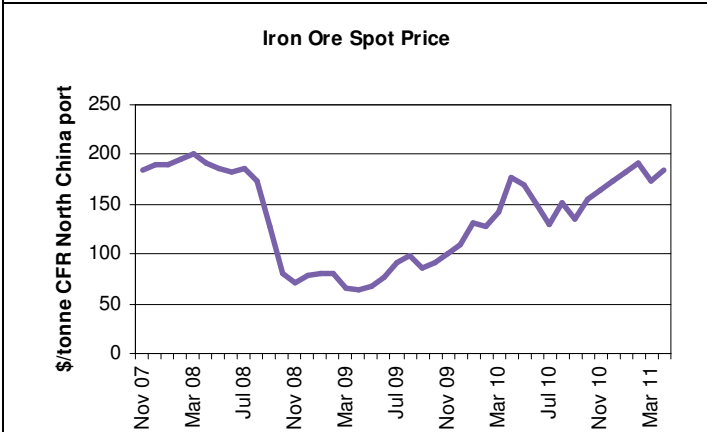
The growth in world steel production has continued to run ahead of the ability of the miners to expand their output capacity. While demand growth rates in other developing countries are now exceeding China's, the sheer scale of the latter's appetite for raw materials is still the driving force behind the continuing rise in raw material prices experienced in the first two quarters of the year.



Source: Steel Business Briefing

Iron ore – contract prices

Last year the principal miners ended the annual benchmark price contract system, which had ensured price predictability for the industry’s key raw material, and imposed index-linked quarterly prices. As a result, ore prices rose by 112% in 2010, and by a further 38% in the first two quarters of 2011.

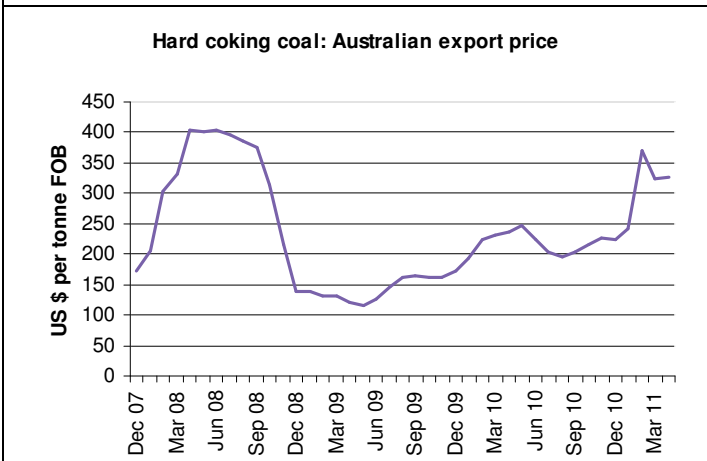


Source: Steel Business Briefing

Iron ore – spot prices

The new quarterly contract price is derived from the preceding quarter’s spot price for exports from India to China, lagged by one month, e.g. the Q3 price will be based on the average daily spot price in March to May.

Recognising that May is not yet complete, it is predicted that the Q3 contract price will be virtually unchanged from Q2.

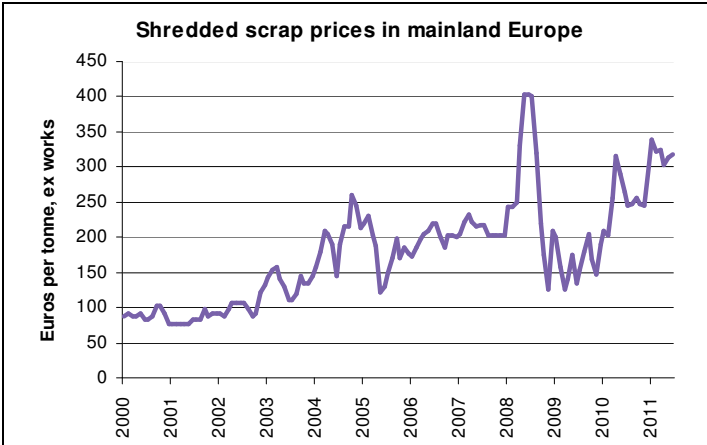


Source: Steel Business Briefing

Coking coal

Coking coal prices shot up in the early months of the year in reaction to the Queensland floods, nearly reaching the all-time peak established in 2008. In the two months from December 2010 to February 2011 Australian coking coal prices rose by 66%.

Since February, prices have fallen back somewhat, but the April price was still 50% higher than the average for 2010.

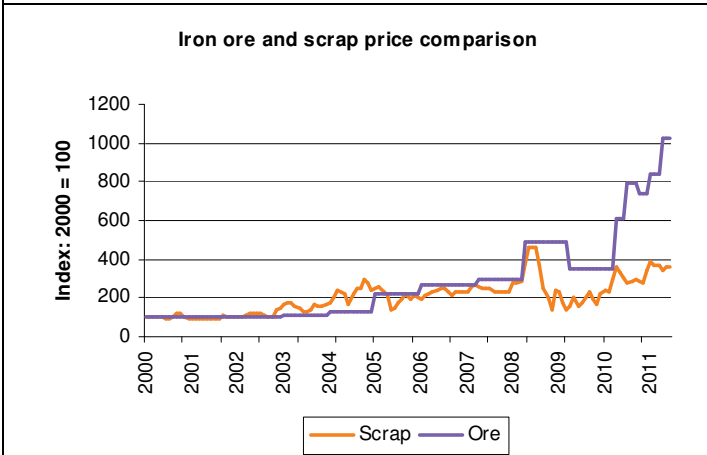


Source: Steel Business Briefing

Scrap

After the volatility experienced in 2010, scrap prices have shown greater stability in recent months. Scrap peaked in January, then in the course of the following three months dropped by 11%. Prices have been rising slowly since April.

It should be noted that scrap prices remain at historically high levels.



Index derived from Steel Business Briefing data

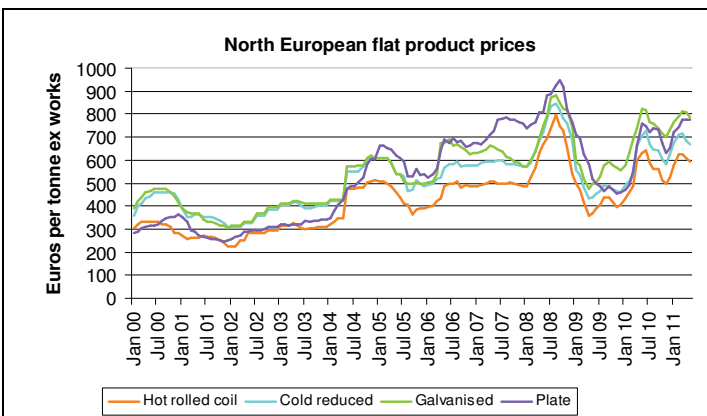
Iron ore/scrap relativities

Traditionally, iron ore and scrap prices tended to move in tandem. The spectacular hikes in iron ore prices in the past 15 months have meant that the divergence between iron ore and scrap prices has continued to widen. Ore is now **relatively** a far more expensive source of Fe input than scrap.

This is largely a result of the high proportion of blast furnace based steelmaking in China and other emerging countries.

We continue to predict that this imbalance will encourage integrated steel producers to maximise the volumes of scrap they use, thereby putting upward pressure on scrap prices in the medium term.

Steel product prices

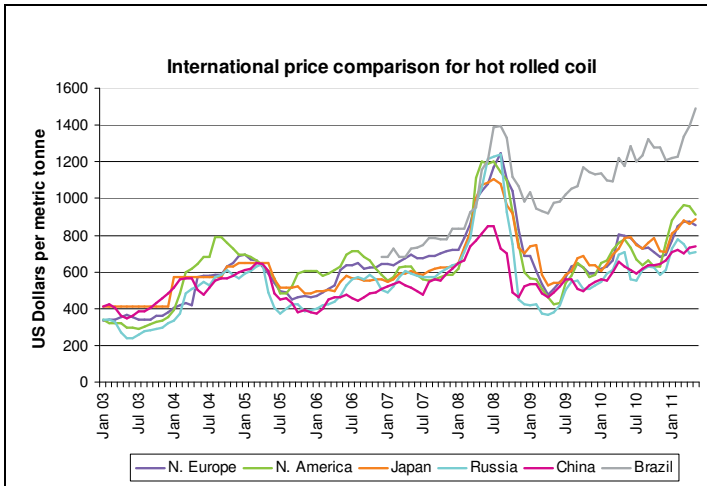


Source: Steel Business Briefing

Flat products

Flat product prices bottomed out in November 2010, and over the following four months rose by some 22% on average. This is partly a reflection of the improved output by EU and UK manufacturing industry, but has also been driven by the stark need for European steelmakers to recover the huge increases in raw material prices.

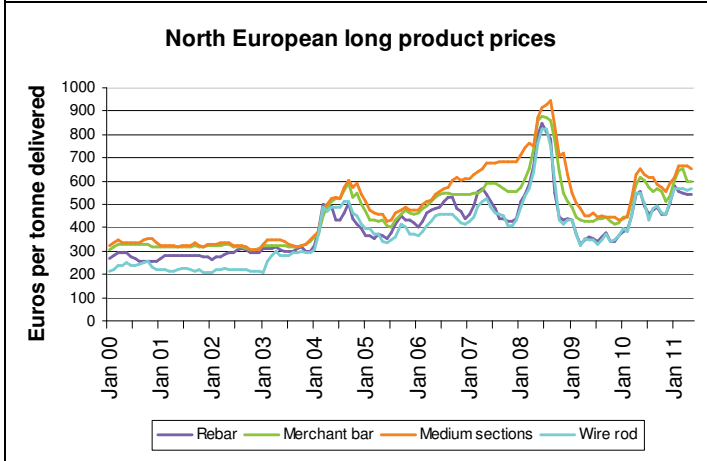
In the past two months flat product prices have been either stable or have fallen back slightly.



Source: Steel Business Briefing

N. Europe domestic - ex works
 N. America domestic - FOB Mid-west mill
 Japan domestic (Tokyo Steel) - FOT
 Russia Black Sea export - FOB
 China domestic - Shanghai
 Brazil domestic - delivered

With the exception of Brazil, prices in other major producing areas continue to move in line with European price trends.



Source: Steel Business Briefing

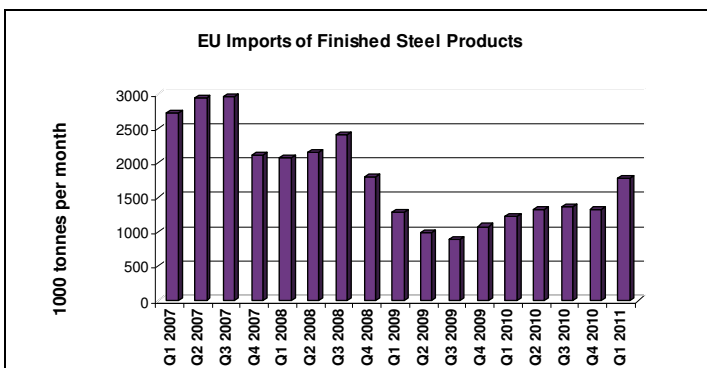
Long products

Long product prices have moved very similarly to flat products. They bottomed out in November and then recovered by 23% on average up to February.

Since then prices have reached a plateau, falling slightly by 3% on average.

The recent uptick in scrap prices suggests that long product prices will start to rise again, and there is some evidence that this has already started for rebar and wire rod.

Import activity



Source: Eurofer

After two years of subdued activity, imports into the EU have risen quite rapidly so far this year: Q1 2011 imports were 34% above Q4 2010 levels. This is a reflection of the improvements in EU manufacturing output. Nevertheless, it is notable that import volumes remain significantly below pre-recession levels.

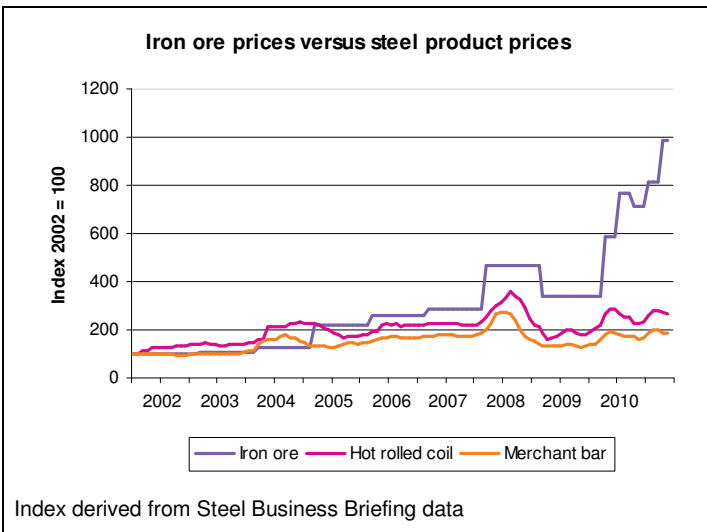
Within this total picture, long product import volumes remain extremely low, reflecting the poor construction activity levels in several EU member states, including the UK.

Outlook

UK Steel does not issue demand forecasts and nor do we attempt to predict future price movements. However, we would point to a number of factors that could indicate future developments.

As noted above, the World Steel Association is forecasting healthy demand growth in all regions of the world, while within Europe, Eurofer predicts increased output in the next two years in most steel-consuming sectors, including construction resulting in positive growth in both real and apparent consumption for steel.

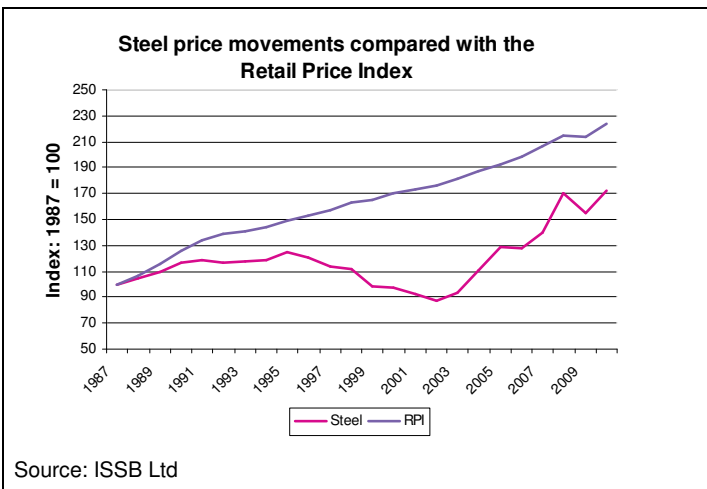
Added to this is the significantly worsened cost-price squeeze that integrated steel producers in particular have experienced.



Iron ore prices have risen by 670% since the start of the surge in 2005. Hot rolled coil by contrast is currently selling in Europe at just 16% above early 2005 levels.

Thus there continues to be strong pressure on steel producers throughout the world to redress this cost-price squeeze as soon as market conditions permit.

UK steel prices compared with general inflation



Despite recent price increases, steel on average remains good value for money compared with UK prices in general.

Note: All prices used in this report were extracted from data published by Steel Business Briefing on its website in the week commencing 23rd May 2011.