
Bi-Monthly Stainless Steel Briefing

- Summary of Main Industry Events -

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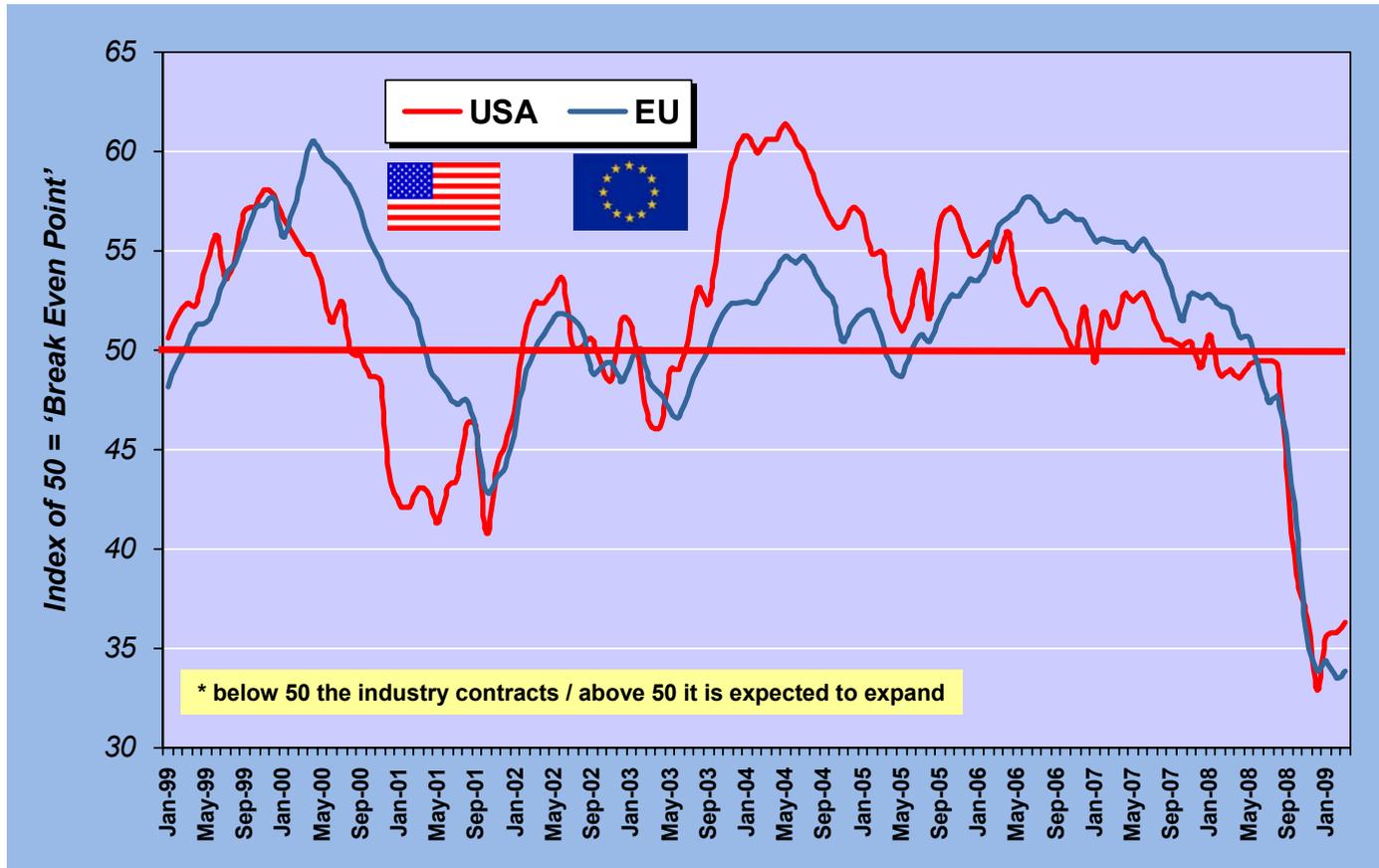
Sprinkles of Light at the End of the Tunnel

- The **global stainless steel market** will shrink by ~20% in 2009 (SMR estimate) to a volume of less than 20 million tonnes. The European and North American markets remain depressed at least until the summer, whilst China shows already first signs of a rebound. There, a price increase of 300 \$/tonne has been accepted for May deliveries, indicating first signs of a recovery.
- After substantial **production cutbacks** throughout the past 6 months (since October 2008), all European flat product mills will continue their short term working modus at least until September. This unprecedented supply discipline sets the stage for (so far moderate) base price increases after the mills reported a slight increase in order income in April. In spite of that, it can be expected that the stainless producers will continue to produce on a relatively low level to reinforce the market fundamentals to back up further price increases. On the other hand problems increased for the previously better positioned long product mills in Q1. Whilst flat product stockists have trimmed their stock-levels already, the long product market is still over-stocked. Therefore the reduced demand is amplified by de-stocking, leading to a collapse in the mills order books.
- **What are the Rays of Hope for the remainder of 2009?** Firstly, prices are near – or at – bottom levels. Nickel prices have rebounded from their lowest levels and Cr as well as Mo prices are stabilizing after substantial correction earlier this year. This, and the before mentioned supply side discipline guarantee that the worst is – pricewise – behind us.
- **End Users:** most stainless steel consumers are living ‘from the hand to the mouth’ at the moment. Their customers do no longer provide volume forecasts for the rest of the year, shifting the risk of purchasing to them. Therefore they rather buy material from stock at short notice, then place orders at mills. As a result, orders from end users at stockists have slightly recovered in April.
- **Distributors:** many distributors do not have the willingness (and the financial means) to increase buying at the mills without being backed by strong growing end use markets. Many distributors (for example IMS) made losses in the last quarter and still plan to reduce stock levels. Some of them are increasingly seen by their banks as ‘high risk creditors’ since their outstanding loans are balanced against their shrinking stock values.
- **Mills:** After the announcement of a massive re-structuring at ThyssenKrupp (stainless steel and steel will be merged into the ‘Materials’ division), TK recently confirmed to be looking for strategic partners (at least) for the carbon steel part of its Alabama project. According to several German newspapers, a new concept for the entire ThyssenKrupp group will be presented at the next board meeting (May). The situation at the other European mills is not rosy as well. Thus, it is possible that the European stainless industry is heading towards structural changes (mergers and permanent plant closures).

PMI March 2009: Bottom reached...

...but Stabilization starts from an extremely low Level

Purchasing Manufacturing Index (January 1999 – March 2009)

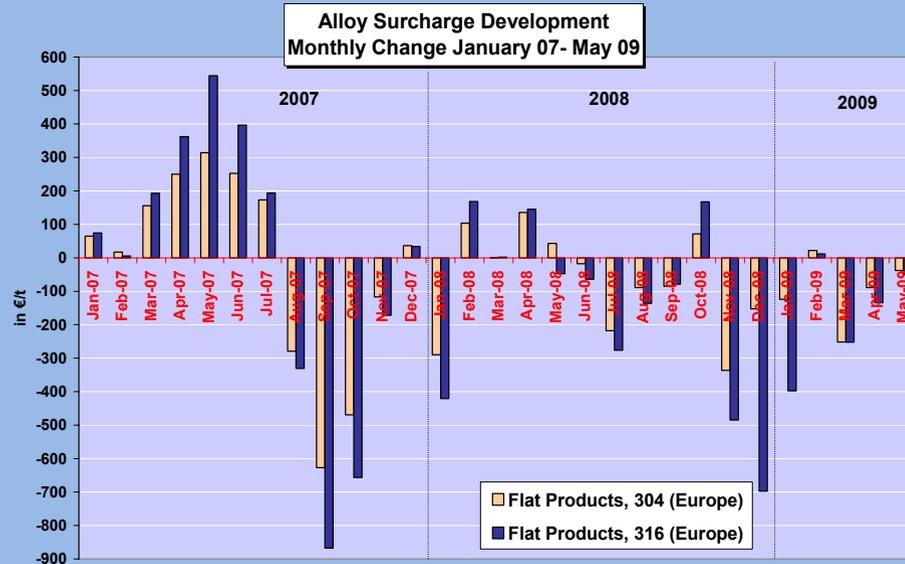


Industry News: Europe I – Market Performance

- European market prices (304 CR Sheet, 2mm, 2B) dropped in March again substantially. Base price increases were egalized by the declining surcharge in April. But: the price-bottom out is expected for May.

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											
Mar-09	741	-220	1,176	-216	700	-255	1,118	-258	695	-280	1,110	-282
Apr-09	636	-105	1,023	-153	613	-87	986	-132	621	-74	992	-118
May-09	597	-39	971	-52	574	-39	929	-57				





Industry News: Europe II – Economy and Company News

Economic Development

- **European Economy:** Industrial production dropped in Europe by 5.3% in Q4/08 (the strongest decline in a quarter in 40 years). In a combined report, German, Italian and French economic institutes forecast decreases of 7% for Q1/09, 3% for Q2/09 and another 2% for Q3/09. Real GDP will drop as well in Q1-Q3, 2009. According to their forecast, investment goods and building / construction will suffer the most in Europe.
- **Automotive:** car registration in Germany increased by 40% to more than 400,000 units in March (compared to March 2008). Q1: +18%. This is primarily the result of governmental subsidies (2,500 € wrecking bonus for min. 10 year old cars), which is a huge success in Germany. Besides German small car producers such as VW and Opel, particularly Fiat, Renault, Skoda and South Korean suppliers (registration of foreign cars: +65% compared to March 08) benefited from the bonus. Other European countries copied this measurement in the meantime. However, German production dropped by 33% in Q1. Also in other countries, production fell by over 20% in Q1.

Company News

- **ThyssenKrupp:** 51-year old Edwin Eichler became new CEO at ThyssenKrupp Stainless on April, 1. Mr. Eichler is as well responsible as CEO for ThyssenKrupp Steel. Dr. Rademacher became Vice Chairman. It is planned to merger both divisions (stainless and steel) into one single entity 'Materials'. Mr. Eichler is IT specialist and worked as board member of Bertelsmann's Mohndruck division (German media company) before he joined ThyssenKrupp in 2002. Both personnel decisions indicate that the company intends to strengthen the role of controlling. German Industry reports expect lay-offs in range of 3,000 employees in Germany for the entire group. ThyssenKrupp confirmed recently that the company is looking for strategic partners for its new Alabama site. The stainless steel part of the plant was postponed to 2012 last month.
- **Schmolz + Bickenbach** achieved a turnover of 2.90 million € in its production division (incl. DEW and Ugitech) in 2009 (2008: 2.94 million €). EBITDA dropped from 320 million € in 2007 (margin: 11%) to 188 million € in 2008 (EBITDA-margin as %-of sales: 7%). This downturn was mainly caused by write-downs of stock and scrap values.
- **IMS Group:** distributed volumes dropped by 46% from 188 kt in Q1/08 to 103 kt in Q1/09. Stainless steel accounted for 96.3 million t of turnovers (45%). IMS made an operating loss of 15 million € in Q1/09. For Q2, they expect a positive result due to working capital reductions (cut of inventories (STS, low alloyed / wear resistance steels) to 160 kt at end of June 09 (from 220 kt Q2/08),
- **Damstahl** has recently introduced its new **BLUE-IQ** concept in Denmark. The goal of this concept is to develop pro-active knowledge building for customers – particularly related to material choice questions and other technical support. Damstahl's activities encompass three major packages (Gold as highest level, Silver or Bronze) which includes courses and education, inspection, x-ray analysis and testing, corrosion evaluation, material choice and consulting for clients. The various courses are highly individual and tailor made for specific needs of each customer.

Industry News: America, Asia and Rest of the World



Economic Background

- **US economy:** US GDP dropped by 6.2% in Q4/08. For Q1, institutes expect another drop of ~minus 5% for the United States. A slight improvement is forecasted for the next quarters. The bottom has been reached in the housing market as well.
- **PMI China:** China's PMI increased until March for the third time in a row to an index value of 49 (US and Europe: still at ~35 index points). Particularly, the economic stimulation package had a positive impact on the order income in China. Chinese market analysts see first signs of a market re-vitalization on a low level. Q1/09 GDP grew by 6.1% (y-o-y), which was the lowest growth since 1992. Y-o-Y industrial production rebounded substantially to over 8% in March (after a 4% growth in February).

Company News

- **ZPSS** stopped production of 1,500mm wide HR coil from April onwards (ZPSS' HR coil is mainly 304 grade) selling off these products from inventories. Production of 1,250mm wide coil will be continued.
- The Chinese government added huge investment to the railway construction sector recently to support the economy, which lead to a co-operation of **CSR** (leading Chinese railway coach producer) and **Baosteel**. Supply of steel materials have substantially increased since the end of last year.
- **Xintai Steel** signed a contract with VAI Siemens for the supply of a 50 t AOD converter and a square bloom caster. Commercial start up is planned for 2010. Xintai plans to enter the stainless steel long product in the future and strengthen its position in the special steel market sector. Currently, the company has a capacity of 3 million t – mainly in carbon steel wire rod.
- **Xinan STS** will start its new 500 kt STS annealing & pickling line from April onwards. With this project, Xinan plans to enlarge its capacity to approx. 1 million MT in the next three years for HRC, CRC and plate. In 2008, they invested already 1.2 bn Yuan in a 1,450 mm HR coil project.
- **Shanxi Taigang** recently signed a contract with shipyards for the supply of Duplex for chemical tankers. It is planned to triple supply of Duplex to this sector in 2009.
- **Antam (PT Aneka Tambang)** in Indonesia will stop its joint venture with **Tsingshan Holding Group (China)** for a combined ferro nickel and stainless steel mill at Obi Island in Indonesia. Antam was forced by legal authorities to stop the JV after they have withdrawn the mining license for the nickel part of the project.
- **Yusco (Taiwan)** has increased its stainless steel domestic market prices (CRC 304, 2mm: 2,450US\$). The company gave low stainless steel mill stock levels in Taiwan after production cutbacks as main reason. Taiwanese buyers recently started to replenish stock levels again.
- Compared with Q1, **Posco (South Korea)** expects a growth of its crude stainless steel and finished product supply in a range of around 6% in Q2. Particularly, the demand situation in its domestic market and in China improved since beginning of the year.