

## **Economic and Steel Market Outlook 2010-2011**

**Q1-2010 Report from EUROFER's Economic Committee <sup>1)</sup>**

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

	Eurofer Forecast January 2010 EU			
	2008	2009 (e)	2010 (f)	2011 (f)
<b>GDP</b>	0.7	-3.9	1.1	1.7
<b>Private consumption</b>	0.5	-1.4	0.3	1.2
<b>Government consumption</b>	2.1	2.0	1.4	0.7
<b>Investment</b>	-0.2	-10.6	-0.6	2.2
<b>Investment in mach. equip.</b>	0.2	-15.6	-0.9	3.1
<b>Investment in construction</b>	-0.6	-7.1	-1.0	1.5
<b>Exports</b>	1.1	-14.2	4.2	4.6
<b>Imports</b>	1.1	-13.0	2.8	4.0
<b>Unemployment rate</b>	7.5	9.1	9.9	9.1
<b>Inflation</b>	3.3	0.8	1.3	1.5
<b>Industrial production</b>	-1.4	-14.2	2.5	3.7

(f) = forecast  
(e) = estimate

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

- ***EU economy will gain further strength in 2010***
- ***Recovery will be slow but risks appear to be broadly balanced***
- ***Brightened industrial outlook owing to improved trade situation***

In the third quarter of 2009, the recession in the EU came to an end as economic growth turned positive again (0.3% quarter-on-quarter).

An improvement in foreign demand – led by a pick-up in trade in the Asian region - and marked slowdown in the pace of destocking provided the main stimulus to growth. Meanwhile, domestic demand remained subdued; the rise in government consumption was just about enough to dampen the negative effect of the decline in investment and private consumption.

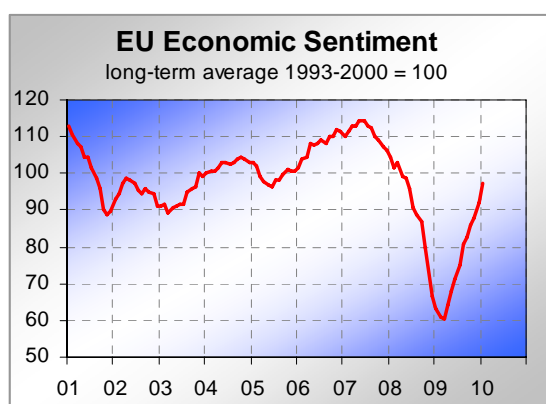
Growth in Germany and Italy was quite robust, contrasting with still weaker economic fundamentals in Spain and the UK. The situation remained particularly cumbersome in some Central European countries such as Latvia, Hungary and Rumania where the economic downturn accentuated the existence of structural economic imbalances.

First estimates for the final quarter of last year point to a continuation of the recovery in the EU; all in all, EU GDP

<sup>1)</sup> Based on information available as of January 29<sup>th</sup>, 2010

is expected to have declined 3.9% in the whole of 2009.

During 2010 the European economies are expected to recover further from the severest crisis that has hit the region since WWII. Nevertheless, while economic momentum should gradually gain further strength, the pace of recovery will remain relatively slow and surrounded by uncertainties. However, compared with the situation one year ago, the risks are now much more balanced.



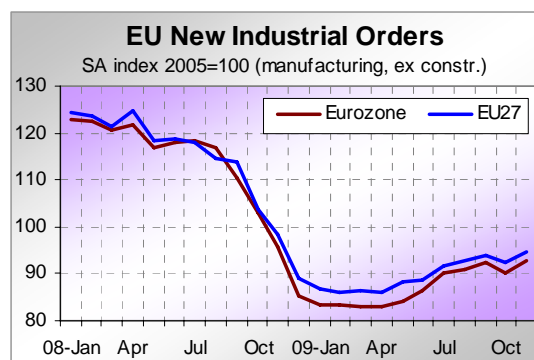
The economic sentiment indicator rose again quite sharply in January, continuing the markedly upward trend in confidence since the start of 2009. Sentiment in industry remained the key contributor to the overall improvement; most responding companies have become increasingly more upbeat on their (export) order situation. International trade has made encouraging gains since mid 2009, owing to strengthening import demand from China, Japan and the United States. It is expected that net trade will remain a key driver for growth this year.

Inventory formation will continue to be a driver as well. Stocks in the supply chain are reported to be still low despite some selective restocking in the downstream processing chain in

the second half of last year. Some further inventory replenishment - depending on the strength of the expected economic rebound - could take place, but its positive effect on growth is bound to fade over time.

Also the return to stability in the international financial markets owing to continued policy support for the financial system as well as the improvement registered on the stock markets since Q2 '09 have been supportive to the assessment of the business climate becoming significantly less negative in recent months.

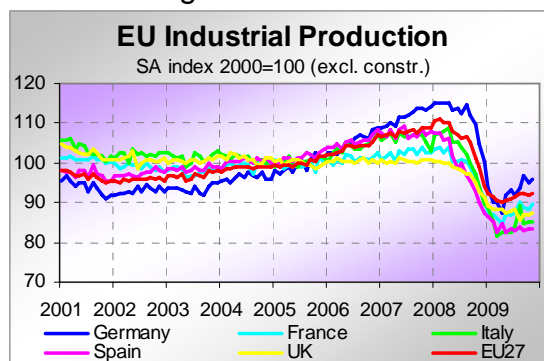
This is also reflected by the steady improvement in the Eurozone Purchasing Managers' Index for the manufacturing sector which rose further in November and December, reaching a 17-month year-end high following its record low in February.



Meanwhile, the latest data on new industrial orders show a recovery although the upward trend is still patchy. In October '09, EU orders dropped 1.5% month-on-month but rose again 2.7% in November.

Also the mild upward trend in industrial production registered since the second quarter of last year temporary in October, with EU manufacturing activity falling by 0.7% month-on-month, but picked up speed again in

November (+0.9% m-o-m). This appears to underpin that in spite of indicators and sentiment generally boding well for the industrial sector, a robust and uninterrupted recovery in manufacturing activity in 2010 cannot be taken for granted.



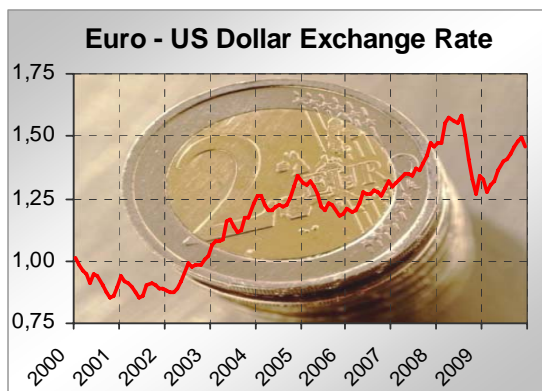
The latest industrial output data also make clear that current activity levels are still well below those registered in preceding years resulting in low capacity utilisation rates. Moreover, financing conditions for the non-financial sector have remained substantially less favourable than before the downturn. This paints a bleak picture for corporate investment in 2010.

In contrast with the brightened outlook for the industrial sector, prospects for private households in the EU are definitely more depressed. On balance, private consumption did not fall off a cliff during 2009 as purchasing power was supported by falling inflation. Government assistance including the car scrapping premiums and tax cuts had as well a cushioning effect on the decline in private consumption in most EU countries. Unemployment has been rising since the final quarter of 2008, but the impact on consumption has been limited so far as sharp wage adjustments have not taken place yet. However, a further increase in

unemployment is on the cards for the first half of 2010 as temporary short-time work programmes come to an end. With the rising pressure from unemployment, wage growth will weaken markedly in 2010. This will keep private consumption at a rather subdued level throughout the year.

As far as government consumption is concerned, 2010 will be dominated by the challenge of withdrawing the support measures put in place to soften the impact of the crisis without stifling the still hesitant economic recovery. Nevertheless, it is quite clear that governments will be looking to move away from the more supportive role taken up in the course of the financial and economic crisis with the aim to bring public finances back to health as soon as the economy allows for it.

The ECB will most likely not withdraw from monetary easing during 2010, taking into account that economic activity growth will remain moderate, which will be supportive to keeping inflation in check. Weak money supply growth and continued constraints in credit supply indicate that inflation pressure will remain subdued this year. This leaves altogether little room for domestic demand having a positive impact on GDP growth in 2010. Consequently, the recovery will remain heavily dependant on the development of net trade and the international competitiveness of European companies. In this respect, there has been positive news concerning the Euro: in December it weakened slightly against the US dollar having been on an upward trend during the greater part of 2009.



The key question is how the Euro will develop vis-à-vis the US dollar in 2010. While a further depreciation against the dollar would be helpful to Eurozone competitiveness, it is not expected that this will happen over the coming months. The enormous budget deficit of the Obama administration, the Fed's supportive monetary policies and the fact that a weak US dollar is a very welcome support to the US external trade position will prevent the dollar from appreciating on a short term. However, a cyclical reversal of the trend later in 2010 is not to be excluded. Growth differentials clearly favour the US economy above the Eurozone. This would allow the Fed to raise its interest rates in an earlier stage than the ECB which increases the likelihood of the greenback firming against the major currencies in the second half of 2010.

On balance, the EU economy looks set to see a further but only moderate strengthening of the recovery started in Q3 '09. GDP is projected to rise 1.1% in 2010.

Looking further ahead to 2011, the latest forecasts provide support to expecting a slightly more pronounced rebound. Domestic demand looks set to gain more momentum which will broaden the basis for GDP growth. However, this also implies that

polymakers will step up efforts to wind down the emergency fiscal and monetary operations and that the economy will have to cope with the withdrawal of most government support measures.

As mentioned before, this outlook is surrounded by still significant uncertainties. They are however more broadly balanced than before.

There are some risks which are worth mentioning specifically.

A risk at this stage of the recovery appears to be a severe deterioration in the US-Chinese trade relations. A widening trade dispute threatens to ratchet up tension in the China-U.S. relationship, with potential repercussions on the strength of the global economic recovery.

A further global risk stems from the financial markets. While stability appears to have returned, caution is still required. Rising concerns about deteriorating budgetary positions and fiscal sustainability could smother the recovery through higher risk premiums and cost of lending for consumers and the corporate sector. Against the background of further credit write-downs and continued focus on balance sheet restoration, bank lending will remain subdued for the time being.

Finally, the erosion in fiscal policy coordination poses a threat for the EU. Some countries face very complex fiscal challenges; the willingness and ability to act varies strongly from country to country. Structural policy changes will have far-reaching implications and could magnify existing tensions between domestic and EU politics.

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

- *Q3'09 GDP +2.2% and Q4 looks even more positive*
- *Residential sector: recovery is underway*
- *Government to gradually withdraw support measures*

In the 3<sup>rd</sup> quarter of 2009, the US economy grew by 2.2% quarter-on-quarter; the gain followed four consecutive quarterly contractions.

The increase in GDP reflected positive contributions from consumer expenditure, exports, stock building, government spending and residential fixed investment. Particularly the housing sector's resurrection is a noteworthy improvement compared with the drag from this sector in recent years. The government recovery plan clearly provided a boost to growth.

First Q4 data look even more positive. Soaring exports in combination with continued support from stock building fuelled GDP, with growth estimated at 4.4% Q-O-Q.

It is expected that the recovery will gain further ground during 2010. However, elevated unemployment, constraints in credit supply and easing support from the government will weigh down on economic growth. Consumer spending is seen remaining generally weak. Also the commercial property sector is expected to continue to under-perform over the coming quarters. Strongest support to GDP growth in 2010 will come from corporate investment and inventory replenishment. Median estimates point to 3% growth in GDP in 2010.

In 2011, the private sector will gain momentum. This should compensate for government support measures being phased out. GDP growth is currently projected to be around 3% next year.

### **Other regions**

- *Asia leads world economy out of recession, China in pole position*
- *Further growth in 2010, policy support remains essential*

The Asian economies – led by China – were the first to reach the turning point in the economic downturn.

Swift actions from the side of the Asian authorities in response to the global recession and the steep and sudden drop in international trade that followed in its trail resulted already during Q2 '09 in a rebound taking off.

There was a further improvement in the 3<sup>rd</sup> quarter, fuelled by strengthening domestic demand and intra-Asian trade picking up sharply. Particularly the Chinese economic stimulus has been quite effective owing to an impressive package directed at stimulating domestic demand and securing employment through infrastructure projects. Also credit supply has been eased markedly, leading to massive investment in property and stocks.

There is, however, rising concern about unwanted side-effects of easier access to lending: a property bubble is not to be excluded and China is currently seeing speculative capital inflows in the anticipation of potential gains in the Yuan. This will make it difficult to prevent excessive liquidity in the financial system.

The outlook for 2010-2011 is for the recovery in emerging Asia and especially in China and India to continue. However, Asian authorities will have to take care not to reduce support measures too quickly, since domestic demand - while being on an overall rising trend - is still relatively weak. Asia's export dynamics which will remain the key driver to growth in manufacturing activity and the economy in general.

## II. The EU Steel Market

### Overview Steel Using Sectors

**Development of the main steel using sectors – Eurofer forecast January 2010**  
 % change year-on-year in the SWIP (Steel Weighted Industrial Production) index

	Steel Consumption by sectors in %	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010	Year 2011
Construction	27	-0,5	-10,6	-7,3	-3,6	-4,6	-6,4	-4,1	-1,6	-0,8	1,1	-1,3	3,0
Structural steelwork	11	-1,8	-15,6	-17,0	-16,0	-12,8	-15,4	-3,4	1,4	-0,3	0,2	-0,5	2,4
Mechanical engineering	14	-1,0	-21,7	-29,8	-26,9	-20,4	-24,8	-3,7	2,4	3,7	5,5	1,8	4,6
Automotive	16	-5,9	-41,4	-35,2	-19,7	1,8	-26,1	15,2	7,3	-3,0	-6,4	2,8	5,8
Domestic appliances	4	-4,9	-15,8	-18,7	-9,3	-2,1	-11,6	1,3	2,9	2,1	0,2	1,6	2,5
Shipyards	1	6,2	-7,4	-8,7	-18,5	-20,2	-13,8	-10,6	-18,9	-9,5	-16,0	-13,9	0,9
Tubes	12	-1,6	-29,2	-36,1	-34,4	-27,4	-31,9	-1,2	1,7	4,1	7,3	2,6	6,1
Metal goods	12	-2,3	-27,3	-30,1	-23,0	-10,7	-23,3	4,2	6,2	5,2	2,8	4,6	5,1
Miscellaneous	3	2,5	-13,1	-15,1	-16,2	-15,3	-14,9	1,3	2,5	3,4	7,5	3,6	4,8
<b>TOTAL</b>	<b>100</b>	<b>-2,0</b>	<b>-23,3</b>	<b>-24,2</b>	<b>-19,0</b>	<b>-12,8</b>	<b>-20,0</b>	<b>0,0</b>	<b>1,2</b>	<b>0,0</b>	<b>0,9</b>	<b>0,6</b>	<b>3,7</b>

- **Recovery EU steel using sectors takes hold in 2010 – construction seen acting as a drag on growth**
- **2011: shift into higher gear**

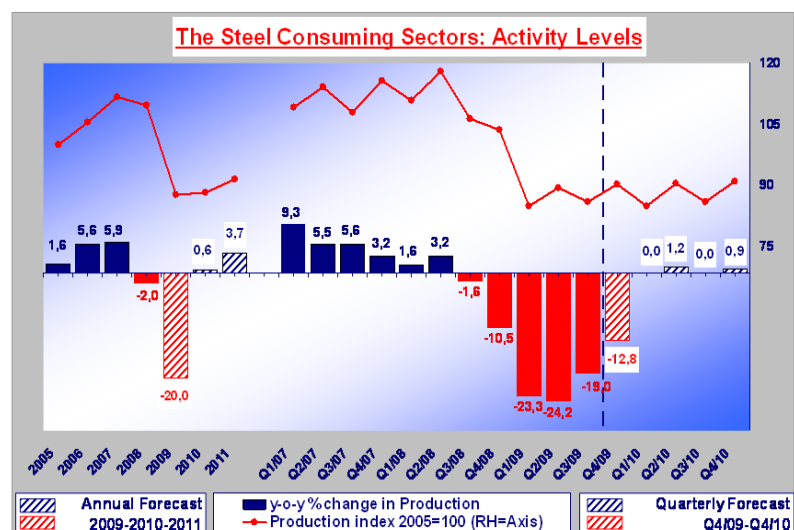
Following the unprecedented drop in activity in EU's steel using sectors in the 1<sup>st</sup> half of 2009, the downturn in orders and production gradually eased in the remainder of the year. Nevertheless, total output was still 19% y-o-y down in the 3<sup>rd</sup> quarter and is estimated to have fallen almost 13% in the final quarter of 2009 compared with an already depressed activity level in the same period of 2008.

International trade picking up from a low level after the summer period and the severe destocking in the downstream processing chain coming to an end, resulted in the extreme pessimism seen in early 2009 steadily ebbing away in most sectors. Industrial confidence and other forward looking indicators such as the Purchasing Managers' Index (PMI) signal a markedly better starting point for the

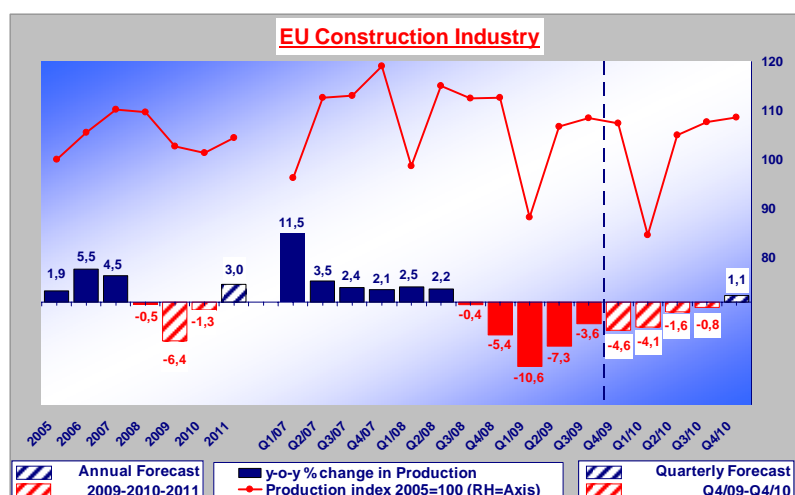
business climate at the beginning of 2010.

The current forecasts for 2010 indicate that on average activity in the steel using industries will register a slight positive growth (+0.6%) this year. This hides continued weakness in the construction-related sectors and a mild rebound in most other industries. The following pages provide more detail on a sectoral level.

A more pronounced rebound is pencilled in for 2011. With all sectors returning to growth, a rise of almost 4% in the steel-weighted industrial production index seems plausible.



## Construction



- **Persistent weakness in activity until late 2010**
- **Non-residential sector remains in the doldrums**

Activity in the construction sector in Europe has been badly damaged during 2009 by the financial crisis and the economic recession that followed in its trail. Total output is estimated to have fallen 6.4% in 2009.

At first, this mainly accentuated the existing slowdown in the residential sector following the expansionary construction cycle in Spain, the UK and Ireland coming to an end during 2007. Increasingly, also activity in the non-residential sector has been affected. Particularly demand for new private industrial and private commercial building projects dried up. Due to reduced sales by property developers and lack of funding, most construction companies have been facing problems towards finishing undergoing constructions. Stocks of offices and warehouses are reported to be high in most EU countries.

The relatively best performing construction sector has been civil engineering. Most governments have stepped up spending on civil and public works to offset the decrease in residential and non-residential building activity. So far, however, the renovation and modernisation sector

benefited most from increased government spending.

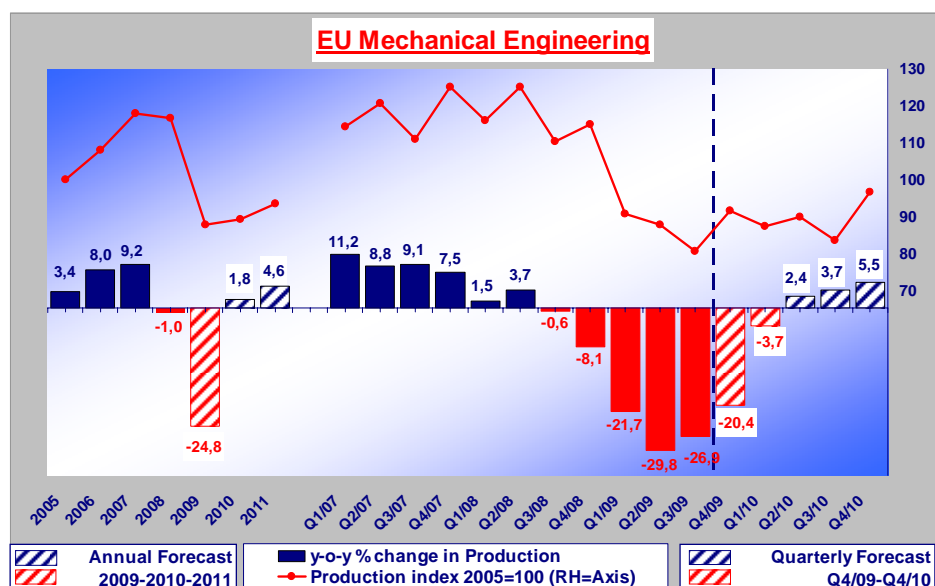
The outlook for 2010 remains depressed. Construction sentiment hardly improved since mid '09. Meanwhile, the reduction in order intakes has been easing gradually.

Weak corporate investment, high vacancy rates, still reduced economic activity levels and difficult access to finance will keep non-residential activity depressed. The main exception is sustainable construction: promotion of investment in renewable energy has led to a healthy demand for environmental and energy-saving technologies.

The outlook for the civil engineering is rather positive, although there are concerns whether government budgets will allow a significant stimulus of infrastructure and public spending. Residential activity is expected to see a slow improvement from very low levels.

On balance, construction activity will continue to decline in 2010, albeit at a milder pace (-1.3%) than last year. There will be positive y-o-y growth again from Q4 '10. The recovery will gain further strength during 2011, supported by a normalisation of economic fundamentals and better outlook for construction investment.

## Mechanical Engineering



- ***Collapse in orders eases late '09***
- ***Export demand drives modest improvement in 2010***

The mechanical engineering sector has been under severe pressure in 2009 due to a catastrophic collapse of investment in new plant and equipment in Europe and the international export markets. Particularly in the first half of 2009, orders fell off a cliff. This resulted in 26 % year-on-year decline in production in this period. Owing to international trade gradually picking up from a low level since mid '09, the downward trend in output eased slightly in the second half of the year. The extremely sharp reduction in order intakes appears to have come to an end in the final months 2009. The German mechanical engineering federation VDMA reported a 12% y-o-y drop in German orders in November compared with 25% reduction in September-November period. Meanwhile, the stock situation of finished products has improved but is generally speaking still seen as relatively high. On balance, output in 2009 is estimated to have fallen by almost 25%.

The outlook for 2010 is for a further gradual recovery, although business conditions will remain quite difficult for the time being. Demand on the internal EU market will remain sluggish against the background of a still depressed outlook for capital goods investment, difficult access to financing and credit and low capacity utilisation rates in the downstream client industries.

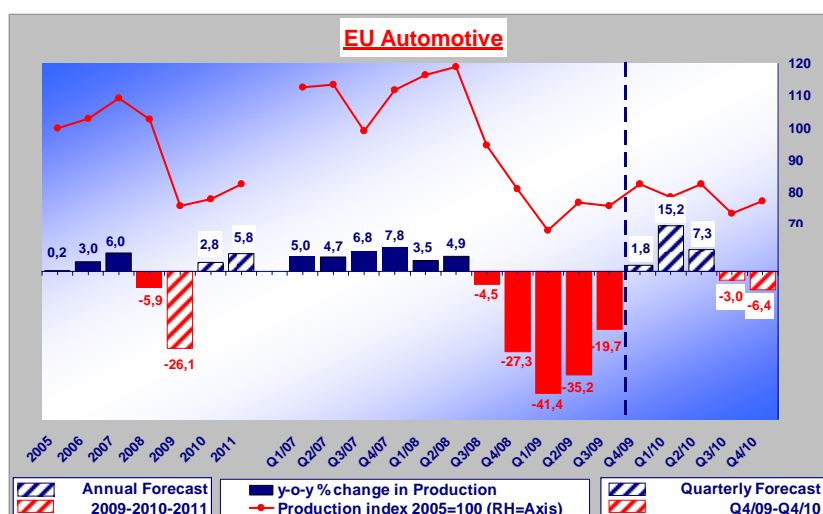
However, the improvement of the international trade situation is likely to continue, driven by the economic upswing in Asia and expectation of the economic recovery to take hold on other key export markets.

The stock cycle is also expected to have a positive impact on demand.

Moreover, some sectors have better prospects than average: particularly the (renewable) energy sector stands out in a positive way.

Activity is forecast to return to growth from the 2<sup>nd</sup> quarter onwards. On balance production could rise by almost 2% in 2010. A further expansion in output by around 4.5% is currently projected for 2011 in line with improving economic fundamentals in the EU.

## Automotive



- **Normalised stocks and output turning positive in Q4'09**
- **Sales outlook uncertain**
- **EU output to recover from a low level in 2010-2011**

EU new car sales rose by almost 27% in November and 16% y-o-y in December 2009. This sharp increase reduced the overall decline in 2009 car registrations to 1.3%. Underlying country data reveal strong y-o-y growth in the key western European markets – particularly in the UK and France – and continued weakness in most Central European countries. Incentives – albeit phasing out in most countries – and fleet renewal schemes helped to soften the impact of the economic downturn on car demand.

Market conditions for commercial vehicles have been significantly less benign. Total sales fell 32.6% y-o-y in 2009. Especially commercial vehicle demand in the new member states remained markedly below the levels seen in 2008.

Automotive production in Europe is estimated to have fallen by 26.1% in the whole of 2009. The y-o-y reduction in output in the 2<sup>nd</sup> half of the year eased markedly as the recovery in car sales resulted in car inventories being

depleted. Q4'09 output was almost 2% up on the corresponding period of 2008.

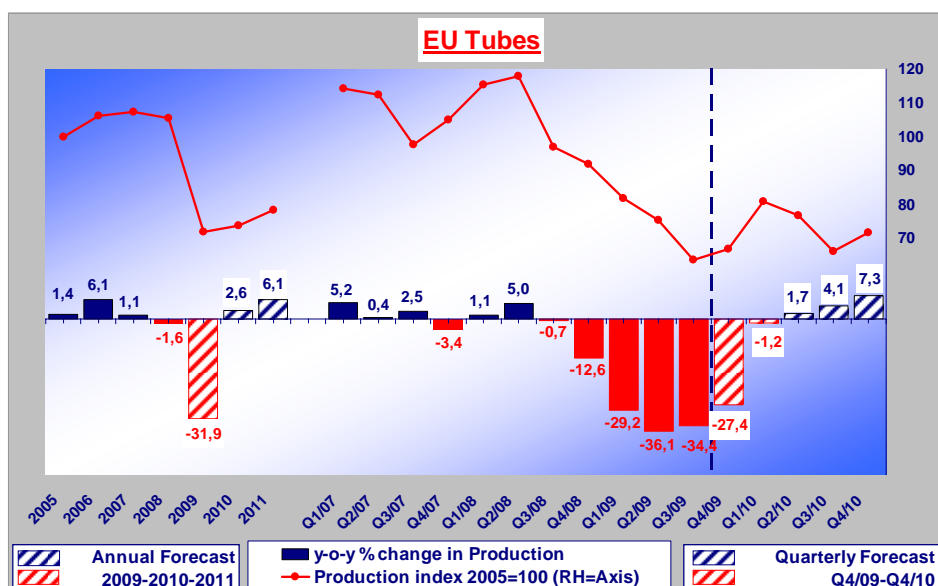
The outlook for 2010 is rather uncertain. Owing to the normalised stock situation at the start of 2010, production is now much better adjusted to market conditions than a year ago. However, producers are far from being bullish on sales perspectives. EU car sales may be temporarily depressed by the termination of scrapping programmes. The outlook for export demand is more positive.

Medium-term sales are likely to remain stagnant in western Europe; for Central Europe, the outlook is brighter given the fact that actual sales are below trend.

Prospects for the commercial vehicle market are dim: heavy investment in transport equipment in recent years, weak transport needs and difficult financing conditions will temper demand.

All in all, EU automotive production in 2010 is expected to be slightly up on 2009 (+2.8%). 2011 forecasts show automotive production - supported by the strengthening economic climate - rising by 5.8%.

## Tubes



- **Massive drop in output in 2009**
- **Low stocks at the start of 2010**
- **Mild strengthening demand and output in 2010-11**

The steel tube sector in the EU has been hit extremely hard by the economic downturn. The latest output data and final quarter production estimates signal that total activity has fallen by 32% in 2009, by far outpacing the drop in activity registered in other steel-using industries.

The key reasons for this collapse in production have been the sharp reduction in output in all client sectors of the steel tube industry and the massive inventory corrections in the steel tube distribution chain and at end-users which already started in the final quarter of 2008 and intensified during 2009.

The outlook for 2010 is for the tube sector to reach the turning point in the 1<sup>st</sup> quarter. Stocks have been largely depleted; output and demand are now closely balanced.

From the 2<sup>nd</sup> quarter onwards, the mild improvement in activity in key steel tube using sectors such as the automotive industry, the metal goods

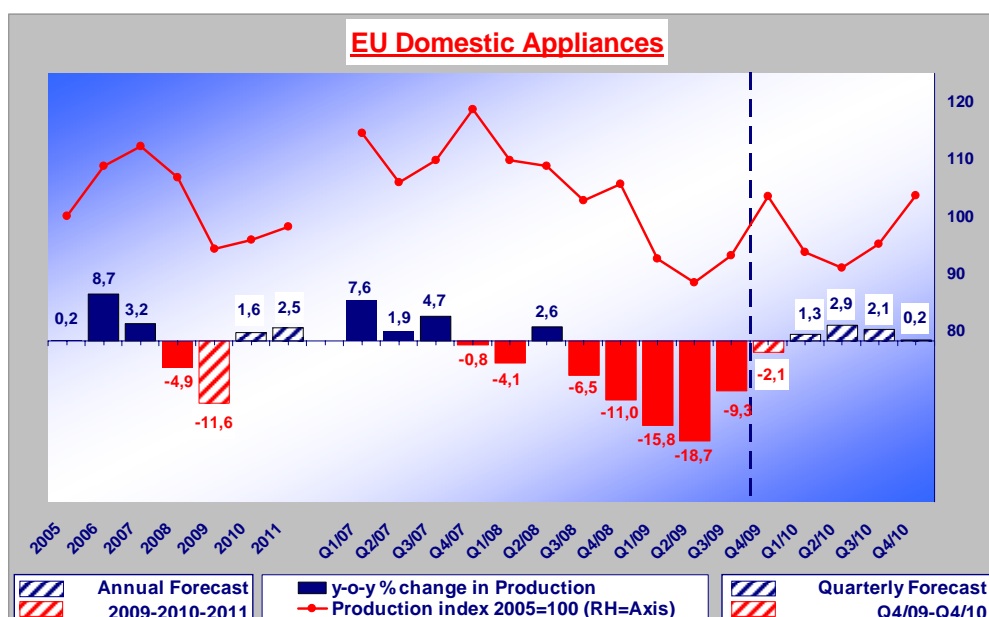
sector and the mechanical engineering industry should have a positive impact on demand for small welded and certain seamless tubes. Increasing business activity will also require distributors and end-users to replenish their sharply reduced inventories.

The outlook for the OCTG market is rather bright too, at the start of the year. Firming demand during the 2<sup>nd</sup> half of last year, the colder weather and weak dollar have helped push Brent crude oil price close to the \$80/bbl mark, the highest level since October 2008. This has continued to put pressure on stock piles. This will have a positive impact on global drilling and exploration activity and consequently OCTG demand.

The outlook for large welded tube projects remains uncertain, mainly because of financing problems. Several large new projects are on the drawing board, awaiting green light to commence construction.

All in all, total tube output may rise by 2.6% in 2010. Acceleration to more than 6% growth could be seen in 2011 once the economic rebound strengthens in 2011.

## Domestic Appliances



- **12% drop in output in 2009**
- **Hardly any scope for demand-side improvement 2010-2011**

Last year, the rate of decline in the production of electrical domestic appliances in the EU slowed from 17% y-o-y in the first half to 9.3% y-o-y in the 3<sup>rd</sup> quarter and to just over 2% in the final quarter. On balance, activity at domestic appliances manufacturers in the EU fell almost 12% in 2009.

The key reasons for this reduction in production are uncertainty at the consumer level concerning the economic situation and prospects for employment and more difficult access to consumer credit. Probably there have also been some crowding-out effects whereby demand for new cars – stimulated by generous scrapping schemes and incentives – dampened demand for other big ticket items.

Also the downturn in the housing market has reduced the market potential for EU producers.

Finally, increasing competition from third country suppliers of electric domestic equipment resulted in EU producers losing market share in their domestic and export markets.

The outlook for 2010 is for a slight rise in production.

There is hardly any scope for an improvement in demand side fundamentals. Against the background of rising pressure from unemployment, wage growth will weaken markedly in 2010. This will keep private consumption at a rather subdued level throughout the year.

Prospects for the residential property market are fairly dim as well.

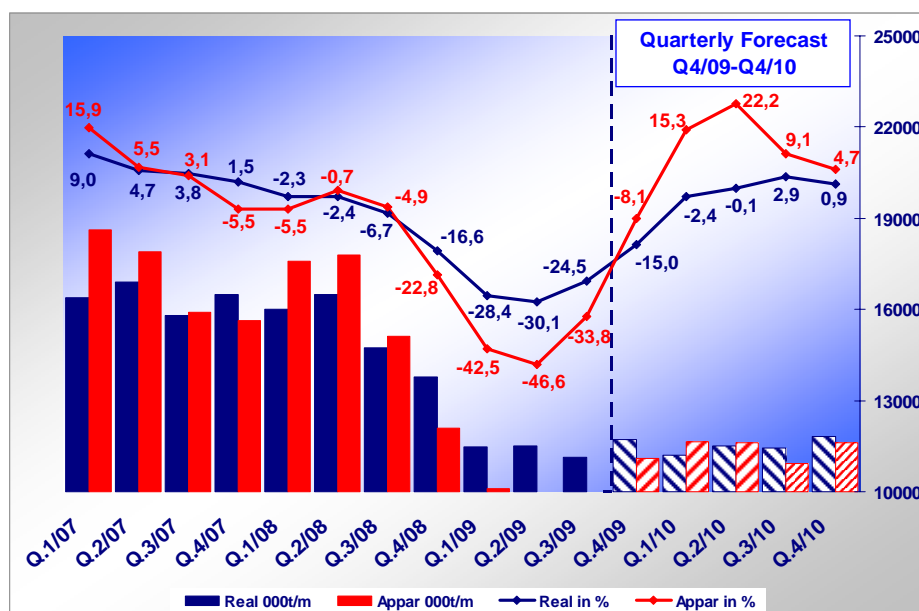
Meanwhile, the trend of Asian producers trying to capture market share in Europe will continue.

A mild rebound is on the cards for 2011, mainly driven by Central European output gaining dynamics again. Total EU output could rise by 2.5%.

## Real Consumption

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

Period	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010	Year 2011
	-7,0	-28,4	-30,1	-24,5	-15,0	-24,9	-2,4	-0,1	2,9	0,9	0,3	4,5



- **Real steel consumption fell by an unprecedented 25% in 2009**
- **Trough in real consumption to be reached in H1 2010**
- **Recovery will be slow**

Ongoing weak end-user activity in the steel using sectors resulted in EU real steel consumption falling by 24.5% in the 3<sup>rd</sup> quarter of 2009 and by an estimated 15% in the 4<sup>th</sup> quarter. All in all, the decline in real consumption amounted to almost 25% in 2009.

The latest forecasts from EUROFER's Economic Committee signal that the trough in the cycle will be reached during the 1<sup>st</sup> half of 2010. The slow but gradual improvement in business conditions during the year will translate into year-on-year growth in real steel consumption turning slightly positive again from the 3<sup>rd</sup> quarter of 2010 onwards.

In spite of the upward trend, the low starting point of the upward phase of the steel market cycle in Europe and still hesitant rate of improvement will keep actual real consumption at a low level for the time being. Even in 2011, real consumption will remain well below consumption levels registered in first years of this decade.

On balance, real steel consumption is expected to increase 0.3% in 2010 and by a further 4.5% in 2011.

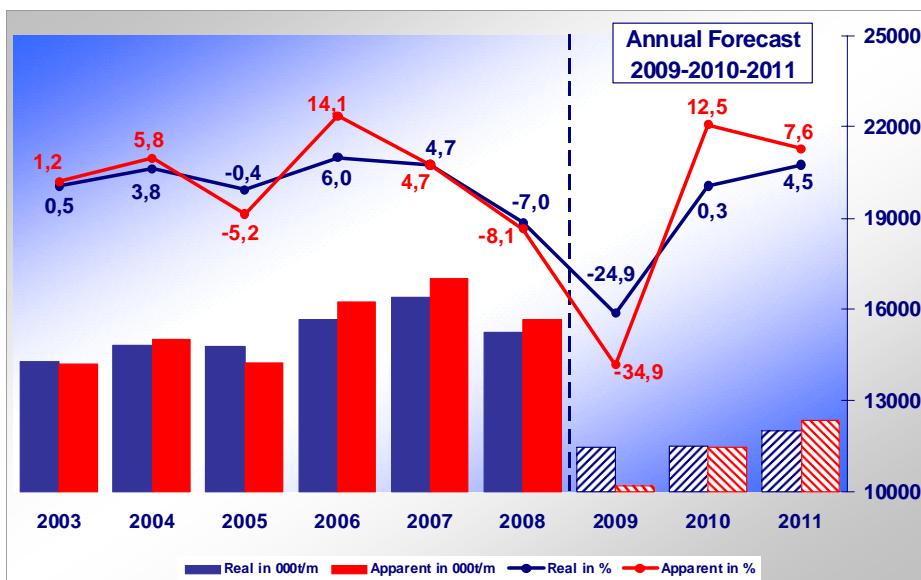
Comparison of the projected growth in activity of the Steel Weighted Industrial Production (SWIP) Index and real consumption signals that growth differentials between SWIP and real consumption will markedly narrow compared to 2008 and 2009. Steel intensity<sup>1)</sup> is expected to increase again and as such act less as a drag on consumption.

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	Year 2008	Q109	Q209	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010	Year 2011
	-8,1	-42,5	-46,6	-33,8	-8,1	-34,9	15,3	22,2	9,1	4,7	12,5	7,6



### Annual Apparent Consumption in Mio Tonnes

2003	170
2004	180
2005	171
2006	195
2007	204
2008	188
2009 (f)	122
2010 (f)	137
2011 (f)	148

- **Market conditions improved in Q4'09**
- **Low inventories supportive to improvement market dynamics**
- **Rise real consumption broadens support to growth in 2011**

Extremely weak activity in the steel using sectors and a very sharp de-stocking in the steel supply chain resulted in apparent steel consumption falling by 45% year-on-year in the first half of 2009 and a further 33.8% in the third quarter.

The downturn in the EU steel market bottomed out after summer as business conditions started to improve somewhat, supported by an upturn in international trade and stimulus measures from EU governments.

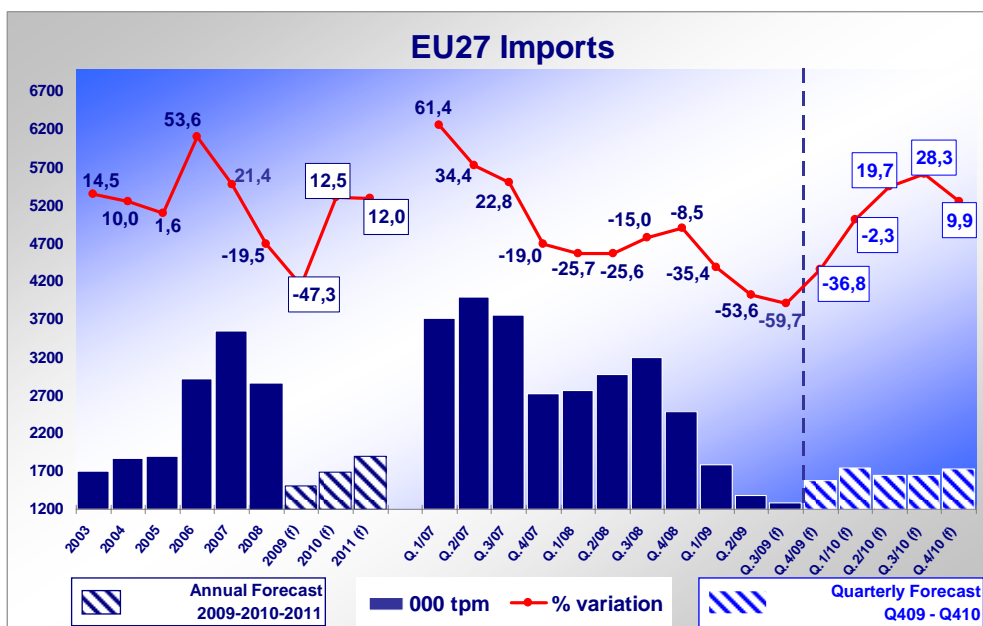
Figures for the final quarter of 2009 confirm a continuation of this trend. Inventory information shows stocks at stable low levels; the effect of the stock cycle has switched from strongly negative to neutral. Orders and deliveries have been rising compared with the depressed levels registered in the same period of 2008 and the

1<sup>st</sup> half of 2009. Relatively low imports and reduced levels of domestic EU deliveries have resulted in the EU steel market supply being much better aligned with still significantly reduced demand levels. Apparent consumption is estimated to have fallen by around 8% in Q4'09 and almost 35% in the whole of 2009.

Low inventory levels at the start of 2010 will be supportive to market dynamics gradually gaining strength during the year. Any further improvement in demand side fundamentals should trigger a corresponding need to replenish inventories from their current low levels. This will provide the major boost to the 12.5% rise in apparent consumption expected in 2010.

The rebound in real steel consumption in 2011 will broaden the basis for growth in apparent consumption. This will also lead to a further positive stimulus from the stock cycle. Apparent steel consumption is projected to rise by 7.6% next year.

## Imports



- **2009 imports estimated to be 47% down on 2008**
- **Imports seen rising again in 2010-2011 in line with demand**

In the 3<sup>rd</sup> quarter of 2009 third country imports into the EU steel declined by almost 60% compared with the same period of 2008. This resulted in imports volumes coming down to the lowest level seen in recent years in a reflection of overall weak demand and pricing conditions in Europe. Moreover, under the current market conditions which are still far from being transparent, steel buyers are biased to ordering basically hand-to-mouth. This has led to reluctance to engage in more substantial deals with third country suppliers with potentially longer delivery times.

In the final quarter of 2009, the year-on-year reduction in imports is estimated to have diminished to approximately 37% with imports rising almost 22% quarter-on-quarter. This rise had already been signalled by the

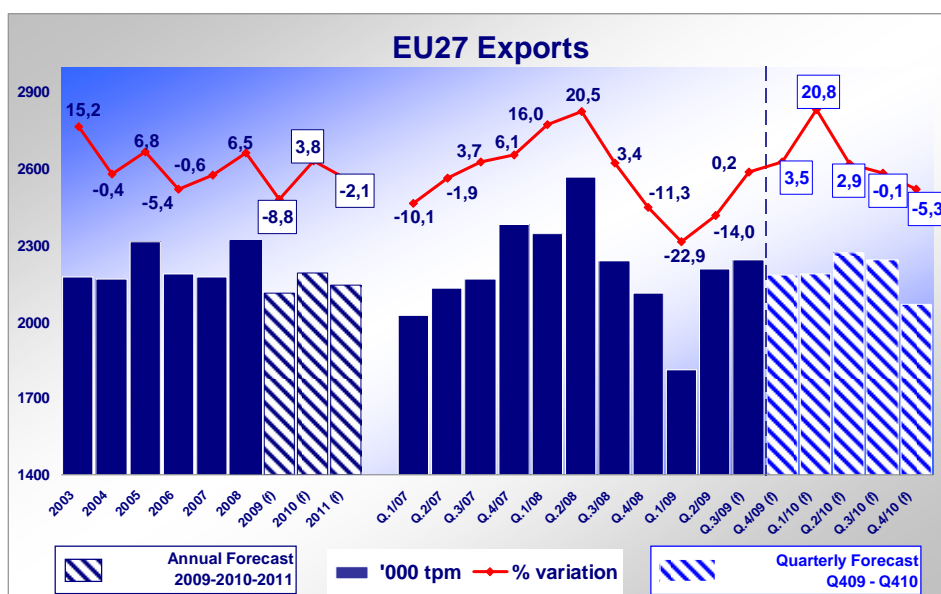
mild increase in import licenses applications during the 3<sup>rd</sup> quarter.

On balance, third country imports are expected to have fallen by 47% in the whole of 2009.

The outlook for 2010 is for the declining trend in imports registered in 2008 and 2009 to reverse. Third country imports are seen rising again by 12.5% in 2010 and a further 12% in 2011, more or less in line with the projected growth in apparent steel consumption. This assumption is based on a global steel market development in which supply and demand are reasonably balanced.

Nevertheless, the import situation remains a major issue of concern. So far, rising global steel production has not yet resulted in a significant increase in imports into Europe. However, if global demand would fail to follow the rising trend in steel output, temporary oversupply elsewhere could lead to import pressure building up in the EU more strongly than currently projected.

## Exports



- **2009 exports estimated to have fallen by almost 9%**
- **EU net exporter for the first time since 2005 – only on long products**
- **Exports seen rising moderately in 2010, falling back in 2011**

In the 3<sup>rd</sup> quarter of 2009, exports by EU27 mills to third countries stabilised at the level registered in the preceding quarter; in a year-on-year comparison exports stabilised as well.

First estimates for the final quarter of last year indicate that exports remained broadly stable at a similar level as seen earlier in the year. All in all, EU exports are estimated to have declined by almost 9% in 2009.

On balance, the EU has become a net exporter again last year for the first time since 2005. The trade surplus, however, is only in long products, most notably reinforcing bars. In contrast, all flat products and particularly strip mill products and quarto plate exports have fallen substantially compared with 2008.

Demand for construction related steel products such as rebar in North Africa

and the Middle East remained relatively firm compared to markets in Europe. However, with large projects drying up in this region because of funding issues, export opportunities will be shrinking for the time being.

Meanwhile, the expected improvement in global steel market conditions does broaden the scope for EU exporters in terms of products and regions.

Consequently, EU exports are expected to increase moderately in 2010; exports are forecast to be almost 4% up on 2009.

The outlook for 2011 is for a slight decline compared with 2010. The EU market shifting into a higher gear will lead to EU steel mills focussing primarily on expanding sales in their domestic markets instead of the international export markets.

Changes in %	IMPORTS Third Countries	EXPORTS Third Countries	COMMUNITY DELIVERIES OF EU PRODUCERS
Year 2008	-19.5	6.5	-4.3
Q.I/2009	-35.4	-22.9	-43.2
Q.II/2009	-53.6	-14.0	-43.6
Q.III/2009	-59.7	0.2	-26.5

### FORECAST

Q.IV/2009	-36.8	3.5	-2.3
Year 2009	-47.3	-8.8	-31.6
Q.I/2010	-2.3	20.8	18.3
Q.II/2010	19.7	2.9	22.1
Q.III/2010	28.3	-0.1	6.4
Q.IV/2010	9.9	-5.3	4.5
Year 2010	12.5	3.8	12.5
Year 2011	12.0	-2.1	7.3

