



Europe recovers from slowdown, uncertainty still continues

- Steelworld Research Team

A fresh wind of uncertainty blew in the European economies with the downgrading of Portugal. Economists kept calm on the issue of economic recovery in European region pushing forecast of steel consumption down during the rest of 2010. The International Monetary Fund (IMF) forecast that growth in the euro-zone would be the world's lowest in 2010 and 2011. According to the new IMF estimates, the world economy will grow by 4.6 percent in 2010 and by 4.3 in 2011. The euro-zone, however, will grow by only one percent in 2010 and 1.3 percent for the following year. Being steel consumption co-related with the economy, the demand for steel and its products is estimated to rise less than one percent this year.

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Shaky sentiment

The recent economic turmoil and sovereign debt issues rocked market sentiment in the eurozone. Strip mill product prices are fairly flat this month. Domestic producers are still keen to lift basis values significantly for the third quarter. However, most steel consumers and distributors are comfortable with their current inventory levels and are purchasing prudently. Consequently, the market is very quiet and the number of mill bookings is extremely low. The steelmakers may eventually be forced to go below their target selling figures to generate business, at least for the

commodity grades. It may be easier to secure increases for the higher specifications. In recent days, the mills appear to be acknowledging the overall weakness in the market. They are said to be considering output cuts during the third quarter.

In Germany, demand is not as high as expected. The current monetary problems in the EU are having a negative influence. Although the steelmakers continue to ask for higher prices in July, a number of buyers believe their stance has already softened a little, since no significant quantities have so far been booked. Period three is traditionally a weak

quarter because of the holidays. Customers purchased plenty of material in the second trimester, ahead of the proposed July hike, so they do not need any more at present. It will probably be at least the end of June before any negotiations are settled.

The sentiment in Italy is very negative due to the current crisis in Europe. During the latter half of May, buyers began to adopt a 'wait and see' attitude. There is very little activity throughout the supply chain and mill order intake has slowed as customers worry about the future economic climate. Real demand has not recovered in any of the major end-user sectors. Companies purchased material during the first four months of 2010 and have enough in stock to be able to resist the producers' proposals for higher prices for a few more weeks at least. Market players are expecting basis values to turn down unless the mills make significant production cuts.

Uncertainty continued to prevail in the French market, as participants are not sure whether demand is going to improve in September. As a result, buyers are very cautious with their purchases and hesitant to fill up their stocks. Strip mill prices are stable for now. Negotiations are still underway, with producers looking to increase basis figures by at least €50 per ton compared to May levels. Steelmakers are being firm but are in a less strong position than in period two and more dependent on the actual state of the market. Buyers will probably have to accept a part of the proposed rise but not the whole amount.

In the UK, EU steelmakers including Corus are quoting higher basis figures for future business. So far, their resolve appears quite firm as they cite limited domestic availability and point to a lack of third country offers. Consequently, the standoff between producers and customers continues as buyers sit tight and refuse to order. They bought a little more than they needed in the second quarter and, with demand still relatively weak, they can afford to wait until September for new deliveries. Some of the larger traders

EU Carbon steel prices (euro/ton)

Mar 09	HRC	HR plate galvanised coil	CRC	Hot dipped	Wire rod	Structural sections and beams	Rebar
Apr 09	358	497	446	486	325	510	322
May 09	354	466	435	478	346	515	361
Jun 09	361	444	432	478	349	513	341
Jul 09	370	435	438	487	333	486	326
Aug 09	371	435	438	488	333	486	326
Sept 09	433	465	495	550	375	522	370
Oct 09	418	456	488	538	367	510	353
Nov 09	401	457	476	520	339	484	321
Dec 09	392	435	466	511	351	491	341
Jan 10	409	435	476	515	380	513	372
Feb 10	438	455	505	550	386	503	381
Mar 10	469	497	535	597	402	529	383

have unsold tonnage coming in that will provide any necessary 'infill' for the summer months.

Market players in Belgium believe prices for strip mill products have reached their peak. Demand is muted with stockholders and end-users waiting to see how things develop over the next few weeks. A tough second half of 2010 is envisaged.

There is a lack of confidence in Spain. Consumption shows no signs of revival and is unlikely to do so for some time. Although inventories are comparatively low, many companies have enough material to see them through the summer, given the present level of demand. The European mills are not yet discounting their target period three basis figures but a number of customers feel they are becoming more realistic in their outlook. Buyers certainly will not take forward positions on third country imports. However, overseas material is due at

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the ports in early September. The amounts are not huge but they should cover any shortages that may have developed at the distributors during the holidays.

Crude steel production up

According to data compiled by the World Steel Association (WSA), crude steel production in the European Union 27, rose 64 percent in April at 15.4 million tons compared to the corresponding month last year, and up by 44 percent in the four months to date to 58 million tons. All the EU countries showed a rise in production in April, with only Greece showing a drop in the year to date. Monthly production in Germany more than doubled in April, and rose by 62 percent in the January to April period to 14.8 million tons. Italian crude steel production increased by 58 percent in April, and by 37 percent in the year to date to 8.8 million tons. Steel production in France jumped by 76 percent in the month, and by 38 percent in the four months to date to 5.2 million tons. Spanish production was up 36 percent in April, while the year to date rose by 37 percent to 5.9 million tons. In the UK, steel production increased by 34 percent in April, bringing the four months total up by 25 percent to 3.5 million tons. Greece's monthly production rose by 47 percent, although the year to date total was down 15 percent on 2009.

While German steel production almost doubled in March and more than doubled in April, steel exports in March rose by 49 percent to 2.4 million tons, its highest monthly total since September 2008. Exports of zinc coated steel and wire rod showed significant increases in April and were Germany's largest exports ahead of hot rolled wide coil. Germany's largest market in April was the European Union which accounted for 77 percent of total exports; the USA and Iran were the next largest markets.

In the rest of Europe, Turkish production increased by 21.5 percent in April and by 11 percent in the four months to 8.5 million tons. The four months total for Serbia doubled to 416

Eurofer forecast June 2010 for EU (YoY changes in %)

	Jun '08	Jun '09	Jun '10	Jun '11
GDP	0.7	-4.1	1.4	1.6
Private consumption	0.3	-1.8	0.6	1.1
Government consumption	2.1	2.4	1.1	0
Investment	-0.4	-11	-1.5	1.6
Investment in mechanical equipment	0.1	-16.5	-1.9	3.2
Investment in construction	-1	-6	-2	0.8
Exports	1.1	-13.1	7.5	5.7
Imports	1.2	-12.2	5.8	4.3
Unemployment rate	7.5	9.2	9.7	8.7
Inflation	3.3	0.8	1.7	1.7
Industrial production	-1.4	-14	4.8	3.3

thousand tons with the Swiss total up 47 percent to 420 thousand tons. Turkish steel exports were 1.6 million tons in March 2010, almost double the January total. However, this was still 7.7 percent lower than the March 2009 total. Deformed reinforcing bars were the largest export in March at 618 thousand tons, although this was below most months in 2009. The second largest export in March was semis (mostly billets), which at 422 thousand tons was the largest monthly total since May 2004. Seventy four percent of the March total went to Middle East and North African countries, with a further 18 percent going to Bangladesh.

Consumer industry upbeat

According to ACEA, the European vehicle manufacturers association, car registrations in the 28 European countries monitored increased by 12 percent in March, and by 11 percent in the first three months of 2010 compared to 2009. In Germany, registrations fell by 26.6 percent in March, bringing the three month total down to 23 percent to 670 thousand units. Italian registrations, however, jumped by 20 percent in March, with the quarter total up by 23 percent to 666 thousand units, only just below the German total. UK registrations showed an increase of 26.6 percent in the month, with the year to date total up by 27 percent to 612 thousand units. French registrations were 18 percent up in the month, bringing the year to date total up 17 percent to 595 thousand units. In Spain registrations jumped by 63 percent in March, bringing the quarter total up 44.5 percent to 286 thousand units.

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