
Bi-Monthly Stainless Steel Briefing

- Summary of Main Industry Events -

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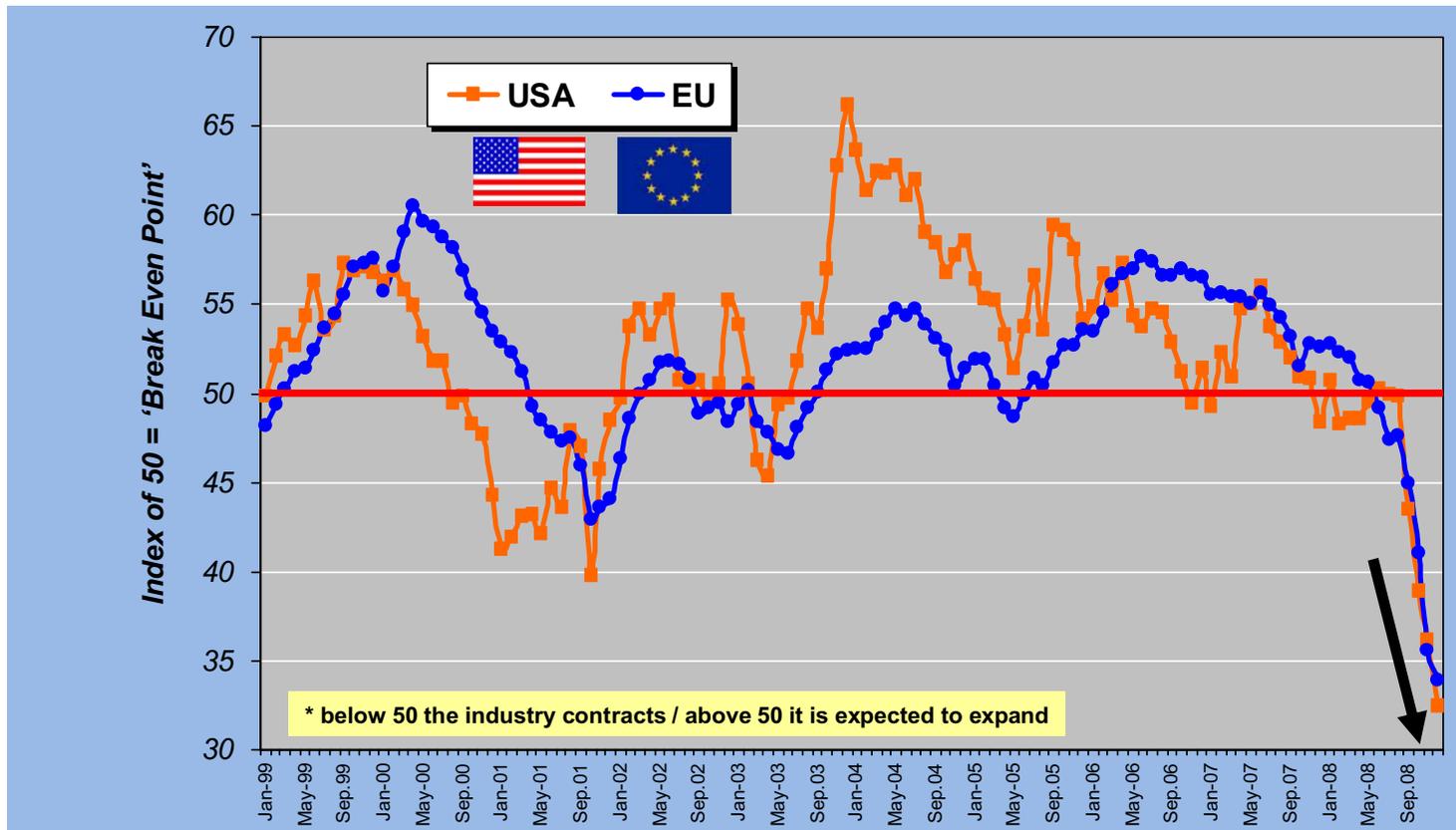
2009 - No Market for Sunshine Captains

- The stainless market, which is stagnating since the record year of 2006, could get a considerable correction in 2009. SMR estimates that the **stainless steel production in 2008** will be less than 26 million t, which is a reduction of about 7% compared to 2007. The only region which has achieved in 2008 almost the volume produced in 2007 was surprisingly Europe. The reason being that Europe's production fell already in 2007 by almost 14%, which was the worst region in the world back then. The raw material price collapse (Ni, Cr and especially Mo as well as Iron) prevented the expected recovery after summer break in 2008. Moreover, an economic 'Tsunami' struck in October with new orders declining at a rate not seen before. In December the market came almost to a stand-still and there are (unconfirmed) reports that some mills even had a 'negative order income (more cancellations than new orders).
- **2009 will separate the 'men from the boys'**: The good news (hard to find any) is that the speed of market contraction seems to have slowed and there are indications that the bottom gets in sight. The worst in terms of stock value devaluation for stockholders is behind us. Any future correction is far less negative than what the industry has suffered in the past 12 months. But, there continuous negative expectations about the short term course of raw material prices. Many believe that nickel, chrome and iron prices will decline further before rising again. A consensus of opinions puts March / April as the 'turning point' for raw materials. Thereafter, raw material prices will be at least stable. But, whether speculative buying returns depends also on the consumption volumes (most likely negative) and the fact whether higher stock levels can be financed (negative for some stockists). Companies with a strong business model and solid balance sheets will fill the gaps that are left by companies that are not prepared for stormy weather.
- **Market prices**: Alloy surcharges will stabilize at the end of Q1 and base price erosion will end too as **stock levels** are low. Mills decreased base prices significantly in South European markets such as Italy to gain market shares from mill independent stockists – who complain about aggressiveness of some European mills at the moment.
- The **demand from most industry segments** remains subdued in 2009, if compared with 2008. The market returns back to 2004-05 consumption levels in 2009. One stockist mentioned that the last three years were like driving a Ferrari and now we are all back driving Audis - which is also not bad, is it?
- In order to put things in the right context everyone should take a longer **perspective**: 2006 was a 'bubble' in demand and prices that could not have been sustained. In the meantime we returned to 2004 pricing and volumes which means that the stainless steel market is slowly getting back to reality. Any future recovery will not be in volume – but rather in service, value add and margins.

PMI December 2008: Ground Zero

US PMI fell to lowest Index Level since 1980 ... and the Situation in Europe was not really better

Purchasing Manufacturing Index (January 1999 - December 2008)

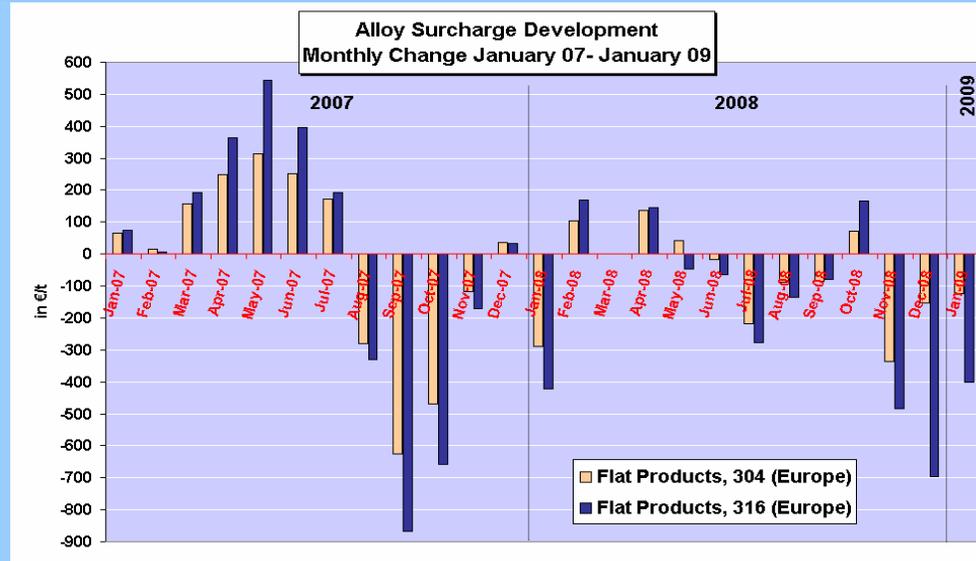


Industry News: Europe I – Market Performance

- Market prices declined again in January due to the strong drop in raw material prices. The alloy surcharge is falling since 18 months and has reached its lowest level since more than 2.5 years.

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											
Nov-08	1,242	-318	2,524	-445	1,214	-331	2,467	-479	1,199	-359	2,418	-531
Dec-08	1,076	-166	1,830	-694	1,076	-138	1,757	-710	1,045	-154	1,730	-688
Jan - Dec. 2008		-559		-1,275		-519		-1,298		-557		-1,331
Jan-09	978	-98	1,423	-407	925	-151	1,352	-405	922	-123	1,340	-390



Industry News: Europe II – Economy and Company News



Economic Development

- **European Economy:** according to the combined Eurozone economic outlook of some European economic research institutes, the industrial production dropped by 2.3% in Q4/08 and will decline by another 1.3% in Q1/09 and by 0.7% in Q2/09 compared to the previous quarter. In comparison to the same quarter of the previous year, the production will drop/dropped even between 4.5 and 5.6% in every quarter. The GDP in Europe will drop by around minus 0.2-0.4 in the first two quarters of 2009. Particularly investment activities in Europe will decrease substantially in 2009.
- **Germany:** 2009 will become a recessional year for the German economy. Economic Institutes expect a negative growth of over minus 1% for 2009. The economic crisis will have a strong impact on Germany as a country with a high export ratio. In the UK, the GDP will even decline by around minus 2% in 2009.
- **European stainless steel crude steel production** reached approx. 6.3 million t in the first three quarters of 2008. For the entire year, a downturn by ~1-2% has to be expected. Compared to other regions, the stainless steel production in Europe was even more stable than in many other regions. European stainless steel crude steel production in the fourth quarter (between -20 and -40% dependent on mill) was highly below normal production levels for this quarter.

Company News

- **Outokumpu Stainless** announced recently in a stock exchange press release that profits in the fourth quarter are even lower than previously expected. In order to safe profitability and cash generation in the future, it is planned to reduce personnel on a temporary but also permanent basis. Outokumpu will review its planned investments and decide whether a number of investments have to be postponed (i.e. high-purity ferritic and bright annealing facilities and FeCr production expansions in Tornio, quarto plate equipment modernization in Degerfors and service centre expansion in Poland, France and Southern Germany) Deliveries in the fourth quarter will drop to 250,000 t after over 320,000 t in the previous quarter.
- **Sandvik** changed its alloy surcharge system for stainless steel seamless tubes, effective from January onwards. Similar to flat producers, they reduced the time span for alloy surcharge calculations: surcharges are based now on average one month alloy costs until the 16th of the previous month. The other seamless supplier still apply a system based on alloy costs 2-3 prior to the current month.
- **Rodacciai:** the Italian bar producer, has ordered a new Danieli bar in coil line. The new line will be start production in late 2009. The line will be applied for coiling up to 64 mm diameter (round bars) and up to 52.5 mm (hexagons). The coil weight will be up to 3 t.
- **Schmolz + Bickenbach** announced recently that the turnover 2008 will be below the 2007 results. The company expects an EBITDA decline of at least 25% for this year. The market situation will remain weak for the first quarter. Distribution: S+B plans to increase the share of in-house manufactured products (i.e. from Deutsche Edelstahlwerke and Ugitech) products in its network to control costs. Schmolz+Bickenbach announced as well that they obtained 80 Mill. € from external sources to strengthen its equity base.
- **BE Group:** the Swedish stock holder will close its St. Petersburg sales office as a result of the global economic crisis in the first quarter 2009.



Industry News: America, Asia and Rest of the World

Economic Background

- Stainless steel **crude steel** production in the first nine months of 2008 was negative in all major regions except China and Europe. Despite of all negative news, China still recorded a 5% growth until last September (+300 kt). However, substantial production cutbacks in Q4 have most likely lead to a negative growth in the entire year 2008 (production estimate ~ 7 million t). The Chinese Stainless Steel Association reported a production of 1.97 mil. t for Q1/08, 1.89 mill. t in Q2 and 1.65 mill. t in Q3. For the fourth quarter a production even below 1.5 mill. is considered as realistic. It is expected that all other major producing countries manufactured less stainless steel in 2008 than in the previous year as well – they reported already negative growths for the first nine months of last year.
- The **automotive industry** was essentially impacted by the global economic downturn in Q4/08. Before that, production remained relatively stable. In 2008, the production declined particularly in North America (minus two million cars produced) and in Europe, whilst the production in all other regions will remain stable or show some growth.
- **End Use in China:** according to Chinese publications, the output of key consuming applications remained surprisingly stable in 2008. There was still a significant output growth with the exception of building and construction products. Output was still in double-digit range for machinery industry, consumer goods and home appliances. For this year, a negative growth is expected for some parts of the home appliance sector and the real estate industry. In general, the industry is still more optimistic than in other regions. However, there were reports in the last weeks forecasting a no-growth GDP in China for 2009.

Company News

- The equipment installation at **Zhejiang Huadi Steel** Group has been finished. The company plan to produce around 200 kt of semis per year as input material for own production of stainless steel bars, seamless tubes and flat products. Commercial production start will be in HY1 2009 (originally planned for July 2008).
- **Jisco** plans to produce a target production of only 350 kt of stainless steel in 2009, after 600 kt in 2008. The company expects a further poor demand in China and reduced again its production ambitions for this year.
- **Yieh United** announced plans to take over shares of its Taiwanese competitor **Tang Eng Iron Works**. Yusco acquired recently 10% of Tang Eng stakes for around 25 million US\$ - they plan to increase its share to 34% and to combine both companies at a later stage.
- **Thainox** (Thailand) reported that its output fell temporary by over 50% in Q4. Thus, the company decided to stop production at the stainless steel re-roller in Rayong for one month. Re-start is planned for mid January.
- **JSL (Jindal Stainless)** has recently announced to delay several expansion projects. The global demand slowdown urges JSL to postpone its stainless steel project in Orissa and the joint venture with Aneka Tambang in Indonesia. The commission of the Orissa project is postponed to from 2010 to 2011, the planned later capacity doubling is under review, whilst the Antam JV in Indonesia (Ni Smelter and stainless plant in Sulawesi) are on hold.