

Economic and Steel Market Outlook 2009-2010

April'09 Report from EUROFER's Economic Committee

- based on April 2009 forecasts -

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

	Eurofer Forecast April 2009 EU			
	2007	2008	2009 (f)	2010 (f)
GDP	2.7	0.9	-3.3	0.3
Private consumption	2.0	0.7	-1.0	0.1
Government consumption	1.9	1.9	2.0	1.7
Investment	5.2	0.3	-7.8	-1.0
Investment in mach. equip.	6.8	0.5	-10.2	-1.5
Investment in construction	3.2	0.9	-5.7	-1.0
Exports	5.3	2.1	-9.2	3.1
Imports	5.1	1.9	-6.7	2.3
Unemployment rate	7.3	7.2	9.6	10.0
Inflation	2.2	3.3	1.0	1.5
Industrial production	3.5	-1.2	-8.7	0.8

(e) = estimate
(f) = forecast

I. EU Macro-economic overview

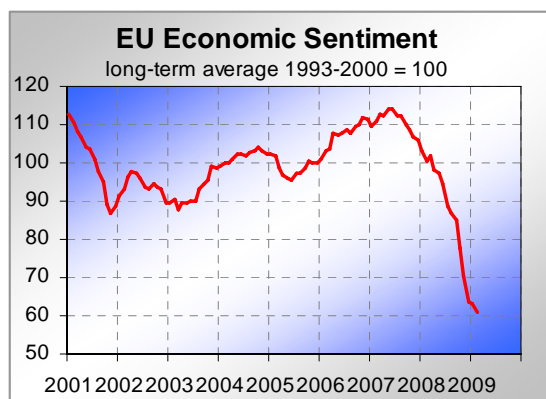
- ***EU industry hit hard by falling exports and tight credit supply***
- ***Policy stimulus: little effects before 2010***
- ***Recession probably deeper and longer, downward risks dominate***

In the final quarter of last year, GDP in the EU fell 1.5% compared with Q3 '08, the deepest quarter-on-quarter decline in 50 years. Through a synchronised steep economic downturn, further significant restrictions in credit availability and confidence falling off a cliff in all key economic regions of the world, global demand for investment and intermediate goods is on a sharply weakening trend since late 2008. This is having serious repercussions on international trade and consequently, global industrial production.

Due to its relatively large exposure to exports of goods and services, EU's former engine of growth has stalled completely without compensation from within the internal EU market.

As long as there are no firm indications that the trough in the global financial crisis has been reached, uncertainties will persist and risks will continue to weigh to the downside.

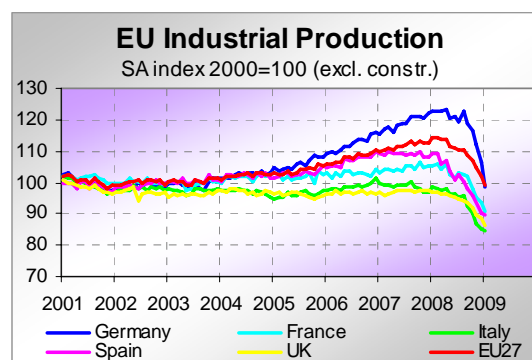
This is reflected in a further substantial downward correction of the EU's macro-economic outlook for 2009-2010. GDP is forecast to contract by 3.3% in 2009.



Since the start of the year, most economic indicators for the EU have deteriorated further. While some indicators appear to be nearing the phase of bottoming out – such as the Purchasing Managers' Index for some EU countries and the IFO indicator for the German business climate - they are still at such low levels that it will take a relatively long period before any improvement will feed through into the real economy.

Particularly the brisk deterioration in world trade is impacting heavily on EU enterprises. Trade data for the Eurozone indicate that the EU16 area experienced y-o-y declines of 7% in exports in December and 22% in January. It also shows that the balance of trade in the area has fallen to a deficit of €5,46 million since February 2008, when the last appreciable surplus was registered. Manufactured exports are the hardest hit. Orders intakes for plant & equipment are falling dramatically as companies around the world have shifted into survival mode and struggle to secure on a daily basis operational cash flows. Companies have started to cut inventories in the past months, but evidence suggests that stocks remained too high, particularly when

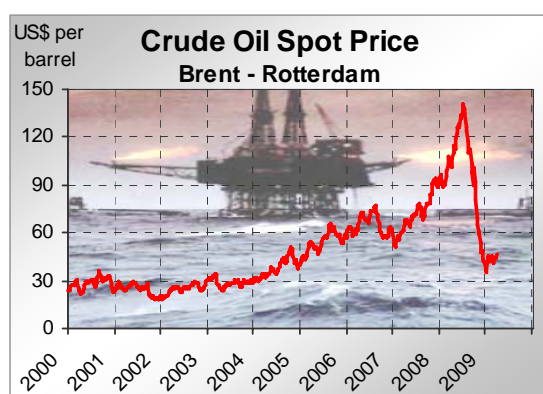
related to the current low level of activity. In addition, investment plans are being scaled back, postponed or even cancelled completely. At the same time, credit supply - not only to large but also to small and medium-sized companies – has continued to tighten. This has led to demand for capital and intermediate goods to weaken further and order books to getting closer to depletion. In the EU, industrial production is falling off a cliff since late 2008. January '09 data show total EU industrial production falling by 16.3% y-o-y, capital goods output by 21.1% and intermediate goods even by 23.7% y-o-y.



The assessment or short-term production trends in industry has fallen to all-time lows, signalling that there is sustained weakness ahead for the manufacturing sector in the EU.

Meanwhile, households are clearly in retrenchment as consumer confidence remained at historically low levels. This is due to the strong reduction in household wealth as a result of the continued fall of equity values and housing prices and rising unemployment across the EU. In Germany - with its large industrial base – employment is expected to fall by 1.3 million in the 2009-2010 period; this would imply that almost all of the growth since 2005 will be offset. With similar trends in other

countries, this will have a dampening effect on gross salaries and household spending with particularly purchases of big ticket items such as cars being affected, which is exacerbated by restricted access to household credit. Meanwhile, inflation is on a falling trend due to the sharp downward correction in oil, food and commodity prices; Eurozone core inflation, excluding energy and unprocessed food prices, stood at 1.7% in February.



Coming from close to 3.5% in 2008, inflation is projected to decline to 1% in 2009 and is seen remaining low in 2010. This will to some extent mitigate the negative effects of the rise in unemployment on contract wages and could give consumers a psychological boost at a time when the EU economy is under severe pressure.

Lower inflation in combination with the EU facing the sharpest decline in economic activity in the post-war era prompted the ECB to cut interest rates again in March. The longer-term refi (refinancing) rate now stands at 1.5%. However, there is more to be done than lowering interest rates to revive the EU economy. The bottom-line is that restoring confidence will be key to finding a way out of the current downturn which has been triggered by a large-scale financial crisis.

Concerted policy interventions are needed to tackle the current problems in the banking sector and to stabilise the financial market situation which so far is still characterised by extreme risk aversion at the expense of the corporate and household sector. There is consensus that the only way forward is to remove the burdening toxic assets from the balance sheets of financial institutions into publicly owned and controlled asset management companies, and to recapitalise viable banks as soon as possible. It is extremely important that banks start to increase the supply of private credit again which currently is restricted by fears of counterparty default, illiquidity and banks' depleted capital.

At the same time, there is the urgent need for flanking policy measures to support internal demand and safeguard employment.

So far, the policy stimulus in the EU has been more moderate than in the United States while also the ECB is lagging the Fed in terms of plotting fast and more innovative routes to achieve financial stability. In its latest plans, the Fed announced to buy \$300 billion in Treasury debt, increase purchases of mortgage-backed securities to a total of \$1.25 trillion and double its purchases of debt issued by Fannie May-Freddy Mac, to an amount of \$200 billion. All in all, the Fed is expanding its balance sheet to almost \$4 trillion, equal to 30% of US GDP. On balance, the American Recovery and Reinvestment Act provides in 2009-2010 an impulse of around 2.25% of GDP through additional government spending and tax reductions.

The EU bloc claims it will be spending 3.3% of GDP this year and next on stimulus efforts, but most of this is extra welfare payments. The impact of automatic stabilisers in the EU is larger than in the USA, and compares with another €200 billion of discretionary measures. National government programs to boost the economy total €200 billion, 1.2% of GDP. On top of these measures, an additional package of €5 billion in community funds will be made available to finance energy infrastructure and other projects designed to stimulate the economy.

The main uncertainty concerning the policy stimulus is of course about the timing and effectiveness of the measures mentioned before. While they may ease the necessary adjustment process in the financial and private sectors, it is not plausible that they will result in a pronounced recovery in the 2009-2010 timeframe.

This is probably particularly true for the EU economy: its recovery will be slow and probably lagging an improvement in the emerging countries and other advanced economies. A key reason is that the Central and Eastern European region is most adversely affected by the global financial crisis. Exports from these countries have fallen dramatically, the automotive sector collapse in Western Europe being a key factor in this development. Given the region's large current account deficits, capital flows to these countries have dried up due to increased risk aversion and weakened balance sheets of banks. Domestic demand is under severe pressure due to mounting corporate and household debts. This region is an important trade

partner for many companies in Western Europe.

Another factor jeopardising the EU recovery is the flood of trade restrictions and other protectionist actions across the world. This will endanger the much needed improvement in international trade, which is particularly harmful for the EU with its open market structure and strong industrial dependency on exports.

Against the current background of still largely downward risks and uncertainties EUROFER's Economic Committee expects that the current climate characterised by investment cuts, stock reductions, reduced private consumption and rising levels of household savings will continue for the remainder of this year and probably into the first half of next year.

The current outlook sees investment falling by 7.7% in 2009 followed by a further 1% decline in 2010. The drop in private consumption is less sharp, but its 1% decrease this year and close-to-zero growth in 2010 will have a significant impact on domestic demand. Exports are seen falling by almost 9% in 2009 with currently a mild recovery pencilled in for 2010.

All in all, GDP will fall by 3.3% in 2009, followed by a slight improvement during 2010.

This implies that only from the second half of 2010 onwards the recovery in the EU could gather pace, once the policy measures start to have the desired effects.

Macro-economic overview: USA

- *Steep drop in Q4'08 GDP*
- *Continued weakness in H1'09*
- *Some recovery in H2'09 but overall weaker outlook 2009-10*

In Q4'08, GDP fell by 1.6% q-o-q; a much sharper rate than expected and the sharpest decline since the early eighties. The decline was driven by a fall in exports, investment and private consumption.

Meanwhile, a further deterioration in economic data and indicators since the start of the year has dimmed the outlook for 2009 and 2010.

Consumer confidence is at a record low as the downturn on the property and stock market continued while severe job losses in early 2009 underpinned that the situation on the labour market deteriorated further. The unemployment rate jumped to 8.1%, the highest level since late '83.

Some positive news however has recently come from the housing market. Sales of existing homes rose 5.1% in February. In addition, total new housing starts in February rose 22.2% from January to 583,000. This could indicate that the housing downturn is bottoming out, which is an important criterion for any recovery to take off later in the year.

Manufacturing activity remained very weak. However, industrial orders rose unexpectedly in February and the ISM Purchasing Managers' Index improved slightly from a very low level in March. Following a very weak 1st half, the situation is seen improving during the remainder of 2009 as the stimulus package and other measures will start to feed through in the economy. Nevertheless, the drop in GDP is now projected to be around 3.5% in 2009, while growth in 2010 has been scaled down to 1.5%.

Other regions

- *Japan: risk of deflation*
- *Emerging countries: falling exports drag down production*

In Japan, Q4 '08 GDP fell 3.3% due to a steep drop in exports and consequently, industrial production. Q4'08 output was 20% down y-o-y and, taking into account the decline in the PMI to below 30 in January, this situation is seen continuing for the time being. Companies are shutting down capacity and reducing workforce. As a result, consumer confidence is badly affected and private consumption weakening further. As the output gap is widening, it is feared that Japan could slide back into deflation.

On balance, Japan's GDP is projected to fall by around 6.5% in 2009, before improving again modestly in 2010.

Also the emerging countries are dragged along in the global downturn. The drastic slowdown in international trade caused by the global recession and credit crunch is impacting very hard on most export-oriented economies in Eastern Europe, Latin America and Asia.

China has to cope with the strongest deceleration in growth for 20 years due to dramatic decline in exports and weakening domestic demand owing to the bursting of the property bubble and a serious weakening in investment. Current business conditions reveal that in recent years excess capacity in industry has been installed. Owing to the government stimulus package, the outlook for China is for 6% GDP growth in 2009 and close to 10% in 2010.

According to the latest IMF forecast, global GDP is expected to decline by around 0.5 – 1% in 2009, before recovering gradually in the course of 2010.

II. The EU Steel Market

Overview Steel Using Sectors

Development of the main steel using sectors – Eurofer forecast April 2009
 % change year-on-year in the SWIP (Steel Weighted Industrial Production) index

	Steel Consumption by sectors in %	Q408	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010
Construction	27	-6.1	-0.9	-13.4	-10.3	-7.8	-4.8	-9.0	-0.4	0.5	2.4	0.6	0.9
Structural steelwork	11	-6.6	-2.5	-13.5	-14.1	-11.7	-6.8	-11.5	-3.5	-1.0	0.8	0.7	-0.7
Mechanical engineering	14	-6.8	0.9	-18.8	-18.4	-14.3	-9.3	-15.3	-1.5	0.5	1.2	1.3	0.4
Automotive	16	-27.8	-7.1	-39.3	-28.7	-19.0	-3.1	-24.3	15.4	1.8	2.6	3.8	5.6
Domestic appliances	4	-12.6	-5.0	-17.2	-16.7	-12.2	-4.7	-12.7	-2.0	-1.2	0.8	0.9	-0.4
Shipyards	1	1.6	4.7	-6.2	-11.3	-9.8	-7.3	-8.7	-3.4	-5.1	-5.6	-5.5	-4.9
Tubes	12	-13.0	-2.9	-25.7	-23.1	-13.6	-5.3	-17.8	3.2	4.7	5.7	2.3	4.0
Metal goods	12	-11.6	-3.2	-25.3	-21.3	-16.6	-7.9	-18.1	2.9	1.7	2.8	2.6	2.5
Miscellaneous	3	-1.3	3.3	-13.0	-13.3	-11.2	-9.0	-11.7	0.5	1.0	1.9	2.9	1.6
TOTAL	100	-11.2	-2.2	-21.8	-18.1	-12.9	-6.0	-14.9	2.0	1.0	2.4	1.7	1.7

- **Recession hammers activity EU steel using sectors**
- **2010 seen remaining weak**

The latest data concerning the trend in activity in steel using sectors in the EU confirm the dramatic impact of the financial and economic downturn on global demand for investment and intermediate goods. Within the time span of one year, the business cycle went from “boom to bust”.

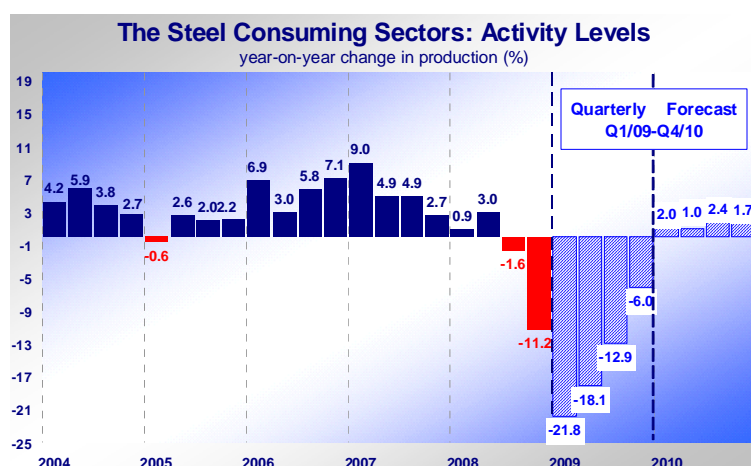
Since autumn '08, order intakes in the EU steel using sectors have been falling strongly. As a result, total output in the steel using sectors declined by 11.2% in Q4'08.

The April '09 forecasts provided by the members of the EUROFER Economic Committee signal a sharp further drop in production during the first three quarters of this year. Orders books in industry are getting exhausted due to the lack of new order intakes.

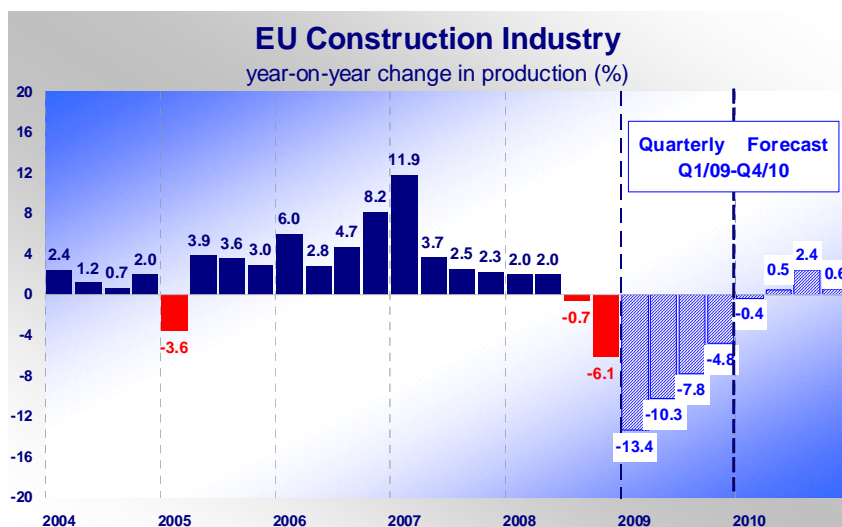
Companies will remain stuck in survival mode, keeping operational stocks as low as possible and cutting investment to the bone as long as the slump in confidence and tight credit availability continues.

Consequently, the outlook for 2009 is very grim: total output in the steel using sectors – represented by the SWIP index – is expected to fall by almost 15% in 2009.

The outlook for 2010 has weakened also, with a lower level of activity than previously expected and only a minor improvement compared with 2009.



Construction



- **Severe downturn construction sector in 2009-10**
- **Impulse from civil engineering**

Construction sector activity across the EU countries weakened substantially in the course of 2008. While in Spain, the UK and Ireland the housing market correction had already driven down overall activity in the sector since late 2007, the slump in residential construction output started to spread to other EU countries as well as to the non-residential construction industry from early 2008 onwards. Particularly in the 2nd half on last year, private commercial and industrial orders were affected by the overall fall in business confidence and reduced project financing possibilities. Meanwhile, residential construction market fundamentals deteriorated due to falling housing prices, financing restraints, rising stocks of unsold homes and the overall decline in consumer confidence. Construction output in Q4'08 fell 6.1% y-o-y, dragging down overall activity in 2008 by close to 1%.

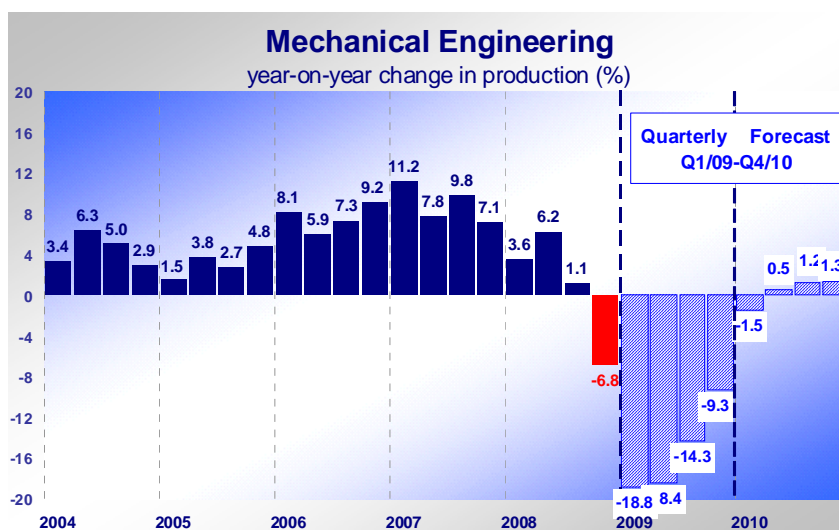
Business conditions in the construction are seen remaining sluggish for the

time being, with only the civil engineering sector offering some glimmers of hope. All EU countries are currently looking into the possibility of increasing public investment in infrastructure, such as roads, railways and water and energy networks. However, any additional positive impact is not to be expected before the 2nd half of this year.

Meanwhile, the outlook for the residential and non-residential sector is very depressed. The only segment within the non-residential sector which seems to be better positioned is the public sector as there are also plans for increased spending on hospitals, schools, etc

The latest forecasts point to a very weak 2009 with output falling by more than 13% in the 1st quarter and only slightly less negative rates pencilled in for the remaining quarters of this year. On balance, 2009 output is expected to fall by 9%. For 2010, a stabilisation at the low level of the preceding year is expected. The Central European region is expected to see some growth again, mainly owing to increased infrastructural spending.

Mechanical Engineering



- **Reversal global investment cycle sharply reducing activity**
- **Very depressed outlook 2009-10**

The mechanical engineering sector is particularly badly hit by the global slump in demand for capital goods such as investment in plant and equipment has come down at a horrendous rate since late 2008.

Forced by the economic downturn and tight credit availability investment in capital goods has weakened dramatically. As industrial output is falling sharply since late 2008, capacity utilisation is also in decline; previously reported capacity bottlenecks in industry have vanished completely. Against the background of the strength of the investment cycle in the 2006-2007 period, the current outlook is for a reversal of this trend in 2009 and 2010. Both demand in the EU and in the major export markets will be affected markedly. Particularly prospects for the Central and Eastern European region have deteriorated dramatically in recent months; domestic demand in most countries is under severe pressure due to mounting corporate

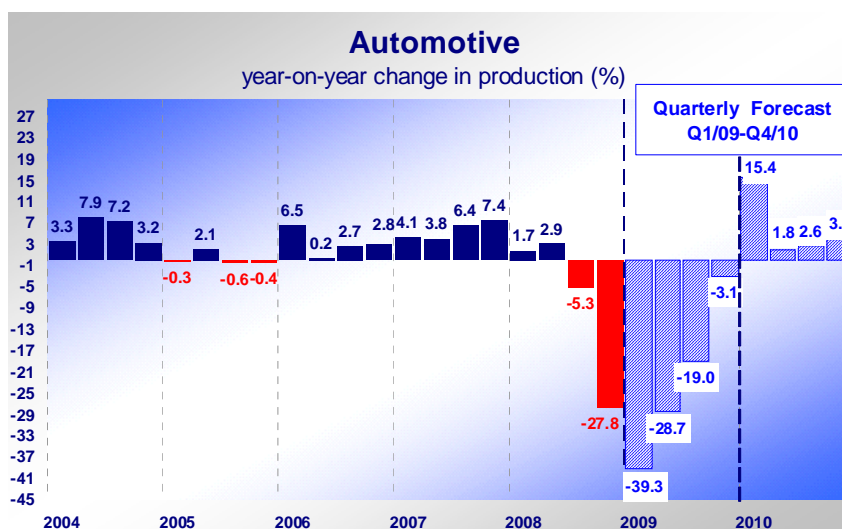
and household debts and reduced capital inflows. Especially the rapid build-up of automotive capacities and their supplier networks had bolstered demand for plant and equipment in this region. It is expected that the current and forthcoming quarters will see a sharp correction in demand.

This trend is already reflected in the current order intakes. The latest VDMA figures show mechanical engineering orders in Germany falling by 50% y-o-y in February. Existing order books are being depleted day by day.

Output is projected to decline significantly this year; through double-digit falls in output in the first three quarters and only a slightly less negative drop in Q4, total output in 2009 is to decrease by 15.3%.

The scope for improvement in 2010 is very limited. At least the 1st quarter of the year is expected to register a further y-o-y drop in output, with only a moderate recovery pencilled in for the remainder of the year. On balance, EU mechanical engineering output will remain close to the very depressed level currently projected for 2009.

Automotive



- **Fall in car and CV sales accelerates in Jan-Feb'09 period, particularly in Central Europe**
- **24.3% drop in EU output in 2009**
- **2010 should see an improvement**

EU car sales continued to fall dramatically in the first months of this year on a par with the further weakening in consumer confidence across Europe. Total registrations in the January-February period declined 22.5% y-o-y. Germany was the only major market registering an increase in sales owing the positive effect of the scrapping premium. Meanwhile, underpinning the significant change in the economic climate in Central Europe, sales in the new EU countries fell by almost 30% y-o-y.

Even more dramatic corrections in demand took place in the commercial vehicle sector. Sales of light commercial vehicles fell 35% y-o-y, and medium and heavy truck by almost 40% in the EU. Sales of heavy trucks dropped by an horrifying 68% y-o-y in the new member states.

Via a synchronised drop in export demand, automotive output declined massively in the final quarter of 2008.

The close to 28% drop in production resulted in a 7.1% fall in output in the whole of 2008.

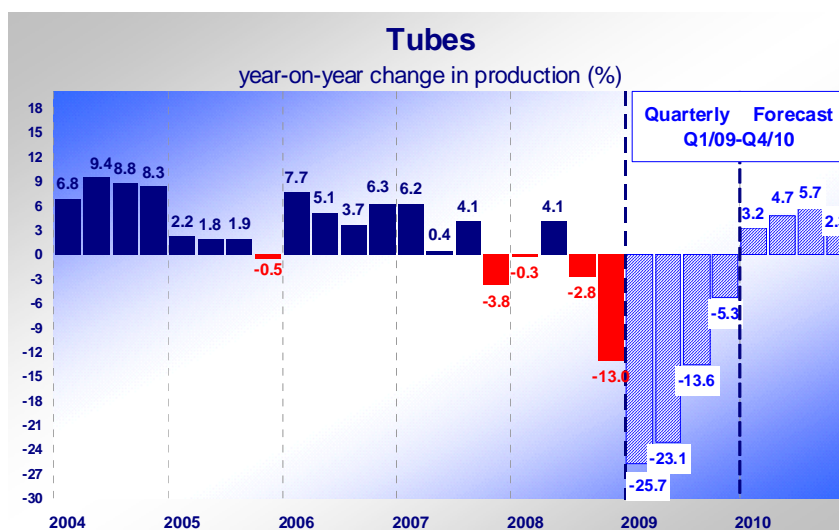
Capacity utilisation rates are dropping sharply across the automotive OEMs in Europe. The effect on their supplier networks is devastating.

The outlook for the coming quarters continues to be extremely bleak. Business conditions are not seen improving before 2010. The toxic mix of extremely low consumer and industrial confidence levels, credit supply restrictions and a highly competitive global playing field are putting the automotive industry under severe pressure.

The bottom line is that the downturn will persist during 2009, despite increased governmental support for the sector through scrapping premiums and other flanking policy measures.

EU automotive production is expected to fall by 24.3% in 2009, back to levels lastly registered around 1995. The current forecast still foresees a slight recovery in 2010 from the very low activity levels of this year provided the main obstacles to an economic recovery have been removed.

Tubes



- **Sharp fall in output in 2009**
- **All tube sectors affected**

Steel tube output in the EU fell sharply in the course of the 2nd half of 2008 as demand for tubular products started to weaken. The main factors impacting demand were the significant decline in activity in tube consuming sectors such as the automotive industry, the construction sector and related industries, the metal goods sector and the mechanical engineering industry. Lower downstream activity, financing problems and a strong focus on cost reduction to preserve cash flows resulted in companies in all parts of the manufacturing value chain slashing their tube inventories and cutting down on orders. Moreover, tube imports – particularly in the commodity segments – appear to have increased their share in the shrinking market.

This resulted in Q4'08 steel tube output falling by 13% y-o-y. Total tube output fell 2.9% in 2008.

The outlook for 2009 is very grim. Activity in the main consumer sectors is likely to remain at a low level for the

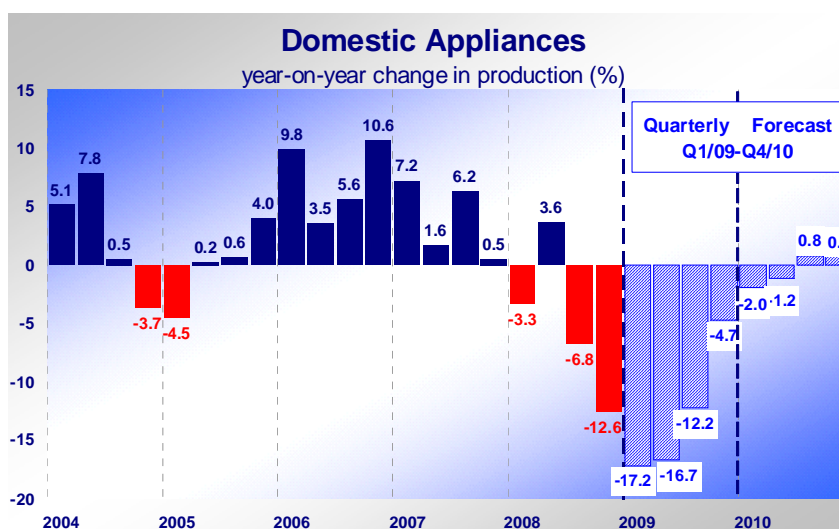
time being. This also implies that generally speaking restocking will not take place as long as low demand is resulting in too high stock sales ratios.

All tube sectors are impacted by the economic and financial crisis, even sectors which appeared so far to be relatively immune to the downturn. Also in the energy market, project financing is becoming more difficult, not only against the current credit supply restrictions but also due to the sharp fall in the oil price which is reducing the economic viability of some energy projects. This has a negative impact on demand for and output of large welded tubes and OCTG (Oil Country Tubular Goods).

The outlook for 2009 is for a very sharp further reduction in production in the 1st half of the year. While the rate of decline is seen easing a bit in the 2nd half, total EU steel tube output is forecast to drop 17.8% in 2009.

The current forecast foresees some improvement in 2009, rather driven by the need for restocking than by a pickup in final demand.

Domestic Appliances



- ***Weak housing market and credit restrictions force domestic appliances demand down***
- ***Output forecast to fall sharply in 2009 and to stabilise in 2010***

Business conditions in the EU electrical domestic appliances market deteriorated markedly over the course of last year. Key reasons for the decline in demand are the weakening new housing construction activity in the residential sector and slowing sales of existing houses in combination with credit restrictions leading to a fall in mortgage approvals and the general drop in consumer confidence. As a result sales of electrical domestic appliances have come increasingly under pressure.

In addition, the market is highly competitive, with Asian manufacturers capturing larger market shares in recent months.

In Q4'08 total EU output fell 12.6% y-o-y. Overall 2008 production declined 5%.

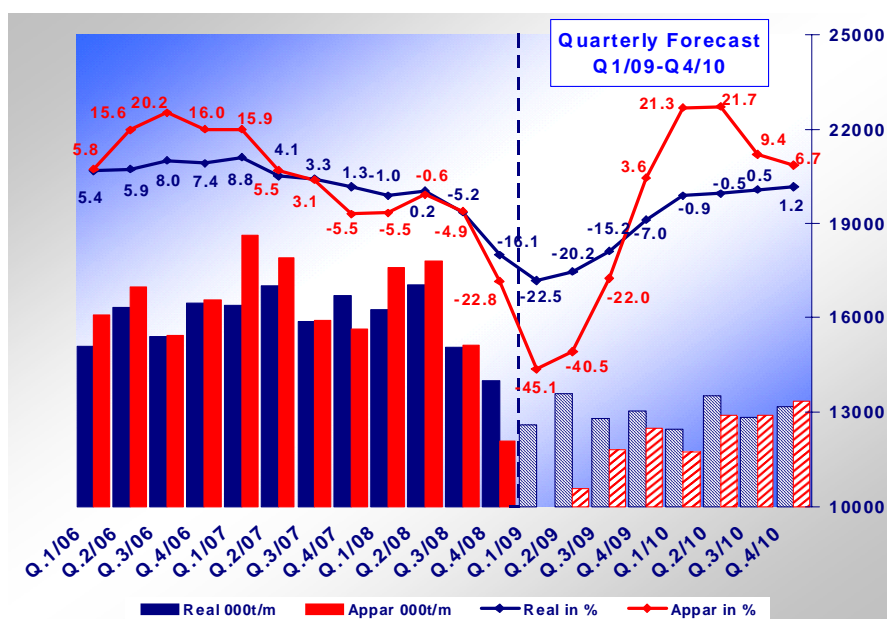
The outlook for 2009 is for a further and sharper contraction in production in at least the first three quarters of this year, in line with the expected continued downturn in the residential construction sector, the prolonged weakness in EU existing home sales, limited financing possibilities and consumer confidence remaining at record low levels for the time being. Moreover, the Central European market which was until recently driving EU domestic appliances demand and production is facing severe economic and financial problems.

All in all, prospects for 2009 look very sluggish. EU production is forecast to decline by almost 13% in 2009. It will take to mid 2010 before any improvement in market conditions filters through in output. On balance, activity in 2010 is seen stabilising close to the year earlier level.

Real Consumption

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

Period	Q408	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010
	-16.1	-5.5	-22.5	-20.2	-15.2	-7.0	-16.6	-0.9	-0.5	0.5	1.2	0.1



- **Real steel consumption seen remaining at a very low level in coming quarters**
- **2010 consumption close to '09**

The latest EU real steel consumption data for Q4'08 confirm that the steel value chain is badly affected by the ongoing deterioration in economic and financial fundamentals since autumn 2008. With particularly the steel using sectors bearing the brunt of the downturn, it does not come as a surprise that real steel consumption declined heavily in the final quarter of last year. However, the 16.1% y-o-y fall in end-use consumption in Q4'08 is just the first step in a painful correction of EU industry in response of the dramatic change in market conditions expected for 2009.

The latest forecasts from EUROFER's Economic Committee signal that the decline in real consumption will be even deeper in the first the quarters of 2009 with only a moderate easing of the downward trend in the final quarter of the year. Via a synchronised sharp drop in activity in the main steel using sectors, real steel consumption is forecast to fall 22.5% y-o-y in Q1, 20.2% in Q2 and 15.2% in Q3'09.

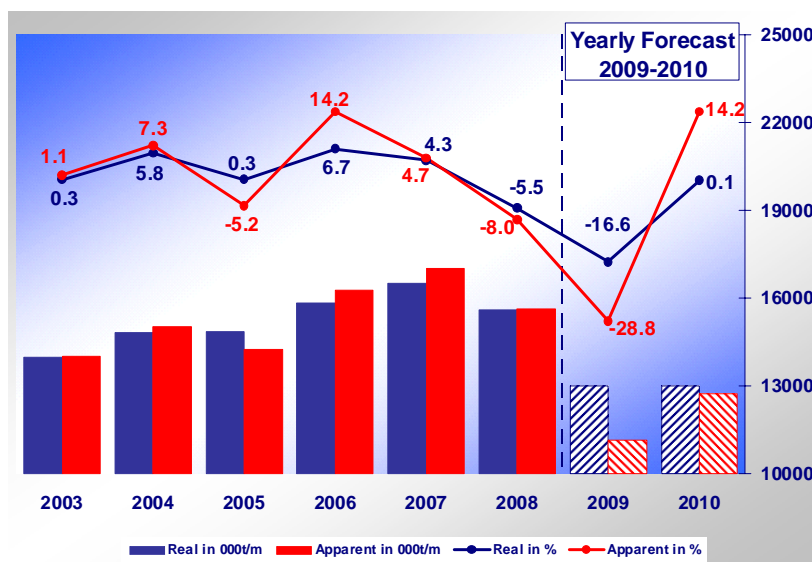
On balance, this will result in a 16.6% fall in real steel consumption in the whole of 2009.

The outlook for 2010 remains depressed: while the strongly downward trend in consumption may have faded by the start of the year, overall demand levels will remain at very low levels.

Apparent Consumption

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

Period	Q408	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010
	-22.8	-8.0	-45.1	-40.5	-22.0	3.6	-28.8	21.3	21.7	9.4	6.7	14.2



- **Unprecedented drop in apparent consumption in 2009**
- **2010 growth due to stock cycle**

In the final quarter of 2008, apparent steel consumption declined by almost 23% y-o-y as activity in the EU steel using sectors and consequently, real steel consumption fell off a cliff. The steel inventory cycle turning sharply negative exacerbated the unprecedented downturn in the EU steel market.

Despite stock corrections getting underway in the distribution chain and at end-users, inventories at the beginning of 2009 were still assessed as being too high in comparison with the massive drop in downstream activity. Indeed, so far, the stock-sales ratio at SSCs and merchants has only risen further.

The fall in imports in Q4'08 was less strong than the drop registered in EU domestic deliveries. This implies that in terms of market share in the EU,

import pressure has remained above the level seen earlier last year.

The latest forecasts from EUROFER's Economic Committee reaffirm the very grim outlook for 2009. Prospects have deteriorated further in line with the weakened outlook for activity in the steel using sectors which is hampering the further correction in stock levels required to bring inventories more in balance with final demand.

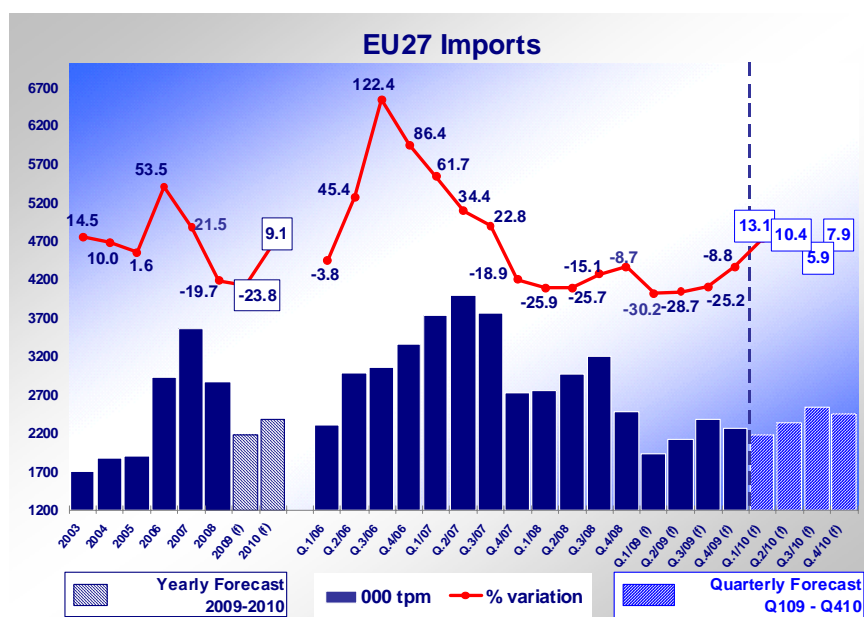
Apparent consumption is projected to decline by 45.1% in the 1st quarter, by a further 40.5% in the 2nd quarter and by 22% y-o-y in the third quarter.

Apparent consumption is expected to recover somewhat in the final quarter of 2009, basically because of the already very low level of consumption in Q4'08.

All in all, apparent steel consumption is forecast to fall 28.8% in 2009.

Some growth in apparent consumption is foreseen for 2010, owing to the fading influence of stock reduction.

Imports



- **Imports fell 8.7% y-o-y in Q4'08**
- **Slight rise in Jan '09 finished steel imports**
- **2009 imports seen falling**
- **Imports rising again in 2010**

On a par with the deterioration in EU steel market demand fundamentals, third country imports into the EU27 in the final quarter of last year fell from their Q3'08 peak the 1st half of 2008. While the quarter-on-quarter drop was significant (-22.3%), the year-on-year reduction was much more modest: 8.7%.

The fall in imports in Q4'08 was less strong than the drop registered in EU domestic deliveries. Moreover, January '09 trade data confirm that total steel imports remained close to the level registered in December '08. However, a closer observation of the data shows that while imports of semis declined, there was a rise in a number of finished products, particularly in hot-rolled coils, organic coated sheet, quarto plate, wire rod and in rebar.

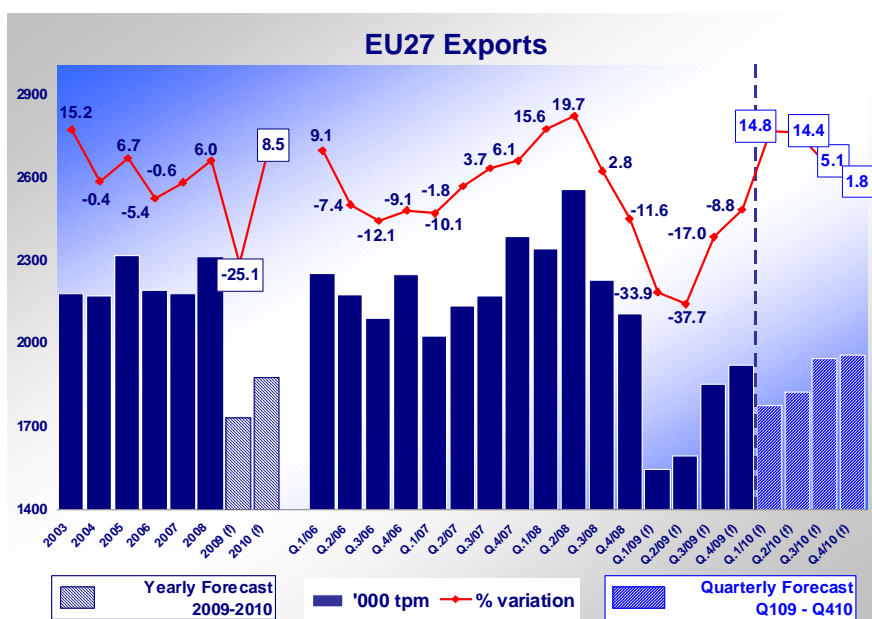
This implies that in terms of market share in the EU, import pressure has remained relatively high.

While imports from China have not exceeded the levels seen late last year, imports from other countries are on a rising trend despite the current market weakness. In particular, the Russian Federation, Turkey, Taiwan, India and South Korea have increased their deliveries into the EU in January.

The outlook for 2009 is for a continued reduction in imports. Third country shipments into the EU market are expected to keep the same trend as domestic deliveries. This implies that import pressure will remain unchanged over the year. On balance, imports are expected to fall by almost 24% in 2009. The improvement in apparent steel in 2010 – driven by the stock cycle rather than real demand – is expected to attract more imports into the EU market.

Consequently, EU27 imports are forecast to rise by over 9% next year.

Exports



- **Marked deterioration in international steel market conditions limits EU 2009 exports**
- **Mild improvement in exports in 2010**

In Q4'08, exports by EU27 mills to third countries fell by more almost 12%, following a significant rise in the first three quarters of last year.

International steel market conditions for EU exporters have deteriorated markedly since late 2008 due to the synchronised drop in activity in industry and construction in the advanced and emerging countries.

January steel trade data confirm that early 2009 this trend intensified.

January exports from the EU to third countries were approximately 50% below those registered in the same month of 2008. This shows that sales opportunities on the international export markets have diminished further.

This is basically the trend expected for the remainder of 2009. EU exports to third countries are forecast to decline by over 25% with particularly very weak business conditions seen in the first half of the year.

Prospects for 2010 are for a mild improvement in international market conditions. EU exports are projected to rise by 8-9%.

Changes in %	IMPORTS Third Countries	EXPORTS Third Countries	COMMUNITY DELIVERIES OF EU PRODUCERS
Q.IV/2008	-8.7	-11.6	-24.5
Year 2008	-19.7	6.0	-4.3

FORECAST

Q.I/2009	-30.2	-33.9	-47.8
Q.II/2009	-28.7	-37.7	-41.9
Q.III/2009	-25.2	-17.0	-21.3
Q.IV/2009	-8.8	-8.8	6.4
Year 2009	-23.8	-25.1	-29.6
Q.I/2010	13.1	14.8	23.6
Q.II/2010	10.4	14.4	25.0
Q.III/2010	5.9	5.1	10.5
Q.IV/2010	7.9	1.8	6.7
Year 2010	9.1	8.5	15.7

