Market Outlook

2009: A year that will keep us on our toes!

The market for stainless steel has shown some signs of life again in January. Although starting from a very subdued level at the end of 2008, orders to stockists have increased. But are we at the bottom yet?

Price: it is safe to say that the bottom is not far. Base prices declined by €150-200 since October and alloy surcharges by another €600. This is a reduction of more than 25% (304L, 2mm, CR Sheet), making stainless steel a price competitive product again.

Volumes: there are indications that the speed of contraction in demand is slowing – providing justified hope that the market will find its bottom in the second quarter this year.

Demand for commodity products, like 304, 316, 430, cold rolled sheets, ornamental tubes, bright bars and wire remain weak. Distributors still do not place orders at the mills but ‘shop around’ at other stockists to buy small volumes that they have already sold. Mills on the other hand, increasingly expand their business focus from traditional big volume users (key accounts) to mid and small volume end users which usually are supplied by regional stockists. Thus, market shares are being shifted at the moment in the direction of mills, which increasingly operate their own distribution systems.

Non-commodity products like special grades, quartile plate, process pipe and forged bars provide a mixed picture. Industries which tend to have long term projects like power generation, seawater desalination and LNG (gasification and regasification as well as ships) are still characterized by a high activity level. But other industries including oil and gas, chemicals and pharmaceuticals already suffer from project cancellations or postponements. In many cases, companies involved in these industries are still busy processing old orders which probably last until mid 2009. But the notoriously long delivery times in products such as quartile plate, seamless pipes and forged bars are becoming much shorter now. Stainless steel crude production 2008: Steel & Metals Market Research (SMR), calculates that global production reached 26 mil- lion tonnes last year, 6% less than 2007. Europe will be the only region besides China where the production stagnated (minus 1.2% to 8 million t). All other regions recorded substantial production drops of up to 10%. However, the apparent European strength in 2008 was a result of the 2007 weakness, when production dropped by almost 14% whilst it was stable in the rest of the world. Market Volume 2009: as described before, the demand situation is a mixed bag at the moment. In all, most market players expect reductions of 10-20% in 2009, meaning that we will return to 2004-05 levels. The industry target of 30 million tonnes stainless steel (crude steel) that was considered attainable in 2009 a few months ago, is now far out of reach until at least 2012! At the moment the ‘stainless steel pie’ is shrinking and supply is not in balance with demand. SMR has calculated that the capacity utilisation for stainless steel flat products has been only 60% in 2008 and will fall further in 2009. This means that the time soon becomes right for industry consolidation through mergers and acquisitions of assets that become increasingly bargains. For example, today you can buy Aениza or Outokumpu for less than $1.00 per tonne capacity whilst it would cost you twice as much just to build a plant of a similar size.

Production Cuts: all European mills have reacted fast to the new reality and substantially cut back production in Q4/Q1. It did not matter whether a company is specialised in ferritics (Aceri- mossa), special grades (Outokumpu) or basically a flat products mill like special grades, quarto plate, process pipe and forged bars are a result of the 2007 weakness, when production dropped by almost 14% whilst it was stable in the rest of the world. Market Volume 2009: as described before, the demand situation is a mixed bag at the moment. In all, most market players expect reductions of 10-20% in 2009, meaning that we will return to 2004-05 levels. The industry target of 30 million tonnes stainless steel (crude steel) that was considered attainable in 2009 a few months ago, is now far out of reach until at least 2012! At the moment the ‘stainless steel pie’ is shrinking and supply is not in balance with demand. SMR has calculated that the capacity utilisation for stainless steel flat products has been only 60% in 2008 and will fall further in 2009. This means that the time soon becomes right for industry consolidation through mergers and acquisitions of assets that become increasingly bargains. For example, today you can buy Acerinox or Outokumpu for less than $1.00 per tonne capacity whilst it would cost you twice as much just to build a plant of a similar size.

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Raw Materials

Nickel (3-months) to January 12th 2009

above 550 million US$ in
Cuba achieved net earnings
• Cuban Nickel: producers in
substantially. Avebury was
will re-start production only
end of January 2009. They
• The Avebury mine in Tas-
mouth-maintenance period

Ferro Molybdenum

Ferro Titanium

Ferro Chrome

Company News:
• Xstrata-Merifo does not produce currently on 3 of its 20 smelters. In December they suspended production on another five smelters (November: stoppage at 5 furnaces already).
• Albanian Chrome stopped production at Elbasan for an indefinite time period due to low demand. ACR is owned by DCM Decometal and Tening.
• ENRC cut the production of high carbon FeCr by 98,000 t in Q4/08. However, ENRC with its subsidiary Kachrome, was still 4% above production in the same period of 2007.
• Indian producers (Inter alia Visa, Rohit and Jindal) have stopped production in November at facilities in capacity range of over 300,000 t per annum.
• Also the Turkish FeCr and Cr ore producers have reduced their Q4 activities by about 40%.

Molybdenum

After a collapse in October and November, the price erosion slowed down in December and January, stabilising below 30US$/t. The general economic downturn has a negative impact on Mo demand as the weakness slowly sneaks into all its applications in alloyed Steels, HSLA steels, tool steels, Mo metal and even superalloys.

Company News:
• China: China Mining Resources Group has suspended production in its We Dao Mo mines. Other small mining companies have stopped production as well.

Titanium

Titanium prices dropped again due to slowing demand. In the long term, demand will increase due to commercial start up of new titanium consuming aircraft models, but the current build rates of these planes are far behind schedule. For Airbus, 2008 was the first real production year of the A-380 with only 12 deliveries. Airbus has achieved 98 orders from 16 customers for the new model. Last year, Airbus got 756 net orders until end of November and delivered 437 aircraft in the same period.

Stainless steel scrap
Stainless Steel scrap prices increased to over 900 US$/t in January after a bottom level of less than 800 US$/kg had been reached in December. The increase was higher than the increase in Ni prices which are the main drivers for stainless steel scrap prices. The discount on stainless nickel in scrap started to decline from its extraordinary high levels (exceeding 20%). At the low prices reported in November and December, the recycling business of demolition came to a standstill. Offered prices to 2nd and 3rd tier scrap paddlers did not even cover labour and transport costs. In some cases, nickel was even for ‘free’ if the other metals (chrome and iron) were calculated at their full intrinsic values.

The scrap fundamentals remain challenging. SMR estimates that at the end of 2008, there were around 1.4 million tonnes of unused stainless steel scrap stock piled in Europe, North America and Asia. This scrap mountain will have to be melted down before the scrap supply chain gets back into an orderly material flow and pricing status.

Tenders

Kralupy nad Vltavou (Czech Republic): sliding valves Contact: MERO CR, a.s., Valtruská 748, Contact: MERO CR, a.s., Attn. Ing. Jiri Patak, CZ-22780 Kralupy nad Vltavou. Tel. +420 357502114. E-mail: patak@mero.cz. Fax +420 357502115. Time-limit for receipt of tenders or requests to participate: 3.3.2009 - 09:00. Language(s) in which tenders or requests to participate may be drawn up: Czech.

Les Pieux: dredging and pumping works Contact: Communauté des Communes des Pieux, zone des Costils - BP 21, Attn: Monissor le Président, F-59340 Les Pieux. Tel. +33 233876900. Fax +33 233953756. Time-limit for receipt of tenders or requests to participate: 2.3.2009 - 17:00. Language(s) in which tenders or requests to participate may be drawn up: French.

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