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REPORT

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IRON AND STEEL

GLOBAL STEEL PRODUCTION DOWN IN 2008 AND TO FALL AGAIN IN 2009

The speed of collapse in steel demand throughout the world surprised the producers, consumers, distributors and analysts, including MEPS researchers. In our last issue, we did predict a slowdown in the rate of growth in production which had been reported for the first eight months of 2008. However, the quarter on quarter reduction in the final three months, at close to 65 million tonnes, will be an unprecedented figure in the history of the industry.

MEPS now expects global steel production in 2008 to be finalised at close to 1328 million tonnes. This equates to a 16 million tonne (1.2 percent) decrease on the year earlier outturn. Blastfurnace iron making will also be lower in 2008 compared to 2007. A reduction of more than 20 million tonnes is foreseen - down by 2.2 percent. In contrast, direct reduced iron production in 2008 will be reported at near 68.5 million tonnes. This represents an increase approaching 7 percent on the 2007 result. A small reduction is predicted for 2009.

The steel market is forecast to remain weak during the first half of 2009 in all parts of the world. Demand for motor vehicles, home appliances and residential properties is likely to remain poor. However, a degree of inventory building should occur but to levels well below those in the first half of 2008.

Many governments are embarking upon plans to stimulate their economies through investment in large infrastructure projects. This is good news for the steel industry in the medium and long term. Unfortunately, this type of spending takes time to become effective.

We believe that global iron and steel production in 2009 will be lower than the figure recorded in the previous twelve months. The difficult time will be the first quarter as many plants remain closed or on restricted working patterns. This should be followed by a period of slow growth as mill order books show modest improvement from some restocking by end users and distributors as credit eases somewhat.

EUROPEAN UNION

Total EU-27 steel output in 2008 is now

GLOBAL IRON AND STEEL PRODUCTION ESTIMATES (Million Tonnes)

Region	Crude Steel			Blast Furnace Iron			Direct Reduced Iron		
	(E)2008	(F)2009	% +/-	(E)2008	(F)2009	% +/-	(E)2008	(F)2009	% +/-
EU 27	---	---	---	---	---	---	---	---	---
Other Europe	---	---	---	---	---	---	---	---	---
Former USSR	---	---	---	---	---	---	---	---	---
NAFTA	---	---	---	---	---	---	---	---	---
South America	---	---	---	---	---	---	---	---	---
Africa	---	---	---	---	---	---	---	---	---
Middle East	---	---	---	---	---	---	---	---	---
China	---	---	---	---	---	---	---	---	---
Japan	---	---	---	---	---	---	---	---	---
Other Asia	---	---	---	---	---	---	---	---	---
Oceania	---	---	---	---	---	---	---	---	---
TOTAL	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**

Totals may not be arithmetically correct due to rounding (E) Estimate (F) Forecast

PRODUCTION - CRUDE STEEL

('000 Tonnes)

COUNTRY	Actual Q1/08	Actual Q2/08	Actual Q3/08	Forecast Q4/08	Forecast Q1/09	Forecast Q2/09	Forecast Q3/09	Year 2008	Year 2009
Austria	---	---	---	---	---	---	---	---	---
Belgium	---	---	---	---	---	---	---	---	---
Finland	---	---	---	---	---	---	---	---	---
France	---	---	---	---	---	---	---	---	---
Germany	---	---	---	---	---	---	---	---	---
Greece	---	---	---	---	---	---	---	---	---
Italy	---	---	---	---	---	---	---	---	---
Luxembourg	---	---	---	---	---	---	---	---	---
Netherlands	---	---	---	---	---	---	---	---	---
Portugal (E)	---	---	---	---	---	---	---	---	---
Spain	---	---	---	---	---	---	---	---	---
Sweden	---	---	---	---	---	---	---	---	---
United Kingdom	---	---	---	---	---	---	---	---	---
Bulgaria	---	---	---	---	---	---	---	---	---
Czech Republic	---	---	---	---	---	---	---	---	---
Hungary	---	---	---	---	---	---	---	---	---
Poland	---	---	---	---	---	---	---	---	---
Romania	---	---	---	---	---	---	---	---	---
Slovakia	---	---	---	---	---	---	---	---	---
Rest of EU 27 (E)	---	---	---	---	---	---	---	---	---
EU 27	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
EU 15	---	---	---	---	---	---	---	---	---
Turkey	---	---	---	---	---	---	---	---	---
Rest of Other Europe (E)	---	---	---	---	---	---	---	---	---
OTHER EUROPE	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
Kazakhstan	---	---	---	---	---	---	---	---	---
Russia	---	---	---	---	---	---	---	---	---
Ukraine	---	---	---	---	---	---	---	---	---
Rest of Former USSR	---	---	---	---	---	---	---	---	---
FORMER USSR	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
Canada	---	---	---	---	---	---	---	---	---
Mexico	---	---	---	---	---	---	---	---	---
USA	---	---	---	---	---	---	---	---	---
Rest of NAFTA	---	---	---	---	---	---	---	---	---
NAFTA	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
Argentina	---	---	---	---	---	---	---	---	---
Brazil	---	---	---	---	---	---	---	---	---
Chile	---	---	---	---	---	---	---	---	---
Venezuela	---	---	---	---	---	---	---	---	---
Rest of S America	---	---	---	---	---	---	---	---	---
S AMERICA	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
Egypt	---	---	---	---	---	---	---	---	---
South Africa	---	---	---	---	---	---	---	---	---
Rest of Africa (E)	---	---	---	---	---	---	---	---	---
AFRICA	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
Iran	---	---	---	---	---	---	---	---	---
Saudi Arabia	---	---	---	---	---	---	---	---	---
Rest of Middle East (E)	---	---	---	---	---	---	---	---	---
MIDDLE EAST	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
P.R. China	---	---	---	---	---	---	---	---	---
India	---	---	---	---	---	---	---	---	---
Japan	---	---	---	---	---	---	---	---	---
R.O. Korea	---	---	---	---	---	---	---	---	---
Taiwan China	---	---	---	---	---	---	---	---	---
Rest of Asia (E)	---	---	---	---	---	---	---	---	---
ASIA	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
Australia/New Zealand	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**
WORLD TOTAL	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**

SOURCE: worldsteel/MEPS (E): Estimate

predicted to be 200 million tonnes - 3 percent below the previous year's figure. Several integrated mills shuttered their plants in the final trimester in an effort to rebalance supply and demand in the region. A further reduction in output is forecast for 2009. Demand from the construction and auto segments has collapsed and is not likely to pick up in the near term.

The EU-15 nations are expected to report a 6.25 million tonne decrease in steel output in 2008. Substantial production cuts took place in France and Germany in the final quarter, leaving the period four outturn almost 20 percent down on the equivalent 2007 figure. Similar output curbs are predicted for the first quarter of 2009. An economic recession is looming in many of these member states. As a result, a further 13 million tonne reduction is anticipated in 2009.

The newer East European EU member states performed worse than their counterparts in Western Europe in 2008. Several countries, will be reporting annual steel output declines of in excess of 10 percent. The prospects for 2009 look quite bleak, with continued weakness in construction and auto demand.

OTHER EUROPE

The MEPS prediction for crude steel production in non EU Europe has been revised downwards for the year 2008 due to the massive production cuts in the final quarter. We now expect the outturn at 31.4 million tonnes. Difficult local market demand and trading conditions lead us to forecast a lower output in 2009.

Turkish steel makers are expected to record an increase in output of 1.2 million tonnes in 2008. Domestic steel consumption has reduced dramatically in recent months, with the construction and auto sectors particularly badly affected. To compound the difficulties, export volumes have been significantly reduced as competition from suppliers in the CIS intensifies. This situation is likely to extend into 2009.

CIS

Steel output in the CIS in 2008 will be substantially down on the outturn in the previous year. Regional demand has weakened as credit seized up. Revenue from commodities have fallen and unemployment is rising. The outlook for 2009 is not encouraging. Oil prices will remain well below the peak values achieved last year. Exports of steel products and other metals will be lower.

Kazakhstan steel output will be recorded at a reduced level in 2008. No improvement is anticipated for the following year. Russian steel production will also show a, year on year, decline in 2008. Further reductions are anticipated for 2009. Industrial production has collapsed. Prices for commodities are likely to stay low - restricting the government's ability to stimulate the economy. Ukraine has been facing numerous financial and industrial difficulties. Steel output has slumped in the wake of poor export demand. The outturn for 2009 will be lower.

NAFTA

North American steel manufacturing fell in the final trimester in 2008 to end the year at approximately 114 million tonnes, well below the 2007 outturn and 8 percent down on the year earlier figure. A further reduction is predicted for 2009 at 103.2 million tonnes.

Canadian steel output will be below 16 million tonnes in 2008. The situation in 2009 is likely to be worse. Output curbs will continue for most of the first trimester. Any pick up in the following nine months is expected to be sluggish. Mexican production in 2008 should be reported at near the volume in the previous twelve months. However, we foresee a decline in output in 2009 as export sales decrease and domestic demand slows.

Steel making in the United States in 2008

PRODUCTION - BLAST FURNACE IRON ('000 Tonnes)

COUNTRY	Actual Q1/08	Actual Q2/08	Actual Q3/08	Forecast Q4/08	Forecast Q1/09	Forecast Q2/09	Forecast Q3/09	Year 2008	Year 2009
Austria	---	---	---	---	---	---	---	---	---
Belgium	---	---	---	---	---	---	---	---	---
Finland	---	---	---	---	---	---	---	---	---
France	---	---	---	---	---	---	---	---	---
Germany	---	---	---	---	---	---	---	---	---
Italy	---	---	---	---	---	---	---	---	---
Netherlands	---	---	---	---	---	---	---	---	---
Portugal (E)	---	---	---	---	---	---	---	---	---
Spain	---	---	---	---	---	---	---	---	---
Sweden	---	---	---	---	---	---	---	---	---
United Kingdom	---	---	---	---	---	---	---	---	---
Bulgaria	---	---	---	---	---	---	---	---	---
Czech Republic	---	---	---	---	---	---	---	---	---
Hungary	---	---	---	---	---	---	---	---	---
Poland	---	---	---	---	---	---	---	---	---
Romania	---	---	---	---	---	---	---	---	---
Slovakia	---	---	---	---	---	---	---	---	---
EU 27	---	---	---	---	---	---	---	---	---
EU 15	---	---	---	---	---	---	---	---	---
Turkey	---	---	---	---	---	---	---	---	---
Rest of Other Europe (E)	---	---	---	---	---	---	---	---	---
OTHER EUROPE	---	---	---	---	---	---	---	---	---
Kazakhstan	---	---	---	---	---	---	---	---	---
Russia	---	---	---	---	---	---	---	---	---
Ukraine	---	---	---	---	---	---	---	---	---
Rest of Former USSR	---	---	---	---	---	---	---	---	---
FORMER USSR	---	---	---	---	---	---	---	---	---
Canada	---	---	---	---	---	---	---	---	---
Mexico	---	---	---	---	---	---	---	---	---
USA	---	---	---	---	---	---	---	---	---
NAFTA	---	---	---	---	---	---	---	---	---
Argentina	---	---	---	---	---	---	---	---	---
Brazil	---	---	---	---	---	---	---	---	---
Chile	---	---	---	---	---	---	---	---	---
Rest of S America	---	---	---	---	---	---	---	---	---
S AMERICA	---	---	---	---	---	---	---	---	---
South Africa	---	---	---	---	---	---	---	---	---
Rest of Africa (E)	---	---	---	---	---	---	---	---	---
AFRICA	---	---	---	---	---	---	---	---	---
MIDDLE EAST (IRAN)	---	---	---	---	---	---	---	---	---
P.R. China	---	---	---	---	---	---	---	---	---
India	---	---	---	---	---	---	---	---	---
Japan	---	---	---	---	---	---	---	---	---
R.O. Korea	---	---	---	---	---	---	---	---	---
Taiwan China	---	---	---	---	---	---	---	---	---
Rest of Asia (E)	---	---	---	---	---	---	---	---	---
ASIA	---	---	---	---	---	---	---	---	---
Australia/New Zealand	---	---	---	---	---	---	---	---	---
WORLD TOTAL	---	---	---	---	---	---	---	---	---

SOURCE: worldsteel/MEPS (E): Estimate

will turn out to be almost 7 percent below the prior year's result. Demand from many of the traditional industrial and building sectors is expected to be lower in 2009. The import threat could intensify. This leads us to forecast a further reduction in output compared to 2008.

SOUTH AMERICA

South American steel making in 2008 will be marginally above the figure recorded in the previous year. At the eleven month stage, a positive result was recorded but weakening market conditions limited the improvement for the full year. A reversal of the 2008 situation is predicted for 2009. Regional demand is forecast to decline as economic conditions deteriorate.

Argentinian consumption is now falling as the credit crunch bites. The 2008 crude steel production will, however, be up on 2007. We envisage further output curbs for most of 2009.

Brazilian steel production in 2008 will show a modest improvement on the year earlier figure. This situation is not expected to be repeated in 2009. Steel demand from the automotive and construction segments is likely to decrease. Economic growth will be restricted. The scene in Chile is similar.

Venezuelan steel manufacturing was

PRODUCTION - DIRECT REDUCED IRON

('000 Tonnes)

	Actual			Forecast				Year	
COUNTRY	**Q1/08**	**Q2/08**	**Q3/08**	**Q4/08**	**Q1/09**	**Q2/09**	**Q3/09**	**2008**	**2009**
EU 27 (E)	---	---	---	---	---	---	---	---	---
FORMER USSR (E)	---	---	---	---	---	---	---	---	---
Canada	---	---	---	---	---	---	---	---	---
Mexico	---	---	---	---	---	---	---	---	---
Trinidad & Tobago	---	---	---	---	---	---	---	---	---
USA (E)	---	---	---	---	---	---	---	---	---
NAFTA	---	---	---	---	---	---	---	---	---
Argentina	---	---	---	---	---	---	---	---	---
Brazil	---	---	---	---	---	---	---	---	---
Peru	---	---	---	---	---	---	---	---	---
Venezuala	---	---	---	---	---	---	---	---	---
S AMERICA	---	---	---	---	---	---	---	---	---
Egypt	---	---	---	---	---	---	---	---	---
Libya	---	---	---	---	---	---	---	---	---
South Africa	---	---	---	---	---	---	---	---	---
Rest of Africa (E)	---	---	---	---	---	---	---	---	---
AFRICA	---	---	---	---	---	---	---	---	---
Iran	---	---	---	---	---	---	---	---	---
Qatar	---	---	---	---	---	---	---	---	---
Saudi Arabia	---	---	---	---	---	---	---	---	---
Rest of Middle East (E)	---	---	---	---	---	---	---	---	---
MIDDLE EAST	---	---	---	---	---	---	---	---	---
India	---	---	---	---	---	---	---	---	---
Rest of Asia (E)	---	---	---	---	---	---	---	---	---
ASIA	---	---	---	---	---	---	---	---	---
OCEANIA (E)	---	---	---	---	---	---	---	---	---
WORLD TOTAL	---	---	---	---	---	---	---	---	---

SOURCE: worldsteel/MEPS (E): Estimate

substantially down in 2008 compared to the previous year. This was partly the result of political difficulties. We foresee little or no improvement in 2009.

AFRICA

Crude steel production in Africa reduced significantly in 2008 - falling by approximately one million tonnes on the previous year's outturn. A similar downgrade is predicted for 2009 as economic conditions worsen.

The Egyptian steel market held up quite well in 2008 but is likely to slip a little this year. Demand from the construction segment should to continue to be reasonably firm once again. Production cuts in South Africa brought about by energy shortages early in the year, contributed to a decrease in output in 2008. Weak market conditions as a result of the global economic downturn are forecast to lead to further reductions in supply by the domestic mills this year.

MIDDLE EAST

Crude steel output in the Middle East in 2008 will be reported at a figure slightly above the level in the previous year. The steady increase in production which has occurred over the past ten years is likely to be arrested in 2009, however, as oil prices stay low.

Iranian steel making in 2008 should be reported at a figure around the 10 million tonne mark. This is close to the amount recorded in the previous year. No discernible gains are anticipated in 2009 with regional demand in decline. A similar outlook is predicted for Saudi Arabia. Steel output fell in the final months of 2008 and demand should stay weak in the early part of this year. A comparable picture is anticipated in Qatar.

ASIA

Our prediction for total Asian steel production in 2008 is downgraded to 764 million tonnes. This still represents a near 10 million tonne increase on the year earlier figure. Savage production cuts were put in place in the final quarter of 2008 in all countries as the global economic crisis developed.

Chinese output in 2008 is now expected to be 495 million tonnes - up by a modest 1.2 percent on the figure in the prior year. Steel manufacturing was restricted in most plants during the last four months as order books collapsed from both domestic and export customers. A 10 million tonne increase in steel making is forecast for 2009 - mainly from improved market conditions in the second half.

In 2008, the Indian steel sector withstood the global economic downturn very well and will report a rise in crude output of approximately 2 million tonnes relative to 2007. We expect some fall out from the crisis in 2009. Consequently, our prediction for the full year is for little change in domestic supply.

Demand in Japan started to decline in September 2008. We predict steel manufacturing at near 120 million tonnes - 2.8 million tonnes below our previous estimate. Consumption from the automotive and construction segments was particularly badly hit. The market is unlikely to pick up in the first half of 2009. Our forecast for production is 114 million tonnes - a 5 percent reduction, year on year.

South Korean steel making in 2008 should show a significant improvement over the figure in the prior year. However, the global economic crisis has started to hit manufacturing in the region. For the first time in its history, Posco is scaling back production of steel. This is forecast to result in the 2009 outturn falling below the amount recorded a year earlier.

Taiwanese steel output will be down in 2008 compared to the previous year by almost one million tonnes. Demand has started to slip. We expect 2009 to be the second consecutive annual decline. Local industry is heavily dependent upon exports to the west. These will be restricted.

DEFINITIONS

HOT ROLLED STRIP:
Hot rolled wide and narrow strip/sheet, for sale by the producers, destined for direct use or further processing outside the factory of origin.

HOT ROLLED PLATE:
Products of thickness >3mm, and width >600mm in cut lengths.

COLD ROLLED SHEETS: (Excluding Electrical Sheet)
Cold rolled products of thickness <3mm and width >500mm, in cut lengths or coils, destined for direct use in original form (i.e. not for use as substrate for further coating inside the factory of origin).

ZINC COATED SHEETS:
Sheets of width >500mm in cut lengths or coils, having a hot or cold rolled substrate base with the application on one or both sides with a zinc coating.

ELECTRICAL SHEET:
Silicon electrical grades, cold rolled as non oriented and grain oriented sheets.

TIN MILL PRODUCTS:
Cold rolled sheet from a tin mill for subsequent coating with tin or chromium oxide.

SECTIONS AND BEAMS:
Medium and heavy structural sections and wide flanged beams >80mm wide. Also includes sheet piling.

WIRE ROD:
Hot rolled wire rod, wound in irregularly sized coils - including concrete reinforcing bars sold in coils.

CONCRETE REINFORCING BARS:
In sizes >5mm having a uniform surface, crenellated or ribbed and intended for reinforcement of concrete, including straightened wire rod. Reinforcing bars in coils are not included.

MERCHANT BARS:
Small structural sections <80mm and bars in all sizes.

SHIPMENTS AND CONSUMPTION:
US and Canada - statistics relate to carbon grades. Chinese statistics relate to ordinary steels.

PRODUCTION:
EU and Brazil statistics include all grades of steel. South Korean, Japanese and Taiwanese data relates to ordinary steels.

TRADE:
Includes all trade with third countries.

NEGOTIATED AVERAGE TRANSACTION PRICES:
Regional prices are derived from an average of country data collected in an area - ex mill for forward delivery to their domestic/local markets. All prices converted to US dollars at the exchange rate at the start of the relevant month.