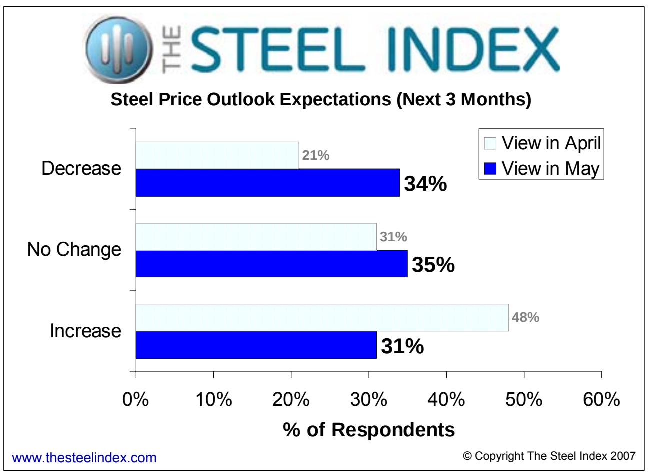
SBB GMO
Global Market Outlook
A Steel Business Briefing Publication
June 2007

Global prices weaken as demand falters – will higher Chinese export tax help?

- Production figures show that global output fell 2.1% from March to April. However, April is a shorter month, by 3.2%, so there was actually an increased daily output.
- Scrap prices have settled back down again, so semi-finished and finished product price levels have decreased slightly in most regions.
- East Asian buyers have been faced with regular increases in offer prices from international suppliers, and Asian price levels may now be boosted by the Chinese export tax. But export availability may fall in the short-term, and Chinese domestic prices weaken.
- Producers in US struggled to maintain last month's price levels for flats as the scrap surcharge fell.
- Northern European flat prices have just about held despite mills' attempts to impose increases for Q2. However, the producers are likely to try again in Q3, but buyers will resist.
- Southern European flat prices have weakened more sharply during May. Demand has been subdued for Q2, and stock levels appear to be too high. New offers of imported material, which may increase in the coming months, are also easing to more competitive levels.
- Strong Middle East demand continues, but prices have eased, especially HDG coil and debar.
- Long products' demand is continuing to be healthy and is now in the period of highest seasonal demand. However, prices have fallen back as many buyers feel the market had peaked. The weaker scrap prices contributed to the price weakness.

***The key question** is whether production in US and Europe will match actual demand in Q2 and Q3, when further Chinese material should arrive, so preventing more falls in prices.*

THE OUTLOOK FOR PRICES IS SLIGHTLY LOWER LEVELS; HIGHER DEMAND OR LOWER OUTPUT IN Q3 MAY ALLOW PRICES TO REBOUND UPWARDS IN SOME CASES, ESPECIALLY IF THE CHINESE EXPORT TAXES KEEP GLOBAL PRICES FIRM.



Global Overview of Production

Crude Steel Output (million tonnes)

	Feb 2007	Mar 2007	Apr 2007
Europe	28,526	32,059	31,584
- EU25 / 27	16,597	18,760	18,481
- Other Europe	2,289	2,618	2,639
- CIS	9,640	10,681	10,464
N America	9,451	10,412	10,483
- USA	7,100	7,800	7,950
S America	3,608	4,078	3,986
Africa	1,461	1,593	1,522
Middle East	1,186	1,310	1,289
Asia	54,133	60,724	59,767
- China	36,135	40,157	40,318
World Total	99,013	110,920	109,347
Source: IISI			

The monthly production figures from IISI show that April's global production was 2.1% lower than in March, but the day-shorter month calculates to 3.2% less activity. Thus production has actually increased again on a daily basis, and suggests a further record high next month unless production is genuinely cut-back. Total world production in April was 109.3 million tonnes, which was an increase of 7.6% on April 2006's output of 101.6 million tonnes. There were also some revisions to March's estimated figures, adding 750,000 tonnes to the total, mainly in North America. Therefore, even the apparent production cutbacks here may not be significant.

April's global production was 2.1% lower than in March, but the day-shorter month calculates to 3.2% less activity

After restating March's output figure at 10.939 million tonnes, up from 10.412 million tonnes, there was an apparent reduction in output in North America in April. Both Canada and Mexico's output was 3% lower than in March. USA's output was estimated at 4.5% lower at 7.95 million tonnes, which is 377,000 tonnes below the production figures of March and 6.6% below April 2006. This is the only major region showing declining production from a year ago.

South American output was basically steady on a daily basis as almost all countries recorded 2-3% declines, leaving the total at 3.986 million tonnes, down from 4.09 million tonnes in March. Year-to-date output is 7.9% higher than in the first four months of 2006.

China's production is likely to top 41 million tonnes

European output of 18.5 million tonnes in April was 2.8% lower than the previous month but total year-to-date output by EU 27 was 5.2% higher than January to April 2006 at 72.5 million tonnes. Most countries recorded 2-3% reductions reflecting the slightly shorter month. Spain and Italy both fell by 4-5% however, meaning that their combined production was cut by 175,000 tonnes.

In other Europe, Turkey's monthly output continued to be strong but was 3.3% down at 2.2 million tonnes. CIS output was only 2% below March's figures at 10.5 million tonnes, with both Russian and Ukrainian production falling by higher percentages.

China's output continued its strong pace and actually increased marginally to 40.3 million tonnes, so the daily production rate actually increased 3.75% from March. This may indicate that there is the capability for a further increase in output in the coming longer months, with production likely to top 41 million tonnes.

Other Asian countries' output fell by 5.6% in total, with India's monthly output falling by 12.5% to just 3.7 million tonnes; it remains to be seen if this is a trend, or whether March's reported output of over 4 million tonnes was the anomaly. South Korean ▶

output, at 4.3 million tonnes, was only just lower than March, while Japan's recent surge in output dropped back by 5% to 9.7 million tonnes. Taiwan's output also fell by over 3% to 1.73 million tonnes.

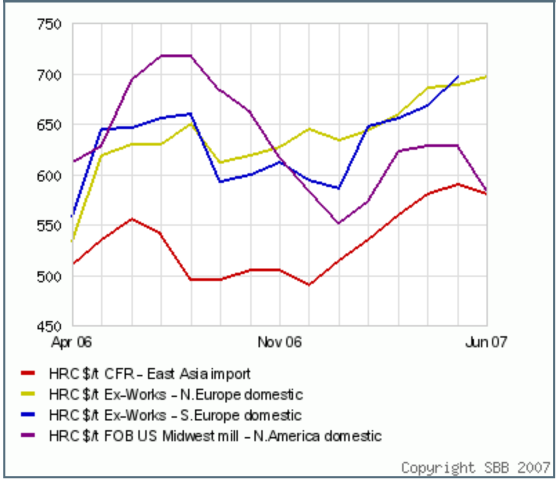
The Asian countries' April production of 59.8 million tonnes, an increase of 15.7% over 2006, still accounts for almost 55% of global production.

The global production year-to-date in 2007 was 9.9% higher than in 2006. World output excluding China was 274 million tonnes so far this year, compared to 262 million tonnes in January to April last year, an increase of just 4.6%.

Global Overview

Volatility of scrap price movements seems to be causing uncertainty amongst buyers

HR Coil US$/t



Scrap prices continued to settle downwards in most regions, with the biggest falls occurring in US as the earlier significant increases there were mainly reclaimed. Prices in Asia, however, were generally holding level as import prices were unchanged and locally produced scrap in Japan and China was slightly firmer with tight supply.

The US scrap price moves put pressure on both flat and long product pricing. Producers were able to announce offsetting base price increases, and were presumably flexible on actual transaction prices, as demand is still subdued. Flat products mills in USA only achieved slightly lower production during April, and the impact of imported material is significantly lower than last year. The producers will be encouraged that stocks fell slightly, but conversely this may indicate that buyers are expecting the next price moves will be downwards…..not what the mills would be looking for in Q2. Real demand is therefore even weaker. Inventory levels throughout the supply chain have now reduced in the last two months, and the volatility of scrap price movements seems to be causing uncertainty amongst buyers.

After the export tax increase, it appears likely that Chinese mills will continue to sell into the higher-priced markets

Scrap prices fell by US$ 55-58/long ton in May, but the leading mills appear to have been settling for US$ 20/st (US$ 22/t) decreases for flat products for June deliveries. Some integrated mills had earlier announced more positive moves for price increases, but it is unlikely they will be able to achieve higher levels while customers are so nervous. Prices for HR coil are now back down to US$ 540-560/st (US$ 594-616/t) for forward delivery, but it remains to be seen whether this drop will stimulate further demand.

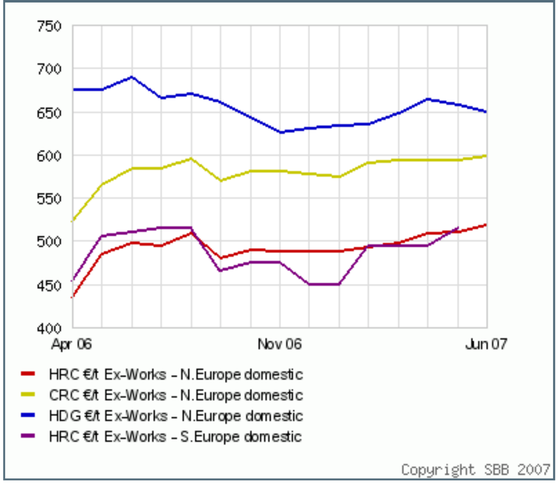
It seems that the usual seasonal upswing in flat products demand, which normally begins early in Q2, is not occurring. In fact, the slowdown that was predicted to come in Q3 – instead of Q4 - may have arrived even earlier. In long products, demand is still good but prices had perhaps been driven upwards too far too quickly, and there has been an inevitable and necessary correction. However, the economic indicators are pointing to an easing in consumption. It seems that scrap prices will continue to lead short-term sentiment, and any lower prices will put downwards pressure on finished product prices again.

In Asia, Chinese mills have also been increasing their offer levels in response to higher export tax levels, and this should bolster price levels in SE Asia for most products. Semi-finished raw materials are also firm. HR coils are now at US$ 570-580/t fob, even as domestic market levels have remained stable, though the effects of the tax change may not yet be apparent. There had been a surge in exports as suppliers tried to complete delivery before the new tax regime, but these quantities are likely to be reduced in the near future. It remains to be seen whether this is a short-term effect, or whether the taxes will have the intended impact of limiting export activity.

After the export tax increase, it appears likely that Chinese mills will continue to sell into the higher-priced markets, mainly Europe, Middle East and some parts of East Asia. Other volumes may be re-directed to the domestic market, which will lead to weaker domestic prices. This will maintain or widen the differential between domestic and export pricing, at least in the short term.

For buyers in South East Asia, imported HR Coil prices have consolidated at US$ 10/t higher levels during May, with another US$ 10-20/t increase foreseen in June, as slab prices are still firm. While these levels appear acceptable, the impact of the Chinese export tax rise is still to be assessed, while alternative sources are limited. It still seems that there has been an element of restocking after a period earlier in the year of low levels of inventory. However, there has been some recent weakness in the downstream products, CR coil and HDG coil, which have fallen by US$ 20/t towards the end of May.

European Coil Euro/t Ex-works



As before, the continuing restricted availability from Russian mills and limited offers from Ukrainian suppliers have meant that there is little competition for the Chinese material.

Producers of flats in northern Europe have been asking for some price increases during May, but there were hardly any reported successes. In contrast to southern Europe, however, there has not been much softening of prices. HR coil prices are holding steady at Eur 500-520/t levels, and the producers are proposing the same increases again for Q3. But it is unlikely that these will be accepted in the next quarter if seasonal demand eases as usual. Coated products' demand and pricing are likely to be firm for the rest of the summer. CR coil demand is also steady, without apparently growing, and prices are holding firmer here and could head slowly upwards again if off-take increases.

Until now, the production levels of the northern European producers appear to be in line with this steady demand. The market is currently well balanced between supply and demand, but vulnerable to any sudden changes. It remains to be seen whether the producers will correctly predict the likely fall in activity over the summer shutdown period. Any decrease in demand in Q3 will need to be met by immediate cuts in production, together with an accurate assessment of uncommitted imported material.

The northern European market is currently well balanced between supply and demand

Northern European flat price levels have enjoyed good, solid increases since the start of the year and should not fall from these levels. If supply remains well-matched with real demand, there should be opportunities to secure a further price increase in Q4.

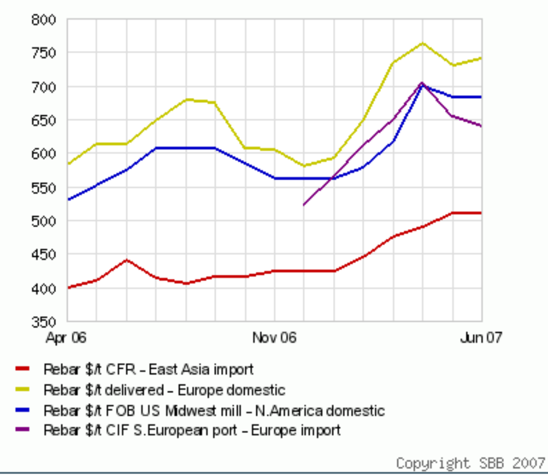
Meanwhile flats prices in southern Europe have been weakening during May as lacklustre demand and visibly rising stock levels have combined to turn sentiment negative. Demand cannot be expected to increase further during the next few months, until after the summer shutdowns. Stock levels are above seasonal normal figures and the availability of competitive imports has increased again since the start of Q2. The local producers appear to have taken some initial, though small, steps to make output reductions in the last two months and this may have the desired effect.

Long products demand continues to be strong, as would be expected for Q2 as the summer construction season reaches its peak. The apparently relentless upward surge on prices has paused during May, however, and most buyers and end-users may now be seeking to increase their purchases and stock levels, to buy-in ahead of further price rises. It seems likely that prices will again increase during the remaining summer months after this correction, but probably at a slower pace. The suppliers should be able to at least recoup any higher scrap prices, but they may also be able to hold prices steady whenever scrap price levels fall back.

The apparently relentless upward surge on prices has paused

Medium and heavy sections, or WF Beams, demand continues to exceed supply in most areas and prices continue to rise. The US producers have announced level transaction prices by increasing base prices by US$ 58/st to offset the scrap surcharge mechanism decrease for June deliveries. The mills order books are still full, and this price restraint should keep import activity subdued, especially as demand and prices are just as good elsewhere in the world.

Rebar US $/t



Prices for H Beams jumped US$ 30/t in South East Asia and also increased by Eur 20/t in Europe during May.

Lower scrap prices and a concern that sales prices for billets were too high combined to push Black Sea billet prices from Turkey downwards, bringing them more into line with CIS origin material at US$ 500/t fob. Billet prices in South East Asia have remained fairly stable as a result, though the offer prices of Chinese origin material have continued to rise. It is likely that levels will continue to consolidate now that the necessary correction has taken place after the steep increases in Q1.

It is still unclear what effect the billet price will have on finished product pricing from local mills, though there have been small price increases already. The local producers must be aiming to recover their higher raw material costs, and after the latest export tax increases, there is more optimism that any additional availability of long products from China will be at higher prices.

There have been small increases for imported prices of finished long products into SE Asia. Merchant bars and rebars are up by US$ 20/t, as are wire rods. Domestic prices for long products in China have been rising since April, but current sentiment appears to suggest that prices may weaken early next quarter.

Producers of longs in USA raised base prices in May by US$ 58/st, offsetting the increase in the scrap price mechanism as demand remained firm. Rebar prices remained steady at US$ 605-635/st (US$ 666-699/t). The mills appear confident that demand will remain strong into Q3 as the construction season continues, though there is now less concern that imports will be attracted back in to the market.

Prices for rebar in Europe are likely to strengthen again in Q3

Prices for rebar in Europe had stayed high in April but recent prices have eased downwards during May. It seems likely that they will strengthen again heading into Q3, though probably by smaller increments. Demand seems set to continue firm, and the suppliers' intentions to obtain rises should succeed next month. Merchant bar pricing has also eased, and steady demand should ensure prices are stable or slowly increase in the next few months.

Wire rod prices were steady during May, but it is more likely that they will be weak again in the next few months, as demand seems unlikely to grow further.

Commodity plate prices from Ukraine have also increased by US$ 20/t

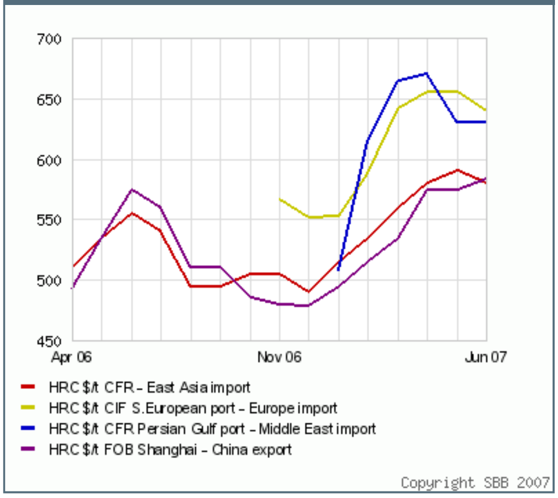
Export prices for Chinese commodity grade plate were up US$ 30/t, as demand continued to be strong in SE Asia, as well as in Europe and the Middle East. European mill prices have also increased with some announcements of price rises for Q3, which should be accepted. Import price levels were also Euro 20/t higher into southern Europe, and these prices are likely to increase further.

Commodity grade plate prices from Ukraine have also increased by US$ 20/t as buyers look for any available tonnage. There were reports that some Ukrainian shipplate had been sold into SE Asia, after some time out of the market, as price levels there are now closer to other global levels. US prices have held steady ▶

around US$ 800/st (US$ 880/t), and the scrap-related price falls were offset. Demand has been reasonably firm, and the volume of imports appears to have dropped. If imports do not return, it is likely that prices will move upwards again in the coming months.

Coil Regional Review

HR Coil import prices US$/t



Coil prices in USA have been weaker in May as the producers battled against weak demand and the negative sentiment caused by the scrap surcharge decrease for June shipments. The mills appear to have limited the decreases to US$ 20/st (US$ 22/t) despite the scrap price falling US$ 55/lt. HR Coil prices are now US$ 540-560/st (US$ 594-616/t) and will be under further pressure unless scrap prices rebound next month. Demand has been weak, especially for a normally strong month. Inventory levels have also fallen, which reduces demand and gives a good indicator of buyers' sentiment for the next few months.

However, the output levels that looked to be under control in March were revised upwards by the IISI this month, increasing total US production by 527,000tonnes. It is to be hoped that the April estimate of 7.95 million tonnes, a fall of 4.5% from the revised March figure, is more accurate and reflects an easing of production levels during April. This would likely then have been continued during May. The slow-down in imported tonnage arrivals, as predicted, has ensured that the market has not been more over-supplied, and indicates just how weak demand is.

Stock levels are easing, which we interpret as a lack of stockholder and end-user confidence. But it does mean that prices can pick up more quickly whenever demand returns, rather than facing a stock overhang as well. The caution of many buyers who are expecting the market to weaken further may lead to even slower demand next month. There will need to be clear evidence that supply is not exceeding demand to change this perception. Similarly, the scrap price movement, and the mills' reaction in June, will be a guide to the strength of the market.

CR Coil has also weakened to US$ 600-640/st (US$ 660-704/t), and demand appears to be even more fragile than for HR coil. HD Galvanised coil is down to US$ 660-700/st (US$ 726-770/t), but lower imports may mean this price level is less threatened than the other product lines.

Flat products producers in northern Europe have maintained price levels during Q2, but have not been securing their announced increases. Demand is probably better than it appears, especially as the increased production compared to 2006 has been absorbed within northern Europe, and imports have been at least as strong as in 2006. However, buyers and stockholders have been contesting any increased levels, feeling that prices are already high enough. Output was slightly up on a daily basis for most northern European producers, so May's actual output may increase unless there have been some cutbacks. Prices should not fall heading into Q3 and, if the ▶

Coil Price Outlook

Products (HRC)	May	June*
Brazil dom. Del. $/t	700-750	700-750
China dom. Shanghai RMB/t	3900-4000	3700-3850
China export FOB $/t	570-580	580-585
E. Asia import CFR $/t	580-600	570-590
Eur import CIF S.Eur pt €/t	480-490	470-480
Jap dom FOT ¥/kg	72-72	72-72
Middle East imp CFR $/t	620-640	620-640
N.America dom FOB $/s.ton	560-580	520-540
Rus Blk Sea export FOB $/t	500-520	510-525
S.Euro dom Ex-Works €/t	570-610	560-600
Ukr Blk Sea export FOB $/t	540-575	540-560
Products (CRC)	**May**	**June***
Brazil dom. Del. $/t	920-990	920-990
China dom. Shanghai RMB/t	4950-5000	4900-5000
China export FOB $/t	670-680	670-680
E. Asia import CFR $/t	650-680	650-680
Eur import CIF S.Eur pt €/t	550-560	550-560
N.America dom FOB $/s.ton	575-610	585-610
Rus Blk Sea export FOB $/t	650-680	630-700
S.Euro dom Ex-Works €/t	550-590	550-590
Ukr Blk Sea export FOB $/t	600-650	600-650
Products (HDG)	**May**	**June***
China dom. Shanghai RMB/t	5500-5560	5100-5150
China export FOB $/t	700-730	680-690
E. Asia import CFR $/t	750-770	750-770
Eur import CIF S.Eur pt €/t	650-660	650-660
Mid E. import CFR $/t	820-970	820-970
N.America dom FOB $/s.ton	680-720	660-700
N. Euro dom Ex-Works €/t	635-680	630-670
S.Euro dom Ex-Works €/t	620-650	620-650

Prices listed are SBB forecasts

Stock levels are easing, which we interpret as a lack of stockholder and end-user confidence

producers can match output to actual demand, then there are prospects to achieve some increases in Q4.

HR Coils are now at Euro 500-515/t (US$ 676-696/t) for June/July deliveries while CR Coils were steady at Euro 575-610/t (US$ 776-824/t). HD Galvanised products were also stable as demand remained firm. There are more HDG imports than for other products, but supply and demand appear to be in good balance and these imports tend to follow the domestic mills' prices.

Southern European prices have fallen most significantly since the peak at the end of April, and are now similar to the levels at the end of Q1. There is not much imported material available so far, though there are reports of further material on the way which will have to be offered at more competitive prices. Now the mills will have to judge their next price levels well, but the trend of increases has turned. Stock levels have been allowed to increase since the low-point in mid-Q1, and are now generally regarded as too high, with little prospect of reducing them before the summer shutdowns.

HR Coil prices fell back to Euro 480-510/t (US$ 641-682/t), and it is unclear whether they will be able to hold that level or will weaken further heading into Q3. Prices for CR Coil and HD Galvanised are also back to the end Q1 levels, but these prices had not risen as much as HR coil.

South East Asian HR coil prices continued their rise since the start of the year as Chinese suppliers raised their offer prices to US$ 570-580/t fob for 3mm material, taking market levels to US$ 590-600/t cfr during May. Other regional mills reacted by asking an extra US$ 20/t fob for their 2mm coils, but buyers were nervous about taking on new commitments. Buying activity has been generally quiet as there was much uncertainty about the effects of the Chinese export tax, whether the volume of exports would be maintained, and hence the future market direction.

However, there are limited alternatives and it seems likely that the Chinese material will continue to be delivered until the start of June. Future availability may be reduced, at least in the short-term. Russian material is still unavailable, and Ukrainian prices have again increased so are still above the Chinese levels.

CR Coil prices have been weaker by US$ 20/t in SE Asia during May as weaker demand in some countries, including Vietnam, has combined with increased availability. Regional offers are in the range US$ 670-680/t fob, but the market price is not much better at US$ 670-690/t cfr. HDGalvanised was stable leaving market levels at US$ 750-770/t cfr. Expectations are that CR coil will weaken further next month, while Chinese suppliers are already asking for higher prices for HR material.

Long Product Review

Long products suppliers around the world have been enjoying unprecedented high demand and strong prices. During May, there was a correction as prices in most regions eased off, despite demand still being as good as could be expected for Q2. The big fall in scrap prices in US, and smaller downward revisions elsewhere, probably contributed to the sentiment that prices had risen too far. As usual, medium and heavy sections demand defied this trend and prices continued to out-perform during May, with import prices into SE Asia increasing US$ 30/t.

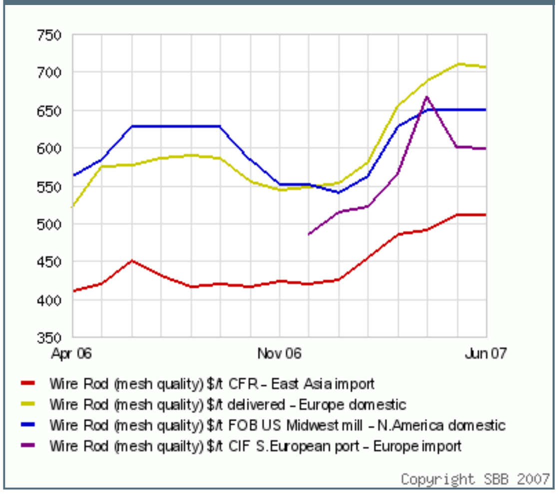
There was a correction as prices in most regions eased off

Wire rod has recovered most of the price falls since last year, but there are concerns that there may be further weakness from now on, especially if scrap ▶

prices don't rise during the summer. The continuing strong construction activity will ensure that rebar demand and prices do not drop much more, and prices should certainly follow any increase in scrap levels.

In US, the fall in scrap prices by US$ 58/lt led the mini-mills to increase base prices by the same figure to maintain transaction prices at the same levels for all long products, except WF Beams. Rebar prices in US were stable at US$ 605-635/st (US$ 666-699/t). Merchant bar prices are now at US$ 660-680/st (US$ 726-748/t) during May, but prices may weaken unless scrap surcharges increase again in June. Wire rod prices have stabilised after the strong increases in March, with prices at US$ 580-630/st (US$ 638-693/t). It is unclear if prices will hold at this level throughout Q2 and into Q3, as demand may weaken and imports may take some greater market share.

Wire Rod (Mesh Quality) US$/t



WF Beams pricing in USA has continued to rise, but only slowly. This seems to be a deliberate policy by the leading mills. In addition to the US$ 58/st base price increase caused by scrap, the producers only announced an extra increase of US$ 20/st, which will take prices to US$ 770-800/st (US$ 847-880/t).

European sections prices will be increased by some producers in Q3 by Euro 20-30/t (US$ 27-40/t), though there were also some very small reductions based on reduced scrap surcharges towards the end of the month. These new levels should be accepted by the market as demand continues to exceed availability and stocks are below normal levels. Prices are currently in the range Euro 630-720/t (US$ 852-972t).

Southern European sections prices are also holding steady demand is reasonable and the high prices are meeting little resistance in Spain and Italy. Inventories are reported to be below normal or normal, with no attempts to build stocks in advance of further price rises. Prices are expected to remain the same or achieve some further increases in Q3, in addition to any price gains due to rising scrap levels.

Rebar prices in Europe saw the first falls for some months during May after the significant increases since the start of the year. Levels eased to Euro 520-580/t (US$ 700-781/t). Wire rod prices were also firm but may weaken in the next few months, from Euro 480-540/t (US$ 650-731/t) currently. Merchant bar prices were also tending to be stable, but were expected to be weaker than rebar as stocks are now around normal.

Most import price levels for long products in SE Asia have increased by US$ 20/t during early May but many customers are still cautious and are only buying when in need. Merchant bars were quoted at US$520-540/t cfr and rebar levels were at US$ 500-520/t cfr, but new Chinese offers were being made at higher levels towards the end of the month after the export tax changes. Wire rod prices were also firmer by US$ 20/t to US$ 500-520/t cfr. Imported H-Beam prices were US$ 30/t higher at US$ 780-800/t cfr, and reflect the steady upwards pressure from other supply sources.

The reversal of the trend of high billet prices, based on more modest offers from ▶

Longs Price Outlook

Products (Debar/Rebar)	**May**	**June***
Turkey export FOB $/t	590-600	570-590
Blk sea export FOB $/t	550-565	530-540
E. Asia import CFR $/t	500-520	500-520
China dom. Shanghai RMB/t	3410-3420	3320-3330
Eur dom del €/t	510-570	520-580
Eur import CIF S.Eur pt €/t0	480-490	470-480
Jap dom FOT ¥/kg	68-68	68-68
Mid E. import CFR $/t	560-640	570-640
N.America dom FOB $/s.ton	605-635	605-635
Products (Beams / Sections)	**May**	**June***
E Asia import CFR $/t	750-800	790-810
Jap dom FOT ¥/kg	77-77	77-77
N.America dom FOB $/s.ton	750-790	750-790
Products (Merchant Bar)	**May**	**June***
China dom. Shanghai RMB/t	3620-3650	3600-3630
E Asia import CFR $/t	520-540	520-540
N.America dom FOB $/s.ton	655-675	655-675
Products (Wire Rod)	**May**	**June***
Eur import CIF S.Eur pt €/t	440-450	440-450
Blk sea export FOB $/t	540-550	540-550
China dom. Shanghai RMB/t	3630-3650	3580-3600
E Asia import CFR $/t	500-520	500-520
Eur dom del €/t	500-550	500-550
Jap dom FOT ¥/	72-72	72-72
N.America dom FOB $/s.ton	580-600	580-680

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

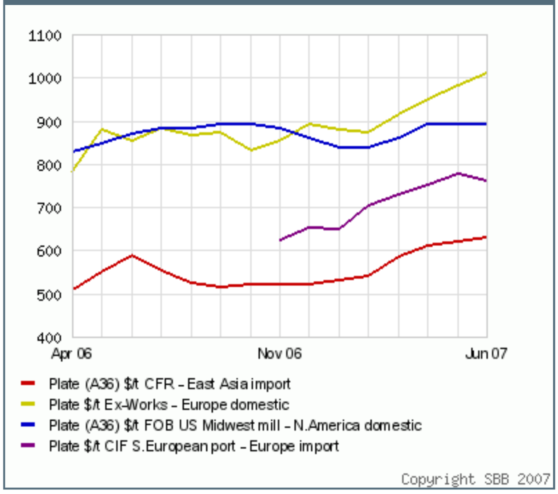
"Some buyers may decide not to increase their stocks until after their summer shutdown"

Black Sea origins, left prices at US$ 500-520/t cfr and offer prices were much closer to these levels. There have been some Chinese material available, but the offer prices will need some time to settle down after the tax changes.

Billet offer prices from the Black Sea from CIS origin moderated slightly during May to US$ 495-530/t fob and were expecting to ease further at month end, though producers claim to be well-booked for several months.

Plate Review

Commodity Plate US$/t



Commodity plate prices in northern Europe have been firming as demand remains good and the availability of cheaper imported material has declined. Domestic producers have pushed their prices higher by Euro 30/t to Euro 650-805/t (US$ 880-1090/t) with both buyers and sellers agreeing that further increases in Q3 are well-merited and likely to be successful. Import prices from China are now being offered at Euro 570-580/t cfr into southern Europe, which is a further increase on levels which were available last quarter, but the suppliers are likely to be looking to increase these prices again to cover the new export tax.

Plate Price Outlook

Products	May	June*
China dom. Shanghai RMB/t	4070-4200	4070-4170
CIS export FOB $/t	650-860	650-860
Eur dom Ex-works €/t	650-805	690-810
Eur import CIF S. Eu €/t	570-580	560-570
E. Asia import CFR $/t	610-630	620-640
N.America dom FOB $/s.ton	800-820	800-820
China export FOB $/t	600-620	610-630

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

Demand and prices on higher quality material continue to be strong and prices have recently risen above Euro 800/t (US$ 1085/t) for higher quality grades. European producers continue to concentrate their output on these products wherever possible. Stocks are at or below normal levels in northern Europe, and mills' lead times are still reported to be healthy.

Stocks are at or below normal levels in northern Europe

The southern European producers have also been able to reclaim market share and achieve similar price rises, despite stock levels being considerably above normal in the stockholding sector. This is leading to some aggressive discounting as the stockists attempt to reduce their levels, but this is not yet affecting the mills' forward order book. The overstocking may have resulted from imported material from China, which is still available at prices which are below those achieved by the local mills. The local producers are then able to concentrate on the quality plate market.

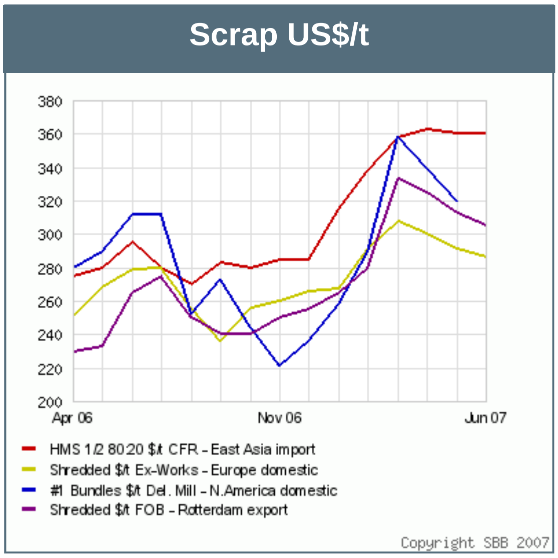
Commodity plate prices in USA were held steady despite the fall in the scrap surcharge mechanism, and the market continues to look strong with demand still greater than domestic supply. Most mills are keeping their base prices at or above US$ 800-830/st (US$ 880-913/t). The availability of imported material has also declined.

Plate prices in SE Asia have risen strongly by US$ 20-30/t as suppliers from China continued asking for higher prices for both commodity plate and shipplate, even before the export tax was imposed. There were the first reports of the return of Ukrainian shipplate material taking orders in SE Asia, as some buyers opted for the certainty of performance. These new levels of US$ 610-630/t cfr for commodity plate were generally accepted, though further increases appear likely. There is still only limited availability from CIS suppliers, so there appears to be few alternatives, and the ▶

Chinese mills claim to have full order books.

CIS plate prices are now in the range US$ 650-680/t fob, and are expected to increase further next month as other markets, especially the Middle East, are able to pay these levels, especially while availability is so limited. Chinese plate is still finding a ready market in both Europe and the Middle East, so these prices are also likely to continue to rise. Recent reports of concerns in the Middle East over buying from China will probably only lead to shortages and higher prices in the near future, as stocks are already seen as low.

Scrap Review



Scrap prices in the US have largely returned back to the levels seen at the end of Q1, before the second half of the price surge. More significantly, the smaller declines in prices elsewhere have also brought price levels back to where they were earlier in the year. This restores the usual link in scrap price movements globally, which had been broken by the surge in US domestic price levels which was not followed in other regions. However, US prices looked likely to rebound upwards going into June, which may not be followed by other scrap producing regions, such as Europe.

This restores the usual link in scrap price movements

Domestic scrap prices in USA were US$ 55-58/lt lower during May, with shredded scrap pricing falling the most. No 1 Bundles and Bushelling fell to US$ 285/lt, down from US$ 340/lt in April. Shredded scrap is now down to US$ 262/lt, down US$ 58/lt from US$ 320/lt in April. Export prices are now back in line with these domestic levels, but are still therefore keeping prices firm in Asian markets.

European shredded scrap also eased, by Euro 5/t, to Euro 210-220/t (US$ 284-298/t) during May and is expected to lose a further Euro 5/t next month. Stocks at mills were reported to be at good levels and there was no need for excessive buying. Export prices also fell to US$ 310-315/t fob, which is mainly due to continuing steady buying from Turkey. The sales prices in Turkey are holding steady at US$ 350/t cfr.

Scrap prices in Asia have also dropped at the top end of the range to US$ 355-365/t cfr and new offers were seeking to obtain some small increases, though it is likely that the buyers will be able to resist any increases in early June.

THE OUTLOOK FOR PRICES IS SLIGHTLY LOWER LEVELS; HIGHER DEMAND OR LOWER OUTPUT IN Q3 MAY ALLOW PRICES TO REBOUND UPWARDS IN SOME CASES, ESPECIALLY IF THE CHINESE EXPORT TAXES KEEP GLOBAL PRICES FIRM.

Output levels in US and Europe will be the major issue

Predictions of global economic conditions are still showing good growth around the world in 2007, with only North America expected to decline from the 2006 level. Yet demand is weak in US and only northern Europe can be said to be enjoying some growth in steel demand so far this year, in addition to the incredible performance of the Chinese economy. It remains to be seen whether the predicted growth will be made up in the second half of the year in those economies that are behind expected growth.

These forecasts and latest performances are particularly important when compared with the growth in production in the first four months of 2007 above the same period in 2006. Output growth of 5.2% in EU27 must be running ahead of demand, while a decline in North America of 5.8% (subject to revision) is more realistic. CIS output has increased by 8.6%, but this has been consumed internally and the volume of exports available to international markets is probably less than a year ago.

Output levels in US and Europe will be the major issue, and it is important that production does not exceed demand in the potentially tricky period over the summer. There are also concerns that there will be a surge of material arriving from China in Q3 as a result of the recent export activity. There may then be a lull reflecting the likely short-term drop in export business. This is likely to be especially significant during the second half of 2007, which may allow the local producers to increase their output again.

Market sentiment and confidence needs to strengthen in US and Europe in Q4 if there is to be the usual seasonal improvement. European prices should resume a gentle upward trend as demand picks up, provided that output has been managed correctly during Q3. But US demand may not increase going in to Q3, and signs of weakening prices will also dampen buyer sentiment. At least the volume of imports will not be as significant as last year, so the situation should be within the producers' control.

Longs producers should enjoy some small gains in the coming months after the recent downwards correction as demand should continue to be firm. This is most likely to occur in northern Europe during the next three months, though the southern European market may not be so strong, until the stock levels have returned to normal. Imports have declined and it is likely this will continue into Q3.

Demand should also increase or remain steady in US for construction steel, but price development will be less consistent than in Europe, and will be mainly driven by fluctuations in the scrap price. WF Beams prices should continue to rise steadily, irrespective of the scrap price, though even this must end at some time.

The recent price improvements in Asia in most products during May were encouraging while several other regions were suffering from over-stocking and weaker pricing. Price levels were also maintained despite the surge in exports from China, though the various financial penalties on these volumes did help to avoid lower prices. Once May's exports have been completed, there should be a gap while the effects of the export tax become clearer. If levels of demand are maintained in the coming months, while supply availability from China eases, then prices should not decrease. Flat product pricing should be able to hold the current levels, and possibly increase slowly, during the next three months. However, buyers still have to be convinced that availability will not increase sharply in a few months time, so they may be wary of new purchases late in Q3.

Chinese domestic prices look likely to be the biggest losers in the next few months. Continuing high output, and an apparently inevitable re-direction of tonnage back into the domestic market from SE Asian export markets, must lead to weaker prices, even though the real consumption seems likely to grow by more than 10% over 2006.

Looking further ahead, it still seems inevitable that prices will fall back by the end of the year, even if production is substantially reduced well in advance. The lesson of 2006, when output continued at high levels, has apparently been heeded by many mills, at least within northern Europe. Buyers will certainly begin reducing high inventories before the year end, and are likely to try and avoid a repeat by slowing demand even earlier than last year. But as the downturn has come even earlier than we predicted, there should be a brief upturn before the year end. ■

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