

## **Economic and Steel Market Outlook 2011-2012**

**Q1-2011 Report from EUROFER's Economic Committee <sup>1)</sup>**

### **EU macro-economic overview (y-o-y change in %)**

	<b>EUROFER Forecast January 2011 EU</b>			
	<b>2009</b>	<b>2010 (e)</b>	<b>2011 (f)</b>	<b>2012 (f)</b>
<b>GDP</b>	-4.1	2.0	1.8	1.8
<b>Private consumption</b>	-1.5	1.2	1.3	1.6
<b>Government consumption</b>	2.1	1.3	0.3	0.2
<b>Investment</b>	-11.4	0.3	3.1	4.3
<b>Investment in mach. equip.</b>	-18.3	2.8	5.4	6.1
<b>Investment in construction</b>	-5.7	-4.2	1.0	2.1
<b>Exports</b>	-13.1	10.8	6.4	6.7
<b>Imports</b>	-12.2	10.2	5.8	6.1
<b>Unemployment rate</b>	9.3	9.6	8.5	8.2
<b>Inflation</b>	0.8	1.8	2.0	1.7
<b>Industrial production</b>	-14.2	7.1	3.5	3.3

(f) = forecast

### **I. EU Macro-economic overview**

- **Fairly weak GDP growth H2-2010**
- **Significant differentials at the country level**
- **Manufacturing on track for further recovery**
- **Investment growth to pick up speed, broadening the base of the recovery**

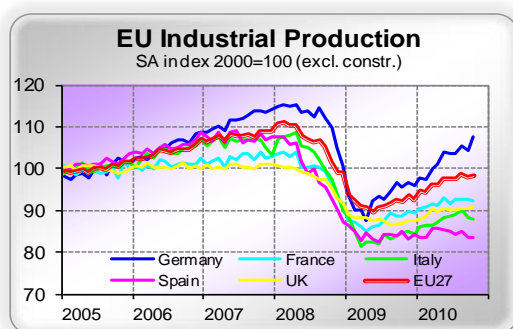
In the 3<sup>rd</sup> quarter of 2010, the EU economy posted a growth of just 0.5% quarter-on-quarter. This slowdown compared with the stronger pace of economic expansion registered in Q2-2010 did not come as a surprise, however. In line with earlier expectations, the boost coming from exports tapered off in the 3<sup>rd</sup> quarter owing to the moderation in global economic growth and consequently in international trade. Also the impulse from stock replenishment weakened substantially whereas monetary policies became less expansionary.

Growth performance across the EU, while narrowing to some extent, continued to reveal significant differentials at the country level. Whereas the recovery in Germany and most of the Northern European countries remained well on track, growth in the peripheral countries was hampered by several factors such as an export sector facing competition issues and weak domestic demand

<sup>1)</sup> Based on information available as of January 21st, 2011

due to the implementation of restrictive budget measures.

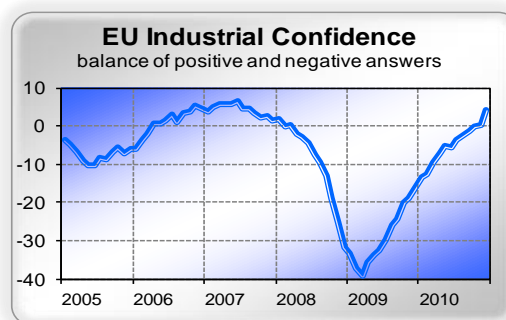
First indications for economic performance in the final quarter of last year signal a fairly similar growth pattern as in Q3-2010, with exports as the key factor supporting growth and in the core Eurozone countries also an improving contribution from domestic demand. On balance, the EU economy is estimated to have grown 2.0% in 2010. This better than expected performance can largely be attributed to Germany which enjoyed in 2010 its strongest growth since reunification.



The main beneficiary of the prevailing trend is the manufacturing sector, particularly in those countries focussing on exports and supported by favourable competitive characteristics of industry such as high productivity levels, customer orientation and a differentiated product mix.

This is the reason why Germany and a number of smaller export-oriented countries have registered a marked rebound in manufacturing activity. With a rise of close to 11% Germany clearly outpaced all other large Eurozone countries and was predominantly responsible for the 6% rise in EU industrial production over the first ten months of 2010.

This trend looks set to remain intact in 2011. Forward looking indicators signal continued strength in industry in the coming months. The Eurozone purchasing managers' index for the manufacturing sector advanced to 57.1 in December from 53.3 in November, indicating sustained expansion in activity in the months ahead.



December also saw an impressive rise in industrial confidence, which reached the best sentiment level since August 2007 on rather bullish assessments of orders and stocks of finished products and solid production expectations. Orders on hand in the EU manufacturing industry are estimated to have reached 4 months of production at the end of last year. This is quite close to the Q3-2008 peak of 4.3 months of output.

Meanwhile, the latest industrial investment surveys suggest that investment should see growth again this year. Across the EU but particularly in Germany and its smaller Northern European counterparts capacity utilisation rates are on the rise while corporate profits are improving. In combination with relatively high levels of industrial confidence, the propensity to invest has clearly improved. Investment in equipment and machinery, having declined significantly in 2008, turned the corner in

2010 and is seen growing robustly this year and next.

Investment looks set to become the main driver of domestic demand, also because of investment in construction gradually gaining strength again in 2011 and 2012. This should broaden the basis for economic growth in the medium term and reduce EU's dependence on external trade.

The outlook for the other components of domestic demand is less positive. Consumer confidence declined in December last year, having not seen much of an improvement since mid-2010. This reflects continued high levels of uncertainty facing the household sector in general, but more specifically mirrors consumer concerns about the employment situation and the direct and indirect effects of the austerity plans coming into force across the EU in 2011.

While the unemployment rate in the EU stabilised at 9.6% in November 2010, there is no indication that the labour markets will witness a revival this year or in 2012. Despite an improving business climate, the corporate sector will refrain from expanding hiring too briskly. Moreover, the labour market will feel the impact of government spending restrictions. A significant number of public jobs will be cut. Along with other spending cuts affecting household income, this will weigh on consumer spending this year and next. As the degree of fiscal tightening varies from country to country, the overall impact of weak consumer and government spending will be felt more acutely in the peripheral Eurozone countries which have to clean up drastically their public finances. This

will put the brakes on economic growth in those countries.

However, lower growth of economic activity implies the risk of lower tax revenues and governments not being able to meet the fiscal targets embedded in the austerity plans. To avoid further increases in the cost of sovereign debt, even more drastic spending cuts or tax increases would have to be applied. This could dampen domestic demand and consequently economic growth even further.

Meanwhile, new additions to the list of potential Eurozone debt crisis victims show that unrest on the financial markets remains high. Focus has shifted to Portugal, but also Spain, Italy and Belgium are under fire. The core Eurozone countries are clearly concerned about contagion effects. Pressure on Portugal to accept an aid package financed by the EU and IMF had been rising, but was reduced by the success of a recent bond auction.



Under these conditions it does not come as a surprise that Euro volatility has increased. Following its peak of 1.41US\$ in October, the Euro came down to 1.29 US\$ in early January and strengthened later in the month to around US\$ 1.37. This volatility reflects increased concerns about the economic and financial health of the Eurozone, which is clearly putting

solidarity amongst its members to the test and worries about the banking sector. A failure by one or more banks would backfire on the European financial system and would eventually also have global repercussions. Banks are aware of these risks and take a cautious stance on lending, particularly in the peripheral countries. Larger downside risks and weaker growth prospects for the Eurozone than for the US will prevent the Euro from appreciating against the US\$ for the time being. On the longer-term, also economic and monetary fundamentals appear to justify a relatively soft euro.

A weaker Euro will particularly support export growth in the relatively healthy core Eurozone countries through improved competitiveness on foreign markets, thus widening the gap with the peripheral countries which depend more strongly on intra-EU trade.

Against this background the European Central Bank has no other choice than to stick to a rather accommodative monetary policy. Former plans to wind down the special supportive measures will probably be mothballed until the recovery shifts into a higher gear and the banking sector moves into calmer waters.

Meanwhile, the significant performance gap at the country level complicates ECB's policies. Relatively strong growth in Germany and other Northern European countries and rising global commodity and energy prices will put further upward pressure on inflation, which is estimated to have risen from 1.9% in November to 2.2% in December 2010. However, the monetary tightening required to calm

down inflation poses serious threats to the debt-ridden peripheral countries.

On balance, the latest forecasts of EUROFER's Economic Committee suggest that the gradual and moderate recovery of the EU economy is likely to proceed in 2011 and 2012. While exports will continue to support GDP growth, corporate investment will strengthen, thus broadening the basis of the economic rebound.

Meanwhile, growth of government and private consumption will remain muted during the forecast period owing to the dampening effect of austerity programmes on growth.

The main beneficiary of the projected growth pattern will be the manufacturing sector. Strengthening investment in machinery and equipment in the EU and continued sound export possibilities, supported by a relatively soft Euro, should help industry to remain on a growth track in the 2011-2012 period. Eventually this will have a positive impact on job creation and consumer confidence.

However, continued high levels of uncertainty and differentiation at the country level will continue to leave its mark on EU's economic growth pattern, in 2011 and 2012.

EUROFER's Economic Committee sees GDP growing by 1.8% in 2011 and 2012. The risks appear to be rather balanced at this point in time. Manufacturing strength could surprise on the upside, whereas renewed volatility in EU's financial and sovereign bond markets and the absence of an adequate concerted fiscal and monetary policy response represents the major downward risk.

### **Macro-economic overview: USA**

- *Modest GDP growth fails to revive labour market*
- *Housing sector remains weak*
- *Moderate GDP growth 2011-12*

The US economy picked up some speed in the 2<sup>nd</sup> half of 2010 following the pronounced slowdown in Q2. GDP growth strengthened from 2.6% (annualised rate) in Q3 to 3.2% in Q4, thanks to gains in private and government consumption and a positive contribution from stock building. This pace of expansion was not sufficient to fuel an upswing in the labour market. The unemployment rate in December stood at 9.4%. Another weak spot is the housing sector which has lost all momentum generated by the tax credit programme. Meanwhile, economic indicators such as the ISM indexes and retail sales have shown signs of improvement in recent months. For December, the manufacturing index rose to 57.1, its highest level since 2006. Also consumer confidence has been rising for several months. On balance, economic growth is expected to have remained fairly slow in Q4-2010. The recovery is expected to remain modest in 2011 and into 2012. The renewal of the special tax measures granted under the Bush administration should have a positive impact on investment and disposable income. The outlook for private non-residential investment is rather favourable too, but weak demand and ample supply will keep the housing market flat until late 2012. The Fed's new quantitative easing measures should help to keep interest rates in check, but the impact of credit supply on the speed of recovery will be modest due to waning demand for credit from both the private and the household sector. The labour market recovery will remain slow. GDP growth in the 2011-2012 period will remain below 3% per annum.

### **Emerging regions**

- *Rebound kept its momentum*
- *Rising inflationary pressures to be countered by fiscal & monetary policy actions*

Much in contrast with the slowing pace of recovery in the industrialised nations, the rebound in the emerging countries has kept its momentum. In some countries, the focus is on combating overheating. The flip side of this more dynamic growth pattern and the rise in global commodity prices is an increase in inflationary pressures.

China's economy continues to be bolstered by strong domestic demand, still boosted by earlier measures to encourage credit supply and investment. Net trade also supports growth, helped by a currency which is seen as too low by China's trade partners in the industrialised world. Industrial performance is strong, the current high level of the manufacturing PMI signals that output will swell further in the months ahead. Inflationary pressures are also on the rise, driven by rising prices of food and commodities. The authorities have started to impose firmer monetary conditions. GDP growth is foreseen to remain close to 9%, both in 2011 and in 2012.

Elsewhere in Asia, the recovery remained on track as well. GDP in India is estimated to have registered close to 9% growth last year, fuelled by continued strong internal momentum. The Reserve Bank will most likely have to raise interest rates further in 2011 to tame inflationary pressures.

Similar tendencies can be observed in Latin America, particularly in Brazil.

Favourable business climate surveys and other forward looking indicators suggest that the emergers will keep their economic momentum in the coming 2 years. Fiscal and monetary policy tightening is not expected to derail this growth trend.

## II. The EU Steel Market

### Overview Steel Using Sectors

#### Development of the main steel using sectors – EUROFER forecast January 2011 % change year-on-year in the SWIP (Steel Weighted Industrial Production) index

	% share in total Consumption	Q110	Q210	Q310	Q410	Year 2010	Q111	Q211	Q311	Q411	Year 2011	Year 2012
Construction	27	-8,3	-1,0	0,5	-0,8	-2,2	3,4	-0,4	0,7	3,1	1,6	2,3
Structural steelwork	11	-8,1	1,7	7,2	1,3	0,6	2,5	0,6	0,5	4,9	2,0	2,6
Mechanical engineering	14	-3,2	11,1	15,9	13,8	9,3	11,2	7,7	6,5	4,5	7,3	5,2
Automotive	16	30,3	24,9	11,5	10,4	18,7	8,9	5,4	5,6	3,5	5,7	2,7
Domestic appliances	4	4,9	1,3	3,8	-0,2	2,4	3,5	4,0	3,9	6,1	4,4	3,9
Shipyards	1	-21,0	-20,8	-20,5	-9,3	-18,4	-2,7	-3,1	2,3	7,1	0,6	1,9
Tubes	12	-4,8	15,7	17,8	15,1	10,1	9,4	7,0	4,0	4,2	6,3	5,3
Metal goods	12	2,3	10,9	9,2	7,5	7,4	5,5	4,3	4,0	4,3	4,6	4,2
Miscellaneous	3	2,4	3,0	6,7	6,8	4,7	5,2	5,3	3,3	4,6	4,7	4,3
TOTAL	100	0,0	7,5	7,4	5,6	5,2	6,2	3,4	3,1	4,0	4,1	3,4

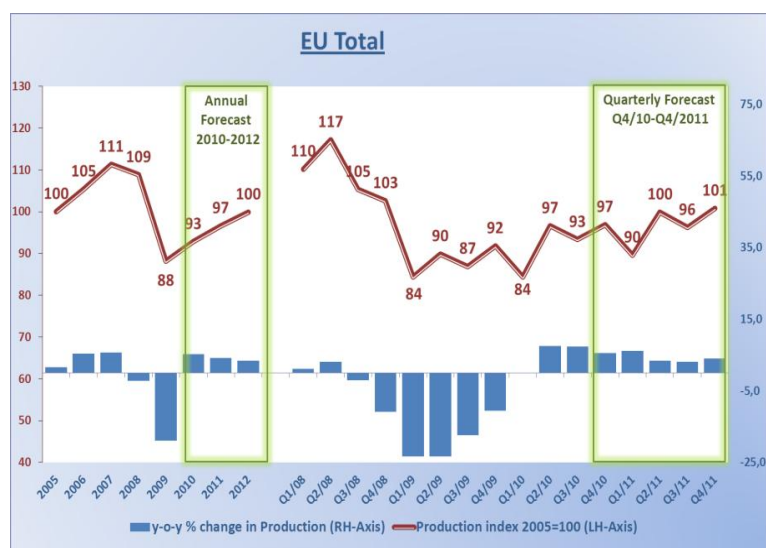
- **Continued output growth H2'10, diverging country performance**
- **Positive outlook 2011-12**

Output in the EU steel using industries grew by almost 7.5% y-o-y in the 3<sup>rd</sup> quarter of 2010, the same pace of improvement in activity as registered in the 2<sup>nd</sup> quarter of the year. Exports remained the key driver for growth, but also domestic demand in the EU showed encouraging signs of improvement, whereas the boost from stock replenishment tapered off.

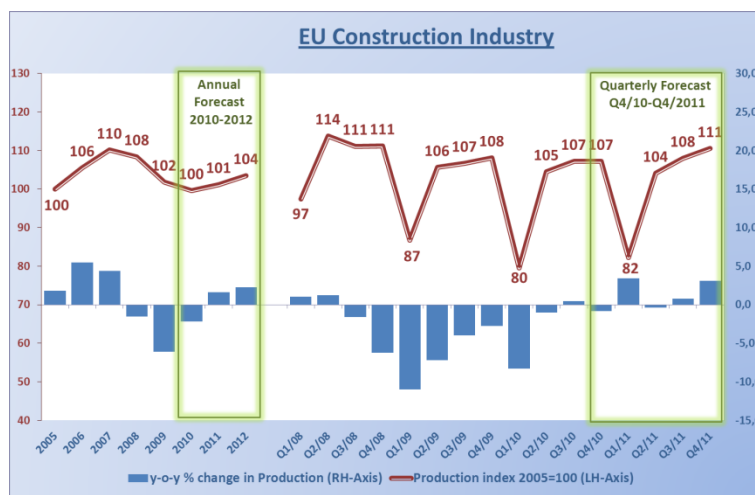
At the country level, the performance of Germany and Sweden remained particularly buoyant, much in contrast with the still depressed situation in Spain, whereas also Belgium appears to be lagging the general rebound seen across the EU.

Estimates for Q4-2010 signal continued growth in output of well over 5% y-o-y. On balance, the SWIP index is forecast to have risen 5.2% in 2010, again beating previous projections.

The outlook for 2011-12 is rather positive. Investment in machinery and equipment is seen strengthening in the EU, whereas even construction investment is expected to show slight growth. Exports will continue to contribute to activity growth, helped by a relatively weak Euro. With end-user activity well on track for sustainable improvement, the SWIP index is projected to grow by slightly more than 4% in 2011 and almost 3.5% in 2012.



## Construction



- **Activity moving sideways since mid-2010**
- **2011 should see some recovery residential activity, while public investment remains weak spot**
- **2012: further improvement**

Construction activity in the EU continued to show signs of stabilisation at a low level in the 3<sup>rd</sup> quarter of 2010. First indications for the situation in the final quarter of last year signal a continuation of this trend.

However, total EU output moving sideways hides sharp differentials at the country level.

While the construction downturn continued in the majority of the EU countries, output rose slightly in Germany and at a higher rate in Sweden and Poland, to some extent stimulated by temporary factors. A general trend seen across the EU is that the decline in residential construction activity appears to be bottoming out. Meanwhile, it is also becoming more evident that the stimulus from public construction investment is weakening rapidly across the EU as austerity programmes are being implemented. This is particularly having a dampening impact on new large infrastructure and non-residential projects. Meanwhile, the focus of government construction spending is shifting to strictly necessary repair & maintenance activities.

The outlook for 2011 is for a hesitant recovery in construction activity. In the assumption that the distortion from severe winter conditions as seen in early 2010 will not repeat itself, Q1-2011 construction output should see some year-on-year improvement. In the subsequent quarters construction activity will strengthen modestly from the low levels reached in most EU countries during 2010.

The sector expected to lead the upturn is residential construction, to some extent supported by government initiatives to stimulate low cost & social housing. However, the residential property market in Spain will remain paralysed by oversupply and difficult access to credit.

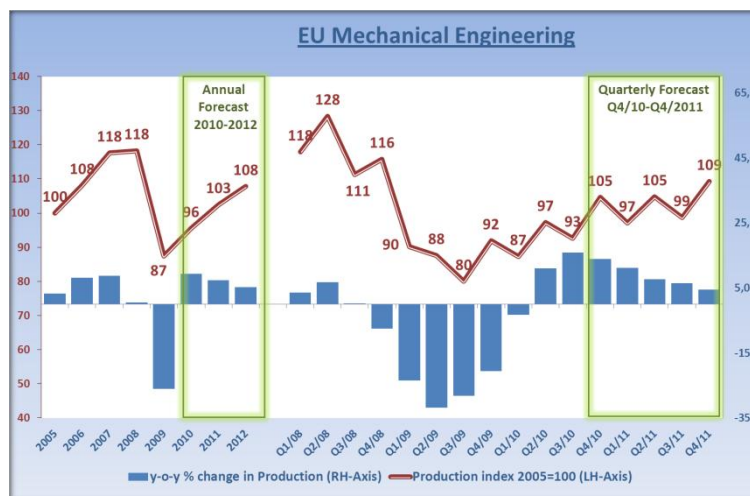
The expected improvement in the business climate will set the stage for a slow recovery of demand for private commercial and industrial projects later this year.

Civil engineering activity will bear the brunt of the reduction in government budgets across the EU. However, in most Central European countries it will remain the key driver for growth.

EU construction activity is expected to increase 1.5% this year.

In 2012, the recovery is seen broadening across the EU; total output in the construction sector is projected to grow almost 2.5%.

## Mechanical Engineering



- **Accelerating activity growth in Q3'10 driven by exports but also domestic demand improving**
- **Positive trend seen continuing in 2011-12**

In the 3<sup>rd</sup> quarter of 2010, activity in the EU mechanical engineering industry strengthened significantly further. Output growth accelerated to almost 16% y-o-y, coming from an already robust 11% in the preceding quarter. EU industry continued to benefit from firm international demand for plant and equipment. The impact of Euro appreciation on the competitive position of Eurozone companies appears to have been rather modest; product specifications and service performance rather than price tend to be the decisive factors in the market segments in which these firms compete.

The rebound of the mechanical engineering is basically a pan-European phenomenon, albeit not equally strong in all countries, depending on export focus, industry structure and product mix.

Meanwhile, a positive tendency within this sector is the fact that activity in almost all subsectors is gaining strength now.

On balance, output in the EU is estimated to have grown almost 9.5% in 2010.

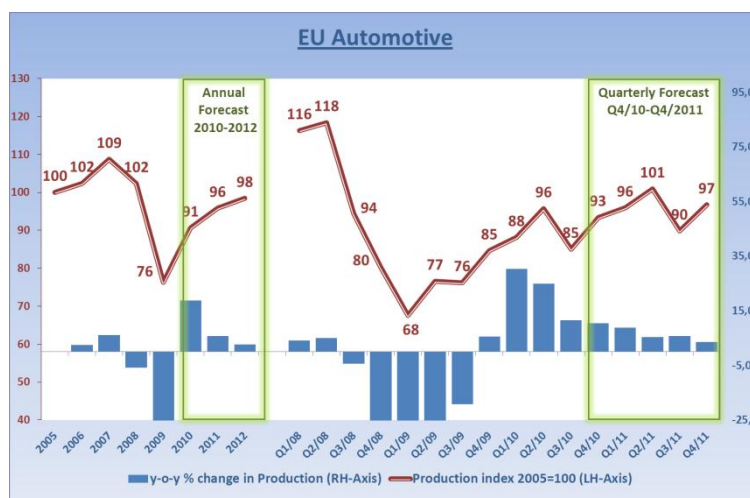
Mechanical engineering companies have entered 2011 with much improved order books compared with the lows reached in 2009. Market leader Germany registered in November last year a 43% y-o-y rise in order intakes.

The outlook for activity in 2011 and 2012 is rather healthy. Exports will continue to be a main driver for growth, but increasingly, momentum in the internal EU market for investment goods is seen gaining strength, supported by high confidence levels in industry and improving profit margins in the manufacturing chain. Capacity utilisation rates are nearing levels which require higher levels of capital spending. Investment in machinery and equipment is forecast to grow at an annual rate of close to 6% in this period,

Prospects for 2011 are for almost 7.5% growth in output.

Following two years of rapid – and higher than previously expected – growth, the rate of improvement in activity is seen easing to around 5% in 2012.

## Automotive



- **EU car sales showing first signs of stabilising while commercial vehicles sales gained strength**
- **Output +18% in 2010**
- **2011-2012: moderate growth**

The decline in EU new car sales slowed down to around 3% in December last year, resulting in a drop in registrations of 5.5% in the whole of 2010. In the first 3 quarters of the year it had been German sales which had negatively influenced overall sales in the EU, whereas in the final quarter particularly Spain, Italy and the UK saw sales falling sharply as incentives schemes were coming to an end.

Meanwhile, the rebound in demand for commercial vehicles gained further strength towards the end of last year. Total sales grew 12.5% y-o-y in December 2010 and total registrations in 2010 were 8% up on 2009.

Automotive output continued to expand in the second half of 2010, albeit – in line with expectations – at a more moderate rate than earlier in the year. Q3-2010 output grew 11.5% y-o-y, whereas growth is estimated at a healthy 10% in the final quarter of 2010. Exports remained quite robust in the 2<sup>nd</sup> half of last year, which was supportive to overall growth in automotive activity. In the whole of 2010, total automotive output is

expected to have grown almost 19%. With the exception of Belgium – where plant closures had a negative impact on activity – all reporting EU registered a rise in output. Stronger than average growth was seen in Germany, the UK, Sweden, Slovakia and Hungary.

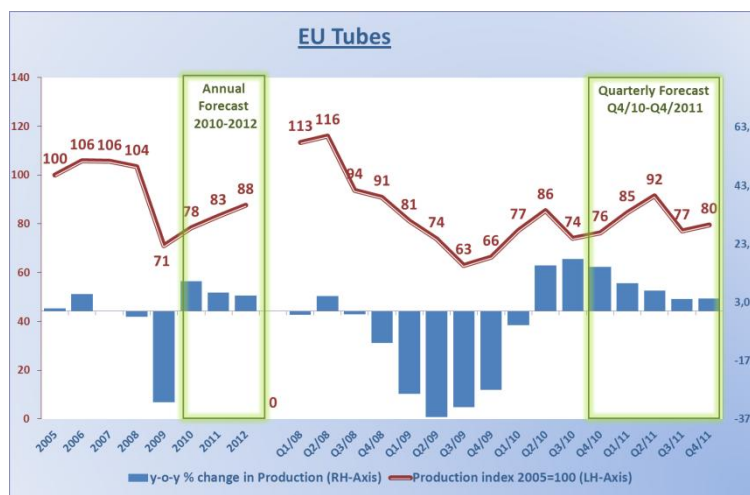
The outlook for 2011-12 is for continued but more moderate growth of automotive activity in the EU. The major distortions of recent car scrapping incentives on passenger car sales have been absorbed by the EU market in 2010. While car demand in the debt-ridden peripheral Eurozone countries will be hampered by high levels of uncertainty for consumers, sales in the other markets could steadily return to trend levels.

Automotive exports will continue to support production, especially of those manufacturers focusing on the luxury car segments.

The commercial vehicle segment is expected to see a further improvement in market volumes as the economic recovery and consequently, activity of the transport sector continues.

EU output is forecast to rise close to 6% in 2011 and 3% in 2012. Performance at the country level will depend on the product mix and focus on international export markets.

## Tubes



- **Strong rise in steel tube output in Q3-2010; further growth Q4**
- **Real consumption gradually replacing stock cycle as driver**
- **Relatively healthy prospects 2010-12**

Steel tube production in the EU increased almost 18% y-o-y in the 3<sup>rd</sup> quarter of 2010. Output growth in the 2<sup>nd</sup> quarter has been revised upwards from just below 11% to close to 16% y-o-y. This reflects the combined effect of the robust improvement in activity of the key end-user sectors of tubular steel products and the restocking along the distribution chain which is relatively long for steel pipes & tubes. Stocks had been cut massively during 2009.

In all EU countries activity in the steel tube sector has improved significantly and more so in those countries which had registered a severe reduction in output in 2009.

Steel tube production activity is estimated to have risen 15% y-o-y in the 4<sup>th</sup> quarter of last year, which results in a 10% rise in production in the whole of 2010.

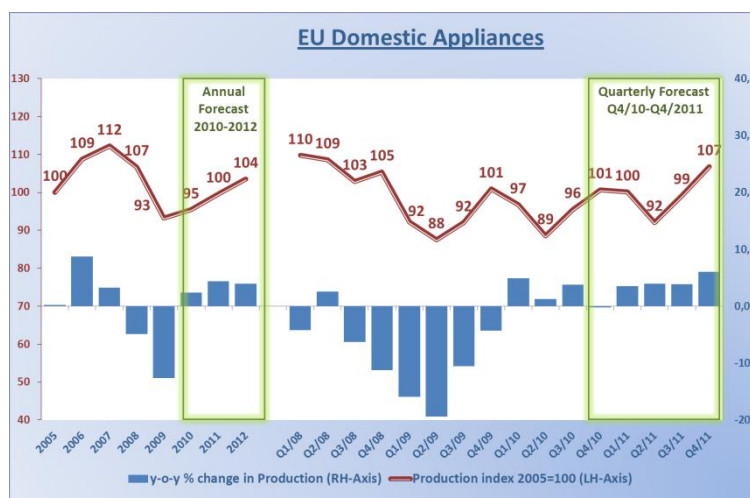
The general outlook for the steel tube sector is for continued growth in output in 2011 and 2012.

Further growth in production of small and medium-sized steel tubes is expected in these years. Business prospects for the main steel tube consuming sectors within this segment of the EU market are positive with continued growth in output of the automotive industry, the engineering and metal goods sectors. For the construction sector and the related steel structures industry a modest recovery is on the cards. Also some further stock replenishment in the distribution chain will be required to adjust inventory levels to downstream activity.

Prospects for the large welded tubes market have improved recently owing to oil prices approaching US\$100 per barrel again. In the aftermath of the global economic downturn, several large projects for the construction of oil and gas pipelines had been mothballed due to weak demand and low oil prices. This situation looks quite different now. The wind energy market has remained quite buoyant.

On balance, total steel tube output in the EU is forecast to grow by on average almost 6% p.a. in the 2011-12 period.

## Domestic Appliances



- **Slowing dynamics in H2-2010**
- **Large differentials at the country level**
- **Muted rise in output in 2011-12**

Output in the EU electrical domestic appliances industry continued to grow in the 2<sup>nd</sup> half of 2010, albeit at a much more modest pace of expansion than earlier projected.

Q3-2010 growth is reported to have been just below 4%, first estimates for the final quarter of last year signal y-o-y growth coming to a standstill. All in all, this is expected to have resulted in approximately 2.5% growth in activity in the whole of 2010. This slower than expected growth mirrors relatively weak levels of consumer confidence and a residential property market across the EU facing slow demand and financing issues.

At the country level, the situation is far from being homogeneous. Whereas France, the Netherlands and Poland saw a strong acceleration in sector activity, output declined sharply in Italy, Spain and Slovakia.

Prospects for the electrical domestic appliances sector in the EU will remain fairly muted in the years ahead.

Private consumption is only seen improving at a moderate pace. Households are confronted with continued high levels of uncertainty, especially concerning the employment situation and the effects of austerity plans on income and household wealth.

Although the outlook for the residential construction is improving, it will take some time for the property market to gain some strength again having recently come to an almost complete standstill in most EU countries.

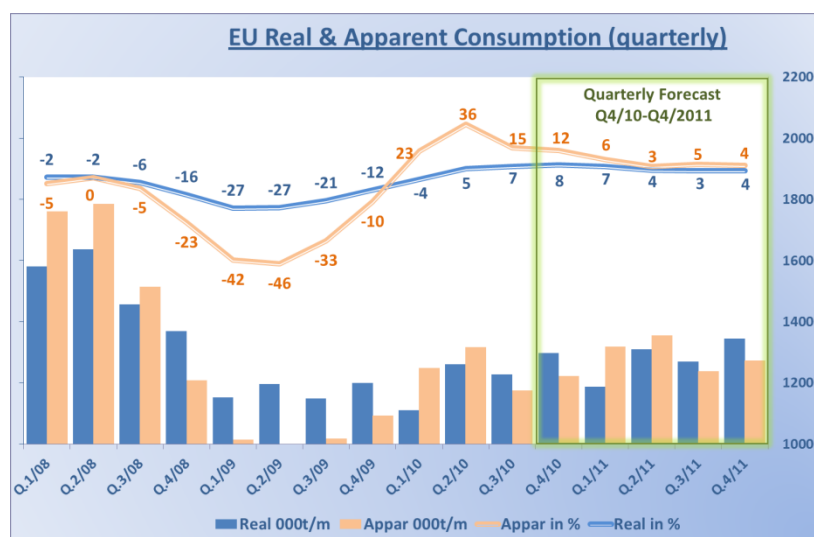
At the same time, competition is heating up due to Asian producers trying to capture market share in Europe.

All in all, output of electrical domestic appliances is projected to rise by approximately 4.5% in 2011, spurred by improving activity in Central Europe, followed by just under 4% growth in output in 2012.

## Real Consumption

### Forecast for real consumption - % change year-on-year

Period	Q110	Q210	Q310	Q410	Year 2010	Q111	Q211	Q311	Q411	Year 2011	Year 2012
	-3,6	5,3	6,8	8,2	4,2	7,0	3,9	3,3	3,6	4,4	3,8



- **Rebound real consumption gathered pace in H2-2010**
- **Recovery 2010 more robust than expected**
- **Continued growth projected for 2011-12**

The rebound in real steel consumption which started in Q2-2010 gathered momentum in the 2<sup>nd</sup> half of last year, boosted by strengthening activity in the steel using sectors. Q3 real almost 7% consumption grew y-o-y, whereas consumption growth in the final quarter of 2010 is estimated at approximately 8%.

All in all, real consumption in the EU steel market is forecast to have risen 4.2% in the whole of 2010. This growth rate clearly surpasses previous projections and reflects the robust recovery of EU's manufacturing industry since Q2-2010.

Looking forward, prospects for final demand in the EU steel market remain positive.

The steel using sectors in the EU are well on track for further steady growth in output in 2011 and 2012. In addition to rising demand from the manufacturing sectors, also demand for steel products for construction applications looks set to increase slightly again this year, having dragged down total real steel consumption for almost 3 years.

As investment is becoming more geared at machinery & equipment, also rising steel intensity<sup>1)</sup> should support growth in steel consumption.

Real steel consumption is forecast to rise almost 4.5% in 2011 and 4% in 2012.

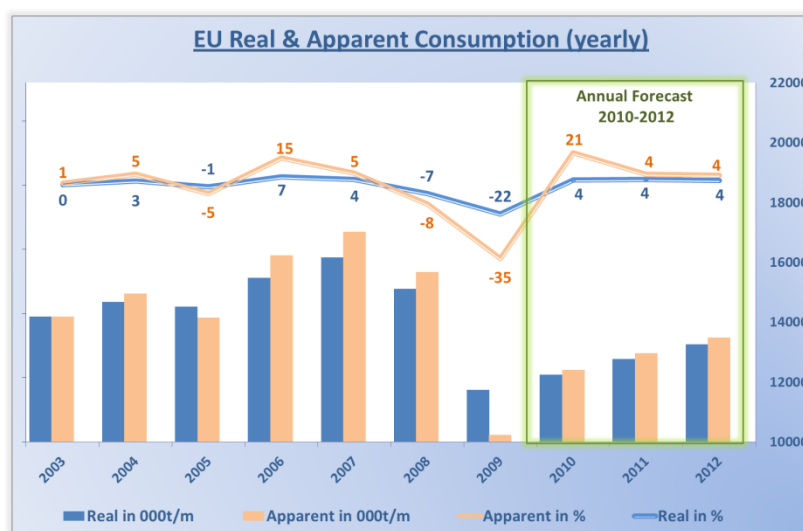
Despite improving consumption levels, the gap with pre-crisis market volumes will remain significant.

1) steel intensity is the ratio of steel consumption to steel weighted production in the steel using industries (SWIP). History shows that during a recession, steel intensity temporarily becomes weaker due to changes in investment patterns and increased focus on cost reduction via material efficiency

## Apparent Consumption

### Forecast for apparent consumption - % change year-on-year

Period	Q110	Q210	Q310	Q410	Year 2010	Q111	Q211	Q311	Q411	Year 2011	Year 2012
	23,2	36,1	15,4	11,9	21,3	5,7	2,8	5,3	4,1	4,4	4,1



### Annual Apparent Consumption in Mio Tonnes

2004	179
2005	170
2006	195
2007	204
2008	188
2009	123
2010 (f)	149
2011 (f)	155
2012 (f)	162

- **Apparent consumption growth slows as stock cycle boost fades**
- **Cautious end-user buying in H2-2010, rising raw material price trigger forward buying**
- **Apparent steel demand 2011-12 in sync with real consumption**

As expected, growth of apparent consumption slowed down during the 2<sup>nd</sup> half of last year compared with the rather hectic pace in the 1<sup>st</sup> half, due to the impulse of restocking fading away. Apparent consumption grew by more than 15% y-o-y in Q3-2010; Q4 growth is estimated at about 12% y-o-y.

Stocks having been sufficiently replenished, end-users purchased basically for immediate needs from mid-2010 onwards. This cautious procurement strategy reflected short delivery times at the one hand and cash and credit constraints and still high uncertainty levels surrounding the business climate on the other.

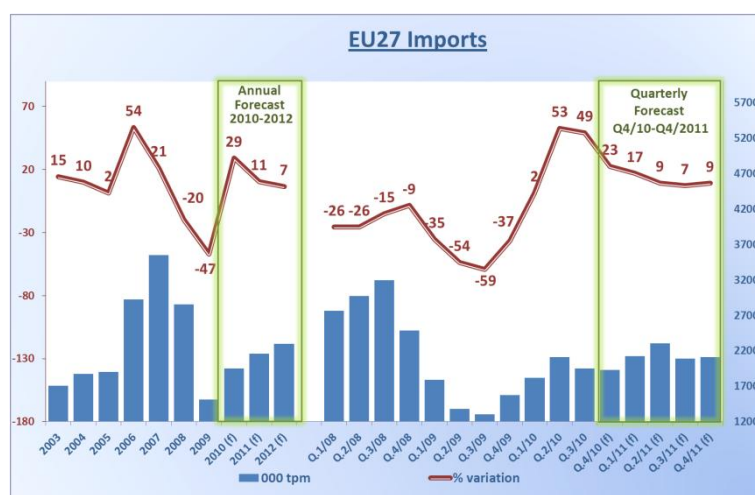
However, the likelihood of steel producers trying to recoup higher cost of steel making materials such as iron

ore, coking coal and scrap also triggered some forward buying, resulting in rising flat product bookings from the distribution chain in late 2010. On balance, apparent consumption in the EU grew around 21% in 2010.

The EU steel market started 2011 on a positive note. Stocks levels at end-users and distributors – despite the evidence of some speculation – are still assessed as low to normal for the current level of downstream activity. The outlook for real consumption is for further sustainable growth. Imports are still at reduced levels compared to 2006-2008, albeit on a rising trend for most flat products. All in all, the market looks to remain relatively well balanced for the time being. The key uncertainty currently stems from increased volatility in demand due to the continued tightness and rising prices pushing up the cost of hot metal.

Apparent steel consumption is projected to rise by amply 4% in 2011 and in 2012, in sync with the underlying trend in final steel consumption.

## Imports



- **Imports stabilise in H2-2010**
- **Total imports +32% in 2010, diverging trends at the product level**
- **Modest import pressure despite further rise in imports in 2011-12**

In the 3<sup>rd</sup> quarter of 2010, total steel imports into the EU amounted to almost 2 million tonnes per month. While this monthly volume still represents a rise of almost 57% y-o-y, it remained very close to the average monthly level of imports registered in the 1<sup>st</sup> half of the year.

Available customs data for steel trade in Q4 signal that imports from third countries stabilised at the Q3 level.

All in all, total imports are forecast to have increased by about 32% in 2010. However, this growth figure hides significantly diverging trends at the product level in the first and the second half of the year. In the first half of 2010 particularly imports of semi-finished product had risen sharply, much more so than flat product imports whereas long products imports had fallen significantly. However, in the second half of 2010, the increase in flat products outpaced the rise in semis and long products.

The rising trend in flat product imports can largely be attributed to a stronger

inflow of finished steel from China. Russia and the Ukraine remained the main countries of origin for semi imports.

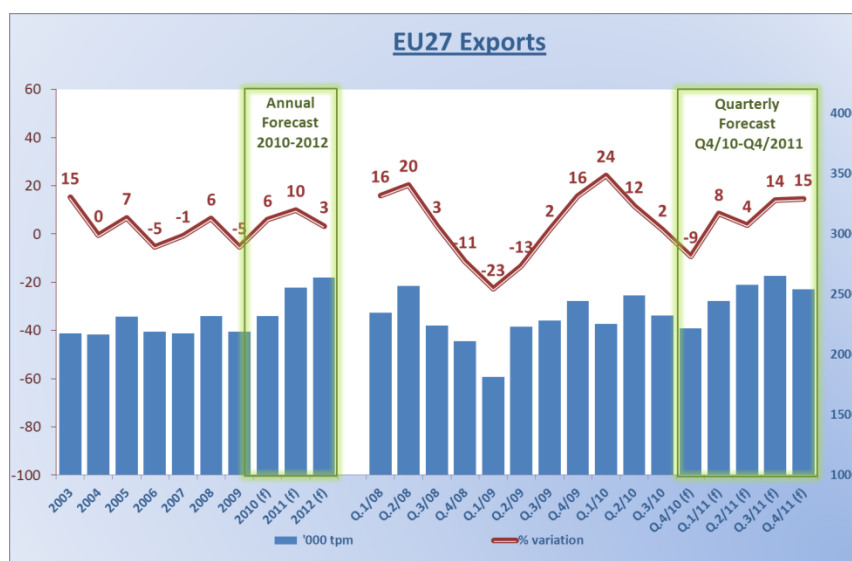
The share of total steel imports in EU apparent steel consumption has risen to close to 16% in 2010, which is marginally higher than the 14.8% share registered in 2009, but still well below the markedly higher share seen in the 2006-2008 period.

For 2011 and 2012 it is expected that the rising trend in imports from third countries will persist. For 2011 a growth of almost 11% is foreseen, compared with an anticipated rise of total EU demand of 5%. The first projections for 2012 signal that imports could increase by almost 7%, again surpassing the expected growth of the total EU market.

This would result in a 17% share of imports in apparent consumption in 2012.

While this scenario does not give rise to expecting that imports will lead to market distortions, it is not to be excluded that temporary oversupply conditions in other regions could temporarily result in a stronger inflow of third country imports into the EU.

## Exports



- **EU exports ease in H2-2010**
- **Total exports rise almost 6% but EU trade surplus halved in 2010**
- **Exports will continue to rise moderately in 2011-12**

Customs statistics for Q3-2010 show that EU steel exports grew only marginally compared with the same quarter of 2009 while falling almost 7% quarter-on-quarter. A further reduction in export volumes took place in the final quarter of last year, with exports almost 10% down on Q4-2009 and 5% below exports in the previous quarter.

All in all, total exports from the EU to third country destinations are estimated to have risen by around 6% in 2010.

This means that the EU trade surplus over the first 11 months of 2010 amounted to 294,000 tonnes per month, compared with 590,000 tonnes per month in the whole of 2009.

At the product level, the trade surplus in long products increased further to close 600,000 tonnes per month; weak construction activity in the EU forced

most long product producers to find outlets elsewhere. In contrast, improving flat product market fundamentals helped reducing the surplus in flat products whereas the EU trade deficit in semis increased sharply to 431,000 tonnes per month.

The latest projections for EU steel trade flows in 2011 and 2012 signal that exports to third countries will continue to rise.

However, as imports are forecast to rise even more strongly in these years, the overall impact on the trade balance will be fairly modest.

Due to the improved outlook for the construction sector in the EU, it is likely that the export product mix will slowly evolve towards a higher share of flat products.

Changes in %	IMPORTS Third Countries	EXPORTS Third Countries	DELIVERIES into EU 27	TOTAL DELIVERIES
Q.I/2010	1.5	24.4	29.6	28.3
Q.II/2010	52.8	11.6	33.1	30.1
Q.III/2010	49.3	1.8	10.4	8.8

### FORECAST

Q.IV/2010	22.7	-9.2	7.5	5.0
Year 2010	29.0	5.9	19.6	17.4
Q.I/2011	16.9	8.4	4.0	4.9
Q.II/2011	9.4	3.6	1.5	2.0
Q.III/2011	7.2	14.2	5.8	7.3
Q.IV/2011	9.2	14.6	4.5	6.2
Year 2011	10.6	10.0	3.9	5.0
Year 2012	6.6	3.3	3.7	3.7

