
Bi-Monthly Stainless Steel Briefing

- Summary of Main Industry Events -

Table of Contents

- Summary
- Industry News Europe
- Industry News – America, Asia & Rest of the World



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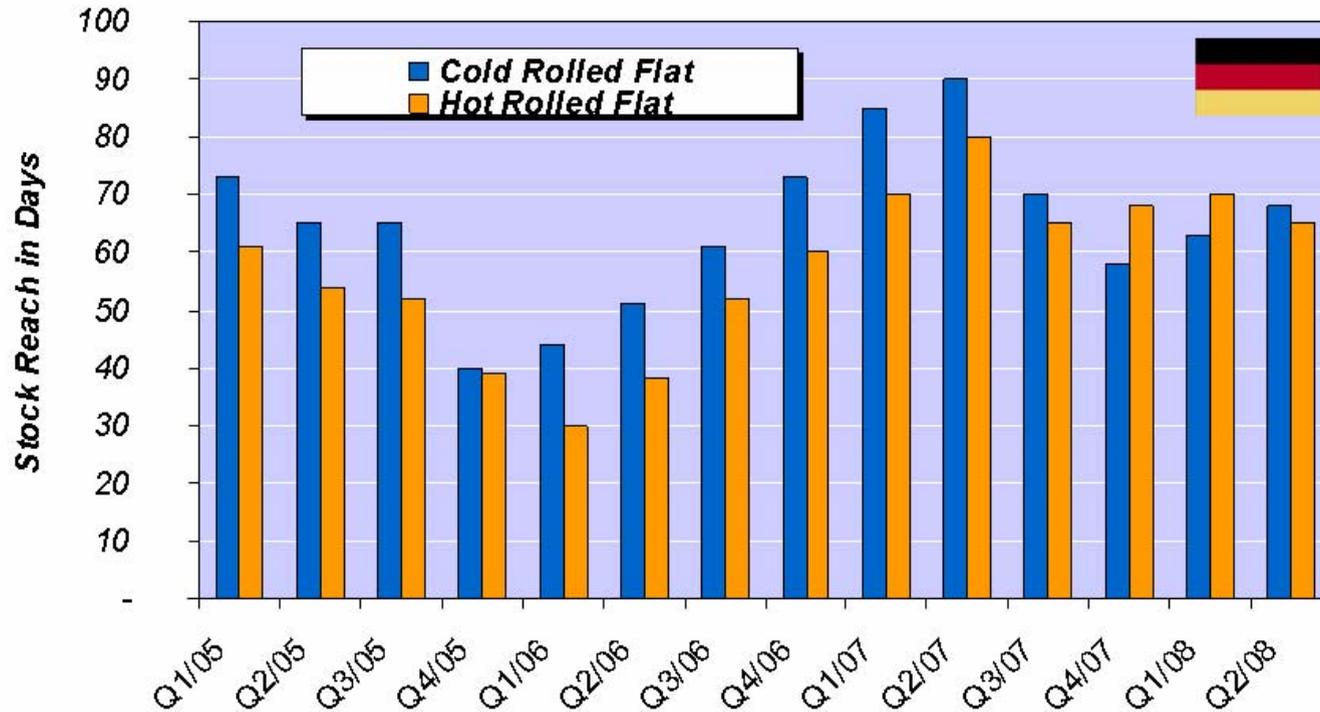


No Bulls anymore – only Bears in the Market!

- The **market uncertainty** is currently extremely high throughout the global stainless steel supply chain. The melt-down in market prices – caused by the raw material price collapse – is followed by a significant decrease in stainless steel demand. The order income of the stainless steel mills is reduced dramatically in Q3 and Q4. Recession fears dominate the economies in Europe, Japan and the United States. Stainless steel buyers are extremely reluctant in this situation. There seem to be only bears remaining in the market! In the stainless steel market it is expected that there will be no quick end of the current mess. The bottom level of prices and volumes can be approached in Q1/09 – but there is no sustainable market improvement most likely before the end of next summer.
- The **global financing crisis** is accelerating the downturn. But the financial crisis can not be fully made responsible for the current problems: the economy has started to downswing already before since the order income was already reduced. Particularly stainless steel stockholders became very cautious in the changing market. There is a high risk of losing money; receiving material is priced higher than the market is currently willing to pay.
- The good news is: **Orders books** of many stainless steel fabricators are still rather full. Companies in the investment good and construction sector will not stop buying stainless. Fabricators will remain busy in the first half of 2009, even without any new orders.
- For 2008, an average world GDP growth of 1.5% is still expected. In its latest projection, the International Monetary Fund expects a negative **2009 GDP Growth** in some key European countries (Italy, Spain, United Kingdom) and no growth for Germany. The US GDP growth is in a range of 0.1% growth only, whilst the Japanese economy will grow by 0.5%. If the decided measurements in the banking crisis will fail, IMF expects a strong recessive economic development for 2009.
- **Crude Stainless Steel Mill Production** will most likely not grow in 2008. SMR expects a decline to 27 million t at the end of this year, corresponding to minus 3%. In the EU the mill production will decline by minus 2% to 7.8 million t. Stainless steel mills throughout the globe will have to cut production in the fourth quarter due to demand weakness. Mill base price have been reduced recently – production cutbacks will support market prices. A negative stainless steel market growth is expected for next year. The market will start extremely weak in the first months of 2009 compared with HY1 2008 (which was not bad); even with an improving market situation in the second half of next year will not compensate for it. Thus, a negative growth in a range of minus 5% is realistic.
- **Nickel** reverted to its fundamentals: the LME nickel cash price reached a level of below 10,000 US\$ per t. The price floor should be reached soon. Prices for other raw materials such as Cr and Mo will decline as well.

Germany: Stock Reach in Days

No substantial Stocking Activities after the End of the De-Stocking Period

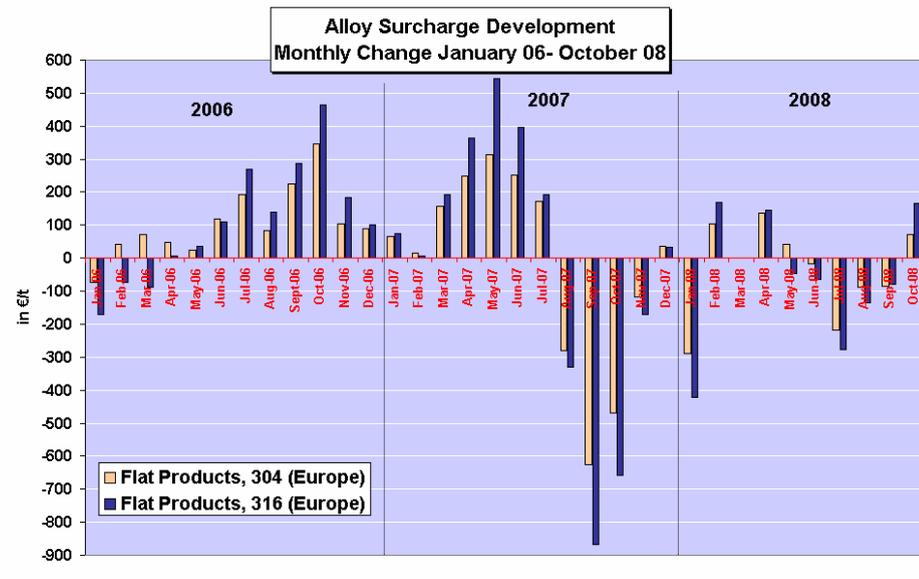


Industry News: Europe I – Market Performance

- Market price decline was stopped temporarily in October due to surcharge increases. In spite of this rise, market prices are expected to decline significantly again until the end of this year. Major reasons for this development are softening raw material buying prices (Ni, Cr and Mo).

Alloy Surcharge and Price Development (Flat Products)

	TKS				Outokumpu				Ugine / ALZ			
	304		316		304		316		304		316	
	Surcharge	Change	Surcharge	Change	Surcharge	Change	Surcharge	Change	Surcharge	Change	Surcharge	Change
	in € per t											
Jul-08	1,658	-221	3,012	-281	1,636	-211	2,983	-280	1,676	-221	3,012	-267
Aug-08	1,583	-75	2,899	-113	1,554	-82	2,848	-135	1,566	-110	2,852	-160
Sep-08	1,504	-79	2,820	-79	1,447	-107	2,745	-103	1,497	-69	2,797	-55
Oct-08	1,560	56	2,969	149	1,545	98	2,946	201	1,558	61	2,949	152





Industry News: Europe – Economy and Company News

Economic Development

- **Germany:** 2009 will become a stagnant year even according to latest governmental forecasts (which are mostly on the optimistic side). It is expected that the GDP will grow by only 0.2% next year. Most German car manufactures stopped production temporarily due to the little order income in October. There are also reports from the investment good sector about an essential reduction of new order income since September this year. The business climate fell recently to the lowest level since the late 1990s. Only building and construction companies remained more optimistic. It is expected that the government will increase investment in public infrastructure.

Company News

- **Outokumpu Stainless** announced to close its Sheffield based stainless steel thin strip business in Q1/2009. In 2008, the company located in Meadowhall will produce ~12,000 t of ultra thin strip < 0.5 mm. Outokumpu plans to transfer a large part of the equipment to Outokumpu Kloster in Langshyttan. Outokumpu explains the decision by several years of loss making and oversupply situation in the European stainless steel precision strip business. In Q3, Outokumpu Stainless reported losses (EBIT) of 82 million € and produced a tonnage of 1.27 million t in all segments.
- **Jacquet Metals** has increased its shareholding in the French specialty steel distributor IMS to 7.6%. Jacquet announced to have mid term plans to acquire control over IMS. IMS does not appreciate take over plans. They emphasize that a possible take over will harm the profitability of IMS.
- **Schmolz + Bickenbach** achieved in the first six months of this year a turnover of 2.28 bn € (HY1/07: 2.29 bn €). The EBITDA-ratio as percentage of sales fell from 11.9% to 10.4%. S+B reached a EBT of 163 mill. € (205 in HY1/07). S+B production contributed 1.6 bn € to sales , while the distribution network achieved a turnover of 750 million € in the same period.
- In contrast to the stainless steel commodity market, the market for specialties remains robust. Particularly companies supplying to the oil, gas, petrochemicals and chemicals sector are not strongly affected by the economic downturn yet. **Tubacex** (seamless pipes) for instance announced recently to have no problems. The market for bars and semis remained stable as well.
- **Marcegaglia** announced to expand the production of small tubes from 6 mm to 21 mm diameter at its Forli production unit. In the future the company plans to work on two additional welding lines.



Industry News: America, Asia and Rest of the World

Economic Background

- A further downswing is expected for the **United States and Japan** in 2009. For both countries, GDP will grow below one percent next year. Also the forecasts for India have been reduced essentially. China's GDP growth will remain relatively robust. However, there are also first signs that China's economy will grow somewhat slower: car production has been already reduced significantly in the last two months.
- **SMR** estimates a declining stainless steel crude production this year in China, Other Asia (Japan, S. Korea and Taiwan) and the US. The stainless steel production will most likely fall up to minus 5% in Other Asia. The decline will be much smaller in China and the United States.

Company News

- **Nippon Steel & Sumikin Stainless (NSSC)** plans to increase the company's duplex heavy plate output of its Yawata Works to over 35,000 t per annum until 2010. NSSC intends to become a major player in this segment which is dominated by Outokumpu and Industeel to date. NSSC's production level successively increased from 5 to 10 kt in the past three years.
- **Tang Eng (Taiwan)** will cut its output again by 50% (compared to normal levels) in October. The demand for Tang Eng's products came to a standstill recently. Yusco and several Chinese and Japanese companies will cut production as well due to the low order income.
- **Tangshan Stainless** commissioned its new hot rolled stainless steel strip mill. The company intends to produce 300 and 400series on the new facility which was started with some months delay.
- It is expected that the Chinese government plans to raise steel **export tax rebates** and cut export taxes to support the weak stainless steel market. It is speculated that the government could reinforce a rebate of up to 13%. The tax rebate was reduced some time ago when the market situation was much better. The reduction lead to a stagnation of some price sensitive stainless steel export industries in China (consumer durables such as pots / pans and cutlery for instance). Some Chinese fabricators even sourced out their production to countries with lower costs such as Myanmar.
- **Jindal Stainless** has been recently renamed to 'JSL Limited'. The intention is to make JSL a common brand for Jindal's entity as supplier for specified stainless steel segments such as energy, power generation and lifestyle products.