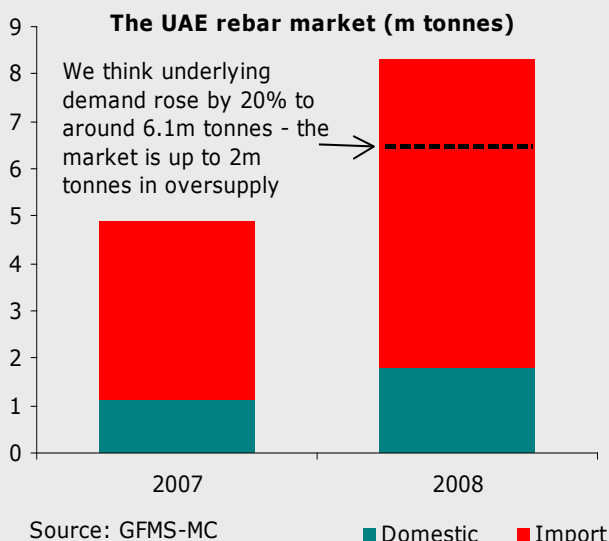


The UAE rebar market (m tonnes)



Bounceback from low levels

There has been a clear bounceback in international prices of billet and finished products over the last week or 10 days. However, we would characterize much of the purchasing that took place in early November as bargain-hunting and the attempt to raise prices by as much as \$200/tonne by Turkish exporters may be over-optimistic. This was largely in line with our expectations, as we believed the price was "over-sold". This improvement in activity after the 3-month hiatus then spurred a round of buying from Turkish scrap mills pushing up prices of that raw material. On the other hand, prices in some markets such as the USA continued to move down and are still playing catch-up with the rapid fall in prices (thus accounting for only the marginal increase in the global average finished product price increase).

Is this price sustainable? As US and other higher-priced regions have now largely dropped to the new international levels, we believe that this opportunistic return to the market will now largely fade away through December or Q1, although some latecomers could always push prices a little higher given the herd mentality. Our analysis of the vital UAE market suggests that it will remain over-supplied through Q1 and large-scale imports are unlikely to start prior to February. This will leave Turkish mills still looking to offload into other markets. As such, we expect prices to retrench by Q1. The lack of cutbacks in Turkish output (minimal) will continue to put pressure on Mediterranean prices and we expect a drift back down. However, scrap inventories are now somewhat depleted meaning that scrap prices could hold at the elevated levels through December, and the price slide in finished products will be relatively small prior to the end of the year, although volatility in this market has been accelerated.

This recent price increase is the first upturn of our expected W-shaped recovery. Without any major stimulus to demand, there is likely to be a further down-leg.

Global* long product prices

	Ferrous scrap	Billet	Rebar	Wire rod
November 2008	269	438	537	579
month-on-month % change	19.4%	15.1%	2.1%	2.2%
year-on-year % change	(18.3%)	(17.6%)	(7.4%)	(2.8%)

Global* long product price forecast

	Ferrous scrap	Billet	Rebar	Wire rod
December 2008	261	424	516	543
month-on-month % change	(2.8%)	(3.1%)	(4.0%)	(6.4%)
year-on-year % change	(25.4%)	(26.1%)	(15.3%)	(13.8%)

*This is an average of all relevant regional prices
Source: GFMS-MC

ECONOMIC BRIEFING

Infrastructure expenditure and steel consumption

The last few weeks have seen a number of governments boost investment in infrastructure as a means to combat the economic weakness. While the Chinese announcement was by far the biggest, its actual breakdown was ill-defined, and others appear to be actively considering it. What impact will this have on steel consumption? Including all the Chinese as "new" expenditure and doing a back-of-the-envelope calculation on the rest and we are over US\$1trillion. The proportion that goes to steel will vary by region - theoretically a region with significantly lower labour costs will consume a proportionately higher volume of steel per dollar spent.

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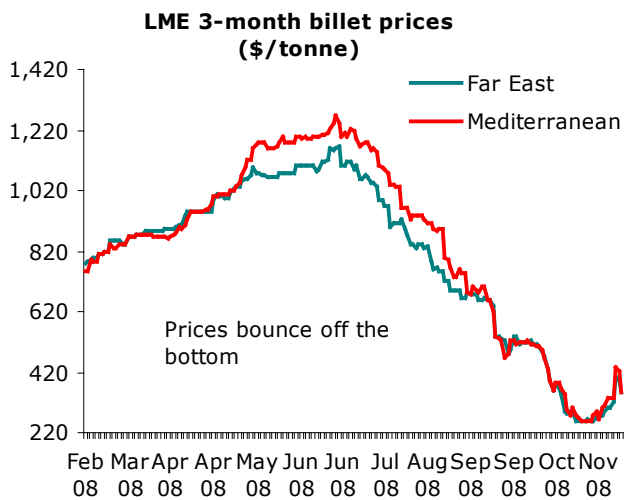
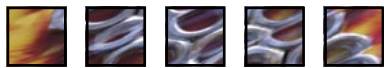
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Source: LME

Nevertheless this is a big boost to overall steel demand. Construction probably accounts for around 55% of total steel consumption, and around 80-85% of long steel consumption.

Our concern is more prosaic. A lot of these commitments will take some time to put in place – up to 18 months or even longer once financing, planning and bidding is approved. At that point in time, we would expect a cyclical manufacturing recovery to begin anyway, and that will alleviate much of the pressure on the steel market. The exception may be China, whose government has fewer constraints on finance and planning. Here the devil lies in the detail. How much of the planned expenditure was already planned, what will it be spent on etc. Capital investment already accounts for around 40% of the economy, much of which is public-sector led. So announcing the equivalent of a 15% of GDP on infrastructure expenditure is just repeating what it is already doing. If this is new, then this is a major addition to steel demand, if it is not (and politicians have been known to recycle promises), then it doesn't really change anything.

US non-residential up

For the last two months, non-residential expenditure has fallen month-on-month, and we argued that this was an indicator ready to fall off a cliff. In fact it then rose in September – up 1.2% month-on-month. We still think that this was a one-off and the collapse in business confidence in October will feed through to a much weaker dataset next month, but the resilience of this number to date has been astounding.

What was much less surprising was the ongoing fall in automotive sales – down to 10.5m units on an annualized basis in October – the lowest level since the early 1980s, and dismal for the wire rod and SBQ sector.

FUTURES BRIEFING

In our report last month, we noted that forward billet prices at the end of October were “oversold and represented a buying opportunity”. At that time, they stood at around \$250/tonne on a 3-month basis, and we suggested buyers should lock-in below \$300/tonne. By mid-November, they have moved above \$400/tonne, although have since come-off slightly, partly due to a wave of selling by producers that tried to lock in those elevated price levels. This remains a relatively lightly-traded market, and consequently vulnerable to larger-than-usual activity that can move the market quickly. The drop-off in pricing back down to the \$350/tonne level in our view should prove sustainable and a realistic floor until the end of the year.

NORTH AMERICAN STEEL MARKET BRIEFING

Nucor bites the bullet on rebar

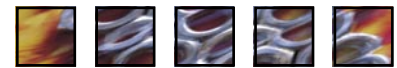
Removing the surcharge as prices went below its trigger level and cutting base prices, Nucor finally led the way to competitive pricing for US rebar. It cut prices by \$180/ton to \$570/ton (\$630/tonne). Some import deals had been done for Turkish material below \$500/tonne cif at the beginning of November, but the surge in pricing has now pushed these back up to \$600/tonne, which makes further deals unlikely. After three months of a major disparity between import and domestics, we are now back to “normal” levels, and as we suspected it has been US mills that have had to compromise on price.

In our previous report, we outlined two scenarios and it appears as if our expected one has occurred. Buyers “pulled the trigger” on imports at below \$500/tonne and this forced domestic producers to slash prices. However, these will arrive in Q1 adding to supply and domestic producers will have to keep prices and output low through that period in avoid to excessive inventory building. CMC noted that it is cutting output by 30% during Q4.

As a result, the cut in prices has not stimulated any return to purchasing, with continued concern on economic activity in the USA, although as we point out in our Economics Briefing, non-residential construction continues to hold on in there for now.

Wire rod output slashed

We understand that Ivaco of Canada is idling its 400,000 tpy melt shop from mid-November for six weeks through to January, although its rolling mill (900,000 tpy) may work for a week or so through that period. ArcelorMittal Canada will also idle the 400,000 tpy Sidbec Dosco wire rod/bar



line and associated meltshop through December. The result will be a sharp curtailing of supply in Canada in Q4.

In the USA, Evraz Rocky Mountain has closed through the second half of November, and probably through December. ArcelorMittal Georgetown shut for the first two weeks of November, and although there will be a restart in the second half of the month, Q4 output will be down at least 35% across its North American operations (including Canada). Charter has closed two wire processing facilities in Wisconsin and Detroit that served the automotive market, and is likely to be operating its wire rod plant at a lower level, having previously cut out weekend shifts.

The decline in the market has left prices in a wide range. Producers are unwilling to announce substantially lower prices, in part because some buyers with previously committed tonnage are coming back to them and asking for lower prices. We think that a large one-off tonnage buyer could probably obtain low-carbon for below \$650/ton, but more regular customers are being asked for much higher prices. Import offers are now in the region of \$600/tonne for Turkish, EU and Chinese material after going as low as \$500/tonne from Turkey early in November.

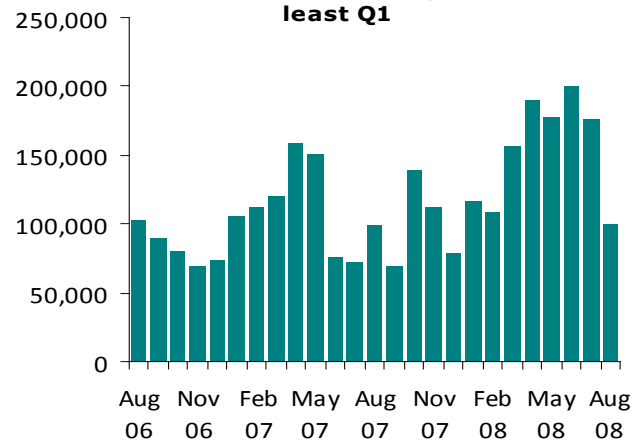
The sharp cuts in output being undertaken by the industry should help stabilize prices at around the \$650-700/ton level through Q4, although this is unlikely to be widely advertised and we expect mills to continue to give a range of prices. This level should also discourage widespread imports given current pricing. The aim is to jack up prices again in Q1, once inventories are back under control, but as we have noted previously, the ongoing weakness in demand from the automotive and non-residential construction markets may make this hard to do.

EUROPEAN STEEL MARKET BRIEFING

European upturn more cautious

While Turkish producers have raised prices by around \$150/tonne over the past fortnight for billet and rebar, southern EU producers are being far more cautious. Italian and Spanish quotes are up around €20-30/tonne in the last week to around €420-440/tonne ex-works. Celsa of Spain was even more aggressive, raising rebar prices across Europe by €50/tonne to the higher end of that range. There will be some support for further hikes from higher billet prices from CIS suppliers that are now in the region of \$450-500/tonne (€360-400/tonne) cif. On the other hand, final demand remains weak and producers remain operating at low rates of production (thus reducing billet demand). Megasa of Spain for example confirmed that output would be cut 30% in Q4, while Stefana of Italy will cut finished output by 25% in Q4, and buy less billet – its nominal capacity is 1.1m tpy of semis and 1.6m tpy of

South Korean rebar imports are dropping sharply, and we expect this to be maintained through until at least Q1



Source: ISSB, GFMS-MC

finished, meaning that its usual quarterly billet purchase of 125,000 tonnes in Q4 will drop to virtually nothing.

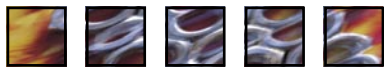
Higher Turkish offers allow Central European producers to lift quotes

Turkish offers are now as high as \$600/tonne into central Europe – up over \$150/tonne off lows – although there are few buyers at that price. Suppliers in Bulgaria and Romania are lifting their own prices to around \$550/tonne (€440/tonne), but will continue to struggle to find sales as end-use demand remains weak. Moreover, Ukrainian suppliers remain far more competitive with ArcelorMittal Krivih Rih at around €380/tonne cif. With Ukrainian mills operating at low levels, but also having low costs, they may prefer to increase output and keep prices low in order to gain market share, and this will keep pressure on the market in our view.

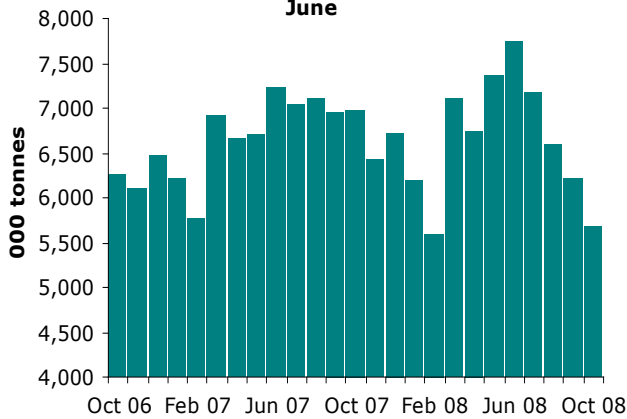
ASIAN STEEL MARKET BRIEFING

No change in Chinese export tariffs

While flat product tariffs were largely lifted, there has been no change in the export tariff situation for Chinese billet, wire rod and rebar, with billet still at 25% and wire rod and rebar at 15%. However, large sections will now be exported duty-free (from 10% previously), while machining bar (CR) and alloyed HR bar can also be exported duty-free. There is no crackdown therefore on boron-containing rod, with this export still “incentivized”. Prices of this product are unchanged at around \$500/tonne fob for both wire rod and rebar (boron-alloyed). Export volumes have been low, as this price was well above Turkish and CIS offers, but they are now higher than Chinese deals into the Asian market, so we would expect Chinese prices and exports to pick up slightly going into the New Year for Asian destinations, although they will continue to struggle to service more distant markets.



Wire rod output fell 8.6% mom in October is more than 25% below peak output in June



Source; CISA, GFMS-MC

The biggest Chinese long product market is South Korea. Here they remain undercut by Japanese producers and the fact that South Korean traders are still digesting higher price imports from Chinese suppliers in the summer with high inventories. A depressing outlook for domestic construction is also limiting any purchasing and we would expect imports to continue to fall after the latest data shows them halving in August. We expect them to remain in the 50-75,000 tpm range over the remainder of the year and through Q1 and most of that will be Japanese supply.

Domestically, Chinese construction long product prices continue to move down slowly. The latest prices are around RMB3,400-3,700/tonne (\$420-460/tonne ex-VAT), indicating that the domestic market remains slightly more attractive (exports pay VAT). While the announced boost in infrastructure expenditure was widely welcomed, it had no immediate impact on the physical market given uncertainty of timing and whether this was new investment – see Economic Briefing.

Output continues to decline – October wire rod output was down 8.6% month-on-month and down 26.8% from its peak in June. However, rebar cutbacks have been much lower. They fell just 2.0% month-on-month in October and are only down 10.6% from peaks in May.

Prices off the bottom in SE Asia

Rebar prices hit lows of \$380/tonne cif Singapore in early November for Taiwanese material, but since then, prices have risen. Turkish material is no longer viable at \$600/tonne cif, but other regional suppliers are back up to around \$500/tonne.

Nevertheless, buying is not significant and demand is generally described as weak for most of the region. Order

levels at most mills are fairly low and regional output is expected to fall. For example, in Malaysia, Southern Steel will operate at 50% of its 1.3m tpy capacity during November and will review operating levels again in December.

In the Philippines, domestic prices for rebar have fallen to around \$480-500/tonne ex-VAT, but the next move is likely to be upward as most mills are dependent on imported billet, which is now above \$450/tonne cif from CIS suppliers, although some volumes from Asian exporters in SE Asia remain closer to \$400/tonne cif. Vietnam bought some billet at the bottom of the market – around \$300/tonne cif, and these bargain-hunters have helped push up the price, but we question whether there will be acceptance of the future increases.

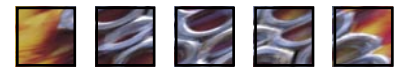
EMERGING ECONOMIES STEEL MARKET BRIEFING

Scrap drives Turkish quotes back up

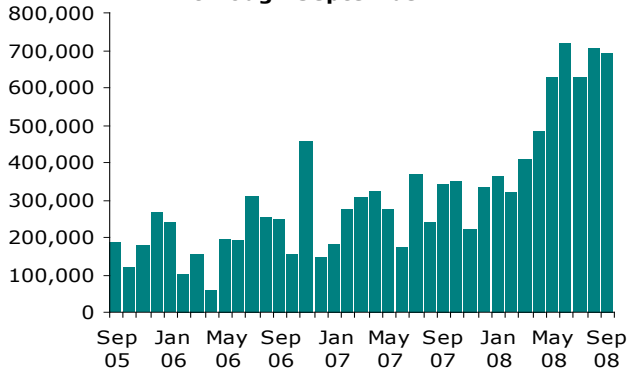
Over the last fortnight, Turkish buyers have been consistently purchasing scrap. While sales volumes for billet, rebar and long products have remained at low levels, we believe the Turks bought up to 1.5m tonnes for the following reasons:

- Scrap prices as low as \$150/tonne were oversold and offered a bargain. Even up to \$275/tonne (the current level), margins can be made.
- CIS supply tends to dry up after November/December due to icing in the Black Sea and in the trade routes. Turkish mills do not want to be caught without scrap if Middle East purchasing picks up for Q1 deliveries and they have to buy it at higher prices.
- After not purchasing significant deep sea loads since the early summer, domestic inventories were running low.
- Bargain hunters increased purchasing of Turkish rebar and rod in early November, providing the rationale to go back out and secure scrap.

Scrap prices are now back up to \$275-300/tonne cif Turkey. With their own inventories now run down, deep-sea exporters will be able to hold at this level through to the end of November without discounting. What happens next is dependent on finished product demand. If Middle Eastern mills come back and buy for Q1 arrivals, then scrap prices could head higher again in January as material is bought when supply is physically tighter. If not, then scrap prices will drift back down again. We think the latter is more likely based on our analysis of the supply-demand situation in Dubai – see below.



UAE imports of rebar stayed high through September



Source: ISSB, GFMS-MC

Turkish mills have quickly raised rebar prices from lows of around \$425/tonne fob to around \$575-600/tonne fob. There was a spurt of buying at the bottom of the price range from Middle Eastern, Asian and US buyers that triggered the re-evaluation of the market, and deals were completed up to \$525/tonne fob in mid-November, but the latest offers have yet to find buyers. Billet prices are up to \$475-500/tonne fob.

CIS billet prices move higher

Despite huge inventories still at Black Sea ports, a buying revival has pushed prices higher. After slumping through \$300/tonne fob at the end of October, they are now back up to above \$400/tonne fob, with Turkish re-rollers back in the market at up to that level (freight rates to Turkey are now around \$25/tonne). Again, we think this was partially due to bargain-hunting for low prices for Q1 usage, but we do think that billet demand will remain under pressure for the remainder of the year. The huge inventories will be somewhat eased, but the mills will have to keep output low to have any chance of keeping prices at current levels.

Latest data sees high imports through September in UAE

Data shows that rebar imports stayed high through September (for deals probably done in July) into the UAE – aggravating the ongoing inventory accumulation. Imports from countries that supply export data show that imports for the first nine months were almost 5m tonnes. Add in 0.5m tonnes for importers that do not supply data and domestic, and even assuming that imports slow in Q4 and total imports will probably come in at around 6.5m tonnes in 2008 compared to 3.8m tonnes in 2007.

Inventory situation may be prolonged through Q1

Add domestic production of around 1.8m tonnes and this gives apparent consumption of 8.3m tonnes in 2008 compared to 4.9m tonnes in 2007. Underlying consumption growth however will be closer to 20% or 6.1m tonnes. To

us, this suggests that even at the end of the year, there may be excessive inventory of up to 2m tonnes in the UAE – enough to last most of the first quarter.

We are therefore becoming increasingly skeptical that purchasing in the UAE will pick up prior to the end of the year. Added to this is the fact that some of the inventory being held is “distressed” or held by creditors that will want to relinquish for cash, which will continue to weigh on the market. Domestic mills have cut production, but continue to operate at around 25-50% of capacity to supply the market. Finally, although we do expect construction activity to grow next year again, some of the more speculative projects will be put aside and all construction companies will want to maximize their cash holdings, meaning they are likely to run down their own inventories as much as possible before securing more.

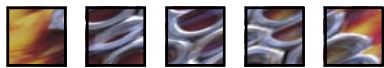
Other Middle Eastern markets still reluctant

There has been some purchasing activity in other Middle East markets in the last few weeks, but this may again have been the bargain-hunting kind and could drop off again as prices pick up. Deals from Yemeni, Romanian, Lebanese, Jordanian and Syrian buyers were reported at between \$450-550/tonne cif for Turkish rebar in a flurry of activity, but producers have pushed up quotes to around \$600/tonne cif Middle East markets, although we do not know of any deals at that level.

Qasco cut its rebar price to \$625/tonne ex-works in November after the expiry of the previous frozen price. Demand remains strong, but inventory is at high levels. The price is aimed at pushing out further imports and ensuring strong market share.

In Kuwait, Unisteel finally cut its prices after holding them at elevated levels above \$1,000/tonne through September, but even at \$740/tonne ex-works, this is still higher than the regional price and we understand that Kuwaiti buyers were active earlier this month buying Turkish material at around \$500/tonne cif for Q1 arrivals suggesting that rising stocks may force the company to cut even further in December.

In Syria and Jordan, producers are taking advantage of higher finished product quotes from Turkish and CIS suppliers, but are pricing at a discount in an attempt to regain market share. Turkish and Chinese imports are now at \$600/tonne cif to Lebanon and Syria. Once import tariffs and logistics are taken into account, domestic prices of \$660-700/tonne are being achieved. Jordanian producers are also active into Iraq, where deals of around \$660/tonne ex-works are possible and demand is strong.



In Tunisia, Intermetal is stopping its 300,000 tpy re-rolling operations from mid-November through to mid-February as it installs a new re-heating furnace and will sell from stock until then. It is taking advantage of the downturn in demand to accelerate the maintenance.

Is the price really “the price”?

The price volatility appears to be making “contracted deals” somewhat of a misnomer. On the way down, we heard that deals made at \$1,500/tonne back in June/July for delivery in August/September were quietly re-negotiated to the lower, prevailing levels at time of delivery. Now on the way back up, we understand that some deals that were made at “bargain” prices of, for example \$450/tonne cif, are being withdrawn as prices rise.

Algeria keeps prices high

Domestic producer ArcelorMittal Annaba is running at low levels, but is keeping prices high to try and maintain profitability and selling rebar and wire rod for around €575-585/tonne ex-works. This is allowing EU suppliers to raise prices on a delivered basis and still remain competitive. They are now around €440/tonne cif – up from below €400/tonne at the beginning of the month. Ukrainian and Turkish material is now not attractive thanks to the large import tariff on non-EU material. High stocks however mean that large deals are infrequent.

CIS demand collapses

Ukrainian rebar demand had been growing quickly, but the country’s financial crisis has led to a screeching halt in construction activity and domestic long product demand has fallen sharply. Domestic sales in October were around 30-40,000 tonnes, compared to more than 100,000 tpm for the first half of 2008, and are expected to drop even further in November and December, and remain low through Q1. Domestic rebar prices are around \$480-500/tonne ex-works. ArcelorMittal Krivih Rih is only running its bar line intermittently and Metinvest has also cut back sharply.

In Kazakhstan, the major producer Casting will stop production of rebar for the domestic market in December after running at 50% in October and November, and has halved billet export sales in November. Russian rebar exports averaged less than 2,000 tpm over Q3 as other CIS buyers stopped securing Russian material. Now they are offering more aggressively into other CIS markets, but with weak demand, we do not expect this to be successful.

Indian mills slash prices

The major integrated Indian mills slashed prices in early November in an attempt to catch up with smaller rivals that had cut prices more quickly. SAIL and Vizag

cut billet to around Rs30,000/tonne (\$630/tonne) and rebar to Rs38,000/tonne (\$800/tonne), but this remains significantly above smaller producers. Despite falling inflation, domestic interest rates remain high and this is cutting into private non-residential and residential construction, which in turn is reducing interest in rebar, where inventories are somewhat high.