

Economic and Steel Market Outlook 2010-2011

Q2-2010 Report from EUROFER's Economic Committee ¹⁾

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

	Eurofer Forecast April 2010 EU			
	2008	2009	2010 (f)	2011 (f)
GDP	0.7	-4.1	1.2	1.8
Private consumption	0.3	-1.7	0.6	1.2
Government consumption	2.1	2.0	1.2	0.4
Investment	-0.4	-9.8	-1.5	1.9
Investment in mach. equip.	0.1	-16.6	0.2	2.7
Investment in construction	-0.9	-5.9	-1.9	0.9
Exports	1.1	-12.9	5.9	5.2
Imports	1.2	-11.8	4.6	4.1
Unemployment rate	7.5	9.0	9.6	8.7
Inflation	3.3	0.7	1.5	1.4
Industrial production	-1.4	-14.0	2.7	3.4

(f) = forecast

I. EU Macro-economic overview

- **Disappointing Q409 GDP growth**
- **Indicators suggest modest EU recovery is still on track**
- **Manufacturing gaining strength thanks to exports**
- **Rising concerns on financial health EU**

In the final quarter of 2009, the EU economy posted only 0.1% growth compared with the third quarter. Rising exports owing to the continued improvement in international trade prevented the EU from slipping back into a contraction. As expected, domestic demand remained a major drag on growth: private consumption stabilised at a low level and investment weakened further. Temporary factors such as the car-scrapping programmes coming to an end had an overall negative impact on demand.

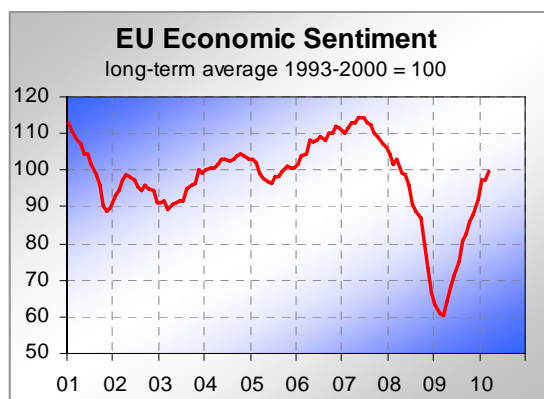
At the country level, dynamics slowed markedly in Germany, while Italy's GDP fell slightly. Meanwhile, France continued to register relatively robust growth. The recession in the UK came to an end in the fourth quarter, whereas Spain appears to have neared the trough in the economic cycle.

Despite disappointing growth figures for Q4'09, EUROFER's Economic Committee does not assess the slowdown in economic growth in the EU as the start of another downturn.

¹⁾ Based on information available as of April 20th, 2010

Forward looking indicators such as the sentiment indicators from the European Commission and the Purchasing Managers' Index continue to point to improving economic conditions in the EU.

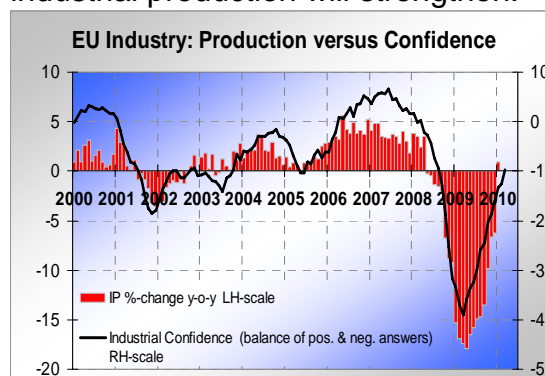
While preliminary data for GDP in the first quarter of this year – such as retail sales and household consumption - suggest that growth remained rather sluggish, the economic sentiment indicator rose further in the first three months of this year, coming back to its long-term average again at the end of March. Robust gains were made in the assessment of the business climate in general and short-term production trends in industry. Meanwhile, the Euro-area manufacturing PMI rose sharply in March, reaching its strongest level since January 2007. Also the services PMI improved in March.



The ongoing improvement in leading indicators signals a further strengthening of activity in manufacturing and services in the coming months.

Particularly the business climate in industry is in a much better shape than any time since early 2009. It reflects the combined effect of the sustained upswing in global trade and consequently a increasingly positive outlook for EU exports and the easing

drag of the stock cycle in the value chain. Surveys show that stocks of finished products in the manufacturing chain are currently assessed as being rather low. This implies that even if final demand picks up only modestly, industrial production will strengthen.



So far, hard data on orders and output in the manufacturing sector have continued to show a rather bumpy monthly pattern, with growth in orders taking a pause in January and output rising 2% compared with December '09. Nevertheless, industry appears to be well on track for further expansion.

While exports will remain the key driver of economic growth in the EU, prospects for domestic demand will remain subdued.

Private consumption is forecast to increase this year only marginally compared with the weak level registered in 2009. Although consumer confidence has bounced back from the Q1'09 trough, it has remained rather low by historical standards.

A key factor influencing consumer confidence is the employment situation. In February, the EU27 unemployment rate stood at 9.6% compared with 9.5% in January and 8.3% in February 2009. The Euro area unemployment rate reached 10% in February 2010, its highest level since August 1998. While the fast increase in

unemployment has eased, an improvement in labour market conditions has yet to materialise. Weak economic growth will continue to hamper job creation in 2010.

There are more reasons for the consumer to remain pessimistic: bad news has also come the financial health situation of individual EU member countries and the property market. Moreover, the cushioning effect of government support programmes such as the car scrapping schemes and tax cuts on private consumption will be much less strong than in 2009 while real wage growth will provide no support either.

Investment is forecast to decline further this year. The brisk reduction in economic activity in 2009 and the hesitant recovery that followed have reduced companies' willingness to invest, particularly in commercial and industrial property. For the time being it seems likely that entrepreneurs will wait for more certainty concerning an upswing in final demand before increasing investment again.

Access to finance and credit is another source of concern for the corporate sector and a potential risk for the expected recovery in the EU. The latest surveys show that credit conditions continued to tighten in the fourth quarter of last year, although not as briskly as earlier in the year. Particularly access to trade credit insurance reportedly remained a bottleneck for many companies, threatening companies to miss out on opportunities arising from the surge in international trade.

The uncertainty concerning the sovereign debt issue is threatening to

make European banks even more reluctant on easing credit supply since they are still holding a large share of this debt.

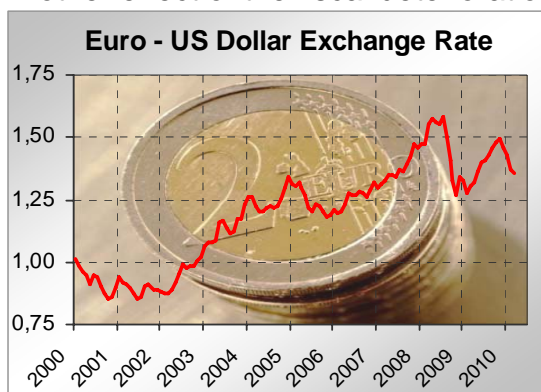
The sovereign debt issue is also the key factor in the worsened outlook for government consumption. The financial crisis and recession resulted in a sharp deterioration in government finances, basically as a result of automatic stabilisers (lower tax incomes and higher welfare payments) but also due to government support programmes to stimulate the economy. Mounting financial problems exposed in recent months the existence of dramatic financial imbalances and abusive government debt in Greece. However, countries such as Spain, Portugal, some smaller Central European countries and even Italy and the UK also have a mounting budget deficit. They are currently forced to impose tough adjustment measures in order to bring deficits more in line with the Maastricht criteria. Greece has announced an austerity programme, consisting of wage cuts and pension freezes in the public sector and a VAT increase. Also most other debt-ridden countries have announced measures to reduce their debts.

While this has helped to narrow bond yield spreads in recent weeks, financial markets' sentiment has remained fragile due to persisting uncertainty whether the proposed measures can and will be fully implemented and to what extent the contagion will spread to other countries. The rising pressure on governments to improve their budget deficits could lead to lower growth in most EU countries, not only in the short run but also in the longer

term as sooner or later taxes and interest rates will be raised.

Against this background it is highly unlikely that the ECB will rush into monetary tightening in 2010. Although inflation started to rise in a year-on-year comparison since November last year, it is expected that inflation will increase only moderately further this year. This will be supportive to the ECB to keep its current supportive monetary policy unchanged for the time being.

Another effect of the fiscal deterioration



in the EU and the dampening effect it may have on the economic recovery is the weakening of the Euro vis-à-vis on the US\$. From the peak of US\$ 1.51 in early December, the Euro has fallen to just below US\$ 1.35 at the end of March. Most likely the depreciation is not going to stop at that rate. The stronger growth outlook for the US economy and an unfavourable interest rate differential will set the stage for at least a temporary further decline of the Euro. Particularly countries with a higher exposure to extra-EU exports will benefit from this depreciation.

On the other hand, the negative effect of the sharp rise in prices for steel making materials on the sanity and sustainability of the steel value chain will be exacerbated by the weakened

Euro. The exorbitant price increases recently announced for iron ore will have a deep impact on steel prices and as such on the whole manufacturing and construction value chain and ultimately on the European consumer. This could reduce demand for many price-sensitive products and therefore slow economic recovery or even push economies back into recession.

All in all, the EU economy appears to be on track for an export-driven recovery in 2010. The improved outlook for international trade and the manufacturing sector should prevent the EU from slipping back into a contraction. However, the persisting weakness of domestic demand and the downside risks stemming from the fiscal deterioration in the EU will clearly mute the pace of recovery. GDP is projected to rise 1.2% in 2010.

With a forward view to 2011, the April outlook from EUROFER's Economic Committee confirms that the basis for GDP growth in the EU should broaden to some extent. A moderate increase in business investment as well as a slightly higher increase in private consumption is pencilled in in the latest forecast. It should compensate for the negative impact of lower growth in government expenditure as EU governments will have to go through the painful exercise of reducing structural deficits. Exports will continue to be the key driver for economic growth which in combination with the mild recovery in EU investment should enable output in the manufacturing sector gain further momentum.

Macro-economic overview: USA

- ***Q4'09 GDP exceeds expectations***
- ***Improving industrial dynamics to be sustained in 2010***
- ***2010-11 GDP growth 3-3.5% p.a.***

Economic growth in the final quarter of 2009 surprised on the upside: the annualised increase in GDP amounted to 5.9%. The factor behind this growth spurt was the inventory cycle rather than a marked improvement in domestic demand. Strongly reduced stock levels in the supply chain forced the manufacturing sector to hike output. Dynamics in industry have improved significantly since mid '09. The latest surveys on new orders and positive trend of other indicators such as the PMIs give reason to expect that momentum in industry will be sustained in 2010.

Other economic signals are more mixed, however. The residential sector appears to have slipped temporarily back into stagnation. Meanwhile, the non-residential sector is still extremely depressed.

While the recovery is moving forward, unemployment is still high. As a result, consumer confidence remained under downward pressure, falling more than anticipated in February. Nevertheless, consumption performed reasonably well in early 2010. On balance, economic growth is expected to moderate over the year due to the fading impact of the inventory cycle and the government support measures. GDP is seen growing by 3 to 3.5% in 2010.

A fairly similar growth rate is on the cards for 2011. It is expected that the federal government will reduce its stimulus programme while the private sector will gradually gain further momentum. This should result in a fairly similar growth rate as in 2010.

Other regions

- ***Upswing Asia seen continuing***
- ***China outlook robust despite monetary and credit tightening***

The region-wide recovery in Asia remained on track in the fourth quarter of 2009 and the first indications for Q1'10 confirm the continuation of the upswing.

Particularly in China growth has remained very firm, driven by fiscal policy measures, private consumption and a marked pick-up in exports. To prevent the economy from overheating, China tightened its monetary policy to some extent in early 2010; also credit supply was reigned in. While this may lead to a smaller contribution of investment over the year, strengthening trade activity with the Asian region and the advanced economies will support China's export growth.

The other Asian economies continued to perform robustly in China's slipstream. South Korea, Taiwan, Malaysia and Thailand showed healthy Q4'09 GDP growth, while early signals for 2010 point to a sustained recovery, particularly in the manufacturing sector.

Also economic activity in the Latin American countries has picked up speed again. Brazil and Mexico presented rather sound growth figures for fourth quarter 2009 GDP. Meanwhile, in Russia the economic situation appears to be on the mend as well.

All in all, following the 2% drop in world GDP, 2010 looks set to see an expansion in global economic activity again. The Asian region will remain the main engine of growth. Global GDP growth is estimated to reach approximately 3% in 2010 and 3.5% in 2011.

II. The EU Steel Market

Overview Steel Using Sectors

Development of the main steel using sectors – Eurofer forecast April 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	-2,9	-6,1	-7,2	-0,7	-1,7	-1,0	-2,4	4,9	-0,6	3,3	6,1	3,4
Structural steelwork	11	-16,0	-14,1	-15,7	-5,3	2,8	1,4	2,6	0,4	2,1	3,0	5,4	3,5	3,5
Mechanical engineering	14	-27,1	-18,8	-25,1	-5,4	2,8	5,5	5,5	1,9	5,3	5,7	5,9	7,2	6,2
Automotive	16	-19,6	6,5	-25,1	20,6	10,4	-0,4	-4,3	5,9	0,7	3,1	5,1	6,6	3,8
Domestic appliances	4	-10,3	-5,3	-12,7	2,3	4,5	1,5	-2,4	1,4	2,9	3,3	4,5	4,8	3,8
Shipyards	1	-18,5	-26,4	-15,5	-8,5	-15,9	-7,5	-8,3	-10,3	-0,3	-0,1	0,4	4,3	1,0
Tubes	12	-34,5	-26,8	-32,1	0,6	4,6	6,0	6,5	4,2	4,5	4,9	4,2	2,8	4,1
Metal goods	12	-23,4	-12,9	-23,9	0,5	4,9	5,4	0,7	2,9	3,0	3,8	5,2	5,5	4,4
Miscellaneous	3	-16,1	-15,5	-14,6	-1,5	-0,3	1,7	3,3	0,8	3,3	4,6	4,4	4,8	4,2
TOTAL	100	-17,8	-10,3	-18,9	-0,6	3,0	1,5	0,7	1,1	3,6	2,6	4,5	5,6	4,1

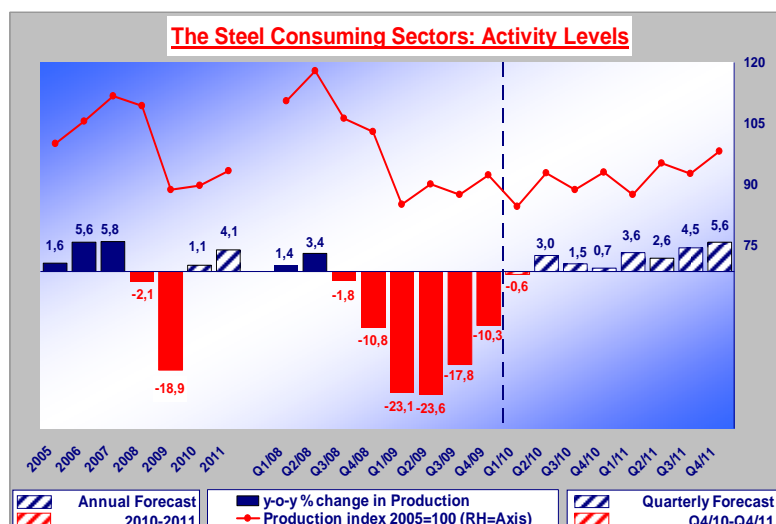
- **Weak Q1'10 due to severe winter**
- **Exports and stock cycle will drive output growth**
- **Construction main laggard**

In line with previous estimates, the year-on-year drop in activity of the EU steel using sectors slowed down towards the end of 2009. Output fell 12.1% y-o-y in Q4'09, reducing the fall in activity in the whole of 2009 to 19.9%.

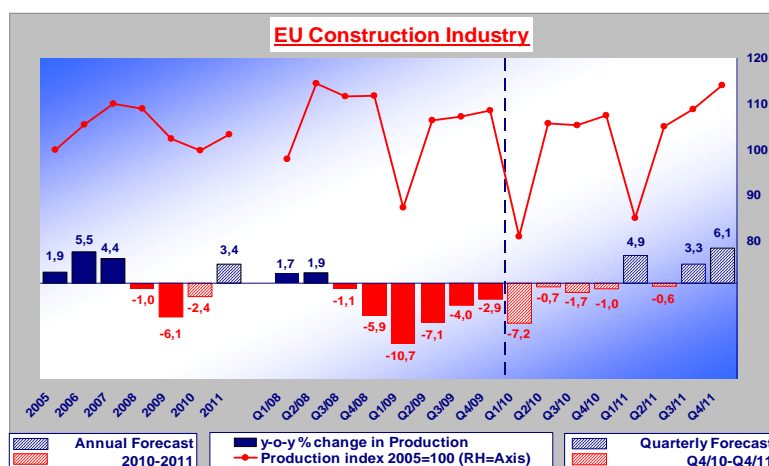
Production in the first quarter of 2010 was heavily influenced by the severe winter conditions. While this had a negative impact on the construction sector and its suppliers, it was offset by an improving business situation in other sectors such as automotive and metal goods. Key drivers for this recovery have been the marked pickup in international trade and easing drag from the inventory cycle. As a result, output stabilised slightly above the already sharply weakened year earlier level, which generated the first year-on-year rise in output since mid 2008.

This trend is expected to be sustained over the next quarters. Industrial confidence continued to improve in the first quarter of this year. Most steel using sectors are expected to show positive year-on-year growth again from Q2-2010 onwards. The key exception will be the construction industry, for which the outlook has deteriorated in recent months.

The current forecasts for 2010 show overall activity in the steel using industries rising by 1.1%, and acceleration to 4.1% growth in 2011.



Construction



- **Weakened outlook 2010**
- **Austerity programmes may affect infrastructure spending**
- **No upswing before 2011**

The year 2010 started for the EU construction sector on a very weak note. Low temperatures and heavy snowfall in January and February and a wet March seriously hampered construction activity across the EU. This resulted in total output falling by more than 8% compared with the already weak level of activity registered in Q1'09, the 7th consecutive quarterly decline in production.

At the country level, only some smaller EU markets could escape the downward trend in output.

The 2nd quarter should bring a relative improvement in output. As soon as the weather improves, most projects which had been halted temporarily because of the weather conditions will be revived. This will probably limit the downturn in construction activity to almost 1.5% y-o-y in the 2nd quarter.

Looking further ahead, the outlook for the construction sector is bleak. During 2009, increased government spending on infrastructure projects helped to offset – at least partially – the decrease in residential and non-residential building activity. While so far mainly spending on renovation and modernisation of motorways and other transport-related projects had risen in

recent months, high hopes were pinned on increased investment in large-scale, new infrastructural and public non-residential projects stimulating construction activity in the course of 2010. However, the urgent need to address the fiscal deficit in a number of EU countries will probably trigger serious budget cuts and reduce the supportive role of infrastructure activity.

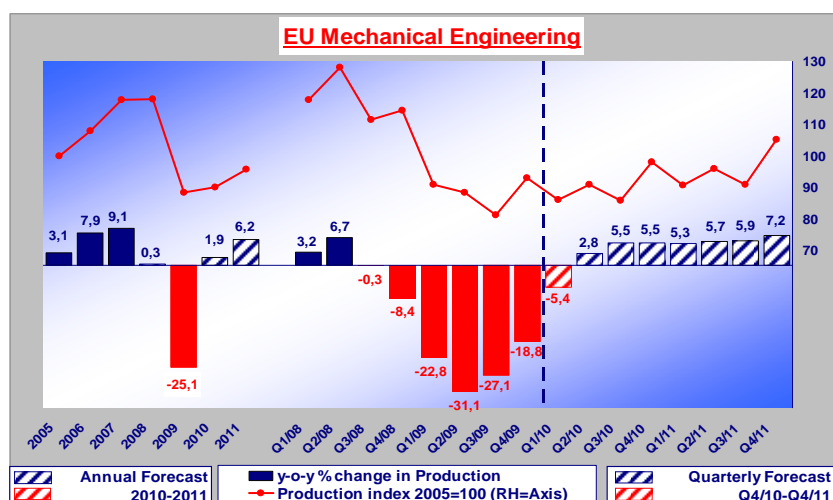
Spain already announced that the austerity programme will directly affect several infrastructure projects planned for 2010-11.

Meanwhile, prospects for the residential sector remained sluggish; the outlook is for a slow improvement in new housing starts from very low levels. Prospects are slightly better for renovation and modernisation activities, particularly those related to improving the ecological footprint of homes.

Non-residential construction activity will suffer from a further reduction in business investment and continued difficult access to finance. The main exception is energy-related and sustainable construction.

Consequently, construction output will decline more sharply in 2010 than previously expected: -2.4%. Improving economic conditions in 2011 will result in activity growing by 3.4%.

Mechanical Engineering



- **Exports and stock replenishment seen driving mild 2010 rebound**
- **Rise EU investment will fuel further output growth 2011**

Much in line with earlier estimates, output in the mechanical engineering industry in the EU dropped almost 19% y-o-y in the fourth quarter of last year. This resulted in a 25.1% decline in total output over the whole 2009.

First indications for the business situation in the first months of this year appear to confirm that the relative improvement in the order intake from the extremely low levels reached by mid 2009 has so far been sustained, albeit with a rather volatile monthly pattern.

A key driver has been the marked expansion in demand from the Asian emerging economies and improving export opportunities in other important international markets such as the United States and the Middle East.

The inventory cycle has been another factor working in favour of the modest recovery in orders. The drag from stock reductions in the processing value chain gradually eased during the second half of 2009.

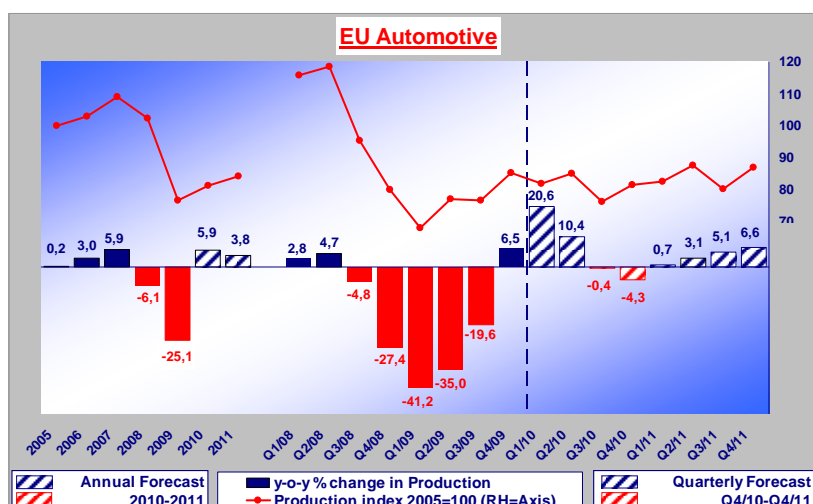
Meanwhile, EU domestic demand has remained rather sluggish so far.

Prospects for 2010 are for a modest improvement in market fundamentals for the mechanical engineering sector. For the time being, European companies will hold back on investment in new machinery and equipment. Capacity utilisation in industry is still rather low and the muted economic recovery expected for the region will keep utilisation rates at reduced levels. Entrepreneurs will be looking for hard evidence of the recovery gaining strength again before investing in expansion or modernisation of production capacity. Moreover, financing conditions are reported to be still difficult.

Therefore, the mild growth in output expected for 2010 will basically be driven by exports and further stock replenishment. Activity is forecast to show positive y-o-y growth from the 2nd quarter onwards and to gain further strength in the 2nd half of the year. Total output is forecast to rise by almost 2% in 2010.

A further rise by 6.2% is pencilled in for 2011 on a par with an improving outlook for EU investment unleashing pent-up demand combined with a continued positive outlook for export demand.

Automotive



- **EU sales impulse seen fading while export demand picks up**
- **EU output expected to rise by 4.5-5% p.a. in 2010-11**

EU new car sales rose by 7.9% y-o-y in the first two months of this year. However, in actual monthly sales volumes, the market has been gradually trending downwards from the 1.3 million units' peak in September last year to 975,000 units in February this year. To a large extent, this can be explained by the car scrapping schemes coming to an end in most countries. The impact on the German car market has been particularly strong with sales falling by almost 20% y-o-y in January-February this year. However, the prolongation of car scrapping schemes in other countries such as France, Italy and the UK helped to offset this impact.

Commercial vehicle sales declined by almost 8% in the first 2 months of this year. While the downturn in the EU15 appears to be easing, demand in the new member states remained heavily depressed with sales falling by 47% in this period.

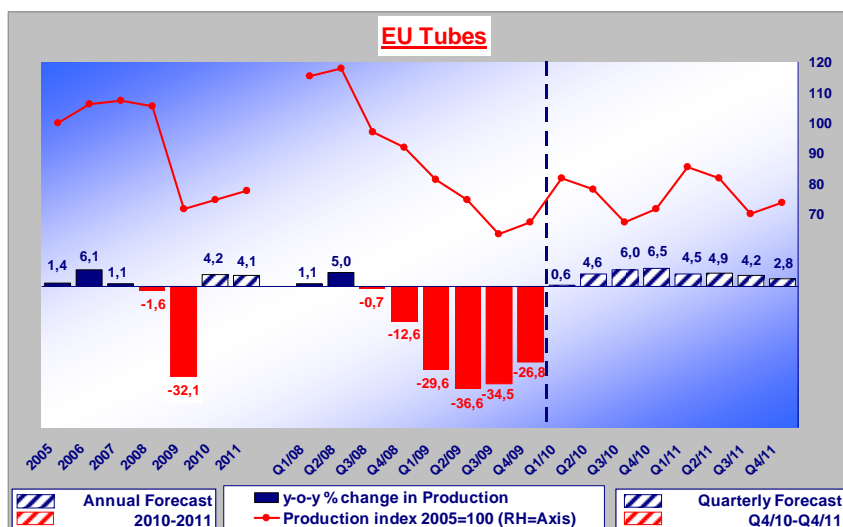
First estimates for Q1-2010 automotive production show EU output rising by almost 21% compared with the

extremely low levels registered in the same period of 2009. The final quarter of 2009 had seen the first year-on-year growth in output since mid 2008. While the improvement in domestic EU sales appears to be fading, demand from markets outside the EU – most notably China, India and Japan - is picking up again. This trend is expected to continue in the 2nd quarter. However, domestic car sales weakening further due to the temporary prolongation of car scrapping programmes coming to an end, may result in passenger car output weakening again in the 2nd half of the year. Moreover, the outlook for the commercial vehicle market has remained subdued: fleet renewal in recent years, still reduced transport activity and difficult financing conditions are putting the brakes on demand.

On balance, automotive output may rise by almost 6% in 2010.

Improving economic conditions in 2011 should support sales returning to trend levels again, particularly in Central Europe. In combination with a relatively favourable outlook for export demand, output growth could be sustained at a growth rate of close to 4% in 2011.

Tubes



- **Improved market conditions at the start of 2010**
- **Stocks down to levels which require replenishment**
- **Output seen rising 4-4.5% p.a. in 2010-11**

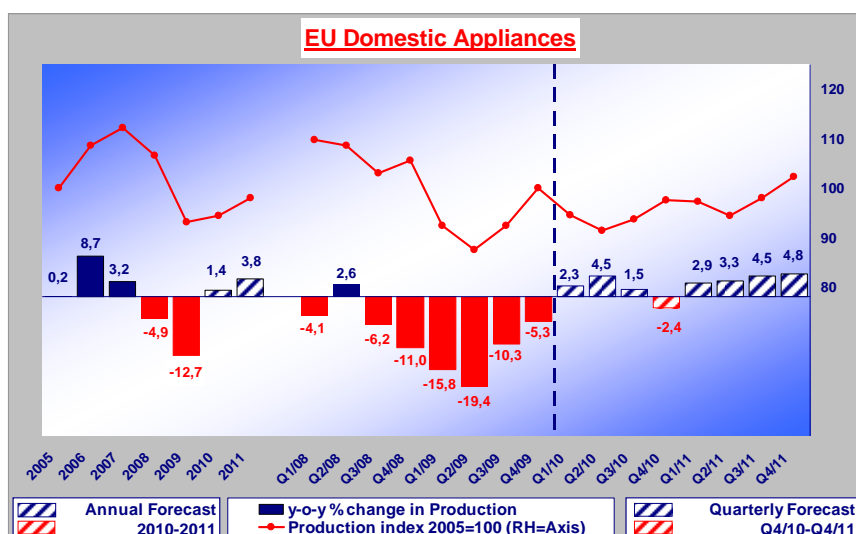
Final data for 2009 confirm that total production in the steel tube sector in the EU fell by more than 32%. The reduction in output in the fourth quarter amounted to almost 27% y-o-y, only slightly less severe than the drop registered over the first three quarters of the year. The steep decline in production in the key downstream client sectors of the steel tube industry and consequently demand for steel tubes was exacerbated by deep inventory cuts in the steel tube distribution chain and at end-users. The correction process appears to have lasted well into the second half of last year while showing the first signs of completion during the final quarter. For 2010 it is expected that from the first quarter onwards the tube sector will see a moderate recovery which should gradually gain strength over the year. With the exception of the construction sector, almost all end-user sectors of seamless and small and medium-size welded steel tubes will

experience a mild rebound in activity from the low levels reached in 2009. Equally important is the fact that steel tube inventories in the distribution chain and at the end-user level have been reduced to levels which probably will require replenishment on a relatively short term, depending on the actual speed of recovery in industrial activity.

Also prospects for the OCTG market and large welded tube demand have improved over the past few months. Since March this year, the Brent crude oil price is holding steady around \$80/bbl. The rebound in the global economy gaining strength will lead to further upward pressure on oil prices; analysts currently expect them to reach \$85-95/bbl in the course of 2010. This will have a positive impact on global drilling and exploration activity and suggests that oil companies may restart some previously mothballed pipeline projects.

On balance, total tube output may rise by approximately 4% in 2010. For 2011 a fairly similar growth in output is expected.

Domestic Appliances



- **Slow improvement activity in the 2010-11 period**
- **Fierce competition in a saturated EU market**

In 2009, total production of electrical domestic appliances in the EU dropped by almost 13% compared with the preceding year. In the fourth quarter, the y-o-y reduction in output eased to just over 5%, coming from a double-digit earlier in the year.

This year, activity in the electrical domestic appliances industry is expected to expand again, albeit at a very slow rate and from a low level. Consumer confidence has been rising up to the end of last year, but stabilised at a rather depressed level in early 2010, reflecting persistent uncertainty concerning economic prospects, unemployment and the impact of the austerity programmes on disposable income. The outlook for private consumption is dull and consequently, spending on white goods and domestic appliances will remain sluggish. Most markets in the EU are heavily saturated; the current weakness in the housing market is not helping either.

Meanwhile, competition from third country suppliers of electric domestic equipment is heating up; several large producers in Asia have plans to become a major player in the various market segments in Europe.

The EU energy labelling scheme could have some impact on demand due to the increased consumer awareness of the real energy use of household appliances. To some extent, it could accelerate replacement demand in the EU.

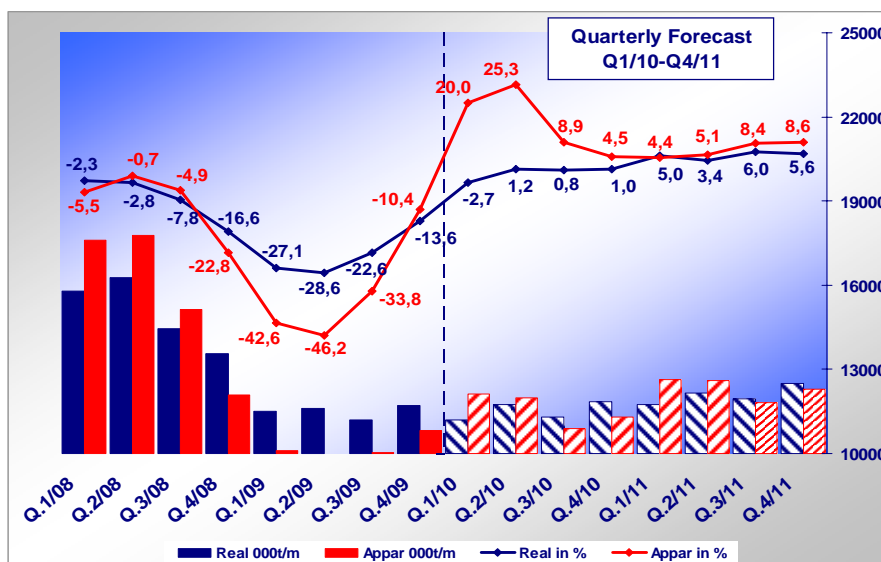
All in all, output could rise 1.4% in 2010.

The outlook for 2011 is more positive. The basis for the economic recovery in the EU will broaden owing to a strengthening in private consumption as uncertainty slowly ebbs away. Moreover, activity in the housing sector is likely to become more dynamic, leading to an increase in the sales of new and existing homes. Total EU output could increase by almost 4%.

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
	-22,6	-13,6	-23,4	-2,7	1,2	0,8	1,0	0,1	5,0	3,4	6,0	5,6	5,0



- **Real steel consumption to bottom out during H1-2010, followed by muted recovery**
- **Rebound expected to gain strength in 2011**

In the fourth quarter of 2009, the reduction in real steel consumption was reduced to almost 14% y-o-y compared with a fall of on average 26% y-o-y in the first three quarters of the year. In the whole of 2009, real steel consumption fell 23.4%.

In line with previous forecasts from EUROFER's Economic Committee, it is expected that the trough in the steel consumption cycle will be reached during the 1st half of 2010.

Following a weak first quarter – with economic activity and consequently steel consumption negatively influenced by the severe winter conditions in the EU - real consumption

will show still hesitant but positive year-on-year growth from the second quarter onwards. Towards the end of this year, the growth rate could become slightly firmer.

On balance, real steel consumption in 2010 will stabilise around the year earlier level.

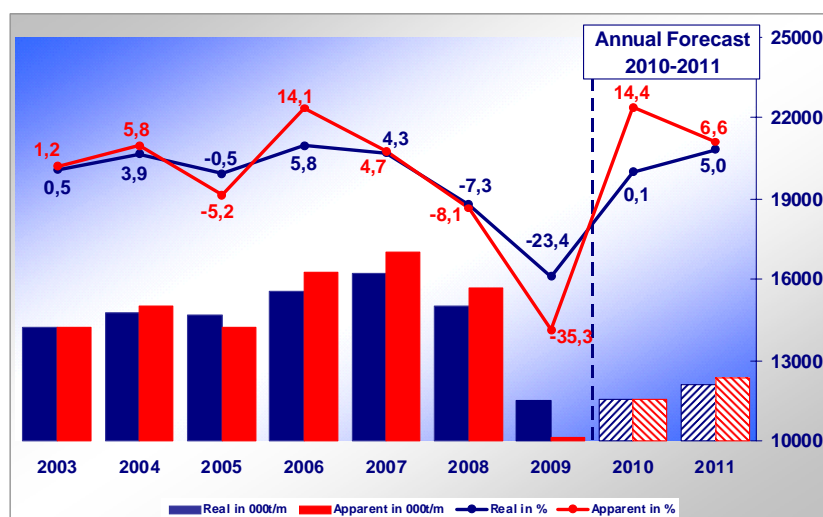
On a par with the expected rise in production in the steel using industries, real steel consumption will show a more robust rebound in 2011. Also the anticipated increase in steel intensity following its decline during the economic downturn will be supportive to growth in steel consumption. All in all, real steel consumption could rise by 5% next year. However, even if real consumption would continue to grow at this rate, it will take several years before steel consumption comes back to the levels seen before the crisis.

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
	-33,8	-10,4	-35,3	20,0	25,3	8,9	4,5	14,4	4,4	5,1	8,4	8,6	6,6



Annual Apparent Consumption in Mio Tonnes

2003	170
2004	180
2005	171
2006	195
2007	204
2008	188
2009	121
2010 (f)	139
2011 (f)	148

- **Steel market on a positive note in early 2010**
- **Stock cycle will drive 2010 apparent consumption**
- **Improvement real consumption supportive to growth in 2011**

Latest figures for the fourth quarter of 2009 show apparent steel consumption in the EU falling by 10.4% compared with the same quarter of 2008.

The marked slowdown in the year-on-year decline in apparent consumption not only reflects weakened demand levels at the end of 2008, but also improving market conditions. The easing drag from the steel stock cycle and first tentative signs of the decline in real steel consumption bottoming out in combination with imports remaining at low levels were supportive to the demand-supply situation reaching a low-level balance in late 2009.

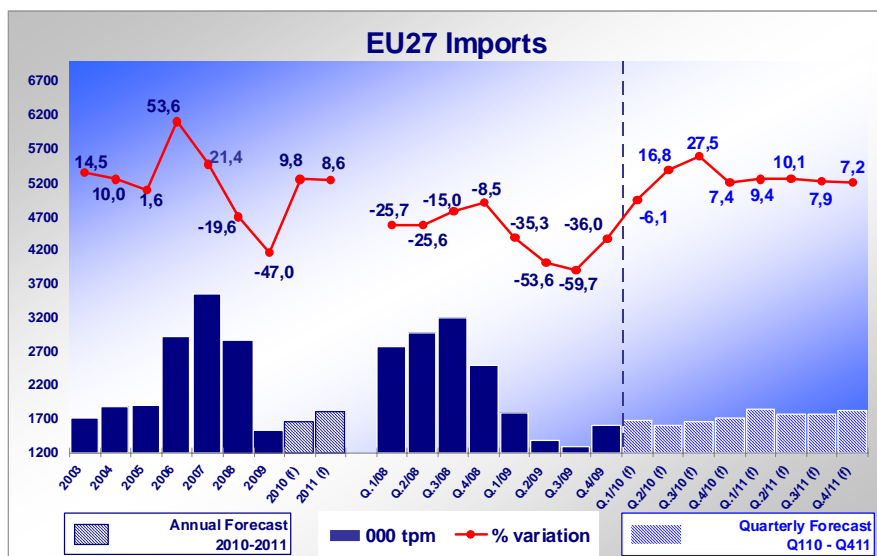
The EU steel market started on a relatively positive note in early 2010. EUROFER mills' deliveries and orders strengthened further compared with the lows reached in 2009. Inventories in the

distribution chain and at end-users are reported to be still low, despite the mild stock-up in early 2010. While some speculation on rising steel prices due to the excessive increase in the cost of raw materials the steel industry is likely to incur this year is not to be excluded, it basically reflects a more positive assessment of the business situation in the downstream distribution and processing chain. Following their depletion in 2009, inventories still have some way to go before achieving parity with manufacturing output levels.

The stock cycle will drive the projected 14.4% growth in apparent consumption in 2010.

With a forward view to 2011, the expected recovery in output in the steel using industries and consequently in real steel consumption will set the stage for a further improvement in EU market fundamentals. This will also provide an additional impulse to the stock cycle. Apparent steel consumption is forecast to rise by 6.6% in 2011.

Imports



- **Imports rising moderately since Q4'09**
- **Trend to continue in 2010-11**
- **Import pressure rising more briskly remains a risk**

In line with earlier estimates, steel imports into the EU market remained at a low level in the fourth quarter of last year. Total imports were 36% down on the same period of 2008. Nevertheless, in comparison with the third quarter of 2009 imports volumes rose 23%.

Trade data for January/February and the latest import license information signal a further rise in EU imports in the first quarter of 2010. Projections for the remaining quarters of this year imply that the downward trend in imports will turn around from the second quarter onwards. On balance, total imports are expected to rise by almost 10% in 2010. Community deliveries of EU mills rising more rapidly in the first half of 2010 will be supportive to an improvement in EU capacity utilisation.

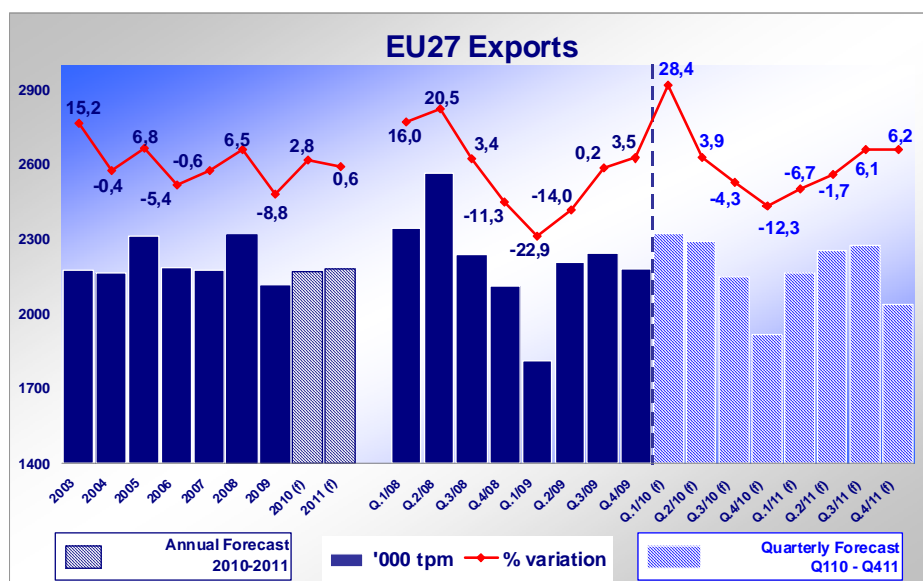
Relatively weak demand conditions in the EU, the recent depreciation of the Euro vis-à-vis other currencies and

better demand and price fundamentals elsewhere in the world have reduced the attractiveness of the EU as an export destination for third country suppliers. Moreover, as long as uncertainty about business prospects and price developments persists, steel buyers will prefer to order smaller volumes at domestic EU mills rather than closing deals with overseas suppliers, to reduce the risk of deliveries getting out of sync with actual demand.

Imports are forecast to rise in line with the growth in apparent steel consumption in the 2010-11 period. This implies that imports will increase by on average 9% per annum.

This projection is based on a relatively well balanced supply-demand situation in the world steel market. However, at this point in time little is needed to derail the expected global recovery; particularly China has the potential to create turbulence worldwide. Any event leading to global demand lagging the rising trend in steel output, could result in temporary oversupply and rising import pressure in the EU.

Exports



- **EU trade surplus in 2009 reflects fall in imports rather than rise in exports**
- **Slight rise exports in 2010, stagnation in 2011**

The latest trade statistics for the EU confirm that steel exports from the EU to third countries fell 8.8% in 2009. Exports in the final quarter of the year increased 3.5% y-o-y while falling slightly compared with the volumes shipped abroad in the third quarter.

Last year the EU registered for the first time since 2005 a trade surplus. This rather reflects the downward trend in imports in 2009 than a significant rise in EU exports, which have been remarkably stable over the past years. The surplus is basically in long products. Robust demand for construction related steel products such as rebar in North Africa and the Middle East offered steel mills in Europe the opportunity to offset weakened demand in the domestic market. Particularly Algeria has been a major export destination for EU long products producers, absorbing 35% of total exports of longs.

The outlook for 2010 is for a slight increase in exports. However, following a relatively strong start in the first quarter, export volumes are seen trending downwards in the remainder of the year. Existing projects in the key exports markets in the markets around the Mediterranean Sea are coming to an end while large new projects have been postponed during 2009 because of financing problems.

On balance, EU exports are expected to increase by almost 3% in 2010.

The outlook for 2011 is for exports to stabilise at the 2010 level. Improving demand fundamentals in the EU market will result in EU steel mills being primarily geared for expanding business in their domestic markets instead of the international export markets.

Changes in %	IMPORTS Third Countries	EXPORTS Third Countries	Community DELIVERIES of EU Producers
Q.III/2009	-59.7	0.2	-26.5
Q.IV/2009	-36.0	3.5	-2.3
Year 2009	-47.0	-8.8	-31.6

FORECAST

Q.I/2010	-6.1	28.4	24.1
Q.II/2010	16.8	3.9	25.7
Q.III/2010	27.5	-4.3	5.9
Q.IV/2010	7.4	-12.3	3.1
Year 2010	9.8	2.8	14.2
Q.I/2011	9.4	-6.7	4.0
Q.II/2011	10.1	-1.7	4.7
Q.III/2011	7.9	6.1	8.6
Q.IV/2011	7.2	6.2	8.8
Year 2011	8.6	0.6	6.4

