



EUROPEAN STEEL REVIEW

KEYNOTE

JANUARY 2005

THE RECENT RISE IN EU STEEL PRICES DID NOT LIVE UP TO EXPECTATIONS

After the tumultuous developments in Europe's steel markets last year, 2005 promises to be a lot less dramatic. 2004 was the strongest year for three decades. Not since the early 1970s has steel been in such short supply.

The worldwide surge in steel demand caused markets in Europe to tighten greatly. The industry witnessed all kinds of landmark events. German steel output in 2004 reached its highest level since reunification in 1990. Output also increased in other countries but users still could not always obtain all the steel they wanted. Input costs – including those for energy, iron ore, coal, coke and ocean transport – rose sharply, in many cases to unprecedented heights.

This of course drove steel prices up sharply. In Germany, the price of hot rolled coil increased from €300-320 per tonne in January 2004 to €530-540 per tonne one year later. The price of plate has gone up even more rapidly.

Looking at the MEPS steel price index, the EU average transaction price of hot rolled coil stood at 118.4 at the beginning of 2004. The acceleration in world steel markets drove that index up by 58 percent to reach 186.6 by June. Further more modest increases took place over the next five months so that it stood at 200.8 this month. In the last few weeks of the year the price hesitated and no further upward momentum was possible.

TABLE 1. FLAT ROLLED PRODUCTS - NEGOTIATED BASIS PRICES - GERMANY

price/tonne		2004					2005
		AUG	SEP	OCT	NOV	DEC	JAN
Hot-Rolled Coil	High:	460	510	530	530	530	540
	Low:	450	490	510	510	510	530
Hot-Rolled Plate	High:	530	560	590	620	620	640
	Low:	520	550	580	610	610	620
Cold-Rolled Coil	High:	560	610	620	620	620	640
	Low:	540	570	610	610	610	630
Hot Dipped Galvanised Coil	High:	560	610	630	630	630	650
	Low:	545	580	610	610	610	630
Electro-Zinc Coated Coil	High:	560	580	600	600	600	610
	Low:	540	570	580	580	580	590
Stainless Steel Type 304	High:	1395	1395	1395	1395	1395	1380
	Low:	1335	1335	1335	1335	1335	1320
Stainless Steel Type 430	High:	1275	1275	1275	1275	1275	1275
	Low:	1245	1245	1245	1245	1245	1245

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In long products, likewise, most of the increase in transaction prices took place in the first half. The MEPS price index for structural sections rose from 118.9 in January 2004 to 180.5 in June. Prices continued rising, though less strongly, in the second half and by December the index stood at 207.8, for a gain over 2004 as a whole of 75 percent. However, the figure has fallen this month to 197.7.

The surge which propelled hot rolled coil prices up by 70 percent in the twelve months to January 2005 is not likely to recur for many years to come. Nevertheless, production costs are still going up rapidly. Steel companies will be paying much higher prices for their raw materials this year. As these commodities are denominated in dollars, the 30 percent decline in the value of the US currency against the euro will considerably reduce the impact.

Raw material costs have never been the main determinant of steel prices. It is supply and demand for steel itself which governs the price. And here, the prospects for 2005 are rather subdued.

A reduction in industrial confidence in the EU-15, highlighted in the European Commission's latest economic survey, does not bode well for steel demand this year. The report stated that the decline was caused

by a deterioration in production expectations, including those of steel-consuming manufacturers. The EU Commission's forecasting model is indicating GDP growth of 0.3-0.7 percent in the euro-zone in the first quarter. This modest expectation is no doubt adding to the concerns of steel-using industries. Along with a fall in export activity because of the strong currency, this means that real steel consumption in the EU-15 is unlikely to rise significantly in the early months of 2005.

It now seems probable that EU strip mill prices will peak in quarter one. Our projection for the rest of the year shows prices beginning a gradual decline in the Spring. By the end of the year, values are likely to have drifted down by between 5 and 10 percent from their first quarter zenith. Prices for plate are significantly more robust. The market for this product is firmer than those for strip products, and the supply is more limited. Plate prices should therefore remain stronger for longer.

In structural sections, we see little scope for price increases in 2005. In fact, we expect prices to show a small but steady decline through the year, dropping by up to 10 percent overall.

In both flat and long products, the prospect of prices weakening will encourage users to reduce their stock levels before placing new orders.

MARKET SCENE

AUTO

Total west European new car registrations reached 1.04 million units last month – up 7.7 percent, year on year, according to data from ACEA. The cumulative

total for 2004 (EU 15 + EFTA) was 14.52 million units, an increase of 2.1 percent over 2003. Twelve out of the EU 15 countries showed positive figures. Three posted negative results. The EFTA countries ended the year 7.2 percent ahead of 2003.

TABLE 2. LONG PRODUCTS NEGOTIATED BASIS PRICES - GERMANY (€/tonne)

		2004					2005
		AUG	SEP	OCT	NOV	DEC	JAN
Wire Rod	High:	450	490	510	540	540	540
	Low:	440	470	490	530	530	530
Medium Sections and Beams	High:	345	345	365	365	365	365
	Low:	325	325	345	345	345	345
Rebars	High:	340	340	300	290	270	250
	Low:	300	320	280	270	250	230
Merchant Bars	High:	320	360	360	360	350	270
	Low:	300	340	340	340	330	260

CORUS SLAB AGREEMENT

Dongkuk Steel has now joined the consortium of companies (Duferco, Marcegaglia and Imsa) in the ten-year offtake agreement for slab from the Corus Teesside Cast Products. Under this arrangement the consortium will take the slab production that is surplus

to Corus's internal requirements in 2005 and 2006. As a result of Dongkuk's participation, the UK company will receive a total of \$US157 million. Corus's share of output will ultimately be reduced to 22 percent. Plant capacity is expected to be increased to around 4.0 million tonnes per year from approximately 3.3 million at present.

FLAT PRODUCTS

HOT ROLLED COIL

German sentiment in the early part of January is being weakened by the high stocks built up throughout the supply chain in period four of 2004. Demand is expected to be subdued well into the first quarter. There is a deal of nervousness in the market, ahead of the arrival of significant imports from Eastern Europe. Forward business is being transacted €10/20 per tonne above fourth quarter figures. French demand for hot rolled coil is better than for the coated products. However, at the beginning of January, producers are still having difficulty implementing their first quarter target prices. Stocks are high, with customers having bought imported material. Riva has reduced Italian basis prices by €20 per tonne. The company hopes the move may be temporary and that February/March negotiations may result in some improvement. Before Christmas, there was downward pressure from imports which fell from €530 to €450/470 per tonne c+f.

This is the weakest product in the UK, although demand for wider/thicker material is better. A number of first quarter deals have yet to be finalised because stocks of commercial grade coil are especially high. Prices appear to be generally unchanged from period four, 2004. The Belgian market is quiet but some orders were booked at the end of December when prices increased by approximately €10 per tonne. However, we now hear unconfirmed reports that some buyers want to renegotiate because of the availability of cheaper third country supplies. Much of Spain's first quarter hot rolled coil business is finalised at prices, in some instances, very similar to those of period four. Customers who did pay more are now hoping to make new settlements for deliveries later in the quarter due to attractive non EU offers.

HOT ROLLED PLATE

The quarto plate market is very strong throughout Europe. Producers are struggling to keep up with

domestic demand, especially for the higher grades. Export business is booming.

In Germany, pipe production is healthy and shipbuilding activity is forecast to grow during 2005. Availability of quenched and tempered material in particular is very tight. The mills have gained an increase for the first trimester. The French plate market is faring better than the one for strip with a €50/60 per tonne rise being accepted by customers. Further advances have already been announced but we believe they will be much more difficult to implement. Italian prices have stabilised in the last four weeks.

In the UK, Corus has secured the proposed £30 per tonne hike for first quarter deliveries, despite fairly slow demand in the run up to Christmas. As expected, Belgian buyers have agreed to pay €40 per tonne more for period one business. The higher January mill prices are already being passed on to resale customers by Spanish distributors. Availability from EU sources will not cover the market's needs.

TABLE 3. COMPARISON OF LOW MARKET BASIS PRICES - COLD ROLLED COIL

	Local Currency	Equivalent US\$/Tonne
Germany	630	838
France	620	824
Italy	610	811
UK	425	800
Belgium	640	851
Spain	580	771

Note: Exchange rates used for conversion are based on the figures given in our currency exchange rate table.

Imports are arriving from China, Indonesia and Romania but quantities are not great and prices are quite expensive.

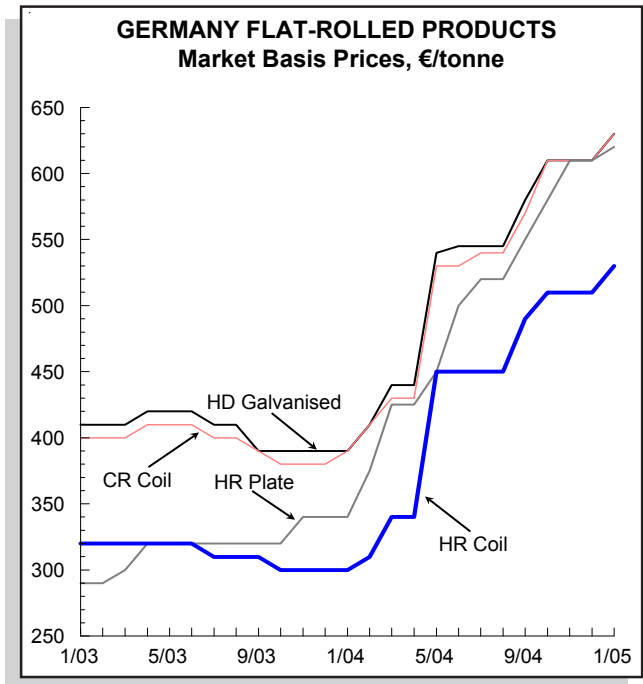
COLD ROLLED COIL

Material is readily available now in Germany but service centres are purchasing very little at the moment because their inventories are too high. The excess should be out of the system by the second quarter and, therefore, the lack of market activity may be only temporary. Period one prices are higher by €20 per tonne. Third country imports, at €600/610 per tonne are not particularly attractive. There is very little activity in the French market for now. We have no price developments to report. Italian inventories are in equilibrium, following destocking in the last quarter. Consumption is flat but expectations for later in the year are favourable. Domestic prices are stable. Imports from Turkey were at €590/600 per tonne c+f and new tenders for March production are likely to be at a similar level.

UK sales are steady and material much easier to find than last year. Inventories are high due to panic buying earlier in 2004. Customers are in no hurry to place orders. The mills are only realising a rise of around £10 per tonne on new business. Now that a number of first trimester deals are concluded in Belgium, it is clear that prices are higher by €30/40 per tonne. However, we understand that some buyers are not happy with this and are demanding a review of the situation. Spanish service centres are fairly well stocked but not in excess. Many companies are expecting deliveries of last year's delayed orders during January/February. New first quarter settlement have been concluded at prices anywhere between €5 and €40 per tonne above those in period four.

COATED COILS

Whilst the German building sector continue to lag, business looks more hopeful for vehicle construction as several new models will come on stream in 2005. Supplies of hot dipped galvanised coil are plentiful. Third country material is not particularly competitive at €660 per tonne. EU mill prices are €20 above last quarter's level. There are a lot of none European imports being offered in France. Italian basis values have lost €20 per tonne during recent negotiations. Pre-Christmas, there was a huge inflow of sales from India at €610 per tonne c+f for thin gauge material but these offers may not be repeated. The UK construction sector has been especially busy during December and again this month. Auto demand is holding up reasonably well. Period one deals have been settled



around £10 per tonne above those of the last three months. Belgian values are up by as much as €40 per tonne. Sales to Spanish building and car making industries are good. As expected, we have monitored more positive price initiatives for the January/March business.

Demand for electro-zinc coated coil is dull in Germany. Suppliers have only secured a small advance of €10 per tonne. The French scene remains depressed. Our Italian numbers are unchanged. Inventories are now at more acceptable levels. The influx of foreign material into the UK, reported last month, has almost cleared the system but is still having a small negative effect. However, Far East prices are now very high and, consequently, the market is likely to firm again quite soon. Sales to domestic appliance manufacturers are currently strong. Prices have gained £10 per tonne. Belgian consumption is muted. Nevertheless, our tabled figures have moved up by €30 per tonne. Spanish numbers are €610/620 per tonne, basis, following the completion of first quarter talks.

STAINLESS COLD ROLLED COIL

Eurozone suppliers lifted the December alloy surcharge for type 304 by approximately 1 percent in most member states. It will go up again in January. Customers were in the process of running down stocks for the financial year end. Negotiated basis prices softened in several countries and were under threat in the remainder. Surcharges for grade 430 continued to move up and basis values were firm.

TABLE 4. FLAT ROLLED PRODUCTS - NEGOTIATED BASIS PRICES

		Germany (€)	France (€)	Italy (€)	UK (£)	UK (€)	Belgium (€)	Spain (€)
Hot-rolled coil	HIGH:	540	545	510	360	510	540	530
	LOW:	530	540	480	355	503	530	500
Hot rolled plates	HIGH:	640	670	650	470	666	680	680
	LOW:	620	650	630	450	637	640	650
Cold rolled Coil	HIGH:	640	640	640	435	616	650	625
	LOW:	630	620	610	425	602	640	580
Hot Dipped Galvanised Coil	HIGH:	650	640	620	435	616	650	625
	LOW:	630	620	590	425	602	640	610
Electro-Zinc Coated Coil	HIGH:	610	640	630	440	623	630	620
	LOW:	590	620	600	430	609	620	610
Stainless Cold (a) Rolled Type 304	HIGH:	1380	1327	1335	960	1360	1330	1340
	LOW:	1320	1277	1295	940	1331	1300	1280
Stainless Cold (a) Rolled Type 430	HIGH:	1275	1157	1270	890	1261	—	1290
	LOW:	1245	1147	1210	880	1246	—	1230
MONTH on MONTH % CHANGE								
Hot-rolled coil	LOW:	3.9	0.0	-4.0	0.0	-2.3	1.9	0.0
Hot rolled plates	LOW:	1.6	10.2	0.0	7.1	4.7	6.7	1.6
Cold rolled Coil	LOW:	3.3	0.0	0.0	2.4	0.1	6.7	0.9
H.D. Galv Coil	LOW:	3.3	0.0	-3.3	2.4	0.1	6.7	1.7
E.Z. Coated Coil	LOW:	1.7	0.0	0.0	2.4	0.1	5.1	3.4
S/S CR Type 304	LOW:	-1.1	-2.3	0.0	0.0	-2.3	-0.8	-1.2
S/S CR Type 430	LOW:	0.0	0.0	0.0	0.0	-2.3	—	0.0

PRICE DEFINITIONS

Negotiated basis price ranges pertain to new purchases for mainstream business negotiated with regional mills during the current month for delivery in the future (usually 2 or 3 months ahead). They relate to prime material ex basing point net of all rebates and discounts for the lowest quality product in the producers' price lists unless otherwise stated.

Extras for size cutting, testing, transport etc. are excluded except where specified.

Notes: (a) Basis - 1.5mm thick

Prices in this table may relate to deliveries in different time periods. It is important that this table is read in conjunction with the text in the newsletter.

The data contained in this newsletter has been obtained from respondents who we consider provide accurate intelligence on the steel market. We make our best endeavours to be assured that the information is correct and that our analysis is reliable. MEPS (International) Ltd. cannot be made liable for any loss resulting from use of our published data, however it may arise.

LONG PRODUCTS

WIRE ROD

So far, the mills have rolled over German fourth quarter values for new orders of drawing quality wire rod. Mesh grade prices are moving down. The French market is very quiet for the low carbon types monitored in our publication but for the higher carbon specifications, producers have announced rises of €40/50 per tonne, depending on consuming sector. Recoil numbers are slightly lower than in December. Suppliers have reduced Italian drawing grade prices by €20 per tonne in an attempt to offset increasing competition from third country imports. Mesh quality values have been retained at last month's level.

UK recoil figures have lost around £20 per tonne, in line with the rebar. For the moment, we cannot detect acceptance of the recently announced price hike for low carbon wire rod, although doubtless, it will be implemented for the higher carbon grades. We have no price developments to report in Belgium. In the Spanish market, the mills have maintained December numbers for drawing quality rod. Recoil prices are down by around €30 per tonne.

MEDIUM SECTIONS AND BEAMS

Arcelor's scrap surcharge, effective from January 1, will be €105 per tonne, down from €143 per tonne in December. The new Salzgitter figure is €153 instead of last month's €171 per tonne. German construction activity is still declining and consequently demand for beams is sluggish. Consumers continue to destock. Polish suppliers have reacted to the lower surcharge by cutting their transaction prices by €20 per tonne but this is not enough to generate orders. Basis figures from the EU mills are unchanged. French sales are poor. The market cannot support any more price rises. In fact, basis values continue their downward trend. Customers, keen to reduce inventories, are not reordering at present.

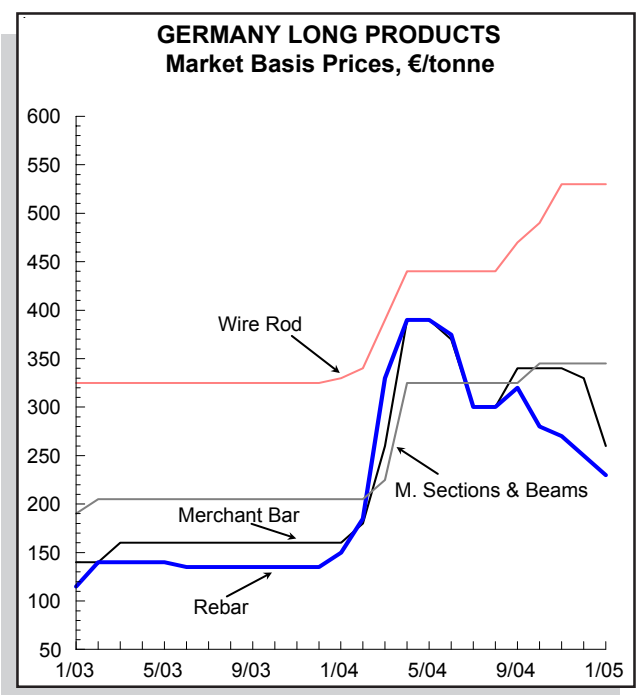
Italian basis figures have lost €15 per tonne as a result of increased volumes of cheaply priced imports. If foreign offerings continue into this quarter, prices could come under further threat. Demand is seasonally weak. Stock levels are normal for the time of year. UK consumption is stable and the underlying price tendency quite sound. However, an influx of imports in the second half of 2004 caused the market to become overstocked and this material needs to be cleared before buyers resume ordering. Therefore, we have not included the proposed £20 per tonne, January 2,

hike in our tabled figures. Belgian inventories are also high and imports are available from South Korea and Egypt. Polish producers cannot obtain business presently because they are tracking Arcelor's pricing. Basis values are down by €10 per tonne since the beginning of December. Spanish basis prices also lost ground last month and, again, at the start of January. Although the mills would like to lift them by €30 per tonne, the initiative is unlikely to be successful. The market is over stocked and consumption is slow.

REINFORCING BARS

The poor state of the German building industry has severely affected prices. The French construction sector is generally weak. Prices continue to decrease following the significant fall in scrap charges in December last year. However, European scrap figures are expected to start climbing again next month. There has been a marginal price recovery in Italy during recent weeks.

In the UK, importers clawed back their previous position in the latter part of 2004 and are now a significant force again. UK suppliers reduced basis prices in late December in response to the market situation. The demand outlook for this year is optimistic. There is a lot of construction work in the system - mainly Government funded. Belgian figures have changed substantially since early December - falling by around €50 per tonne. Customers are buying cautiously



because of this downward trend. However, several market players believe the bottom has now been reached. Although Spanish construction demand has slowed a little, public works will be reactivated during 2005, following the election last year. Rebar prices are quite volatile. We noted negative movements during late December/early January.

MERCHANT BARS

German basis values have been badly eroded since the start of December. Real demand is normal but buyers are hesitating before placing orders in case prices fall further. French stock levels have decreased

but sales remain low. Customers prefer to postpone purchases due to remaining uncertainty on the scrap market. Merchant bar prices fell throughout December. However, they stabilised during early January. In Italy, basis values in the size range 10/50mm have suffered a severe setback because of strong import competition. The fall has been less obvious for larger specifications up to 150mm. The market is sluggish.

UK business activity in the early part of January has been significantly better than prior to the holidays. However, there is still negative pressure on prices and further discounting occurred during December. Belgian prices dropped sharply late last month - by as much as

TABLE 5. LONG PRODUCTS - NEGOTIATED BASIS PRICES

price/tonne		Germany (€)	France (€)	Italy (€)	UK+ (£)	UK+ (€)	Belgium (€)	Spain (€)
Wire Rod (b)	HIGH:	540	530	510	345	489	510	510
	LOW:	530	515	500	330	467	500	500
Medium Sections & Beams (c)	HIGH:	365	400	400	435	616	380	455
	LOW:	345	390	390	425	602	370	380
Rebar (d)	HIGH:	250	240	250	290	411	240	300
	LOW:	230	230	240	280	397	230	295
Merchant Bar	HIGH:	270	265	250	330	467	250	290
	LOW:	260	250	240	320	453	240	285
MONTH on MONTH % CHANGE								
Wire Rod	LOW:	0.0	0.0	-3.8	0.0	-2.3	0.0	0.0
M.Sect. & Beams	LOW:	0.0	-2.5	-3.7	0.0	-2.3	-2.6	-9.5
Rebar	LOW:	-8.0	-8.0	2.1	-6.7	-8.8	-17.9	-11.9
Merchant Bar	LOW:	-21.2	-7.4	-22.6	-5.9	-8.0	-17.2	-8.1
PRICE DEFINITIONS								
Negotiated basis price ranges pertain to new purchases for mainstream business negotiated with regional mills during the current month for delivery in the future (usually 2 or 3 months ahead). They relate to prime material ex basing point net of all rebates and discounts for the lowest quality product in the producers' price lists unless otherwise stated.								
Extras for size cutting, testing, transport etc. are excluded except where specified.								
Notes: + All UK prices include size extra								
(b) Drawing quality incorporates a quality extra.								
(c) Category C1.								
(d) High Yield - deformed.								
Prices in this table may relate to deliveries in different time periods. It is important that this table is read in conjunction with the text in the newsletter.								

€50 per tonne. Buyers are now afraid to order because of the downward tendency. Spanish mills also had to concede decreases over recent weeks. Although the market has since stabilised, Italian suppliers have a

new price which is lower by €20 per tonne. Spanish domestic producers may follow suite. Demand is very quiet. Some imports are available from Tunisia and Turkey but prices are not disruptive.

INDUSTRY SCENE

CAPACITY/INVESTMENTS

Alphasteel is about to commission a new 800,000 tonne per year slab caster at its South Wales facility. A revamped electric arc furnace was brought on stream in December. A second is due to start up in February – bringing the total to three. Crude steel capacity in 2005 is expected to be around 1.0 million tonnes. Expansion work will continue through 2006, when annual casting potential will be lifted to 2.4 million tonnes.

Arcelor, is commissioning its new 800,000 tonne per year medium sections mill at ProfilArbed's Esch-Belval works in Luxembourg, with commercial output expected in February. The facility will replace the 500,000 tonne per year unit at Longwy.

CURRENCY EXCHANGE RATES

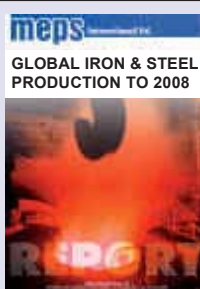
Note: as at January 4 - 2005

		Units/ US\$	Units/ Euro
Eurozone	(€)	0.752	1.0
UK	(£)	0.531	0.706

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JOINT VENTURES/ACQUISITIONS

Corus Staal B.V. has completed the purchase of a fifty percent shareholding in Segal S.A., the Belgian hot dip galvanising plant, for around £17.5 million. The purchase, from Metallinvest investment fund, follows the receipt of regulatory approval from the Belgian Competition Authority. Segal now becomes a 100 percent subsidiary of Corus Staal B.V.

Arcelor recently agreed to purchase the remaining 30.3 percent shareholding in Stahlwerke Bremen. As a result, the company will gain 100 percent control of the German based integrated steel plant. The facility produces products mainly for the automotive, domestic appliance and construction industries.

TRANSACTION PRICE INDEX - E.U. AVERAGE JANUARY 1997 = 100

	Dec-2004	Jan-2005
Hot Rolled Coil	201.9	200.8
Hot Rolled Plate	218.5	224.7
Cold Rolled Coil	170.9	173.1
H.D. Galvanised Coil	145.3	146.2
Electro Zinc Coated Coil	154.9	156.1
Stainless Steel Type 304	107.7	106.2
Stainless Steel Type 430	108.3	108.0
Wire Rod	198.1	195.5*
M. Sections & Beams	207.8	197.7*
Reinforcing Bar	174.9	168.7
Merchant Bar	192.5	172.6*

* These indices are calculated from the sizes quoted in the associated Transaction Price Data Sheet. The figures in our on-line service relate to different sizes and grades.

The February issue of the MEPS European Steel Review will be despatched on 18 February 2005.