SBB GMO
Global Market Outlook
A Steel Business Briefing Publication **July 2010**

Weak demand and prices during Q3 could affect quarterly pricing of raw materials

European demand remained weaker than expected during June and looks set to continue in July and August, due to the summer shutdowns by stockists and end-users. Slowdowns in steel production will need to be maintained to hold price levels. General economic activity in North America has been stronger, but it is only partially feeding through into the steel-using sectors. If demand remains at current levels, prices will fall unless there are significant output reductions, and may weaken anyway. Offtake in Asia is still reasonable, but many buyers are deferring purchases in expectation of lower prices despite levels recently holding steady after the earlier sharp falls.

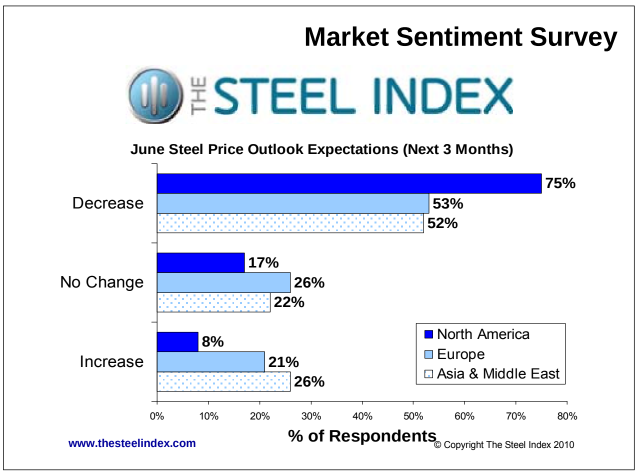
Producers buying iron ore on fixed quarterly contract prices are paying sharply higher prices again in Q3, even as spot levels into China fell down to around US$ 140/dmt cfr China at the end of June. If steel product prices are weak, it may be difficult for mills to accept these calculated, quarterly levels, perhaps leading the miners to consider a more responsive monthly or spot pricing system.

The likely scenarios for the next three months are:

- Producers of flat products in Europe will try to maintain current price levels, even if it is unlikely that their indicated Q3 increases will be pursued. Offtake remains lacklustre, and will be seasonally poor during the rest of Q3, but it is hoped that output levels will be realistic. Mills must avoid any price decreases while their raw material costs are still high, though future cost decreases may affect steel prices heading into Q4. ▶

The key question is whether producers in Europe and Asia can maintain current price levels until the end of the third quarter, when increases may be possible.

THE OUTLOOK FOR FLATS IS FOR STEADY OR SLIGHTLY WEAKER PRICES IN EUROPE DURING Q3. US FLAT PRICES WILL DROP, BUT PRODUCTION CUTBACKS MAY LIMIT THE FALLS. ASIAN FLATS PRICES WILL REMAIN STEADY WHILE DEMAND REMAINS FAIR. LONG PRODUCT PRICING SHOULD ALSO BE STEADY IN ASIA, BUT WEAKER IN US AND EUROPE AS SEASONAL CONSTRUCTION ACTIVITY REMAINS BELOW NORMAL.



GMO Editor Mark Wiggett expands on this month's forecast.

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- Price falls for US flats in July and August look likely, as demand is not improving and the announced cutbacks appear insufficient. Flats producers which principally use scrap will be under less margin pressure.
- Asian demand fundamentals continue to be fair, though buyers are always very cautious whenever price levels have fallen quickly, and may decrease further. Prices in SE Asia should stabilise until the start of Q4, especially if Chinese export volumes do not increase after the export rebate reduction, and CIS export pricing remains steady.
- Long products' pricing has fallen sharply in Europe, but only dropped more slowly in US as levels did not increase as far. More production restraint will be necessary as seasonal demand in mature economies is not likely to match previous years. Prices may still fall further during Q3, unless scrap and billet levels rise sharply.
- Elsewhere, especially in Asia, longs prices will stabilise and increase slowly as raw material cost rises become effective, and if scrap levels rise.

Flat products prices in US began to fall during June as the weak demand continued and output levels remained high. Buyer-resistance and essential purchasing only combined to send prices downwards. Mills in Europe indicated that prices would rise in Q3, but spot levels held steady and increases appear unlikely. It is still possible that prices will move upwards again in the fourth quarter.

It is unlikely that there will be an increase in real demand in China during the third quarter, so some production cutbacks are needed here, until the traditionally stronger fourth quarter.

While demand is stagnant and likely to be worse during the summer months, there are growing worries about record global production levels. Some analysts are indicating that cutbacks of 5-10% on a global, annualised basis may be required to restore the supply-demand balance based on current demand. Over-capacity may be an issue again in Q4, when improving demand and stock replenishment after the summer could otherwise lead to firmer prices.

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► Although finished product prices are generally weaker, iron ore and coking coal raw material costs will increase again in July, based on the new quarterly pricing system. If the full impact of these higher costs occurs, integrated producers' margins will be squeezed again, which may force some mills to cut output back instead of producing at a loss, until sales prices rise again. However, as spot prices of iron ore are currently well below the formula pricing for Q3, there may be increased pressure to amend the schemes to a monthly, or wholly spot, price basis.

"As spot prices of iron ore are currently well below the formula pricing for Q3, there may be increased pressure to amend the schemes to a monthly, or wholly spot, price basis"

Spot prices in China of iron ore have fallen sharply from the 20-month peaks achieved during April, but the decline has been much slower during June. There is likely to be further weakness, but the fundamentals look stronger for Q4. Scrap prices have been steady, though they increased in some markets towards the end of June. It is surprising that scrap price levels have not moved more closely in line with iron ore levels recently.

Stock levels have again been run-down by most buyers, after some inventory building at the start of Q2. Although stock levels are certain to be sufficient to last the summer months, buyers may have to restock upon their return which could improve demand at the start of Q4.

Consumption is expected to grow again in the fourth quarter in both North America and Europe, though there may be some reduction in the rate of growth in China after the strong start to the year. Views on market development are beginning to be less optimistic.

"Total global crude output in May was another record, surpassing March's monthly figure by 2 million tonnes"

Exports from China have been strong in most regional markets, while activity into US and European markets has been less intensive due to the weakness of the Euro and local demand in US. The potential for even higher exports from China has reduced after the removal of the export tax rebate, and the floating of the yuan.

Global steel output in 2010 is still on target to be more than 15% higher than in 2009, which would take it back above 2008 levels. However, this is mainly due to a significant growth in China's output since 2008, which has offset lower production levels elsewhere in Europe, North America, East Asia and CIS which are well below 2008 levels.

Total global crude output in May was another record, surpassing March's monthly figure by 2 million tonnes. There was a nearly 4 million tonne increase in output during May compared with April, though this is actually a 0.3% decrease in daily output rates. All regions showed increased output levels, but only EU27 and Other Europe's daily output rose. China's production rose to 56 million tonnes. South Korea and India's output remained fairly steady, but Japan's daily production increased. Turkey's production rose sharply, while Russia and Ukraine's daily output was steady.

"Scrap prices have been steady during June in Asia and weaker in US and Europe as demand from steel producers decreased while material availability rose"

During June, spot prices of iron ore continued to drift downwards after the sharp fall throughout May. Demand in China has continued to be strong, but may drop in the short term if steel output is cut back.

The major iron ore miners have set Q3's "mini-benchmark" price, effective for the July-September quarter, at around 23-25% above Q2's contract level, though agreement has still not been formally reached by some buyers. As the spot price at the end of June was more than 12% lower than the Q3 proposed level, there is an increasing chance that pricing will move to a monthly or spot basis even more quickly than anticipated.

Scrap prices have been steady during June in Asia and weaker in US and Europe as demand from steel producers decreased while material availability rose. Scrap price levels are likely to remain weak until mill demand increases. ►

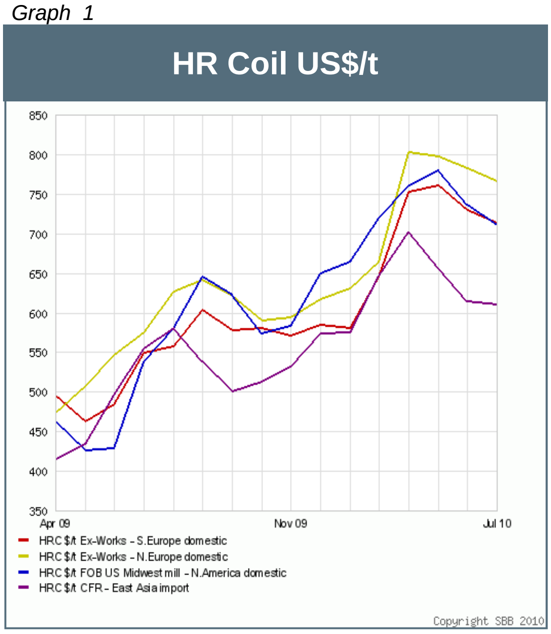
▶ After sharp falls early in the month, Turkish scrap import prices rebounded slightly at the end of June as finished product demand improved.

Looking further ahead into the last quarter of 2010, it is possible that price levels will be stable or rise slightly as demand improves again and there is some restocking, though raw material costs may be weakening. In Asia, prices are likely to be firmer in the last quarter as demand continues to be better than in other regions and this is a seasonally strong quarter.

GLOBAL OVERVIEW

US flat products prices fell slowly but steadily during June, with the HR coil price falling below US$ 650/short ton (US$ 716/tonne). These prices are likely to drop further during July, and there will be weakness until demand clearly improves or output is cut sharply. Steel-using sectors have not seen the same upturn in demand as the general economy, but automotive and their suppliers are still stronger than expected. Offtake for flat products from mills in European markets remains below normal, and the full order books of Q2 are unlikely to continue during Q3. The strengthening Euro may affect the recent increased export activity. Prices have been almost stable for HR coil in Asia, where prices had slipped at the start of June, but demand appears likely to remain reasonable. Long products offtake remains low for the season in Europe, where prices have fallen sharply after jumping strongly upwards during Q1, and in US, where pricing has remained more steady but is now beginning to weaken. Prices in Asia have also consolidated at lower levels and should be stable or slowly rising as demand will remain fair until growing in Q4.

Graph 1

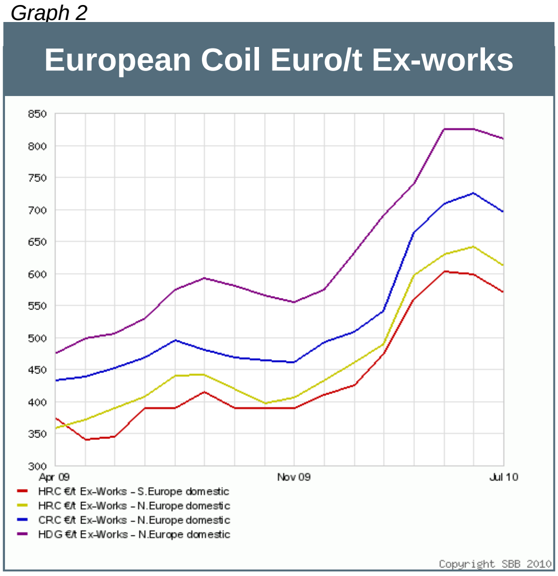


Spot prices of all flat products in US have been falling as buyers restricted purchases to essential needs during June, and further decreases are expected unless scrap pricing increases. Demand remained slow but should increase slightly after the summer months. The strong increases in production levels since the end of last year matched apparent demand, together with strong export activity, but cutbacks appear to be necessary during Q3.

European flats producers have attempted to hold prices steady since the start of June, but levels have been slowly weakening. There is no prospect of the proposed increases in Q3, but producers may try again in Q4. Real demand has dropped more than anticipated after a good start to Q2 and is likely to remain poor during the next three months. The brief period of stock rebuilding has also finished, and inventory levels are low again, which may also lead to increased demand in Q4. The mills' continuing growing output has been absorbed domestically or exported so far, but the strengthening Euro will also reduce demand.

HR, CR and HDG coil prices have also been slipping downwards in southern Europe during June as demand remained poor and production increased. Prices are similar to, or just below, northern European levels, except HDGalvanised coils which are still significantly lower. All prices should remain weak during Q3, unless mills' output is ▶

Graph 2



quickly cut to match real demand during the summer shutdowns. Import volumes continue to decline due to the uncertainty of longer delivery times while prices are unstable.

For buyers in South East Asia, coil prices have been easing during June, though HR coil prices only fell US$ 20/ tonne and CR and HDGalvanised coil prices remained more stable after the recent moves sharply downwards. Chinese export availability has dropped and prices have moved slowly down since the start of Q2, which keeps them competitive in regional markets.

Domestic HR and CR coil spot prices in China have remained stable during June, but prices are likely to fall in July as weak demand and sentiment convinced leading mills to announce price reductions at the start of Q3. There are concerns that stock levels are high and need prompt action to reduce them, though steadier prices should prevent any collapse in demand.

Long products demand in the mature economies has remained weak as the construction industries are not even achieving normal levels, despite the stimulus packages. Prices in Europe have fallen sharply while steadier scrap levels have helped US prices to be more stable. Demand in Asia remains better, and price levels could move upwards in the coming months after holding steady during late June after dropping at the start of the month.

Prices of billet have risen slightly during June while scrap has remained stable in Asia, but demand for both is likely to remain steady leading to stronger prices in Q4. Black Sea billet prices from CIS and Turkey into Asia are likely to increase slightly during July as demand rises in advance of the stronger market for finished products. CIS long product export prices, which are now the market leaders in some Asian markets, were sharply reduced during June, as demand dropped after the recent large increases.

Prices for medium and heavy sections in Europe have fallen slightly during June, while US mills have reduced WF Beams transaction prices in line with weaker scrap levels. European prices are expected to decrease again in July. Imported price levels for H-Beams into Asia dropped sharply in June but are expected to firm in July.

In US, rebar demand remains below seasonal levels, as the construction season continues to be disappointing. Inventories are low again, and unlikely to be replenished after recent price drops have left stockists with losses on material in hand. Rebar prices have held stable for several months but there will be a small reduction in July as the scrap price fell, and these levels could be under more pressure during Q3. Wire rod pricing also held steady during June, though there are signs of weakness as demand stays low and more imported material becomes competitive.

In Asia, most long product prices fell during June even though demand continued to be fair, with merchant bar and wire rod levels both dropping. Offer prices for most long products in SE Asia are expected to be steady or higher again in July, as CIS suppliers re-enter the market at more competitive levels. Demand in Asia should remain reasonable and, with Chinese exports unlikely to increase, prices could improve in the next three months.

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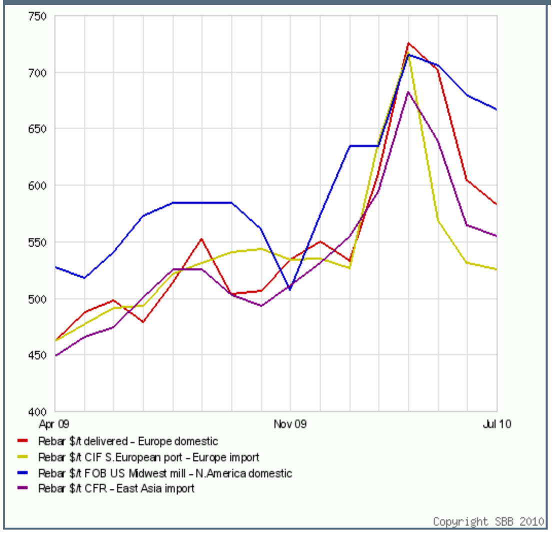
"In US, rebar demand remains below seasonal levels, as the construction season continues to be disappointing"

Graph 3

Rebar $/t



Domestic prices of all long products in China have fallen sharply during June, continuing the declines begun in May. These levels are all expected to fall further in July as domestic demand weakens while output is yet to be cut back.

In Europe, rebar and wire rod prices have fallen sharply during June, with demand remaining lacklustre, and it is likely that levels will be eased further downwards by the limited demand during Q3.

Commodity plate prices have remained steady during the last month in European markets, but US plate producers saw prices move slowly downwards towards the end of June, even though demand was unchanged and there was limited availability of imported material. In SE Asia, import prices were generally steady, while export prices for Chinese plate fell by a small amount in order to remain competitive in regional markets.

COIL REGIONAL REVIEW

Flat products prices in US have moved downwards by US$ 30/short ton during June, but have remained more stable in South East Asia after early weakness. Producers in northern Europe have tried to keep coil prices steady, but spot pricing has eased during June, though it has been stable towards the end of the month and going into July. Southern European prices have also slipped slightly. Chinese export prices of HR coil decreased by US$ 50/tonne so as to remain competitive in regional markets, although they are still not workable in more distant markets.

Prices of HR coil in USA fell to the US$ 630-660/st (US$ 695-728/t) range. Demand is still fairly weak, but the mills will hope that any production cutbacks will stabilise prices, which otherwise look likely to fall further in July and August. Inventory levels in US have been run down again after a brief period of restocking, which would assist potential price rises after the summer slowdown. CR Coil prices were more stable at US$ 780-820/st (US$ 860-904t) during June. HD Galvanised coil prices fell US$ 30/st to US$ 830-860/st (US$ 915-948/t), and look likely to drop again in July.

South East Asian HR coil prices were US$ 20/t below May price levels at US$ 600-620/tonne cfr. Chinese suppliers HR Coil export offers were also US$50/t lower at US$ 580-590/t fob at the end of June, and will continue to be firm in July as the effects of the export tax rebate removal begin to work through. Domestic Chinese prices have fallen slightly, and there is likely to be further weakness until the start of Q4.

CR and HDGalvanised coil prices in SE Asia both fell sharply by around US$ 100/t during June, but are expected to remain more stable in July. CR Coil prices were down to US$ 700-760/t cfr during June and HDGalvanised coil prices were also lower at US$ 750-800/t.

Flat producers in northern Europe saw spot prices slip downwards by Eur 20/t at the start of June, and prices may drop by the same amount again in July. Spot demand has reverted to a weak level after an improvement at the start of Q2, but the next possible pick-up will only be during September.

Coil Price Outlook

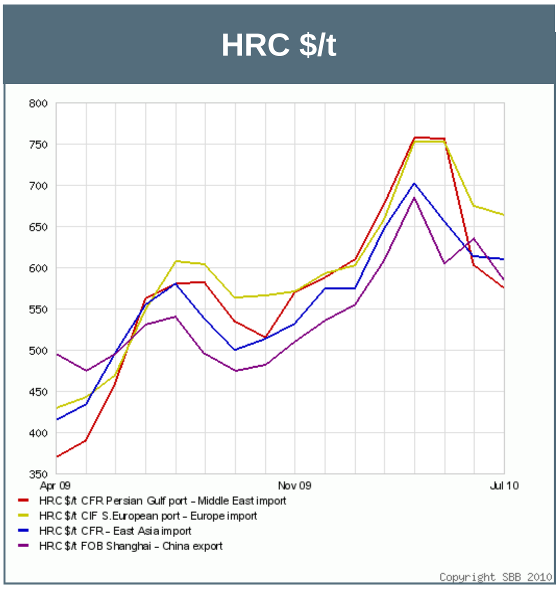
Products (HRC)	Jun	Jul*
Brazil dom. Del. BRL/t	2200-2450	2050-2200
China dom. Shanghai RMB/t	4120-4180	3950-3980
China export FOB $/t	630-640	580-590
E. Asia import CFR $/t	600-630	600-620
Eur import CIF S.Eur pt €/t	530-580	510-550
Jap dom FOT ¥/kg	72-72	65-65
Middle East imp CFR $/t	550-680	550-600
N.America dom FOB $/s.ton	630-690	630-660
N.Euro dom Ex-Works €/t	580-685	580-680
Rus Blk Sea export FOB $/t	540-580	550-590
S.Euro dom Ex-Works €/t	560-630	550-590
Ukr Blk Sea export FOB $/t	510-550	510-550
Products (CRC)	**Jun**	**Jul***
Brazil dom. Del. BRL/t	2700-2800	2600-2800
China dom. Shanghai RMB/t	4950-5300	4750-4900
China export FOB $/t	740-760	670-680
E. Asia import CFR $/t	700-760	700-740
Eur import CIF S.Eur pt €/t	640-700	620-660
N.America dom FOB $/s.ton	770-820	720-750
N.Euro dom Ex-Works €/t	680-770	650-760
Rus Blk Sea export FOB $/t	650-700	660-710
S.Euro dom Ex-Works €/t	640-710	640-670
Ukr Blk Sea export FOB $/t	620-670	620-670
Products (HDG)	**Jun**	**Jul***
China dom. Shanghai RMB/t	5150-5250	4950-5150
China export FOB $/t	720-730	710-720
E. Asia import CFR $/t	750-800	750-800
Eur import CIF S.Eur pt €/t	660-710	650-680
Mid E. import CFR $/t	800-850	750-800
N.America dom FOB $/s.ton	830-890	800-830
N.Europe dom Ex-Works €/t	790-860	780-840
S.Europe dom Ex-Works €/t	670-730	650-680

****Prices listed are SBB forecasts***

▶

HR Coil prices in northern Europe were at Eur 580-685/t (US$ 734-867/t) during June, but the prices at the top end of the range are also weaker. Producers will try to stabilise pricing so that there is a better chance that their announcement of increases for Q4 will be successful. CR Coils decreased more slowly to Eur 680-770/t (US$ 861-975/t). HD Galvanised products prices have held steady, as availability and imports have dropped, and are now in the range Eur 790-860/t (US$ 1000-1089/t), but are expected to slip down.

Graph 4



Southern European coil prices have fallen slightly since the start of the second quarter, and levels are now similar to those in northern Europe. The Italian and Spanish mills continued with high output levels during May (and probably June, too), despite demand remaining poor, but import penetration has been low because of the weak Euro, though this is strengthening now. Prices could slip further in Q3, but the lack of new business activity may mean there are few changes during the summer period. HR coil prices are now at Eur 560-620/t (US$ 709-785/t), while CR coil prices are Eur 650-710/t (US$ 823-899/t). HDGalvanised coil prices were also slightly lower at Eur 670-730/t (US$ 848-924/t) by the end of June.

LONG PRODUCTS REGIONAL REVIEW

Long products prices around the world have been much weaker since the start of Q2, though the falls in US have been smaller as there had not been such significant increases in earlier months. Demand continues to be weak in the mature markets, despite the construction season. Asian markets have better demand, which should continue during the next few months, and prices have been steady after dropping early in June. US prices have been reduced by US$ 5/st during June, and any further weakening scrap levels will help to push transaction prices downwards while the current lacklustre demand and high production levels continue.

Medium sections prices in Europe fell in June, and a further small decrease is expected at the start of July. Rebar prices dropped sharply by Eur 60/t to Eur 440-550/t (US$ 557-696/t) during June. Wire rod prices also fell by Eur 50/t during June to Eur 450-560/t (US$ 570-709/t).

Wire rod producers in US kept their prices unchanged during June at US$ 715-775/st (US$ 788-854/t) as scrap prices were almost stable, though there are expectations of weaker prices as demand falls and import volumes increase.

Rebars in US were almost unchanged during June as prices were reduced by US$ 5/st during June to US$ 605-625/st (US$ 667-689/t). Producers of WF Beams in USA have also held prices steady in line with stable scrap levels at US$ 760-780/st (US$ 838-860/t), but prices are likely to be reduced in July as demand remains low and imports may be increasing.

▶

Longs Price Outlook

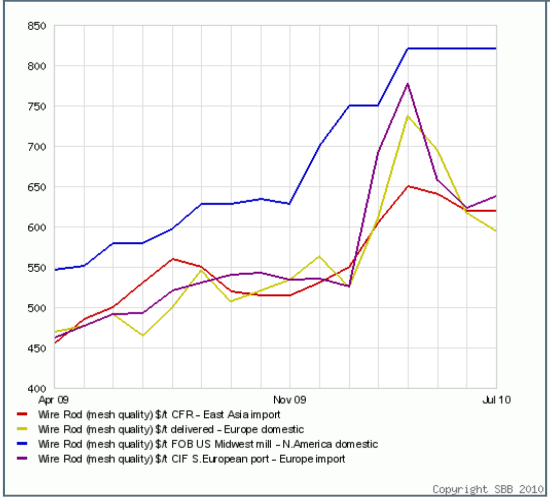
Products (Debar/Rebar)	Jun	Jul*
Turkey export FOB $/t	500-560	530-540
Blk sea export FOB $/t	470-500	470-500
E. Asia import CFR $/t	550-590	550-560
China dom. Shanghai RMB/t	3800-3850	3700-3720
Eur dom del €/t	440-550	430-500
Eur import CIF S.Eur pt €/t	420-450	410-430
Jap dom FOT ¥/kg	64-64	57-57
Mid E. import CFR $/t	530-630	540-550
N.America dom FOB $/s.ton	605-630	605-625
Products (Beams / Sections)	**Jun**	**Jul***
E Asia import CFR $/t	700-750	720-740
Eur dom del €/t	580-680	570-665
Jap dom FOT ¥/kg	79-79	72-72
N.America dom FOB $/s.ton	760-780	735-755
Products (Merchant Bar)	**Jun**	**Jul***
China dom. Shanghai RMB/t	4080-4100	4080-4100
E Asia import CFR $/t	700-720	700-720
Eur dom del €/t	560-645	560-635
N.America dom FOB $/s.ton	805-825	760-780
Products (Wire Rod)	**Jun**	**Jul***
Blk sea export FOB $/t	470-510	480-510
China dom. Shanghai RMB/t	4050-4080	3930-3960
E Asia import CFR $/t	610-630	620-640
Eur dom del €/t	450-560	440-510
Eur import CIF S.Eur pt €/t	500-520	500-520
Jap dom FOT ¥/kg	77-77	70-70
N.America dom FOB $/s.ton	715-775	715-775

Prices listed are SBB forecasts

Import prices for rebar into SE Asia fell slightly at the start of June, but then held steady during the rest of the month, at US$ 550-560/t cfr, while merchant bars dropped by US$ 50/t. Wire rod prices also fell by US$ 20/t and are now in the range US$ 610-630/t cfr, and are likely to be steady or slightly firmer during July. Imported H Beam prices decreased sharply by US$ 60/t during June to US$ 700-750/t, but should also rise slightly in July.

Graph 5

Wire Rod $/t



CIS and Turkish billet prices rose slightly by US$ 5-10/t during June, as their offer prices increased to US$ 430-450/t fob as delivered prices slowly rose in SE Asia. Turkish suppliers are aiming to increase these levels as their margins are still under pressure, so billet prices may rise if demand improves in Asia though there will be some slowdown in Middle East due to Ramadan.

"Imported H Beam prices decreased sharply by US$ 60/t during June to US$ 700-750/t, but should also rise slightly in July"

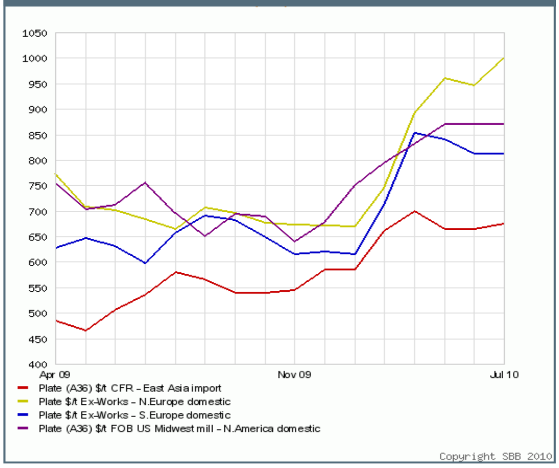
COMMODITY PLATE REVIEW

Plate prices in SE Asia have held steady during June, as demand remained reasonable. Chinese export prices have slipped slightly, which keeps their price levels competitive in the regional markets. Prices are now at US$ 650-680/t cfr for commodity plate, with Chinese suppliers quoting US$ 640-650/tonne fob in June, and these levels are expected to increase slightly during July.

It is likely that plate market prices in Asia will ease upwards during Q3, as CIS suppliers continue to push for higher prices to rebuild their levels after the recent readjustment. CIS plate prices dropped during June as demand slackened in many of their other export markets; price levels are now in the range US$ 600-630/t fob.

Graph 6

Plate $/t



Commodity plate prices in northern Europe have remained steady during June, and are currently at Eur 710-840/t (US$ 899-1063/t). Demand is still weak, but better than other product lines, and is expected to increase in the next few months after the summer break. Prices in southern Europe have slipped by Eur 10/tonne during June, even though demand is much weaker here, and prices in both regions are expected to remain steady in the coming months if production matches real demand.

Prices of plate in USA have been unchanged during June at US$ 770-810/st (US$ 849-893/t) despite lacklustre demand, though producers will have to ▶

Plate Price Outlook

Products	Jun	Jul*
China dom. Shanghai RMB/t	4430-4450	4250-4280
CIS export FOB $/t	600-630	610-640
N.Europe dom Ex-Works €/t	710-840	710-890
S.Europe dom Ex-Works €/t	630-700	620-680
Eur import CIF S.Eur pt €/t	610-660	590-650
E. Asia import CFR $/t	650-680	660-690
N.America dom FOB $/s.ton	770-810	770-810
China export FOB $/t	640-650	670-680

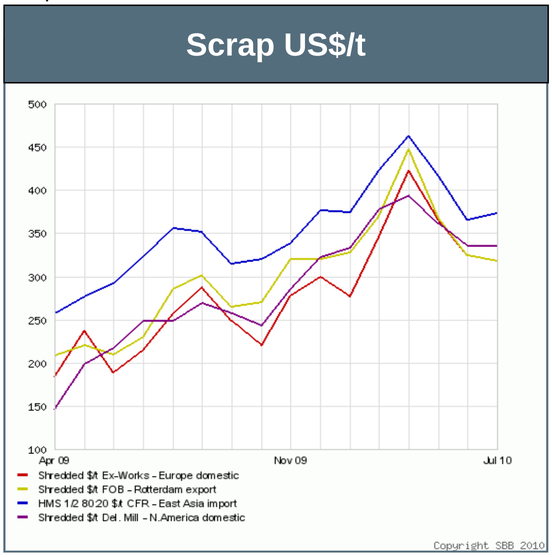
****Prices listed are SBB forecasts***

balance supply to keep the market tight as there is downwards pressure from customers on these levels.

SCRAP AND RAW MATERIAL REVIEW

Most scrap prices slipped downwards at the start of June in Europe and US. After sharp falls at the start of the month, prices in Turkey moved slightly upwards at the end of June. Prices in Asia also fell at the end of May but were then more stable last month. It seems likely that these were a correction after the significant falls in May in Turkey and Asia. There may be price rises in European markets later in Q3, if mills' output increases after destocking for the summer shutdown. Similarly, if Turkish buyers increase their purchasing after Ramadan, this will probably push price levels higher.

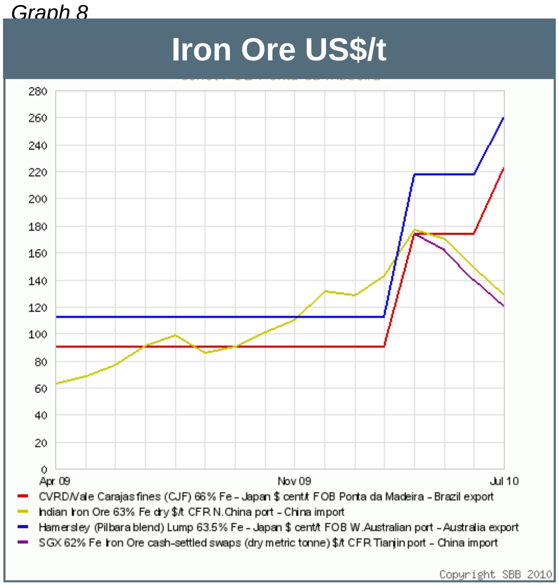
Graph 7



Domestic shredded scrap prices in USA were stable at US$ 335-345/lt during June after dropping US$ 10/lt since May. No 1 Bundles and Bushelling were also stable at US$ 445-460/lt during last month after dropping from May's levels. US prices could move upwards in July if mills' demand improves or exports strengthen. Scrap prices in Asia finished steady at US$ 360-370/t cfr after easing down US$ 20/t from May's levels, and small increases are expected as demand remains reasonable and Turkish buyers may compete for material from US and Europe.

European price levels fell with domestic shredded scrap at Eur 240-265/t (US$ 304-335/t) at the end of June in the north. Southern European prices, which had been higher, dropped more sharply to similar levels, except in Italy. European export prices dropped US$ 50/t in June to US$ 307-315/t fob as Turkish import levels fell, but are expected to rise slightly in July.

Graph 8



Spot prices of Indian origin iron ore 63% material fell slowly but continuously during June from US$ 150-152/t cfr down to US$ 142-147/t cfr China, as buyers stayed out of the market, possibly anticipating production cuts. Prices are expected to decrease further in the short term, but should then begin to strengthen once steel mill demand improves again as supply is still restricted.

As foreseen, the July-September quarter iron ore price was another significant increase above the Q2 level which, for many buyers, means that their raw material costs are rising further. The current lower spot prices would probably lead to a reduction in Q4 levels, but the finished product market levels are already weakening. The present spot price is now around 20% below the "mini-benchmark" levels which are being applied for July-September quarter iron ore business. Although Vale appears to

"It seems likely that these were a correction after the significant falls in May in Turkey and Asia"

"Iron ore prices are expected to decrease further in the short term, but should then begin to strengthen once steel mill demand improves again as supply is still restricted"

▶ have reached some agreements, the Australian miners are facing requests from Chinese buyers to consider monthly or spot pricing. This may mean the end of the new index-based quarterly pricing system even quicker than anticipated.

GLOBAL OVERVIEW OF PRODUCTION

The monthly production figures from World Steel Association show that May's global production rose by nearly 4 million tonnes compared to April to a new record. However, because of the longer month, there is a 0.3% decrease on a daily basis. Chinese production increased by less than a million tonnes, which is a 2% decrease in the daily rate. Production in most of the other regions were steady on a daily basis compared to April, except for EU27 and Other Europe where actual output increased by 6%.

Crude Steel Output (thousand tonnes)

	Mar 2010	Apr 2010	May 2010
Europe	27,299	27,353	28,724
- EU 27	15,548	15,419	16,317
- Other Europe	2,538	2,686	2,842
- CIS	9,213	9,248	9,565
N America	9,841	9,557	9,841
- USA	7,112	6,955	7,160
S America	3,665	3,524	3,698
Africa	1,378	1,375	1,446
Middle East	1,524	1,665	1,650
Asia	77,808	76,376	78,139
- China	54,968	55,403	56,143
Oceania	682	647	687
World Total	122,196	120,497	124,184

Source: WSA

Total world production in May was 124.2 million tonnes, which is 29% higher than May 2009, and is almost 2 million tonnes higher than March 2010, which is the previous highest monthly output figure. China's output was 20.7% more than in May 2009, while production in developed countries increased by 50-70% over output a year ago.

EU 27's production was 51% higher than a year earlier and, at 16.3 million tonnes in May, was 0.9 million tonnes higher than April's level. France, Italy and Spain's output increased by more than 0.3 million tonnes, while Germany's output increased by nearly 5% to 4 million tonnes.

In other Europe, Turkey's monthly output rose by 5%, and is over 2.5 million tonnes. The total CIS output was 3.4% higher compared to April's level at 9.6 million tonnes, with Russia and Ukraine maintaining their production level on a daily basis.

USA's production was almost 3% higher than in April, which is a slightly lower daily rate. South American output was almost 5% higher than the previous month's levels, as Brazilian production rose by 0.15 million tonnes.

China's output of 56.1 million tonnes was 1.3% higher than in April. India's monthly output increased to 5.5 million tonnes, which is a steady daily rate compared to March and April. Japan's production was 8.2% higher at 9.7 million tonnes, while South Korean output was more stable at 5.2 million tonnes.

The Asian countries' total production of 78.1 million tonnes was a rise of 2.3% from April, and an increase of 23% from May 2009. This region now accounts for 62.9% of global production.
World output excluding China was 68 million tonnes in May, up from 65 million tonnes in April, and another substantial increase from 49.6 million tonnes in May 2009. ■

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