

Economic and Steel Market Outlook 2010-2011

Q3-2010 Report from EUROFER's Economic Committee ¹⁾

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

	EUROFER Forecast June 2010 EU			
	2008	2009	2010 (f)	2011 (f)
GDP	0.7	-4.1	1.4	1.6
Private consumption	0.3	-1.8	0.6	1.1
Government consumption	2.1	2.4	1.1	0.0
Investment	-0.4	-11.0	-1.5	1.6
Investment in mach. equip.	0.1	-16.5	-1.9	3.2
Investment in construction	-1.0	-6.0	-2.0	0.8
Exports	1.1	-13.1	7.5	5.7
Imports	1.2	-12.2	5.8	4.3
Unemployment rate	7.5	9.2	9.7	8.7
Inflation	3.3	0.8	1.7	1.7
Industrial production	-1.4	-14.0	4.8	3.3

(f) = forecast

I. EU Macro-economic overview

- **Anaemic GDP growth Q1-2010**
- **Improving dynamics in industry**
- **Decoupling Eurozone from US**
- **Softer € supportive to exports**
- **Scale of Eurozone's financial health problems is huge**

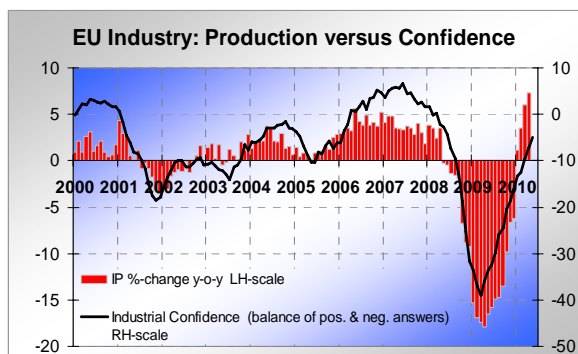
In the first quarter of 2010, the EU economy continued to move forward at a snail's pace, growing by just 0.2% quarter-on-quarter. Export growth and inventory replenishment remained the main drivers of the still hesitant recovery. While so far this year also government expenditure contributed positively, internal momentum lost further strength, reflecting sluggish private consumption and investment, particularly in construction.

At the country level there were marked differences in growth performance. Italy surprised on the upside compared with other large EU countries, whereas Sweden and Portugal outperformed the smaller member states. GDP growth in most countries appears to be stuck in slow motion.

Industry is clearly showing the strongest dynamics of all economic sectors during this stage of the recovery. Supported by the marked improvement in international trade and particularly the rapid rebound of the Asian emerging countries, orders have been improving across a wide range of manufacturing sectors. Output is

¹⁾ Based on information available as of July 1st, 2010

steadily recuperating from the deep fall in industrial activity in 2009.



The rebound in production had been signalled by the improvement in industrial confidence indicators from Q2-2009 onwards. Since late last year, the pick-up in activity appears to have shifted into a higher gear.

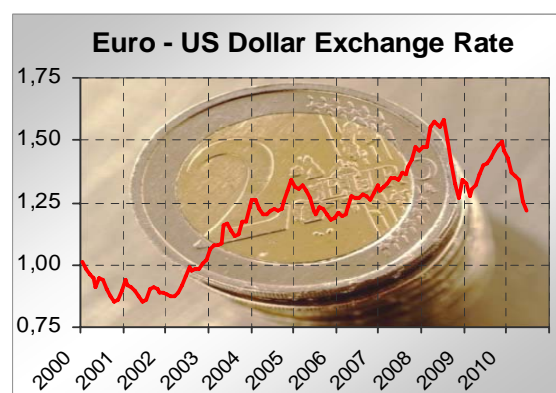
Meanwhile, confidence surveys and other forward looking indicators for the industrial sector such as the EU Purchasing Managers' Indexes point to activity forging ahead in the coming months. EU manufacturing looks well positioned to benefit from business opportunities opening up abroad given its strong position in those industrial sectors where customer focus, high service and skill levels are determining factors. Further support to the competitive position of EU industry in the international export markets is provided by the further depreciation of the Euro during the 2nd quarter.

The euro having a hard time is connected with the difference in growth between the Eurozone and the other economic regions. The latest GDP growth figures confirm the actual decoupling of the Eurozone economy from the US and particularly the emerging Asian countries. With a forward view to the euro exchange rate, projections for GDP growth in the USA point to a considerable growth

gap remaining intact. This will further increase the attractiveness of US assets over those in the EU region and probably lead to further weakening of the euro versus the US\$.

While this will have a negative effect on confidence and domestic demand in the Eurozone, a softer euro will favour foreign trade. However, the outcome will most likely be different at the country level with the export-oriented countries in the North benefiting most whereas the economies in Southern Europe will see much smaller gains.

A weaker euro will also add to inflationary pressures through imported inflation. Another flip side of Euro weakness is that it amplifies the impact of rising costs of raw materials on steel prices, at the expense of the still hesitant recovery in the steel using sectors.



However, a far greater negative impact on the deteriorated strength of the euro vis-à-vis other currencies has recently come from the sharply increased volatility on the financial markets which resulted from the sovereign debt crisis in the EU hitting its peak in the course of the 2nd quarter. Concerns of financial contagion spreading from Greece to other Eurozone countries with precarious public finances have been stoking the world with fear.

While the deterioration in debt and/or budget deficits relative to GDP in the Eurozone countries can be largely attributed to the high cost of easing the pain of the economic recession, it also provided clear evidence of the existence of structural imbalances and institutional weaknesses in the EU.

The EU stabilisation package in combination with IMF and ECB support brought temporary relief to the euro. However, since the bail-out programme does not address the underlying problems, sentiment towards the euro remained on balance negative.

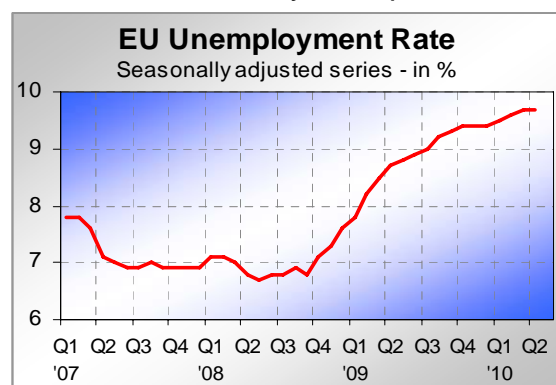
The scale of problems to tackle is indeed huge, and highlights the need for a coordinated and consistent approach of the EU on economic, monetary and fiscal policies as well as the necessity of a structural change in dealing with weak EU members.

Since early May, practically all EU governments have announced austerity programmes which include significant fiscal tightening and scaling back of the stimulus measures implemented in 2009.

Although at this point in time the effects of these measures on the real economy are still hard to quantify, they most likely will have a dampening impact on economic growth in the EU, particularly in 2011. Public expenditure will be cut in most countries, whereas tax increases and restricted access to finance and higher cost of lending due to increased risk aversion by the financial sector will not be supportive to corporate investment and private consumption growth.

On the other hand, provided that the consumers and the private sector gain

confidence in the measures and structural reforms, the negative effect on economic growth may be less severe than currently anticipated.



Another factor influencing consumer confidence is the labour market situation. In April, the EU27 unemployment rate was 9.7%, unchanged from the preceding month. Country by country, the situation is quite different with the highest unemployment rates being registered in Spain and the Baltic states.

The potentially negative impact of employment-related public initiatives in the EU such as temporary lay-offs coming to an end in a number of countries apparently did not have much of an effect on unemployment rates. Moreover, recently there has been positive news from employment agencies on rising demand for temporary hiring in industry, which can be seen as a leading indicator for the economy gaining strength again.

Against the background of high levels of uncertainty currently surrounding the economic outlook and renewed financial unrest, it seems likely that the ECB will maintain its current monetary policy and delay the earlier anticipated rise in the interest rates to well into 2011. Inflation edged up to 1.6% in May 2010 coming from 1.5% in April.

The latest forecasts from EUROFER's Economic Committee indicate that a further marked rise in inflation is not on the cards. This will lend support to the ECB keeping its current supportive monetary policy stance unchanged for the time being.

On balance, the EU economy is seeing a much softer and shakier recovery than elsewhere in the world. The key impulse to growth is provided by the improvement in net trade which has led to a steady rebound in manufacturing activity in the EU. Improving demand from abroad and rising confidence levels in industry has triggered inventory replenishment in the downstream value chain.

Weak domestic demand will continue to act as a drag on growth. Almost all EU governments imposing austerity programmes does not bode well for a short-term improvement in internal EU dynamics, which means that the recovery will remain lacklustre for the foreseeable future and heavily dependant on the strength of economies abroad. In this context it is encouraging that the most recent projections from economic institutes for the US and the main emerging regions have remained quite robust despite financial markets becoming more nervous again recently.

The G-20 initiative to halve their government deficits by the year 2013 clearly demonstrates that the largest industrialized countries are committed to unwind from stimulus measures.

While this may have a dampening effect on economic and international trade, the G-20 countries realise that the timing, pace and intensity of an exit from the economic stimulus packages

should be done in a cautious and appropriate way aimed at consolidating the momentum of recovery of the still uneven and fragile world economy.

Meanwhile, China's decision to increase the flexibility of its exchange rate is a constructive step that can help safeguard the global recovery and contribute to a more balanced global trade picture, which could open up new business opportunities for EU exporters.

All in all, EU GDP is forecast to rise 1.4% in 2010.

Next year, economic growth could strengthen marginally and amount to 1.6% in the EU27, in line with earlier projections. Investment is projected to grow modestly again with particularly investment in machinery but also construction investment bouncing back from previous lows. Also private consumption should be slightly firmer than this year. This will compensate for government expenditure growth slowing down quite significantly across the EU. Governments will face the dilemma of freezing budgets and cutting deficits without stifling economic growth, whilst showing commitment to structural reforms which will be necessary to energise the EU economy in the longer term.

Macro-economic overview: USA

- *US recovery on track in Q1-2010*
- *Labour market improving*
- *2010-11 GDP growth 3.5% p.a.*

The US economy rose by an annualised 3.2% in Q1-2010, the third robust increase in GDP in a row. The inventory cycle and particularly consumer spending growth provided the strongest support to the GDP rise.

While so far the recovery had hardly any positive effects on employment, the labour market brightened markedly in April with 290,000 jobs having been created. The job market is expected to keep improving in the months ahead; this should be supportive to private consumption growth and the housing market. The latter could result in the downturn in the residential construction sector finally coming to an end.

The manufacturing sector made outstanding gains in activity in recent months, owing to the rise in corporate investment. In turn this fuelled replenishment of currently still low stocks in the manufacturing supply chain. Consequently, orders for durable goods remained on a positive trend so far this year. The overall improvement in business conditions is reflected by the ISM PMI index which in May remained close to its 6-year peak of April.

Other leading indicators also point to solid economic growth in the 2nd half of 2010 as the private sector gradually gains further strength. At the same time, government support will likely be reduced. GDP growth could amount to 3.5% this year.

In 2011 a pick-up in (construction) investment should compensate for a further easing in government support measures. GDP growth is forecast to remain at around 3.5% next year.

Other regions

- *V-shaped recovery in major emerging countries*
- *Despite some monetary tightening, policies remain pro-growth*

Q1-2010 data provided further evidence of the V-shaped recovery in major emerging countries such as China, India and Brazil as well as in a number of smaller East-Asian countries continuing up to date.

China's GDP grew at an annualised rate of 11.9% in Q1, driven by strong domestic demand and surging exports. First indications for Q2 point to continued robust economic growth. Despite slowing money supply and credit growth, investment growth remained rather solid in April. Economic growth looks set to stabilise at 9% per annum in 2010-11.

The increase in GDP in India accelerated to 8.6% (annualised rate), backed by firm investment and industrial production growth. The outlook for domestic demand growth is rather solid in spite of some monetary tightening. GDP growth is forecast at around 8% for 2010 and 2011.

The Brazilian economy has expanded at a vigorous pace in the first months of 2010, resulting in high capacity utilisation rates in industry and tight labour markets. Inflationary pressures have been rising which resulted in the central bank of Brazil raising interest rates to 9.5% at the end of April. The economy looks set to expand by 5-5.5% both this year and next.

Also in the smaller emerging countries economic activity appears to be shifting into higher gear, providing support to expecting that continued sturdy growth in the emerging countries will keep the global economy expanding at a healthy pace in 2010 and 2011.

II. The EU Steel Market

Overview Steel Using Sectors

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

	% share in total Consumption	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010	Q111	Q211	Q311	Q411	Year 2011
Construction	27	-4,0	-3,0	-6,1	-8,5	-2,2	-1,8	0,2	-2,8	6,9	-0,3	2,0	2,5	2,6
Structural steelwork	11	-16,0	-14,9	-15,9	-10,7	0,0	0,8	0,7	-2,3	4,2	1,7	3,9	4,0	3,4
Mechanical engineering	14	-27,1	-19,6	-25,2	-4,6	4,2	6,7	4,6	2,6	7,2	5,4	6,0	6,0	6,1
Automotive	16	-19,9	5,9	-25,4	28,4	15,2	2,0	-4,8	9,3	-0,6	1,8	5,9	8,9	3,8
Domestic appliances	4	-10,3	-4,2	-12,5	1,1	4,1	2,2	1,7	2,2	4,2	3,5	4,1	3,4	3,8
Shipyards	1	-18,5	-33,5	-17,3	-14,7	-16,4	-10,3	-6,4	-12,3	0,0	4,1	2,4	1,4	2,0
Tubes	12	-32,6	-26,5	-31,1	-1,0	8,0	9,4	7,6	5,7	4,5	4,2	4,9	4,9	4,6
Metal goods	12	-22,7	-12,5	-23,6	3,8	6,4	4,8	4,2	4,8	2,2	3,3	5,4	5,8	4,2
Miscellaneous	3	-15,8	-14,4	-14,9	1,1	3,5	7,6	5,5	4,5	4,2	4,0	5,0	5,3	4,6
TOTAL	100	-17,4	-10,5	-18,9	-0,4	3,6	2,3	1,3	1,7	4,3	2,3	4,1	4,8	3,9

- **Sharply contrasting performance construction and manufacturing**
- **Orders and output improving across wide range of sectors**

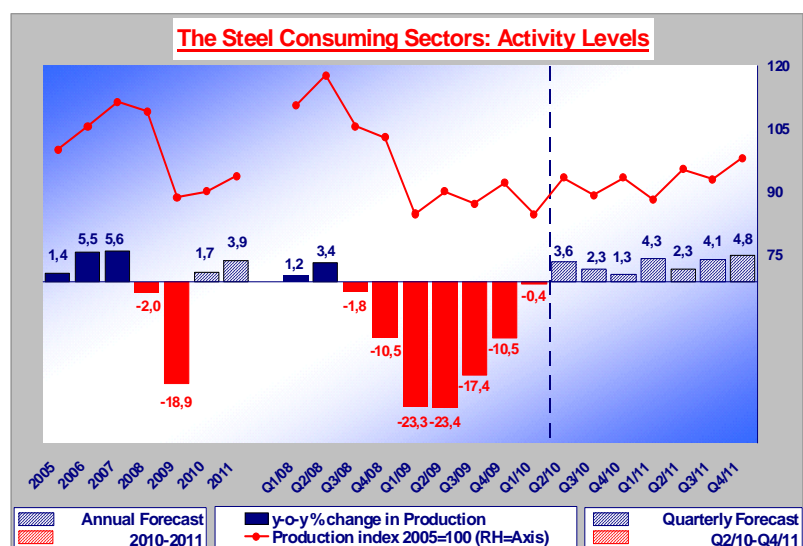
Output of the steel using industries in the 1st quarter of 2010 fell 0.4% compared with the same quarter of 2009. This slight year-on-year decline hides a sharp reduction in output in the construction industry and the related structural steelwork sector due to the harsh winter weather and a much more benign trend in activity in most other steel using sectors. Orders and output have improved across a wide range of manufacturing sectors owing to the improvement in international trade driven by the rapid rebound of the Asian emerging countries. The improving in activity levels has fuelled replenishment of inventories in the supply chain.

First data and estimates for Q2-2010 signal that this trend gained further strength in recent months. Except for

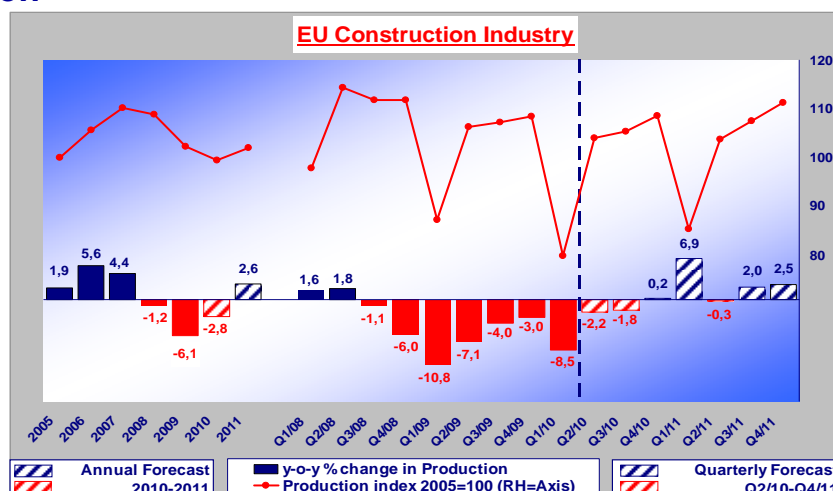
the construction and shipbuilding sector, output registered y-o-y growth in all steel using sectors.

Current forecasts for the 2nd half point to the continuation of the gradual strengthening in industrial activity. On balance, the SWIP index may rise 1.7% in 2010.

From 2011 onwards, the expected mild improvement in internal EU demand will provide further back-up to the stimulus coming from exports. Output in the steel using industries is forecast to grow by almost 4% in 2011.



Construction



- **Weak start 2010, downward trend seen continuing in remainder 2010**
- **Potentially severe direct and indirect effects budget cuts EU**
- **2011: first signs of a pick up**

In line with expectations, construction output in the EU declined sharply in the 1st quarter of 2010 due to harsh winter conditions halting work at most projects. In addition to weather related disruptions the construction sector has also been affected by the ongoing weakness in construction investment in the aftermath of the global financial crisis and the recession that followed in its trail. Order books have been drying up gradually as both private households and entrepreneurs have been shying away from new investments in housing, commercial or industrial property due to financing restraints and still high uncertainty levels surrounding the economic outlook.

Preliminary data for the 2nd quarter confirm that in most countries there has been a rebound in activity levels in the construction sector as work was re-started on most projects. However, in a year-on-year comparison, the downward trend in output continued with total production falling by 2.2%.

With a forward view to the remainder of 2010 and 2011, the outlook has

weakened further. The main reason is the potentially severe direct and indirect impact of the austerity programmes announced since April by many EU governments.

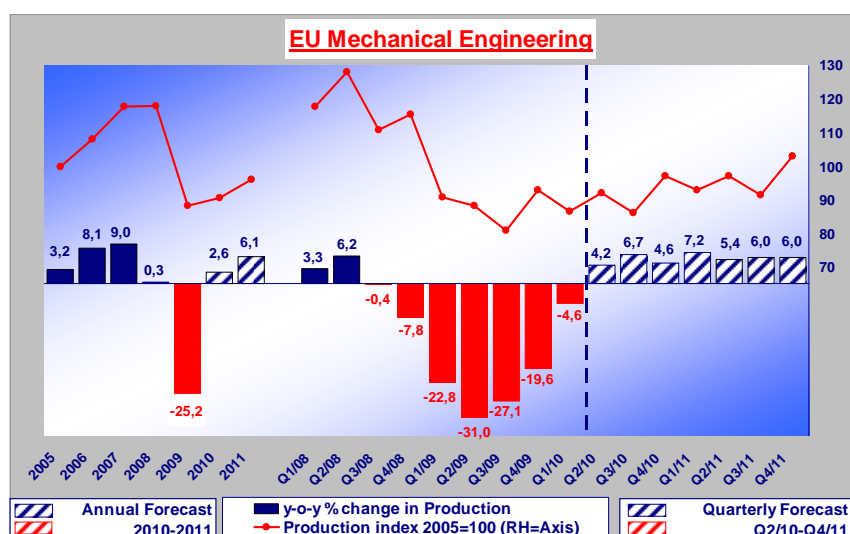
While it was hoped for that increased government spending would support activity in the public building and particularly the civil engineering sector, this positive effect could be lower than previously anticipated. Stringent budget cuts will inevitably lead to reductions in public construction investment across the EU. Indirect effects should not be overlooked either: more difficult access to finance due to increased risk aversion by the financial sector in the light of the deteriorated financial health of several EU countries, a rising tax burden and an overall weakening in confidence.

Despite increased uncertainties, it is still expected that the EU construction downturn will bottom out this year and that 2011 should see – depending on the country - a low level stabilisation or minor improvement.

At the country level, the outlook for the central European countries is much more benign thanks to EU funds securing the continuation of large infrastructural projects.

On balance, construction output is forecast to fall 2.8% in 2010 before expanding again by 2.6% in 2011.

Mechanical Engineering



- **Marked improvement in business conditions since early 2010**
- **Output growth seen accelerating in 2011**

Production in the mechanical engineering industry in the EU declined 4.6% year-on-year in the 1st quarter of 2010. Nevertheless, coming from a 25% drop in output in the whole of 2009 and a 20% decrease in the final quarter of last year, the relative improvement in business conditions in this sector has been significant in recent months.

The rapid rebound of the emerging Asian countries – led by China and followed by most other economies in the region – resulted in international demand for capital goods strengthening since the 2nd half of 2009 and consequently, the global manufacturing sector gaining traction. Also mechanical engineering companies in the EU have been able to benefit from the pick-up in demand owing to their focus on technologically advanced products for the most demanding end-markets.

Since the start of the year, also internal momentum in the EU has started to strengthen again. This is reflected in the marked rise in both export and domestic order intakes in recent

months as reported by the German mechanical engineering association VDMA. Given the dominance of German industry in this sector, this can be seen as a barometer for general business conditions in the EU.

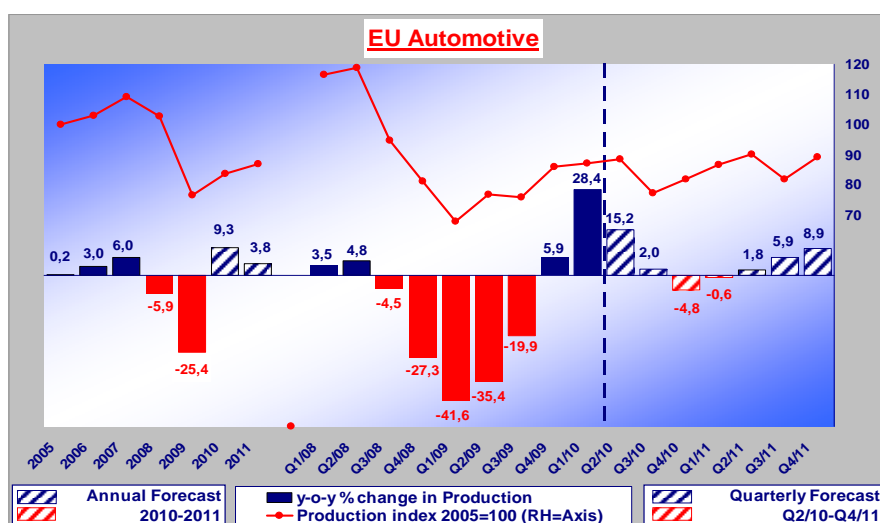
The key factor driving EU demand appears to be inventory replenishment rather than demand for new plant and equipment. Most companies have been running down stocks of industrial spare parts and components during 2009 as part of their survival strategy. Improving capacity utilisation and the restart of maintenance programmes does require re-stocking.

Estimates for output in Q2-2010 signal more than 4% growth y-o-y.

The growth rate in activity may even accelerate further in the coming quarters supported by a rather robust outlook for exports with the weak Euro working in favour of EU exporters. Further support will come from stock replenishment. Total output is forecast to rise by more than 2.5% in 2010.

A steady growth trend of on average 6% y-o-y is on the cards for 2011. EU investment looks set to start growing again following 3 years of decline. In addition, prospects for international export demand for plant & equipment are to remain quite favourable..

Automotive



- **EU car sales weaken while CV market gains some traction**
- **EU output projected to rise 9% in 2010 and close to 5% in 2011**

EU new car sales fell for the 2nd month in a row in May. Following the peak in March, monthly sales have come down to more sustainable levels, reflecting government stimulus measures coming to an end and consumer retrenchment across the EU in response to overall still uncertain economic conditions. Due to the 8% drop in April-May registrations, the year-to-date rise in sales was reduced to just below 2%.

Meanwhile, the commercial vehicles market appears to be on the mend since March 2010, with sales growing by 8.5% y-o-y in March-May. However, this growth figure hides significantly diverging trends at the market segment and country level. While total light commercial vehicles sales grew by 12% in this period, sales were sharply up in the EU15 but fell markedly in the new member states. The y-o-y drop in medium and heavy trucks slowed down to 1% in May with EU15 sales still on downward trend, but those in Central Europe growing rapidly.

Automotive output grew more than 28% y-o-y in the 1st quarter; Q2 estimates indicate that production may

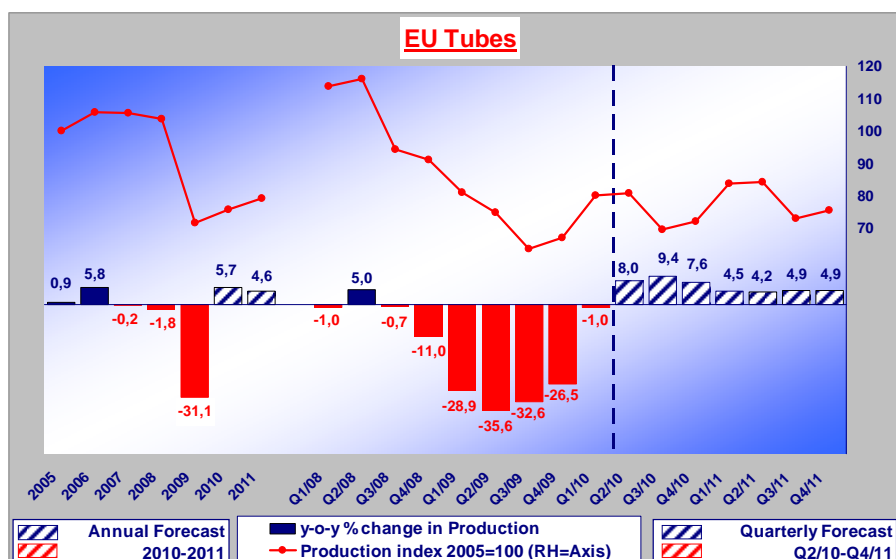
have increased by approximately 15% y-o-y. On balance, the rebound in output in the 1st half of this year has been stronger than expected.

Against the background of a more modest growth in total automotive sales it is not to be excluded that manufacturer stocks of vehicles have been rising from the low levels at the start of this year.

For the remainder of 2010 it is expected that domestic EU car sales will stabilise around the current level and that the weaker Euro will stimulate export demand. The outlook for the commercial vehicle market is for a gradual but slow recovery in demand. Whether current stock levels will act as a drag on output growth in the remainder of 2010 will depend on the actual strength of the market. Nevertheless, some destocking towards the end of this year has been pencilled in. All in all, output is forecast to rise by more than 9% in 2010.

The outlook for 2011 is for output growth slowing down to below 4% as improving economic conditions in 2011 support the view of sales returning to trend levels again, particularly in Central Europe. Meanwhile, prospects for export demand remain relatively positive.

Tubes



- **Tube demand picking up from level in line with rebound downstream activity**
- **Stock replenishment main driver demand and output**
- **Output seen rising close to 6% in 2010 and around 5% in 2011**

In the 1st quarter of 2010 the year-on-year drop in steel tube production in the EU slowed to just 1%, coming from two-digit declines in the 5 preceding quarters and a massive 31% reduction in output in the whole of 2009. This marked relative improvement reflects the upward trend in manufacturing activity in the EU and the process of inventory reductions in the steel tube distribution chain and at end-users coming to an end.

First estimates and preliminary data for the 2nd quarter point to the first quarterly year-on-year rise in steel tube output since two years. With the exception of the construction sectors and the shipbuilding industry, activity in the main end-user segments of steel tubes is picking up again. While this supports steel tube demand picking from the very low level reached in 2009, replenishment of the sharply reduced inventories of tubular steel

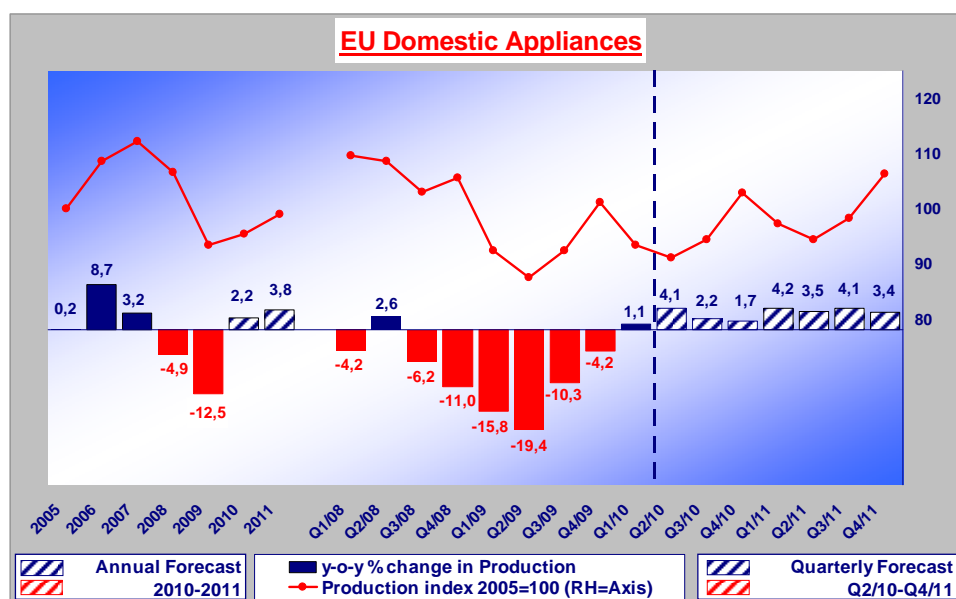
products is the main driver for growth in demand and output. On balance, output growth is estimated to have amounted to 8% y-o-y in Q2-2010

This positive trend is foreseen to continue in the remainder of the year owing to the ongoing rebound in activity expected for all end-user sectors of seamless and small and medium-size welded steel tubes. Improving downstream activity levels will require also inventory levels of steel tubes to be raised further.

Demand for large welded tubes rather firm owing to several large pipeline projects being under construction in Europe, for example the 1220km Nord Stream pipeline that will link Russia and the European Union via the Baltic Sea. Also in the Balkan a number of projects are currently under construction. More projects are under study; their realisation will depend on energy market and financing conditions.

All in all, total steel tube output in the EU may expand by 5.5-6% in 2010. For 2011 growth between 4.5 and 5% is currently expected.

Domestic Appliances



- **Output on a rising trend in Q1-2010**
- **Modest rise in output in 2010, slightly higher growth in 2011**

In the 1st quarter of 2010, activity in the electrical domestic appliances industry grew 1.1% compared with the weak level of output registered in the same period of 2009.

Although private consumption will be rather depressed this year due to the uncertainties stemming from the general economic situation and more recently, the negative direct and indirect effects of austerity programmes announced by most EU governments on household wealth, demand for electrical domestic appliances appears to have troughed in the final quarter of last year.

The relative strength of renovation and modernisation activities currently seen in the construction sector does confirm that consumers shy away from buying new property and decide to renovate or modernise existing homes instead. This is certainly providing a welcome

impulse to demand for electrical domestic appliances.

First data and estimates for Q2-2010 signal a continuation of the mildly upward trend in activity. This trend is likely to continue in the remainder of 2010. On balance, output in the electrical domestic appliances sector is forecast to rise approximately 2% this year.

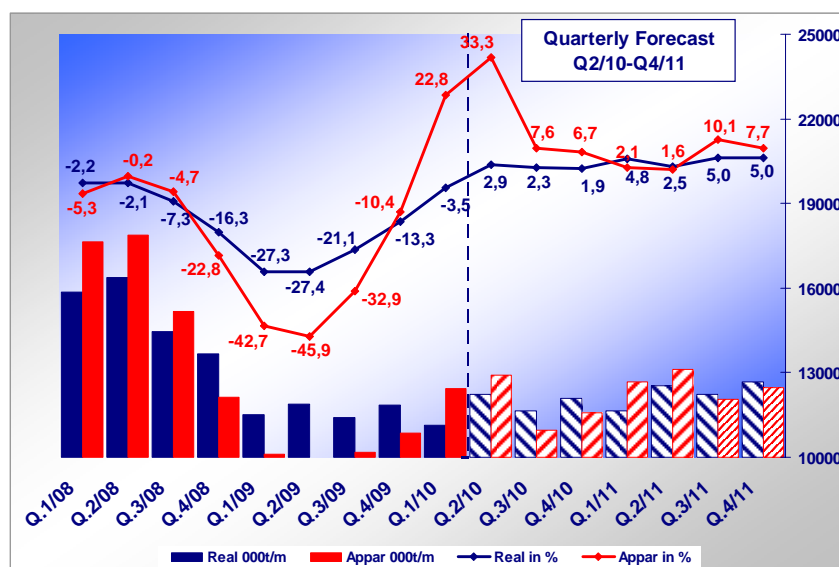
Prospects for 2011 are slightly more positive. A modest improvement in private consumption and activity in the residential construction sector picking up from the low levels reached in previous years will support the view of sales of new and existing homes developing more momentum over the year. Also the EU energy labelling scheme for electrical appliances will continue to stimulate replacement demand.

All in all, output of electrical domestic appliances is projected to rise by almost 4% in 2011.

Real Consumption

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

Period	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010	Q111	Q211	Q311	Q411	Year 2011
	-21,1	-13,3	-22,7	-3,5	2,9	2,3	1,9	0,9	4,8	2,5	5,0	5,0	4,3



- **Real consumption growth should turn positive again in Q2-2010**
- **Rebound expected to gain traction in 2011**
- **Full recovery to pre-crisis levels still years away**

In the 1st quarter of 2010, the decline in real steel consumption slowed down to 3.5% year-on-year, in line with earlier expectations of the downturn in real steel consumption coming to and end in the first half of this year.

First indications for the 2nd quarter signal that steel consumption should improve from a low level, and register the first y-o-y growth following 9 consecutive quarters of decline.

The drag of harsh winter conditions affecting construction activity should ease. In combination with manufacturing output gradually gaining further strength, real steel consumption is projected to increase by almost 3%

compared with the same period of 2009.

In the 2nd half of this year, the improvement in steel market demand fundamentals will continue at a slow but steady rate.

All in all, real steel consumption could grow very slightly in 2010

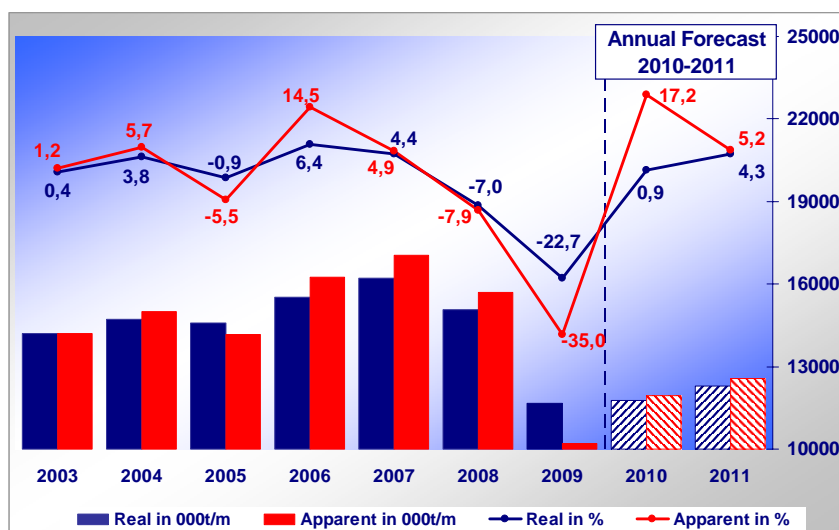
A more solid recovery is projected to take place in 2011, much in line with the activity in the steel using sectors - including the construction sector – gaining traction again. In addition, rising steel intensity should support growth in steel consumption. On balance, real steel consumption could rise by 4-4.5% next year. Despite the expected rebound in 2011, a full recovery of EU real steel consumption to pre-crisis levels appears still years away.

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	Q309	Q409	Year 2009	Q110	Q210	Q310	Q410	Year 2010	Q111	Q211	Q311	Q411	Year 2011
	-32,9	-10,4	-35,0	22,8	33,3	7,6	6,7	17,2	2,1	1,6	10,1	7,7	5,2



Annual Apparent Consumption in Mio Tonnes

2003	170
2004	180
2005	170
2006	195
2007	204
2008	188
2009	122
2010 (f)	144
2011 (f)	151

- **23% rise in Q1-2010 apparent consumption on inventory cycle**
- **Stocks still assessed as balanced with demand**
- **Real consumption growth will take the lead from inventory cycle in 2011**

Apparent steel consumption turned the corner in Q1-2010, growing by almost 23% y-o-y following 9 quarterly declines in a row and a 35% reduction in apparent consumption in 2009.

With real consumption still on a subdued level, the inventory cycle has been the driving factor behind this marked improvement. In contrast, the same quarter of 2009 had been characterised by extremely weak final consumption, heavy de-stocking and EU mills seeing orders and deliveries falling off a cliff.

Despite stocks being replenished again, overall inventory levels have risen only very modestly since the start of the year. Data on stocks in the steel distribution chain reveal only a limited rise in strip mill product inventories and

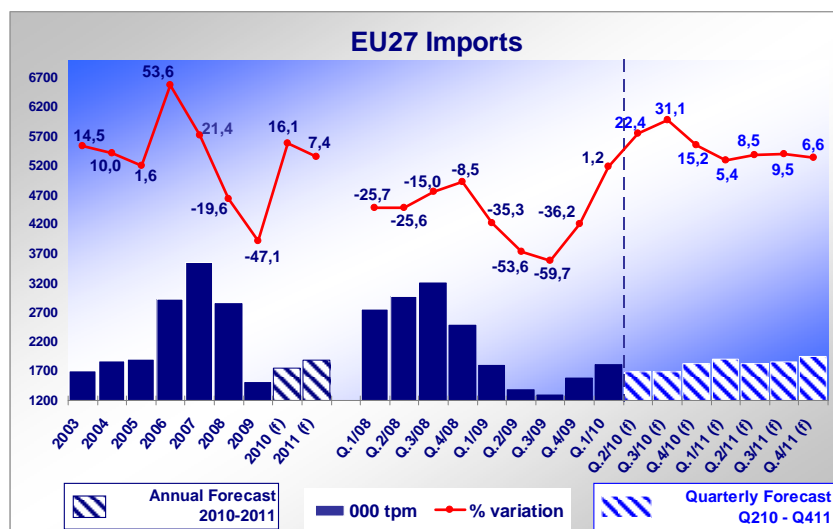
stock-sales ratios remaining at approximately 2 to 2.5 months of current consumption. Generally speaking, overall stocks including those at end-users are assessed as normal in relation to the prevailing market conditions.

Particularly EU mills benefited from his improvement in steel market fundamentals. Up to now, imports remained at moderate levels although they have been on a rising trend since bottoming out in Q3-2009.

First indications for Q2-2010 signal a continuation of the positive trend seen in the 1st quarter. The impulse from the inventory cycle is expected to lose strength in the remainder of the year. Nevertheless, total apparent consumption is projected to rise 17% this year.

In 2011, the anticipated rebound in real steel consumption will provide the main support to the projected 5% rise in apparent consumption as the positive impact of the inventory cycle is seen easing further.

Imports



- **Imports on a rising trend in Q1-2010, basically in flats and semis**
- **Import penetration seen remaining in line with market fundamentals**

As signalled from early 2010 onwards by the steady rise in import licenses, Q1-2010 steel imports into the EU have risen to levels significantly above those registered in the preceding 3 quarters of 2009. This implies that imports have returned to the Q1-2009 level. The rising trend for total imports hides significantly diverging trends at the product level. Whereas imports of long products increased relatively modestly compared with the preceding quarters and actually fell by more than 35% y-o-y in Q1, imports of flat products and semis – particularly those from China - have been on a rising trend since Q3-2009.

First customs data and estimates for Q2-2010 steel trade with third countries point to imports trailing off again compared to the level of the 1st quarter, while growing by 22% growth in a year-on-year comparison.

On balance, the share of imports in EU apparent consumption remained at close to 15%, quite comparable with

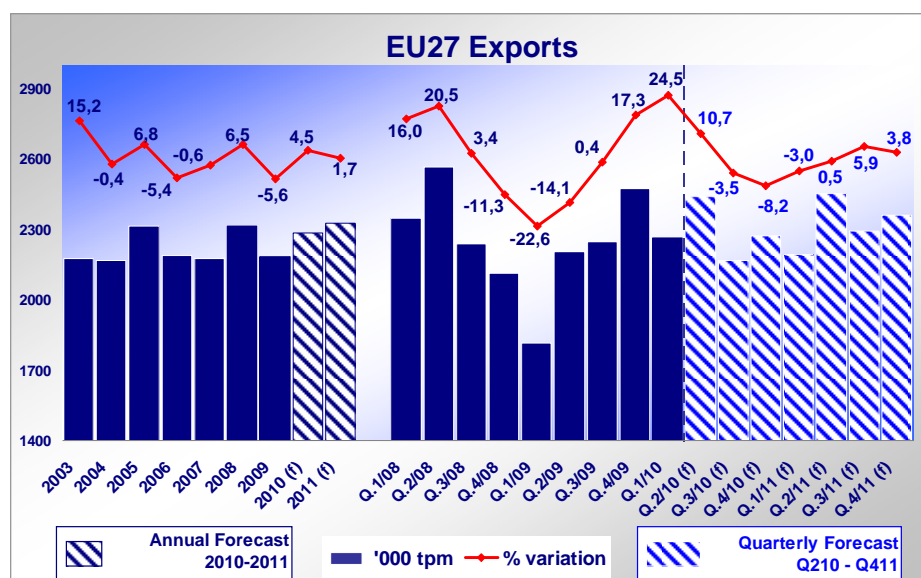
the market situation in 2009 and still below the significantly higher market penetration rates in the 2006-2008 period.

The latest projections signal for the 2nd half of 2010 fairly similar import volumes entering the EU market as in the 1st half of this year and slightly higher imports in 2011. The weakened Euro and the relatively modest pace of recovery in steel demand compared to other regions will reduce the appeal of the EU as an export destination. Moreover, due to the lack of transparency on business prospects and the effect of price developments in raw materials on steel prices steel buyers will prefer buy short-term from nearby suppliers to reduce the risk of a misalignment between steel supply and actual business activity.

Total imports are forecast to rise 16% in 2010 and close to 7.5% in 2011. This means that on balance imports will rise more or less in line with the growth foreseen for apparent steel consumption in the 2010-11 period.

However, temporary oversupply elsewhere could lead to imports into the EU rising more strongly than currently projected.

Exports



- *EU exports in Q1-2010 remained close to levels seen in preceding quarters*
- *Surplus in long products likely to diminish in 2011 as EU demand fundamentals improve*

The latest customs data on steel trade show Q1-2010 exports from the EU to third countries remaining close to the level registered in the preceding quarters. Exports were almost 25% up on the low level of exports in Q1-2009. Over time, EU exports have remained fairly stable in terms of overall volumes, averaging some 26 million tonnes per annum in the 2003-2009 period.

The existence of a trade surplus or deficit is largely explained by the prevailing trend in imports. Lower import levels since mid 2008 have resulted in the EU running a trade surplus, but basically in long products. This has also been the case in the 1st quarter of 2010.

The combination of a construction sector downturn in Europe and demand for construction related steel products holding up significantly better

in North Africa and the Middle East resulted in EU steel mills selling more long products abroad.

This situation is probably not going to change on a short term. First estimates for Q2 exports show exports picking up slightly compared with the 1st quarter. However, projections for the 2nd half of the year indicate exports will start to taper off again. In the key export markets steel purchasers increasingly adopt a wait-and-see attitude due to lack of visibility on project activity, steel prices and consequently, competition heating up. On balance, this will result in exports rising by less than 5% in 2010.

The forecast for 2011 signals that exports are expected to remain close to the 2010 level. Improving demand fundamentals in the EU market and particularly construction activity picking up from low levels will result in EU steel mills focussing on supplying domestic markets instead of the international export markets.

Changes in %	IMPORTS from Third Countries	EXPORTS to Third Countries	DELIVERIES into EU 27	TOTAL DELIVERIES
Q.III/2009	-59.7	0.4	-25.8	-21,5
Q.IV/2009	-36.2	17.3	-2.7	0,8
Year 2009	-47.1	-5.6	-31.3	-27.8
Q.I/2010	1.2	24.5	29.1	28.0

FORECAST

Q.II/2010	22.4	10.7	34.3	29.8
Q.III/2010	31.1	-3.5	4.3	3.3
Q.IV/2010	15.2	-8.2	5.3	2.9
Year 2010	16.1	4.5	17.7	15.3
Q.I/2011	5.4	-3.0	1.0	0.5
Q.II/2011	8.5	0.5	1.1	1.2
Q.III/2011	9.5	5.9	10.4	9.4
Q.IV/2011	6.6	3.8	7.9	7.1
Year 2011	7.4	1.7	4.8	4.3

