Grim Outlook for Global Steel Industry

- Steelworld Research Team

Construction spending continues to contract in the US. As projects are completed, they are not being replaced by new ones because of the economic slump. In Canada, mill order intake is soft and delivery lead times are very short. Customers' inventories are reported to be at the lowest level in a decade. Current price levels are hard to verify because very few forward orders are being placed. In EU, All Products average transaction value moved down by over €100 per ton as significant falls were noted across all categories. This was a greater reduction than forecast in October 2008. Low demand, coupled with decreasing raw material costs, led many distributors and end users to restrict purchases, with many being wary of buying in a falling market. Large declines in scrap values pushed EU average long products transaction prices down considerably. Credit problems continued to cause difficulties across the manufacturing and construction sectors. Domestic steelmakers are cutting production in an attempt to re-balance supply and demand. Lower raw material costs, coupled with reduced purchasing by end users and distributors, are expected to put downward pressure on all steel product transaction values in the short term. Prices in the first quarter of 2009 were near the bottom of the current price cycle. Sizeable output cuts by many producers in the region are likely to lead to a re-balancing of supply and demand. Scrap costs are also likely to increase. This should push transaction figures higher by the second trimester. However, the world economic crisis could limit these advances. Banks are expected to exert stringent control on lending. As a result, the purchasing power of many steel buyers will, almost certainly, continue to be restricted. So that selling figures could then drift downwards after the summer period.

Chinese prices increased as markets reopened after the week long Spring Festival Holiday. However, demand remains low ahead of the main construction season. Values have started to fall away in recent days. In Japan, large building developments continue to be put on hold or cancelled altogether because of the severe economic slowdown. This has lead to a great deal of negative price pressure. In South Korea, the home building and non-residential sectors remain depressed and steel demand is forecast to plummet during 2009. Producers hope that spending on public works, scheduled for the second half of this year, will help to revive the market. The Taiwanese government has initiated several large construction projects in response to the global recession. Although winter building activity is always lower for seasonal reasons throughout East and West Europe, work has slowed significantly over the last few months. However, planned infrastructure schemes should provide satisfactory steel demand in Poland as the year progresses. The Slovak government, together with several West European administrations, has announced high public investment to bolster their economies but Czech mills are still waiting to see if a similar plan will come to their aid.

Crude steel production in 2008 reached at 1420 million tons - 5.6 percent up on the outturn in the previous twelve month period. This rate of growth is below the year earlier figure of 7.6 percent, due in part to the weaker global economic climate and an anticipated reduction in the rate of steel output expansion in China. Blast furnace iron making is still expected to exceed one billion tons this year, rising broadly in line with crude steel output. Direct reduced iron manufacturing was predicted to climb to near 70 million tons in 2008. The popularity of this process is growing, particularly in South America, Africa, Middle East and Asia. Global steel output in 2007 reached another all time high. Record levels of production were recorded in half the 98 countries investigated. On a regional basis, NAFTA and Africa failed to reach past peak values. The outturn in the former USSR was at a new post 1991 level. However, substantially larger figures were recorded in the 1980's, prior to the break up of the Union. Real demand is likely to slow down in several countries. However import volumes are expected to decline compared to levels recorded in 2007. German output is forecast to expand this year. New and revamped capacity is now in service. Demand should hold up reasonably well, despite a slight fall in consumption from the construction sector. In contrast, French steel production decreased in 2008. Supply from the domestic mills decreased in the first quarter, year on year. Italian production should increase this year after only a small upturn in 2007, which was the result of a large influx of imports. This situation should ease.

Table 1: All Products Composite Carbon Steel Price Forecast

Month	GLOBAL Composite Carbon Steel Price	GLOBAL Composite Carbon Steel Index	EU Composite Carbon Steel Price	EU Composite Carbon Steel Index	N.AMERICA Composite Carbon Steel Price	N.AMERICA Composite Carbon Steel Index	ASIA Composite Carbon Steel Price	ASIA Composite Carbon Steel Index
7-Mar	663	166.2	765	200.3	678	156.9	547	143.6
Apr	691	173.2	808	211.5	713	165	552	144.9
May	699	175.2	827	216.5	710	164.4	559	146.7
Jun	691	173.2	810	212	704	163	559	146.7
Jul	680	170.4	795	208.1	690	159.7	555	145.7
Aug	685	171.7	804	210.5	691	160	560	147
Sep	681	170.7	780	204.2	681	157.6	582	152.8
Oct	690	172.9	781	204.5	692	160.2	596	156.4
Nov	695	174.2	781	204.5	697	161.3	606	159.1
Dec	706	176.9	788	206.3	704	163	626	164.3
8-Jan	720	180.5	789	206.5	734	169.9	637	167.2
Feb	776	194.5	833	218.1	817	189.1	680	178.5
Mar	866	217	982	257.1	851	197	764	200.5
Apr	970	243.1	1123	294	975	225.7	811	212.9
May	1044	261.7	1170	306.3	1131	261.8	830	217.8
Jun	1117	279.9	1262	330.4	1184	274.1	905	237.5
Jul	1160	290.7	1344	351.8	1223	283.1	913	239.6
Aug	1154	289.2	1330	348.2	1220	282.4	910	238.8
Sep	1041	260.9	1161	303.9	1109	256.7	852	223.6
Oct	920	230.6	988	258.6	1015	235	754	197.9
Nov	776	194.5	803	210.2	894	206.9	633	166.1
Dec	676	169.4	646	169.1	771	178.5	610	160.1
9-Jan	676	169.4	669	175.1	741	171.5	619	162.5
Feb	639	160.2	617	161.5	704	163	594	155.9
Mar	582	145.9	548	143.5	660	152.8	537	140.9
Apr	566	141.9	534	139.8	624	144.4	541	142

US transaction prices have fallen significantly since the start of the year, due to declining order intake and renewed import competition. Transaction figures have held steady in Canada during recent settlements. Chinese export prices are too high for overseas buyers. In the home market, values increased at the start of February but then quickly weakened. Transactions are at a low level, causing stocks to climb. Japanese sales have contracted in a poor economic climate. Tokyo Steel has chosen to mark down prices by ¥3000 per ton in its March list. We have no price developments to report in South Korea, where the mini-mills have slashed output in an attempt to bring supply and demand into balance. Less competition from Chinese producers and growing scrap costs have allowed Taiwanese mills to implement another small rise. Polish, Czech and Slovak numbers are stable at the January level, although business activity is still reduced. West European mills failed to hold on to prices in Germany, Italy, Spain and the UK.

Medium Sections and Beams

Leading US structural sections provider, Nucor-Yamato, implemented an immediate $US30 per ton reduction in its raw material surcharge. The move reflects the dismal state of current demand. Distributors are offering to sell below cost in order to reduce their inventories. It will be several months before the steel market feels the full benefit of the anticipated government stimulus package. Import competition has intensified lately. Transaction values have firmed in Canada. Much of the supply is from the US and those prices are subject to currency fluctuations. Buyers continue to pare back their stocks because of subdued sales.

Demand is somewhat tepid in China at present as few key projects are ongoing. In Japan, both Tokyo Steel and the integrated producers have elected to cut prices significantly. H-beam inventories held by distributors at the end of January fell by 4.3 percent compared to December. Nevertheless, domestic demand is still subdued as customers hold off purchasing in the expectation of lower prices in the future. Moreover, export volumes have dropped considerably in recent months due to the global downturn and the appreciating rate of the Yen. South Korea's leading H-beam producers hiked their prices in mid February to recoup escalating input costs. The weakness of the Won has led to a shortage of overseas offers. Similarly, Taiwan's major H-beam mill has boosted prices by $NT1000 per ton. Distributors have been able to secure a comparable increase as end-users have such low stocks that they need to reorder. Output has been cut in Poland because of declining demand. Only small volume transactions are being concluded at prices similar to those reported in January. There is also a slowdown of sales in the Czech/Slovak markets, where values have been revised downwards. In Western Europe, ArcelorMittal lifted its raw material surcharge for February by €20 to €98 per ton. The EU average basis price fell by 8.0 percent.

Reinforcing Bars

Depressed consumption has led to weakening transaction values in the US, although it is questionable whether lowering prices will generate any additional sales. Customers are only purchasing the absolute minimum necessary, as they try to adjust their overblown stocks. Transaction figures may have bottomed out in Canada, where demand remains slow. Chinese domestic prices have gained around 3 percent since our last report. However, they have recently started

to deteriorate as demand is recovering more slowly than expected after the holidays. Consumption is likely to improve in March/April for seasonal reasons but, at present, inventories are in surplus. In Japan, production cuts have failed to prevent further price erosion as rebar sales slump. Tokyo Steel has cut figures for March contracts by ¥5000 per ton, to bring them in line with market values. Further discounts cannot be ruled out due to falling ferrous scrap costs and pressure from buyers.

Leading South Korean rebar maker, Hyundai Steel, made an upward adjustment to its sales price in early February to offset higher input costs. Concern that further hikes may be imminent has encouraged dealers and contractors to purchase, despite limited domestic demand. Stocks had been allowed to sink to very low levels. Any recovery in consumption is unlikely until the spring. Meanwhile, Hyundai is targeting export markets. Sales have not picked up sufficiently in Taiwan to support a price increase. Polish values have gradually strengthened over the last month. Construction activity is slowly improving, having been suspended at the end of 2008 because of freezing temperatures. Demand is expected to recover as the year progresses and several large infrastructure projects get underway. Czech/Slovak sales are dropping away, forcing the mills to agree further small price concessions. We can see no real improvement in the West European market. Recent dismal levels of demand have been compounded by bad weather which has slowed construction activity even further, causing stocks to move extremely slowly. Slightly weakening scrap and billet costs are not helping the price situation. Several mills have cut output again, after restarting in January.

Merchant Bars

US demand is extremely lackluster, with companies reducing inventories wherever possible. Producers were unable to maintain transaction figures at the January level. Canadian suppliers continue to hold, or even increase, effective prices even though sales to end-users are soft and distributors are destocking. After a brief revival prior to the Lunar Festival, Chinese prices are dropping again, driven down by sluggish domestic demand and overabundant supply. Export opportunities have also reduced considerably. Nevertheless, our figures are still around 2 percent above those last reported.

Ongoing output curbs by several Japanese mills have failed to keep selling values firm. Dealers' stocks are proving hard to shift because their sales volumes have dropped to such an extent. South Korean bar makers have held on to prices amidst limited sales opportunities. Despite weak domestic and overseas business, Taiwanese producers have reversed the recent negative price trend, on the back of higher scrap costs. The East European numbers are unaltered this month. The business climate remains depressed. Local mills in the UK have successfully secured the planned £25 per ton rise. The upward movement in scrap, during January, helped support the initiative. Elsewhere in Western Europe, a negative basis price tendency has returned. Moreover, the mills are no longer applying the new dimensional extras that were briefly introduced last month. The trading environment remains lethargic.