



Raw materials costs will support steel prices, but global demand still looks weak for Q3

Prices for most steel products eased during May, with the largest falls seen in US for coils and some long products. However, raw materials costs have remained comparatively firm, which should provide a floor for steel price levels in the coming months. Meanwhile the economic indicators are less positive than earlier in the year, which is increasing the concerns about demand levels in the second half of this year.

Integrated producers are currently seeing declining sales prices while iron ore quarterly contract costs will remain near their record high for the third quarter calculated on the index-based pricing model. Contract coking coal costs have also remained high for Q3, though spot prices are falling back. Scrap prices are slightly higher than at the end of April. Industry players are unsure of the next direction of pricing in the short-term, as the seasonal weakness due to increased availability has not yet had its customary effect.

Iron ore contract prices will drop by less than 2% for third quarter deliveries, or will be unchanged if the minimum 5% threshold is applied. Spot prices fell during May as Chinese buyers held off from the market awaiting lower levels. The market is waiting to see whether prices will rebound upwards or fall back if Chinese mills continue buying domestically and supplies from Brazil improve after the weather-affected delivery problems earlier in the year.

Producers will want to limit price falls to the minimum given these increased costs, but demand is generally lacklustre and there will be the seasonal lull at the start of the third quarter. Import volumes have been rising into the mature markets and production levels remain high, so weaker prices are likely unless output is cut back.

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The key question is whether producers can maintain prices at levels covering raw materials costs, before seeking higher prices in Q4.

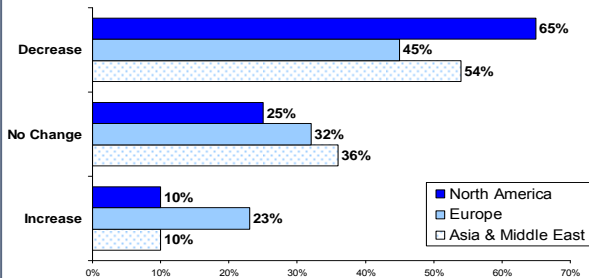
WEAKENING APPARENT DEMAND IN EUROPE FOR FLATS WILL LEAD TO STEADY OR LOWER PRICE LEVELS IN Q3, WHILE THE OUTLOOK FOR US FLATS PRODUCTS IS ALSO FOR PRICE DECLINES. COIL PRICES IN ASIA ARE CURRENTLY STEADY, BUT SHOULD STRENGTHEN UNLESS SUPPLY INCREASES ABOVE DEMAND DURING Q3. LONG PRODUCTS' PRICES ARE LIKELY TO REMAIN STABLE OR BECOME FIRMER IN EUROPE AND US UNLESS SCRAP PRICES FALL SHARPLY, WHILE ASIAN LEVELS COULD RISE IN Q3.

Market Sentiment Survey



THE STEEL INDEX

Steel Price Outlook Expectations in May (For Next 3 Months)



Source: The Steel Index % of Respondents



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► Flat product spot prices have been weaker in all regions, though the decreases have been very sharp in US and southern Europe, but less severe in northern Europe and Asia. Spot prices for long products in Europe and US also fell, but plate levels held firmer during May. Restocking had been necessary earlier in the year but buyers appear to have overstocked and, as anticipated, the usual rise in real demand in Q2 has not occurred in the mature markets.

Leading indicators, such as Purchasing Managers Indices in US and Europe, are showing signs of falling economic activity in the next few months, and lower stocks are likely throughout the supply-chain until after the summer slowdowns.

Prices in Asia have fallen more slowly than in other regions, and are holding at a stable level. Flat products in China have also been weaker after demand appeared to slacken while output achieved new records. Export prices for both flat and long products from CIS were stable during May, though longs are likely to be weaker as the situation in Middle East continues to affect demand.

WSA figures show that strong global output was maintained during April, and significant growth in production for 2011 is still anticipated unless there are cutbacks in the next few months. Chinese production is hitting new monthly records and likely to approach 700 million tonnes, an increase of more than 10% from last year's output.

- US flats spot prices dropped sharply during May, and remained under pressure at the end of the month. Offtake has not improved as normal during Q2, and real demand is unlikely to grow during Q3. Even lower output in the next three months may not offset increased imports, and prices will fall before they will rise.
- Northern European coil spot prices slipped slightly in early May, but have since been consolidating. Expectations that levels were likely to increase when Q3 price announcements were made were revised as demand remained lacklustre. Output levels will need to be matched to real offtake during Q3, especially if imports continue at current rates.

“Restocking had been necessary earlier in the year but buyers appear to have overstocked and, as anticipated, the usual rise in real demand in Q2 has not occurred in the mature markets”

“Chinese production is hitting new monthly records and likely to approach 700 million tonnes, an increase of more than 10% from last year’s output”

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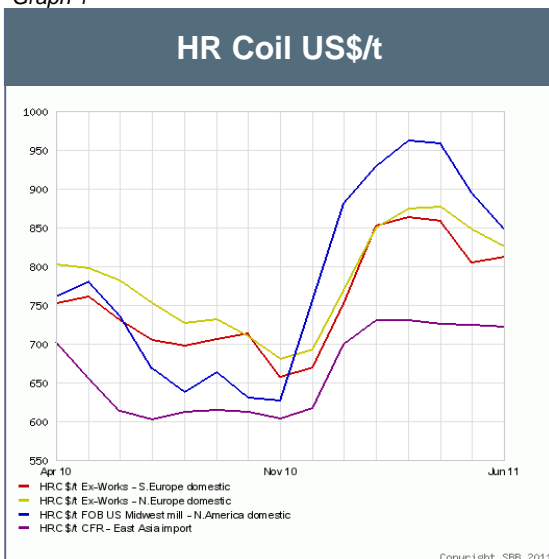


- ▶ Southern European flat prices have continued to fall steadily during May and remained well below levels in the north. They are likely to drop further in next few months unless output is restrained as demand is weak and imports have been increasing. However, mills do usually cut output sharply in July or August.
- Prices of coils into Asia have been dropping steadily during May after peaking in March. They are likely to weaken slightly in June before possibly increasing later in Q3. Sentiment is still uncertain, though underlying demand should improve going into Q3, when reordering traditionally begins.
- Domestic Chinese flats pricing is weaker, as demand eased in May with weakness in end-user sectors. Prices may drop further until offtake improves later in Q3, while output levels remain higher than in 2010. China's exports into the mature markets have been strong for the past few months, but lower market prices and long lead-times are reducing their competitiveness.
- Long products' pricing has also corrected downwards in Europe and US during May due to poor demand, but began firming in Europe later in the month. The construction season in these economies should improve consumption, and give a small boost to prices. Offtake will remain lacklustre, but output should match demand. Prices in Asia have firmed slightly, while billet and scrap levels have also remained steady.
- The major iron ore miners will be seeking similar quarterly price levels in Q3 as the record levels in Q2, around US\$ 176-178/dmt. The spot market for 63.5% iron ore is likely to firm after the strong downwards move during May, finishing 7.5% lower at US\$174-176/dmt. Some miners are already using monthly contract pricing, which follows the spot market more closely. Despite high port stocks, restocking by Chinese mills is likely to continue. The delayed availability of Indian material, as bureaucratic delays follow the lifting of the Karnataka export ban, mean that the actual impact is even smaller than previously expected.
- Scrap prices have remained steady for most of May, after dropping towards the end of April, except in Turkey where unexpectedly strong demand pushed price levels higher at the end of the month. Prices are holding firm despite the better weather improving collection in Europe and US, but mills' scrap demand is likely to fall over the summer months. Mills in Turkey may stay out of the market for a few weeks until prices become more attractive.

“Southern European mills do usually cut output sharply in July or August”

“Long products’ pricing has also corrected downwards in Europe and US during May due to poor demand, but began firming in Europe later in the month”

Graph 1



Production figures released by World Steel Association show that global output in April was 5% higher than in April 2010 and is 1% higher than March's output on a daily basis. Most regions showed a steady daily rate, though Turkey's actual output rose. China's increased daily output meant that Asian daily production also rose 1.7%, despite a slowdown in Japan.

Inventory levels in the mature markets again appear to be above buyers' preferred levels, as the summer slowdowns approach. With buyers only purchasing on an as-needs basis, they have been able to outlast any price increases from producers during Q2, and mills' price ambitions have been reduced for Q3. Mills may be more optimistic if current transaction prices

“With buyers only purchasing on an as-needs basis, they have been able to outlast any price increases from producers during Q2, and mills’ price ambitions have been reduced for Q3”

hold, while the automotive contract negotiations will also be an important factor in Europe. In China, stock levels appeared to return to normal levels earlier in May, ▶



▶ but lower real demand has pushed inventories higher again, especially for coil products.

Demand in Asia region excluding China has been steady during Q2, but it is unclear if sentiment will improve as usual at the start of Q3. Imports into the mature markets of USA and Europe have been strong, though volumes are beginning to fall, The political turmoil in the Middle East continues to affect activity for many exporters. Chinese volumes into the US and European markets are likely to fall as price levels become less attractive and delivery times reach into Q4.

Flat product real demand in US may weaken according to some economic indicators, but there may be a small boost for restocking after the summer slowdown. Producers will hope to slow the decline in prices during Q3, anticipating that the market will rebound upwards some time in Q4. Northern European flats prices are also likely to hold steady or weaken slightly during Q3, with spot levels under more pressure unless output is cut back in the north as well as the usual holiday closures in the south.

US and European demand for long products was below seasonal norms in May, but may improve slowly in the next few months which would lead to firmer prices during Q3. The slightly higher price levels achieved at the end of May could continue, unless lower scrap prices weaken market sentiment.

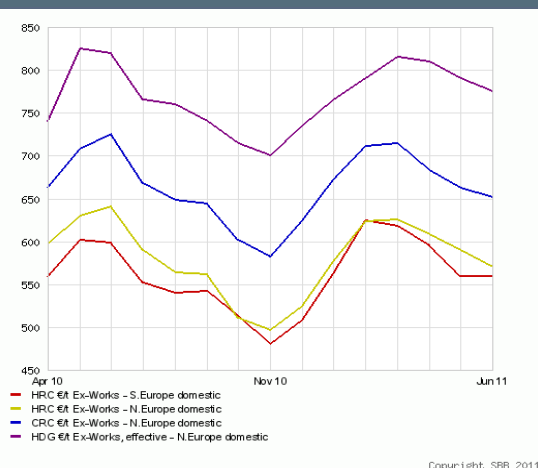
Looking ahead to the fourth quarter of 2011, there is usually a seasonal improvement in apparent demand in Europe after the holiday period. There has also been a similar effect in US, which the producers have used to initiate price increases in the last two years. However, stock levels may not be sufficiently low, or production may be too high, in which case price increases would not stick. Otherwise, it is likely there will be firming prices early in Q4, though to a smaller extent than in 2010. Asian demand is likely to pick up during the third quarter, so prices could then head slowly upwards unless Chinese exports increase and surpass demand.

GLOBAL OVERVIEW

US flats spot prices moved sharply lower during May. Producers tried several different measures to halt the declines at the end of the month, either announcing price increases or minimum price levels. Stockholder demand fell back as end-user offtake remained weak and some destocking began. There may be an upturn in real demand in the fourth quarter, but it is likely that inventories will then be further run down ready for the year-end. In Europe, prices have fallen slowly in the north during May, but spot levels then stabilised. Levels may drop further if producers try to achieve lower target prices for Q3.

Graph 2

European Coil Euro/t Ex-works



Real demand is unlikely to improve during Q3, though there may be some growth later in the year. Offtake is still fairly good in Asia and flats and longs prices have remained steady or risen slowly during May. Domestic China demand for flats has fallen more sharply than expected in May, but longs consumption is still at a good rate due to the social housing programme. Chinese export prices have been reduced as they had become uncompetitive in regional markets, though it is unclear whether export volumes will increase.

Prices of flat products in US fell by US\$ 60-90/s.ton during May, but have ▶

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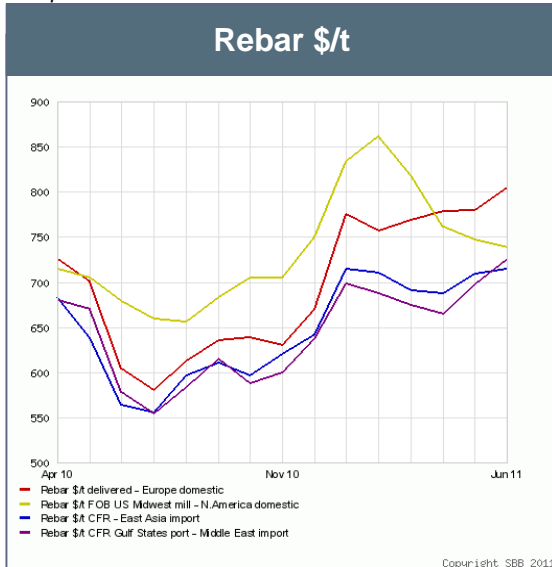
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► levelled off as the market assesses the mills' attempts to stop prices falling. As demand is likely to remain poor, prices could slip further downwards before any recovery. US mills' output continued to be strong in April and is likely to continue into May. The predicted slowing of economic growth could lead to some production cutbacks, despite the recent opening of new capacity. With falling prices, buyers are wary of purchasing forward and are working down their inventories. Recent months have produced increased volumes of imports, though these may not continue beyond the short-term.

Graph 3



Scrap prices fell slightly in US early in May, but quickly rebounded and ended higher, as strong export market demand competed for the greater material availability. Prices are likely to be under pressure if export demand falls while domestic volumes drop if mills' output is being cut back. Prices for imported scrap into Asia were unchanged during May, and are likely to follow Turkish pricing unless demand increases in June as US and European export availability will rise. Prices for Turkish importers have increased strongly during May, as sales of their export products improved despite uncertainty in the MENA region. Import prices may decrease in June if buyers stay out of the market awaiting lower price levels.

“Scrap prices fell slightly in US early in May, but quickly rebounded and ended higher, as strong export market demand competed for the greater material availability”

Spot prices of flat products in northern Europe eased steadily in the first half of May, as demand was poor and unlikely to improve in the coming months. Prices then stabilised but could move further downwards in June unless mills cut back supply to match real demand. Imports have been increasing due to the recent attractive price levels, but current prices are less competitive. Output maintained a steady rate in Europe in April, but there are signs that some cutbacks will be made in the next few months. Southern European producers are also likely to cut output significantly during their holiday period. However, lacklustre real demand and further destocking will affect spot market pricing.

“Prices then stabilised but could move further downwards in June unless mills cut back supply to match real demand”

Coil prices in southern Europe moved downwards throughout May, and remain significantly below northern price levels. These prices are likely to continue to decrease in June as real demand remains poor, though seasonal output cuts may stabilise levels. The increased volume of imports in the past few months has also added downwards pressure to prices, though arrivals may soon begin to decrease.

For buyers in South East Asia, HR coil prices have been steady, though CR and HDGalvanised coil prices have dropped during May. Prices may remain stable or weaken slightly in June. All coil prices are then likely to be stable or slightly stronger if real demand levels improve in Q3. China's export prices were cut during May to remain competitive in Asian markets for HR coil and plate.

“High production rates led to oversupply, and flat product inventories are rising, leading major mills to cut prices for some high-grade products”

Domestic HR, CR and HDGalvanised coil spot prices in China rose in early May, as demand was stronger than expected. However, this rising offtake proved to be short-lived and important end-use sectors such as automotive began slowing down. High production rates led to oversupply, and flat product inventories are rising, leading major mills to cut prices for some high-grade products.

Long products demand has improved slightly in the past few months in the mature economies of Europe and US. Prices in Europe have rebounded accordingly, after ►

▶ dropping at the start of Q2, but there need to be more signs of improvement in the construction industry. Rebar producers in US have seen prices fall during May, as supply exceeded demand. Wire rod prices slipped in Europe during May, but are expected to rebound upwards during the next few months as end-user demand should be firm.

Prices for WF Beams, medium and heavy sections have been stable generally, although there has been a significant correction to US WF Beams transaction prices.

In US, producers saw rebar prices fall in May after holding steady during April. Wire rod producers in US held prices steady during May, and should succeed in keeping levels firm this quarter. Merchant bar prices in US fell sharply during May in an overdue correction, and are likely to hold steady in June unless demand improves.

Billet prices in South East Asia were slightly higher at the end of May after holding firm during Q1. Export material has been available from Turkey and CIS suppliers and higher prices have finally been accepted as finished products pricing also improved.

Imported prices of finished long products into SE Asia were slightly firmer during May, and may rise further during June and the start of Q3. Rebar and wire rods prices rose slightly, but merchant bars prices were unchanged. Domestic prices for all long products in China rose slightly during May as demand remained firm, and offtake is likely to stay strong while the social housing programme keeps running. Prices could then continue to improve during Q3.

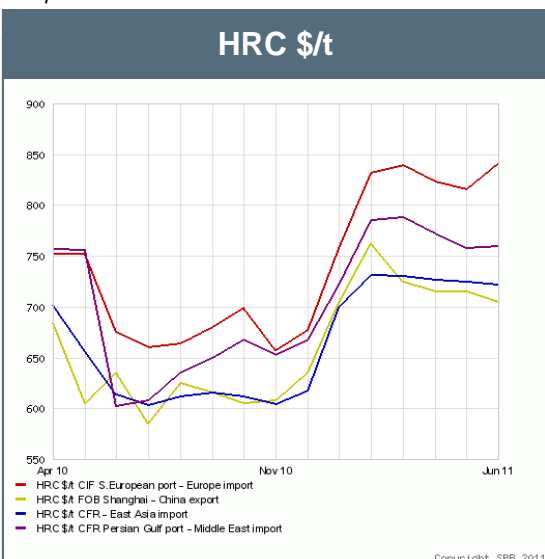
COIL REGIONAL REVIEW

Flat products spot prices dropped sharply during May in US. Prices also fell slightly in northern Europe at the start of the month but then stabilised, while levels in southern Europe decreased more sharply. Real demand growth remains uncertain in all three regions for the seasonally quieter Q3, and there will be further destocking in advance of holidays which reduces apparent demand. Output remained steady on a daily basis in Europe in April, and is likely to continue at similar levels during June before cutbacks in southern Europe during Q3. Prices in Asia have remained steady during May, as demand was fair and sentiment should improve early in Q3.

HR Coil prices in US dropped US\$ 80/short ton to US\$ 760-780/st (US\$ 838-860/t) at the end of May, and these levels were then holding steady after the producers introduced differing measures to halt the slide. However, with prices falling or holding,

buyers appeared to be only making necessary purchases and there was some destocking which will continue until after the summer. CR coil prices also fell significantly, ending May at US\$ 870-900/st (US\$ 959-992/t) as real demand weakened. HD Galvanised coil declined by a smaller extent of US\$ 40-60/s.ton to US\$ 920-970/st (US\$ 1014-1069/t). Import levels for some products had increased as earlier deliveries arrived, though these volumes should fall as prices are now less attractive. Mill production rates remained high during April, and are likely to continue during the next few months as some new capacity is brought on-line and announcements of cutbacks are still awaited.

Graph 4



Coil Price Outlook

Products (HRC)	May	Jun*
Brazil dom. Del. BRL/t	2350-2450	2350-2450
China dom. Shanghai RMB/t	4780-4830	4800-4820
China export FOB \$/t	710-720	700-710
E. Asia import CFR \$/t	710-740	710-740
Eur import CIF S.Eur pt €/t	540-590	560-600
Jap dom FOT ¥/kg	72-72	67-67
Middle East imp CFR \$/t	710-800	720-800
N.America dom FOB \$/s.ton	760-870	760-780
N.Euro dom Ex-Works €/t	570-620	545-594
Rus Blk Sea export FOB \$/t	690-730	700-740
S.Euro dom Ex-Works €/t	540-580	540-580
Ukr Blk Sea export FOB \$/t	670-710	700-720
Products (CRC)	May	Jun*
Brazil dom. Del. BRL/t	3100-3144	3100-3144
China dom. Shanghai RMB/t	5410-5550	5410-5480
China export FOB \$/t	780-790	780-790
E. Asia import CFR \$/t	780-850	780-840
Eur import CIF S.Eur pt €/t	610-670	610-670
N.America dom FOB \$/s.ton	870-980	860-900
N.Euro dom Ex-Works €/t	620-695	625-680
Rus Blk Sea export FOB \$/t	800-890	800-890
S.Euro dom Ex-Works €/t	610-700	610-700
Ukr Blk Sea export FOB \$/t	750-790	780-800
Products (HDG)	May	Jun*
China dom. Shanghai RMB/t	5750-5800	5800-5850
China export FOB \$/t	850-870	840-850
E. Asia import CFR \$/t	820-900	820-890
Eur import CIF S.Eur pt €/t	640-700	640-700
Mid E. import CFR \$/t	900-1050	940-1000
N.America dom FOB \$/s.ton	920-1060	920-950
N.Europe dom Ex-Works €/t	740-840	740-810
S.Europe dom Ex-Works €/t	590-680	600-650

*Prices listed are SBB forecasts



► Flat products producers in northern Europe have seen spot levels move steadily downwards early in May, though prices remained stable later in the month. Prices will be under pressure in June, as the mills will try for smaller increases for Q3. The seasonal slowdown in real demand will add to the destocking effect. Production remained steady during April but will need to be restrained in Q3 if it is to match the reduced demand.

In northern Europe, HR Coils fell to Eur 545-594/t (US\$ 796-868/t), while CR Coils also decreased to Eur 620-675/t (US\$ 906-986/t). CR coil market remains firmer than other coil products. HD Galvanised prices slipped by Eur 30/t to Eur 740-840/t (US\$ 1081-1227/t), but are expected to fall back in June.

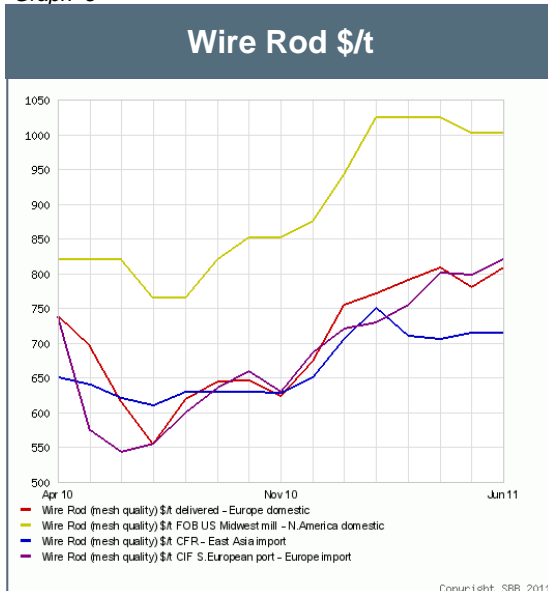
Southern European coil prices had begun falling back during March, and have continued to be weak in May. Demand continues to be poor and will weaken over the summer slowdowns even if end-user offtake remains steady during Q3. HR Coil prices are now at Eur 540-580/t (US\$ 789-847/t) and are likely to be weak in June, though production will also fall during the summer. Prices for CR Coil were at Eur 610-700/t (US\$ 891-1023/t) while HDGalvanised coil was slightly lower at Eur 610-650/t (US\$ 891-950/t).

South East Asian HR coil prices remained stable during May at US\$ 710-740/t cfr. They are expected to remain steady or firm slightly during June and July. Latest Chinese export prices for HR coil have moved sharply downwards to US\$ 710-720/t fob, to keep them competitive in SE Asian markets and remain in line with domestic pricing. CR coil prices in SE Asia slipped during May and HDGalvanised coils also eased by US\$ 30/t to US\$ 820-900/t cfr.

LONG PRODUCTS REGIONAL REVIEW

Rebar prices in Asia were stable in May, but rebounded upwards during the month in Europe, after falling sharply in April. European prices for merchant bar were steady during May, but could follow rebar prices upwards in June. Domestic rebar prices in US fell in May. Construction industry activity remains

Graph 5



poor but should improve slightly in the mature markets during the summer. In SE Asia, rebar prices have increased slowly, though demand may only be steady until the seasonal pick-up some time in Q3. H Beam and merchant bar price levels were unchanged in May, but wire rod prices rose by US\$ 10/t during May.

Medium and heavy sections prices were slightly lower in Europe during May, with prices at Eur 620-690/t (US\$ 906-1008/t), and levels should hold steady in June. SE Asian H-Beam price levels were unchanged at US\$ 870-880/t cfr. Prices of WF Beams in US were unchanged at US\$ 890-910/st (US\$ 981-1003/t) in May, though some mills reduced actual transaction levels sharply at the end of the month.

Wire rod pricing in US was also stable in May at US\$ 900-920/s.ton (US\$ 992-1014/t). Rebar prices in US dropped US\$ 20/st to US\$ 660-680/s. ton (US\$ 728-750/t) during May, but prices may hold in Q3 if construction activity and demand improve, output is constrained and scrap prices are firm.

Longs Price Outlook

Products (Debar/Rebar)	May	Jun*
Turkey export FOB \$/t	680-775	750-775
Blk sea export FOB \$/t	650-690	680-690
E. Asia import CFR \$/t	690-720	710-720
China dom. Shanghai RMB/t	4750-4830	4780-4850
Eur dom del €/t	520-565	530-580
Eur import CIF S.Eur pt €/t	510-520	520-530
Jap dom FOT ¥/kg	64-64	59-59
Mid E. import CFR \$/t	680-710	700-750
N.America dom FOB \$/s.ton	660-700	660-680
Products (Beams / Sections)	May	Jun*
E Asia import CFR \$/t	870-880	870-880
Eur dom del €/t	620-690	620-700
Jap dom FOT ¥/kg	81-81	76-76
N.America dom FOB \$/s.ton	890-910	890-910
Products (Merchant Bar)	May	Jun*
China dom. Shanghai RMB/t	4800-4820	4860-4870
E Asia import CFR \$/t	760-780	760-780
Eur dom del €/t	550-640	590-660
N.America dom FOB \$/s.ton	835-880	835-860
Products (Wire Rod)	May	Jun*
Blk sea export FOB \$/t	690-750	740-750
China dom. Shanghai RMB/t	4780-4800	4820-4840
E Asia import CFR \$/t	700-730	700-730
Eur dom del €/t	530-555	550-565
Eur import CIF S.Eur pt €/t	550-560	560-570
Jap dom FOT ¥/kg	80-80	75-75
N.America dom FOB \$/s.ton	900-920	900-920

*Prices listed are SBB forecasts



► Rebar prices in Europe increased slightly during May and finished at Eur 520-565/t (US\$ 760-825/t). Wire rod prices dipped but then recovered in May and finished at Eur 550-565/t (US\$ 804-825/t), and are likely to increase slightly during Q3 if end-user demand remains firm.

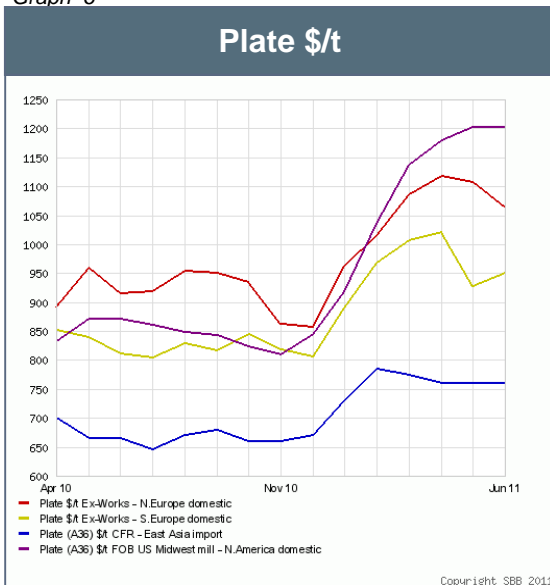
Rebar prices in SE Asia ended the month US\$ 20/t higher at US\$ 710-720/t cfr. Import price levels for merchant bars into SE Asia were stable at US\$ 760-780/t cfr, while imported wire rod prices rose slightly to US\$ 700-730/t cfr. All these prices are expected to remain steady in June and strengthen slightly in Q3, as demand is likely to improve some time in this quarter.

Billet prices have increased slightly late in May in SE Asia, and are now at US\$ 665-675/t cfr. Export levels for CIS and Turkish material also rose during May, with prices for CIS origin material rising to US\$ 655-680/t fob. However, global billet prices may weaken if Asian demand falls and business in parts of the Middle East continues to be uncertain.

COMMODITY PLATE REVIEW

Plate prices have been slightly firmer in US and northern Europe during March, and have been stable in Asia. Chinese export prices have moved downwards in response to earlier Asian market price declines.

Graph 6



In USA, commodity plate prices increased slightly during May, even while the coil market was falling sharply. Demand has been fair, but is likely to ease in the coming months and supply levels will need to be matched to any downturn if price levels are to be held. Prices rose by US\$ 20/st and are now at US\$ 1080-1100/st (US\$ 1190-1212/t).

Plate prices increased in northern Europe by Eur 20/t and transaction prices are in the range Eur 740-800/t (US\$ 1081-1169/t). Stockists have begun reducing their offtake in advance of the summer shutdowns, which will lead to lower prices next month, but real demand should recover more quickly from September onwards.

Southern European commodity plate producers have seen spot price levels decrease sharply during May, due to continuing poor demand in Italy and Spain. Current levels are Eur 610-680/t (US\$ 891-993/t), but these may not fall further as output will be reduced as necessary in the next few months.

In SE Asia, prices for commodity plate were unchanged at US\$ 740-780/t cfr, and are likely to hold steady at the start of Q3. Export prices of Chinese material have dropped by US\$ 50/t from the previous month to US\$ 720-740/t fob, as anticipated, to remain competitive.

SCRAP AND RAW MATERIALS REVIEW

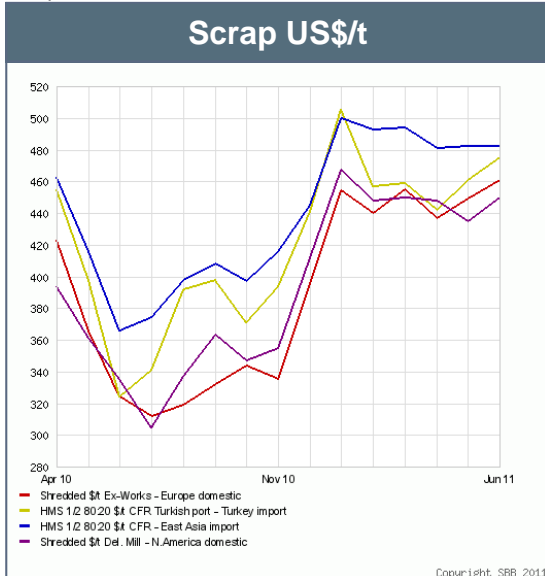
Scrap was generally stable in most of the regions during May, after the declines in late April. Buyers in Turkey were unexpectedly active in the import market during May and USDollar price levels were pushed higher. However, Turkish ►

Plate Price Outlook		
Products	May	Jun*
China dom. Shanghai RMB/t	5100-5180	5100-5160
CIS export FOB \$/t	710-760	720-760
N. Europe dom Ex-Works €/t	710-780	740-790
S. Europe dom Ex-Works €/t	680-740	700-750
Eur import CIF S. Eur pt €/t	650-700	650-700
E. Asia import CFR \$/t	770-800	780-800
N. America dom FOB \$/s. ton	880-1000	980-1000
China export FOB \$/t	790-800	790-800

*Prices listed are SBB forecasts

► mills should now be well stocked so, in the short-term, demand may decrease leading to weaker export and domestic prices, especially if mills in US and Europe cut back their production.

Graph 7



Domestic scrap prices in Europe increased slightly during May, mainly due to the weakening Euro. US prices for light scrap were also steady during the month, but heavy grades were initially weaker before firming as the Turkish export demand pushed domestic prices up. Export demand may slacken and greater local supply availability should put pressure on price levels in the near future. Price levels in SE Asia were steady throughout May, and are likely to slip during June unless there is strong demand in other regions.

In northern Europe, shredded scrap prices moved up by Eur 5-10/t, while prices in southern Europe were lower initially before rebounding upwards. Northern European shredded scrap finished May at Eur 300-325/t (US\$ 438-475/t). Export prices of shredded scrap

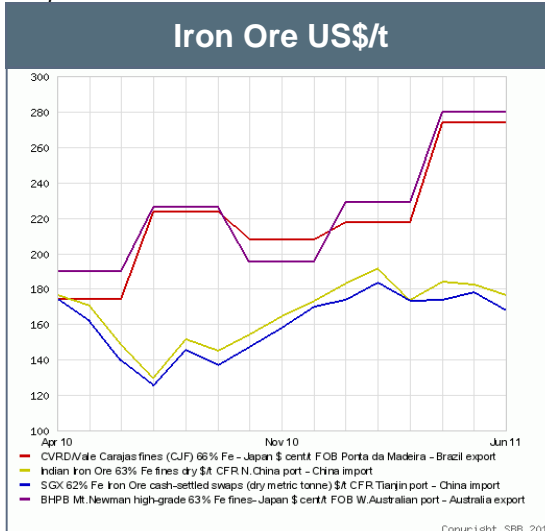
from Europe rose by US\$ 30/t to US\$ 430-442/t fob but will only remain firm in June if demand in Asia or Turkey continues at current levels.

Scrap prices in Asia were unchanged in the range US\$ 480-485/t cfr for HMS 1/2.

Domestic scrap prices in US for No 1 Bundles and Bushelling dropped in mid-May before moving upwards to finish at US\$ 490-515/t. Shredded scrap also rose by US\$ 20/t from April's levels to US\$ 470-480/t by month-end.

Iron ore customers on quarterly contracts in Asia will see Q3's prices fall by just 1-2%, if they are based on the one-month lagged formula. Those customers whose contract specifies no change if there is a less than 5% movement will presumably continue to pay the Q2 contract price, which was a record high. Spot prices dropped steadily during May, but have since stabilised and may move higher in June if Chinese buyers return. More miners and customers are agreeing shorter pricing periods to follow the spot market even more closely. In May, spot prices have wavered around the quarterly contract level, and this looks likely to continue in the short-term.

Graph 8



The spot market for Indian origin material 63.5% Fe iron ore slipped continually during May, starting at US\$ 188-190/dmt and finishing around US\$ 174-176/dmt cfr, though prices are rising slowly in early June. Depending on Chinese demand for restocking, spot prices may move even higher, but mills are likely to stop buying if prices go too high. Supply is likely to increase in the short-term as Brazilian material is now shipping smoothly, though the volume of Indian material will be affected by the monsoon whatever progress is made regarding the lifted export ban of iron ore from Karnataka state.

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► GLOBAL OVERVIEW OF PRODUCTION

The monthly production figures from WSA show that April's global production was around 3 million tonnes less than the month before. April is a short month, so the lower tonnage calculates to a 1% increase in daily output rate compared with March. The monthly output was 5% higher than April 2010. World production in April was 126.9 million tonnes, which means that total global output for 2011 so far is 499.7 million tonnes, 8% above 2010's level.

Crude Steel Output (thousand tonnes)			
	Feb 2011	Mar 2011	Apr 2011
Europe	26,307	29,285	28,410
- EU 27	14,647	16,312	15,767
- Other Europe	2,742	3,053	3,043
- CIS	8,918	9,920	9,600
N America	9,181	10,142	9,782
- USA	6,690	7,368	7,098
S America	3,735	4,198	4,080
Africa	1,047	1,193	1,102
Middle East	1,624	1,726	1,662
Asia	75,591	82,483	81,196
- China	54,307	59,416	59,032
Oceania	631	725	714
World Total	118,116	129,754	126,946

Source: WSA

European production slipped by 0.55 million tonnes, while total Asian output dropped by 1.3 million tonnes. Most regions showed small gains in daily output, but actual volumes rose in Turkey. Production rates also rose in South America and South Korea. EU27 output of 15.8 million tonnes in April was 3.5% lower than in March but a steady daily rate. There was a rise in actual output in France, while Germany and Italy's production was almost unchanged from March's daily level. Spain's output was sharply lower.

In Other Europe, Turkey's monthly output rose to 2.8 million tonnes. The total CIS output was almost constant on a daily basis, with both Russia and Ukraine maintaining steady production levels.

US output was 7.1 million tonnes in April, which was almost 4% lower than March's figure. South American output was less than 3% lower in April than the previous month at 4.1 million tonnes. Brazilian production was steady on a daily basis, but Argentine actual output increased slightly.

China's output of 59 million tonnes was less than 1% lower than March's figure. April's production is an increase of 7.1% on April 2010's output. India's monthly output fell to 6.2 million tonnes but daily output remained fairly constant. Japan's output was 7.8% below March's level, but South Korea's actual production increased by 1% compared to the previous month. Taiwan's estimated production was also steady on a daily basis, with actual volume at 1.7 million tonnes. Their combined total output is around 16 million tonnes, which is a 2% increase from the joint monthly production level achieved in April 2010.

The Asian countries' total production of 81.2 million tonnes was an increase of 5.8% from April 2010. This region accounted for 64% of global production in April, consistent with recent figures.

World output excluding China was 67.9 million tonnes in April. World output excluding China for the first four months was 270 million tonnes, compared to 250.8 million tonnes in 2010, an increase of 7.7%. ■

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