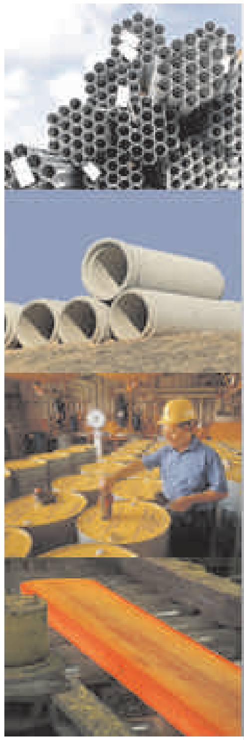


Steel: A Buyer's Market for the Worst of Reasons

John Anton
Director, IHS Global Insight Steel Service

August 2009

The Source for Critical Information and Insight™

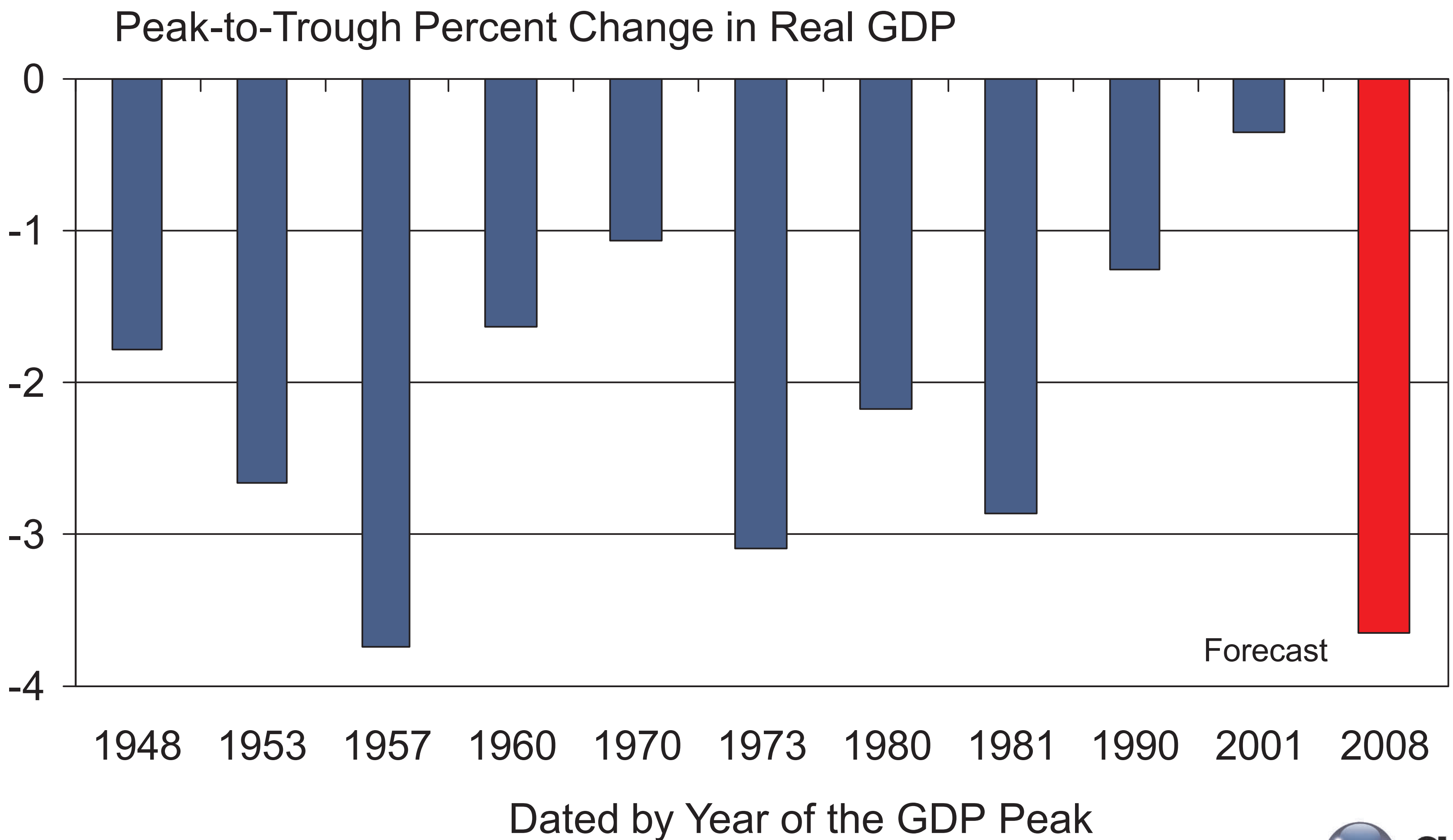
The U.S. Recession Is Bottoming Out

- This recession has been the most severe of the postwar era
- Signs of stabilization in consumer and housing markets suggest that the economy will turn up this summer
- Financial market conditions are improving, but credit will remain tight for an extended period
- The downturn in nonresidential construction is just beginning and will be severe
- Wage and price inflation will remain subdued for several years

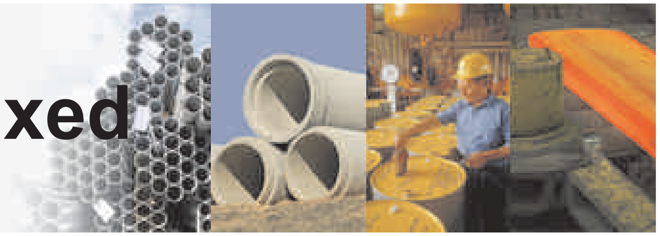
IHS GLOBAL INSIGHT

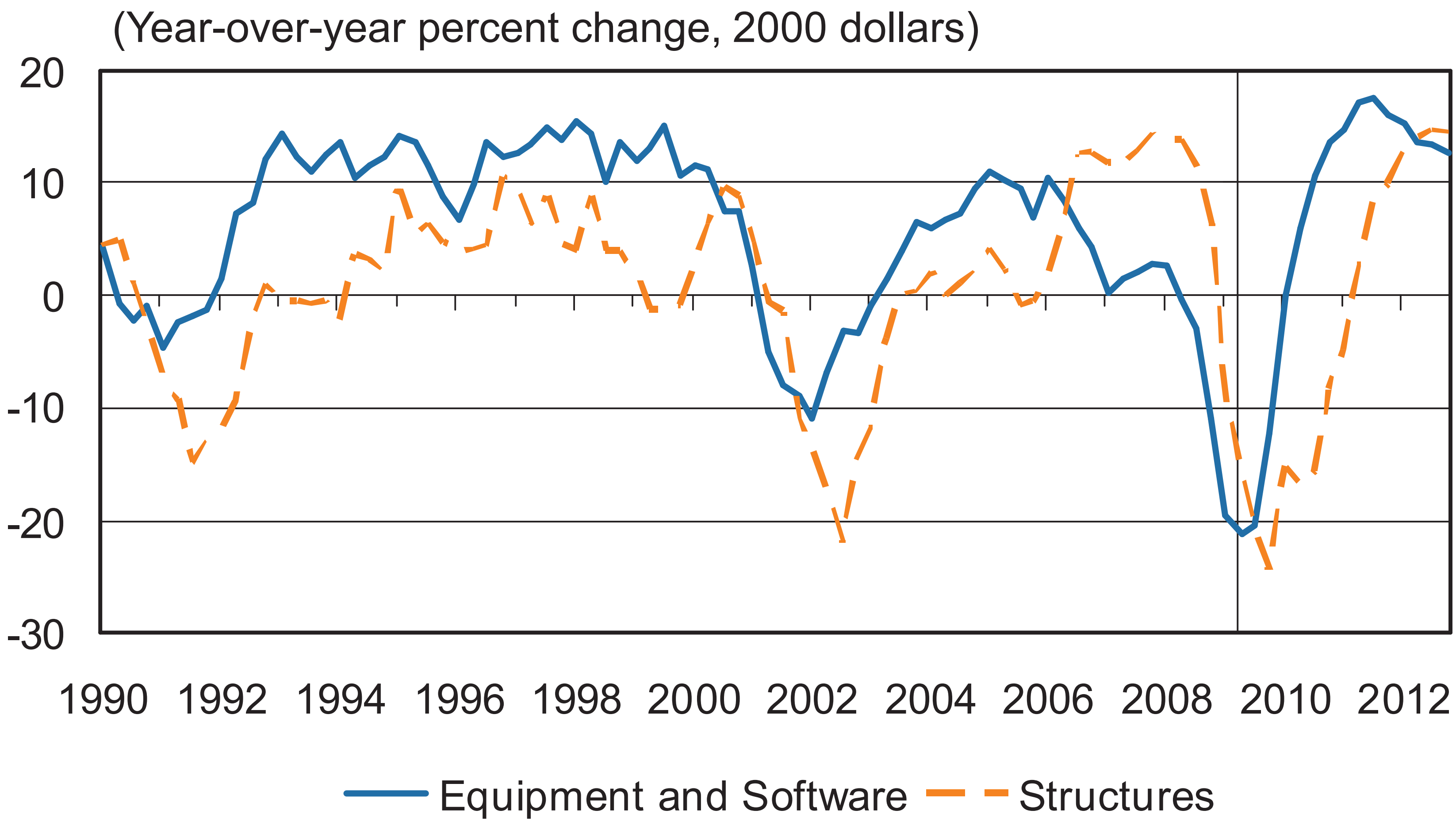
But happy days are **NOT** repeat **NOT** here again

GDP Declines in Post-War Recessions



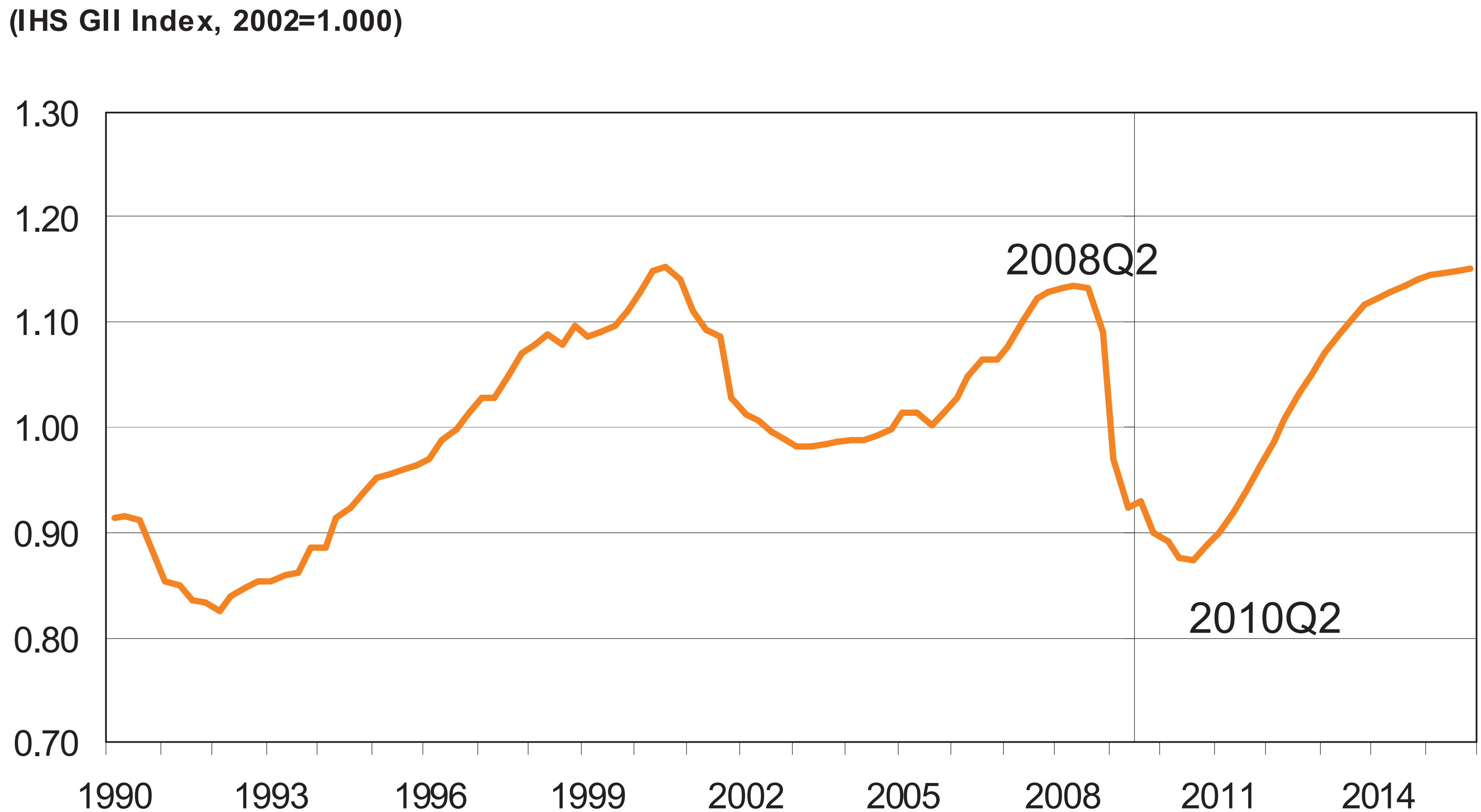
A Severe Downturn in Business Fixed Investment





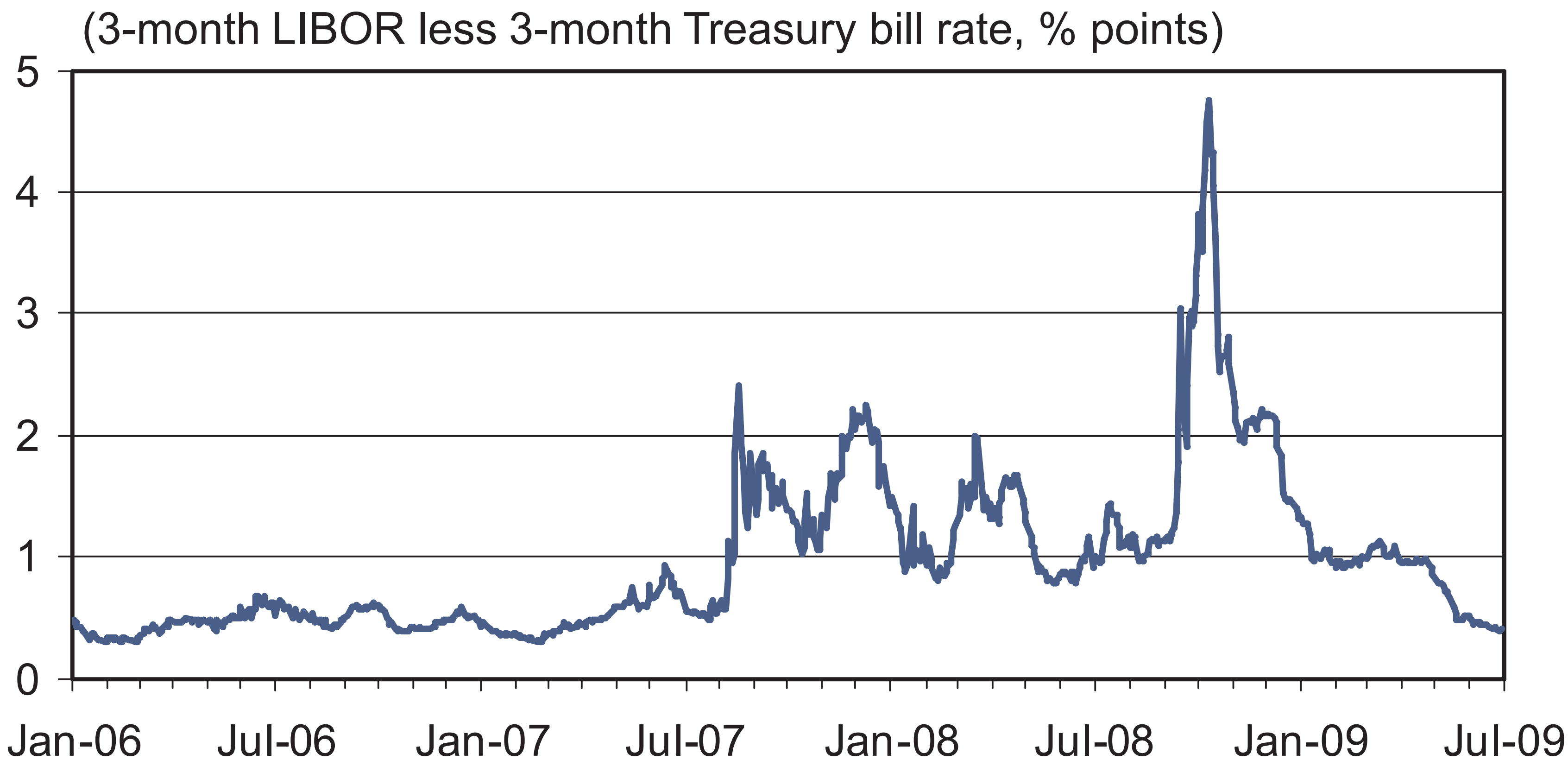
IHS GLOBAL INSIGHT

Steel Demand Falls 23%
Peak to Trough



IHS GLOBAL INSIGHT

TED Spread Back to Normal



U.S. Economic Growth by Sector

(Percent change unless otherwise noted)

	2008	2009	2010	2011
Real GDP	1.1	-2.8	1.5	3.1
Domestic Demand	-0.3	-3.3	2.2	3.0
Consumption	0.2	-0.6	1.6	2.0
Light Vehicle Sales (Millions)	13.1	9.8	11.3	13.7
Residential Investment	-20.8	-22.8	9.2	28.3
Housing Starts (Millions)	0.90	0.56	0.87	1.29
Business Fixed Investment	1.6	-18.3	-0.1	12.6
Government	6.0	4.5	1.3	-3.7
Exports	6.2	-14.3	3.7	9.3
Imports	-3.5	-15.2	8.5	6.9

IHS GLOBAL INSIGHT

Other Key Indicators

(Percent unless otherwise noted)

	2008	2009	2010	2011
Industrial Production (% growth)	-2.2	-10.3	1.6	4.1
Employment (% growth)	-0.4	-3.6	-0.5	1.6
Unemployment Rate	5.8	9.3	10.2	9.7
CPI Inflation	3.8	-0.6	1.8	2.4
Oil Prices (WTI, US$/bbl)	100	60	66	78
Core PCE Price Inflation	2.2	1.6	1.3	1.6
Federal Funds Rate	1.93	0.16	0.24	1.70
10-year Government Bond Yield	3.67	3.32	3.72	3.91
Dollar (Major Currencies, 2000=1)	0.71	0.78	0.77	0.74

Steel – Bottom Line

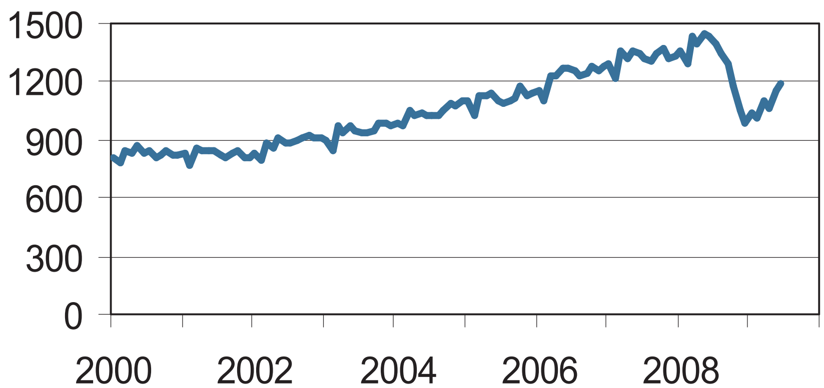
- Buyer's market through all of 2009 and probably all of 2010
- Lower inventory means short-lived shortages possible, but re-starts would eliminate
- Consumption does not regain peak for at least three years, more likely four or five

How We Got Here

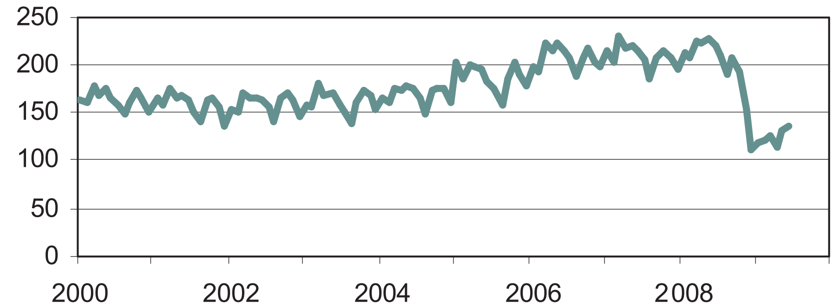
- The price spike of 2008 was purely cyclical
  - Global production was dead-flat in 2007, while consumption rose strongly
  - Low inventory to close 2007
  - Inventory replenishment would have caused prices to fall even absent the economic downturn
- The recession pummeled steel demand, producers reacted with incredible swiftness
- Global production recovering weakly from less than 70% of the 2008 peak
  - North and South America about 50%, Europe regressing

Total Raw Steel Production Reacted Swiftly and Deeply

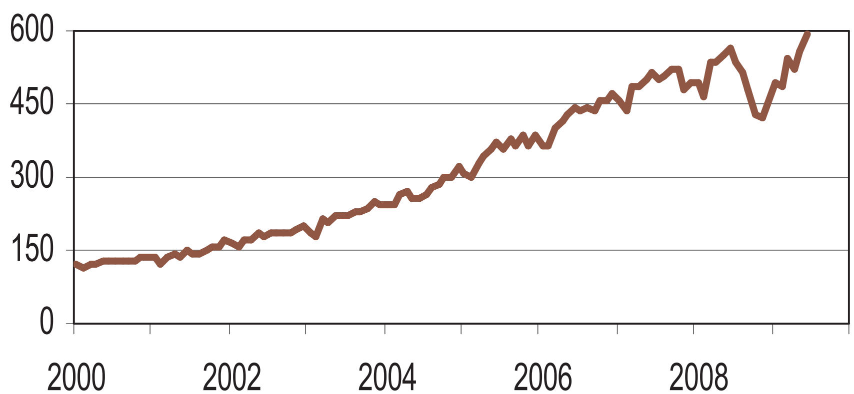
World
(Millions of metric tonnes, annual rate)



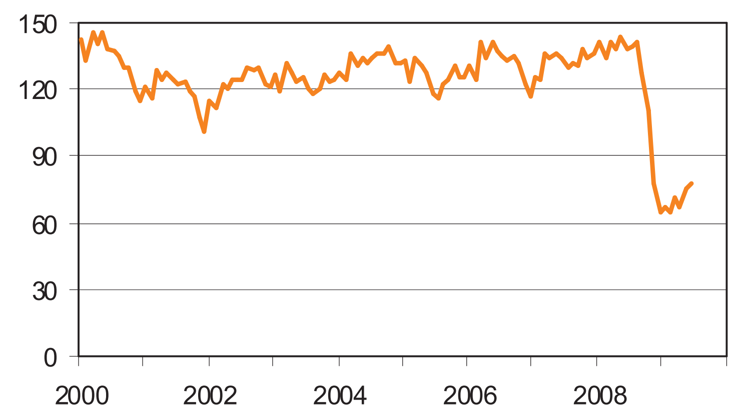
Europe
(Millions of metric tonnes, annual rate)



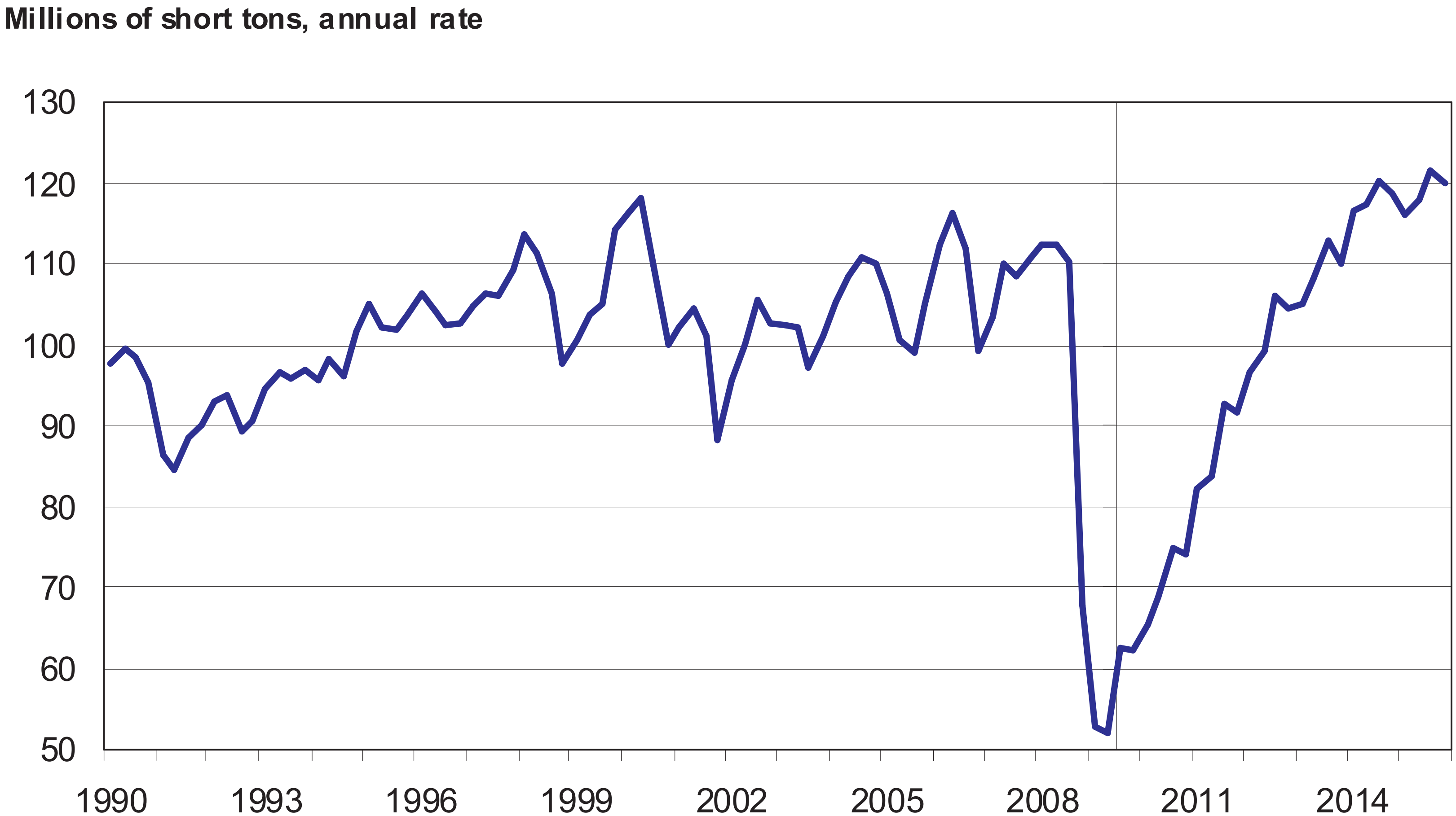
China
(Million of metric tonnes, annual rate)



North America
(Millions of metric tonnes, annual rate)



Steel Production Falls By Half, Recovery Takes Years.



IHS GLOBAL INSIGHT

Events That Will (Re)Shape the Global Steel Industry

- **More futures hedging will be possible**
  - Mills have resisted this for decades
  - Mediterranean billet contract is taking hold, Far East is foundering
  - Billet as proxy for scrap and/or pig iron, scrap and/or pig iron to escalate rebar, sheet, etc
    - Or, at least to guard against surcharge fluctuations

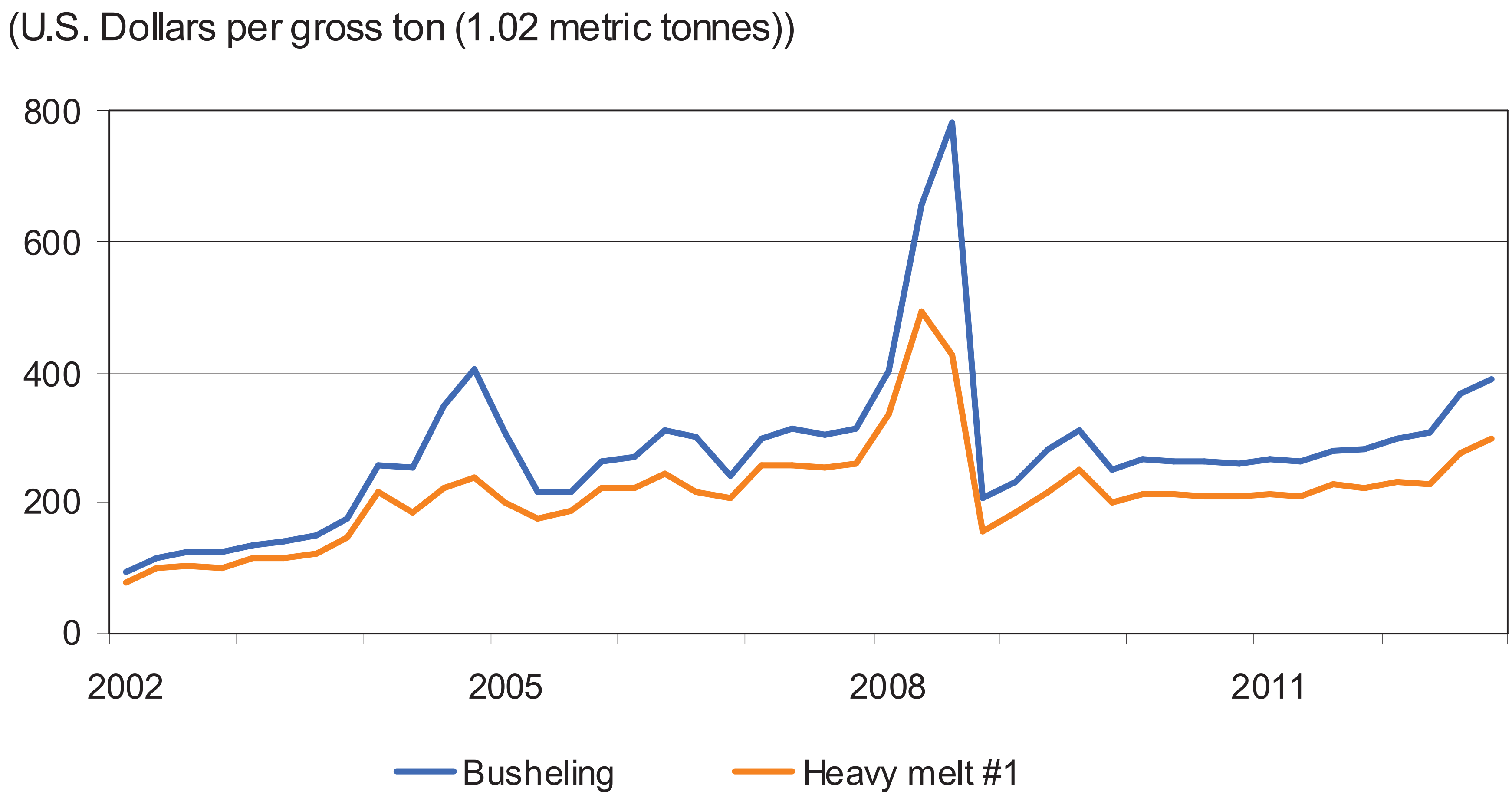
- **The ore contract is dying**
  - Brazil received less in 2008 than Australia
  - China irate at not being recognized as the buyer with the power
  - “Rio selling 50% of iron ore on spot market” *Metal Bulletin, 2009 June 8*
  - A contract will be signed this year, mostly gone in five years
    - Which year it goes is hard to know

- **Currency appreciation hurts Chinese and European competitiveness**
  - Strong dollar made USA preferred destination for imports
  - Reversal hurts EU and China
  - Does not show in dollar denominated prices, but will be very evident in local markets using yuan and euro

Steel Outlook for 2009 and 2010

- Demand is the key to the forecast
- Steel consumption plummeted worldwide
  - Deepest declines were in the G7 economies
  - Lesser but still major declines in developing economies such as China
- In N.Amer, S.Amer, Europe, little or no recovery in steel consumption in 2009 ***or*** 2010
- Supply cut drastically as mills matched output to consumption
- Cuts were too deep (but only marginally)
  - Inventory was drawn down
  - Temporary tightening is occurring in the mid-year, cannot last with excess capacity
- Low investment in ore mines and coke capacity
- Prices are recovering modestly ($60-90/mt) across 09Q3 then be effectively stable through 2010

Metallics Cost – Scrap Steel



GLOBAL INSIGHT

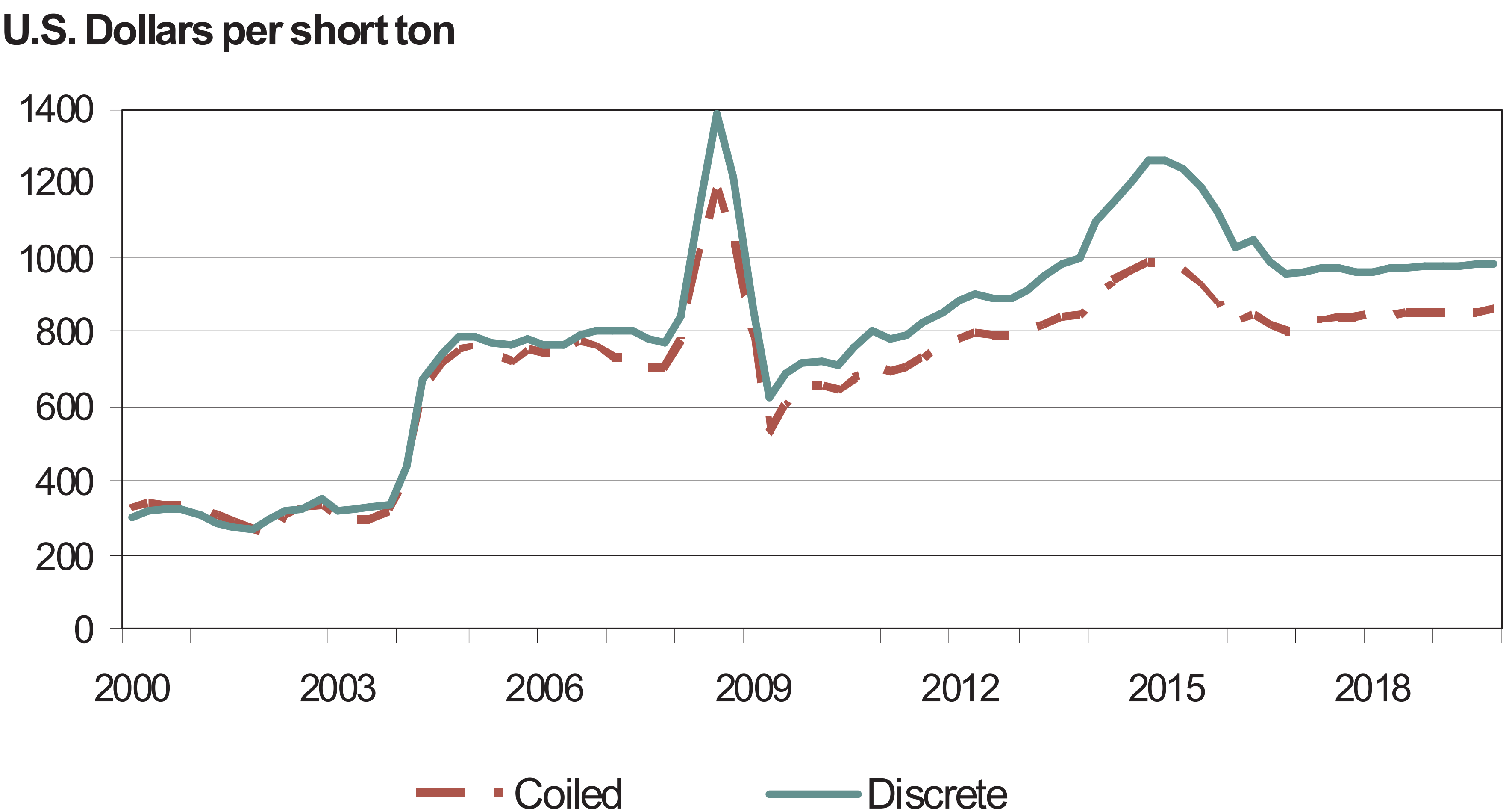
Outlook for 2011 through 2012-13

- Demand begins to grow significantly faster in 2011
  - Percent growth is misleading, real effect is climbing out of deep valley
  - It takes years to regain 2008 peak consumption levels
- Developing world will be growing much stronger than G7
- Production will gradually be brought back online
- High amounts of idle capacity mean any supply shortage will be extremely brief
- Prices will rise but remain generally low compared to 2004-2007. Excess capacity will contain mills’ ability to sustain hikes

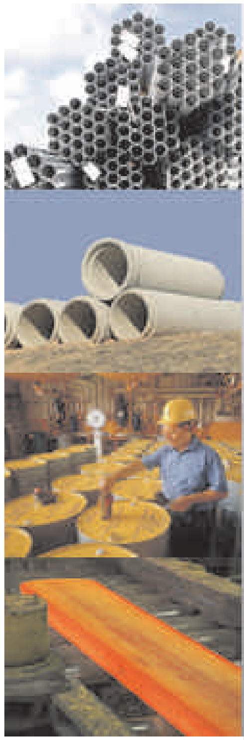
Steel Outlook for Longer Term

- Global demand resumes growth trend. The developing world will seek to serve population and reach first world status
- Total consumption regains then surpasses prior peak levels
- Earlier lack of investment in raw materials now causes shortages of iron ore, coking coal, and furnace capacity
- Supply cannot keep up with demand because of shortages
- Sellers' market as buyers vie for limited tonnage
- Prices shoot up drastically, much as in 2004. Heights will be sustained for several years until new capacity alleviates market imbalance
- Truly integrated companies with captive ore and coal supplies thrive compared to companies that buy raw materials on the open market

Plate (thus Pipe) Prices Spike Again Next Decade



IHS GLOBAL INSIGHT



Thank you!

John Anton
Director, Steel Service
john.anton@ihsglobalinsight.com
202.481.9231

The Source for Critical Information and Insight™